Independent Commission for Aid Impact

ICAI Annual Report 2015 to 2016

Report to Parliament's International Development Committee

June 2016

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.

We operate independently from government, reporting to Parliament, and our mandate covers all UK official development assistance.

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Foreword

The Independent Commission for Aid Impact (ICAI) provides assurance to Parliament and UK taxpayers that UK aid is being spent well and making a difference.

Effective scrutiny of aid, or any form of public spending, plays a crucial role in ensuring real value for money.

It was therefore interesting that Parliament's Public Accounts Committee recently expressed its concern that oversight of public funds has failed to keep up with the increasingly varied ways in which government does business. The Committee noted how difficult it had become to follow the taxpayer pound through complex delivery channels.

We see a similar challenge emerging with the UK aid programme.

Complexity is growing in a number of ways. The aid budget is being redistributed across government. By the end of the Spending Review period, more than a quarter of UK aid – as much as £4 billion – will be spent outside DFID. The pace of the scale up facing some departments is remarkable.

The mix of aid instruments is also changing. Large new cross-government funds and programmes have been created to channel investments in global prosperity, scientific and medical research, conflict and instability and climate change. DFID is preparing for large increases in its capital investment portfolio – an area of relative novelty for the department.

Even the geographical scope of UK aid is shifting. Government has pledged to increase its focus on drivers of instability in the Middle East and North Africa. Through the Prosperity Fund, it is also seeking to promote economic growth in places that offer opportunities for British and international business, which is likely to be middle-income countries.

It is potentially encouraging that for the first time there is an Aid Strategy that sets common goals for the aid programme. However, there are also short-term risks to maintaining focus, effectiveness and value for money, while new programmes, instruments and governance arrangements are being implemented.

ICAI has a mandate to provide robust, independent scrutiny of the effectiveness and value for money of the UK aid programme as a whole – including aid spent by all other government departments.

Over the past year, as we prepared and launched a new programme of reviews, we have been introducing a wider range of scrutiny tools suitable for this more complex aid architecture. We have introduced three new types of review and are planning some lighter and quicker scrutiny processes. We are also working closely with the International Development Committee to make sure it is supported with information and analysis.

We have a critical role in making an increasingly complex UK aid programme transparent to the UK public. To that end, we have included in this annual report a summary of our analysis (produced before the EU Referendum) of the changes underway in the distribution of aid across government. We hope this sheds light on some of the biggest changes to UK aid.

Dr Alison Evans
Chief Commissioner

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Highlights of Year One

This has been a year of reset and renewal for ICAI. We began work on our first two reviews – on water and sanitation and on violence against women – within a month of new commisioners taking up their posts. At the same time, we commenced work to develop a strategic review programme and a new suite of review tools and approaches.

Developing a strategic review programme

ICAI's new commisioners took up their appointments in July 2015 at a time of considerable dynamism in both the UK and international aid landscapes. The UK aid programme is responding to a range of new challenges, from the adoption of the Global Goals to the international refugee crisis. In the UK, the aid architecture is going through its most dramatic change since the creation of the Department for International Development (DFID) in 1997.

In this environment, we recognise more than ever that ICAI's review programme needs to be strategic in orientation, to assess whether UK aid is responding adequately to these challenges. It also needs to provide assurance to Parliament and the UK taxpayer that UK aid provides good value for money and makes a real difference to the lives of its intended beneficiaries.

To develop a strategic review programme, we went through a period of consultation with interested stakeholders. We worked closely with the International Development Committee (IDC) in the House of Commons, to whom we report, to identify its areas of interest and concern and to discuss new ways of collaboration. We consulted with DFID, including the International Development Secretary and senior management, and held a series of 'town hall' meetings with DFID staff. We held numerous engagement events with UK development Non-Governmental Organisations (NGOs) and academics, and received a range of submissions from the public.

ICAI also carried out its own horizon-scanning exercise. Our resulting position paper *UK Aid in a Changing World: Implications for ICAI* discussed challenges ahead, such as the changing global distribution of poverty and the resurgence of conflict and insecurity. It explored the implications of the new Global Goals, including the promise to leave no one behind. Additionally, it explored aid changes underway in the UK, including the shift in aid budgets to departments other than DFID, the ongoing rebalancing towards economic growth and the commitment to spending half of DFID's budget in fragile states and regions. We looked at the growing importance of 'beyond aid' interventions for international development, such as changing the rules of the global financial and economic systems to make them fairer for developing countries.

To cover this shifting landscape, we decided to adopt five strategic themes for our review programme:

- Inclusive growth.
- Leave no one behind.
- Crisis, resilience and stability.
- Transparency, accountability and empowerment.
- Beyond Aid.

We propose to build up an evidence base on these themes over the course of our reviews. We also identified a set of core aid-delivery issues that we will explore as the opportunity arises. These include learning and the use of evidence, value for money, risk management, gender equality and cross-government collaboration.

Introducing a new review typology

We made an early decision to introduce some new types of review into our toolkit, to enable us to explore the effectiveness and value for money of UK aid from a number of angles. As described in the table below, we now have three distinct types of reviews – impact, performance and learning – focusing on different aspects of aid delivery and development impact. They enable us to pinpoint the particular aspects of each topic we think are most likely to enhance accountability and learning.

ICAI's three types of review		
Impact	**Performance**	**Learning**
In our impact reviews, we assess what underlies government's results claims. We look both at their validity, by reference to the underlying evidence, and at their significance for the intended beneficiaries. We explore how well the UK government measures its results, and whether its programmes and portfolios are using results data to become more impactful over time.	Our performance reviews take a robust look at the effectiveness and value for money of UK aid programmes, with a strong focus on accountability. They explore how well UK government aid is managed and delivered and whether it is achieving value for money. Performance reviews also cover whether the UK government has appropriate systems and capacities in place to manage its aid programmes.	Our learning reviews explore new and emerging areas of the aid programme. They explore how well the UK government generates an evidence base on what works and how it uses that knowledge to develop credible programming. While part of the independent scrutiny process, our learning reviews involve closer interaction with government in order to contribute to ongoing learning.

Among our first year reviews, we chose to conduct learning reviews on DFID's programming on violence against women and girls and on DFID's work on international tax – both relatively new areas of work for the department. Our impact reviews were on water and sanitation and cash transfers – both mature portfolios with a good range of results data. Our performance reviews include DFID's management of fiduciary risk in conflict-affected areas and DFID's support to marginalised girls in education.

Our programme will primarily focus on DFID during the first half of this four year commission, while the scale up of spend by other government departments and cross-government funds takes place. We expect to focus more broadly across government in the second half of this commission, and already have a review of cross-government funds scheduled for next year.

Working with the International Development Committee

ICAI reports to the IDC and works closely with the committee to identify how ICAI's review work can best contribute to parliamentary oversight of the aid programme. The IDC approves our work plan and receives our annual report. Its ICAI sub-committee conducts hearings on each of our reports.

We have built a strong relationship with the IDC. In November, ICAI responded to a request from the IDC for a briefing note on how DFID allocates its resources. Our resulting information note – *The 2015 ODA Allocation Process* – explored how DFID manages and reconciles its different policy priorities and spending commitments. The IDC made use of the information note when exercising its own oversight of DFID's decision making.

First year reports

DFID plays a global leadership role in tackling violence against women and girls

The first of our published reviews – a learning review on *DFID's Efforts to Eliminate Violence Against Women and Girls* – explored how DFID had translated some ambitious policy commitments on tackling violence against women and girls (VAWG) around the world into a credible portfolio of programmes. It also looked at DFID's efforts to promote the issue at the international level. It found that DFID had made some good, early progress in a challenging area. It had made a substantial investment in research to build up an evidence base on what works. It had developed programming at country, regional and international levels, including piloting a range of innovative approaches.

However, we found that its programmes remained small in scale relative to the problem they were trying to address. The challenge ahead is to develop a better understanding of what works at scale, and how VAWG interventions can be designed into major sectoral programmes.

The review found that DFID had made a strong contribution to raising the profile of VAWG globally. Yet despite the importance of its influencing work, DFID had not developed an explicit strategy, nor had it sought to monitor its effectiveness. In what is emerging as a theme across a number of our ongoing reviews, we noted that DFID does not approach its 'beyond aid' activities with the same rigour and results focus that it applies to aid programmes.

We nonetheless awarded DFID our highest rating 'green' for its VAWG portfolio to date, in recognition of its strong performance in building up both a knowledge base and a portfolio of credible programmes, as well as its contribution to raising the global profile of the issue.

Box 1: Learning frontiers on violence against women and girls

Because this was a learning review, we concluded by suggesting a number of areas where DFID should concentrate its learning efforts over the coming period. These include:

- Understanding women's lifetime experience of violence, and the interconnectedness of different forms.
- Looking at the potential for shifting social norms by training young people on building relationships based on equality and respect.
- Identifying how to work with perpetrators.
- Researching the experience of women who are subject to multiple discriminations.
- Collaborating with the private sector, to take advantage of its skills in branding and marketing.
- Understanding both the risks and opportunities for women of the spread of information technology.

Solid WASH results, with some real concerns about sustainability

Our first impact review assessed *DFID's Results in Water, Sanitation and Hygiene.* DFID reported that, over the 2011 to 2015 period, it had achieved and even exceeded its target of reaching 60 million people with water, sanitation and hygiene (WASH) programmes. We looked closely at the methods and processes DFID used to calculate this result and found that the claim was in fact supported by evidence.

However, we concluded that this figure alone told us relatively little about the true impact of DFID's programming. DFID was not tracking the wider results of its WASH investments, such as reductions in water-borne diseases, improvements in school attendance or the reduced time burden on women and girls – even though the literature suggested that results were likely in these areas. Without this information, DFID was unable to adjust its programmes in real time or to ensure that they reached the most vulnerable within its target communities across its WASH portfolio.

We also found weaknesses in DFID's approach to sustainability. Sustainability presents major challenges in the WASH area, with technical, financial and institutional dimensions. We found DFID was not approaching it in a systematic way. Although many of its programmes were investing in national systems, this was not being done consistently. The typical WASH programme was often too short to achieve sustainability and, unlike some donors, DFID was not monitoring whether results were sustained beyond the life of its programmes.

Overall, we gave DFID a 'green-amber' rating for its WASH portfolio. This reflected the finding that it had indeed made a substantial contribution to extending WASH access in low-income countries, but was not doing all it could to maximise impact or sustainability. We made recommendations on the measurement and reporting of development impact, improving sustainability, assessing value for money and improving learning.

Box 2: DFID's Results Framework

Under DFID's Results Framework, DFID set itself the target of reaching 60 million people around the world with sustainable access to clean water and sanitation. The Results Framework was a tool used by the department in the 2011 to 2015 period to communicate to the UK Parliament and taxpayers the scale of its investments and whether they were reaching the intended beneficiaries. Most of its indicators measured outputs – for example, the number of water points constructed – rather than the changes the investments made to people's lives. ICAI has on a number of occasions expressed concern that using output indicators to communicate results might create unhelpful incentives, encouraging staff and partners to focus on what can be counted, rather than what matters to the intended beneficiaries.

DFID informs us that its new result framework, due for publication in 2016, will address this concern by combining output indicators with strong narrative reporting on qualitative results at country and portfolio levels.

An exciting review pipeline

Over the course of the year, we launched another five major reviews, which are due to report in the coming months. The research on these reviews has taken us to ten developing countries – Bangladesh, China, India, Kenya, Mozambique, Rwanda, Somalia, Tanzania and Zimbabwe – to receive feedback from stakeholders and collect evidence on the impact of UK aid. An overview of these five reviews is detailed below:

- **UK aid's contribution to tackling international tax avoidance and tax evasion** explores DFID's efforts to influence the reform of international tax standards so that they benefit developing countries. Working closely with HM Treasury and HM Revenue and Customs (HMRC), DFID has tried to influence G8 and G20-led efforts to improve transparency and international cooperation in the fight against tax avoidance and evasion. The review also looks at how DFID has used centrally managed programmes to help developing countries implement international tax standards, working in partnership with HMRC. While DFID's spending in this area is relatively small, we chose this topic as an example of DFID's working 'beyond aid' to promote international development through changes to international rules and standards.
- **DFID's approach to managing fiduciary risk in conflict-affected environments** is a study of how well DFID manages funds in some of its most challenging operating environments. Having committed to spending at least half of its budget in fragile states and regions, DFID's ability to manage funds effectively in insecure environments, where corruption and the risk of aid diversion are high, is a key value for money question. DFID states that it has both a high risk appetite in pursuit of its objectives and zero tolerance for fraud and corruption. The review explores the practical implications of these commitments and how well they are implemented.

- **Accessing, staying and succeeding in basic education – DFID's support to marginalised girls** is a performance review under our 'leave no one behind' theme. Over the past decade, DFID has made major investments in expanding access to basic education in its partner countries. However, marginalised girls – including those living in remote rural areas or urban slums, members of minority communities or those living with disabilities – are among those most likely still to be out of school. They are more likely to drop out of school early and less likely to achieve a quality education. This review explores how well DFID goes about identifying the barriers to access, retention and learning for marginalised girls and addressing them through its education programmes.
- **The role of cash transfers in reducing poverty and vulnerability** is an impact review assessing what results DFID has achieved through its use of cash transfers. These are an increasingly important type of aid intervention, serving as a recovery from humanitarian emergencies and as a safety net for the poorest. In the period 2010 to 2015, DFID claims to have reached 9.3 million people with cash transfers across 14 countries. In this review, we explore the results of this form of assistance, looking at whether the recipients have been lifted out of poverty and the progress that DFID has made in supporting its partner countries to develop sustainable national social protection systems.
- **When aid relationships change: DFID's approach to managing exit and transition** is a study of how DFID's relationship with countries changes once they are no longer priorities for bilateral aid. In recent years, DFID announced an end to bilateral or financial aid to a number of countries, including China, Vietnam and India. These traditional forms of aid may be replaced by new kinds of development partnerships, based on knowledge sharing or collaboration on global challenges such as climate change. In the process, DFID often passes the baton on to other UK government departments to lead the relationship. In this performance review, we explore how well DFID manages these transitions, so as to lock in past achievements and build platforms for new kinds of cooperation.

