Independent Commission for Aid Impact (ICAI)

Business in Development

Inception Report

Contents

1. Introduction

1.1 The Independent Commission for Aid Impact (ICAI) is the independent body responsible for scrutinising UK aid. We focus on maximising the effectiveness of the UK aid budget for intended beneficiaries and on delivering value for money for UK taxpayers. We carry out independent reviews of aid programmes and of issues affecting the delivery of UK aid. We publish transparent, impartial and objective reports to provide evidence and clear recommendations to support UK Government decision-making and to strengthen the accountability of the aid programme. Our reports are written to be accessible to a general readership and we use a simple 'traffic light' system to report our judgement on each programme or topic we review.

1.2 We have decided to undertake a review of how the Department for International Development (DFID) works with businesses, to test whether it is effectively harnessing the potential of those businesses in order to achieve positive outcomes for DFID's intended beneficiaries. In May 2014, we published a review of DFID's private sector development (PSD) work.[1] That report focussed on DFID's efforts to stimulate the growth of the private sector in developing countries. In this review, we will critically assess how DFID is working with and through businesses to achieve a range of development objectives – including but not limited to economic growth and in-country private sector development – that deliver a positive impact on the poor. We will look at how DFID engages with both UK and foreign firms at the global and country levels.

1.3 This Inception Report sets out the questions, methodology and work plan for the review. It is, however, intended that the methodology and work plan be flexible enough to allow new questions and lines of inquiry to emerge over the course of the review. In particular, this Inception Report is not intended to restrict our review to certain sectors or to certain models of working with the private sector, should we uncover new examples in our fieldwork.

2. Background

2.1 The background to this review is described in the Terms of Reference.[2]

Conceptual framework

2.2 Businesses play a key role in development and have the potential to benefit poor people in developing countries in a variety of ways. For example, a combination of inward investment and the growth of domestic business activity can help to meet the needs of the poor through the provision of basic goods and services and improved incomes. The impact of businesses on the poor can, however, also be neutral or negative. For example, businesses may bring in foreign workers rather than hiring them from the local economy. Worse, businesses may ignore basic health and safety standards or exploit natural resources unsustainably, to squeeze costs and to maximise profits.

2.3 The most obvious role for businesses in economic development, which is also the primary focus of many private sector development initiatives, is direct **job creation**. This requires a regulatory environment that is supportive of a labour-intensive growth process that generates jobs for workers with low or limited skill sets. Businesses can also play a leading role in upgrading **skills**. There can also be sizeable indirect effects on the poor by bolstering the **demand for local goods** produced by farmers, entrepreneurs or other local small and medium enterprises (SMEs).

2.4 Businesses can also assist in the development process through their potential to **supply goods, services and infrastructure** that satisfy the unmet needs of the poor, such as improved water infrastructure and supply, sanitation and shelter. Business may also provide the inputs required by the self-employed or by SMEs for their own production, for example seeds and fertiliser. Since markets for credit and insurance often are thin, there is scope for

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

[2] *Terms of Reference: Business in Development*, ICAI, http://icai.independent.gov.uk/wp-content/uploads/2014/07/Business-in-Development-TORs-final.pdf.

harnessing businesses to develop low-cost products, improve access and thereby reduce the vulnerability of the poor.

2.5 Even where the poor already have access to the goods and services outlined in paragraph 2.4, improvements in the quality or cost of the goods and services or the way in which they are provided that are beneficial to the poor may be possible. Large, international firms that offer seeds to poor farmers may have a more reliable supply than smaller, local businesses, which might be vulnerable to local weather conditions. Systemic failures on the part of governments to deliver adequate basic education and health services are common and private providers may, because of better incentive structures, be able to deliver higher quality than state hospitals and schools. Affordability is key for such contributions to be genuinely pro-poor. Investment in renewable generation may help to meet the energy demands of the poor with a lower carbon footprint than traditional fossil fuel powered plants or other methods of energy provision.

2.6 Business activity can sometimes lead to additional, positive knock-on effects, known as '**positive externalities**', which have a value for the local economy beyond the profit making activity of the business itself. Commonly recognised positive externalities include spilllovers of knowledge, business processes skills and technology. Foreign investment in emerging economies will often bring with it new technology, business practices and standards. These can spread through the economy as exemplar businesses engage with other local businesses, products enter the local market and through employee turnover. Increases in demand for skilled workers through the entry of foreign firms can increase the incentives for skills development more generally. The trade relationships developed with foreign markets can create 'network effects', which can benefit local firms and enhance a country's reputation. They may also push for more transparency and accountability from the host government.

2.7 Finally, many businesses operating in developing environments will have explicit **corporate-social responsibility** (CSR) programmes, which aim to benefit the poor directly and fall outside of the core, profit driving business activities of the company. These are particularly important in the extractives sector, where companies may have CSR budgets that are comparable with donor aid expenditure.

2.8 Markets may be 'too thin' to sustain business activity, fox example because of insufficient locally trained workers that can be hired, local suppliers do not meet requisite production standards, consumers live in remote areas, there is insufficient information about developing markets or there is uncertainty regarding demand. There may be a need for businesses to co-invest in a common resource but they are unable to achieve the requisite degree of coordination. In these circumstances, local governments and donor partners may be able to take steps that transform a previously unprofitable opportunity into a profitable one. This may require fewer resources and result in a better outcome than where developing country governments attempt to meet a gap in the market in its entirety by themselves.

