



# DFID Response

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2 August 2017

## DFID Response to the Independent Commission for Aid Impact recommendations on: DFID's approach to supporting inclusive growth in Africa, June 2017

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DFID welcomes this Independent Commission for Aid Impact (ICAI) learning review and its support for DFID's approach to economic development. The review finds *'DFID's focus on economic transformation to be an appropriate response to the development challenges facing Africa and a welcome increase in the ambition of its economic development work'*. It further finds that *DFID 'has pursued a well-considered approach to building up its knowledge and expertise.... A new generation of centrally managed programmes has helped to boost delivery capacity.... Having correctly identified that programming must be context-specific, it introduced the inclusive growth diagnostic to support country planning'*. The review also notes how the *'new strategy makes positive commitments to politically smart approaches and economic inclusion'*.

The review describes our approach as *'relevant and credible'* and that it *'responds well to research and evidence on the causes of jobless growth in Africa'*. The review notes a *'broad consensus amongst external stakeholders, including academic experts and development NGOs, that [an economic transformation focus] was the right direction of travel'*. The review also welcomes the Economic Development Strategy which it says represents a *'much clearer articulation of DFID's objectives and overall approach'*.

DFID recognises some of the challenges that ICAI has identified and agrees with the importance of continuing to improve our approach. In line with DFID's Economic Development Strategy, DFID is taking steps to better track progress and results across our economic development investments; further enhancing the operational value of diagnostics; and strengthening our approach to generating and applying analysis on the distributional and political economy dimensions of our economic development work.

**Recommendation 1:** DFID's diagnostic and planning tools should more clearly support and encourage country offices to prioritise and concentrate their investments into areas with the greatest potential for DFID to contribute to transformative growth.

### Accept

- ICAI rightly recognises that DFID's diagnostics were an important learning tool that informed the development of research, country portfolios and DFID's overarching Economic Development Strategy. We agree with the importance of prioritisation. The diagnostics were a first step in supporting a sharper country office prioritisation exercise based on specific and viable opportunities to unlock inclusive and transformational economic growth.

- We will take the following steps to ensure the diagnostics deliver stronger prioritisation at country level:
  - Continue to strengthen the technical and academic foundation of our diagnostic tool so that it helps to sharpen choices about economic development programme interventions at country level.
  - Embed diagnostics in to the spending review cycle, to refresh country offices' understanding of the context for transformative growth in country, and how to best intervene to support it.
  - Track economic development spend, sectoral focus and results more tightly, and periodically assess how the diagnostics are impacting portfolio design and prioritisation.

**Recommendation 2:** DFID should provide more guidance on how to build a portfolio that balances investments in long-term structural change and job creation with programming to increase incomes for the poor in existing livelihood areas, taking into consideration the time required for economic transformation in each country context.

#### Partially accept

- DFID has a strong track record of supporting livelihoods. For example in agriculture our support ranges from helping poor farmers to be more resilient or step out of dependence on primary production, to smallholder participation in agricultural markets and related sustainable increases in incomes, as set out in the DFID Agriculture Policy.
- The new DFID Economic Development Strategy signals our ongoing commitment to strengthening poor people's existing economic livelihoods whilst putting increased emphasis on developing new economic opportunities that will ultimately eradicate poverty and put countries onto a more productive and prosperous economic path.
- We agree that structural transformative change does not happen in the short run and that the full DFID portfolio should balance short and long run considerations. To support this, we will monitor a range of results at country and programme levels, including those that measure livelihood interventions, as well as results on job creation and economic transformation. We will periodically assess and review the balance of investments between long-term structural change and short-term support to existing livelihoods.

**Recommendation 3:** Recognising the centrality of the state to economic transformation alongside the private sector, DFID should prioritise learning on how to combine politically smart and technically sound approaches to economic development.

#### Accept

- Strengthening DFID's approach to combine politically smart and technically sound approaches in all economic development work is central to implementation of the new Economic Development Strategy.
- We will develop specific and practical political economy and governance analysis tools that can be applied to diagnostics, programme design and implementation.

This will sit alongside existing guidance on how to design and implement flexible and adaptive programmes that take account of operating environments with a complex political economy – guidance that we are continually updating based on experience and learning of what has worked well.

- Together with the Overseas Development Institute (ODI), DFID has already published several case studies of its experience with politically smart economic development (*“Politically smart support to economic development”*, ODI, March 2016). DFID’s Smart Rules include, as one of its Guiding Principles, that we *‘strive to understand the local political, economic and operational environment within which we work.... and ensure that our programmes and aid instruments suit and influence the political context’*.
- Individual offices are going further, for example to develop a shared theory of change, across the portfolio, which draws on in-depth assessment of the evolving political economy context. This will help identify how best to tackle systemic blockages to economic development that impact on a range of programmes.

**Recommendation 4:** Building on broader learning on inclusion, DFID should ensure that opportunities for reaching women, young people and marginalised groups are identified and built into programme designs and results frameworks and that distributional impacts are routinely monitored and assessed.

#### Accept

- The ICAI review recognises the strong focus on reaching the poor in DFID’s country portfolios. The new Economic Development Strategy states how marginalised groups are routinely excluded from economic opportunities, and sets out DFID’s ambition to expand access for the poorest to jobs in high growth-potential sectors with improving working conditions, expanding opportunities for rising youth populations and people with disabilities, and tackling the specific barriers faced by girls and women.
- We are committed to capturing opportunities for reaching women, young people and marginalised groups in programme design and results frameworks. We will develop analytical tools to track a range of economic development programme-level results so that we better understand the impact of our economic development programmes on gender, young people and marginalised groups.
- We will also conduct more in depth analysis on the barriers to women’s economic empowerment in DFID’s focus countries, in follow up to the UN High Level Panel recommendations.