Follow-Up of ICAI Year 4 Reports

Introduction

Each year, we conduct a follow-up assessment of ICAI reviews from the previous year. The process is an important link in the chain of accountability, providing the International Development Committee (IDC) and other stakeholders with an account of whether DFID, or other responsible departments, have taken action in response to ICAI's concerns. It also provides us with an opportunity to become aware of new developments and emerging issues across the UK aid portfolio, which we can address in future reviews.

This year, we followed up on nine ICAI Year 4 reports published in 2014-15. Our follow-up of *How DFID Works with Multilateral Agencies to Achieve Impact*, also published in 2014-15, was postponed until next year due to the delay in the completion of DFID's Multilateral Aid Review.

In this chapter, we summarise the most important findings from our follow-up reviews, organised thematically. Summaries of each individual follow-up review are included in the annex.

Table 1: ICAI reviews followed up

Review Title	Date of Publication
Follow Up Report Year 1, 2 and 3	June 2015
DFID's Approach to Delivering Impact	June 2015
Business in Development	May 2015
UK Development Assistance for Security and Justice	March 2015
A Preliminary Investigation of Official Development Assistance Spent by Departments other than DFID	February 2015
Assessing the Impact of the Scale-Up of DFID's Support to Fragile States	February 2015
Rapid Review of DFID's Smart Rules	December 2014
The UK's International Climate Fund	December 2014
DFID's Approach to Anti-Corruption and Its Impact on the Poor	October 2014

The process involves assessing DFID's management response to each review, whether its management actions were an adequate response to the recommendations and what progress has been made on implementing them. Our judgment of DFID's response is based on consultations with DFID stakeholders, including policy leads in the UK and country office staff. This was accompanied, where applicable, by a review of supporting documents. Each follow-up review culminates in a formal meeting between ICAI Commissioners and the senior civil servant responsible at DFID to discuss DFID's response and to hear their reflections on developments since the ICAI review.

Our follow-up work is generally limited to reviews from the previous year. An exception to this is where ICAI identifies unresolved issues that we consider to be of strategic importance, thus requiring further scrutiny. This year we have identified three outstanding issues from Year 4 reports that we believe warrant further investigation as part of next year's follow-up process.

This has been a year of considerable change for DFID and UK Overseas Development Assistance (ODA). In preparation for the Spending Review and the allocation decisions that accompanied it, DFID carried out a series of reviews of its own business processes. Some of these, such as the Bilateral and Multilateral Aid Reviews, are still underway at the time of writing this follow-up review. This was fitting, as many of our Year 4 reports and recommendations proved to be useful inputs into DFID's process reviews. However, it is clear that ICAI is only one influence among many in this context. In this summary, our purpose is to draw attention to positive developments that have occurred since our reviews, without necessarily claiming them as a result of ICAI's work.

Key findings from our follow-up reviews

DFID's management processes and the results agenda

A number of Year 4 ICAI reviews made recommendations with respect to DFID's business processes. The review of *DFID's Approach to Delivering Impact*, for example, looked at the various tools and techniques that DFID used to manage results, assessing whether they encouraged a clear focus on achieving meaningful impact for the intended beneficiaries. At the corporate level, it looked at DFID's Results Framework and country operational plans, while at programme level it considered the use of business cases, logical frameworks, theories of change and annual reviews.

In 2014, DFID launched its Smart Rules. These set out to establish a simpler, more principles-based approach to programme management. Our *Rapid Review of DFID's Smart Rules* was a desk-based exercise to assess whether the Smart Rules were likely to succeed in streamlining project management and whether they addressed the implementation challenges that ICAI had identified to date.

The two reviews acknowledged the efforts that DFID had made over a number of years to improve accountability for results, particularly through the use of quantitative measures. They also acknowledged DFID's efforts to reduce the burden of compliance in programme management. They found that some of DFID's tools for measuring results had resulted in the unintended effect of focusing on short-term deliverables rather than long-term, transformative impact. This included an approach to value for money that focused on maximising efficiencies in delivery, rather than encouraging the long-term, context-sensitive and flexible engagements that ICAI believed were essential to achieving real impact.

ICAI's analysis was widely debated within DFID, including in the Programme Cycle Committee, which is responsible for the Smart Rules. It also proved timely. Over the past year, DFID has reviewed and redesigned some of its core business processes in preparation for the recent Spending Review. Most of these reforms are still in progress, making it too early to assess their significance. However, our follow-up assessments found that there had been some important developments, many of them moving in the directions encouraged by ICAI.

- **New thinking on results measurement**: Over a number of reviews,[1] ICAI has expressed concerns about DFID's Results Framework (DRF),[2] which measures the department's global results in a number of priority areas. The DRF relies on reach indicators, which measure the numbers of people reached by DFID programmes. Results at this level can be added up across multiple programmes and countries, giving the public an indication of the scale of the UK's ODA. However, ICAI was concerned that DFID presented a misleading picture of what mattered to them, at times creating unhelpful incentives for staff and implementers. At the time of writing, DFID is preparing a new departmental results framework. This will include more qualitative reporting, in order to provide a more complete picture of DFID's results. The new departmental results framework will be a focus of future follow-up reviews.
- **Strengthening programme management:** Since our *Rapid Review of DFID's Smart Rules*, DFID's Smart Rules have continued to evolve under the guidance of the Programme Cycle Committee. There has been progress in delegating authority to Senior Responsible Owners (SROs), the individual staff members who are accountable for individual programmes. A number of our interviewees, including members of DFID's Quality Assurance Unit, expressed the view that the quality of annual reviews had improved as a result of closer engagement by SROs. This addresses a persistent concern in past ICAI reviews and we will have an opportunity to assess this further in forthcoming reviews. DFID has recently adopted a new risk management and assurance framework[3] and is in the process of strengthening risk management through the programme management cycle. However, its approach to value for money – admittedly a technically challenging area for many types of development assistance – is still poorly articulated. DFID is yet to develop clear methods for measuring and monitoring value for money in its programmes. We are concerned that the simplification of DFID's internal programme management rules has not been mirrored in the way DFID manages its implementing partners. We continue to receive feedback to the effect that the administrative burden of implementing DFID programmes is now higher than for many other donors.[4]

1. See, for example, *Review of UK Development Assistance for Security and Justice*, paras 3.16-21, link; *Assessing the Impact of the Scale Up of DFID's Support to Fragile States*, paras 4.28-4.35, link; *DFID's Private Sector Development Work*, paras., 2.117-120, link; *DFID's Contribution to the Reduction of Child Mortality in Kenya*, paras 2.90-93, link.
2. *DFID's Results Framework: Managing and reporting DFID results*, DFID, 2011, link.
3. *Smart Rules: Better Programme Delivery*, DFID, Version V, April 2016, pp. 16-18, link.
4. This was noted in our review of DFID's funding of civil society organisations: *DFID's Support for Civil Society Organisations through Programme Partnership Arrangements*, ICAI, May 2013, paras. 2.82-85, link.

- **Institutionalising beneficiary feedback:** The importance of engaging the intended beneficiaries – that is, men and women from poor and marginalised communities in developing countries – in programme design, implementation and monitoring has been a recurring theme through many ICAI reviews.[5] The fact that quality of engagement is often a key factor in achieving sustainable impact was reinforced in the *Impact Review*. In recent years, DFID has made significant progress in institutionalising beneficiary feedback. It is now one of the principles of the Smart Rules, supported by a range of guidance and training material. We have also encouraged DFID to consider how its techniques for engaging beneficiaries in programme management relate to its promotion of social accountability and community empowerment in service-delivery programmes, as these are not currently designed to be mutually reinforcing.
- **Adaptive programming:** In both *DFID's Approach to Delivering Impact* and the review of *UK Development Assistance for Security and Justice*, ICAI communicated its concern that DFID programmes were designed in too rigid a manner to enable learning and adaptation over the life of a programme. It suggested moving towards programmes that could be adjusted in real time in response to lessons learned. In its 2013 *End-to-End Review*,[6] DFID itself reached similar conclusions. Since then, DFID's Better Delivery Team has been exploring possibilities for introducing more flexible and adaptive programming, including by way of multiple pilots. Experience suggests that this may be easier in small programmes rather than in larger ones. In the latter, the need to hold implementers to account tends to hinder flexibility.
- **Payment by results (PBR) contracting:** In the *Impact review*, we commented on DFID's increased use of PBR contracts, where part of the payment is made to implementers only after the achievement of certain agreed-upon results. While this approach to procurement has the potential to improve performance incentives, ICAI also pointed out various risks that needed to be carefully managed. DFID has now prepared new guidance on PBR contracting that substantially addresses ICAI's concerns – although there are likely to be some significant implementation challenges ahead. We plan to review DFID's use of PBR contracting in detail in a forthcoming review.
- **Improved management information:** In *DFID's Approach to Delivering Impact*, we noted that increased use of centrally managed programmes in areas such as immunisation and girls' education was creating coordination challenges with country-based programmes. The IDC had also expressed concern that DFID was unable to generate a comprehensive picture of its spending in any given country across its various delivery mechanisms.[7] Since then, DFID has made important progress in improving its management information systems. The new Aid Management Platform, while still at an early stage of development, has the potential to generate a more complete picture of activities and expenditure in individual countries and to support portfolio management. It will support better programme management by providing information to the responsible managers at the right time. In due course, DFID plans to integrate results data into this Platform, which will open up a range of new possibilities, particularly around transparency.

These initiatives are still at an early stage. We will have opportunities to examine their effectiveness in forthcoming reviews, as they are relevant to the core issues that we intend to explore across our review programme.[8] In particular, we will continue to take a close interest in DFID's progress on strengthening its approach to learning, value for money and risk management throughout the programme cycle. We will also be looking at coordination across different delivery channels – which we see as a growing challenge – as well as on how results are defined, aggregated and reported at country, sector and departmental levels.

5. See, for example, *DFID's Education Programme in Nigeria,* paras 2.55-61, link; *DFID's Support to Agricultural Research,* paras 2.21-29, link; *How DFID Learns,* paras 2.102-104, link.
6. This review was not published, but some useful commentary on it can be found here.
7. *Recovery and Development in Sierra Leone and Liberia,* International Development Committee, September 2014, link.
8 These are: financial and risk management; programme delivery; the quality and use of evidence; gender and equality; working with and through others; and cross-government working. For more detail, see the ICAI website: link.

Working in fragile states

In 2010, the UK government committed to spending 30% of its aid programme in countries affected by conflict and fragility ('fragile states'). At a time when the total aid programme was increasing, this required a rapid scale-up of assistance in some of the world's most challenging contexts. The ICAI review *Assessing the Impact of the Scale-up of DFID's Support to Fragile States* looked at the management of the scale-up and whether it delivered a commensurate increase in results for the intended beneficiaries.

Five years on, under the *Strategic Defence and Security Review*,[9] DFID has committed to spending 50% of its budget in fragile states. This is not expected to lead to a major shift in funding (DFID informs us that it may already be above that target). However, it does reaffirm that DFID's effectiveness as a development agency now depends substantially on its capacity to operate in difficult environments. The *Fragile States* review offered a number of suggestions for how it could strengthen that capacity.

DFID responded constructively to the recommendations in a number of areas:

- **New peacebuilding and state-building framework:** DFID is in the process of developing a new strategic framework for engaging with conflict and fragility. Its previous framework from 2010[10] stressed the importance of building the capacity of the state to deliver public services, in order to strengthen its legitimacy. Subsequent research questioned the causal links between service delivery and state legitimacy,[11] prompting DFID to rethink its approach.
- **Strengthening multilateral engagement:** Both the World Bank and the African Development Bank will go through replenishments in the coming months, where they negotiate their funding for the next three years with bilateral donors. DFID has committed to using its influence as a major donor to both institutions to encourage them to increase their allocation of resources to fragile states, and to strengthen their capacity to operate in fragile contexts.
- **A new strategic risk management system:** Risk management has been recognised by DFID's Internal Audit as an area of weakness in its business processes.[12] Risk management is particularly important in fragile states, where delivering long-term results requires a careful balance of risk and return. DFID's new risk and assurance framework, added to the Smart Rules in April 2016, should help with maintaining that balance across country portfolios.[13]

DFID disagreed with our recommendation for more detailed guidance on working in fragile states. It argued that this is now DFID's core business, rather than the exception. While this is a reasonable position, it has far-reaching implications that DFID is still working through. If it is to deliver on its commitment under the *Strategic Defence and Security Review*, DFID will have to learn not just how to deliver standard development programmes in fragile contexts, but also how to tackle fragility and conflict more directly, including in partnership with other government departments. When released, the 2016 set of country operational plans will provide us with an indication of whether DFID's 50% spending commitment amounts to a new approach to addressing fragility.

DFID has also committed to increasing its focus on promoting economic growth. This commitment is equally relevant in fragile states, but more difficult to deliver. We will be interested to see how DFID adapts its private-sector development portfolio for fragile contexts – for example, through the use of guarantees and insurance products that encourage private-sector investment.

We will also keep an eye on how DFID is matching its spending commitment with its staffing. Our *Fragile States* report noted the difficulties that DFID had faced in deploying enough staff with the right skills into difficult environments, especially given the practice of rotating UK-based staff regularly. If fragile states are now DFID's normal operating environment, it will need to find ways of overcoming these challenges.

9. *National Security Strategy and Strategic Defence and Security Review 2015: A Secure and Prosperous United Kingdom*, HM Government, November 2015, link.
10. *Building Peaceful States and Societies: A DFID Practice Paper*, DFID, 2010, link.
11. *Zaum, Dominik et al, Building Peaceful States and Societies – A Critical Assessment of the Evidence, research commissioned by DFID,* forthcoming.
12. DFID's Internal Audit Department concluded: *"DFID does not have systematised risk management." Assurance Review of Risk Management*, DFID Internal Audit Department, 3 December 2014, p. 4.
13. *Smart Rules: Better Programme Delivery*, DFID, Version V, April 2016, pp. 16-18, link.

