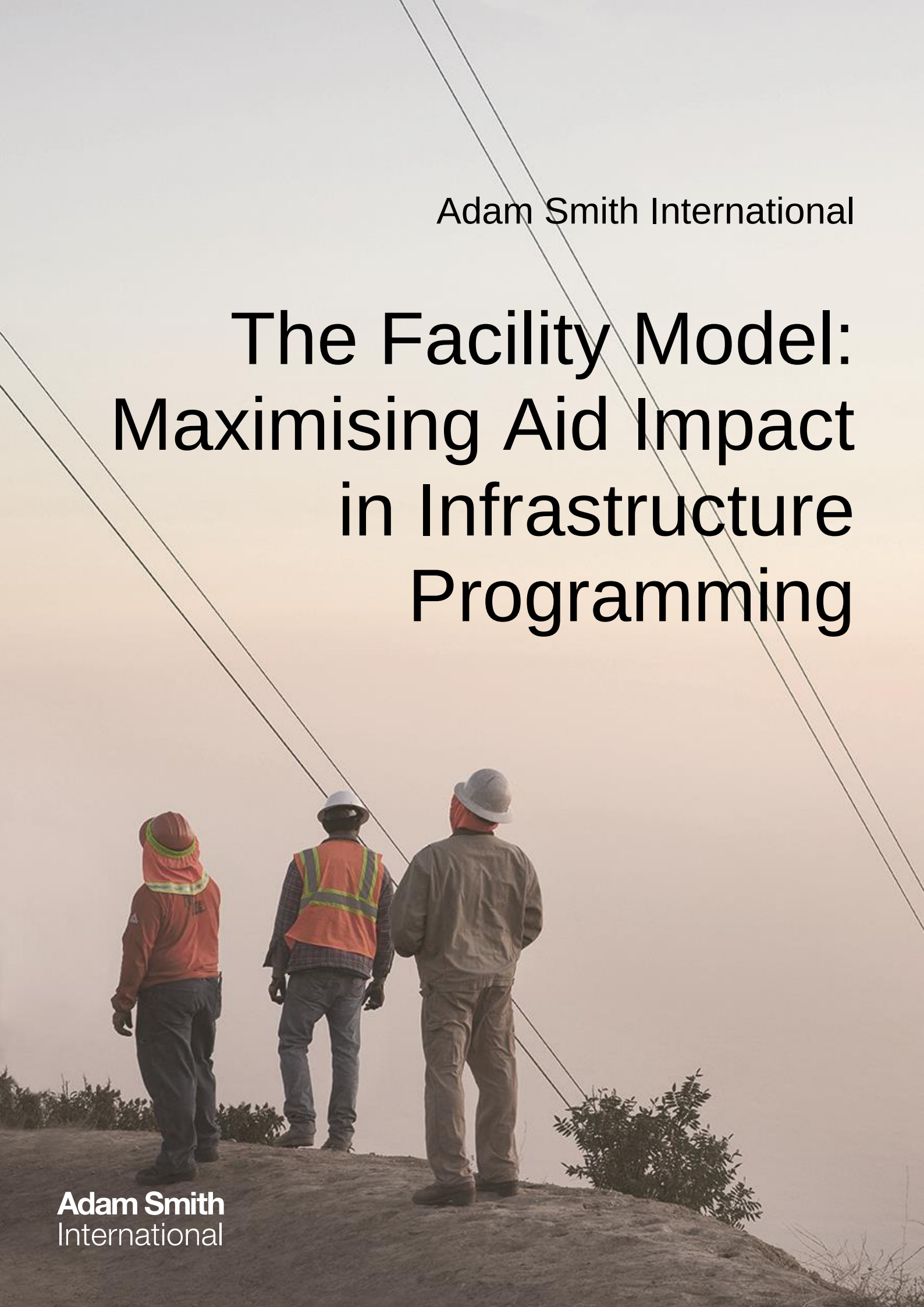
Adam Smith International

The Facility Model: Maximising Aid Impact in Infrastructure Programming



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Introduction

Facilities are increasingly recognised as the most effective model for delivering infrastructure programming in politically complex and dynamic environments. In over seven years of implementing infrastructure facilities, Adam Smith International has amassed diverse experience of facility design and management, distilled here into lessons learned and guidance for programme design.

De-mystifying the Facility Approach

In historic donor programming, the term 'facility' has been applied to disparate models for dispersing aid. In this paper we address the common parameters of facility programming, bringing out key themes and identifying the attributes that make for successful programmes.

