

**Independent Commission for Aid Impact: Annual Report to
the House of Commons International Development Committee
2014-15**

June 2015

Our Role and Objectives

The Independent Commission for Aid Impact (ICAI) is the independent body responsible for the scrutiny of UK aid. ICAI focuses on maximising the impact and effectiveness of the UK aid budget for beneficiaries and on delivering value for money for the UK taxpayer.

Our Role

ICAI was set up as an independent body and it reports to Parliament, not to ministers. We are independent of Government and we report to the International Development Committee.

We present our findings and recommendations in our published reports and through International Development Committee evidence hearings. These hearings are held on each report in public, are broadcast over the internet and are recorded in Hansard, allowing the UK taxpayer easy access to our work. DFID and other departments that spend UK aid also appear in these evidence hearings, in order to answer questions on the evidence and findings in our reports.

Our Objectives

Our primary objective is to develop and publish clear, transparent, impartial and objective reports on aid spending, balancing value for money with delivery and impact on the ground and the voice of intended beneficiaries.

We achieve this by developing a programme of reviews based on both our report selection criteria of coverage, materiality, interest and risk and a public consultation. Then, for each review, we:

- establish the most critical aspects of the topic under review;
- perform literature reviews and scrutinise departmental documentation;
- gather further evidence, including interviewing stakeholders both in the UK and at national, regional and community levels in country;
- develop a robust, independent analysis of the area under review;
- make recommendations to Government based on our analysis in order to improve the effectiveness and value for money of Official Development Assistance (ODA) expenditure;
- publish our findings; and
- follow up on how DFID has responded to our recommendations.

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1. Chief Commissioner's Foreword

In a year that will see the Sustainable Development Goals set and the UK having legislated for 0.7% of GNI to be spent on Official Development Assistance, our role in contributing to the improvement of the impact and value for money of UK aid grows ever more important.

This year, we have built upon our previous reports and considered some of the largest areas of work for the Department for International Development (DFID) and other UK government departments. We have published thematic reports on a number of important topics, including how the UK Government is using ODA to: help people in fragile states; combat climate change; promote security and justice; fight corruption; work with the private sector; and tackle global nutrition issues. We have also investigated DFID's approach to achieving impact and how DFID works with multilateral organisations.

DFID is rightly recognised as a global leader in many aspects of development assistance, helping to shape the global agenda on issues such as climate change, violence against women and girls and the Sustainable Development Goals. Having completed four years of scrutiny of UK aid spending, we have seen that DFID staff are very dedicated to their work. At its best, DFID is capable of outstanding performance in delivering UK aid. One of the outcomes of our work is to enable DFID to make progress in replicating those successes across the organisation.

DFID faces a number of challenges in the coming years. For example, it is prioritising two complex areas necessary to achieve sustainable long-term poverty reduction: fragile states and economic development. In fragile states, achieving impact for intended beneficiaries can take a generation, with earlier phases of aid programmes needing to put in place the building blocks for later transformation. This can involve combining direct benefits for the poor with promoting the policies and institutions needed to scale up these benefits. On economic development, DFID has an ambitious strategy which requires multiple reinforcing interventions at different levels to succeed.

Over the past five years, DFID's results and value for money agenda has brought greater rigour and accountability to its work. We have found, however, that it has also led to a focus on delivering against short-term, measurable targets at the expense of real impact, which is harder to measure. DFID also needs to do more to design coherent portfolios of programmes to achieve mutually reinforcing impact, across sectors and working in partnership with others.

We have found throughout our reports that successful interventions both engage with the poor and keep their needs and preferences clearly in view. It is our firm belief that DFID should engage with intended beneficiaries throughout the lifetime of programmes, from design through to exit. To be effective and sustainable, development initiatives must be owned by the people they are intended to support. We are pleased that DFID has made progress in this area at our encouragement and

the next challenge, in our view, is to integrate its engagement into lasting community structures and wider governance systems, so that it outlives the programme.

We also believe that DFID needs to take a flexible approach to programme delivery, to allow for course correction, problem solving and active learning.

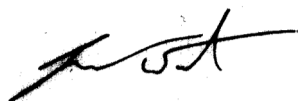
This year, we have produced a separate report which follows up on many of our previous reports, including a particular focus on DFID's education programmes. This provides further accountability and enables us to report on what difference our reports and our recommendations have made. In this review, we have seen that, in many cases, the clear action taken by DFID to address recommendations recognises that we are raising issues that help DFID teams to take forward challenges, both internally and with the partners they work with, in implementing programmes.

Our findings and recommendations are intended to help the International Development Committee in its role of providing parliamentary oversight of development and aid expenditure. We report directly to its Sub-Committee, which is charged with examining our reports. We give evidence at Sub-Committee public hearings, which also include a hearing with the government department responsible for the themes and programmes under review. We welcome this and the continuing support that the Committee has given us. I have no doubt that my successor will also provide robust, independent, evidence-based reports and advice to the Committee.

On 30 June, my fellow Commissioners and I will step down from our roles and a new team, led by Dr Alison Evans, will take up post. I wish Alison and her team well in this important work.

Over the past four years, we have worked closely with our contractor consortium and with UK government staff, both in the UK and in-country. I am personally grateful for their help.

Finally, I would like to thank my fellow Commissioners and the Secretariat for their exceptional work and commitment over the past years. It has been a privilege to work with them to help to improve the lives of the poor.

A handwritten signature in black ink, appearing to read 'G. Ward', written in a cursive style.

Graham Ward CBE

2. Review of the Year 2014-15

Our reports are our primary product and are the most visible output of our work. Over the past year, we have delivered and published 10 reports based on our selection criteria of coverage, materiality, interest and risk, after a public consultation. This year we have also published a full report on our follow-up of previous reports.




































2.1 Our reports

We have continued to use our 'traffic light' system, where it is appropriate to do so. We give an overall rating and individual ratings against each of the criteria that we assess: Objectives, Delivery, Impact and Learning. This year, we issued four reports which did not give ratings: 'the Rapid Review of DFID's Smart Rules'; 'A preliminary investigation of Official Development Assistance (ODA) spent by departments other than DFID'; our 'Follow-Up report' and 'DFID's approach to delivering impact'. Save for Smart Rules, these reports provide an overview of so many different issues and areas that we have concluded that our standard traffic light system would over simplify our findings. We have still identified strengths and weaknesses and made recommendations where improvements need to be made.

Overall, three of our reports gave a broadly positive rating (Green-Amber), while four revealed more significant performance challenges that needed to be addressed (Amber-Red). This is a cause for concern, as the subjects covered by the Amber-Red reports include a number of very important areas of DFID's work and represent a significant amount of DFID's ODA spend. We noted that a common challenge across these reports was the need to define a stronger overarching strategy in each of these key areas. Figure 1 on page 7 depicts the pattern of ratings across our Year Four reports:

Section 3 of this annual report examines these findings in greater detail and places them in the context of our work to date.

Figure 1: Ratings for Year Four ICAI reports

Report	Overall	Objectives	Delivery	Impact	Learning
DFID's Contribution to Improving Nutrition					
DFID's Approach to Anti-Corruption and its Impact on the Poor					
The UK's International Climate Fund					
Assessing the Impact of the Scale-up of DFID's Support to Fragile States					
UK Development Assistance for Security and Justice					
Business in Development					
How DFID works with Multilateral Agencies to Achieve Impact					
Unrated reports					
Rapid Review of DFID's Smart Rules	-	-	-	-	-
A preliminary investigation of Official Development Assistance (ODA) spent by departments other than DFID	-	-	-	-	-
DFID's approach to delivering impact	-	-	-	-	-
Follow-up of ICAI Reviews from Years 1, 2 and 3	-	-	-	-	-

2.2 DFID's Contribution to Improving Nutrition

Overall rating: Green/Amber

Countries visited: India and Zambia

Summary of findings:

DFID has a globally recognised and effective nutrition programme. It has played a key role in mobilising the global community to combat undernutrition and in setting the global agenda. DFID started scaling up its nutrition work in 2010. The pace and scale of DFID's global work is good but implementation at the country level has been too slow. As a result, it is too early to show impact, though we saw some promising signs. Although DFID's work is based on sound evidence, DFID's projects do not always focus on interventions with the greatest impact on stunting. DFID should improve the monitoring of its programmes and ensure results are not over-reported. Greater focus is needed on the most vulnerable and 'hard-to-reach' mothers and children.

Summary of recommendations:

If global undernutrition is to be overcome, DFID will need to make long-term commitments to maintain the scale and pace of programmes; its standard three-to-five-year project time frames are not sufficient to ensure that impact takes place. DFID should plan and implement longer multi-phase projects of up to ten years to ensure that its projects do impact on stunting, cognitive development and the nutritional needs of the most vulnerable. It should also build its capacity to measure the impacts of its nutrition projects effectively. Tighter project management, including a better selection of partners, is needed to improve the pace of implementation at the country level.