Our review of *UK Development Assistance for Security and Justice* examined an area of programming that is particularly important in fragile contexts. It found that DFID security and justice programming is based on a standard menu of interventions that is not founded on a strong track record of success. It recommended that DFID re-examine the evidence base on what works and refresh its guidance on security and justice programming. DFID partially accepted both recommendations and has taken some steps towards implementing them. However, we heard concerns from DFID staff that DFID risks losing 'thought leadership' in this area, both across the UK government and internationally. At a time when more UK departments and agencies are involved in delivering security and justice assistance under the Conflict, Stability and Security Fund, it is important that DFID can bring evidence on what works into cross-government decision making. To do this effectively, it will need to ensure that its security and justice portfolio is properly resourced at the central level.

Looking forward, ICAI is concerned at a lack of clarity about the roles of DFID and the Conflict, Stability and Security Fund (CSSF) in this area. A shift of security and justice programming into the CSSF might result in a clearer strategic focus and a more joined-up approach by the UK government. However, it might result in a shift away from community-justice initiatives, particular for women and girls, which the ICAI review found were delivering promising results.

The private sector and development capital

The report on *Business in Development* reviewed how well DFID works with business, both in private-sector development and other areas such as health and education. It suggested a range of measures that DFID could take to strengthen its business partnerships.

Since then, there have been a few positive developments. DFID's Inclusive Growth Diagnostic – an analytical tool used to inform country programming – now pays more attention to identifying the potential for partnering with business. There have also been improvements in DFID's management information systems, which may help to address some of the issues raised in the review.

Overall, however, DFID did not engage actively with our analysis or recommendations. It made it clear that 'business in development' is not a topic that resonated with it, in part because it is not a defined area of institutional responsibility.

In particular, DFID only partially accepted our recommendation on strengthening the capacity of its Investment Committee to oversee its growing development capital portfolio. Over the Spending Review period to 2020, DFID is required by Treasury to spend £5 billion of its budget in the form of 'financial transactions' – that is, investments that are recognised as an asset on DFID's balance sheet. To meet that requirement, DFID is rapidly scaling up its use of 'development capital' (loans, equities and guarantees). In light of that scale-up, we are concerned that DFID does not yet have adequate governance structures in place for such a large and complex portfolio, despite its recent appointment of additional non-executive members from the private sector to its Investment Committee. We plan to take another look at this issue in a year's time.

Anti-corruption

The report on *DFID's Approach to Anti-Corruption and its Impact on the Poor* was ICAI's second look at the anti-corruption space, focusing this time on poor people's experience of corruption. It recommended various ways in which this part of DFID's anti-corruption work could be strengthened. DFID responded positively to the recommendations in a number of areas. For example, it is now revising its country-level anti-corruption and counter-fraud strategies. It has also launched a number of research programmes that explore poor people's experience of corruption.

Independently of the ICAI report, the UK has launched a major cross-government push on anti-corruption. There is a UK Anti-Corruption Plan of Action, supported by a cross-government Anti-Corruption Unit based in the Cabinet Office. There is a new focus on changing the rules of the international financial system so it is less conducive to corruption and money laundering, together with a commitment to reducing the access of corrupt officials to UK financial institutions. A number of new international initiatives were launched at the Anti-Corruption Summit in London in May 2016.

This focus on the international financial system is an important emphasis for the UK aid programme, which we will follow with interest. We also note that the Strategic Defence and Security Review pledges to put anti-corruption 'at the heart of our development relationships'.[14] This is an ambitious commitment, applying not just to programming but also to the UK's policy dialogue with developing countries. The Anti-Corruption report expressed concern that DFID may be reluctant to take a strong stance on corruption in its dialogue with partner countries, for fear of compromising its relationships with the host government.[15] Making good on this commitment may therefore involve a significant change in approach, both for DFID country offices and other UK departments.

The International Climate Fund and non-DFID ODA

The International Climate Fund (ICF) is the UK's main instrument for financing action on climate change in developing countries. Our review, The UK's International Climate Fund, reviewed the ICF's work at the international, national and programme levels, including whether it had succeeded in catalysing global action on climate change. We made a range of recommendations as to how management structures and processes could be strengthened to maximise impact. The three responsible departments – DFID, the Department of Energy and Climate Change and the Department for Environment, Food and Rural Affairs – responded well to the recommendations. Some of the key changes that have been made are:

- A shift towards more strategic management of the portfolio by the ICF Board.
- The adoption of DFID's usual programme management processes for ICF projects, which should enable the mainstreaming of climate change-related programming across the department.
- A stronger focus on monitoring, evaluation and learning across the ICF portfolio.

The ICAI recommendations proved timely, feeding into the design of the next iteration of the ICF, to be launched in 2016. They are also relevant to the government's decision under the *Aid Strategy*[16] to create a number of large, new cross-government funds and programmes, including the Prosperity Fund and the Global Challenges Research Fund (see chapter 3 for more detail). The ICF is now the most mature of these cross-government funds and programmes, in terms of joint governance structures and the quality of collaboration between the three departments involved, and should be a good source of lessons for others to draw on.

The *Aid Strategy* also announced changes in the distribution of UK aid across departments. In 2014, ICAI carried out *A Preliminary Investigation of Official Development Assistance Spent by Departments Other Than DFID*, to explore this changing picture. We have repeated this exercise this year (see next chapter). Our 2014 investigation made a single recommendation to DFID, to include more information on the main categories of non-DFID aid in its annual statistics on international development. DFID responded to our suggestion in its *Statistics on International Development 2015*.[17] However, the rapid scaling up of non-DFID aid will open up new challenges for monitoring and evaluation, accountability and transparency, so we will be keeping this area under review.

Follow-up to ICAI's earlier reports

As it neared the end of its first phase, ICAI decided to carry out an extended follow-up exercise, covering 22 of the 35 reports from its first three years. It found that DFID had taken action to address the great majority of ICAI's recommendations, but noted a number of outstanding issues, on which it made a further seven recommendations.

The report paid particularly attention to the education portfolio, which had been addressed in four separate ICAI reports. It noted DFID's progress in shifting the focus of its education portfolio from boosting primary school enrolment to improving learning outcomes. It suggested that DFID build on this progress in a number of areas, including:

- Encouraging its partner countries to set long-term plans for improving educational attainment, including through teacher training.
- Addressing regional inequities in education budgets.
- Using performance data to promote local accountability.

14. *National Security Strategy and Strategic Defence and Security Review 2015: A Secure and Prosperous United Kingdom,* HM Government, November 2015, para. 6.13, link.
15. Paras. 2.22-24, link.
16. *UK aid: tackling global challenges in the national interest,* HM Treasury and DFID, November 2015, link.
17. *Statistics on International Development 2015,* DFID, 2015, Annex 3, pp. 22-25, link.

DFID welcomed these suggestions and was able to point to programmes in a number of countries where they were being pursued. It has also launched a new £27 million research programme on education systems.

More broadly, we see an emerging tension in the education portfolio between DFID's goal of improving education outcomes, including by expanding its engagement in secondary and pre-school education, and the need to deal with the remaining caseload of out-of-school children. We will be interested to see how DFID balances these competing goals, which may call for quite different policies and interventions.

One of DFID's agreed management actions was to adopt a new Learning Strategy, by summer 2015. This has been put on hold, pending the completion of other initiatives, but DFID is now developing a strategic framework for learning which draws on the work of different business areas. The remaining recommendations have all been dealt with satisfactorily.

Based on this follow-up review, we conclude that the recommendations from Year 1, 2 and 3 reports have either been satisfactorily addressed or are being taken up by our future work programme. We have therefore notified DFID that it has no further monitoring and reporting obligations in respect of those reports.

Issues requiring further follow-up

In this year's follow-up, we introduce an innovation to the process. Of the points we have noted as outstanding from the Year 4 reports, we have identified three as requiring further attention. These will be subject to a second follow-up review next year, as part of our annual follow-up exercise. We will ask DFID to report to us on progress in these areas by the end of 2016, and we will assess its response through the usual process.

The three outstanding issues are as follows:

1. **Governance of the Development Capital portfolio:** We will revisit the emerging governance and management arrangements for DFID's Development Capital portfolio, to see if they are robust enough in light of the planned scale up.
2. **The 'refreshed' security and justice approach:** We will review DFID's forthcoming security and justice approach paper to assess whether it represents a new approach, and explore the emerging roles of DFID and the CSSF in the security and justice portfolio.
3. **The new DFID results framework:** We will explore the design of DFID's new departmental results framework and how it fits into wider processes for aggregating and reporting on results.

Conclusions

The Spending Review has provided DFID with the opportunity to review many of its core management processes. ICAI's Year 4 reports made a number of pertinent suggestions to guide these changes. The Impact Report, in particular, summarised learning from across ICAI's phase one reports and suggested how those lessons could be built into DFID's tools and business processes. For the most part, DFID responded constructively to these suggestions, either by implementing the recommendations or looking for alternative ways of addressing ICAI's concerns.

Most of these changes, however, are still in the pipeline or at an early stage of implementation. It is therefore premature to assess what difference they might make. Furthermore, these are not issues that can be resolved once and for all, but will call for constant attention as the aid programme evolves. We will therefore be keeping a close eye on many of these issues in our future reviews.

The Changing Profile of UK Aid Spending

ICAI has a mandate to scrutinise the effectiveness and value for money of all UK aid, irrespective of spending department. In 2014, ICAI took stock of the changes underway in the share of Official Development Assistance (ODA) spent by departments other than DFID. At that time, 86% was spent by DFID. Under the Spending Review for 2016 to 2020, the picture is set to change significantly.

Aid spending by other departments will scale up rapidly in the coming years, from around £1.7 billion in 2015 to a projected £4 billion by 2020. For a number of departments, including the Department for Business, Innovation and Skills (BIS) and the Department of Health (DH), this will mean a dramatic increase to the size and complexity of their aid budgets. The government has also announced the creation of a number of large, cross-government funds and programmes, in what amounts to a major redesign of the UK aid architecture. By 2020, it is expected that more than 25% of UK aid will be spent by departments or funds outside DFID.

In line with our mandate, we are committed to keeping a close eye on this changing profile of UK aid spending and to making sure it is covered effectively in our programme of work. As noted in a recent Public Accounts Committee report,[18] public spending in general is gaining in complexity and it is essential that scrutiny arrangements keep pace, in order to hold government to account. To that end, we have conducted an updated mapping of non-DFID ODA.[19] This will inform an increasing focus on non-DFID aid spending throughout our review programme.

Because there is relatively little in the public domain at this point about the changes that are underway, we have summarised them here for the benefit of those interested in following these developments. This exercise was undertaken before the recent EU Referendum, and we also note that the allocation of funds across departments and cross-government funds is still provisional and subject to change.

Aid allocation under the Spending Review

In 2015, the government's commitment to spending 0.7% of gross national income on aid, based on a target adopted by the United Nations in 1970, was written into law.[20] The UK aid programme therefore grows in parallel with economic growth. Based on projections by the Office for Budgetary Responsibility, it will increase by around £3.5 billion over the life of this parliament, to £15.8 billion in 2020.[21]

The Treasury has provisionally allocated the aid budget across departments. Funds were allocated through a competitive process, with departmental 'bids' assessed by a 'Challenge Panel' of Treasury officials and representatives of the Major Projects Authority.[22] At this stage, the allocations remain provisional. The departments are required to produce plans for how they will use their allocated aid budget by September 2016. These plans will be assessed by the Treasury.

Although we have seen these provisional allocations, they are not yet in the public domain, and cannot, therefore, be included here. We hope that the government will release them in the coming months.

A growing percentage of UK aid will be allocated by two cross-government funds – the Conflict, Stability and Security Fund (CSSF) and the Prosperity Fund. Other departments (including DFID) can bid for access to these funds. There are three other major cross-government aid instruments: The International Climate Fund (ICF) (now entering its second phase with a substantially increased budget), the Global Challenges Research Fund and the Ross Fund for medical research.

18. *Accountability to Parliament for taxpayers' money, Public Accounts Committee, Thirty-ninth Report of Session 2015-16,* May 2016, link.
19. This is an update to a mapping exercise we conducted in 2014: see *A preliminary investigation of Official Development Assistance (ODA) spent by departments other than DFID,* ICAI, February 2015, link.
20. *International Development (Official Development Assistance Target)* Act 2015, link.
21. The Spending Review announced that aid would be £16.3 billion in 2019-20. The March 2016 budget reduced this by £650 million. *Spending review and autumn statement 2015: Policy paper,* HM Treasury, 2015, section 4.4, link; *Budget 2016,* HM Treasury, March 2016, p. 23, link.
22. *The 2015 ODA allocation process: An information note for the International Development Committee,* ICAI, December 2015, para. 3.4, link. The Major Projects Authority is an agency that works with Treasury and other departments to provide independent assurance on major projects: link.

Among the departments, the Foreign and Commonwealth Office (FCO) will retain a large aid budget, and the Department of Energy and Climate Change (DECC) will be the main spender of ICF resources. BIS will have a dramatically increased aid budget, with a large proportion allocated to scientific research in support of global development. The DH aid budget will also grow rapidly, with a focus on tackling global health threats.

While aid funds will be more widely distributed across government, UK aid, for the first time, has been brought together under a common strategy. In the past, there were no common objectives for UK aid spending across government beyond the fact that it met the international definition of ODA.[23] Under an Aid Strategy published in November 2015,[24] all UK aid should now contribute to four objectives:

- Strengthening global peace, security and governance.
- Strengthening resilience and response to crises.
- Promoting global prosperity.
- Tackling extreme poverty and helping the world's most vulnerable.

The Aid Strategy commits the government to ensuring that all UK aid will represent good value for money in the pursuit of these objectives, drawing on the complementary skills available across government.

An Overview of non-DFID aid

The non-DFID aid programme consists of diverse activities; the dataset underlying the official 2015 aid statistics runs to some 5,000 items of non-DFID expenditure.[25] Following an ICAI recommendation,[26] DFID now helpfully includes a brief description of the activities of the various departments in its main statistical publication.[27] It nonetheless takes some effort to assemble a complete picture of what is going on from the available information. We find it helpful to distinguish between three categories of expenditure:

- Multilateral contributions
- Aid-eligible activities
- Aid programmes.