Capturing Lessons Learned

Adam Smith International is a key supplier to the UK's Department of International Development (DFID) for infrastructure facility programming. Our facility experience spans 13 countries, multiple sectors and scores of government clients. We have gained this experience over the course of implementing three major programmes:

- The multi-award winning Nigeria Infrastructure Advisory Facility (NIAF);
- The award winning southern Africa regional Climate Resilient Infrastructure Development Facility (CRIDF); and
- Nepal's landmark Centre for Inclusive Growth (CIG).

This paper provides a short synopsis of lessons learned across these programmes, and offers evidence-based recommendations for facility design.

Informing Future Infrastructure Programming

We put forward practical diagnostic steps to identify whether a facility programme is the best available tool for tackling infrastructure bottlenecks in any given context. We also set out important considerations for facility design, including observations on options for donors' management of service provider contracts.

Beginning a Dialogue

While this paper provides basic orientation around key aspects of the facility model, it is not an exhaustive technical discussion of aid policy or management. Rather, this paper is part of a wider dialogue on aid impact and effectiveness.

Finding out More

To explore further discussions of our facility programmes, see our website www.adamsmithinternational.com.

For case studies on the management and impact of facility models, see the Adam Smith International's Partner Zone on the Guardian's Impact and Effectiveness hub: http://www.theguardian.com/global-development-professionals-network/adam-smith-international-partner-zone.

What is a facility and why choose one?

A facility is a large programme, comprised of many sub-projects, and run by one Service Provider (SP). The SP sets up a Programme Management Unit (PMU) to manage facility operations. The PMU, drawing on the input of its stakeholders, selects, prioritises, and designs projects which contribute to the facility's intended outcomes.

Guiding Principles of the Facility Model

For the programme to be effective, the PMU deploys projects which are:

- **Demand-driven:** each project under the facility starts with a clear request from a client;
- **Results-focused:** projects have a specific, time-bound, and measurable objective, ensuring the PMU deploys appropriate resources in response to demand;
- **Accountable:** each project has its own client, terms of reference, team, and budget; each of which can easily be held accountable to the PMU on a project level; and
- **Greater than the sum of its parts:** because all the individual projects are selected, managed, and evaluated under a singular logical framework (the Logframe), the projects are of a consistent, coherent, and aligned to the client's overall objective.

Characteristics of the Facility Model

Traditionally, donor programmes have been established using a simple formula, whereby SPs estimate the total overhead for a programme through tender, against a fixed set of inputs and workplan. In these programmes, clients need to wait months or years before assistance is deployed due to procurement procedures, by which time resource allocation, costs, and plans are inevitably incorrect due to changes in the context.

By contrast, facility models have proved to be an economic and effective way for donors to deliver a complex and innovative infrastructure programme. The success of facilities is due to their:

- **Flexibility:** breaking large programmes into small projects allows the client and PMU to adjust to changes in the context, capture opportunities, or shut-down underperforming activities;
- **Speed:** the PMU can mobilise technical assistance (TA) immediately and add resources to projects without the costs and delays of a new tender, recruiting new experts, or set-up costs of a new SP;
- **Scalability:** once projects have demonstrated results, with a large programme and a pool of experts, the PMU can easily scale up or replicate successful work, cancel or shorten low performing projects, and start new projects in response to client demand of changing conditions; and
- **Expertise:** by capturing an economy of scale in delivery, facilities can access a deep and wide pool of technical experts who can be deployed for specific tasks and circumstances.

Unlike a regular TA programme, a facility sees the donor define the outputs they would like to see at the beginning of the programme while leaving the technical detail of the approach fluid, placing a premium on the adaptability, connections and technical ability of the SP.

Traction and Political Relevance in the Facility Model

One of the key attributes of the facility model is its ability to achieve traction with counterparts and a political relevance in the region or country of delivery.

Owing to their demand-driven nature, facilities are rooted in partnership with clients such as national, state, or local governments. The SP can act flexibly to tailor technical assistance to meet client demand: it has the capacity to act quickly on requests for support, and the ability to wait for a client to articulate a clear demand for assistance.

Flexibility is a critical factor in the effectiveness and quality of a facility's support to clients: the ability to tailor support and constantly adapt it to changes in the context ensures our advice is relevant. Delivery of tailored, timely, and relevant advice against clients' articulated demands helps the SP build trust with the client.

Strong client relationships are built on flexible and effective delivery which is in response to client demand. This creates a virutous cycle which starts with client ownership and is pushed forward by delivery. That cycle opens a policy space to have the honest – and at times difficult – conversations about reform.