2.9 There may also, however, be **unintended consequences** and pitfalls from the involvement of businesses in development, which can include, for example, the displacement of local producers from the market due to increased competition; negative environmental impacts; diversion of skilled workers; and increased vulnerability through greater exposure to the international business environment. The example of international firms supplying seeds more reliably than local firms is a case in point and can raise difficult choices between short-term cost effectiveness and longer-term domestic productive capacity. In some cases, businesses may deliberately set out to exploit local workers and natural resources in their attempts to maximise profits. This problem has been particularly prevalent in the textiles and garments industry (most recently brought to public and political attention through the low safety standards in Bangladesh which led to the collapse of the Rana Plaza in 2013) but has also been a criticism of the mining industry and large-scale agricultural plantations. Businesses with strong influence over government may be able to lobby for looser regulations that lead to a deterioration in operating standards or may exacerbate corruption.

2.10 Finally, the benefits of business participation in developing countries may **overlook the poor**: for example, new jobs may accrue to highly skilled, middle-class graduates and water, electricity and private education will only benefit the poor if they can afford the connection charges or school fees. Benefits may be temporary, with foreign investors ready to divest from the country as soon as macroeconomic or trading conditions change, with little or no long-term positive impact.

2.11 Part of this review will be to establish, through discussions with governments, the donor and non-governmental organisation (NGO) community and businesses themselves and through a number of case studies, the role that businesses can play in achieving economic and social development that benefits the poor. We will test for both positive and negative impacts and identify the ways in which the development community can intervene and work with businesses to maximise those positive impacts and mitigate those negative impacts. In particular, we will scrutinise the claims made by businesses about the positive impacts they have had on the poor.

2.12 In summary, governments and donor partners may be able to influence businesses into operating in a manner that can increase the positive and minimise the negative developmental impacts for the poor. This influence may be leveraged through direct financial contributions to the business (grants and loans) or by entering into 'soft' partnerships, which will often bring together donors and businesses with civil society and NGOs into strategic alliances. There is, however, scope for businesses to transgress social and environmental safeguards or simply operate in a way that does not bring benefits for the poor. Critically assessing how businesses and DFID are working together and whether this is beneficial to the poor or not will lie at the heart of this review.

Business engagement and private sector development

2.13 It is important to clarify what we mean by 'business engagement' and 'private sector development' in order to distinguish between this review and our previous review of DFID's private sector development work.

2.14 Private sector development refers to the portfolio of programmes (often government led) whose objective is the strengthening, deepening and growth of a private sector. It is underpinned by a theory of change which identifies the development of the private sector as a key component of economic growth that can benefit the population in general, whilst targeted interventions can ensure that enterprises and markets evolve in ways which benefit the poor in particular. The outputs under this approach are thus regulatory and institutional reforms; private sector development is an outcome. The impacts may include human development, environmental protection and humanitarian assistance, as well as economic growth.

2.15 Working with businesses, conversely, involves a different set of outputs, ones which involve direct engagement with businesses rather than governments. These outputs enable DFID to achieve a variety of outcomes, which may range from delivering basic services to the poor, such as health and education, to climate change mitigation and adaptation, to provision of financial products that can benefit the poor, such as disaster insurance or low cost banking. The impacts are the same as under private sector development.

2.16 There is a clear link between business engagement – as a delivery tool – and private sector development – as an objective. One of the clearest outcomes DFID can hope to achieve by directly working with businesses is to develop the private sector.

Range of sectors and instruments used by DFID

2.17 In preparation for this review, we have held discussions with DFID to understand better the scope of its work with businesses, including the range of sectors in which DFID is engaging with businesses and the instruments used to engage with them. In this review we will look at how business is looking to partner with DFID as well as the other way around. DFID itself is increasingly aiming to work with businesses, as the role that business can play is better understood and as DFID looks to move beyond aid and as businesses themselves are increasingly targeting emerging markets and their sustainability and social responsibility come under greater scrutiny.

2.18 DFID is working with businesses from a range of sectors. These include, for example, logistics firms in the area of humanitarian assistance; businesses in the infrastructure, agriculture, extractives, manufacturing, financial and professional services and retail sectors in the area of economic development; health and education in the area of human development; and renewable energy in the area of environmental development. Thus, while sectors contributing to economic development (for example through local employment and supply chains) are an important element of DFID's work with businesses, they are by no means the only ones.

2.19 Through our discussions with DFID staff and a high level desk-based scoping exercise, we have identified a range of mechanisms through which DFID seeks to stimulate private sector investment in development. We have grouped these into three broad mechanisms.[3]

2.20 **Partnerships and alliances** include global, regional or sector-specific alliances comprising one or several business partners and, in some cases, other governmental donors, foundations or UK Government departments. The objectives of these partnerships include development goals that are often also commercially beneficial for business partners. DFID also engages bilaterally with individual businesses (or their foundations) on specific initiatives and programmes. For example, DFID has recently signed a joint letter of intent with Unilever.

2.21 **Returnable capital** has become an increasingly important part of DFID's work and plans in recent years. For example, in 2013 the Secretary of State for International Development committed to looking at innovative financing approaches to help support a new style of development investments both through CDC and through direct investment projects based on returnable capital.[4] In addition, there has been an active debate in the House of Commons about the 'Future of UK Development Cooperation', including the merits of increasing the use of returnable capital to finance development and the institution that should oversee this. In some instances, DFID lends returnable funds (termed 'non-fiscal' funds by the UK Government). In others, DFID provides grants to partner intermediaries who then invest or lend them on as returnable capital (termed 'fiscal funds'). DFID is also a major shareholder of the International Finance Corporation, a development finance institution that is a member of the World Bank Group.