Within the latter category, we single out five major new cross-government aid funds and programmes, which between them will account for a significant proportion of the UK aid budget over the Spending Review period.

Contributions to multilateral organisations

Many of the international organisations to which the UK belongs require an annual contribution - usually based on the size of each member country's economy - which therefore changes only slowly. The OECD determines what share of the contribution to each organisation counts as ODA.[28] The contribution comes from the budget of the department responsible for that subject area – for example, the Department of Health for the World Health Organisation (WHO) or the Department for Work and Pensions (DWP) for the International Labour Organisation (ILO).

The non-DFID multilateral contributions came to £588 million in 2014, which is the last year for which we have full official aid data at the time of publication (DFID makes much larger multilateral contributions, which totalled £4.2 billion in 2014). Table 2 lists these contributions.

23. For the international definition of ODA, see the OECD Development Assistance Committee website: link.
24. *UK aid: tackling global challenges in the national interest,* HM Treasury and DFID, p. 9, link.
25. Available on DFID's website under the Statistics on International Development 2015: link.
26. *A preliminary investigation of Official Development Assistance (ODA) spent by departments other than DFID,* ICAI, February 2015, p. 1, link.
27. *Statistics on International Development 2015,* DFID, December 2015, Annex 3 Data Sources, link.
28. The list is available on the OECD-DAC website: link.

Table 2: Non-DFID core multilateral contributions in 2014

Multilateral agency	Contributing department or Fund	£ million
European Union (non-DFID share)	-	442
Peacekeeping contributions	Conflict Pool	67
Council of Europe	FCO	25
World Health Organisation	Health	11
United Nations	FCO	14
International Labour Organisation	DWP	8
Montreal Protocol Multlateral Fund	Defra	7
International Atomic Energy Agency	DECC	5
Organisation for Security and Co-operation in Europe	FCO	3
UN Environment Program	Defra	3
Commonwealth Foundation	FCO	1
International Organisation for Migration	Home Office	1
International Telecommunications Union	DCMS	0.4
Commonwealth Secretariat	DCMS	0.4
Total		**588**

Source: Statistics on International Development 2015, DFID, December 2015 link

Aid-eligible activities

Some departments spend money on activities in the course of their work that meet the international ODA definition because they advance the 'economic development and welfare of developing countries'. These are not aid programmes in the usual sense – they do not have business cases and there is no reporting on results. However, the expenditure nonetheless falls within the definition of ODA and is counted towards the overall ODA spending target.

The Ministry of Defence (MOD), for example, spent £2 million on aid-eligible activities in 2014 (only a fraction of a percent of the UK budget). It ran education courses and events at facilities such as the Royal College of Defence Studies. For such courses, where the participants are from developing countries and where the main purpose of the education is developmental rather than military (for example, a course on democratic control of armed forces), the cost is reported as part of UK aid. MOD's aid spending also included training navy personnel in how to deliver humanitarian aid, training civilian police in Afghanistan and conducting search and rescue operations for refugee boats in the Mediterranean. Where UK military forces are used to deliver humanitarian aid - as they were following Typhoon Haiyan in the Philippines in 2013 - the additional costs count as aid, although in such cases the funds are usually provided from DFID's budget.

The largest expenditure under this category is by the Home Office, for asylum seeker and refugee support costs, which ran to £202 million in 2015 (provisional figures) and are expected to increase in the coming years. This reflects the government's commitment to resettling 20,000 Syrian refugees over the life of this parliament, together with some planned additional capacity-building programmes and technical support. Though considered controversial by some, it is standard international practice to report the first-year costs of asylum seekers in donor countries as ODA.[29] Refugee support costs include cash allowances, accommodation, travel, public services and assistance with integration costs (excluding economic integration), for the first year.

The Home Office manages the Syrian Vulnerable Person Resettlement Programme, working with the Department for Communities and Local Government (DCLG), DFID and local authorities. Under this programme, local authorities that volunteer to accept vulnerable refugees can receive transfers from the aid budget to cover the associated costs.[30]

29. *Hynes, William and Simon Scott, The Evolution of Official Development Assistance: Achievements, Criticisms and a Way Forward,* OECD Development Co-operation Working Papers No. 12, 2013, link

30. *Syrian Vulnerable Person Resettlement (VPR) Programme: Guidance for local authorities and partners,* Home Office, October 2015, link.

The refugee crisis has had a significant impact on global aid flows. Between 2014 and 2015 total refugee support costs rose from £4.5 billion to £8.2 billion, reaching 9% of total aid. In 2015 Germany spent over £2 billion on refugees, or 17% of its aid budget, while Sweden spent £1.6 billion or 34% of its total aid.[31] The UN has warned against diverting aid funds from other purposes to respond to the refugee crisis.[32] For the time being, UK expenditure on refugees represents just 2% of UK aid. However, the government's April 2016 decision to resettle up to 3,000 vulnerable children and families from the Middle East and North Africa region[33] – an action recommended by the International Development Committee in December 2015[34] – will require further funds.

Box 3: In-country refugee support: a controversial inclusion in the international ODA definition

Historically, support for refugees was counted as ODA only when the refugees were located in developing countries. In 1988, the OECD Development Assistance Committee decided to broaden the ODA definition to include first-year support costs for refugees in donor countries. The rationale was that hosting refugees in donor countries was just as important a contribution and should be recognised as such. However, the decision was always a controversial one; some observers questioned whether money spent on refugees inside a donor country actually met the ODA primary purpose test of supporting the 'economic development and welfare of developing countries'. This nonetheless became standard practice.[35]

For many years, in light of the controversy, the UK did not report refugee support costs as ODA. According to DFID, it began to do so only in 2010, after the UK Statistics Authority pointed out that UK ODA statistics were inconsistent with international practice.

OECD directives also allow donors to claim the costs of voluntary repatriation of refugees back to developing countries.[36] This is a difficult category to define, as the boundary between voluntary and involuntary return is not always clear. The UK does not currently report repatriation costs as ODA.

Aid-funded programmes

The most substantial category of UK aid is aid-funded programmes, funded by one or more departments. An aid programme is a set of activities with defined developmental goals and beneficiaries. Some of the most important non-DFID aid programmes are summarised in Table 3. The FCO is at present the largest funder of aid programmes after DFID, with an overall aid budget of £423 million for 2015-16, followed by BIS, Defra and the Department for Culture, Media & Sport (DCMS).

31. *Development aid in 2015 continues to grow despite costs for in-donor refugees,* OECD Development Assistance Committee, April 2016, table 2, link.
32. *Louis Charbonneau, 'U.N. warns against cuts in development aid due to refugee crisis',* Reuters, 11 November 2015, link.
33. *New scheme launched to resettle children at risk,* Home Office News story, 21 April 2016, link.
34. *Syrian refugee crisis,* International Development Committee, First Report of Session 2015-16, December 2015, para. 63, link.
35. *Hynes, William and Simon Scott, The Evolution of Official Development Assistance: Achievements, Criticisms and a Way Forward,* OECD Development Co-operation Working Papers No. 12, 2013, link.
36. *OECD DAC Statistic Report Directives,* Line I.A.8.2.

Table 3: Major non-DFID aid programmes

Department and programme	Description	ODA funding[37]
Department of Energy and Climate Change		
International Climate Fund	Promoting mitigation and adaptation to climate change in developing countries	£2 billion 2016-21
Business, Innovation and Skills		
The Global Challenges Research Fund	Scientific research into developing challenges in developing countries	£1.5 billion 2016-21
The Newton Fund	Building science and innovation capacity in developing countries	£735 million 2014-21
Medical Research Council	Medical research grants relating to the needs of developing countries	£50 million in 2014
Ecosystem Services for Poverty Alleviation	Research into the links between ecosystems and development	£40.5 million 2009-17
Zoonoses and Emerging Livestock Systems	Research into the control of zoonotic diseases,[38] to protect both people and livestock	£20.5 million 2014-19
Department of Health		
Ross Fund	A basket of programmes on global health issues	£460 million 2016-20
Health research	Health research for developing countries	£450 million 2016-21
Health system strengthening	Support for the implementation of international health regulations and strengthening public health systems	£16 million 2016-21
Tobacco	International tobacco control programme	£15 million 2016-21
Foreign and Commonwealth Office[39]		
Strategic Programmes	A series of thematic programmes, grouped under categories of security, prosperity and diplomatic influence and values. These include the Human Rights and Democracy Fund,[40] which supports human rights and democracy in developing countries, and the Arab Partnership Participation Fund, which supports democratic reform in North Africa	£144.5 million in 2015/16
Aid-related frontline diplomacy	A share of the costs of FCO staff in developing countries to cover time spent supporting the aid programme. Staff report the time they spend on ODA-related objectives under each country business plan	£132.3 million in 2015/16
British Council	ODA-eligible proportion of the core grant to the British Council for promoting English language education and cultural relations. The British Council has a wide range of ODA-funded programmes, such as Active Citizens, which operates in 22 countries, equipping participants with the skills and knowledge needed to effect social change in their communities	£115.7 million in 2015/16
Bilateral Programmes	Small grants administered from diplomatic posts for a wide range of purposes	£21.3 million in 2015/16
Defra		
International Climate Fund	Promoting mitigation and adaptation to climate change in developing countries	£210 million 2016-21
Darwin Initiative	Protecting biodiversity in developing countries and UK overseas territories	£6.2 million in 2014
Illegal Wildlife Challenge Fund	Fighting the illegal wildlife trade	£13 million 2014-18
DCMS		
Cultural Protection Fund	Protection of cultural heritage in conflict zones	£30 million in 2016-20

Source: These are the largest non-DFID aid programmes, other than the cross-government funds: CSSF and Prosperity Fund. Budget figures were provided by the departments concerned, except where specific references are given. Where the programme is co-funded with DFID, the total budget is shown.

37. These totals include lifetime program budgets, where available; if not available, actual expenditure for 2014 is provided.
38. Those with the potential to cross from animals to humans.
39. As the FCO was unable to provide us with expenditure data, the figures below are planned ODA spend for financial year 2015-16 from the FCO's website: link.
40. From 2016/17, this has been renamed the Magna Carta Fund.

There are also a range of smaller non-DFID aid programmes that are underway or planned. HM Revenue and Customs spent £3.5 million in ODA in 2015 for capacity-building work with tax and customs administrations in developing countries. The Treasury also undertakes some capacity-building, while the Department for Transport (DFT) supports developing countries with aviation security.

Box 4: Some non-DFID aid projects at work

The Magna Carta Fund for Human Rights and Democracy is an FCO Strategic Programme that will invest £10.6 million in 2016-17 in the promotion of human rights and democracy.[41] It aims to further British interests overseas by tackling the root causes of human rights violations, strengthening institutions and governance, promoting and protecting human rights, and supporting democracy and the rule of law. Past activities include:

- Supporting the government of Rwanda in establishing a National Preventative Mechanism that monitors detention facilities throughout the country and prevents human rights abuses
- Funding a civil society organisation in Sudan to help citizen journalists highlight key social issues
- Supporting an NGO in Iraq to support 20 civil society leaders to defend freedom of religion and belief.

The Cultural Protection Fund, managed by DCMS, is a £30 million fund over four years (2016-20) which supports the preservation of antiquities and cultural artefacts in conflict zones. It supports the UK's commitment to the Hague Convention on the Protection of Cultural Property in the Event of Armed Conflict and has responded to international concern following the destruction of antiquities in Palmyra, Syria, and other places in recent years. The fund is managed by the British Council and works in partnership with UNESCO, the Red Cross and the British Museum. It has allocated its first grant of £3 million to a four to five year Iraqi Emergency Heritage Management Project, run by the British Museum, which will train 50 Iraqi archaeologists on the restoration of sites recovered from ISIS control.

Temple of Baal Shamin in Palmyra before its destruction in 2015

The Newton Fund, managed by BIS, has been given £735 million over seven years (2014-21) to invest in building science capacity in developing countries. It provides three types of support:

- ***People:*** education, training and leadership development for individuals.
- ***Research:*** research collaboration with UK institutions on development topics.
- ***Translation:*** strengthening processes and systems for innovation, by building partnerships, strengthening government agencies and developing entrepreneurial capacity.

Each activity that is financed must demonstrate both scientific excellence and the potential to contribute to economic development and social welfare. The funds are delivered through UK Research Councils and Academies and require matching contributions from partner countries. The Fund works mainly in middle-income countries such as China and Brazil. Examples of its work include:

- Collaborative research projects with China to identify new commercial solutions to development challenges in the areas of energy, healthcare, urbanisation and food production
- Developing a joint research network between India and the UK on sustainable cities and urbanisation
- Research partnerships between Mexico and the UK on nutrition and health.

Major new cross-government aid funds and programmes

Under the Spending Review, the government has earmarked funding for two cross-government funds and three major aid programmes.

For the two cross-government funds – the CSSF and the Prosperity Fund – various departments, including DFID, can bid for funding for relevant projects. The funds allocated are then managed by the recipient department according to its own rules and procedures. Both funds are accountable to the National Security Council (NSC) and managed by cross-government units based in the FCO.

41. Prior to 2016/17 it was called the Human Rights Fund.

The CSSF is the more established of the two, having launched in April 2015 as the successor to the Conflict Pool.[42] It funds conflict prevention and reduction around the world while also attempting to tackle threats to UK interests. It is an instrument for implementing NSC regional, country and thematic strategies. It combines both ODA and non-ODA funding, giving it the flexibility to support a wide range of interventions.

The CSSF budget will rise from just over £1 billion in 2015-16 to £1.3 billion in 2019-20,[43] with ODA currently making up approximately half of the budget. While the Conflict Pool was only open to FCO, the MOD and DFID, any department represented at the NSC may submit proposals to the CSSF. The NSC allocates funding against its strategies, and cross-departmental boards decide on programmes within those allocations. The CSSF is managed by a cross-government joint programme hub housed in the FCO, reporting to the National Security Secretariat. So far, there is relatively little information about the CSSF in the public domain; it has no website and the national security strategies it supports are not public documents.

