DFID Management Response to Independent Commission for Aid Impact recommendations on:

The Management of UK Budget Support Operations

ICAI Recommendation	Accept/ Partially Accept/ Reject	Action already taken	Action to be taken	Target date
Recommendation 1: DFID should determine the amount of budget support to provide based on an assessment of how much poverty reduction can realistically be achieved through expanding public expenditure given the quality of national policies and institutions.	Accept	• DFID uses a range of criteria to inform its decision on the appropriate amount of budget support to provide. The assessment is based on the objective(s) of the budget support programme and the country context in which budget support is provided, • The design of DFID budget support programmes takes into account the efficiency of public expenditure and the quality of national institutions.	1. DFID will require all Business Cases for budget support to include a clear rationale for the volume of budget support being proposed.	November 2012
Recommendation 2: DFID should build its general budget support operations around the possibility of higher and lower levels of funding, with a substantial	Accept	• In accordance with the Secretary of State's changed approach to budget support, in July 2011 DFID introduced changes to the design of budget support to signal more strongly to partner governments the importance of results and of delivering agreed reform agendas. This is being achieved through the use of	2. DFID will review each DFID budget support programme to assess the feasibility of introducing a Results Compact. Where feasible DFID will set out steps for the development and	January 2013

		Performance Tranches and Results Compacts.	incorporation of a Results Compact into the programme.	
increment between them, to send clear signals on performance and free up resources from non-performing operations.		• Several DFID budget support programmes include, or plan to include, a Results Compact. These make the payment of a part of budget support funds conditional on the achievement of specific results agreed with partner governments.	3. DFID will disseminate lessons learnt from evidence and international best practice of performance-based disbursements of budget support.	November 2012
Recommendation 3: DFID should set clear targets for progress on public financial management reform and anti-corruption for each of its budget support operations and link future funding levels to progress achieved.	Partially Accept	• Following changes initiated already by the Secretary of State, DFID is substantially strengthening its approach to tackling corruption. As part of this, anti-corruption strategies are being adopted in all 28 of partner countries by end January 2013. • DFID has strengthened its assessment of the commitment of partner countries to public financial management (PFM) reform – including more rigorous monitoring and implementation of partner government PFM reform programmes by considering specifically whether there is a credible programme to improve supreme audit institutes and parliamentary scrutiny and a commitment to undertake regular PEFA assessments. • Decisions on funding levels are made on the	4. DFID will strengthen guidance on supporting PFM reform including on monitoring progress with measurable indicators.	March 2013

		basis of an assessment of <u>all four</u> of DFID's Partnership Principles. These are a commitment to (i) poverty reduction and the Millennium Development Goals, (ii) respecting human rights and other international obligations, (iii) improving public financial management, promoting good governance and transparency and fighting corruption, and (iv) strengthen domestic accountability. It would not be appropriate to link only to one of these.		
Recommendation 4: DFID should strengthen its approach to managing short-term fiduciary risk in its budget support operations through more active measures to address specific risks identified in Fiduciary Risk Assessments.	Accept	• DFID combats fiduciary risk through both long and short term measures. To mitigate residual fiduciary risk in the short term, DFID employs safeguards. • DFID guidance contains extensive consideration of when and how to use such safeguards in response to problems identified in the Fiduciary Risk Assessment (FRA). In all cases, detailed design of safeguards must be based on the country context.	5. DFID will require all Business Cases for budget support to consider the need for, and design of, safeguards in direct response to issues and risks identified in the FRA. 6. DFID will establish a 'community of interest' on fiduciary risk and safeguards among budget support countries to share and discuss good practice.	November 2012 September 2012
Recommendation 5: Both general and sector budget support operations should	Accept	• In accordance with the Secretary of State's changed approach to budget support (July 2011), DFID assists partner governments to get better value for money from their spending – for	7. DFID will require all Business Cases for budget support to include an assessment of the	November 2012