2.22 **Challenge funds** are another mechanism through which DFID engages with businesses. Challenge funds are used by DFID to provide grants to non-state bodies, often with the aim of achieving wider social and economic benefits.

2.23 Figure 1 provides a schematic illustration of the sectors, benefits targeted and instruments used in DFID's engagement with businesses as discussed above.

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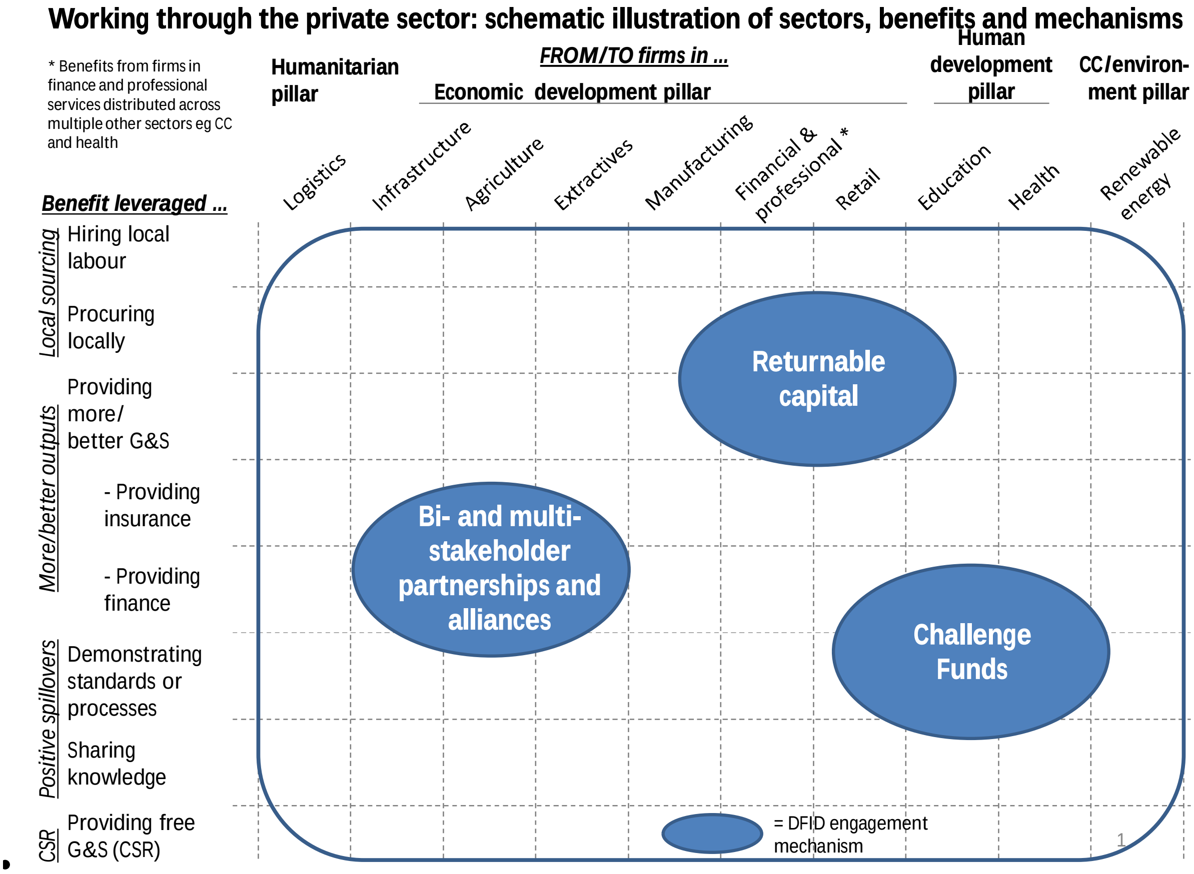
[3] Our Terms of Reference identified four mechanisms: multi-stakeholder partnerships and alliances, returnable capital, challenge funds and bilateral business engagement. We have chosen to combine 'multi-stakeholder partnerships and alliances' and 'bilateral business engagement' under 'partnerships and alliances', as there is little to distinguish clearly between the two categories other than the number of parties involved.

[4] Speech of Rt. Hon. Justine Greening MP, March 2013, https://www.gov.uk/government/speeches/investing-in-growth-how-dfid-works-in-new-and-emerging-market.

Figure 1: Schematic illustration of sectors, benefits targeted and instruments used in DFID's engagement with businesses



3. Purpose of this review

3.1 The purpose of this review is to answer five key questions. The first of the questions relates to the potential for working with businesses:

- What opportunities exist for DFID to work with private businesses to achieve pro-poor developmental benefits, especially those that are of commercial benefit to businesses?

3.2 The remaining questions broadly correspond to the four ICAI categories of assessment questions, namely objectives, delivery, impact and learning:

- To what extent do DFID's strategy and objectives demonstrate an understanding of these opportunities and the associated risks?
- How effectively is DFID seizing opportunities to engage with businesses, including catalysing additional private investment?
- What is the incremental impact on the poor that DFID is able to achieve with working with businesses, including the mitigation of negative impacts on the poor?
- What is DFID doing to learn about the potential benefits and risks of working with businesses and how is it applying these lessons?

4. Relationship to other reviews

4.1 The relationship of this review to other reviews is contained in the Terms of Reference.[5] Specifically, the distinction between this review and our review of DFID's private sector development work is discussed in paragraphs 2.13 to 2.16 of this inception report.