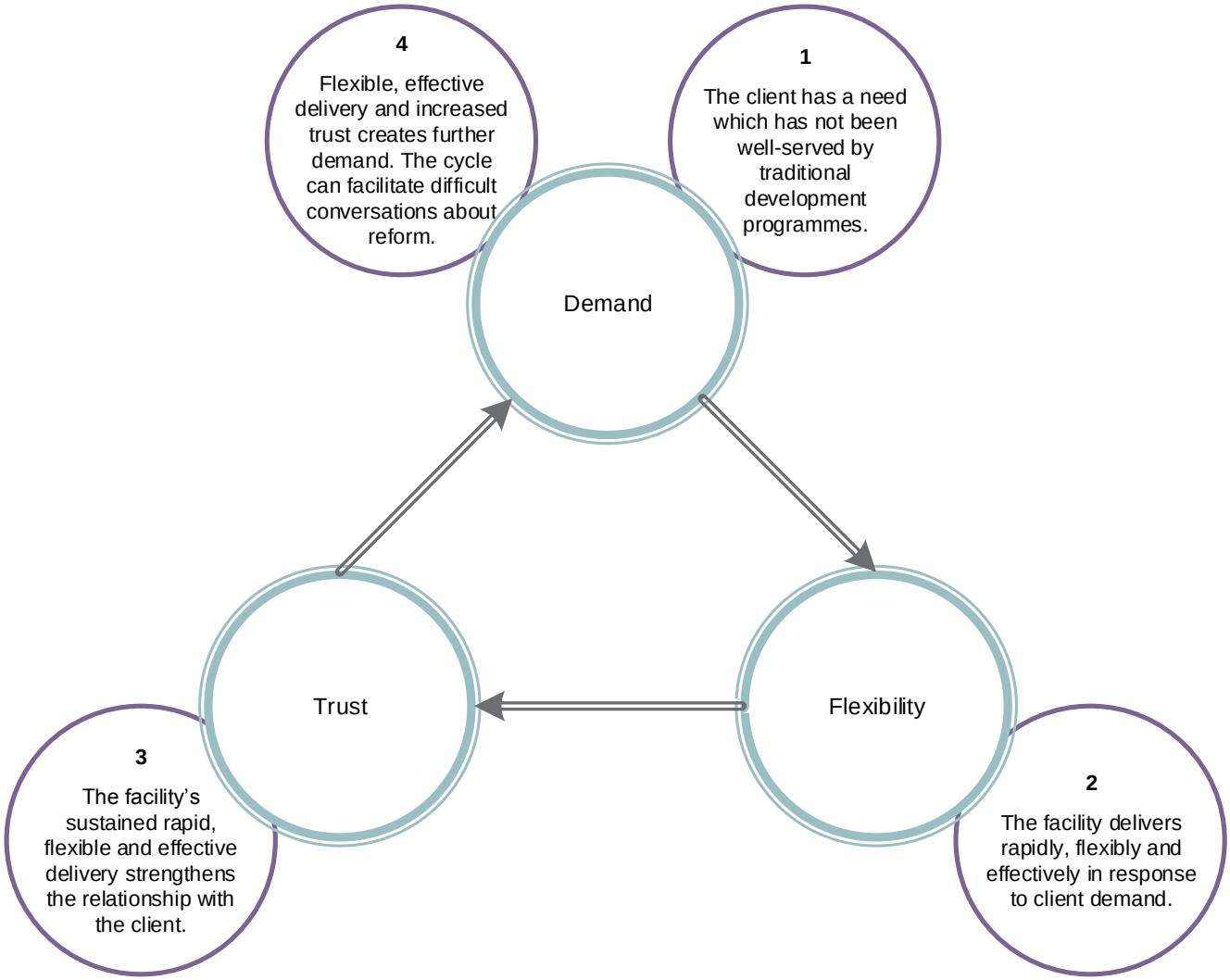


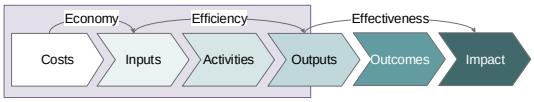
Figure 1: 'A Virtuous Circle' – Gaining Political Traction with the Facility Model

By contrast, in traditional donor programmes, governments can see dozens of SPs each year – often with overlapping or contradictory mandates, who may arrive months after a request for support is made. Coordination between donor projects is also very poor, with many consultants deployed at different times with different mandates. By contrast, facilities coordinate all projects under one SP. The long-term, demand-driven nature of the facility model therefore allows the SP to build deeper relationships from successive small interventions and open a policy space for real programmes of reform.