The Prosperity Fund promotes economic reform and development in partner countries, focusing on a number of themes including the business climate and the finance and energy sectors. There was previously an FCO Strategic Programme with the same name, but the new Prosperity Fund is a more ambitious instrument, with £1.3 billion to spend over the Spending Review period.[44] Like the CSSF it accepts bids from individual departments, with funding decisions agreed by a cross-government Ministerial Board, in line with NSC country strategies where applicable. It is managed by a cross-government team hosted by the FCO, with staff drawn from a range of departments, including DFID and UK Trade and Investment (UKTI).

The Prosperity Fund is still at an early stage of development, but is expected to concentrate its resources in high-opportunity, ODA-eligible middle-income countries such as Brazil, China, India, Mexico, South Africa and Turkey, where there are opportunities for UK and international business. Alongside planned increases in DFID's use of development capital (loans, guarantees and equity investments), the Prosperity Fund is part of a wider rebalancing of UK aid towards economic development.[45]

Of the three large cross-government programmes with earmarked funding under the Spending Review, the Ross Fund and the Global Challenges Research Fund are new,¬while the ICF is now entering its second phase.

Table 4: Major cross-government programmes under the Spending Review

Fund or Programme	Purpose	Responsibility department	ODA budget
International Climate Fund	Climate change mitigation and adaptation (clean energy, resilience, forestry)	DFID, DECC and Defra	£5.8 billion 2016-21
Ross Fund	Promoting global public health through new responses to the most serious diseases in developing countries	Health and DFID	£1 billion 2016-20
Global Challenges Research Fund	Establishing UK science at the leading edge of addressing problems faced by developing countries	BIS	£1.5 billion 2016-21

Source: Treasury figures and other publications. ICF budget allocation includes 2020-21.

42. The Conflict Pool was reviewed by ICAI in 2012: *Evaluation of the Inter-Departmental Conflict Pool,* ICAI, July 2012, link.
43. *UK aid: tackling global challenges in the national interest*, HM Treasury and DFID, p. 13, link.
44. *UK aid: tackling global challenges in the national interest*, HM Treasury and DFID, p. 17, link.
45. *UK aid in a changing world: implications for ICAI,* ICAI, January 2016, para. 3.10, link.

The International Climate Fund was created in 2011 to meet the UK government's commitment to helping developing countries respond to the challenges and opportunities presented by climate change. In its first phase, between 2011 and 2016, it spent £3.87 billion. It worked in three thematic areas: clean energy, resilience and forestry. It also worked to catalyse other sources of climate finance internationally, with much of its funding spent through multilateral channels. The ICF was reviewed by ICAI in 2014, receiving a 'green-amber' rating for its overall performance.[46]

For the second phase of the ICF, the government has committed to providing £5.8 billion between 2016 and 2021, of which around £2 billion will be spent by DECC, £210 million by Defra and the remainder by DFID. It includes a £720 million contribution to the Green Climate Fund, a multi-country initiative that funds both public and private sector initiatives for mitigation and adaptation, with a focus on the most vulnerable countries.[47]

The Fund is managed jointly by the three departments through the ICF Board, with a joint secretariat based in DFID. Following recommendations from ICAI and other sources, the design of the second phase is stronger in a number of areas. This includes a more active approach to monitoring, evaluation and learning. This is probably the most mature of the large, cross-departmental aid instruments, with lessons to share with other funds and programmes.

The Ross Fund is newly established under the Spending Review, although it consists of a mixture of new and ongoing activities. It is a collection of DH and DFID programmes with a total budget of £1 billion over the Spending Review period, of which 46% will come from the DH. It will support global public health by developing, testing and delivering a range of new products and treatments to combat the most serious diseases in developing countries.

While it is still under design, its major areas of activity are expected to include research on anti-microbial resistance, bolstering the supply of new drugs and treatments for infectious diseases such as malaria and tuberculosis. It will contain a grant-making facility, the Fleming Fund, which will help to develop laboratory capacity in developing countries, as well as contributions to the WHO, the Food and Agricultural Organization and the World Organisation for Animal Health. There will also be research into neglected tropical diseases, such as guinea worm.

The Ross Fund will invest in improving global health security against future epidemics to address some of the weaknesses that became apparent during the West African Ebola epidemic. This will include establishing a UK Public Health Rapid Support Team – a team of public health experts that can be deployed quickly in response to new health threats.

Beyond the Ross Fund, the DH also has a number of other aid programmes under preparation, including:

- A £450 million programme over five years for health research for developing countries
- A £16 million programme over five years for supporting implementation of international health regulations and public health system strengthening
- A £15 million project over five years on tobacco control.

This amounts to an extremely rapid scale-up in aid spent by the DH over a short period – from just £11 million in 2014 to several hundred million by 2019-20. The department is now working to put in place the required governance and management structures.

The other large new programme is the Global Challenges Research Fund. It will spend £1.5 billion between 2016 and 2021 and will be managed by BIS, working through UK research councils, academies and other scientific bodies. Its purpose is to "ensure that UK research takes a leading role in addressing the problems faced by developing countries. This fund will harness the expertise of the UK's research base to pioneer new ways of tackling global challenges such as in strengthening resilience and response to crises; promoting global prosperity; and tackling extreme poverty and helping the world's most vulnerable."[48]

46. *The UK's International Climate Fund, ICAI,* December 2014, link.

47. For more details, see the Green Climate Fund website: link.

48. *The Allocation of Science and research Funding 2016/17 to 2019/20,* BIS, March 2016, p. 8, link.

For many years, BIS has been the conduit for aid funds to the Medical Research Council for research grants to UK universities on public health issues in developing countries (£50 million in 2014). The Global Challenges Research Fund, however, is more ambitious. BIS plans to expand its activities beyond medical research into other scientific disciplines, with collaboration across research councils to address more complex challenges. Planning is still at an early stage, and BIS is currently exploring what new governance and management structures this will require.

Areas of Interest to ICAI

This amounts to a dramatic change in the profile of UK aid spending. Several departments face rapid growth in the scale and complexity of their aid portfolios over a very short period. This advances the government's goal from the Aid Strategy of harnessing more UK expertise to address the challenges of global development. However, it also poses some risks for the effectiveness and value for money of UK aid, particularly during this period of rapid scale up of non-DFID aid.

Governance and accountability arrangements for many of these non-DFID funds and programmes are still emerging. As set out in the Aid Strategy, a cross-Whitehall group comprising directors from the main aid spending departments has been established to oversee delivery of the 0.7% spending commitment. With each department responsible to its own select committee, there is no single line of parliamentary accountability for the Aid Strategy, although discussions are underway on what oversight role the International Development Committee might have over the Strategy and the aid budget as a whole. So far, there is no standard format for departments and funds to report on their aid spending, which inhibits transparency.

ICAI has always had a mandate to scrutinise all UK aid, whichever department is responsible for the spending. In the past, we have reviewed the ICF, the Conflict Pool and other FCO programmes. Oversight of non-DFID aid will now become a much larger part of our work.

The Secretary of State for International Development is responsible for ensuring the independent evaluation of UK aid, to ensure that it represents value for money in relation to the purposes for which it is provided.[49] The Secretary of State has asked ICAI to contribute to this. To that end, we will keep a close eye on the risks associated with scaling up, while seeking to encourage effective collaboration and learning across departments and instruments. Over the coming years we will make sure that our annual work plans cover the different departments, programmes and funds to an appropriate level. We will also explore the use of shorter reviews and other scrutiny tools to facilitate this.

There are a number of areas that we will keep under particular scrutiny.

- **Promoting good aid practice:** A number of these departments are relatively new to the management of aid. In view of the pace of scale up, they will need to rapidly acquire new systems and capacities. DFID is offering them support in a number of areas, for example; making its procurement services available; running training sessions on the international ODA definition; and providing other advice and support. For our part, we will review whether programmes and activities are being selected in a strategic way, so as to maximise effectiveness. We will examine whether procurement and grant-making practices are sound and focused on value for money. We will assess whether departments have the right systems in place to monitor results, by monitoring achievements, assessing impact and generating lessons to inform continuous improvement. We will review whether departments are aware of, and are following, international standards on aid effectiveness, such as ensuring transparency, aligning with partner country preferences, engaging actively with stakeholders and creating opportunities for mutual accountability.

49. *International Development (Official Development Assistance Target) Act 2015,* section 5, link.

- **Ensuring UK aid remains focused on the poor:** There are risks that the growth in non-DFID aid may shift the balance away from low-income countries, for a number of reasons. The Prosperity Fund is likely to concentrate its resources in middle-income countries. The CSSF will follow priorities set by the NSC, with a view to addressing threats to UK interests. The increased funding for medical and other scientific research will go primarily to UK research institutions, with the benefits to poor countries realised over a lengthy period. Even within DFID, the scaling up of development capital and the need to respond to conflict in the Middle East and the global refugee crisis may bring about a shift of resources towards middle-income countries. While promoting global prosperity and addressing threats to international stability are legitimate uses of aid, we will keep a close eye on whether the various funds and programmes remain sufficiently focused on addressing global poverty, in keeping with the requirements of the International Development Act and the international ODA definition.
- **Promoting coherence and coordination:** With more departments involved in the delivery of aid, the challenges of coherence and coordination are magnified. It becomes more difficult to ensure consistency between UK aid objectives and UK policy positions in areas such as trade, migration or intellectual property. A number of areas seem to be becoming crowded, with a growing number of different actors and funding streams. For example, medical and scientific research will be funded through DFID, BIS and the DH, with more than £1 billion in annual expenditure by 2020. Some of the research funds and scientific capacity development programmes appear to have similar objectives and modalities. Care will have to be taken to avoid duplication and ensure the various funds or programmes complement each other. In the area of economic reform and development the government is currently developing country and sector business cases for the Prosperity Fund, sometimes in parallel to DFID's diagnostic and planning processes. In the area of conflict and security, DFID has pledged to spend half of its budget in fragile states,[50] raising a number of questions as to its division of labour and coherence with the CSSF. At present there is no central structure for coordinating the aid activities of different departments other than bilateral discussions between them. Through our reviews we will continue to explore the quality of cross-departmental working, with a view to promoting good practices.
- **Making effective use of knowledge and skills across government:** In the Aid Strategy, the government announced its intention to make better use of the skills available across government to address development challenges. Already, in areas such as tax administration, security and justice, specialist agencies within the UK are engaged in providing capacity-building support to their counterparts in developing countries. While this has the potential to be effective, good practice suggests that technical knowledge needs to be combined with knowledge of the country context and of successful capacity-building approaches. We will explore how well DFID and other agencies are working together to harness these different capabilities.
- **Ensuring impact:** Ultimately, all UK aid must achieve genuine impact for its intended beneficiaries in developing countries. Our task is to ensure that all UK aid, through any spending channel, maximises the return on the development investment by achieving sustainable results and good value for money. As these new programmes and funds become operative, we will carry out a rolling programme of reviews to ensure that they are delivering results for beneficiaries and value for money for the UK taxpayer.

50. *National Security Strategy and Strategic Defence and Security Review 2015: A Secure and Prosperous United Kingdom*, HM Government, November 2015, para. 5.11, link.

Management Structure and Commentary

On 30 June 2015, the term of the Phase I commissioner team ended. On 1 July 2015, a new team took up post, commencing Phase II of ICAI. At the same time, following a competitive tender that included an assessment of conflict of interest, the contractor consortium changed.

The commissioner team is now headed by a chief commissioner, Dr Alison Evans, and also comprises three commissioners – Francesca Del Mese, Tina Fahm and Richard Gledhill. All four commissioners are part-time. The biographies of the commissioners are published on the ICAI website.

ICAI has a small secretariat whose role is to support the commissioners, manage the work of the contractor on a day-to-day basis and liaise between the commissioners and Parliament, DFID, other government departments, the public, the media and other stakeholders.

The secretariat is headed by Andrea Baron and comprises civil service secondees and fixed-term appointees from outside government. The secretariat is based in Dover House, Whitehall, London.

The contractor consortium is led by Agulhas Applied Knowledge, a specialist international development consultancy. Agulhas is joined by Integrity, a development consultancy that specialises in working in complex environments, and by Ecorys, an international company providing research, consultancy and management services. Agulhas was also a member of the Phase I contractor consortium.

In the first year of Phase II we worked closely with the contractor consortium to build a productive working relationship, to forge a common sense of identity and purpose, and to agree common quality standards for ICAI reviews.

During the past year we have consulted widely on key themes and topics of importance for our work programme. We have developed a thematic structure to guide annual work planning. We have introduced a new review format with three types of review – performance, impact and learning – each with a distinct purpose and scope.

This new approach was developed in conjunction with the contractor consortium. Discussions continue on how best to develop ICAI's approach to reflect the new UK Aid Strategy.

Additionally, this year we have worked with the contractor consortium on the look and feel of our reviews to ensure accessibility while presenting evidence transparently and professionally. The secretariat developed a Style Guide and Brand Guidelines, and the contractor consortium has used new techniques, for example InDesign, to embed these new features into the reviews.

Where necessary we have taken steps to strengthen performance, and we will continue to do so throughout Phase II.

Corporate Governance

ICAI is an advisory, non-departmental public body, established in May 2011 to scrutinise all UK Official Development Assistance (ODA).

ICAI is sponsored by DFID but delivers its programme of work independently. It is accountable to Parliament's International Development Committee (IDC).

Our commissioners, who lead the selection process for reviews, were appointed after a competitive process overseen by the Office of the Commissioner for Public Appointments. They hold quarterly board meetings, the minutes of which are published on our website.

Our primary governance objective is to act in line with the mandate agreed with the Secretary of State for International Development, set out in our Framework Agreement with DFID.

The cross-government focus of ICAI's work was reiterated in the UK Aid Strategy, published in November 2015. This whole of government strategy included a commitment to sharpen oversight and monitoring of spending on ODA. ICAI is one of the principal means of conducting this scrutiny and ensuring value for money.

Triennial review update

In 2013, ICAI underwent a Triennial Review mandated by the Cabinet Office, which concluded that ICAI performed an essential function. The review also made recommendations to strengthen governance, including a stronger role for the IDC in approving our work plan.

As a result, earlier this year we consulted with the IDC on our work plan. The committee has formally approved our portfolio of work for 2016-17 (see Annex).