4.2 Challenge funds have been considered in various other reviews. For example, our upcoming review on DFID's Approach to Delivering Impact is looking at the Girl's Education Challenge Fund, whilst our previous review on DFID's Private Sector Development Work covered the African Enterprise Challenge Fund.[6] Many of our reviews, both completed and ongoing, cover programmes that are delivered with private sector involvement, for example, our ongoing review of DFID's Scale-Up in Fragile States saw a challenge fund in Somaliland which was designed to stimulate SMEs.[7] We will coordinate this review with those other review teams and will compare and, where appropriate, look to test or build on their findings.

5. Methodology

Our approach

5.1 Our methodological approach is designed to critically address the assessment questions set out in the terms of reference as well as the five higher level core questions listed above. It is designed to take into account the following four considerations:

- the extent to which DFID's work with businesses is catalytic;
- the need to establish the additionality of DFID's work with businesses;
- the need to achieve a reasonable balance between representing the span of DFID's work in this area while assessing particular initiatives in some detail; and
- the need to go beyond what DFID is currently doing and assess what more it could be doing.

Catalytic impact

5.2 We will be assessing the catalytic impact of DFID's engagement with individual businesses and the extent to which this contributes towards DFID's objectives. This means that we will look at the extent to which DFID's relationships with particular businesses bring about changes in the behaviour and investment practices of those businesses (such as increased levels of local hiring or the provision of more and better medical drugs) as well as the extent to which it also influences other businesses, for example through demonstration effects or through the spill-over of knowledge and technology. Influence may also flow in the opposite direction: businesses may look to DFID to play a facilitating role to enable the business to expand its activities in ways that benefit the poor. We will, therefore, critically review the extent to which DFID exerts such influence and is able to weigh its merits.

Additionality

5.3 Throughout this work, we will be looking to make inferences, where possible, about the causal relationship between DFID's engagement with businesses and the impacts on intended beneficiaries. We refer to this as the 'additionality' of DFID's engagement with businesses. For the use of DFID resources, including financial contributions and DFID staff's time, to be justified, businesses should operate in a way that increases the benefits to the poor. We will be

5 *Terms of Reference: Business in Development*, ICAI, http://icai.independent.gov.uk/wp-content/uploads/2014/07/Business-in-Development-TORs-final.pdf.

6 *DFID's Approach to Delivering Impact: Terms of Reference,* ICAI March 2014, http://icai.independent.gov.uk/wp-content/uploads/2014/01/ICAI-Impact-ToRs-FINAL-040314.pdf and *DFID's Private Sector Development Work*, ICAI, May 2014, http://icai.independent.gov.uk/wp-content/uploads/2014/05/ICAI-PSD-report-FINAL.pdf.

7 *DFID's scale-up in fragile states: Terms of Reference*, ICAI, April 2014, http://icai.independent.gov.uk/wp-content/uploads/2014/04/Fragile-States-ToRs-Final.pdf.

looking to establish whether, in working directly with businesses, DFID has been able to achieve a greater impact than if it were operating independently.

5.4 We do not intend to identify and test counterfactual scenarios in an experimental manner (i.e. attempting to obtain statistically significant measures of DFID's contribution by comparing treatment and control groups). This is because the linkages between DFID's engagement with businesses and impact on the ground are likely to be complex and not amenable to large survey techniques. Rather we will adopt a qualitative approach based on semi-structured interviews, to construct case studies that offer insight and which may allow us to make causal inferences, albeit not statistically robust. For example we will talk to businesses that have not worked with DFID, as well as those that have, compare outcomes experienced by the poor and thus seek to throw light on DFID's added value.[8] We will also speak to other donors and NGOs and the businesses with which they have engaged to compare against DFID's approach and comment on whether DFID is achieving the optimal outcomes for its intended beneficiaries. We will also talk to the intended beneficiaries themselves to see whether they perceive any positive impact.

5.5 By working directly with businesses, DFID may be able to achieve better its objectives at three different levels:

- DFID may be able to work with businesses that help it achieve a specific objective, through targeted partnerships or financing;
- DFID may be able to work with businesses which have wider economic impacts, to maximise their pro-poor benefits in line with DFID's overarching objective; and
- DFID may benefit from working with businesses by learning and adopting best practice across other programmes.

5.6 Throughout this review we will look to establish whether DFID's approach to working with businesses maximises the positive impact as experienced by the poor through these three different channels.

Balance breadth and depth

5.7 As set out above under 'Background', DFID's work with businesses is wide-ranging: it covers a broad span of sectors, targets a range of benefits and uses a number of different mechanisms for engaging with businesses. Our approach therefore incorporates elements that will enable us to develop a broad overview of the span of DFID's work in this area while also including in-depth investigation of a selection of specific examples of activity. We will cover the breadth of engagement mechanisms that DFID employs but give a deeper consideration of returnable capital in particular.

Learning

5.8 Through our interactions with businesses that are already delivering significant pro-poor results in developing countries, independent of public sector support, we expect to learn a significant amount about what works and what does not work in this area. In addition to an assessment of the activity DFID is already undertaking, a significant part of this review, therefore, will comprise forward looking insights into what more could be done by working with the private sector or learning from, disseminating or implanting good practice.

What will we do?

5.9 To gather and analyse the information and data needed to answer our assessment questions, while addressing the four additional considerations set out above (catalytic impact, additionality, balancing breadth and depth and learning) we will undertake the following activities:

- contextual review of business practices and other donor approaches;
- strategic assessment of each of the four engagement mechanisms employed by DFID;

[8] Additionality refers to the condition that DFID's engagement achieves outcomes which the private sector would not have achieved without DFID intervention.