2.3 DFID's Approach to Anti-Corruption and Its Impact on the Poor

Overall rating: Amber/Red

Countries visited: Nepal and Nigeria

Summary of findings:

DFID recognises corruption as a critical development challenge and seeks to tackle it through direct and indirect activities. DFID has not, however, developed an approach equal to the challenge, nor has it focussed its efforts on the poor. While some programmes show limited achievements, there is little evidence of impact on corruption levels or in meeting the needs of the poor. DFID's willingness to engage in programming that explicitly tackles corruption generally is often constrained by political sensitivity in-country. It is not capturing and applying lessons learned.

Summary of recommendations:

The UK should take an ambitious stance with respect to tackling corruption around the world as experienced by the poor. DFID, in partnership with the Foreign and Commonwealth Office and other UK government departments, should articulate a detailed plan to tackle corruption in its priority countries.

DFID should develop an approach to fighting corruption that will be an integral part of the UK Government's wider efforts. To this end, DFID should create an internal embedded centre of excellence explicitly to focus on anti-corruption and to gather evidence of effectiveness, disseminate lessons learned and cultivate expertise that will drive anti-corruption efforts globally.

Additionally, we recommended that DFID should develop standalone anti-corruption country strategies and, in addition to its current activities, programming that explicitly tackles corruption specifically targeting the everyday corruption experienced by the poor. Programmes should extend over a 10 to 15 year time horizon with short-, medium- and long-term goals for reducing corruption.

2.4 The International Climate Fund (ICF)

Overall rating: Green/Amber

Countries visited: Indonesia and Ethiopia

Summary of findings:

The UK has made a major policy commitment to supporting international action on climate change. It has catalysed positive action, taking a leadership position on the need to shape and deliver an effective international agreement. The ICF is both a significant contribution to climate finance and a tool for influencing action at the international and national levels. After a challenging start, it has made some adjustments to improve its ability to deliver on its ambitious objectives. Further improvement is needed, however, to ensure that priority activities can be supported through appropriate delivery channels. While many of its investments have had long lead times and remain unproven, there is evidence of early impact in a range of areas. It has pioneered new approaches in the measurement of results but should be more transparent in reporting strategy and results.

Summary of recommendations:

The ICF should work through a wider range of delivery partners at the international and national levels, with a stronger understanding of their comparative advantages. In particular, the ICF needs to develop a more detailed private sector strategy, identifying the conditions and strategies needed for attracting different forms of private capital for low-carbon, resilient growth.

The ICF should deepen its engagement with developing country governments and national stakeholders, including through greater emphasis on capacity development. This is likely to require greater access to grant and technical assistance resources, including for middle income countries.

We noted that more flexibility in the allocation of resource and capital expenditure is needed. For example, DECC and Defra would benefit from

access to more flexible and direct resource and capital expenditure. We also recommend that the ICF should strengthen coherence across multilateral and bilateral delivery channels and programmes and implement a common, country-level planning process and tracking system.

2.5 Assessing the Impact of the Scale-up of DFID's Support to Fragile States

Overall rating: Amber/Red

Countries visited: Democratic Republic of the Congo and Somalia

Summary of findings:

DFID has increased its focus on fragile states – countries which are prone to some of the highest levels of poverty, have intractably weak systems and create wider security challenges. This important 'scale-up' decision was part of a cross-government agenda. The targeted volume of expenditure and the planned pace of the increases was out of step with the capacity of DFID, its partners and, most importantly, the countries themselves to deliver. It has taken DFID four years for this scale-up of support to start to deliver impact.

Transformative impact in fragile states will take a generation to achieve and is dependent upon development of in-country state capacity. This was insufficiently recognised at the start of scaling up, where increased funding was directly linked to assumed greater impact. The experience of scale-up in fragile states provides lessons for future policy initiatives. The focus needs to be on spending well (and not just more) and on ensuring that absorptive capacity preconditions are in place, if enhanced expenditure is to have the optimum impact.

Summary of recommendations:

We recommended that DFID needs to develop fresh coherent guidance on working in fragile states, drawing on adaptations developed at country level, new research and learning and the evolved systems being developed in DFID centrally. Country level targets realistically need to reflect the challenges of scaling-up and of the longer term timescales needed for lasting impact in fragile states and calibrate funding accordingly.

It is important that DFID provide guidance on the inclusion of targeted infrastructure components in development programmes to enhance sustainable impact in fragile states programming. DFID should also define its appetite for risk in fragile environments: there needs to be explicit alignment between the centre and the country offices about potential for failure and its consequences.

2.6 UK Development Assistance for Security and Justice

Overall rating: Amber/Red

Countries visited: Bangladesh and Malawi

Summary of findings:

Security and justice (S&J) are important development goals and a high priority for poor people around the world. DFID was an early champion of S&J assistance but its portfolio has fallen into conventional patterns and needs refreshing. DFID focusses on S&J primarily as a service, rather than as a set of issues or practical challenges, leading it to concentrate on the reform and capacity-building of service providers, particularly police. While there are pockets of success, there is little sign that its institutional development work is improving S&J outcomes for the poor. DFID does, however, have a good base of programming on community justice and for women and girls, on which it can build. Overall, we are concerned that the portfolio suffers from a lack of management attention, leading to unclear objectives and poor supervision of implementers.

Summary of recommendations:

There is a need for a significant rethink of DFID's portfolio. Our recommendations include the need for a new strategy which is more realistic and focussed on tackling specific security and justice challenges in particular and local contexts. We recommend the adoption of a problem solving approach and working in a cross-disciplinary way to address wider security and justice themes such as labour rights, urban insecurity and reducing violence against women.

DFID needs to ensure that programme design is grounded in contextual analysis and evidence of what works. As such, it should identify the key evidence gaps across its security and justice portfolio and tailor its investments in research and innovation to fill those gaps.

2.7 Business in Development

Overall rating: Amber/Red

Countries visited: Ghana and India

Summary of findings:

Businesses are playing an increasing role in development. DFID's growing portfolio of work with and through businesses recognises this opportunity. DFID should do more, however, to translate its high-level ambitions into detailed operational plans clearly focussed on poverty reduction. Delivery through Loans, Equity investments and Guarantees (LEG) and partnerships is often effective but there is a lack of strategic oversight of the portfolio as a whole and of LEG in particular. It is too early to identify certain impact in most cases, particularly on the poor but there are some positive examples of

potential impact. DFID could do more to add value to its challenge fund portfolios. In some cases we are not confident that DFID's support is additional to what businesses would have done anyway, especially in the case of challenge funds. Weak interaction and information-sharing between central and country programmes, as well as a lack of cross-departmental oversight, diminishes learning.

Summary of recommendations:

We recommended that DFID should translate its high level strategies for business engagement into detailed operational plans which provide specific guidance on business engagement with a focus on the poor. There should be better linkages between centrally-managed programmes and country offices for business in development.

In order to improve management and ensure that learning is captured and used to improve performance, DFID should pull together, synthesise and disseminate management information across all departments. DFID should also reassess how it appraises, monitors and evaluates its engagements with business to ensure fitness for purpose and a sharper focus on the poor.

2.8 How DFID works with Multilateral Agencies to Achieve Impact

Overall rating: Green/Amber

Countries visited: Uganda and Madagascar

Summary of findings:

DFID has significant influence in the multilateral system. For many key agencies it is the largest funder and DFID has used this leverage to promote reform, particularly on impact and value for money. But it could do more. Our review found that DFID lacks a clear strategy for its engagement with the system as a whole and individual key agencies or groups of agencies. DFID's focus on improving agencies' management processes has often been at the expense of strategic dialogue on what multilaterals do and how they do it. DFID should work with other donors to improve further the multilateral system and individual organisations within it, to ensure that they have the maximum impact on the ground with regard to key development challenges.

Summary of recommendations:

We recommended that DFID should have a strategy for its engagement with the multilateral system as a whole at the global level and clear objectives for its work with the multilateral system in its country-level strategies. This would promote more integrated working amongst multilateral institutions at a country level and encourage greater collaborative working with other bilaterals during its engagement with multilateral agencies. This will require a greater proportion of staff resource at a suitable level of seniority being deployed to drive active engagement with these organisations, appropriate to the level of spend.

DFID should continue to press for greater transparency and accountability of multilaterals and, furthermore, communicate more effectively to taxpayers about the role, impact and importance of multilaterals in delivering aid.

Unrated reports

2.9 Rapid Review of DFID's Smart Rules

Summary of findings:

DFID reformed its procedures for programme management. It has called these new procedures 'Smart Rules: Better Programme Delivery'. We undertook a rapid review of the Smart Rules, to see how they respond to the issues that we raised in our previous reports.

There is evidence that aspects of poor design and delivery have been tackled. For instance, where, previously, programmes had to meet 200 requirements, these have been trimmed down to 37 rules.

The publication of the 'Smart Rules' has demonstrated that there has been serious endeavour to address some of the procedural inefficiencies that we have seen over the course of our work. They are a good step towards improving accountability and simplifying procedures. That said, there is more the department can do to embed the changes in behaviours that will be needed to make sure that the Smart Rules work as intended.

We have regularly noted that DFID needs to define better who is accountable for delivery of its activities and how DFID's systems and processes can get in the way of effective delivery. We believe that the new Smart Rules are a good start.