Risk management

Our approach to risk management is pragmatic. We identify and manage risks to an appropriate level, rather than attempting to eliminate all risk of failure to achieve policies, aims and objectives.

We have a corporate risk register, which captures strategic, reputational, programmatic and operational risks. In addition, a programme risk register documents the risks to specific ICAI reviews.

Both risk registers include an assessment of gross and net risk, mitigating actions and assigned risk owners. Risk is discussed regularly, including as a standing item at board meetings. Commissioners review risks in detail and formally approve the risk register.

Table 5 shows the high level risks ICAI currently faces and the actions we are taking to mitigate or reduce those risks.

Table 5: High level risks faced by ICAI

Risk	Risk Level		Mitigation Action	Revised Risk Level	
	Likelihood	Impact		Likelihood	Impact
Lack of available evidence leads to uninfluential reviews.	Medium	High	ICAI publishes and is transparent about its review selection criteria. ICAI publishes and is transparent about the methodological approach for its reviews. ICAI publishes and is transparent about its scoring approach and the scores it provides for its review questions. ICAI implements quality assurance processes throughout the review cycle.	Low	High
Realigning ICAI to the new Aid Strategy results in our resources being overly stretched.	Medium	Medium	ICAI will incorporate reviews of other government departments and cross-government funds within the existing resource envelope and proportionately to the distribution of ODA across government. ICAI will seek to review its budget allocation.	Medium	Medium
Lack of uptake of report findings results in low impact.	Medium	High	ICAI will produce engagement plans for each review, focusing on key areas of learning. ICAI reports will continue to require a management response and an IDC hearing, assuring dissemination of findings and accountability.	Low	Medium

Conflict of interest

ICAI takes potential conflict of interest, both actual and perceived, seriously. Our independence is vital for us to achieve real impact.

Over the past year we have updated our Conflict of Interest policy, and published it on our website. Additionally, we now update the Commissioners' Conflict of Interest Register every six months.

Any conflict of interest is managed in a transparent way and decisions are taken on a case-by-case basis. The specialist nature of our work, and the requirement for strong technical input, mean we need to weigh the risk of possible or perceived conflict against the need to ensure that high quality, knowledgeable teams conduct reviews.

Whistleblowing

ICAI's capacity to directly investigate concerns raised by the public is limited and is not part of our formal mandate. Last year we updated our Whistleblowing Policy and published the updated policy on our website.

In line with the Whistleblowing Policy, when we receive allegations of misconduct we either offer to put the complainant in contact with the investigations team of the relevant department, if appropriate, or with the investigations function of the National Audit Office.

Financial Summary

This section provides information on:

- the overall financial position of ICAI
- expenditure July 2015 to June 2016
- spending plans for the forthcoming year.

Overall financial position

ICAI has been allocated a budget of around £13.5 million for the current four-year period (April 2015 to March 2019). As reported in our previous Annual Report, we spent £1.1 million between April and June 2015, principally on finalising our remaining Phase I reviews. Consequently, we have a budget of around £12.4 million to spend from July 2015 to March 2019 on our Phase II programme.

Expenditure July 2015 to June 2016

Table 6 provides a breakdown of Phase II Year 1 (July 2015 to June 2016) expenditure. The table includes actual expenditure levels from July 2015 to March 2016, and spending forecasts for April to June 2016.

Between July 2015 and March 2016, ICAI spent £1.1 million. We anticipate spending a further £1 million between April and June 2016, meaning that over the course of the first year of the new phase, the commission will have spent £2.1 million. At the start of Phase II, we spent time revising our review methodology. Consequently, expenditure at the start of Phase II was less than was spent in the final year of Phase I and less than we anticipate spending over the July 2016 to June 2017 period.

Table 6: Expenditure July 2015 to June 2016

Area of Spend	Actual expenditure July 2015 to March 2016 (£k)	Anticipated expenditure April 2016 to June 2016 (£k)	Total predicted expenditure in ICAI Phase II Year 1 (£k)
Programme spend on Phase II year 1 reviews	581	781*	1,362
Programme spend on Phase II year 2 reviews	0	50	50
Total programme spending	581	831	1,412
Commissioner salaries	75	33	108
Commissioner expenses	4	3	7
Commissioner country visit travel, accommodation and subsistence	5	7	12
Commissioner training	1	1	2
Secretariat staff costs	377	130	507
Staff expenses	0	1	1
Staff country visit travel, accommodation and subsistence	3	4	7
Staff Training	2	1	3
ICAI accommodation and office costs	70	15	85
Total administrative spending	536	195	732
Total	**1,117**	**1,026**	**2,143**

*With two year 1 reviews to be published in the summer, not all the £781k will be spent by the end of June.

During the first full year of Phase II of the commission, we expect to spend £732,000 on administration (including staff and commissioner salaries, office accommodation, expenses and other miscellaneous activities). In subsequent years, the amount we spend on administration will rise. As the number of reviews increases, secretariat staffing levels will reach full complement and commissioners will devote more days to ICAI-related work. Over the four years of Phase II of the commission, we expect, to spend around £3.5 million of our £13.5 million budget on administration.

The commission's administration budgets will continue to be carefully managed to ensure that all expenditure contributes directly to meeting ICAI objectives.

ICAI spends most of its resources on reviews; full thematic reviews in Phase II Year 1 each cost approximately £300,000. A consortium of contractors supports us in delivering reviews. Table 7 sets out the cost of each Year 1 review.

Table 7: Cost of Phase II year 1 reviews

Phase II Year 1 review	Fees paid / to be paid to contractors (£k)	Contractors' expenses (£k)	Total cost of review (£k)
Water, sanitation and hygiene	265	44	309
Violence against women and girls	263	39	302
Tax	153	3	156
Fiduciary risk	251	48	299
UK Aid in a Changing World: Implication for ICAI	45	0	45
Allocation Note for IDC	29	0	29
Annual Report and Year 4 follow-up review	221	1	222

Where relevant, our reviews entail country visits. These take between one and two weeks, and require a number of team members. Visits to fragile states cost more than those to other countries. Phase II Year 1 reviews have involved six country visits.

ICAI spending plans for the forthcoming ICAI year

During the second year of Phase II of the commission, we will continue to strive to achieve value for money in the use of our budget. We will improve the way we conduct our studies to ensure that our approach mirrors best practice and delivers quality reviews cost-effectively.

Over the summer, we will work to finalise Phase II Year 1 reviews while commencing our extensive Year 2 programme. We will also scope a number of Year 3 reviews towards the end of his financial year. As a consequence of the increase in activity, we are anticipating spending £3.4 million during 2016/17: £2.6 million on programme costs and £0.8 million on administration to support programme delivery. This would leave approximately £3.4 million for each of the remaining two years of Phase II.

Key Performance Indicators

In April ICAI published its Corporate Strategy for 2015/16 to 2018/19, which introduced our key performance indicators (KPIs) for the first time.

The KPIs were established to ensure that the work of ICAI focuses clearly on achieving our overall vision of improving UK aid through robust scrutiny.

The KPIs, which are each linked to an ICAI corporate objective, also help Parliament and the public to assess our performance.

Additionally, we will continue to assess ourselves outside these parameters and welcome feedback from the public and stakeholders.

The financial year 2015/16 was a set-up year for Phase II of the commission. As our Corporate Strategy from 2015/16 to 2018/19 details, the first year will provide a baseline for tracking and reporting progress in subsequent annual reports.

Therefore, instead of attempting a comprehensive analysis against our KPIs in this Annual Report, in Table 8 we set out how we will monitor and report on our performance from 2016/17 onwards.

Table 8. Key performance indicators

Objective	Key performance indicator	Measurement criteria
Impact ICAI's work makes a positive difference to the impact and value for money of UK aid.	Proportion of ICAI recommendations taken on board.	Measured through our yearly follow-up process.
Effective accountability ICAI supports Parliament to hold government to account by producing a credible body of independent evidence on the effectiveness of UK aid.	Select Committee satisfaction with our work overall, and with our: • relevance to challenges for UK aid • quality of evidence base produced • independence of operations and reviews.	Measured through feedback from committee members and clerks.
	Publish between six and eight reviews a year, accompanied by approach papers to explain methodological approach.	Measured through number of reports published.
Effective learning ICAI contributes effectively to learning and the wider aid debate with government and other development stakeholders.	Broaden and increase our engagement with stakeholders to maximise impact.	Measured through number of events held every six months, and number of followers of the ICAI Twitter account every two months.
	Number of times reviews are read.	Measured by website views after each review.
	Number of times reviews are mentioned in media or social media.	Measured by media mentions up to two months after review publication and number of mentions on Twitter every two months.
Efficiency ICAI operates efficiently and with good governance.	Expand our range of products, as set out in the 2015/16 to 2018/19 Corporate Strategy, to reflect the dynamic context of development.	Measured by production of different styles of review.
	Manage our reviews within overall budget.	Measured by meeting our overall budget for the four year period of the current Commission.

This year we published five reviews: *UK Aid in a Changing World: Implications for ICAI*, *Allocation Note for IDC*, *VAWG*, *WASH* and Follow-Up (published as part of this Annual Report). Two additional reviews, which are part of this year's work programme, will be published this summer (Tax and Fiduciary Risk).

Additionally, this year we have introduced new types of review, publishing a Learning Review (VAWG) and an Impact Review (WASH) for the first time (meeting the first efficiency indicator). We have also managed our reviews within our overall budget (meeting the second efficiency indicator). For more information see the Financial Summary chapter of this report.

In future we will create baselines for each KPI using data gathered following the publication of our VAWG and WASH reports, for example, the number of website views of a review.

Annex 1: Follow-Ups to Year 4 reports

Each year, ICAI conducts a follow-up assessment of reviews published in the previous year. This year, ICAI followed up assessments of nine reviews published in 2014/15. Follow-up of a tenth report, *How DFID Works with Multilateral Agencies to Achieve Impact*, was postponed until next year, pending publication of DFID's Multilateral Aid Review, which has been delayed by several months.

Each follow-up involves assessing the adequacy of the management response by DFID or other responsible department, whether the proposed management actions were a sufficient response to the recommendations, and what progress has been made on implementing them.

Our follow-up methodology is a rapid exercise that involves consultations with the responsible staff at various levels, including DFID country offices where relevant, together with a review of supporting documents. Each follow-up review culminates in a formal meeting between the ICAI lead commissioner and the responsible senior official.

Table 9: ICAI reviews followed up

Review Title	Date of Publication
Follow up report Year 1, 2 and 3	June 2015
DFID's approach to delivering impact	June 2015
Business in Development	May 2015
UK Development Assistance for Security and Justice	March 2015
A preliminary investigation of Official Development Assistance spent by departments other than DFID	February 2015
Assessing the Impact of the Scale-up of DFID's Support to Fragile States	February 2015
Rapid Review of DFID's Smart Rules	December 2014
The UK's International Climate Fund	December 2014
DFID's Approach to Anti-Corruption and Its Impact on the Poor	October 2014

This has been a year of significant changes within DFID, with a series of major reviews and reforms as the department prepared for the Spending Review. It has proved to be a positive environment for ICAI recommendations to help shape wider changes. However, it makes it infeasible to attempt to attribute any particular change solely to ICAI. Here, we note areas of progress that move in the directions suggested by ICAI, without making any specific claim as to attribution. We also point out areas where we believe further action will be required in the future.

In this Annex, we summarise the findings from each of our follow-up reviews. We focus on the most important areas of progress or issues of concern, rather than providing a detailed analysis of progress against every recommendation.

Follow-Up of Years 1,2 and 3	
Publication Date	June 2015
Subject of Reviews:	An overview of DFID's response to recommendations from ICAI's first three years of reports, with a particular focus on education.
Rating:	Not Rated
Recommendations	**On the education portfolio:** i. Setting clear targets on educational attainment ii. Encouraging governments to address regional inequities in education budgets iii. Improving use of data for local accountability **On other issues:** iv. Maintaining momentum on strengthening DFID's learning culture v. Avoiding a gap in the funding of basic health supplies in Kenya vi. Reassessing DFID's relationship with Girl Hub vii. Improving the effectiveness of the follow-up process by engaging more directly with ICAI post-publication.

In the final year of its first phase, ICAI decided to conduct an extensive follow-up exercise looking back over 22 of the 35 reports from its first three years. This was published as a separate report in June 2015. It concluded that DFID had taken action to address the great majority of ICAI's recommendations, but highlighted a number of outstanding issues. Seven further recommendations were made in these areas. DFID's education portfolio was given particular attention because it had been the subject of four separate ICAI reports. Other recommendations addressed how DFID learns, its support to child mortality in Kenya, the Girl Hub partnership and future follow-up procedures. This year, we carried out a 'light touch' follow-up of those additional recommendations, which we summarise here.

DFID responded positively to this review. The education analysis and recommendations were welcomed by DFID's head of profession for education as acknowledging the progress that had been made, while highlighting areas requiring additional effort. All the issues raised in the recommendations have been satisfactorily resolved, with the exception of DFID's commitment to adopting a new Learning Strategy, which is on hold.

Achievements

The follow-up report highlighted the development of DFID's education portfolio from focusing mainly on boosting primary school enrolment to improving learning outcomes. It suggested a number of areas where DFID could do more to build on this progress. One was encouraging partner countries to set long-term targets and timelines for improving the quality of education, including by scaling up of teacher training. DFID was able to highlight a number of countries where it is investing in improved education planning and teacher training, as well as a new £27 million research programme on education systems.

In response to ICAI concerns about equity in education finance, DFID pointed to recent experiments in needs- and results-based financing in national education budgets, and to increased use of national learning assessment to highlight inequities. DFID is also working to support national education data systems in a number of countries, and experimenting with providing that data to communities to strengthen local accountability.

ICAI's concerns regarding child mortality in Kenya (ensuring continuity of funding for basic health supplies) and Girl Hub (strengthening governance) have all been satisfactorily resolved.

Outstanding issues

In the education portfolio, there is an emerging tension between DFID's goal of improving education outcomes, including by expanding its efforts into secondary and pre-school education, and the need to deal with the remaining caseload of out-of-school children. The Global Goals includes the pledge to leave no-one behind in the pursuit of development goals. However, driving up average standards in schools may require quite different types of intervention than ensuring access for the poorest. Extending education to the poorest and most marginalised may also entail higher unit costs, with implications for how DFID thinks about value for money. We will be interested to follow how DFID balances these competing goals.