- desk review of a selected number of initiatives under different engagement mechanisms;
- assessment of DFID's collaboration with other UK departments; and
- case studies of DFID's activities in two countries.

i) Contextual review

5.10 The purpose of the contextual review is to develop a strong knowledge base of businesses' objectives and views concerning their impact on the poor, to gather examples where collaboration has had positive and negative impacts on the poor and to critically assess businesses' claims regarding their contribution to pro-poor development. We will test the extent to which the poor have benefited from business activities in developing countries, which will help inform our assessment of what DFID has achieved or is aiming to achieve, as well as areas where it could become involved but has yet to do so – and the evidence base which underpins its interactions with businesses. The review will seek to document how businesses incorporate the achievement of pro-poor results into their broader business objectives and in particular the scale, success and reasons for success of initiatives that target:

- increased local employment and local supply chains;
- more and better goods and services (including financial services);
- positive spill-overs from business involvement (such as corporate governance or technology); and
- corporate social responsibility.

5.11 We will build on the literature review undertaken as part of our review of DFID's private sector development work, which identified the approach taken by various donors to working with the private sector. We will supplement this with a more targeted review of literature on the roles which multinational and domestic firms can take and are already taking to ensure that development benefits the poor. Our sources will include documentation generated by bodies such as the United Nations Global Compact, World Business Council for Sustainable Development, World Economic Forum and others. We will also consult material produced by companies such as Unilever, Nestle and the extractive industry's CSR programmes. These will be followed up with interviews with representatives from selected supply chains in both the UK and in country.

5.12 We will also hold meetings with businesses about the incorporation of pro-poor strategies in their core business objectives. We will select businesses from particular sectors which are recognised as having a high or potentially high impact on development objectives. We aim to obtain the views of both those who do and do not engage directly with DFID so that comparisons can be drawn and additionality can be tested. We may complement these with further consultations with businesses outside of our focal sectors where they have experience of working with DFID, in order to increase the evidence on the effectiveness of working in partnership. We will interview other donors active in this area and also NGOs such as Save the Children and Bonn International Centre for Conversion (BICC).

ii) Strategic assessment of DFID's overall approach to business in development

5.13 We will carry out a strategic overview of some of the main engagement mechanisms. This will enable us to achieve an overview of how DFID approaches the role of business in development. As we undertake our assessment, we will look to identify the theories of change (or implied theories of change) which outline the logic of how DFID works with businesses and how this ultimately benefits the poor. We will test these theories of change, including their assumptions and logic, to determine whether DFID's work with businesses is likely to have the additional and catalytic impacts it seeks to achieve. We will also determine whether the theories of change (or implied theories of change) adequately consider all the impacts – including any negative externalities or unintended consequences – and whether DFID's intended beneficiaries are those that actually stand to benefit.

5.14 The engagement mechanisms that we will assess comprise:

- **Partnerships and alliances:** We will assess how well DFID uses its information and coordination powers to establish strategic alliances between businesses, NGOs and the public sector (both in the UK and in developing countries) which have the potential to achieve outcomes which benefit the poor. This will exclude relationships where DFID has subcontracted a business to deliver part of its programme, but will include partnerships that emerge as a result of alignment between DFID and business objectives, for example, support to private sector provision of education or health services. It will cover DFID's engagement with businesses from the centre as well as in-country. In particular, we will look at how DFID is engaging and partnering with businesses in ways that achieve pro-poor developmental benefits while also being of commercial benefit to businesses.[9]
- **Direct financing contributions:** Our review will assess DFID's use of **returnable capital** as an instrument for engaging with businesses as well as its use of **Challenge Funds**. It will assess DFID's use of returnable capital within the current policy framework, namely to provide returnable capital only where:
  - public subsidy can add significant value; and
  - the private sector is not already willing to undertake investment without DFID involvement.

5.15 While we will not look in detail at the operational processes of particular returnable capital funds, we will look at a range of funds to develop a broad view of DFID's work in this area. In particular we will seek to develop a view on issues such as oversight, capabilities, leverage and demonstration effects. This will include a comparison of different models of how DFID is engaging with returnable capital including differing degrees of outsourcing. As noted in the terms of reference we will not duplicate work already undertaken by NAO either in its multilateral or PIDG reports. Nor will we look in detail at PIDG's internal operations. We will seek, however, to compare and assess, for example, DFID Delhi's returnable capital activities with those of PIDG and its subsidiary facilities which operate in quite distinct ways.

5.16 We will also compare returnable capital against other direct financing mechanisms and in particular challenge funds. Challenge funds offer an alternative mechanism for DFID to work directly with and therefore influence business. We will not, however, be undertaking a full value-for-money or impact assessment of challenge funds and how they are managed, in part because many of DFID's challenge funds have been covered under other reviews. Where we do consider challenge funds, we will look to see whether DFID is maximising the benefits to the poor through the three channels identified in paragraph 5.5.

iii) Desk review of specific initiatives

5.17 The contextual review and strategic assessment of engagement mechanisms, described above, will provide an overview of the potential as well as the activities in which DFID is currently engaged. To ensure that we are able to assess DFID's performance in more detail we will also select a limited number of interventions for more in–depth review.

5.18 There is a wide selection of interventions available to choose from in under each of the three engagement mechanisms described in paragraphs 2.20 to 2.22. We intend to select up to four specific projects where DFID has provided direct financing to businesses – in particular through returnable capital – and four examples where DFID has entered into strategic alliances with businesses.

