



## **ICAI Follow up - Management of UK Budget Support Operations**

1. Our report assessed whether DFID made appropriate decisions as to where and in what quantity to provide budget support and whether the processes by which DFID managed its budget support operations were appropriate and effective. We found that budget support can be an effective and efficient way of providing development assistance. Its practical value, however, varies substantially according to the country context. Our eight recommendations gave DFID ways to improve the value for money and effectiveness of its budget support during design and implementation.
2. DFID told us that our report was seen as constructive and challenging, giving rise to a substantial process of internal debate and reflection. DFID has responded mainly by revising its formal budget support guidance material on the design of budget support operations. Partly as a result of our report, DFID has also made significant investment in knowledge generation and sharing in technically complex areas. This includes a Budget Support Health Check to help country offices to assess their budget support operations against best practice and mechanisms to allow learning and sharing of evidence and best practice in the areas of performance-based disbursements, fiduciary risk and safeguards and empowerment and accountability.
3. We note that DFID accepted recommendation 2 on building general budget support operations around the possibility of higher and lower levels of funding, as it is already using performance tranches and is investigating the increased use of payment by results. On recommendation 6, regarding country-level influencing strategies, DFID rejected the recommendation of developing standalone, formal influencing strategies, as it feels that it is already making efforts to ensure that country offices have a clear strategy for the political dialogue with partner governments. We saw some preliminary evidence of DFID adopting a more limited strategic influencing agenda in Tanzania and Sierra Leone, in both cases taking up our suggestion to focus on natural resource revenues.
4. DFID partially accepted Recommendation 8 on the need to report on the transformational effects of UK budget support (rather than stating, for example, that if DFID's budget support is 3% of the budget, then it has educated 3% of the country's primary pupils). DFID stated that it agreed with the principle but had no reliable methods of measuring wider results. It prefers, therefore, to use conservative estimates of results from budget support until more reliable results measurement methodologies are developed. It has, nonetheless, developed guidance on measuring the results of influencing and has various on-going activities designed to improve its results measurement. We continue to believe that this is very important to achieve better outcomes for intended beneficiaries, for example taking account of learning outcomes as well as the number of pupils in school.

5. For recommendation 7, DFID has taken a number of actions to address our concern that budget support operations tend to strengthen the accountability of governments to donors, rather than to their own parliaments and citizens. In our view, budget support operations should be designed to link up with national accountability mechanisms, for example, by involving parliamentary committees in assessing government performance. Despite the steps taken, we think that this issue is not adequately addressed in the revised guidance.

6. There is some early evidence of changes to practices at country level in Tanzania, such as improvements to the national policy dialogue, increased engagement with parliament and the launch of a new cycle of Public Expenditure Reviews to assess the value for money of spending through the budget. While most of these actions occurred before DFID's revised guidance came into effect, our visit to Tanzania took place during a key point in the design of the new operation and some of the above actions were reportedly taken in anticipation of ICAI recommendations in these areas.

7. Overall, DFID has made positive steps in its management actions in response to our report, engaging thoughtfully with the issues raised. DFID's new guidance, however, will only lead to better outcomes if it is used correctly, so DFID will need to follow up to ensure that there are positive changes to existing practices.