Value for Money in the Facility Model

The facility model is widely considered an excellent method of promoting Value for Money (VfM) in the provision of large-scale TA in infrastructure, conferring benefits at each stage of the value chain

Economy

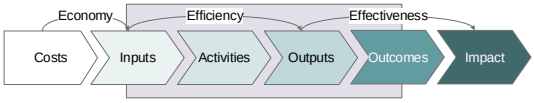


Donors are relieved of the burden of coordinating, administrating and implementing multiple specialist inputs and can focus instead on the more strategic elements of programme management. Economies of scale also exist for the SP, who can be incentivised to pass savings on to the donor.

This model promotes exceptional VfM through economy because it:

- Captures economies of scale in administrative costs through the size of the programmes;
- Minimises the administrative burden for the donor; and
- Enables economical oversight and retains donor control over strategic direction.

Efficiency

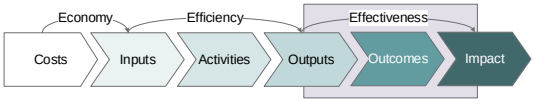


Facilities are efficient mainly because they incentivise the SP to respond to changing contexts and client demands. After building a strong relationship based on a long-term commitment and through delivering a significant amount of TA under one contract, the SP can scale up/replicate successful work, cancel or shorten low performing projects, and start new projects in response to client demand or changing conditions. Under a normal service contract, such changes incur significant costs, scaling up is often limited by procurement rules, and SPs have no incentive to cancel contacts if conditions change.

This model promotes exceptional VfM through efficiency because it:

- Allows the PMU to scale up and replicate successful interventions;
- Permits the PMU to respond flexibly and quickly; and
- Provides a more efficient allocation of project management costs and risks.

Effectiveness



Rather than being responsible simply for individual activities, the SP is focused on the quality of the outcome (under which the projects rest). This yields several advantages: First, the SP's contractual incentives are at the 'outcome' level, as opposed traditional programming where an SP is only working towards specific contracts for incremental gains. Second, it is therefore easier for the donor to hold the service provider accountable to ensuring that a collection of activities actually results in a positive outcome for the client. Third, it is far easier for the donor to adjust the strategic direction of a single SP, who then can then manage change among the sub-projects accordingly, rather than the donor having to change a wide range of projects with varied providers, timescales, Logframes, and so on. Fourth, it can be difficult to measure the VfM of various infrastructure activities in isolation. By unifying the range of infrastructure activities under one umbrella, donors can gain a more accurate measure of VfM based on a longer term, larger set of data.

This model promotes exceptional VfM through efficiency because it:

- Only supports projects have local ownership and support;
- Ensures consistent, high quality outputs linked the overall strategic goal; and
- Improves incentives for SPs to promote VfM.

Designing an Advisory Facility

In considering a facility approach, there are several lines of enquiry that a donor must pursue in order to realise a programme design capable of achieving high impact.

Key Considerations in Design

1. **Nature of the problem** – does the programme have a 'predictable' path against which a normal workplan can be deployed? Or, is this a dynamic, rapidly changing context? If the latter, a facility may be more appropriate than a traditional programme.
2. **Donor's comparative advantage** – does the donor know the composition of support that will be most appropriate in years to come? If not, a flexible facility might be a solution, due to its ability to scope out clients' apetite for reform and open up opportunities for complimentary programming.
3. **Client** – who is the client? Has the client articulated a clear demand for support? Are there alternate clients – such as NGOs or sub-national governments? Facilities work well when there is a clear client with whom SPs can build a relationship based on trust.
4. **Scale** – what is the appropriate size to capture economies of scale? How long is the contract? Will the SP have enough time and resources to tackle the long-term, complex issue surrounding infrastructure reform?
5. **Capital, grants and TA** – what type of support will be delivered? This will have an impact on the overhead costs of setting up the facility. Capital, grants, and TA can be accommodated in the same facility, but require different systems and processes. For example, capital facilities require bespoke infrastructure procurement systems. Facilities which mix capex, grants and TA will incur higher overhead costs.
6. **Risk Sharing** – what is the appetite for sharing risk with the SP? Appetite for risk transfer to the SP should be well understood in setting performance management and payment systems. A successful SP is able to take on day-to-day management and provide real world results to the donor.
7. **Transaction costs** – how much management time can the donor commit? Given the size of facilities, transaction costs (e.g. management, quality assurance, etc.) can be minimised by passing more control to the SP, allowing the donor to focus on higher level results and strategic direction.
8. **Local Environment** – what personnel are required to achieve traction and relevance? A SP is familiar with the local environment will ensure compliance with local laws and regulations, and will be able to structure management processes in a manner which is cognisant of local customs and culture.

Building a Strategic Framework

From the outset, the facility should be governed by a strategic framework: an articulation of the aims of the programme, designed to achieve a balance between flexibility and structure in programme governance. It is critically important that the strategic framework is aligned with the management set-up of the facility, so that facility decision-making is harmonised with the framework.