5.19 We will capture a standard set of information for each project examined including the following:

- the businesses engaged;
- the nature of DFID engagement (financial or other);
- the clarity of objectives;
- the quality of preparation, including monitoring and evaluation (M&E) framework; and

[9] Heinrich Meliner, *Donor Partnerships with Business for Private Sector Development*, 2013, Donor Committee for Economic Development, page 4.

- the extent and reliability of results.

5.20 In most cases we will rely on the results captured under the M&E framework of the project or intervention. In some cases we may consider use of independent surveys to establish the results. Where possible, we will test for additionality (as described in paragraph 5.3 above) by interviewing unsupported businesses that are comparable to those with which DFID has worked and other donors to understand their approach to business engagement.

iv) Assessment of DFID's collaboration with other UK departments

5.21 According to DFID, a number of other UK Government departments play a role in the delivery of development benefits via engagement with businesses and DFID is engaged in formal and informal collaborative efforts with these departments. These include the Department for Business, Innovation and Skills, UK Trade and Investment and the Foreign and Commonwealth Office. We will therefore map these initiatives by interviewing:

- DFID leads within UKTI, FCO and the Department for Business, Innovation and Skills (BIS);
- DFID and other departmental members of the:
  - High Level Prosperity Partnerships;
  - Business and Human Rights Committee; and
  - other cross departmental groupings.

5.22 We will test the effectiveness of DFID's collaboration with other departments by talking to businesses that we meet during our country visits. The difficulty will be to ensure that we meet with businesses that have attempted to approach DFID and other departments but failed to obtain a response. We may be able to identify such businesses through local business associations and chambers of commerce.

v) In-country studies

5.23 We will conduct field visits to selected DFID priority countries, where we will assess the pro-poor impact of DFID's work with the private sector. We will look in more detail at a limited number of specific case studies in order to illustrate examples of what worked and what did not. We plan to speak to a range of stakeholders and beneficiaries in and around the relevant businesses that DFID is working with, including owners, managers, staff, suppliers, customers, related businesses and industry bodies (including country-based partnerships such as the UK India Business Council) and local stakeholders and beneficiaries, such as municipalities with an interest in seeing local benefits.

5.24 We will draw on input from local experts located in each of our case study countries. These experts will provide an overview of the business environment, the ways in which businesses operate and their impact on the poor and the roles that donors such as DFID have taken in promoting pro-poor business investment and operations. They will provide us with case studies that will establish the additionality or potential additionality of DFID's engagement, as well as the perceptions of business of the role of donors and the impact they can achieve. If appropriate, we will involve the services of a stakeholder survey company to help us to capture the views of as wide a range of stakeholders as possible, including intended beneficiaries.

Choice of country case studies

5.25 To select the countries that we will visit we have applied the following criteria:

- there should be significant number of initiatives meeting the criteria from the first three work streams (listed above) in the countries that we can review;
- the countries, taken together, should span a range of levels of private sector development and are thus able to offer lessons to other countries with moderately or less developed private sectors, including fragile economies; and
- there is complementarity with countries visited under the previous review of DFID's private sector development work (Bangladesh, Tanzania and Ethiopia) and ear-marked for a visit by

the International Development Committee (IDC) as part of its review of jobs and livelihoods (Tanzania).

5.26 Based on these criteria, the first country that we intend to visit is India. While DFID has announced its intention to cease financial aid in India from 2015, it is an appropriate country to visit for several reasons:

- India is currently the only country office implementing returnable capital (the rest is managed centrally) which is a growth area for DFID. Visiting these projects will provide useful insights into what is required for the effective management of these funds and its transferability (or not) elsewhere;
- most of DFID's activity in India is concentrated in the eight low income states and this is where we would expect to focus our attention. Conditions in these states are expected to provide read-across to other poor countries in South Asia as well as beyond; and
- parts of India have has achieved a level of development, with a strong private sector, beyond most other DFID partner countries and we therefore expect to see examples of what successful business partnerships can look like, as a model for less developed countries. We will need to carefully assess whether these examples are applicable in less developed economies.

5.27 In addition, in a preliminary review of the distribution of a sample of about 150 business support projects funded by four DFID challenge funds, we found that India was the largest recipient. It is also the country with the greatest presence of locally managed returnable capital funds (discussed in paragraph 2.21). Projects are clustered in and around Delhi, as well as in the eight low income states. We will review the distribution of projects funded by returnable capital out of the DFID Delhi office to determine which states to visit.

5.28 Within Africa, we have selected Ghana as the second case study country for a number of reasons:

- it is one of three High Level Prosperity Partnership (HLPP) countries in which DFID has a programme and thus offers an opportunity to assess how effectively this initiative is working on the ground;[10]
- there are a number of returnable capital projects in Ghana funded, for example, by AgDevCo (which has an office in Ghana) and the Private Infrastructure Development Group (PIDG), as well as a planned new sub-fund of the CDC-managed Impact Investment Fund;[11]
- it is a leading recipient of challenge fund grants; and
- it offers an opportunity to assess a number of other important initiatives, including in the areas of health (for example the Africa Health Markets for Equity) and extractives (it is one of 11 countries in which DFID has an extractives programme).

Fragile states

5.29 DFID is increasingly focussing its efforts on fragile states. Our forthcoming report on DFID's Scale-Up in Fragile States highlights that 21 of DFID's 28 priority countries are fragile states and a large proportion of DFID's bilateral expenditure will be focused on fragile states going forward. We have not chosen to visit a fragile state under this review for a number of reasons:

- fragile economies are unlikely to offer the same opportunity to observe how DFID works directly with domestic and international businesses from a range of sectors. Given that this is the subject of the BID review it would seem important to select countries where there is enough to observe; and
- in so far as in-country private sector development is an aspect of the current review, its feasibility in fragile economies was assessed as part of the ICAI PSD Review, which visited 3 fragile economies.

