ICAI follow-up of:
The cross-government Prosperity Fund
A summary of ICAI’s full follow-up review
June 2018
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 of government, reporting to Parliament, and our mandate covers all UK official development assistance.
Executive summary

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

This document is a summary which focuses only on the results of our follow up of The cross-government Prosperity Fund. The full follow-up report of all our 2016-17 reviews, including overall conclusions from the process and details of our methodology, can be found on our website.

Findings

The cross-government Prosperity Fund

ICAI’s first rapid review was of the then recently established Prosperity Fund. The Prosperity Fund is a cross-government fund that blends ODA with a small amount of non-ODA to reduce poverty and promote inclusive growth, particularly in emerging markets and middle-income developing countries, while at the same time creating opportunities for UK and international business. It is a complex and ambitious fund, with systems and processes that were still under development during the ICAI review, and that have continued to evolve after its publication.

When ICAI began its review, the Fund had already started provisionally allocating funding but had not begun to roll out programmes. The review therefore looked at factors affecting the future effectiveness of programmes, such as the Fund’s strategic objectives, governance structure, monitoring and evaluation arrangements and its approach to determining whether programmes conformed to the internationally recognised definition of ODA. As with all rapid reviews, it was not scored. The review noted considerable progress in the Prosperity Fund’s procedures and practices over the course of the review period, but also highlighted a range of concerns. We made five recommendations, in the areas indicated in Table 1.

Table 1: Summary of the government’s response to ICAI recommendations

<table>
<thead>
<tr>
<th>ICAI recommendation</th>
<th>Govt’s initial response</th>
<th>Our assessment of progress since then</th>
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</thead>
<tbody>
<tr>
<td>Slow down planned rate of expenditure to match delivery capacity.</td>
<td>Accept</td>
<td>The Treasury has extended the Prosperity Fund’s lifespan from five to seven years.</td>
</tr>
<tr>
<td>Refine strategic objectives and align portfolio-level results indicators with these.</td>
<td>Partially accept</td>
<td>The Fund’s broad strategic objectives have not been refined, but portfolio-level indicators are in the process of being developed.</td>
</tr>
<tr>
<td>The process for ensuring ODA eligibility should be explicit and challenging.</td>
<td>Accept</td>
<td>Programme approval now includes a clear yes/no question on ODA eligibility, but more could be done to ensure that development goals are the primary purpose of programmes.</td>
</tr>
<tr>
<td>Formalise and be more open about the Fund’s engagement with UK and international firms.</td>
<td>Accept</td>
<td>A procurement framework for letting contracts to private actors is now in place, with more efforts made to communicate better with potential suppliers.</td>
</tr>
<tr>
<td>Improve transparency on the Fund’s procedures.</td>
<td>Accept</td>
<td>Transparency on spending and results is slowly improving.</td>
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Slow down planned rate of expenditure

Our original review found that the planned scale and pace of the Prosperity Fund’s aid spending posed a number of risks. Chief among them was the risk that government departments that had little or no experience of large-scale aid programming would struggle to design and deliver credible programmes. ICAI therefore recommended slowing down the planned rate of expenditure to reflect the Fund’s delivery capacity.

The government responded quickly to this recommendation. The Treasury decided to move £150 million allocated for spending by the Prosperity Fund into the next spending review period, to give the Fund time to strengthen design and assurance processes and to help ensure delivery departments focus on impact and value for money. Following Treasury agreement to a further extension of the Fund’s lifespan, total funding is now expected to be £1.22 billion over seven years instead of the original £1.3 billion over five years.

We are pleased with this prompt response to our recommendation, which illustrates the usefulness of early scrutiny and rapid reviews.

Refine strategic objectives and align portfolio-level results indicators with these

The breadth of the Fund’s strategic objectives, combined with an allocation process based on government departments bidding into the Fund for individual programmes, risked creating a highly fragmented portfolio. We were concerned that this would make it difficult for the Prosperity Fund to achieve and demonstrate strategic impact greater than the sum of individual programme parts, commensurate with an ODA investment of this size. The review therefore recommended that the “Fund should refine its strategic objectives and develop a set of portfolio-level results indicators, to which each programme should align”.

We were also concerned that the Fund was relying heavily for its monitoring, reporting, evaluation and learning (MREL) work on external suppliers, including for the creation of results indicators. While we accept the value of independent evaluation, it is a high-risk choice not to have stronger in-house ownership and capacity. The review therefore recommended that the Fund’s MREL services should be integrated with management and learning processes at both portfolio and programme levels.

The Prosperity Fund’s response has been positive, but much remains to be done. The Fund’s strategic objectives have not been refined since the review, but portfolio-level indicators are now in the process of being developed using external expertise. However, since 19 business cases have already been endorsed by the cross-departmental Portfolio Board,1 there will inevitably be an element of retrofitting the indicators (when finalised) to what has already been approved. This is not good practice.