A facility will only be effective when the major programme components – governance, methodology, workplan and staffing structure – are linked to the donor value chain. A well-crafted strategic framework ensures the achievement of VfM and superior results, aligned to the programme's outputs, outcomes and impacts.

Without a strategic framework, the facility model poses significant risks, including: inadvertently supporting the wrong interests; spending in high volume with few measurable results; and high transaction costs for the donor in managing the SP. A well-wrought strategic framework will ensure that:

- Excellent VfM is delivered for the donor;
- The facility's systems and processes are lean, enabling the delivery of rapid, flexible and demand-driven TA;
- The donor has economic oversight of the programme; and
- The facility's interventions are all linked to the programme's overall objective.

The **Logframe** (Logical Framework) is at the core of an effective strategic framework. Every aspect of the programme should be governed by the Logframe: from delivery (or SP programming) to evaluation, and – where appropriate – payment.

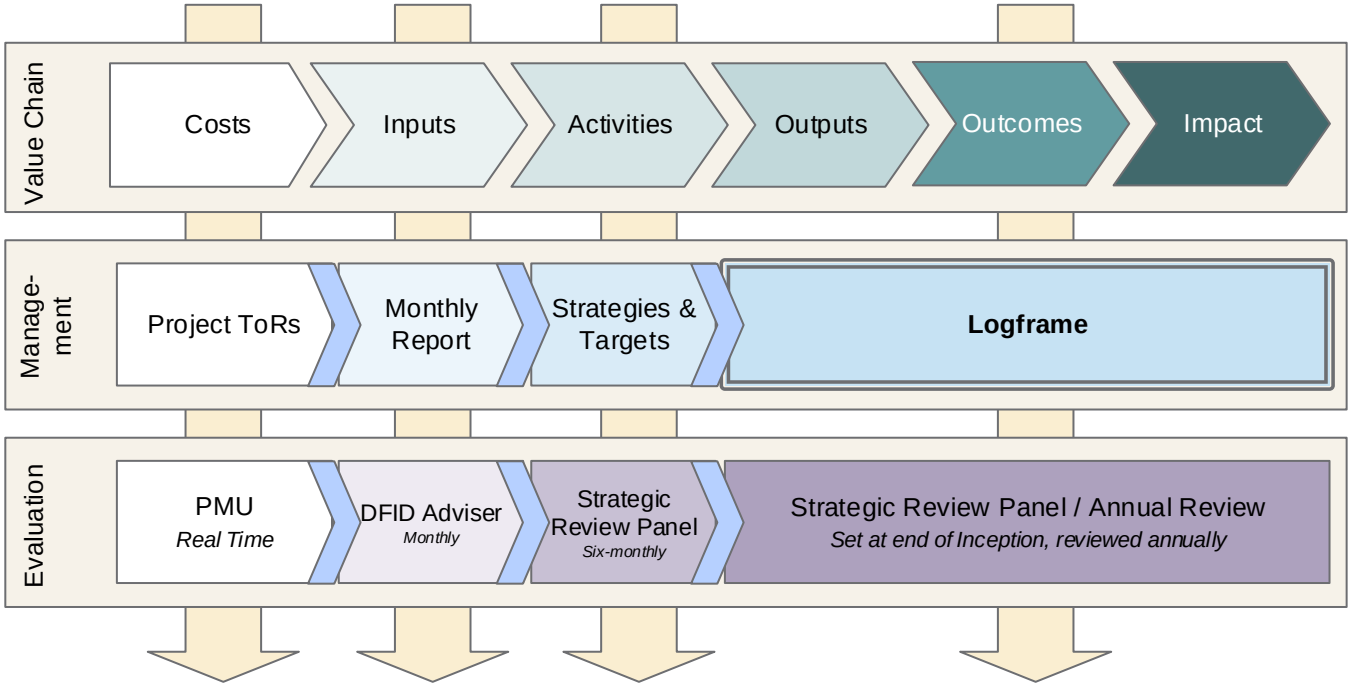


Figure 2: The Facility's Logframe-driven Strategic Framework

It follows that all of the facility's management, monitoring and evaluation tools should be linked to and riven by the Logframe:

Tool	Function	Owner	Evaluator	Frequency
Logframe	Sets the level of ambition for the programme by defining the **Outputs**, **Outcomes** and **Impacts**. The Logframe is intentionally broad, and defines the achievements the facility is expected to secure over its lifespan. It does not define how these will be achieved, but is an important management tool as it provides the context in which to develop workplans	DFID	Annual Review Team	Annually
Strategies and Targets	The way in which the PMU structures the facility's response to achieving the Logframe. Strategies and Targets define a strand of work, and plan the **Activities** needed to achieve it. They provide structure to the facility in terms of management, governance, budgeting and reporting. They are the bedrock of the facility's flexibility: Strategies and Targets can be amended every six months, whilst they maintain a clear approach to achieving the Logframe.	PMU	DFID	Quarterly or Bi-Annually
Monthly Invoices	A minimum of an invoice and forecast for future months. Monthly financial reporting gives the programme the flexibility to scale up or down each workstream month-by-month. Financial limits are set on a monthly basis, giving both donor and PMU the means to tightly manage their budgets. When payments are tied to Logframe achievement, the link between invoices and forecasts demonstrate how **Inputs** have been used to achieve Logframe results.	PMU	DFID	Monthly
Project ToRs	A management tool which articulates how **Costs** (fees and expenses), are used to support clients. Project ToRs ensure the facility delivers support that is time-bound and results driven: breaking down support into real-time ToRs gives the programme the flexibility to respond to changing contexts and demands. Project ToRs derive from Strategies and Targets, meaning that they fit into the strategic context of the Logframe	PMU	DFID	Real Time

Figure 3: The Facility's Logframe-driven Management, Monitoring and Evaluation Tools

Contract Management

Effective contract management linking payments to outputs can be useful in ensuring the SP is focused on delivering against the strategic framework.

Infrastructure facilities are typically managed under a range of potential payment mechanisms linked to the 3E framework of the donor value chain. Some examples of contract management linking payments to the strategic framework are outlined below:

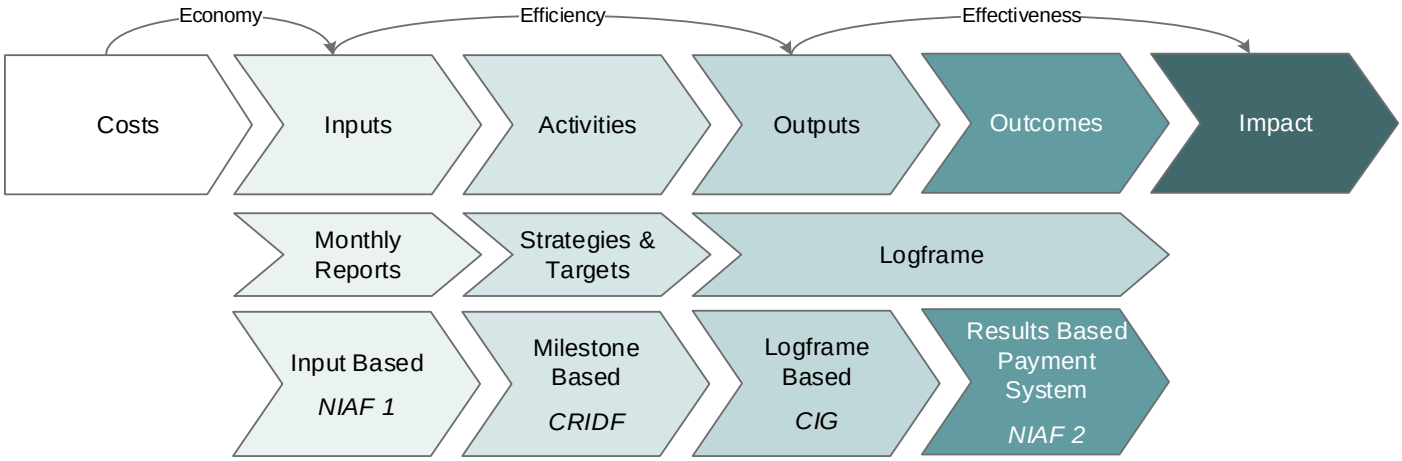


Figure 4: Facility Payment Management and the Donor Value Chain

- **Inputs:** Since facilities are generally initiated in fluid and uncertain contexts, input based reimbursable payments may be favourable. Generally input based payment includes invoicing against fees and expenses incurred in a given month. Input based payment can be mixed with results based payments, with great success.
- **Activities:** Payment by activities, such as studies completed, is a simple output based mechanism suitable for some facilities. Efficiency risk is passed to the SP who is generally required to deliver activities against a specific budget. Payments can be made against milestones such as deliverables or Objectively Verifiable Indicators. Due to the uncertain and varied nature of large, long-term projects, setting those milestones can be contentious.
- **Outputs:** Payments made against the achievement of Logframe outputs – or evidence of progress towards completion of an output. This passes efficiency and some effectiveness risk to the SP.
- **Outcome:** SPs cannot absorb complete risk for completion of outcomes, which are by definition outside of the SP's control. However, under a Results Based Payment Scheme, some incentive can be linked to achievement of outcomes. This represents the greatest transfer of effectiveness risk to the SP.