[10] The International Development Committee will be visiting Tanzania to assess the HLPP in that country as part of its jobs and growth review.
[11] AgDevCo is a social impact investor and agribusiness project developer operating exclusively in the agricultural sector in Africa. See www.agdevco for further information.

5.30 We expect that our selected countries will provide lessons which are applicable as countries develop, domestic businesses evolve and multinational corporations look to enter these markets. We also believe that the businesses we speak to will be able to provide us with insights directly about neighbouring fragile areas. In India, we would expect larger businesses to be able to compare experiences in India with those in neighbouring countries such as Pakistan and Nepal, whilst in Ghana we would expect that businesses will be able to provide insights into the difficulties of operating in regional economies such as Cote d'Ivoire, Nigeria, Mali and Niger. In addition, we would expect that partnering with businesses is an approach most applicable as economies emerge from fragility and begin to develop significant markets, supply chains and domestic private sectors which attract significant levels of development.

6. Roles and responsibilities

6.1 The Team Leader will be the primary point of contact with DFID. KPMG will provide oversight of this review under the overall leadership of the ICAI Project Director. Supplementary analysis and peer review will be provided by KPMG staff.

6.2 The team will comprise the following members:

Team Leader

He has over 25 years' experience in economic development and policy, both in the UK and internationally (as well as his consulting experience he has worked in a development NGO in the West Bank/Gaza, the World Bank, the Bank of England, the London Development Agency and for McKinsey as an external consultant for three years and has set up his own business in an emerging market – Libya). He has sector expertise in security and justice; climate change and environmental management; private sector development; economic growth and public expenditure; and the financial sector. Functional skills include: strategy; design; appraisal; evaluation; and organisational reform. He has deep experience managing teams and organisations (he was an executive director at the London Development Agency responsible for private sector development) as well as working in and with multilateral organisations including in multilateral trust fund processes and reform as well as bilateral donors especially DFID. He has wide experience in Sub-Saharan Africa, the Middle East, South Asia and Latin America and direct experience of working in fragile and conflict environments (Libya, West Bank/Gaza). He is a native English speaker with fluent Arabic and French and a working knowledge of Portuguese.

Team Member 1 (KPMG)

He has six years of professional experience in economic consultancy and international development. He has experience in a variety of sectors, including telecommunications, energy, retail, natural resources, banking and manufacturing. He spent two years working as an ODI Fellow in the Ministry of Trade and Industry, Lesotho. His focus was on investment attraction and retention and private sector development. He undertook a number of value chain analyses and worked closely alongside all the major government departments, multilateral organisations (including UNDP, UNIDO, IMF, World Bank, EU and ILO) and with civil society and NGOs. Since returning to KPMG in 2014, he has been closely involved in the production of a number of ICAI reviews, including the earlier ICAI review of DFID's private sector development work.

Team Member 2 (Agulhas)

She has expertise in sustainability, with a particular focus on managing the risks around climate disruption, having been a member of the core team on the Stern Review of the Economics of Climate Change. She has several years of Board and Advisory Board experience in the commercial and non-for-profit (NFP) sectors. She has both chaired and been a Board member of a UK limited company and a NFP, along with a number of advisory board positions for both companies and NFPs. These companies have been UK based, often working in global markets. She has worked with companies in the 'Fast Moving Consumer Goods', retail, food and aerospace sectors to deliver change in policy, products and process, enabling them to become more sustainable and resilient.

Team Member 3 (Independent)

He spent 25 years in banking (1984-2009), first in New York and then in London. His last two jobs were at Goldman Sachs and Morgan Stanley, where he was a Managing Director and ran the Credit

Analytics team in London. From 1993 to 1997, he was one of four founder directors of a boutique fund management business. This was a start-up whose funds under management had grown from zero to £100 million by the time he left. In 2009 he left Morgan Stanley and began working as an independent researcher and consultant. Private equity is a particular focus: his work has appeared in a think tank report that was favourably reviewed by the Financial Times and the Economist; in academic journals; and in the general media. He has also been a guest speaker at London Business School and Harvard Law School. Away from private equity, he recently started consulting for a leading UK social impact fund.

Team Member 4 (KPMG)

She is an economist with developing country governance experience and a focus on private sector engagement within international development. She joined KPMG's International Development Team in the UK this year. Previously she completed a two year posting in the Ministry of Finance, Economics & Development Planning within the Government of Zanzibar, Tanzania. She also undertook independent consultancy work with Revenue Watch Institute in the area of extractive resource management.

She has experience in the design, management and monitoring & evaluation of pro-poor capital expenditure programmes, a strong understanding of – and interest in – the financing instruments used in the field of development aid, as well as exposure to the field of investment banking and finance markets. She will jointly manage the returnable capital work stream under this review with Team Member 3.

7. Management and reporting

7.1 A first draft report will be produced for review by the ICAI Secretariat and Commissioners by week commencing 9 February 2015, with time for subsequent revision and review prior to completion and sign off in week commencing 27 April 2015.