Summary of recommendations:

We encourage DFID to develop the Smart Rules further, particularly focussing on the rebalancing of attention towards managing how it implements its programmes and projects rather than placing the greatest emphasis on design. Further refinement is needed to facilitate ease of use by teams in the field, with a particular focus on clearer principles, focussed technical guidance and examples of where discretion can be applied.

In order to achieve this, the DFID leadership needs to define a compelling vision and mission for the organisation for the next decade, focused on reducing poverty for beneficiaries and use this to establish some explicit principles for the overall transformation of improving the impact of UK aid on the poor, which is ahead.

2.10 A preliminary investigation of Official Development Assistance (ODA) spent by departments other than DFID

Summary of findings:

Our consultation with stakeholders revealed that, as the Government fulfils its commitment to spend 0.7% of Gross National Income (GNI) on ODA, there was a perceived risk that the share spent by departments other than DFID might increase and that the quality and focus of UK aid might be compromised.

Our report looked at a sample of ODA spent across eight departments. This included a Department for Business, Innovation and Skills project undertaking research on medical issues affecting developing countries and Ministry of Defence training programmes. The activities we examined were all found to be ODA-eligible and appropriate to the UK aid programme. We found that the scaling up of UK aid has not led to a disproportionate increase in non-DFID ODA, nor has it led to any overall loss of pro-poor focus to UK aid.

Summary of recommendations:

UK ODA data are published in various forms. There is no single place where the public can find a clear explanation of the amounts and objectives of non-DFID ODA. This has contributed to concerns that inappropriate projects were being classed as UK ODA, although we have not found this to be the case. We recommended that DFID should request ODA-spending departments to accompany their annual ODA returns to DFID with an information note describing, in simple terms, the main activities or types of activity claimed as ODA. DFID should include this information in an annex to its Statistics on International Development in order to enhance transparency.

2.11 DFID's Approach to Delivering Impact

Countries visited: Ethiopia, Rwanda and Pakistan

Summary of findings:

Maximising the results of UK aid has been a major concern of DFID's in recent years. Given the rapid scaling up of aid over this period, it has been a natural and appropriate focus. It has led to the sharpening up of many of DFID's core business processes, in a constant search for new ways of maximising the return on every pound of the aid budget.

What has become clear from this analysis of DFID's results agenda is that there are trade-offs inherent in any system for results management. The way DFID frames its results agenda and the tools and processes that support it have a major effect on incentives and priorities across the department. They also influence implementing partners, multilateral agencies and partner countries.

The results agenda has pushed DFID and its partners to focus more consistently and rigorously on the delivery of results. The organisation now has tighter accountability throughout its business processes. We recognise the importance of the results agenda and the political imperatives that have driven it. We are concerned, however, that the emphasis is on short-term, measurable results, over the more complex challenge of achieving long-term, transformative impact. While we are strongly in favour of rigorous approaches to results management and clear lines of accountability, we believe that more can be done in DFID's tools and processes to incentivise the right priorities and behaviours across the department and its implementing partners.

Summary of recommendations:

We recommended that DFID should develop a Results Framework that better reflects the range of impacts it seeks to achieve, capturing not just the breadth of its engagement but also its transformative impact, including successes in institution building and policy influence. At the country portfolio level, DFID's Country Poverty Reduction Diagnostic should pay more attention to longer-term change processes, both looking backwards to understand the trajectory of achievements and forward towards potential long-term paths out of poverty and fragility.

At the programme level, DFID's business cases should be more explicit about the route towards long-term impact, including policy and institutional change, setting out the building blocks and pathways required to achieve transformative impact over time. This includes looking beyond the life of the programme to the follow-up actions required and exploring how to work with other programmes and initiatives to achieve mutually reinforcing results.

DFID should always have a clear line of sight to intended beneficiaries and engage with them throughout the programme cycle, in design, delivery and monitoring. DFID should anchor its interventions in sustainable community structures that are integrated into wider governance systems.

Annual reviews should include an assessment of the assumptions and risks set out in the logframe and theory of change. DFID should work to tighten feedback and learning loops, to enable real-time adjustment of programmes and improve risk management.

2.12 Follow-up of ICAI Reviews from Years 1, 2 and 3

All ICAI reports incorporate recommendations for action by DFID (or other relevant departments) in order to enhance the effectiveness of UK aid. In turn, DFID publishes a management response and takes action. A key component of ICAI's mandate is to follow up on its recommendations and to assess progress made by DFID and other government departments on issues identified in our reports. Since ICAI's inception we have undertaken two sets of follow-up work, published in our Annual Reports of 2012-13 and 2013-14, respectively.

This year, we have followed up on reports from across the first three years of ICAI (Years One to Three) including all of the reports that we published in Year Three; and nine selected reports from Years One and Two, where key issues still merit further follow-up. Given the breadth of this work, we have published it as a separate report which is available on our website¹. The report includes a number of recommendations.

As part of the Follow Up report we looked in detail at the education sector. Since our Education reports were published, DFID has shifted its focus to pupil learning, replacing enrolment as the centre of its agenda, in line with our recommendations. In all six countries that we examined² there is a determined focus on improving pupil learning, with a particular emphasis on supporting teachers in the classroom. DFID has been able to use our reports, alongside other information, in working with national governments. We recommend now that DFID should help governments to develop plans and targets which are affordable and achievable. DFID can use its experience in each country better to inform forward planning in all six countries.

One of the general recommendations that we made was designed to improve the effectiveness of the follow-up process. We believe that DFID should engage directly with the ICAI team post-publication of our reports to ensure that they understand the drivers to our recommendations and that their responses address the key issues raised. We also recommended that progress with regard to management actions be tracked by DFID in a more rigorous and structured way. This will allow ICAI to provide even greater value in its scrutiny of government ODA spending.

2.13 Engagement and sharing learning

We have continued to build our relationship with the International Development Committee and its Sub-Committee, to which we report. We have provided evidence to a number of their inquiries in addition to the hearings on our own reports.

We aim to be a transparent organisation and have published supporting information to each of our reports on our website. We also publish agendas and minutes of our board meetings.

We have continued to seek the views of stakeholders in formulating our work plan and terms of reference; we also invite stakeholders experienced in particular review topics to engage with project teams as expert panels. Feedback from both the teams and the stakeholders has been very positive.

We are committed to sharing our learning for reports. We have spoken at a number of conferences and discussed our findings. We are also planning further round table events and becoming involved in a number of fora to discuss our results. To share learning within DFID, the Commissioners have

¹ *Follow-up of ICAI Reviews from Years 1, 2 and 3*, ICAI, June 2015, <http://icai.independent.gov.uk/reports/follow-up-of-icai-reviews-from-years-1-2-and-3/>

² Ethiopia, India, Nigeria, Pakistan, Rwanda and Tanzania.

held 'town hall events' at country offices as part of ICAI visits, in order to discuss ICAI's role and findings with local DFID staff.

We have held three public events, primarily to engage with our stakeholders. At our first event, we discussed our findings to date and took the opportunity to listen to views as part of the evidence gathering for our Impact report. The second event, which was hosted by the Africa Research Institute, was an opportunity to review our work to date and to give greater insight into our reviews. A third event, also hosted by the Africa Research Institute, in June 2015, launched our Multilateral and Impact reports as well as summarising the work of the last four years.

We have also discussed our reports at a number of hosted events. These events have included: the Skoll World Forum; the Oxford Good Governance Conference; two seminars hosted by British Expertise and the UK Evaluation Society conference. We are also participating in the Ministry of Defence think tank workshop on preventing violent conflict following our report on Security and Justice.

We have engaged with the media to raise awareness of our work and there has been increased coverage both in the mainstream media and online, which has sparked debate on a number of reports. We welcome this public engagement and the feedback that we receive.

3. Significant themes

In this section, we draw out some of the most important themes emerging from our work to date. We focus here on issues that we believe shape DFID's capacity to deliver real impact for its intended beneficiaries.

Over the course of our 46 reports, we have looked into many different aspects of the UK aid programme: by sector, theme, country and delivery channel. We have explored the quality of design and delivery in UK aid programmes and their impact on the intended beneficiaries. We have explored the linkages between DFID's capacity as an organisation and its ability to deliver valuable, sustainable and consistent results.

We have seen many examples of well-conceived programmes that are delivering real benefits to men and women in poor communities around the world. We have been impressed by the dedication of DFID staff, often working in difficult and dangerous environments. We have also observed how challenging it can be to maintain a consistently high standard of delivery across such a large and complex aid programme.

As we have conducted our work in the field and in the headquarters of other international aid players, we have consistently heard about the positive view that this sector has of the work of DFID and of the UK. DFID is seen as thoughtful, influential and engaged and often lead collaborative activities on the ground.

In this section, we present some of the key themes emerging from our reports. We begin by exploring some of the challenges that we believe will face the UK aid programme over the coming years. We go on to discuss the elements that we have identified as key to achieving transformative impact and to present the reforms that we suggest should be at the top of DFID's agenda in the coming years.

