Independent Commission for Aid Impact

ICAI follow-up of: DFID's approach to value for money in programme and portfolio management

A summary of ICAI's full follow-up

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The Independent Commission for Aid Impact works to improve the quality of UK development assistance through robust, independent scrutiny. We provide assurance to the UK taxpayer by conducting independent reviews of the effectiveness and value for money of UK aid.

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Executive summary

ICAI's follow-up review is an important element in the scrutiny process for UK aid. It provides the International Development Committee and the public with an account of how well the government has responded to ICAI's recommendations to improve spending. It is also an opportunity for ICAI to identify issues and challenges facing the UK aid programme now and in the future, which in turn helps to inform subsequent reviews.

This document is a summary which focused only on the results of our follow up of DFID's approach to value for money in programme and portfolio management. The full Follow Up report of all our 2017-18 reviews, including overall conclusions from the process and details of our methodology, can be found on our website.

Findings

DFID's approach to value for money in programme and portfolio management

This ICAI performance review explored DFID's approach to value for money: the department's progress on embedding value for money into its management processes and whether its efforts were in fact helping to improve value for money. The review was conducted in parallel with two other ICAI reviews on DFID's procurement practice, which we will follow up on next year. Since value for money is both a process and an outcome and cuts across all aspects of DFID's operations, we did not score the review, but we highlighted areas where DFID could do better and offered five recommendations.

Table 1: Summary of recommendations and the government's response

Subject of recommendation	Government response
DFID country offices should articulate cross-cutting value for money objectives at the country portfolio level, and should report periodically on progress at that level	Partially accepted
Drawing on its experience with introducing adaptive programming, DFID should encourage programmes to experiment with different ways of delivering results more cost-effectively, particularly for more complex programming	Accepted
DFID should ensure that principles of development effectiveness are more explicit in its value for money approach. Programmes should reflect these principles in their value for money frameworks, and where appropriate incorporate qualitative indicators of progress at that level	Accepted
Be more explicit about assumptions underlying the economic case for interventions and monitor and reassess these at specific points in the programme cycle	Partially accepted
Annual review scores should include an assessment of whether programmes are likely to achieve their intended outcomes in a cost-effective way. DFID should consider introducing further quality assurance into the setting and adjustment of logframe targets	Partially accepted

DFID country offices should articulate cross-cutting value for money objectives at the country portfolio level, and should report periodically on progress at that level

For many years, DFID has not had country-level results frameworks, narrative reporting or evaluations. Country offices have been required to report on their contribution to department-wide goals, but not against the objectives in their country business plans. We therefore recommended that DFID country offices articulate value for money objectives at the portfolio level, so that they could be reflected in the design of individual programmes. We also recommended that country offices report periodically against these objectives.

DFID partially accepted this recommendation. It has begun a wide-ranging process of reflection on its results management system as a whole. This internal review has identified the need for results reporting at sector and country levels, to capture not only how much country offices contribute to global targets but also their contributions to transformational change, such as promoting inclusive growth and building sustainable public services. DFID is also putting in place new management information systems (over and above the Portfolio Quality score, which the ICAI review criticised) to help manage portfolio quality.

DFID is in the middle of a strategic planning phase ahead of the next business planning cycle and the Spending Review, so there has been no concrete action yet on this recommendation. DFID anticipates that new country-level results reporting systems will emerge after new country business plans are in place, from 2020-21 onwards.

Drawing on its experience with introducing adaptive programming, DFID should encourage programmes to experiment with different ways of delivering results more cost-effectively, particularly for more complex programming

The report found that DFID's value for money approach was mainly focused on controlling costs and achieving efficiencies in programme delivery. This works well for straightforward, predictable interventions (such as vaccines), but is less appropriate for complex programmes in unpredictable environments, which call for a more flexible and adaptive approach. ICAI therefore recommended that DFID encourage programmes to experiment with different ways of delivering results cost-effectively. DFID accepted this recommendation and has proceeded with some useful initiatives.

