Operational Plan 2011-2015

DFID Private Sector Department

May 2011

Contents:

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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[1].

There is increased interest across the development community on how to engage with the private sector to deliver poverty reduction, directly and through contributing to growth that is broad-based, inclusive and sustainable. We know that economic growth contributes to development and that the private sector can be the engine of that growth; promoting new jobs, opportunities, markets and prosperity.

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. Net foreign direct investment (FDI) had risen from $5.5 billion in 2005 to $14.9 billion in 2008 before falling back almost 20% reflecting the impact of the global financial crisis. By comparison FDI in middle-income countries was $347 billion in 2009 down from a peak of $582 billion in 2008.

Beyond investment, 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. For example, only one in four Africans has access to electricity, high transport costs increase the costs of goods by 75% and 2.7 billion people worldwide do not have access to financial services.

DFID's Private Sector Department (PSD) was created in January 2011 to help raise the level, extent and effectiveness of DFID's engagement with the private sector. Our focus will be to help increase awareness and capability across DFID's country offices and other departments on how to work with the private sector to build prosperity and get rid of extreme poverty. We will deploy our staff, resources, partnerships and programmes to these ends, working closely with DFID's network of private sector advisors and the Head of Profession.

We will prompt and encourage new ways of working with the private sector across DFID – and help develop instruments and information that lend force and direction to these endeavours.

1. http://www.dfid.gov.uk/Media-Room/Speeches-and-articles/2010/Wealth-creation-speech/

2) Vision

Overview

PSD aims to prompt and support a DFID-wide culture change whereby DFID becomes more effective at achieving its objectives by virtue of greater openness and capability to engage with private enterprise.

PSD will be an outward looking department, more than half our time will be spent working with other parts of DFID to deliver great programmes. We will deliver a new approach to centrally-funded programmes to respond to and leverage how DFID country offices and other departments achieve their objectives by working with business. We will design and re-engineer our central programmes to this end.

Alignment to DFID and wider UK Government priorities

PSD's creation is a direct result of the 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 will support all the other pillars of the Strategic Reform Plan (i) We will contribute to achievement of the Millennium Development Goals particularly MDG 1, but also through the private sector provision of infrastructure and basic services; (ii) We will demonstrate value for money for the UK taxpayer using our own resources effectively and leverage resources from others – whilst increasing the transparency of our work; (iii) We will promote the economic empowerment of women and girls through jobs and access to financial services; and (iv) we will 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.

What we will stop doing

PSD will only engage with business with a view to achieve identified outcomes. We will stop open-ended general engagements. We will reduce our 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 leverage 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.

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 between 2011/12 and 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	40 million by 2014/15
	Grant funding per additional person with access to financial services (excluding partners where DFID has capital invested)	n/a	£2.25 per person
	CDC Publication of CDC's new business plan to deliver CDC's new approach to increasing its development impact	n/a	Business plan published May 2011
	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

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 80% 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 has been borne out by the Multilateral Aid Review (MAR). Many programmes are pioneering, innovative and high risk. Scaling these further 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. In other cases it is harder to disaggregate our impact from broader economic trends. There remain significant gaps in our knowledge particularly where the indirect effects of our programmes are likely to be significant. An example is the hypothesis that if development finance institutions like CDC, 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 IFC, CDC and PIDG to collect better evidence. Where we identify evidence gaps like this, we will work with our partners and other parts of DFID, including the Research and Evidence Division, to develop the evidence base. We will invest our resources in developing key parts of the evidence base that will deliver short- to medium-term impact on our programmes including developing baselines. Where we identify the need for longer term research, we will seek to get this done by 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 become a highly skilled and flexible department that catalyses innovation. To ensure we can capitalise on new and innovative approaches we have built flexibility into our resources to respond to new and innovate approaches; over 90% of our financial resources are available to be flexibly committed within certain boundaries and we will strategically reprioritise resources towards those investments offering the greatest return.

The department is structured into four teams; Infrastructure, Energy and Basic Services, Investment Finance, Business Engagement, and Policy Management.

PSD will deliver through both centrally-funded programmes and support to country offices, regional and policy departments. Crucially we will leverage both of these channels by redesigning PSD-funded programmes to achieve the objectives of DFID country offices and other departments by working with business. The first example of this new approach is our work with DFID India to help design the engagement of CDC, GuarantCo and InfraCo Asia to deliver increased investment in business and infrastructure in India's poorest states.