In all payment systems, **costs** – fees and overhead expenses – are set at tender stage and are the basis for payment later. Tender stage is the ideal time to maximise economy on costs, as the SP faces the risk of losing the tender if economy is not maximised. **Impacts** have not yet been used for facility contract management as they are not within the control of the SP.

Payment mechanisms can evolve as the facility matures. As facilities are generally deployed in uncertain, fluid contexts, output based payment may not be a constraint at the start. For example, an output level payment is not possible before a Logframe is finalised. Conversely, as facilities mature and SPs gain a greater understanding of the context, it is reasonable to ask the SP to take on greater risks.

Achieving Impact through the Facility Model

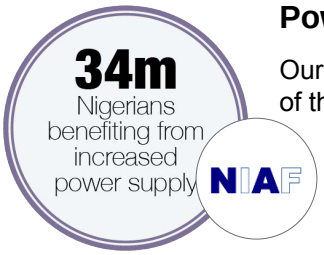
Adam Smith International's facilities are among DFID's most successful infrastructure programmes in terms of achieving aid impact. With landmark results across key infrastructure sectors and cross-cutting functions, clients are consistently impressed with the facility's ability to catalyse meaningful reform.

Aid Impact

Our Centre for Inclusive Growth (CIG) has transformed Nepal's economic prospects. It has already secured the largest ever foreign investment, with the $1.4 billion and is on track to deliver additional investment of $17b to Nepal, enough to educate 4.4 million schoolchildren and upgrade and maintain 10,000 km of rural roads each year. Moreover economic growth will be boosted by ending Nepal's electricity shortage and creating 20,000 construction jobs for 6 years. With a cost of some £11m versus benefits of at least £11 billion the project is generating a return of £1000 for every £1 invested by DFID

"The project's success is remarkable and a testament to the outstanding quality of delivery. Delivering the first stage in billion dollar private investments in infrastructure and producing a replicable model for doing so is a highly fraught and difficult task that can take years. This was achieved in less than two years and could help transform Nepal."

DFID Nepal

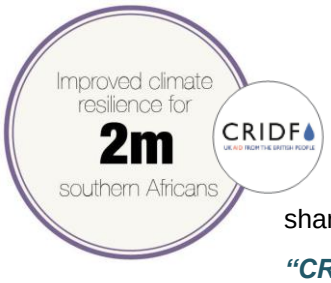


Power

Our Nigeria Infrastructure Advisory Facility (NIAF) helped conceptualise, design and implement one of the largest power reform programmes ever undertaken in Africa. At end 2015 around 34m Nigerians were benefitting from improved power supply, 961,000 of whom were very poor from increased electricity sent out to the national grid as a result of our work.

"NIAF's assistance has been key in helping the Presidential Task Force on Power drive forward the power reform programme."

His Excellency, Goodluck Jonathan, The President of Nigeria

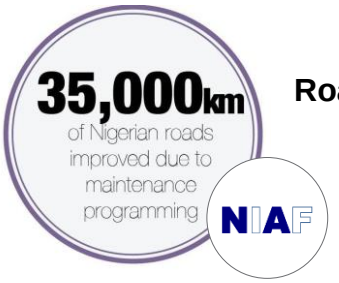


Water

Our DFID funded Climate Resilient Infrastructure Delivery Facility (CRIDF) in Southern Africa is on track to improve water security for over 2 million of the region's poorest and most vulnerable citizens, while demonstrating the value of regional teamwork and cooperation on shared water resources.

"CRIDF is an important facility to support SADC member states with water infrastructure development and will play a key role in fostering mutual cooperation on trans boundary water management"

Senior Programme Officer, SADC Water Infrastructure Division



Roads

NIAF is developing a major set of prioritisation tools allow the effective allocation of the roads maintenance budget. This will allow the prioritisation of maintenance programmes across the 35,000km Nigerian Federal Road Network.

"NIAF has made it possible for many to get timely and valuable specialist support quickly and effectively."

Office of the Permanent Secretary, Federal Ministry of Transportation

Urbanisation

NIAF support for the development of the first ever Lagos Transport Master Plan has helped improve traffic flows and reduced congestion in the Lagos. A conservative estimate of the cost saving associated with time not lost in transit is already saving an average of £65 million annually by reducing journey times for over 700,000 passengers per day by an average of 25 minutes per day.

"The contrast between NIAF and others is like day and night in terms of timeliness and effectiveness of support. Others will promise help but delay and go through various procedures so by the time it is available it has been overtaken by events. Let me say thank you. My main message is keep it going, keep it working in the same way."

