Operational Plan 2011-2015
DFID Private Sector Department

Updated June 2012

This plan will be refreshed annually

Contents:

Introduction

The UK Government is determined to help reduce the inequalities of opportunity we see around the world today. We believe that promoting global prosperity is both a moral duty and in the UK's national interest. Aid is only ever a means to an end, never an end in itself. It is wealth creation and sustainable growth that will help people to lift themselves out of poverty.

In May 2010, the International Development Secretary, Andrew Mitchell, commissioned the Bilateral Aid Review to take a comprehensive and ambitious look at the countries in which DFID works through our direct country and regional programmes. The review focussed on the best ways for the UK to tackle extreme poverty, ensuring that we make the greatest impact with every pound we spend. In parallel, through the Multilateral Aid Review, DFID assessed how effective the international organisations we fund are at tackling poverty.

On the 1st March 2011, the key outcomes of the reviews were announced, including the results that UK aid will deliver for the world's poorest people over the next four years. The Bilateral Aid Review has refocused the aid programme in fewer countries so that we can target our support where it will make the biggest difference and where the need is greatest. The Multilateral Aid Review findings enable us to put more money behind effective international organisations which are critical to delivering the UK's development priorities. In addition the independent Humanitarian Emergency Response Review looked at how the UK can build on its strengths in responding impartially to humanitarian needs and help ensure future disaster responses can be better prepared and coordinated.

DFID is committed to being a global leader on transparency. In the current financial climate, we have a particular duty to show that we are achieving value for every pound of UK taxpayers' money that we spend on development. Results, transparency and accountability are our watchwords and guide everything we do. DFID regards transparency as fundamental to improving its accountability to UK citizens and to improving accountability to citizens in the countries in which it works. Transparency will also help us achieve more value for money in the programmes we deliver and will improve the effectiveness of aid in reducing poverty.

The UK Aid Transparency Guarantee commits DFID to making our aid fully transparent to citizens in both the UK and developing countries. As part of this commitment we are publishing Operational Plans for country programmes. The Operational Plans set out the vision, priorities and results that will be delivered in each of our country programmes.

We will concentrate our efforts on supporting achievement of the Millennium Development Goals, creating wealth in poor countries, strengthening their governance and security and tackling climate change. The prize, in doing so, is huge: a better life for millions of people, and a safer, more prosperous world.

1) Context

"It is my intention to recast DFID as a government department that understands the private sector, that has at its disposal the right tools to deliver and that is equipped to support a vibrant, resilient and growing business sector in the poorest countries." Secretary of State for International Development, Andrew Mitchell, 12 October 2010, London School of Economics.

There is increased interest across the development community on how to engage with the private sector to foster inclusive growth and poverty reduction. We know that economic growth is the primary driver of poverty reduction and that the private sector is the engine of that growth; promoting new jobs, opportunities, markets and prosperity.

However, private investment in low-income countries while growing remains insufficient to drive the growth needed to create jobs and opportunities for people to lift themselves out poverty. Just 2% of foreign direct investment (FDI) flows to the least developed countries and low-income countries are held back by poor infrastructure and a lack of access to finance that weaken their ability to unleash their entrepreneurial potential; only one in four Africans has access to electricity and 2.7 billion people worldwide do not have access to formal financial services.

Private enterprise is not just a generator of wealth, but also a provider of critical basic services. Many poor people buy their healthcare from private and other non-state providers – over 50% in sub-Saharan Africa, and over 80% in South Asia – or choose to pay for their children's' education – more than half of children in school in Lagos, Nigeria attend low-cost private schools.

DFID's work with private enterprise is focused on two results:

i. Increasing successful private investment in firms, sectors and people, particularly in fragile states; and,
ii. Delivering better and more affordable basic services, including financial services, for poor people.

There are two principal ways that we do this:

i. Improving property rights and the investment climate; and,
ii. Engaging private enterprise directly in shaping and implementing development programmes and policy.

Private Sector Department (PSD) was created in January 2011. We are one part of DFID's work with private enterprise, which permeates throughout the organisation.

We work in close partnership with colleagues across DFID, including the Growth and Resilience Department on getting the investment climate right, DFID Country Offices on delivering programmes with the private sector and with DFID's network of advisers and their Heads of Profession.