1. Major challenges facing UK aid

The UK Government has made an unprecedented commitment to tackling global poverty. In our four years of operation, the UK aid programme has grown from £8.6 billion (2011) to £11.8 billion (2014)³. By enshrining the 0.7% of GNI aid target into law, the International Development (Official

³ *Statistical Release: Provisional UK Official Development Assistance as a Proportion of Gross National Income, 2014*, DFID, April 2015, page 2, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/420707/Statistical-Release-Provisional-GNI-2014.pdf.

Development Assistance Target) Act 2015 ensures that the UK will remain a leading provider of development assistance for the coming years.

The environment in which it will provide that assistance, however, is increasingly complex. Many developing countries are crossing the threshold from low- to middle-income status. For them, government revenues (including from natural resources) and private finance (much of it from China and other new economic powers) are becoming more important sources of development finance than aid. While they still face major development challenges, they will look to the UK more for policy solutions and technical knowledge than for finance.⁴ Other developing countries are affected by conflict and political instability and remain heavily dependent on aid. Their development is regularly set back by crises, both natural and manmade, giving rise to complex humanitarian and development needs.

At the policy level, the Millennium Development Goals (MDGs), which focused on a limited number of basic needs, are being replaced by a much broader international development agenda. Many of the new post-2015 Sustainable Development Goals are likely to be complex and cross-cutting in nature, from reducing inequality to empowering women and building sustainable cities. DFID's traditional priorities, such as extending access to basic education, health services and clean water, will remain important but will face new challenges, such as reaching excluded groups and raising the quality of services. The need to identify the most effective platforms to execute change with others will be a real priority.

For DFID, therefore, the coming years will call for considerable agility, as the department adapts to a changing world and a dynamic development agenda. One key challenge will be building its capacity in *economic development*. The Secretary of State has made a major commitment in this area, pledging to spend £1.8 billion by 2015-16.⁵ There is a clear rationale for appropriate rebalancing the UK aid programme in this direction. As DFID's strategy points out, no country can defeat poverty without private sector-led growth to create jobs and livelihood opportunities for the poor. We stress, however, that this emphasis on economic development should not come at the expense of basic services like health and education nor areas such as governance, which remain foundational for development. Without educated and healthy workers, there is little chance of sustainable economic development.

Our reviews of DFID's economic development portfolio⁶ and its approach to partnering with business⁷ suggest that DFID needs to improve both its

⁴ *European Report on Development 2015: Combining Finance and Policies to Implement a Transformative Post-2015 Development Agenda*, ODI and others, 2015, http://erd-report.com/erd/report_2015/ERD5_Report_EN_Web_Def.pdf.

⁵ *Economic Development For Shared Prosperity and Poverty Reduction: A Strategic Framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework.pdf.

⁶ *DFID's Private Sector Development Work*, ICAI, May 2014, <http://icai.independent.gov.uk/wp-content/uploads/2014/05/ICAI-PSD-report-FINAL.pdf>.

approach and its capacity. We found that DFID's strategy, though ambitious, is not based on a clear view of its comparative advantage and lacks focus, particularly in fragile states. DFID is struggling to translate high-level objectives into coherent portfolios at the country level. It needs to join up its work at the micro- (such as microfinance), mid- (for example, making markets work for the poor) and macro-levels (such as regulatory reform), so as to be mutually reinforcing. In the absence of clear guidance on programming, we are concerned that some existing programmes are simply being rebadged as economic development. The lack of guidance is compounded by a shortage of practical experience among DFID staff. While DFID has doubled its cadre of private sector advisers, the profile remains very junior.

DFID is increasingly financing economic development through loans, equities and guarantees, which rose from £68 million in 2012-13 to a forecast £580 million in 2014-15. While some of its investments are effective, the portfolio as a whole lacks strategic oversight and is not clearly poverty-focused. We would like to see it concentrate more clearly on scaling up small businesses, so as to create jobs and livelihoods, as well as catalysing other investment flows, particularly from abroad.

DFID is committed to spending 30% of its aid budget in countries that are affected by *conflict and fragility*. Of its 28 priority countries, 21 are fragile. This means that DFID has become, to a significant extent, a specialist in fragile states. We are concerned that DFID is yet to grasp the full implications of this. A decade ago, the UK aid programme was dominated by budget support, which was designed to help developing countries to implement their national development strategies. This paradigm is simply not viable in many fragile states, where DFID's own country analysis shows that politics is often the primary constraint on poverty reduction.⁸ DFID is still exploring the alternatives and seeking to identify the building blocks that will underpin sustained progress.

Our review of the scaling up of DFID support to fragile states highlighted that DFID can be unrealistic in its ambitions and timeframes and over-complex in its delivery methods.⁹ In difficult environments, it needs to balance relatively simple interventions that can deliver immediate returns (such as building local infrastructure) with programming designed to promote long-term pathways out of fragility. Our review of DFID support to Afghanistan¹⁰ found that programmes with straightforward objectives and shorter delivery chains consistently outperformed more complex programmes.

⁷ *Business in Development*, ICAI, May 2015, <http://icai.independent.gov.uk/wp-content/uploads/2015/05/ICAI-Business-in-Development-FINAL.pdf>.

⁸ *DFID's Approach to Delivering Impact*, ICAI, June 2014, paragraph 2.41, <http://icai.independent.gov.uk/wp-content/uploads/2015/06/ICAI-report-DFIDs-approach-to-Delivering-Impact.pdf>.

⁹ *Assessing the Impact of the Scale-up of DFID's Support to Fragile States*, ICAI, February 2015, <http://icai.independent.gov.uk/wp-content/uploads/2015/02/ICAI-Report-Assessing-the-Impact-of-the-Scale-up-of-DFID%E2%80%99s-Support-to-Fragile-States.pdf>.

¹⁰ *DFID's Bilateral Support to Growth and Livelihoods in Afghanistan*, ICAI, March 2014, <http://icai.independent.gov.uk/wp-content/uploads/2014/03/ICAI-Report-DFID%E2%80%99s-Bilateral-Support-to-Growth-and-Livelihoods-in-Afghanistan.pdf>.

Overall, we have been impressed by DFID's humanitarian portfolio. DFID played a leading role in the response to the 2011 humanitarian crisis in the Horn of Africa, achieving good impact and value for money.¹¹ We gave DFID's response to Typhoon Haiyan in the Philippines one of our three overall 'green' ratings, for the speed and flexibility of its response.¹² There have been useful changes in the way that DFID funds humanitarian operations, which have helped to improve its preparedness. DFID is weaker, however, at responding to long-term or chronic emergencies, where humanitarian and development assistance are needed in parallel.¹³ Bridging the traditional gulf between the humanitarian and development sides of DFID is a key challenge for the future.

DFID spends almost two-thirds of its aid through the *multilateral system*, amounting to over £6 billion in 2013-14. This means that the effectiveness of the multilateral system is a major determinant of the quality of UK aid. While in principle there is a good case for multilateral aid, with its potential to pool resources and address challenges in a politically neutral fashion, the international architecture is fragmented and over-complex and faces a real challenge of relevance in a changing world. With reform of the system as a whole very difficult to achieve, DFID has focused its attention on promoting the reform of individual agencies. Through, for example, the Multilateral Aid Review (MAR) process, it engages regularly with its main multilateral partners, principally around their organisational effectiveness, fiduciary controls and ability to measure results.¹⁴

Through the MAR, DFID has an important disciplining effect on individual multilateral partners, making them more cost and value conscious. We are concerned, however, that this focus on organisational effectiveness has come at the expense of strategic dialogue on development priorities. Many of the partners we spoke to believed that DFID had yielded thought leadership in favour of pushing a narrow results agenda. DFID's oversight of its multilateral partners is also seen as increasingly burdensome.

Furthermore, the MAR scrutiny process is not carried through to the country level, where DFID country offices often seem unsure of their role in influencing multilateral priorities. Even though a large share of DFID's bilateral assistance is channelled through multilateral partners, DFID's country strategies pay little attention to how DFID should work with and through the multilateral system. DFID could do more to promote the capacity of its key

¹¹ *DFID's Humanitarian Response in the Horn of Africa*, ICAI, September 2012, <http://icai.independent.gov.uk/wp-content/uploads/2012/09/ICAI-report-FINAL-DFIDs-humanitarian-emergency-response-in-the-Horn-of-Africa1.pdf>.

¹² *Rapid Review of DFID's Humanitarian Response to Typhoon Haiyan in the Philippines*, ICAI, March 2014, <http://icai.independent.gov.uk/wp-content/uploads/2014/03/ICAI-Philippines-report-FINAL.pdf>.

¹³ *DFID's Water, Sanitation and Hygiene Programming in Sudan*, ICAI, February 2013, <http://icai.independent.gov.uk/wp-content/uploads/2013/02/ICAI-Report-DFIDs-Water-Sanitation-and-Hygiene-Programming-in-Sudan2.pdf>.

¹⁴ *How DFID Works with Multilateral Agencies to Achieve Impact*, ICAI, June 2015, <http://icai.independent.gov.uk/wp-content/uploads/2015/06/ICAI-Report-How-DFID-works-with-multilateral-agencies-to-achieve-impact.pdf>.

partners in-country and to ensure that they align at the international and country levels around key development themes.

