

**ICAI follow-up of:
When aid relationships change:
DFID's approach to managing exit
and transition in its development
partnerships**

A summary of ICAI's full follow-up review

June 2018

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Executive summary

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

This document is a summary which focuses only on the results of our follow up of When aid relationships change: DFID's approach to managing exit and transition in its development partnerships. 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

When aid relationships change: DFID's approach to managing exit and transition in its development partnerships

Many of DFID's traditional developing partner countries have succeeded in moving from lower-income to middle-income status, and others are set to follow over the next decade. As they do so, DFID must look to forge new partnerships, offer other forms of assistance than bilateral or financial aid,¹ and build new relationships based on mutual interests in addressing global challenges. ICAI conducted a performance review of how DFID managed this process in seven recent or ongoing cases of transitioning or exiting from a traditional aid relationship. The review was published in November 2016 with an amber-red score. It noted problems with poor planning and communications with external stakeholders, and some risks to past development gains. We made four recommendations in the areas shown in Table 1.

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

ICAI recommendation	Govt's initial response	Our assessment of progress since then	
		By recommendation	Overall
When aid relationships change: DFID's approach to managing exit and transition in its development partnerships, November 2016			
Establish a central point of responsibility and redress the lack of policy, guidance and learning on transition.	Partially accept	There is now a central point of responsibility for transition as well as a central learning hub. DFID says it has recently begun developing a set of working principles for managing transition processes.	A mixed response. Most actions are at the planning stage
Improve coordination between UK departments when managing bilateral relationships during transition or exit.	Accept	DFID said it was already implementing this recommendation, as working across government is core to DFID's policy and operating model. However, we did not find that any significant action had been taken to address the particular weaknesses found in our review.	
Strengthen accountability and transparency on what kinds of aid continue after transition.	Accept	DFID said it was already implementing this recommendation. ODA reporting, including when spent by departments other than DFID, is on an improving trajectory. DFID could be clearer when communicating to the public what it means to 'end financial aid'.	
Assess consequences for, and decide whether to support, local civil society partners through the transition process.	Accept	DFID intends to address this issue in its working principles on managing transition. However, reforms to civil society organisation funding mechanisms have made access to support from DFID more difficult for local civil society organisations.	

1. *Bilateral aid*, as opposed to multilateral aid, is assistance provided directly from a donor country to a developing country. It can be budget support (general or earmarked for particular sectors) to partner governments or it can take the form of assistance to non-governmental organisations, public-private partnerships and research institutions, project-type interventions, experts and technical assistance, debt relief, other in-donor expenditures and administrative costs not included elsewhere in the aid budget.

Financial aid is a slightly narrower term. It comprises bilateral aid to developing countries provided for them to spend in support of a government policy and their expenditure programmes whose long-term objective is to reduce poverty. It does not include technical assistance or administrative costs. For more on these definitions, see *When aid relationships change: DFID's approach to managing exit and transition in its development partnerships*, ICAI, November 2016, Annex 7, [link](#).

DFID's initial departmental response reflected some disagreement with ICAI's framing of the problem: with no planned exits or transitions this issue was not an immediate operational priority for DFID. However, there has recently been renewed attention to the topic. DFID has begun to develop working principles for successful exits and transitions as part of its ongoing 'strategic directions' work. The bases for this work are the 2016 Bilateral Development Review, the 2017 Economic Development Strategy and the March 2018 National Security Capability Review. All of these emphasise that the forging of strong UK relationships with countries transitioning out of poverty is central to the UK government's development policy.²

“ As countries increase their capacity to finance their own development, the nature of their relationship with the UK will change ... We will use carefully targeted technical assistance to support this transition, and our partnerships will increasingly shift from one based on grant aid towards trade and investment. **”**

Rising to the challenge of ending poverty: the Bilateral Development Review 2016,
DFID, December 2016, [link](#)

Create a central point of responsibility within DFID and redress lack of policy, guidance and lesson learning

Without a clear policy or guidance on transition or exit, our review found that DFID did not consistently prepare transition plans or articulate clearly what kind of a changed aid relationship it was aiming to achieve. This sometimes led to misunderstandings with national counterparts, which hampered the transition process. With some country-level exceptions, learning was largely unstructured, with unmet demand for support at country office level. We therefore recommended that there should be a central point of responsibility for transition, better policy and guidance, and a central repository for learning and lesson sharing.

DFID partially accepted the recommendation, accepting the need for a central point of responsibility and for greater emphasis on lesson learning. DFID has followed through with significant improvements. It has nominated a central point of responsibility at the level of director general, delegated to a deputy director and their team. It has developed a central learning hub on transition, linked to the department's central learning functions. DFID's 2016 Bilateral Development Review and its 2017 Economic Development Strategy, published after the ICAI review, set out clearly DFID's policy direction on changing aid relationships during transition.