2) Vision

Overview

The objective of DFID's Private Sector Department (PSD) is to foster growing prosperity in developing countries and the lives of poor people through more effective DFID work with private enterprise. PSD aims to help strengthen capability across DFID to engage with private enterprise to achieve DFID's mission of leading Britain's fight against global poverty and delivering UK aid around the world.

PSD is an outward looking department; we aim to spend more than half of our time working with private sector and other external partners, as well as other parts of DFID, to accomplish development results. We take a new approach to DFID programmes funded by PSD, co-designing these with our colleagues from other parts of DFID to respond to and leverage how DFID Country Offices and other departments achieve their objectives by working with business.

Alignment to DFID and wider UK Government priorities

PSD's creation is a direct result of the UK Government's Strategic Reform Plan and our objectives and priorities are structured to maximise our impact on UK development priorities. Our work is focussed around the third pillar to "make British international development policy more focussed on boosting economic growth and wealth creation". In delivering this we also support other pillars of the Strategic Reform Plan; (i) We contribute to achievement of the Millennium Development Goals particularly MDG 1 through more effective private sector provision of infrastructure and basic services; (ii) We deliver value for money for the UK taxpayer using our own resources effectively and mobilising resources from others – whilst increasing the transparency of our work; (iii) We promote the economic empowerment of women and girls through jobs and access to financial services; and (iv) we work with the private sector in tackling climate change.

Promoting UK commercial interests is a central part of the UK Government's foreign policy. DFID is not able to use staff time or financial resources to promote UK commercial interests – but we will help sign-post business to partners, facilities and other Government Departments that may be of assistance. We believe our approach is good for development and good for the UK. Fostering private sector growth in developing countries will help them become more attractive trading partners for the UK and better able to deal with disasters, disease and environmental degradation.

What we will stop doing

PSD will only engage with business and development partners with a view to achieve identified outcomes. We will stop open-ended general engagements. We will reduce time spent managing central programmes that are not closely linked-up with DFID Country Offices to enable us to spend more time working with other parts of DFID to support our overall engagement with the private sector. We will ensure our programmes are of a sufficient scale to deliver value for money; we will stop smaller programmes and projects or restructure them into larger consolidated ones to reduce the administrative burden. From mid-2012, we will reduce the amount of our time spend on programme design, focussing on the implementation of our programmes and increasing our policy work.

3) Results

Headline results

Pillar / Strategic Priority	Indicator	Baseline (incl. year)	Expected Results (incl. year)
Wealth Creation	**Investment Mobilised** New pro-poor investment mobilised by centrally-funded programmes (including an attributed share of our partners' results but excluding CDC) The ratio of new capital mobilised to new DFID funding is maintained above 1:8	£795 million (in 2009/10) >1.8	£5,750 million (2011/12 to 2014/15) >1:8
	Access to Finance The number of people with access to financial services as a result of PSD-funded programmes; where feasible split by gender (including an attributed share of our partners' results).	422,000	36 million by 2014/15
	CDC CDC publishes a new strategy by May 2012 to increase its development impact and achieves its targets over the period to 2015	n/a	Strategy published May 2012
	Access to Infrastructure Services Number of poor people with access to new or improved infrastructure from operational projects funded by the PIDG	42.4 million (cumulative to 2010)	3.2 million additional people by end 2012
	Prompting and Supporting DFID-wide Culture Change Proportion of DFID projects by value working with or on the private sector.	4.1%	8% in 2014/15
Health	**Non State Basic Services** Number of people with access to improved health services as a result of PSD and Country Office funded programmes where feasible split by gender.	n/a	2 million by 2015

3) Results (continued)

Evidence supporting results

We know that economic growth is the most powerful instrument for reducing poverty and improving the quality of life in developing countries. Kray (2006) tells us that four fifths of poverty reduction is due to growth in average incomes and suggests that policies, institutions and programmes that promote broad-based growth are central to the pro-poor growth agenda. Cross-country research and country case studies provide evidence that rapid and sustained growth is critical to making faster progress towards the Millennium Development Goals – and not just the first goal of halving the global proportion of people living on less than $1 a day.