We have recommended that DFID revisit its overall strategy for engaging with the multilateral system, with a clearer understanding of the roles of different agencies and how they need to evolve in a changing world. This should be supported by stronger engagement with multilateral partners in-country, focusing more on their goals and priorities and how they work with each other than on their organisational capacity.

2. Achieving transformative impact

Across our reports, we have explored the elements that contribute to achieving lasting, transformative change in the lives of poor people. We believe that DFID should not just achieve a good return on its aid investments; it should also aim for meaningful results that make appreciable inroads into development challenges. In our report on *DFID's Approach to Delivering Impact*,¹⁵ we listed a series of factors that have emerged from our reviews as important for achieving this. They included the following:

Setting in place the building blocks for lasting change. To encourage transformative change, development programmes need to combine direct benefits for the poor with promoting the policies and institutions needed to sustain and scale-up these benefits. This means working strategically with governments, communities and the private sector, to influence ideas and develop capacities.

When working in complex areas, sustainable impact needs to be planned over an extended period of time, often through several phases of programming. The earlier phases serve to put in place the building blocks for later transformation. We saw this long-term approach at work in DFID's education programming in Punjab, Pakistan, where DFID has made a sustained effort to put in place the political commitments, policies and institutions required for complex reforms.¹⁶ While the pace of change is relatively slow, this strategic approach offers the potential for transformative impact.

Too often, however, we have found that the short programme cycle of three to five years works against a long-term approach to impact. DFID staff and implementers often feel under pressure to focus on short-term results, at the expense of strategic impact. We have also found that, in the face of high turnover in country offices, staff tend to opt for innovation over continuity, leading to too many changes of direction. We have encouraged DFID to look beyond simple, quantitative targets and make sure that staff and partner incentives support long-term results.

¹⁵ *DFID's Approach to Delivering Impact*, ICAI, June 2014, paragraph 2.41, <http://icai.independent.gov.uk/wp-content/uploads/2015/06/ICAI-report-DFIDs-approach-to-Delivering-Impact.pdf>.

¹⁶ *Evaluation of DFID's Bilateral Aid to Pakistan*, ICAI, October 2012, paragraphs 2.18-22, http://icai.independent.gov.uk/wp-content/uploads/2013/12/ICAI-Pakistan-Report_P1.pdf.

Keeping the intended beneficiaries engaged and in view. While delivering sustainable results requires working closely with government, it is vital that DFID keep the poor and their needs and preferences firmly in view. When working with public institutions, there is always a risk that these come to be treated as though they were the beneficiary, with impact for the poor left as a distant aspiration rather than the driving imperative.

To avoid this trap, the real intended beneficiaries – men and women in poor communities – should be closely engaged in the design and delivery of development assistance. Neither DFID nor its national counterparts can presume to know the needs and preferences of the poor who must have a real voice in the process.

Wherever possible, this should go beyond consultation to active engagement in the planning, delivering and monitoring of development interventions. We have seen repeatedly how programming is improved by beneficiary engagement. This is not just a question of good aid management practice. To be effective and sustainable, development initiatives must be owned by the people they are intended to support. Helping the poor to organise into community structures that can take charge of their own development and engage constructively with government should be at the heart of the development process.

We have been pleased to note that, at our encouragement, DFID has become more consistent in its beneficiary engagement and has committed itself to doing more. The next challenge is to integrate this beneficiary engagement into lasting community structures and wider governance systems, so that it continues beyond the period of external support.

Combining long-term goals with flexible delivery. We have said that transformational impact requires clear, long-term objectives that are pursued over an extended period. At the same time, it demands considerable short-term flexibility in delivery, with quick learning cycles.

When we began our reviews, we found that DFID invested a great deal of its effort into the design of its programmes (due in large part to the heavy requirements for business cases) and much less into supervising their implementation. Even the best-designed programmes need to adapt flexibly to setbacks and opportunities. In fact, we believe that the design of development programmes should be a continuing process. Some of the most effective programming that we have seen has taken a problem-solving approach, working to overcome challenges as they emerge in pursuit of long-term goals.

Over the past 18 months, DFID has taken steps to address this concern. Under its new *Smart Rules*, it has lightened the process of business case development and increased the attention given to implementation issues by introducing Delivery Plans for its programmes. We welcome these reforms¹⁷

¹⁷ *Rapid Review of DFID's Smart Rules*, ICAI, December 2014, <http://icai.independent.gov.uk/wp-content/uploads/2014/12/ICAI-Smart-Rules-Report-FINAL.pdf>.

but would also like to see more programmes built around active learning. Too often, learning is left to formal evaluations that report too late to influence programme development. We believe that evaluative thinking should be integral to programme delivery, using rapid reviews and other real-time learning methods.

Beyond sectoral silos. Finally, we believe that transformative impact is rarely a result of a single programme or type of programming. Rather, it is a cumulative result of multiple, reinforcing interventions. In our engagements with intended beneficiaries, we have often heard how real change occurs at the point where different interventions – for instance, in education, livelihoods and community mobilisation – come together to produce changes that are often unforeseen. In Ethiopia, we saw how a government-led safety net programme had not only improved food security but also empowered communities to build up their assets and even, according to the beneficiaries, made women less vulnerable to domestic violence.¹⁸

DFID's work is traditionally organised into sectors, such as health, education, economics and governance, each with its own specialisms and approach to programming. While this division of labour may be a necessary part of managing a complex aid programme, it can be an obstacle to achieving transformative impact. In our experience, few DFID programmes look beyond their own sector perspective and consciously identify and exploit opportunities for mutually reinforcing impact. We have encouraged DFID to make its programmes more outward looking and to design portfolios of linked interventions. This will, in turn, involve rethinking some of its results management processes, which for the time being measure the results of each programme in isolation of others.

3. What should DFID do differently?

DFID is constantly reforming its own structures and business processes, to meet the challenges of an evolving aid programme in a complex world. We have been positive about a number of recent changes, including the introduction of DFID's *Smart Rules*, which have lightened the administrative burden while clarifying lines of accountability.¹⁹ We were also impressed by the introduction of the Country Poverty Reduction Diagnostic, which is promoting a multidisciplinary approach to understanding the constraints on poverty reduction in each partner country.²⁰

¹⁸ *DFID's Approach to Delivering Impact*, ICAI, June 2014, paragraph 3.32, <http://icai.independent.gov.uk/wp-content/uploads/2015/06/ICAI-report-DFIDs-approach-to-Delivering-Impact.pdf>.

¹⁹ *Rapid Review of DFID's Smart Rules*, ICAI, December 2014, <http://icai.independent.gov.uk/wp-content/uploads/2014/12/ICAI-Smart-Rules-Report-FINAL.pdf>.

²⁰ *DFID's Approach to Delivering Impact*, ICAI, June 2014, paragraphs 2.37-44, <http://icai.independent.gov.uk/wp-content/uploads/2015/06/ICAI-report-DFIDs-approach-to-Delivering-Impact.pdf>.

In this section, we suggest a number of priorities for DFID to take forward in the coming years, in its continuing efforts to keep its own organisation fit for purpose.

From quantitative results to transformational impact. The results and value for money agenda has shaped DFID's priorities in recent years. It has helped to bring greater rigour to the measurement of results and value across DFID and to make DFID's implementing partners more accountable. It has also helped DFID to tell a comprehensible story to the UK taxpayer about the results of a growing aid budget.

We are concerned, however, that DFID's approach to results and value for money has become narrow and reductive. There is a tendency to focus on the lower level of the results chain (spending, activities and outputs), where results can be readily counted, over real impact for poor people, which is harder to measure. We are not convinced that tools such as DFID's Results Framework either capture the true impact of UK aid nor necessarily encourage the department to strive for optimum impact.

The value for money agenda, in particular, has suffered from a lack of credible methods for measuring and comparing the real impacts of aid and instead has focused on cost and efficiency. A lot of effort goes into calculating, sometimes spurious, rates of return on programming but this rarely, in our experience, contributes to better aid allocation or delivery.

As a result, we are concerned that DFID has become too focused on short-term, measurable achievements, at the expense of long-term, sustainable impact. We are also concerned that the way in which the results agenda is being implemented may distort incentives and encourage DFID staff and partners to focus on the wrong goals. Finally, the emphasis on results has resulted in more cumbersome procedures, for both DFID and its partners. In our review of how DFID works with multilateral agencies,²¹ we were concerned to hear multilateral partners beginning to question whether UK funding was always worth the heavy transaction costs.

A key challenge for DFID in the coming period is to take the results agenda to the next level, so that it focuses on the more complex challenges of achieving long-term, sustainable impact. This need not be at the expense of rigorous impact measurement or clear accountability for results. It is important, however, that DFID and its implementing partners are held to account for the right things.