DFID is currently preparing to conduct diagnostic work to assess country contexts ahead of the next spending review. In some partner countries, a central aspect of this will be how to manage transition and establish a new development partnership. DFID has underlined that each transition is country-specific and therefore unique, but our review found that some challenges and problems recurred across our country case studies. We were told of plans to develop a set of working principles on portfolio and relationship management, learning and knowledge sharing, development diplomacy and working as part of a wider cross-government platform.

Cross-government cooperation on relationship management with bilateral government partners

Good relationships with emerging powers and other middle-income countries are central to the UK's post-Brexit international outlook. Relationships with these countries will depend more on broad partnerships involving a range of technical inputs from across UK government departments than on financial aid. Our review found three cases where cross-government cooperation on managing the relationship with partner governments through transition and exit was hampered by inadequate consultation and communication between departments.

In its response to our recommendation to improve intra-government communication and coordination, DFID stated that it was already implementing this. It had created joint units with other UK government departments, such as the DFID-FCO joint unit on North Africa and the Good Governance Fund for Eastern Europe, and there was an increasing use of integrated 'One HMG' delivery plans and cross-government ODA funds such as the Prosperity Fund, the Global Challenges Research Fund and the CSSF. DFID told us that cross-government cooperation would be central to the working principles under development (as described above).

2. National Security Capability Review, UK Government, 28 March 2018, p. 41, [link](#).

Accountability and transparency on aid spending after transition and exit

Some of the transition processes covered by the ICAI review were subject to strong media attention. The government had previously made clear public commitments to end bilateral or financial aid to countries like India and China. For a non-specialist audience, it might be difficult to understand why aid flows had nevertheless continued, albeit in different forms, into these and other middle-income countries. We recommended that DFID should be clearer in communicating to a non-expert audience about which parts of aid spending would end and which parts would continue, and make reporting on aid in post-transition countries more transparent.

DFID has taken several relevant actions that help address the concerns underlying this recommendation. The most important among these is that it has now been made clear that DFID is responsible for gathering all data on UK aid, whether spent by DFID or by other government departments or cross-government funds. DFID is implementing a two-year reform process of its ODA reporting systems, including its online Development Tracker which shows where and how the UK spends aid money.³ These reforms are aimed at improving reporting of centrally managed programmes from DFID and programmes managed by other government departments, and linking these to the benefiting country. When completed, the Development Tracker will present a comprehensive and transparent picture of all UK ODA spending by country, regardless of which spending mechanism is used. We would still like to see improvements in communicating to the public what it means to ‘end financial aid’ in different country cases.

Support to local civil society partners through the transition process

Our review found that DFID’s decisions to phase out bilateral or financial aid led in some cases to a sharp reduction in funding for local civil society partners, at a time when other donors were also exiting the same countries. Loss of ‘moral’ support and political cover from DFID also led in some cases to reduced access to policy makers for civil society organisations. This impact, although unintentional, could put at risk many years of past UK investment in building a strong civil society able to hold governments to account. Our report therefore recommended that “DFID should assess the likely consequences for local civil society partners, including both financial and other impacts, and decide whether to support them through the transition process”.

DFID shares our concern over the legacy of its investments in civil society after transition. After a country has transitioned out of bilateral and financial aid, local civil society organisations can no longer obtain funding through DFID country offices, and it is unclear to what extent other funding mechanisms can make up for that loss. DFID’s forthcoming preparations for the spending review and the development of working principles for transition offer opportunities to identify how best to support local civil society organisations. British civil society organisations have shown a keen interest to engage on the topic and would be useful stakeholders in this analysis. We will return to this topic in next year’s follow-up review.

Conclusion

Despite some disagreements over the framing of the challenge, DFID has shown a willingness to move ahead on a number of key recommendations in the review. These efforts are now coming together as part of the department’s new ‘strategic directions’ work, with a central focus on changing aid relationships. DFID is aware that successful transitions will be an increasingly important issue in the years to come, as many of the UK’s development partners are expected to ‘graduate’ from aid in the next five to ten years. We are pleased to learn that DFID is beginning to develop a set of working principles and is building a learning hub to make sure that future transition processes, although highly context-specific, will build on good practice and draw on lessons learnt from previous transition processes. We will revisit DFID’s working principles on how to manage relationships during transition in next year’s follow-up review.

A central concern for DFID in managing transitions is how to enable local civil society partners to continue their efforts to keep society open and governments accountable. In next year’s follow-up exercise, we will inquire into DFID’s efforts to consider the potential negative impacts of transition on civil society organisations and to include measures to mitigate these in its working principles.

3. The Development Tracker can be accessed here: [link](#).



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

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