A range of PSD-funded programmes are already delivering significant results on the ground. In the case of the Private Infrastructure Development Group **(**PIDG) and the International Finance Corporation (IFC) this was evidenced by positive results in the Multilateral Aid Review (MAR). Many of our programmes are pioneering, innovative and high risk. Scaling these to deliver transformational change will require significant focus on effective programme design, risk management and building our evidence base.

In some cases the evidence base is strong e.g. there is a strong consensus that infrastructure is significantly correlated with growth, both as infrastructure stimulates growth, and also as growth creates domestic demand for infrastructure improvements. But in many cases it is challenging to disaggregate our impact from broader economic trends. There remain significant gaps in our knowledge particularly where approaches are new and the indirect effects of our programmes are likely to be significant. An example is the hypothesis that if development finance institutions like CDC, the IFC and the PIDG demonstrate commercially viable returns to investment in poorer developing countries, this will prompt "copy-cat" private investment. This so called 'demonstration effect' is plausible but not much work has been done to check it actually happens and how it happens, we are engaged with our partners to collect better evidence.

We are integrating evidence-collection as a core element of all PSD-funded programmes. We will also work with our partners and other parts of DFID, including the Research and Evidence Division (RED), to develop short to medium-term evidence that can improve the results our programmes achieve. Longer term research will be developed by RED and other specialist entities.

Value for Money (VfM) rationale

We will seek to deliver maximum value for money by scaling up programmes that are delivering strong results and innovating to tackle new challenges. We will look for opportunities that are scalable and replicable and deliver significant leverage on our resources (both financial and human).

4) Delivery and Resources

To deliver on the Secretary of State's vision, PSD needs to be a highly skilled and flexible department that catalyses innovation. We will use a portfolio approach to manage our programmes that enables us strategically to reprioritise resources towards those investments offering the greatest return. Our programmes will have funding windows where strong performance can be scaled up and poor performance have funding cut or withdrawn all together. Given the scale of our funding to the PIDG, we are developing a contestable financing mechanism to channel our funding towards the PIDG facilities that show themselves most effective at delivering results.

PSD will deliver through both centrally-funded programmes and support to DFID Country Offices, regional and policy departments, and CDC and IFC. We are designing PSD-funded programmes to help achieve the objectives of DFID Country Offices and other departments, for example the Global Small and Medium Enterprise (SME) Finance Initiative is a joint programme with DFID offices including Nigeria and Mozambique. We also encourage organisations such as the IFC, CDC and the PIDG to work more closely with DFID Country Offices.

In PSD-funded programmes, we will look at adapting the PIDG model in which a like-minded group of agencies fund an integrated range of initiatives that seek to address sector-specific government and market failures. Management of the PIDG group is delegated to a Secretariat. The initiatives are run by entrepreneurially-driven enterprises with professional boards, operating within tightly defined investment policy frameworks (geographical/sector/instrument). The approach facilitates the use of public capital in innovative ways to reduce risk and entry costs for private investors, and separates DFID from investment decisions. During 2012 we will be inputting heavily into the PIDG strategic review when it decides whether and when to establish new initiatives and how far to extend its sectoral boundaries.

The group for Harnessing Non-State Actors for Better Health for the Poor (HANSHEP) is a group of development agencies and foundations aiming to support poor people's access to good quality, affordable healthcare provided in the non-state sector. DFID has assumed the chair in 2012.

PSD also provides a hub for DFID's engagement with the private sector, seeking to act as a thought leader, a provider of specialised technical expertise and a source of information and best practise. We will drive forward the process of strengthening DFID's capability to work with the private sector, enabling DFID to be more responsive and work more effectively with the private sector to achieve our development goals.