There are a number of areas where DFID could refocus its tools and processes for managing results. At the departmental level, we have recommended a results framework that better conveys the transformative impact that DFID is working towards, including in institution building and policy influence. Such a results framework could not be purely a list of numerical indicators; DFID also needs to explore other ways of communicating its

²¹ *How DFID Works with Multilateral Agencies to Achieve Impact*, ICAI, June 2015, <http://icai.independent.gov.uk/wp-content/uploads/2015/06/ICAI-Report-How-DFID-works-with-multilateral-agencies-to-achieve-impact.pdf>

results. At the country programme level, we have encouraged DFID to focus on results management at the portfolio level, to help understand how different programmes interact. At the programme level, management tools such as business cases, logframes and annual reviews should be clearly focused on exploring the steps required to deliver long-term impact, including across multiple phases of programming.

A robust risk appetite coupled with strong risk management. According to both its own senior management and its peer agencies, DFID has a robust appetite for risk in its programming choices. We fully agree that a willingness to take risks is essential to achieving transformative impact. Maximising development impact means striking the right balance between tried and tested interventions, delivered at scale, with more speculative interventions that offer the prospects of catalytic results. Getting that balance right, however, is a significant management challenge, particularly in fragile states, calling for sophisticated risk management.

DFID itself has recognised that its risk management is not yet up to scratch. It lacks tools to ensure a good balance of risk and return within its country portfolios. Country offices often seem uncertain as to what level of risk is acceptable to senior management and staff incentives are not always consistent with the department's stated philosophy. To help align incentives, we have encouraged DFID to ensure that high-risk programmes are clearly recognised as such and subject to additional management arrangements, with particular attention to flexibility and lesson learning.

Ensuring coherence. As we have said, transformational impact is often the product of multiple, reinforcing interventions. DFID's planning and results management systems work mainly at the individual programme level and are not well suited to capturing results across a portfolio. In the coming period, many of DFID's priorities, such as promoting economic development or ending violence against women – need to be approached through suites of linked interventions, working in partnership with others. DFID, therefore, needs to pay more attention to the design of coherent portfolios that maximise overall results. DFID should pay particular attention to building on the work of other players and creating effective coalitions.

A particular issue in our recent reviews has been the question of coherence between central and country-level programmes. Some central programmes are small initiatives focused on learning and innovation; others are designed to deliver results at scale. In both cases, we have found that there is often a disconnect between DFID country programmes and the activities of central programmes in the same country. This calls not just for better coordination but also a rethinking of how central and country programming fit together. We have also pointed out a lack of coherence in DFID's engagement with the multilateral system, in that DFID's influencing objectives at the global level are not clearly articulated and not carried through into engagement strategies at country level with individual agencies.

The Country Poverty Reduction Diagnostic is a positive step, encouraging more multidisciplinary thinking, at least at the diagnostic stage. The challenge for DFID is now to take this more joined-up thinking forward into its programming decisions. We believe that the CPRD approach can be expanded to incorporate a more thorough review of the overall development landscape in the country, the roles and capabilities of the various players and the overall trajectory out of poverty.

The challenge of coherence also extends beyond DFID to its engagement with partner countries and other donors. While, in some contexts, DFID still plays a leadership role in encouraging alignment with government and harmonisation among donors, our perception is that this has become less of a priority over time. It is important that DFID invest enough effort in understanding the activities and capacities of other actors, including government, other donors and non-state actors, in order not to become insular in its approach.

Turning evidence into learning. DFID invests a lot of resources into the generation of evidence, including challenge funds to promote innovation, pilot projects, evaluations and sponsored research. Much of this work is high quality and contributes to the global pool of knowledge on development.

What is less clear, however, is how this investment in evidence is translated into learning in action so as to inform better programming. In our review of *How DFID Learns*, we noted that DFID staff learn well as individuals but that much knowledge is lost across the organisation.²² DFID lacks mechanisms to capture experience from individual programmes – both positive and negative – and apply it globally. We are also concerned that its evaluations are not timed to fit the programming cycle, so that information on results is rarely available in time to inform the next phase of programming.

We have also raised concerns in various reviews about the way evidence is used in business cases. We have found that empirical evidence is often cited to justify programming choices made on other grounds, rather than probe the alternatives in a systematic way. We have often found it difficult to trace the logic from contextual analysis and evidence on what works through to programme design.²³

We encourage DFID to take a more active approach to learning. This does not necessarily mean investing more in studies and analysis – indeed, we concur with the observation of the DAC peer review that DFID may already be producing more than it can consume.²⁴ Rather, it means integrating learning

²² *How DFID Learns*, ICAI, April 2014, page 1, <http://icai.independent.gov.uk/wp-content/uploads/2014/04/How-DFID-Learns-FINAL.pdf>.

²³ *Review of UK Development Assistance for Security and Justice*, ICAI, March 2015, paragraphs 2.21-24, <http://icai.independent.gov.uk/wp-content/uploads/2015/03/ICAI-Report-UK-Development-Assistance-for-Security-and-Justice..pdf>.

²⁴ *OECD Development Co-operation Peer Reviews: United Kingdom*, OECD Development Assistance Committee, 2014, page 20, <http://www.oecd.org/dac/peer-reviews/UK%20peer%20review%202014.pdf>.

more systematically into the programme cycle. We have recommended that DFID build structured learning into its programmes, trying out interventions in different combinations and capturing the lessons in real time, allowing for constant learning and adjustment. We also suggest that DFID think of its evaluation and reviews less as products and more as prompts to continuous evaluative thinking.

Maximising DFID's influence. DFID is a very strong brand internationally. It wields significant influence, both in international policy forums and with partner countries. At the international level, it has helped to shape the global agenda on issues such as climate change, violence against women and girls and the post-2015 development goals. In the international climate arena, for example, we were impressed by the International Climate Fund's strategic approach to achieving transformational change, including through delivery at scale, replication of interventions by others, promoting innovation and leveraging additional financial flows.²⁵

At the country level, we have seen good examples where DFID has used its influence in deliberate and strategic ways, helping to achieve results over and above the impact of financial assistance. In Pakistan, for example, DFID and the Foreign and Commonwealth Office engaged with both governing and opposition parties in advance of the last election, in order to build cross-party support for urgent reforms.

DFID's influencing efforts are not captured in its results management systems, however, making them vulnerable to losing focus and attention. In important partner countries, there may be a case for DFID to be more explicit in its influencing strategies and to invest more effort into capturing their results.

In the multilateral sphere, we were concerned to learn that DFID is not engaging as much with multilateral partners on their priorities and approaches and as a result is seen as losing influence. We have recommended that DFID engage more with multilateral agencies on both their global and their country strategies.

Communications and Stakeholder Management. Finally, we would encourage DFID in the coming period to be more active in its communications with key UK stakeholders. We support the International Development Committee's findings that the UK could do more to ensure that other UK policy agendas do not conflict with its approach to international development.²⁶ We have also noted that there is little informed debate about key elements of the UK development agenda – from the increased priority given to economic development to the way the UK interacts with the multilateral system. While DFID has been successful in its communications in support of major

²⁵ *The UK's International Climate Fund*, ICAI, December 2014, paragraph 2.6, <http://icai.independent.gov.uk/wp-content/uploads/2014/12/ICAI-Report-International-Climate-Fund.pdf>.

²⁶ *DFID's Approach to Delivering Impact*, ICAI, June 2015, <http://icai.independent.gov.uk/wp-content/uploads/2015/06/ICAI-report-DFIDs-approach-to-Delivering-Impact.pdf>

humanitarian disasters, other areas of its work receive little coverage. DFID should consider expanding the use of its owned channels (for example the Gov.uk website, social media platforms) and creating more opportunities through earned channels (television, news sites, third party endorsements) in order to explain the challenges and demonstrate the successes of its work. In this way it will be better able to show that development is linked to reducing the issues of migration, combatting the rise of extremism and the reduction of poverty.

As the UK aid budget continues to increase in tandem with economic growth, DFID must get better at informing the UK public about the nature, the extent and the role of development assistance and the benefits it brings, both to the UK and to the global poor.

4. Management Structure and Commentary

This chapter sets out the current structure of ICAI and reports on the performance of the contractor consortium.

4.1 ICAI Transition

On 30 June 2015, the current Commissioner team's term will come to an end and, on 1 July 2015, a new team headed by Dr Alison Evans will take up post. At the same time the contractor consortium will change, having been subject to a full tender exercise. For clarity, we refer to the current commission as 'Phase One' and its successor as 'Phase Two'.

4.2 The Commissioners

The Commissioner team is made up of a Chief Commissioner and three Commissioners. The team for 2011-15 comprises:

Graham Ward CBE	- Chief Commissioner
Mark Foster	- Commissioner
John Githongo	- Commissioner
Diana Good	- Commissioner

The Commissioners' biographical details are published on the ICAI website.²⁷ John Githongo has been unable to fulfil his role as a Commissioner this year, due to personal reasons. In his absence, the other Commissioners have undertaken additional work and have taken up his allocation of time. Mr Githongo has continued to provide advice to the team on various issues, such as on our anti-corruption report.

4.3 The Secretariat

ICAI has a Secretariat whose role is to support the Commissioners in their work, manage the work of our contractor on a day-to-day basis and act as a liaison point between the Commissioners and Parliament, government departments including DFID, the public, the media and other stakeholders. In addition, the Secretariat recruited a Transition Manager to support ICAI's preparations for Phase Two.