Prominent among these, DFID is working with the Overseas Development Institute on a LearnAdapt initiative, to develop a value for money approach for adaptive programmes. For adaptive programmes, the best combination of activities and outputs to achieve the desired outcomes is not known in advance. Cost per output is therefore not a good measure of value for money. Instead, the focus should be on whether the programme is innovating and generating actionable learning. The shift in the LearnAdapt initiative from 'static' value for money (how efficient is this intervention?) to 'dynamic' value for money (how efficiently are we learning what works?) is broadly in line with ICAI's recommendation.

Work remains at the preparatory or planning stage, and concrete measures have not yet been introduced. It is therefore too early for any detailed assessment of its impact.

DFID should ensure that principles of development effectiveness are more explicit in its value for money approach

'Development effectiveness' refers to a set of internationally agreed principles governing the quality of development cooperation. For example, working with and through local partners may be more costly in the short term, but may generate more sustainable results, making it better value in the long term. ICAI's review found that country offices did not articulate their development effectiveness priorities or approach, and individual programmes made no effort to track their compliance with or contribution to development effectiveness goals and principles. We therefore recommended that principles of development effectiveness – such as ensuring partner country leadership, building national capacity and empowering beneficiaries – should be more explicit in DFID's value for money approach, and that these principles should also be reflected in individual programmes.

DFID accepted this recommendation but has taken no concrete action in response to it. In interviews, some DFID staff argued that development effectiveness principles were built into programme design, even if not explicitly labelled as such. However, between 2012 and 2016 the UK slipped 12 places on the Center for Global Development's *Quality of Official Development Assistance index*, from three to 15 out of 27 places.[1] We found that development effectiveness principles are not explicit enough in DFID's business processes, which opens up risks of deteriorating standards in development cooperation. This may be partly due to a shift of focus towards fragile and conflict-affected states, where the principles are more challenging to apply.

1. The index assesses all UK aid, not just DFID. See *UK Aid Quality Indicators*, Caitlin McKee, Ian Mitchell and Arthur Baker, CDG, 18 December 2018, link.

Be more explicit about assumptions underlying the economic case for interventions and monitor and reassess these at specific points in the programme cycle

DFID's ability to achieve value for money is closely linked to the quality of the economic appraisal (such as a cost-benefit analysis) set out in each programme's business case. These assessments are often sensitive to assumptions that may change or be disproved over the life of the programme. DFID does not systematically monitor and verify these assumptions, or routinely revisit its appraisal during the life of the programme or following significant changes. ICAI therefore recommended that the assumptions underlying the original value for money proposition are made more explicit and incorporated into programme monitoring arrangements, and that economic appraisals are reassessed at some point during the life of the programme. We also recommended that senior responsible owners should determine whether a reassessment is needed following material changes in the programme, results targets or context.

DFID partially accepted this recommendation. Rather than investing in rerunning the economic appraisal, DFID has instead chosen to revise its annual review process to include a reassessment of the programme's theory of change and the overall value for money case, including by reference to assumptions set out in the business case. This is a reasonable alternative to ICAI's suggestion. The new annual review guidance encourages reviewers to consider what depth of review is required at the current point in the programme cycle. A new section has been added, requiring an assessment of the logic and assumptions of the theory of change. The value for money assessment must now be reassessed against the assumptions in the business case, and an explicit decision made as to whether the programme should continue from a value for money perspective.

As part of our follow-up exercise, we assessed a selection of 14 recent annual reviews in Pakistan, Malawi and Nigeria that had been carried out with the new template and guidance. We found that the depth and rigour of the analysis of the theory of change varied, but were generally adequate. Importantly, there were two instances where DFID had identified that changes in circumstances required a rerun of the cost-benefit analysis in the business case and commissioned the monitoring and evaluation service provider to do the assessment. This indicates positive changes in DFID's practice.

Annual review scores should include an assessment of whether programmes are likely to achieve their intended outcomes in a cost-effective way

The ICAI review was concerned about a lack of rigour in how DFID generated annual programme scores. It noted that logframe targets were frequently changed without strong controls or transparency, making it difficult to tell whether improvements in programme scores resulted from genuine improvements in performance or from a downgrading of the targets. We also noted that annual review scores (which are a key control point in the programme cycle) were based purely on outputs, rather than outcomes, and were therefore not a good measure of value for money.