Responsibility for MREL contracts was transferred from the Foreign Office (FCO) to the Cabinet Office after our review, which resulted in delays. While the MREL plans are appropriate, they are coming on stream late in the approvals process.2

On a more positive note, the Fund’s management has put in place extensive training for Prosperity Fund staff in the UK and overseas, hired gender and social development expertise, issued a suite of guidance notes for all staff and engaged closely with its MREL service providers.

The process for ensuring ODA eligibility should be explicit and challenging

We were not convinced that the concept notes we reviewed ensured that programmes would satisfy the requirements of the international ODA definition. The review therefore recommended that “the process for ensuring ODA eligibility should be explicit and challenging” and that business cases should include “a plausible strategy for delivering primary purpose and secondary benefits, based on sufficient evidence and analysis, and give adequate consideration to gender equality, in compliance with the International Development Act”.

Since our review, the Prosperity Fund has put in place significant additional guidance and training on both gender equality and ODA requirements. The Prosperity Fund Management Office has assessed two further rounds of concept notes, bringing in an independent assessor with international development expertise to strengthen the assessment of the proposed programmes’ primary purpose. A crucial improvement is that the

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1. The Prosperity Fund is overseen by a ministerial board. Beneath this is the portfolio board, which executes the Fund’s strategy, including recommending to the ministerial board which programmes should be approved for funding.

assessments of concept notes now includes an explicit ‘yes/no’ question on ODA eligibility, as recommended by ICAI. However, we would also like to see a more explicit weighting of primary purpose (development goals) over secondary benefit (UK interests) at the business case stage of the design of ODA-funded programmes.

The National Security Capability Review (NSCR), published in March 2018, launched a new ‘fusion doctrine’ for a whole-of-government, collective approach to national security. As a result of this review, governance of the two cross-government funds, the Prosperity Fund and the CSSF, will be through one single ministerial committee, chaired by the minister for the cabinet office, and the funds will be administered by a single merged funds unit. Both funds manage a combination of ODA and non-ODA funding and both combine the aims of furthering the UK’s national interest with tackling ODA-related challenges, such as poverty reduction, inclusive growth, humanitarian crises and instability in developing countries. In line with its objectives, the NSCR places more emphasis on the UK’s national interest aims than on development objectives. We will follow up next year to check that the new merged governance structure of the two funds has explicit and challenging procedures in place to assess the ODA eligibility of programmes proposed for funding.

**Improved transparency and engagement with suppliers**

The last two recommendations related to the Prosperity Fund’s engagement with potential suppliers and a lack of openness around its procedures. The Fund had an opaque and selective approach to communicating with potential suppliers, with adverse implications for the procurement process. The review therefore recommended that the “Prosperity Fund should formalise and be more open about its engagement with UK and international firms. It should manage its supplier pool with a view to avoiding conflicts of interest, securing value for money and achieving both primary purpose and secondary benefits.” We also noted that there was little public information on how the Fund spent its money, and recommended that it should improve reporting standards in line with the UK government’s commitment to aid transparency.

Since the publication of the review, the Fund has put a procurement framework in place which all government departments are free to use (we have been informed that DFID plans to use its own pre-existing framework). There is a clearer separation of functions and clarity of roles within the FCO after a Prosperity Fund delivery unit (responsible for delivering those Prosperity Fund programmes for which the FCO is the lead department) was set up as a separate entity from the Prosperity Fund Management Office (which has since been merged into the Joint Funds Unit under the National Security Secretariat). The FCO has recently published business cases for two of its Prosperity Fund programmes.

Transparency on spending and results is slowly improving. The Prosperity Fund has published an annual report on its first year of activities with some useful information. Improvements are partly driven by a commitment across the UK government to achieve a ‘good’ score by 2020 on the Aid Transparency Index, based primarily on data published under the International Aid Transparency Initiative (IATI). There are therefore good prospects that improvements on transparency will continue from their low base.

The way data is presented on the IATI registry is not easily understood by a non-expert audience. We would therefore also like to see the Prosperity Fund working with DFID to make more systematic use of the more user-friendly Development Tracker website, where there is currently limited information on the Fund.

**Conclusion**

The March 2018 capability review of the cross-government funds confirms their central role as tools of UK foreign and development policy that also have “additional benefits: supporting UK commercial interests and reducing domestic threats”.  

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4. The two business cases were published in March and May 2018 respectively on gov.uk, link.
6. The Development Tracker can be accessed here: link.
[The] CSSF and [Prosperity Fund] gain greater strategic importance as a result of the UK’s decision to exit the European Union. Redefining Britain’s place in the world will require us to use our diplomatic, development and defence assets to best effect.

Capability review of the cross-government funds: summary review, Cabinet Office, March 2018, link

For ODA spent through these funds, this emphasis on Britain’s place in the world must sit alongside the development goals that are the primary purpose of ODA-funded programmes. While we commend the significant improvements in the Prosperity Fund’s procedures and practices in response to our recommendations, it needs to continue with their implementation in order to be able to demonstrate that it can successfully combine strong development objectives with UK national interests, justifying the investment of £1.22 billion of ODA over seven years.