Our team is comprised of secondees from other government departments and the National Audit Office; and fixed term appointees. The Secretariat is headed by Dr Alexandra Cran-McGreehin.

²⁷ <http://icai.independent.gov.uk/about/who-are-we/>

4.4 The Contractor Consortium

ICAI is required to review the contractor consortium's performance after four years. This section of our annual report provides an overview of our assessment and highlights specific developments achieved with the consortium.

4.5 Overall contractor consortium performance

Overall, we found that the contractor consortium has consistently complied with the conditions of the contract and that there has been a close working relationship between ICAI and the consortium.

During our first year, the contractor consortium worked effectively with ICAI's Secretariat and Commissioners and this helped to forge a common sense of identity and purpose. During the second and third years of our operation, the contractor consortium made progress in certain aspects of the delivery of ICAI's programme of reports and worked with ICAI to refine the processes by which reports were delivered.

Our review also found that during the final year there was a drop in the consistency of performance of the contractor consortium, as its members appeared to struggle to adapt to the challenges presented by producing a portfolio of larger and more complex thematic reports.

As a public body, we are required to achieve value for money in our operations, as set out in *Managing Public Money*²⁸. In respect of the contractor consortium, we have done this through tight management and by taking continual steps to strengthen performance.

Key points on the performance of the contractor consortium from previous annual reports

2011/12 Annual Report

During the incipient stages of Phase One, the contractor consortium worked closely with the ICAI Secretariat in establishing the organisation and getting operations up and running. We emphasised the need, however, for the consortium to ensure the smooth running of basics such as the timetabling of reports.

2012/13 Annual Report

The contractor consortium made significant improvements in their performance. This enabled ICAI to move to a steady flow of report production across a wide range of topics. We found that that the consortium was

²⁸ *Managing Public Money*, HM Treasury, July 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/212123/Managing_Public_Money_AA_v2_-_chapters_annex_web.pdf.

successful in supplying teams with the skills to support the Commissioners in producing high quality products.

2013/14 Annual Report

ICAI made the transition towards producing more thematic reports. There were a number of key areas in which we required improvements from the contractor consortium. These included improving the quality assurance of draft reports delivered to ICAI and refining channels of communication between ICAI Commissioners and the contractor consortium to maximise efficiency.

4.6 The performance of the contractor consortium in Year Four

The contractor consortium has worked with ICAI to respond to the challenge of dealing with reports which have tended to be “thematic” in nature and more complex in their scope and methods. In the majority of cases, the contractor consortium has risen to the challenge.

The ‘Rapid Review of the Smart Rules’ is a specific instance of good performance by the contractor consortium where it was able to accommodate work at short notice within a full programme of studies.

The contractor consortium has also introduced innovations which have effectively mitigated against difficulties that can arise when producing complex reports. Notably, an editor was introduced who is more actively involved in drafting and shaping reports, a development which has yielded positive results.

Despite such innovations, we found that the contractor consortium has not always performed well in areas we previously flagged as requiring development and that there is inconsistency in the performance of different constituent parts of the consortium. This inconsistency has been reflected in variations in how smoothly different reports have been produced. There have been a number of cases in which we have taken robust action to address poor performance in regard to improving quality assurance and refining channels of communication to maximise efficiency. We found that that overall the performance of the contractor consortium has declined in Year Four. As a result, Lead Commissioners have taken on a greater role in the preparation of reports, as necessary to fill the gap.

4.7 Phase Two

As we move into the next phase of ICAI, the lessons identified in the contractor review and the experiences of our first four years of operation have been used to improve the operating model.

The main innovation is to transfer resources from contractor management into the Secretariat. This will improve the efficiency of ICAI’s operations, particularly in report production where the creation of a Review Oversight Unit

will streamline the review process. It will also allow ICAI to increase its outreach work, particularly to share lessons, in Phase Two.

Later in 2015, ICAI will publish a new corporate plan that will give greater detail on how we will be working with the new contractor consortium.

5. Corporate Governance

We are an Advisory Non-Departmental Public Body, sponsored by DFID, with an overall governance objective to act in line with the mandate agreed with the Secretary of State for International Development.

5.1 Risk Management

Our approach to risk management continues to be undertaken on the basis of identifying and managing risks to a reasonable level, rather than attempting to eliminate all risk of failure to achieve policies, aims and objectives. It can only, therefore, provide reasonable and not absolute assurance of effectiveness.

Risks are usually identified by Secretariat discussions with Commissioners but can also be identified by the Contractor or by staff from DFID or other departments. They are discussed as a standing item at every Board meeting and the current risk register is shown in Figure 2 on page 35. Commissioners have noted that they are content with the way risk is being managed and reported.

5.2 Phase Two Risks

In our previous annual report, we identified risks in relation to the termination of all the Commissioner and Contractor contracts in May 2015. Since this time, new Commissioners and a new Contractor consortium have been appointed and there has been work to seek to achieve a smooth transition.

We have negotiated with DFID an extension to Phase One to 30 June 2015, which has enabled the completion of Phase One final reports and the production of this Annual Report. There has been a new procurement procedure from which one member of the Phase One contractor consortium has been successful. This means that there is continuity in the lead contractor but also new members in the Consortium. All of the current Commissioners are standing down and are being replaced by a new team. There has been one board meeting of the current Commissioners attended by the new Chief Commissioner and a second meeting was attended by both Commissioner teams.

From 1 July 2015, Phase Two of ICAI begins. There is continuity provided through the Secretariat team and through some members of the new consortium which serves to mitigate risk. A database of findings and information is being developed that will further aid continuity. We will be updating and publishing the risk register when the new Commissioner team take up their appointments.

Figure 2: Risks for ICAI and Associated Mitigation Actions 2014-15

Risk	Mitigation	Risk assessment post-mitigation	
		Likelihood	Impact
1. ICAI does not deliver the high quality, innovative reports required by Commissioners	<ul style="list-style-type: none"> Strengthened Lead Commissioner involvement in planning, fieldwork and analysis stages All key report stages scrutinised and challenged by Commissioners and Secretariat for quality and innovation Continued push for innovation and the voice of intended beneficiaries 	Low	Medium
2. Not identifying SMART recommendations which focus on intended beneficiary impacts	<ul style="list-style-type: none"> Continuing to learn from follow-up work which kinds of recommendations are most likely to succeed and avoid unnecessary bureaucratic burden Working closely with Contractor teams to ensure that recommendations focus on impact 	Low	Medium
3. Inappropriate behaviour of ICAI or DFID personnel undermining public confidence in ICAI	<ul style="list-style-type: none"> Commissioners abide by Code of Conduct including Nolan principles of public life and declare interests appropriately ICAI staff work according to ICAI core values and Civil Service Code DFID staff encouraged to act in accordance with founding documents to protect ICAI's independence 	Low	High
4. Risk of lost or leaked information	<ul style="list-style-type: none"> All Secretariat/Contractor staff and Commissioners security cleared Minimise use/retention of personal data Joint responsibility with DFID to ensure reports are unclassified Compliance with Data Protection Act by following DFID policies and procedures Security measures in Dover House 	Low	Medium
5. Lack of access to all data, information and people to report accurately	<ul style="list-style-type: none"> DFID internal guidance making clear its staff's responsibility to provide information requested by ICAI Secretariat Secretariat access to DFID systems Effective pre-visit planning and information requests by Contractor teams to identify information requirements 	Low	Medium
6. ICAI reports not providing insight valued by stakeholders	<ul style="list-style-type: none"> Continue to work with IDC to identify areas in which ICAI reports can support the Committee's inquiries Conduct further public consultation to understand which reports are most and least valuable 	Low	Medium
7. Significant disruption to ICAI's activities due to Commissioner and contractor contracts coming to an end in mid-2015	<ul style="list-style-type: none"> Negotiate extension to Commissioner honorarium agreements to allow completion of final reports. Assist in the procurement process managed by DFID's Procurement & Commercial department Prepare induction packs for incoming Commissioners and contractor team Where possible, introduce process efficiencies to minimise disruption 	Medium	Medium

6. Financial Summary

6.1 Expenditure in 2014-15

This section summarises final ICAI Phase One expenditure:

- Section 6.2 sets out our expenditure in the 2014-15 financial year (1 April 2014 – 31 March 2015);
- Section 6.3 sets out our final Phase One expenditure for the period from 1 April – 30 June 2015, as well as showing our overall expenditure against the four-year budget given to us in May 2011; and
- Section 6.4 sets out the cost of individual reports.

6.2 Expenditure in 2014-15

ICAI's budget for 2014-15 was originally set at £4,286,000, as set out in last year's annual report. This was revised to £3,692,000 during the course of the financial year on the basis of our revised forecasts, comprising £3,050,000 programme spending on our contractor consortium and £642,000 administrative spending on Commissioners and the Secretariat.