include explicit strategies for tackling constraints on efficient public spending and ensure that these are addressed systematically in policy dialogue and reform programmes.		example through jointly undertaking analysis to generate value for money data. Public Expenditure Reviews and Tracking Surveys are used as ways of generating such data.	constraints to efficient public spending and propose measures to address these.	
Recommendation 6: DFID should develop explicit influencing strategies in respect of the issues it deems critical to each country's development path, combining budget support dialogue with other approaches such as funding research and advocacy, media campaigns and working with parliament in the recipient country.	Reject	• The issues that are critical to a country's development path, as well as the measures DFID plans to use to address these, are set out in Country Operational Plans. • DFID coordinates with other budget support donors to identify and agree specific issues to discuss with partner governments in the forum of budget support dialogue. Dialogue is structured around issues seen as particularly important to the development of the country - for example Uganda (anti-corruption). • DFID works with local institutions in ways that strengthen domestic accountability on issues critical to each country's development path. For example, we are helping partner governments to undertake analysis to generate value for money data, and we are helping to develop demand for such data in the partner country by supporting supreme audit institutions or by	8. The content of, and means through which, DFID plans to influence on key issues is set out and agreed in various documents and fora. It is therefore not appropriate to develop additional explicit influencing strategies. See Actions under Recommendation 7 on working with others on accountability.	

		supporting independent analysis of government policy and expenditure.		
Recommendation 7: DFID should look for every opportunity to promote national accountability, including through sharing information on recipient government performance generated within budget support operations with parliament and other national stakeholders.	Accept	• The Secretary of State's changed approach to budget support (July 2011) places more emphasis on domestic accountability of partner countries by making this a specific Partnership Principle. DFID has committed to spend an amount equivalent to 5% of budget support funds to help enable people to hold their governments to account for the use of all public resources. • The next annual review of the level of spending in countries receiving budget support on initiatives aimed at promoting domestic accountability will take place in August 2012. • DFID uses budget support dialogue as an entry point for discussing partner country transparency. We work with partner governments and other donors to make the process around budget support itself more transparent and inclusive. • DFID has initiated pilot programmes to test ways of obtaining and using information from citizens. Lessons from these pilots will be used to design ways to increase the responsiveness of decision-making to citizens' experiences and views.	9. Based on a review of the implementation of the 5% commitment, DFID will update guidance to country offices with case studies, good practice, and advice on further strengthening work on local accountability. 10. DFID will ensure that Performance Assessment Frameworks and related performance data are made publically available in a timely & locally accessible way. 11. DFID will require all Annual Reviews of budget support programmes to say how we are using information from non-government systems including from beneficiaries in budget support dialogue.	December 2012 October 2012 November 2012

| Recommendation 8: DFID should change the way it assesses and reports on the results of its budget support operations, to capture the transformational effects of UK budget support rather than simply the extent of the UK subsidy to basic service delivery. | Partially accept | • The totality of results derived from government expenditure and budget support operations is inherently difficult to quantify given the complexity of the results chain and the many factors that contribute to change.

• DFID is working to improve the measurement and evaluation of the potential benefits of budget support programmes that are often intangible and hard to quantify – such as the effect of DFID's influencing work.

• When reporting the results from budget support operations, DFID country offices suggest the most appropriate way accurately to capture the full extent of the results derived from DFID budget support – based on the objective of budget support in that country.

• DFID believes it is important to avoid over-reporting results. We therefore attributed delivery output results using the pro-rata share of results based on DFID funding. This is a conservative approach that may not capture all potential transformative effects of UK budget support unless they can be based on evidence and credible assumptions. | 12. DFID would ideally want to capture in full all the impacts of budget support: not just the results which our aid finances directly, but also the ideas and innovations which are taken up and replicated with others' resources. DFID will continue to follow the research evidence on this with a view to using better methodologies for identifying transformational results as and when they are available. We are open to further ideas from ICAI on this. We do not believe credible methodologies currently exist to do this in a consistent way. | |