DFID only partially accepted ICAI's recommendation to incorporate an assessment of outcome-level achievement into the scores, and to introduce more control over changes to logframe targets. It had conducted its own internal review of the annual review process in parallel with the ICAI review, finding that annual reviews were generally fairly rigorous, but in need of some adjustments. It considered moving to outcome scoring, but decided against it on the grounds that there may not be an objective basis for scoring at outcome level early in the programme cycle. DFID was also concerned that, if programmes had to quantify outcomes right from the start in order to score well, this would affect programme design and theories of change, creating unhelpful incentives to focus on easily achievable targets rather than long-term objectives.

Given these concerns, DFID opted for a different solution. It revised the annual review template to include detailed reconsideration of the theory of change and whether the programme is on track to achieve its intended outcomes. It also introduced greater transparency over changes to logframe targets. There is now a 'change control tab' in the logframe format, which records all changes over the life of the programme, making it easy to see if targets have been revised downwards. The new annual review guidance states: "Ideally changes should not be made to any targets or indicators less than six months before they are being reviewed unless agreed with the Head of Department." This is a fair response to ICAI's request for greater transparency and quality control over target setting.

We checked a sample of recent annual reviews for this follow-up. Although quality varied, in general we found a more rigorous approach to assessing the likelihood of achieving programme outcomes. While this improvement is welcome, we are nevertheless concerned that the primary focus of accountability continues to be on the delivery of outputs by the implementing partner.

Conclusion

There is a wide-ranging process of reflection on business planning and results management processes taking place within DFID, with changes under way or in the pipeline on adaptive value for money, diagnostics, portfolio management, portfolio-level results management and programme design. Most of this work remains at the design and development stage. While progress has been fairly slow, we recognise that this is a time of uncertainty for the department and that changes to core business processes necessarily take time. While we were disappointed with the response to our recommendation on development effectiveness, there are also several positive trends, including a stronger emphasis on portfolio management. We are encouraged to see a shift from a purely target-driven approach to results and value for money towards transformative results, which corresponds with the thrust of our recommendations.

Summary of findings

Subject of recommendation	Recent developments	ICAI's assessment of progress
Articulate cross-cutting value for money objectives at the country portfolio level. Government response: **Partially accepted**	• DFID has begun a wide-ranging process of reflection on its results management systems as a whole, with stronger emphasis on transformational results – such as promoting inclusive growth.	• DFID is in the middle of a strategic planning phase ahead of the business planning cycle and the Spending Review, so there has been no concrete action on this recommendation yet.
Experiment with different ways of delivering results more cost-effectively, particularly for more complex programming. Government response: **Accepted**	• DFID is progressing with useful initiatives to promote flexible and adaptive programming, including a LearnAdapt initiative to develop a value for money approach to adaptive programming.	• These are promising initiatives, and the learning on designing adaptive programming is significant. But work remains at a preparatory or planning stage, so it is too early to assess its impact.
Ensure that principles of development effectiveness are more explicit in DFID's value for money approach. Government response: **Accepted**	• No concrete action. • The UK has slipped from 3 to 12 (out of 27) on the Center for Global Development's Quality of Official Development Assistance index.	• Principles of development effectiveness, such as ensuring partner country leaderships and empowering beneficiaries, are not explicit enough in DFID's business processes, which opens up risks of deteriorating standards in development cooperation.
Be more explicit about – and monitor and reassess – assumptions underlying the economic case for interventions. Government response: **Partially accepted**	• DFID is revising its annual review process to include a reassessment of the programme's theory of change and the overall value for money case, including by reference to assumptions set out in the business case. • A new section in the annual review requires an assessment of the logic and assumptions of the theory of change.	• While DFID has opted for a different solution to the one recommended by ICAI, we find the response to be reasonable. The new template and guidance are improving the quality of the annual review process.
Annual review scores should assess whether programmes are likely to achieve their intended outcomes in a cost-efficient way. Government response: **Partially accepted**	• DFID has revised the annual review template to include detailed reconsideration of the theory of change and whether the programme is on track to achieve its intended outcomes. • Changes to logframe targets during programme implementation are now logged.	• Again, DFID opted for a different solution, but we find the rationale for this to be reasonable. DFID has introduced more transparency into the setting of programme targets and a stronger focus on assessing progress towards outcomes in annual reviews.

This document can be downloaded from www.icai.independent.gov.uk
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