Our spending against this budget was £3,667,432²⁹ comprising £2,978,537 programme spending and £688,895 administrative spending, as set out in Figure 3 on page 37. The increase in our administrative spending since last year reflects the expansion in the Secretariat from 5 to 7 members of staff during the course of the year,³⁰ some backdated staff costs which had not been notified to us in the previous financial year and costs incurred by DFID for the recruitment of the new Commissioners.

In terms of service arrangements, the Scotland Office provides office accommodation and fixed telephony services and DFID provides:

- IT infrastructure and mobile phone services;
- duty of care arrangements for Commissioners and Secretariat on country visits; and
- some procurement, finance and HR services.

²⁹ The ICAI expenditure figure for 2013-14 recorded in last year's Annual Report did not reflect some double counted accruals recorded on the DFID system which amounted to an extra £200,224. Our reported spending in this Annual Report is equal to ICAI expenditure on DFID's system for the financial year 2014-15. Our expenditure in 2013-14, consistent with this treatment, is £3,652,940.

³⁰ See sections 4.3 and 4.7.

Figure 3: ICAI Expenditure Settled against Budget for 2014-15

Input	Rates	Details	Budget (£)	Expenditure (£)
Contractor costs: fixed management fee & audit statement	£26,525 per month and £4,000 audit fee, excluding VAT	12 monthly payments (incl. one-third reduction in fees for December ³¹) and one £4,000 audit fee payment	322,300	313,458 (12 payments incorporating the reduction; and audit fee) 26,525 (accrual of April 2015 fee) ³²
Contractor costs: fees and expenses for individual reports	Report fees agreed on case-by-case basis	Final payments for Year 3 reports and 12 Year 4 reports	2,717,700 (total)	2,570,284 ³³ (Year 4) 66,190 ³⁴ (Year 3)
Contractor visit costs paid directly by DFID	In line with DFID's expenses policy	Can include security, accommodation, translation services and transport as required	10,000	2,080
Secretariat staff costs	Withheld	Rose to 7 members of staff in year	480,000	480,308 ³⁵
Secretariat travel and reimbursable expenses	In line with DFID's expenses policy	1 evaluation meeting in Brussels and 2 field visits	3,000	4,115
Secretariat training			1,500	0

³¹ This reduction was agreed between KPMG and ICAI given poor contractor management performance during the month in question.

³² Management fee for April 2015 was accrued in March 2015 and so is included in this total, with the corresponding debit made in the 2015-16 financial year.

³³ Year 4 programme budget will continue to be spent down in the first part of the 2015-16 financial year, as part of the extended Phase 1 period to 30 June 2015.

³⁴ Final costs for Year 3 reports delivered and invoiced during the 2014-15 financial year.

³⁵ Staffing costs increased due to Secretariat enlargement from 5 members of staff to 7 over the transition period: see sections 4.3 and 4.7.

Honorarium payments to Commissioners	Chief Commissioner (£600 per day); Commissioners (£300 per day)	Up to 65 days per year for Chief Commissioner and 55 for Commissioners ³⁶	109,000	112,432 ³⁷
Commissioner travel for overseas visits and Board meetings	In line with DFID's expenses policy	Includes security and accommodation	14,000	12,675
Accommodation costs	£6,881 per quarter plus backdated rent increase following new lease contract negotiation	For office space and use of meeting rooms	30,000	38,213 ³⁸
IT services and website support	Monthly fees for mobiles website related fees	Telecoms and broadband services; and website hosting and support	4,000	4,835
Other office costs		To cover incidental costs, including postage and stationary	500	1,040
Transition costs incurred by DFID for Phase 2		Including Commissioner recruitment fees	Not included within ICAI's budget	35,277 ³⁹
Total			3,692,000	3,667,432

³⁶ These limits apply to the ICAI year (12 May 2014 – 11 May 2015), rather than to the DFID financial year (1 April 2014 – 31 March 2015). In addition, Phase 1 was formally extended to 30 June 2015 and Commissioners' allocation of days was increased pro rata to cover this extra period.

³⁷ Expenditure exceeds the budget due to an increased volume of work this year, as Commissioners were more directly involved in leading reviews and attending field visits (particularly with regards to the Impact and Multilaterals reviews). ICAI drew down Commissioners' unused allocation in previous years and redistributed all of John Githongo's unused days in Year 4 to other Commissioners. DFID agreed to increase the overall allocation by a further 33.5 days to reflect the additional workload and the extension of Phase 1 to 30 June 2015, of which we have used 25. During 12 May 2014 – 30 June 2015, Graham Ward will have claimed for 82.5 days of ICAI work; Diana Good 90.7 days; and Mark Foster 81.8 days (including estimates of final claims for June 2015).

³⁸ Includes backdated rent increase for the period August 2014 – March 2015. (We are currently negotiating an extension to the lease of our offices within the Scotland Office buildings. This will include a quarterly price rise to reflect the renegotiated rental agreement between Scotland House and the Crown Estate. The new rent increase has additionally been backdated to Autumn 2014, when the Crown Estate officially started legal proceedings with the Scotland Office.)

³⁹ The costs were accrued by DFID for the recruitment of Commissioners and other transition-related expenses.

6.3 Final Phase One Expenditure

Phase One will end on 30 June 2015. For the period April to June 2015, we spent £912,000⁴⁰ on the final Phase One reports (programme spending) and an estimated £150,000 on administrative spending.

In total, we have underspent on our four-year Phase One budget of £13,764,000 by £268,000, as shown in Figure 4 below:

Figure 4: ICAI Phase One Expenditure

Year	Expenditure (£ '000s)
Year 1 (2011-12)	2,199 ⁴¹
Year 2 (2012-13)	2,914
Year 3 (2013-14)	3,653
Year 4 (2014-15)	3,667
April – June 2015	1,062
Total ⁴²	13,496

6.4 Contractor Fees

Figure 5 on page 40 shows the costs of each of our reports published in Year Four and final Year Three work. As in previous years, we continue to drive value for money from our contractor consortium in order to ensure that our teams capture efficiently a reliable picture of the impact of the area of expenditure being reviewed. A vital part of our approach is that our teams see programme delivery on the ground. This allows them to verify for themselves the impact being achieved and to discuss this directly with intended beneficiaries and those closely involved in the implementation of the programme.

⁴⁰ Subject to final agreement of expenses for the Impact review.

⁴¹ DFID wrongly reported ICAI's 2011-12 expenditure as £2.12 million in its Annual Report and Accounts 2013-14 (page 224). This figure was also incorporated in ICAI's Annual Report 2012-13 (page 38).

⁴² Does not add due to rounding.

Figure 5: Fees Paid to Contractors for Year 4 and final Year 3 Work⁴³

Report	Fees (£)	Expenses (£)	Totals, excluding VAT (£)⁴⁴
DFID's Private Sector Development Work	312,583	36,368	348,951
Follow-Up of Year Two Reports ⁴⁵	176,936	1,472	178,408
Synthesis for ICAI Annual Report 2013-14	26,586	0	26,586
DFID's Contribution to Improving Nutrition	303,503	62,084	365,587
DFID's Approach to Anti-Corruption and Its Impact on the Poor	290,221	118,778	408,999
The UK's International Climate Fund	364,890	23,060	387,950
Rapid Review of DFID's Smart Rules	43,381	0	43,381
Assessing the Impact of the Scale-up of DFID's Support to Fragile States	335,442	61,585	397,027
A preliminary investigation of Official Development Assistance spent by departments other than DFID	78,849	1,295	80,144
UK Development Assistance for Security and Justice	286,516	17,969	304,485
Business in Development	307,560	26,196	333,756
DFID's approach to delivering impact	363,331	57,000 ⁴⁶	420,331

⁴³ These figures do not add to the expenditure figure on contractor fees and expenses for individual reports in Figure 3, as not all of these payments were made in 2014-15.

⁴⁴ VAT is reclaimed for these contractor professional services.

⁴⁵ This includes three separate contracts: with ICAI's contractor consortium for the bulk of the work (£149,920, comprising £149,076 fees and £844 expenses); with Agulhas Applied Knowledge for follow-up of the PPAs report (£9,360, with no expenses); and with Concerto Partners LLP for follow-up of the Use of Contractors report (£19,128, comprising £18,500 fees and £628 expenses). The PPAs and Use of Contractors reports were also originally delivered through these providers to ensure no conflict of interest.

⁴⁶ Figure reflects estimated expenses.

Follow-up of ICAI Reviews from Years 1, 2 and 3	322,049	3,020	325,069
How DFID works with multilateral agencies to achieve impact	337,203	14,923	352,126
Year 4 Annual Report	8,480	0	8,480
ICAI's database of Findings	14,416	0	14,416

The average cost of ICAI's reviews has increased, from £150,000 in Year One, to over £200,000 in Year Three to just over £300,000 a review in Year Four. This increase has occurred as ICAI has continued to undertake more complex, thematic reviews, covering wider scopes. Having completed two thematic reviews in Year Three, we have carried out eight such reviews in Year Four. Thematic reviews have been recommended by the IDC, endorsed by the Triennial Review and requested by stakeholders. We have also carried out a larger follow-up exercise this year to cover ICAI's Phase One reports as a whole, rather than purely the previous year's reports, in order to learn from and report on the reviews from our Phase One body of work.