Beyond the education field, one of DFID's agreed management actions was to adopt a new Learning Strategy, by summer 2015, to help with promoting a stronger learning culture across the department. The initiative was put on hold, in light of the many other processes that were already underway in connection with the Comprehensive Spending Review. DFID is now developing a strategic framework for learning which draws on the work of different business areas. As learning is a recurrent theme across our reviews, we will have opportunities to explore this again in the coming period.

Discussions are underway between ICAI and DFID on how we will manage recommendations, management responses and follow-up in the future. In the meantime, we consider that DFID's monitoring and reporting obligations in respect of ICAI reports from years one, two and three are now complete.

DFID's Approach to Delivering Impact	
Publication Date	June 2015
Subject of Reviews:	How well does DFID deliver meaningful and sustainable impact across its portfolio.
Rating:	Not Rated
Recommendations	i. An improved departmental results framework ii. Stronger country diagnostics iii. Improved business cases iv. Stronger annual reviews v. Improved engagement with intended beneficiaries through the programme cycle vi. Stronger risk management vii. Clearer guifance on results-based contracting.

In this report, ICAI reviewed how well DFID maximises development impact. It looked at DFID's core business processes and the way it uses its results-management tools, from the department-wide DFID Results Framework through country planning processes and project cycle management. It drew together findings from across ICAI phase one reviews, together with additional research at headquarters and country levels.

The review acknowledged the efforts that DFID had made over a number of years to promote greater accountability for results, in particular through greater use of quantitative monitoring tools. It also pointed out that these tools can have the inadvertent effect of focusing attention on the scale and efficiency of delivery, rather than achievement of long-term, transformative results.

The analysis clearly struck a chord with many within DFID. The recommendations fed into a process of review and redesign of some of DFID's core business processes, in preparation for the Comprehensive Spending Review. Many of the changes that DFID is now implementing are moving in the direction suggested by ICAI, whether or not this is specifically in response to the ICAI report. It is too early to judge their significance. DFID did not agree with the detail of all of the recommendations, and in some cases has chosen to implement different solutions.

Achievements

The report was positive about DFID's analytical tools at the country level, including its Country Poverty Reduction Diagnostic. However, it noted that the improved analytical work had not led to stronger country operational plans, which remained relatively weak documents. As part of the Bilateral Aid Review (BAR), DFID is in the process of refreshing its country diagnostics and preparing new operational plans. It has taken measures to strengthen the link from diagnostic to planning. There is more internal challenge within the BAR, with both regional departments and the Chief Economist assessing whether the proposed mix of country programmes addresses the constraints on pro-poor growth identified in the diagnostic assessment. DFID did not pick up on ICAI suggestions for longer time horizons for country planning or for exploiting synergies in impact across sectors and programmes, which it believed were sufficiently covered by existing practices. We will be interested to see whether these measures result in stronger country plans.

The report advocated for greater flexibility in programme design, to facilitate learning and adaptation in real time. This echoed a recognition by many in the field of the need for greater flexibility in development programming. DFID's Better Delivery Team is currently exploring how to introduce more flexible and adaptive programming. A number of pilots are underway, and it has commissioned a suite of tools from the Overseas Development Institute. The results are expected to be incorporated into the Smart Rules during 2016, with supporting tools, frameworks and case studies. It is likely that they will allow for a spectrum of flexibility, depending on the circumstances.

The importance of engaging with intended beneficiaries – that is, with women and men from poor communities – in the design, delivery and monitoring of programmes has been a recurring theme in ICAI reviews. In this report, ICAI acknowledged the progress that DFID had made on incorporating beneficiary feedback into its programme management. It suggested that feedback mechanisms could be further strengthened by anchoring them in sustainable community structures and wider governance systems. DFID has continued to strengthen its practice in this area, although it acknowledges continuing challenges with building staff capacity to conduct meaningful beneficiary engagement.

In response to recommendations from ICAI and others, DFID is now in the final stages of developing and implementing an integrated Risk Management and Assurance Framework. This is intended to strengthen risk management at portfolio level and throughout the programme cycle. DFID's new guidance to Payment-by-Results contracting addresses the main points in the ICAI recommendation, in particular the need to adapt the approach to the circumstances of each individual programme. However, the guidance is likely to prove challenging to implement. We will have the opportunity to look at this issue again in a forthcoming review.

Areas of concern

The report expressed concerns about DFID's Result Framework, which measures the department's overall results in a number of priority areas. Specifically, ICAI was concerned about overuse of 'reach indicators', which measure the number of people reached by DFID programmes, rather than impact. At the time of writing, DFID is in the process of developing a new overarching results framework. It will measure headline results under DFID's new Single Departmental Plan, which contains the four objectives from the UK Aid Strategy plus an additional objective on value for money. The new results framework will include a number of indicators for each strategic objective. These will be complemented with stronger impact reporting at country office and spending department levels. To facilitate this, DFID is developing menus of standard indicators for different sectors. This should make it easier to aggregate results. Furthermore, DFID plans to incorporate results data into its new Aid Management Platform, which may open up new opportunities for results reporting and transparency.

We will follow with interest whether DFID's new results framework is genuinely anchored in a new approach to capturing and reporting aggregate results, so as to improve transparency and accountability while avoiding unhelpful incentives. We are particularly interested in how DFID plans to capture transformative results. We plan to come back to this issue in next year's follow-up.

Business in Development	
Publication Date	May 2015
Subject of Reviews:	How DFID engages with businesses around the world to further its objectives, both in the pursuit of economic development and other goals, such as health and education. The review built on an earlier ICAI review on *Private Sector Development* (May 2014).
Rating:	Amber-Red
Recommendations	i. New guidance on business engagement ii. Improving linkages between central and country-managed initiatives with business iii. Improved data capture and learning iv. A stronger Investment Commitee to oversee its growing investment portfolio v. Improvements to the monitoring and evaluations of business engagements.

In this review, we explored how well DFID works with business across its portfolio, through its networks and partnerships, its enterprise challenge funds and its growing Development Capital portfolio of loans, equity and guarantees. We gave DFID an Amber-Red rating. While we saw good examples of DFID engaging with business, we concluded that there was scope for DFID to do more at a strategic level to track, steer, manage, learn from and scale up this important work.

We were disappointed by DFID's response to the report. DFID made it clear that the concept of 'business in development' did not resonate with it, in large part because it spans the responsibilities of a number of its departments. As a result, while it has taken some useful steps, it has not engaged with the main thrust of the recommendations. With the planned scaling up of DFID's Development Capital portfolio[52] over the coming years, there are a number of issues that will need further attention.

Achievements

There has been progress towards our recommendations in some areas. DFID's new diagnostic tool for economic development, the Inclusive Growth Diagnostic, requires DFID country offices to identify barriers to inclusive growth. This has led to renewed attention to infrastructure, in particular energy, as common barriers to growth. DFID tells us that its partnerships with the private sector are particularly important for infrastructure development. There is therefore likely to be a stronger focus on business partnerships in the next generation of country operational plans, which will be released in 2016.

There has also been good progress on improving DFID's management information systems. The development of the Aid Management Platform will help DFID to collect better information on its business engagement across its country-level and centrally-managed programmes. This has the potential to improve coordination and learning across the portfolio.

Areas of concern

A number of our concerns have not been addressed by DFID. First, our review found that DFID country offices are not actively engaging with DFID's centrally managed programmes. Technical assistance programmes (usually managed by a country office) are not well aligned with Development Capital investments (usually managed centrally or by third parties). The development of new 'platforms' for Development Capital will only increase the coordination challenge.

52. There are two types of Development Capital: direct investments from DFID to the beneficiary; and grants provided to intermediary for onwards investment. The former creates an asset on DFID's balance sheet and therefore counts as 'non-fiscal' expenditure for HM Treasury purposes. The latter is treated as recurrent expenditure, even if it is ultimately provided to the end beneficiary in the form of a loan or equity investment.

DFID still needs to improve the appraisal, monitoring and evaluation of its engagements with business, to ensure they are effective and benefit the poor. By investing in the private sector, DFID hopes to influence others to follow in its path by demonstrating what works, bridging information gaps and 'crowding in' other investments. These influences are hard to measure; other development agencies also struggle with this challenge. DFID will need to put more effort into developing innovative monitoring tools, such as qualitative case studies. DFID has acknowledged this as an issue and has appointed a results adviser to its Private Sector Department.

Most importantly, we are also concerned about the adequacy of the management and oversight of DFID's Development Capital portfolio. Over the Spending Review period, DFID is required by Treasury to spend £5 billion in the form of financial transactions, a component of which will be Development Capital. Managing this increasingly complex portfolio will call for increased technical capacity to appraise and monitor investment activities across diverse countries, sectors and risk profiles. It calls for first-hand experience of financial instruments that remain relatively new for DFID. We are informed that CDC, the UK's development finance institution, will continue to be the primary partner to manage DFID's Development Capital investments. This will require further scaling up of its operations. DFID should reassess how it works with and oversees CDC, to ensure it meets DFID priorities, such as working in fragile states.

In our review, we raised the concern that DFID lacked sufficient private investment experience on its Investment Committee, which is the main governance structure over this portfolio. Since then, DFID has advertised for two new non-executive members of the Investment Committee with private-sector experience. However, because of the proposed growth in Development Capital, we propose to take another look at the governance and management arrangements over this portfolio in our follow-up work in 2017.

A Preliminary Investigation of Official Development Assistance (ODA) Spent by Departments other than DFID	
Publication Date	February 2015
Subject of Reviews:	A mapping of non-DFID ODA in 2013, together with an investigation of aid spending by a selection of other government departments, covering their objectives, management systems and methods for tracking ODA expenditure.
Rating:	Not Rated
Recommendations	i. Improve the transparency of non-DFID ODA in DFID's official statistical publication

This investigation made only a single recommendation, relating to improvements to the transparency of non-DFID aid. ICAI suggested that DFID include a clearer description of the aid-funded activities of other departments in its annual Statistics in International Development publication. DFID accepted the recommendation and included an improved description of the primary aid activities in the 2015 addition.[53]

However, with the dramatic scaling-up of non-DFID ODA over the coming years (see Chapter 3), it is clear that this is no longer sufficient to meet the needs of transparency and accountability. There will have to be further changes in the way that departments report their ODA spending, and in some cases a substantial increase in the amount of information that is placed in the public domain. For example, at present there is very little information available to the public on the activities of Conflict, Security and Stabilisation Fund (CSSF).

There will also need to be mechanisms for capturing aid spent in particular countries or regions across departments and funding channels, so that accurate data can be generated on total ODA expenditure. This is important both for coordination and for transparency.

53. *Statistics on International Development 2015,* DFID, 2015, Annex 3, pp. 22-25, link.

Assessing the Impact of the Scale-Up of DFID's Support in Fragile States	
Publication Date	February 2015
Subject of Reviews:	How DFID responded to the government's commitment to spend 30% of its ODA in fragile states by 2014/15, and the impact of the scale-up
Rating:	Amber-Red
Recommendations	i. Develop new guidance on working in fragile states ii. Ensure country targets reflect longer timescales iii. Develop guidance on including infrastructure components in fragile states programming iv. Clarify risk appetite v. Take on a strong global leadership role, based on learning from its work in fragile states.

The UK government's 2011 commitment to spending 30% of UK aid in fragile states by 2014/15 at a time when the aid programme was expanding resulted in an increase from £1.8 billion in 2011/12 in bilateral aid to fragile states to £3.4 billion in 2014/15. This review explored how DFID managed that scale up. It found that it took four years to deliver a corresponding increase in development results. It cautioned that transformative impact in fragile states would take a generation to emerge, and that planning should take into account these longer time frames for results. The report made a number of recommendations as to how DFID could improve the quality of its assistance to fragile states, including through more realistic time frames and a stronger approach to managing risk.

In response, DFID pointed out that working in fragile states was now its core business and needed to be integrated into its Smart Rules, rather than the subject of special guidance. DFID nonetheless accepted all of the recommendations, in full or in part, and has responded constructively. Since the report was published, DFID committed under the Strategic Defence and Security Review (SDSR) to spending half of its budget in fragile states and regions.[54] While this is not expected to involve another major scaling up of assistance, it means that ICAI's recommendations remain highly pertinent.

Achievements

At the time of writing, DFID is in the process of preparing new guidance for building stability in fragile states, to replace its 2010 peacebuilding and state-building framework.[55] Based on a review of the evidence, the framework will help DFID country offices to identify 'pathways' to stability in fragile contexts.

There is also ongoing work on risk management across the department. In October 2014, DFID appointed a deputy director, head of risk and control to promote a more considered approach to risk, following recommendations from ICAI and internal audit. A new strategic risk management system is now under development and is expected to be launched in 2016.

Following ICAI's recommendation on global leadership, DFID is making use of the triennial replenishment processes for the World Bank and the African Development Bank to push for more resources and more effective working in fragile states. DFID recently prepared a paper on how the World Bank could work better in fragile states, including through the creation of a new funding window for 'turn-around' countries, more flexible project management and an improved staffing profile.

ICAI's recommendation for new guidance on infrastructure has been taken forward by DFID's infrastructure head of profession, who commissioned an assessment of how infrastructure fits within DFID's approach to fragile states, to identify gaps in the portfolio. This is expected to result in updated guidance on infrastructure programming.

54. *National Security Strategy and Strategic Defence and Security Review 2015: A Secure and Prosperous United Kingdom*, HM Government, November 2015, para. 1.13, link.

55. Building peaceful states and *societies: a DFID practice paper*, DFID, 2010, link.

Areas of concern

While the response has been broadly positive, many of the concerns raised in the report continue to be relevant. To be meaningful, DFID's commitment to spending half of its budget in fragile states should be matched by an ambition to achieve real reductions in conflict and fragility. The new guidance on building stability should provide a stronger conceptual framework for this, but will need to be translated into stronger frameworks to guide analysis and prioritisation. We will be interested to see whether the new country strategies to be released in 2016 will include new thinking on how to use aid to reduce fragility.