Chief Economic Adviser to the President of Nigeria, Dr Nwanze Okidegbe

PPPs

Our DFID funded Nepal CIG Project has transformed Nepal's economic prospects. By liberating Nepal's hydropower potential it has already secured Nepal's largest ever foreign investment, the $1.4 billion PPP concession to develop the 900MW Upper Karnali hydropower project and is on track to deliver 3 other mega hydropower projects which will together deliver $17b to Nepal.

"The world-class expertise provided by DFID through its CIG programme has been absolutely invaluable in helping us to achieve these ground-breaking deals, which will transform Nepal's prospects."

Radhesh Pant, Nepal Investment Board Chief Executive Officer

Climate Change

CRIDF, NIAF, and CIG have delivered substantial results in adaptation, mitigation, disaster risk reduction, climate mainstreaming, and climate finance.

"We especially welcome the approach from [CRIDF]. Partnership with CRIDF will enable us to deliver the needed infrastructure to more sites, and to introduce new ways and thinking for increasing climate resilience for these poor communities."

Permanent Secretary, Ministry of Finance, Zambia

Our Facility Implementation Experience

Adam Smith International is DFID's chosen implementing partner for all three of its live infrastructure facility programmes. We know what works well, and what not so well; and discuss some of our success stories here.

Nigeria Infrastructure Advisory Facility

DFID's five-year Nigeria Infrastructure Advisory Facility II (NIAF) programme provides demand-led advice and assistance to Nigerian government bodies at federal and state level as they meet national infrastructure challenges across the power, infrastructure development finance, roads, effective cities and climate change sectors.

Under Adam Smith International's management, NIAF has been a true catalyst for reform. In the power sector, we have supported sector-wide reform whereby the country has seen $2.6bn invested to improve supply. The programme has done well to achieve against its ambitious Logframe, and has received back-to-back A+ scores in its recent DFID reviews.

NIAF has also demonstrated the efficacy of the facility model in opening up a policy space for further donor programming. NIAF identified opportunities for supporting small-scale renewable energy infrastructure development in both Lagos and Northern Nigeria. DFID was able to leverage support from sources such as International Climate Fund towards a major new programme of solar and private sector development.

Development of the Abuja light railway was supported by NIAF

NIAF consultants engage with government counterparts

"The NIAF programme is certainly the best managed and most effective programme of donor support we have experienced."

Uche Orji, CEO, Nigeria Sovereign Investment Authority

Climate Resilient Infrastructure Development Facility

DFID-Southern Africa's Climate Resilient Infrastructure Development Facility catalyses the development of small-scale water infrastructure in 11 counties through the provision of TA and capex support. Responding to the demand of diverse stakeholders, CRIDF accelerates the development of stalled infrastructure plans, improving project design through inculcating considerations for climate resilience, pro-poor impact and transboundary benefit.

Now in the second year, CRIDF has screened over 120 candidate projects for CRIDF support. 30 projects are under preparation for implementation for the benefit of over 2 million direct beneficiaries. DFID have scored CRIDF as A and A+ in the first two annual reviews; and the programme has won the Association for Project Management's 'Overseas Project of the Year' award.

Like NIAF, CRIDF has also furnished DFID with opportunities for major new programming in tangential areas. 2014 sees the start-up of CRIDF+: a programme focusing on multi-sectoral approaches to transboundary water resource management in the region.

Agricultural communities benefit from CRIDF irrigation schemes

Local stakeholders are engaged around dam rehabilitation

Centre for Inclusive Growth

DFID-Nepal's Centre for Inclusive Growth (CIG) works with the Government of Nepal to drive reform in the business environment, and unlock growth constraints through infrastructure investment.

In four years, the Centre has ushered in massive investment in hydropower, which has the potential to truly transform Nepal's economic prospects. In 2014, the Government of Nepal signed a $1.4bn Public-Private Partnership concession agreement to develop a major hydropower project. Under the agreement, Nepal receives 12% free energy and acquires a free 27% equity share in the project, which is expected to be worth some $3bn to Nepal over the 25 year operating life of the concession. This is the first of five deals under active negotiation by the CIG-supported Nepal Investment Board.

From 2015, the Nepal Investment Board will function without donor support, thanks to CIG's success in building the capacity of Nepali counterparts and development of a world class concession agreement template for hydropower projects. At the same time, CIG has built appetite for reform in the wider infrastructure sector, which has become the focus of future DFID support.

> ***"Delivering the first stage in billion dollar private investments in infrastructure and producing a replicable model for doing so is a highly fraught and difficult task that can take years. This was achieved in less than two years and could help transform Nepal."***
>
> ***DFID Adviser, Key Supplier Management Review***

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