4) Delivery and Resources (continued)

DFID Department for International Development

Planned Programme Spend

Pillar/Strategic priority	2010/11 (outturn)		2011/12		2012/13		2013/14		2014/15		TOTAL (2011-15)	
	Resource £m	Capital £m	Resource £m	Capital £m	Resource £m	Capital £m	Resource £m	Capital £m	Resource £m	Capital £m	Resource £m	Capital £m
Wealth Creation	26	25	71	28	66.6	35.5	150	180	152	195	460	437
Climate Change						15		15		20	0	50
Governance and Security											0	0
Education					1		4		8		14	0
Reproductive, Maternal and Newborn Health							1		1		3	0
Malaria											0	0
HIV/Aids											0	0
Other Health			5		2.4		6		7		22	40
Water and Sanitation					1.8		6		6		18	0
Poverty, Hunger and Vulnerability											0	0
Humanitarian											0	0
Other MDG's											0	0
Global Partnerships											0	0
TOTAL	26	25	76	31	71.9	50.5	165	215	172	235	442.5	493.5

*DFID climate change programming is subject to the strategy and allocations of the UK's cross-Government International Climate Fund (ICF).

The 2010/11 figures reflect actual outturn as the baseline year before the current spending review period. Figures for 2011/12 to 14/15 are planned budgets within the spending review period. The 2012/13 figures differ from the previously published Operational Plan as the 2012/13 budget round has now taken place and updated allocations for this year have been agreed. 2013/14 and 2014/15 figures are subject to updates in subsequent years.

4) Delivery and Resources (continued)

Planned Operating Costs

	2010/11 (outturn)	2011/12	2012/13	2013/14	2014/15	Total (2011-15)
	£	£	£	£	£	£
Frontline staff costs - Pay		41,420	267,790			309,210
Frontline staff costs - Non Pay		8,500	33,460			41,960
Administrative Costs - Pay	269,352	1,434,419	1,788,260			3,492,031
Administrative Costs - Non Pay	282,192	270,534	242,100			794,826
Total	551,544	1,754,873	2,331,610			4,638,027

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4) Delivery and Resources (continued)

Planned Efficiency savings

Private Sector Department was established in January 2011 following a design process that sought to make it a lean, fit-for-purpose department from the outset. We have continued to keep under active review opportunities to make operational savings. Since 2011/12, we have reduced training costs and non-pay costs although our staffing compliment has increased to meet delivery needs. The training savings below represent the actual savings against our original staff compliment.

Delivering Programme Efficiencies

Category	Details	Residual cost in the SR period £'000
Strategic Reprioritisation		
Further examples of Programme efficiency		

	2011/12		2012/13		2013/14		2014/15	
Administrative Cost Savings Initiative	PAY £	Non Pay £	PAY £	Non Pay £	PAY £	Non Pay £	PAY £	Non Pay £
Reduction in Consultancy Payments								
Reduction in Travel								
Reduction in Training				9,600				
Reduction in Estates and Property Costs								
Reduction in costs as a result of Office Restructuring								
Other Reductions								

5) Delivering Value for Money (VfM)

We will embed a rigorous value for money assessment through our programme selection, design, monitoring and evaluation. Programmes will require rigorous project documentation based upon the best possible information to ensure maximum value for UK taxpayers.

We intend to structure our programmes using the most appropriate instruments to drive up value for money. We will where feasible:

- Use competition in funding and design decisions to drive maximum impact;
- Use private sector delivery to maximise efficiency in delivery; we will engage external expertise including – as in the PIDG facilities – the use of private companies with professional boards to decide which investments deliver the greatest return;
- Use output- and results-based approaches to incentivise the delivery of results;
- Ensure risks are faced by those best able to manage them and that reward accurately reflects risk;
- Manage the risks we face and mitigate against these risks wherever possible;
- Seek maximum leverage for UK taxpayers;
- Challenge our partners to reduce the cost of their services to us and challenge the organisations we have a stake in to be more efficient in delivering impact.

We will develop metrics in our programmes to ensure value for money is targeted and achieved, these will depend on the nature of the programme, for example tracking key unit costs. We will face challenges in measuring attribution and value for money particularly where the impact of our efforts are indirect and hard to separate from broader economic trends. In these areas we will continue to work with our partners to develop the evidence base.

The MAR assessed the PIDG as very good value for money and the IFC as good value for money. The outcome and reform priorities drawn out by the MAR sets a clear path for pursuing greater value for money from these agencies and are embedded within our work-plans for these institutions. In response, the PIDG has commissioned a system for classifying gender impacts of projects and improving their transparency. We will press for rapid implementation of these systems and for a closer collaboration with DFID Country Offices. The IFC has increased its engagement with DFID Country Offices and the IFC Roadmap for 2012-14 set targets for investments in IDA countries and for advisory services in fragile states. The IFC has continued to develop its Development Goals to help drive strategy and operational decision-making with greater attention on development impact. We will press for the IFC to reach their internal targets and deepen partnership with DFID Country Offices.