8. Expected outputs and time frame

8.1 The main deliverables will be:

Phase	Timetable
Planning Finalising methodology Drafting Inception Report	June-September 2014
Phase 1: Field Work UK field work India and Ghana field work	September-November 2014 December 2014-January 2015
Phase 2: Analysis and write-up Roundtable with Commissioners First draft report Report quality assurance and review by Secretariat and Commissioners Report to DFID for fact checking Final report sign-off	w/c 19 January 2014 w/c 9 February 2015 w/c 16 February-w/c 30 March 2015 w/c 6 April 2015 w/c 27 April 2015

9. Risks and mitigation

9.1 The following sets out the key risks and mitigating actions for this review.

Risk	Level of risk	Specific Issues	Mitigation
No outcome data available on impact of programmes	Medium	Instances of the UK Government working with the private sector are relatively sparse and recent and there is a risk that there is limited or no data available to measure the impact of these initiatives. In addition there is a risk that the operational details of many business driven programmes will be subject to commercial confidentiality.	Whilst quantitative data may not be available for some programmes, anecdotal evidence will be gathered during the field research. We will guarantee not to publish any commercially sensitive information. We expect that businesses will be keen to share details of their positive benefits, and we will look to identify any unintended or negative consequences through other sources, included those impacted, other businesses and donors.
Limited breadth of programmes to review	Medium	Although DFID has long stated its intention to increase its work with the private sector, we have found only a limited number of examples where it has. These may, in themselves, be insufficient for making wider conclusions about the impact.	The review will focus both on instances where DFID has worked with the private sector and the opportunities that it has not taken. Examples of where the private sector has or could have been working to achieve development outcomes without involvement from DFID and examples of the private sector working alongside other development agencies will be used to support our findings. We have also established a number of returnable capital and challenge fund programmes which will act as a core focus for the review.
Intended beneficiary voices not heard	Medium	The intended beneficiaries are the poor. Through its business engagement DFID does not always work directly with the poor; who may be the employees, suppliers, customers of the business. Speaking just with public and private sector representatives may not accurately capture beneficiary perspectives.	The country field visits will provide us with the opportunity to interview the intended beneficiaries of private sector interventions to ensure their voices are heard. If appropriate, we will also use beneficiary feedback surveys to support our findings.

Risk	Level of risk	Specific Issues	Mitigation
Duplication of other reviews	High	Several other studies by the IDC, the National Audit Office (NAO) and DFID looking at similar issues are ongoing, whilst there is also some potential overlap with our earlier review of DFID's PSD work. These are identified in the Terms of Reference. There is a risk that this review duplicates efforts.	Scope will be coordinated across studies to ensure minimal overlap. Workplans will be shared with IDC to ensure coordination of meetings with stakeholders to minimise DFID's burden. IDC will be invited to our initial findings meeting. Programmes will be selected to avoid duplication with other reviews.
Team members become indisposed	Low	Team members may become unavailable because of illness or other commitments and findings are lost with them.	Findings will be promptly shared amongst the team to ensure knowledge is 'backed-up'. Country visits do not significantly increase risks to team.
Limited access to representatives of the private sector	Medium	This review will require significant insights to be provided by relevant representatives from the private sector. There is a risk that we do not gain access to the relevant individuals.	Team members and Commissioners have strong networks in the private sector which will be leveraged.
Reputational Risk	Low	The review will be looking at examples of how the private sector has been working either independently on development sensitive issues and where the private sector has been working in partnership with other development agencies. ICAI does not have the mandate to review these programmes or to make recommendations on them. ICAI also does not have the mandate to comment on policy.	We will review both programmes where the UK Government has worked alongside the private sector to achieve development outcomes and also the opportunities which it has not taken. Any findings and recommendations, however, will judge whether DFID could have achieved a greater impact on its development objectives as set by policy.
Ebola	Low	The Ebola outbreak in West Africa is currently concentrated in Sierra Leone, Guinea and Liberia, with a limited number of reported cases in Nigeria. The outbreak could spread further across West Africa and to Ghana. This would jeopardise the planned country visit in January.	We will continue to monitor the situation and follow travel advice from the World Health Organisation and Foreign and Commonwealth Office. If the situation deteriorates we will identify an alternative country visit.

10. How this ICAI review will make a difference

10.1 DFID has increasingly stressed the importance of working with and through the private sector in strategies published since 2008.[12] It has yet, however, to undertake a comprehensive evaluation of this aspect of its work. The current review will, therefore, fill an important gap by looking at how DFID engages and partners with businesses to achieve a range of development and humanitarian outcomes.

10.2 DFID's emphasis on influencing businesses to achieve development outcomes has increased rapidly in recent years. Consequently, there are several aspects of this approach where DFID's learning curve is still relatively steep. The review may, therefore, shed light on examples of good practice that DFID is not aware of and from which it could learn. These may comprise examples of other non-state bodies partnering successfully with businesses. In some cases they may simply involve business activity that is promoting pro-poor development without any public sector involvement.

10.3 The review will also seek to highlight the complexities that can arise in partnering with businesses for development purposes. These may include market distortions, conflicts of interest, ethical issues and capacity constraints (both in DFID and among businesses). An important contribution the review can make will be to set out these complexities and assess how well DFID is engaging with them.

10.4 Finally, the review will further deepen our analysis of certain issues addressed in our private sector development review published in May 2014. In particular it will look further into DFID's returnable capital activities as well as its work through challenge funds.

[12] In 2008 DFID published its strategy for private sector development, *Prosperity for All: Making Markets Work*. In *The Engine of Development*, published in 2011, DFID reaffirmed the importance of working with the private sector and in particular stressed the opportunities for "catalysing more private investment and deepening private sector links into communities [to] … increase opportunities for poor people". Engaging with businesses, directly and indirectly, was a key part of DFID's strategy. Since 2013 DFID has further increased its focus on this area with the publication of its *Economic Development Strategic Framework* in January 2014.