While the 50% spending commitment may not involve a major redistribution of funds, it will need to be matched with an appropriate level of staffing, if it is to deliver results. The report noted the difficulties that DFID has faced in deploying enough staff with the right skills into difficult environments. If fragile states are now DFID's normal operating environment, it will need to find ways of overcoming these challenges.

Rapid Review of DFID's Smart Rules	
Publication Date	October 2014
Subject of Reviews:	A briefing note from ICAI on the fitness for purpose and effectiveness of DFID's new Smart Rules, based on a review of documents and key stakeholder interviews.
Rating:	Amber-Red
Recommendations	i. Refining the Smart Rules to facilitate ease of use by field staff ii. Enhancing them in a number of key areas iii. Maintaining the momentum of the change process iv. Refining a clear mission for the organisation v. Continuing to play a leadership role in the global aid community.

In 2013, DFID conducted an 'end-to-end' review of its programme management rules and processes, in response to growing concerns about their complexity and fitness for purpose. The review led to the adoption in July 2014 of a new set of Smart Rules, designed to give staff greater autonomy in programme management within clearer principles and simpler procedures. In this desk review, ICAI assessed whether the Smart Rules were likely to succeed in streamlining project management and to address challenges identified in past ICAI reports.

The rapid review concluded that the Smart Rules were a serious attempt to improve DFID's business processes, based on a sound set of principles. However, it also suggested a number of ways in which the Smart Rules could be strengthened and anchored in stronger change processes.

Achievements

A number of positive developments have emerged since the review, although they are part of DFID's ongoing organisational reforms, rather than a direct response to the ICAI review. A Better Delivery Team is in place to support continuing improvement of programme cycle management and to prepare updates to the Smart Rules and associated guides. It reports to a Programme Cycle Committee, which meets quarterly. Through their efforts, the Smart Rules have continued to evolve and their implementation has been supported through a range of initiatives, including capacity building for staff, piloting of new management approaches and a strong management information system. However, DFID's own surveys suggest a need for further efforts to embed the Smart Rules into the organisational culture.

DFID has made good progress on clarifying and strengthening the role of Senior Responsible Owners (SROs) and building their capacity. At the time of writing, 480 staff, most of them SROs, had been trained on the Smart Rules. DFID's entire Senior Civil Service cadre had completed a commercial leadership course and two-day commercial master-classes were being run for 20 staff at a time. Surveys show that the majority believed their programme delivery skills and capabilities – and those of their teams – had improved substantially since the Smart Rules, although there remained some uncertainty regarding the principle of 'empowered accountability'. A number of our interviewees, including from DFID's Quality Assurance Unit, expressed the view that the quality of annual reviews had improved as a result of closer engagement by SROs, addressing a persistent concern from past ICAI reviews.

DFID's new Aid Management Platform integrates the Smart Rules into the online processes used to track the progress of individual programmes. The system makes clear who is responsible for which aspects of programme management. It encourages staff to take responsibility for keeping the system updated, while pushing management information to the right level. It also has the potential to improve portfolio management – for example, by providing more accurate information on DFID's total expenditure in particular countries, through the various channels. While it is still at an early stage, the platform has the potential to improve transparency both within and outside the department.

Areas of concern

While the Smart Rules have brought about improvement in many areas, their implementation is a complex challenge and will need continuing efforts and support at ministerial and senior management levels. There are a number of areas where progress has lagged. The approach to value for money in DFID's programme cycle requires continued focus and embedding. The Programme Cycle Committee considered value for money metrics at their June 2015 meeting. Better measurement is only one part of the solution, however, more guidance is needed on how to manage programmes according to value for money principles.

DFID is in the process of developing a new risk management and assurance framework, covering both portfolio and programme levels. The new framework may call for significant changes in organisational culture and management systems, and DFID anticipates that it will take up to two years to implement in full.

We are also concerned that the relative clarity and simplicity of the Smart Rules have not translated into improved working processes with implementing partners. We continue to receive feedback that NGOs and contractors find DFID's reporting requirements and accountability processes increasingly complex and burdensome. They would like to be given more freedom to innovate and adapt, based on clear principles and a shared understanding of risk.

With the planned rapid increase of aid spending by a number of departments (see Chapter 3), the Smart Rules encapsulate a range of good aid management practices. We note that the Department of Energy and Climate Change (DECC) and the Department for Environment, Food and Rural Affairs (Defra) have agreed to follow the Smart Rules to the extent possible in their implementation of International Climate Fund programming. There may be opportunities for other aid-spending departments to follow suit, with DFID's support.

The UK's International Climate Fund	
Publication Date	December 2014
Subject of Reviews:	The International Climate Fund is the UK's instrument for addressing climate change mitigation and adaptation in developing countries. The review examined whether the ICF had been successful in catalysing global action on climate change, and whether it was on track to deliver its intended results at international and national levels.
Rating:	Green-Amber
Recommendations	i. Working through a wider range of delivery partners ii. More flexibility in the allocation of resource and capital expenditure iii. A clearer strategy for working with the private sector iv. Deepening engagement with developing country governments and stakeholders v. Strengthening coherence across multilateral and bilateral channels vi. Improving transparency.

This review looked at the International Climate Fund (ICF), the UK's primary instrument for supporting climate change mitigation and adaptation in developing countries. The ICF is managed jointly by DFID, DECC and Defra. The review explored whether the ICF was delivering its intended results. It assessed its operations at three levels: support to international action, including by catalysing global climate finance; building national capacity in priority countries; and delivering results at the programme level. It awarded the ICF an overall green-amber rating.

The review was released during the preparation of the second phase of the ICF, providing a useful input into the design. The three departments responded well to the analysis and recommendations, and there has been progress on addressing all of the issues raised. It will take more time, however, to assess how effectively the design of ICF2 takes on board the lessons.

The ICF is the most mature of the large cross-government aid instruments. It has made significant progress in strengthening joint governance structures and collaboration across the three departments, and should be a good source of lessons for others to draw on.

Achievements

There have been important changes to the management of the ICF since its inception. ICAI's recommendations have helped shape several of these changes.

First, there have been clear improvements in portfolio management. At the outset, the ICF Board exercised tight control over individual funding decisions, in order to meet ambitious spending targets. This resulted in most investment being directed through a limited number of multilateral channels. ICAI recommended that ICF work with a wider range of delivery partners, taking account of their various comparative advantages. The ICF Board is now more focused on strategic management of the portfolio as a whole, allowing for greater diversity and balance.

Although not an ICAI recommendation, we note that DFID activities funded through the ICF are now managed according to DFID's standard procedures (the Smart Rules), rather than through a parallel process. (DECC and Defra will also apply the Smart Rules where possible.) This is expected to support further the mainstreaming of climate-related programming across DFID.

In other developments, DECC and Defra now receive a resource budget as well as capital for investments from ICF funds, as ICAI recommended. DFID's new Aid Management Platform may help to address some of ICAI's concerns regarding coherence and coordination across different funding channels. ICF2 will also have a much stronger focus on monitoring, evaluation and learning.

The private sector is an indispensable partner in the global response to climate change, although its potential role varies considerably across different country contexts. ICAI recommended that the ICF develop a more differentiated strategy for working with the private sector, with a clearer understanding of how to attract different forms of private capital. The ICF has made some useful progress in this regard. Core principles for working with the private sector were agreed by the ICF Board, with a focus on working with the private sector alongside other partners, rather than as a distinct sector. DFID's Private Sector Department is preparing a new mechanism for providing loans, equity or guarantees for climate resilience projects, to encourage private investment. Senior DFID staff are confident that this evolving strategy is beginning to show results – for example, in the New Energy Africa campaign aimed at small companies.

ICAI also expressed a concern that ICF operations were not sufficiently transparent, and that there needed to be more disclosure of key documents and activities on an ICF website. While progress has been somewhat constrained by the limitations of the GOV.UK website, the three departments involved have made improvements to the website, which is now kept more up to date. However, more could be done to tag ICF programmes on DFID's DevTracker website, to improve transparency.

Areas of concern

While we have no particular concerns regarding the government's response to these recommendations, it is too early to judge what impact they have had on the design and operation of ICF2. We expect to have opportunities to examine the operation of the new fund in the context of forthcoming reviews.

DFID's Approach to Anti-Corruption and its impact on the Poor	
Publication Date	October 2014
Subject of Reviews:	Whether DFID's anti-corruption activities are reducing the effects of corruption, in particular as experienced by the poor. This builds on an earlier ICAI review of DFID's approach to anti-corruption from 2011, which looked primarily at efforts to protect UK taxpayers' funds from fraud and corruption.
Rating:	Amber-Red
Recommendations	i. Implementing a new anti-corruption plan ii. Standalone anti-corruption country strategies extending over 10- to 15-year time horizons iii. More programming targeting everyday corruption experienced by the poor iv. Gathering dynamic feedback from beneficiaries v. Establishing an internal centre of excellence on anti-corruption.

This review encouraged DFID to take on a more intensive, strategic and long-term role in fighting corruption in its partner countries, with a particular focus on addressing corruption as it affects the poorest. It concluded that DFID's anti-corruption efforts were not sufficiently focused on the needs of the poor. It found that DFID was unduly cautious in raising corruption with partner governments, for fear of disturbing its political relationships. It also found that DFID was not capturing and applying lessons from its anti-corruption programmes.

DFID responded constructively to the recommendations and has taken a number of useful steps in response, such as refreshing its country anti-corruption strategies and launching a number of new research projects. It did not fully agree, however, with the report's focus on petty corruption. DFID believes that measures to address corruption at the national and international levels are as likely to make a difference to the lives of poor people as programmes that directly target petty corruption, and that the appropriate balance needs to be determined in each country context.

Achievements

The review suggested that DFID adopt an anti-corruption plan setting out its level of ambition, together with detailed plans for tackling corruption in each country. There has been progress in this direction. There is now a cross-government UK Anti-Corruption Plan,[56] supported by a Joint Anti-Corruption Unit based in the Cabinet Office. It includes a focus on tackling corruption via international rules and systems, to complement more traditional anti-corruption programming at country level. DFID has also refreshed its country-level anti-corruption and counter-fraud strategies. Rather than the 10-15 year strategies suggested by ICAI, these will be rolling, five-year strategies, refreshed as needed.

DFID did not agree with the suggestion to increase the focus on corruption experienced by the poor. It prefers to leave the mix of interventions to each country office to determine through its anti-corruption strategy. DFID has, however, launched some new research into petty corruption, beginning with a mapping of the state of the evidence on the causes, effects and potential solutions to corruption.[57] The East Africa Research Hub will synthesise evidence on the causes and effects of petty corruption and how corrupt behaviours can be changed. There is also a new £9.6 million Anti-Corruption Evidence programme (2015-20) in DFID's Research and Evidence Division, with an operational focus on 'what works'. In its country programmes, DFID is also exploring entry points for tackling petty corruption in particular sectors – for instance, in the market for school textbooks.

Outstanding issues

In its Strategic Defence and Security Review, the UK government pledged to place anti-corruption 'at the heart of UK development relationships'.[58] This is an extremely ambitious pledge, with far-reaching implications for how the UK conducts its development partnerships. It requires not just anti-corruption programmes, but a strong emphasis on corruption in policy dialogue and in the management of the bilateral relationship. This will need to be resourced appropriately within DFID country offices and UK diplomatic posts – including by building a cadre of advisers with an understanding of international anti-corruption processes and the ability to pursue corruption issues and cases as they emerge. We will watch with interest how DFID and other departments translate this commitment into action.

Future directions for the anti-corruption agenda

DFID's response to the ICAI report has been partly overtaken by a new cross-government anti-corruption drive, led by the prime minister and the Cabinet Office. This has created unprecedented momentum behind the issue across the UK government. At an international summit in London in May 2016, the UK advocated for changes to the rules of the international system to make it less conducive to the movement of illicit funds, including by tightening access to the UK's financial system, and for stronger sanctions for corrupt officials. This is an important element of the UK's anti-corruption approach and we will follow the results with interest.

The government's new emphasis on getting its own house in order and on international rules and systems is a welcome addition to the UK's anti-corruption approach. We will be interested to see how this translates into practical benefits for DFID's partner countries. It may require DFID to match its international advocacy with capacity-building programmes to help its partner countries participate in and benefit from new international processes, as well as working with other UK government agencies such as the Treasury and the National Crime Agency on anti-money laundering and other law-enforcement initiatives.

56. *UK Anti-Corruption Plan*, HM Government, December 2014, link.

57. *Why corruption matters: understanding causes, effects and how to address them* – Evidence paper on corruption, DFID, January 2015, link.

58. *National Security Strategy and Strategic Defence and Security Review 2015: A Secure and Prosperous United Kingdom*, HM Government, November 2015, para. 6.13, link.

Independent Commission for Aid Impact

Annex 2: ICAI Work Plan July 2016 - June 2017

We plan to deliver nine reviews over the period. This includes two short format reviews, one flexible review (topic to be decided later this year), and the annual follow up review which looks back at previous recommendations.

ICAI reviews: July 2016 - June 2017

Leaving no one behind	Crises, resilience and stability	Inclusive growth	Transparency, accountability and empowerment	Beyond aid
UK aid's support to marginalised girls in education Assessing UK aid's support for marginalised girls to access, stay, and succeed in basic education Publication expected autumn 2016	**UK aid in a conflict-affected country** An in-depth review of UK aid spending in a conflict-affected country. We will publish our decision on which country in spring 2016 Publication expected spring 2017	**Economic development & diagnostics** Assessing the evidence and diagnostic tools DFID uses to approach economic development Publication expected spring 2017	**Payment by Results** A short format review into DFID's use of payment by results Publication expected spring/summer 2017	**DFID's approach to transition** Looking at how DFID decides where and when to exit a partner country or to transition to a different type of development partnership Publication expected winter 2016
The role of cash transfers in reducing poverty and vulnerability Examining DFID's use of cash transfer programmes and their potential for transformational impact Publication expected autumn 2016				**Emerging cross-government funds** A short format review into aid spending by cross-government funds. We will publish our decision on which funds will be included in summer 2016 Publication expected early 2017

Independent Commission for Aid Impact

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