6) Monitoring and Evaluation

Monitoring

PSD's Operation Plan will be subject to full review on an annual basis, this review will be led and signed-off by the Head of Department. The annual review will entail a full appraisal of performance against the plan as well as a refresh of the plan and our targets as appropriate.

Our partners will be responsible for reporting the results they achieve with DFID funding. The MAR found that the PIDG and the IFC have strong results frameworks that will allow us to monitor progress. Business cases for PSD-funded programmes and the Key Performance Indicators of our partners will provide further detail of results achieved through PSD resources. Team leaders will be responsible for the results reporting of their programmes which is an on-going task in line with regular programme management. The objectives and results within this plan are cascaded down into individual level objectives.

In addition to monitoring this plan, we will over the course of 2012/13 develop a scorecard to monitor DFID-wide progress against our private sector objectives.

Protecting funds against corruption is a critical part of our monitoring work, we will undertake an additional anti-corruption review of our programmes over and above normal procedures to ensure funds are protected.

Evaluation

Our existing major programmes are designed with independent evaluations built in, for example, PIDG has a rolling programme of evaluations which will be continued. We will continue to ensure rigorous independent evaluation is part of the design for all our major and most innovative programmes. These evaluations both evaluate performance against programme objectives and recognising the innovative nature of many of our programmes will also contributed to developing the evidence base. We will ensure evaluation findings are acted upon through pro-active engagement with our partners for existing programmes and through programme design for new programmes.

We will work with colleagues with specialist evaluation expertise within DFID's Evaluation Department and the International Directors Office.

Building capacity of partners

PSD will focus on working with our partners to strengthen results management systems and work together to fill gaps where they are identified. Our partners are receptive to results measurement and have good capacity and systems in place, areas remain where these systems can be strengthened and we will continue to work with our partners on these.

7) Transparency

We will improve transparency across all aspects of our work, making information available wherever possible. We will meet, and wherever possible exceed the commitments, made by DFID in the UK aid Transparency Guarantee, publishing comprehensive details of all new projects and programmes on our website. We will improve the ability of the public to take advantage of increased transparency by better signposting on the DFID website of private sector and related programmes.

We will respond promptly to Freedom of Information requests, Parliamentary Questions and Ministerial correspondence.

We will embed a transparency element into the development of all our project documentation so it becomes a constant presence in our work and we will publish all expenditure over £500. We have published summaries of the Multilateral Aid Review assessments for PIDG and IFC and we will make funding decisions on the basis of these reviews and in line with published criteria.

Our default approach will be to publish wherever possible and we will seek to mirror any information available within DFID on the DFID website. We will provide access to information and the opportunity for beneficiaries or other actors to feedback on the DFID website. There must be a very strong case for withholding any information, but we must also be rigorous about respecting commercial sensitivity. We will develop transparency guidance for engagement with the private sector to define the level of transparency that is expected and ensure consistency across DFID.

We will make clear through a signposting system on the DFID website what support is available from DFID and our partners and how this can be accessed, as well as making clear where support is not available. We will also promote a culture across DFID of openness to the opportunities available through the private sector to deliver DFID's objectives.

We will work with our partners to increase their transparency both at headquarters and country level. Many of our partners and challenge funds already place significant amounts of information in the public domain, but there are some necessary constraints due to commercial sensitivity. The MAR identified transparency as an area where progress is needed from the PIDG. We will ask the PIDG to update its disclosure policies – and at our request PIDG has already agreed to publish all its evaluations.

CDC has reviewed its approach on transparency and now has a new disclosure policy, substantially more corporate and investment data published on its website and is the first bilateral Development Finance Institution (DFI) to become an International Aid Transparency Initiative (IATI) signatory. We will work with CDC to build on this, in accordance with both the UK's Aid Transparency Guarantee and its successors as well as the Busan High Level Forum commitments on transparency.