In our centrally-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 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. We have recently helped establish a group that will take an approach along these lines in the health sector - Harnessing Non-State Actors for Better Health for the Poor (HANSHEP).

PSD will also work as a hub for DFID's engagement with the private sector, acting as a thought leader, a provider of specialised technical expertise and a source of information and best practise. We will appoint members of PSD staff to work with selected country or regional programmes where this will add value. In addition we will develop an information hub that will facilitate cross-DFID access to information about work with the private sector.

We will lead the introduction of private sector thinking and expertise into DFID through our Touchstone Business Groups and Business Innovation Fellows.

4) Delivery and Resources (continued)

Pillar/Strategic priority	2010/11		2011/12		2012/13		2013/14		2014/15		TOTAL	
	Resource £'000	Capital £'000	Resource £'000	Capital £'000	Resource £'000	Capital £'000	Resource £'000	Capital £'000	Resource £'000	Capital £'000	Resource £'000	Capital £'000
Wealth Creation	26	25	71	28	87	34	150	180	152	195	460	437
Climate Change*				3		5		15		20	0	43
Governance and Security											0	0
Education											0	0
Reproductive, Maternal and Newborn Health											0	0
Malaria											0	0
HIV/AIDS											0	0
Other Health			5		10		15	20	20	20	50	40
Water and Sanitation											0	0
Poverty, Hunger and Vulnerability											0	0
Humanitarian											0	0
Other MDGs											0	0
Global Partnerships											0	0
TOTAL	26	25	76	31	97	39	165	215	172	235	510	520

*DFID climate change programming is subject to the strategy and allocations of the UK's cross-Government International Climate Fund (ICF). ICF priorities are to be agreed by summer 2011.

4) Delivery and Resources (continued)

	2010/11	2011/12	2012/13	2013/14	2014/15	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Frontline staff costs - Pay		41,420	41,420			82,840
Frontline staff costs - Non Pay		8,500	8,000			16,500
Administrative Costs - Pay	269,352	1,434,419	1,434,419			2,868,838
Administrative Costs - Non Pay	282,192	270,534	258,534			529,068
Total	551,544	1,754,873	1,742,373			3,497,246

4) Delivery and Resources (continued)

Efficiency savings

PSD has just been established after a design process that sought to make it a lean, fit-for-purpose department from the outset. As such, we do not anticipate making cuts, though we will of course keep under active review opportunities to make operational efficiencies.

Delivering Programme Efficiencies

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

	2011/12		2012/13		213/14		2014/15	
Administrative Cost Savings Initiative	PAY £'000	Non Pay £'000	PAY £'000	Non Pay £'000	PAY £'000	Non Pay £'000	PAY £'000	Non Pay £'000
Reduction in Consultancy Payments								
Reduction in Travel								
Reduction in Training				12,000				
Reduction in Estates and Property Costs								
Reduction in costs as a result of Office Restructuring								
Other Reductions								
Total	0	0	0	12,000	0	0	0	0

5) Delivering Value for Money

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

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

- Use challenge funds to allow competition and innovation 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;
- Seek maximum leverage for UK taxpayers.

We will develop metrics to benchmark and track key unit costs and compare these to external comparators. For example, these could include cost per beneficiary for basic service provision and access to financial services, cost per unit of output (e.g. MWh of power or km of road) and leverage of concessional funding to private finance for development finance. One area where we will focus resources to develop the evidence base and effective monitoring systems is understanding how private investment in basic services affects the prices paid by poor consumers and in turn how this impacts on access.

We will face challenges in measuring attribution and value for 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. For the PIDG we will promote steps to empower women and girls and gender disaggregation in reporting, we will press for improved transparency and help build stronger partnerships between PIDG and DFID country offices. For IFC we want to see better targeting of the poor; more geographic diversification of the portfolio, and fuller use of its more catalytic financial instruments, as well as greater results on gender equality.

6) Monitoring and Evaluation

Monitoring

PSD's Operational 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 plan will also be monitored every six months led by the Policy and General Management Team and signed-off by the Head of Department.

Our partners will be responsible for reporting results in most cases. The MAR found PIDG and IFC have strong results frameworks that will allow us to monitor progress. Programme documentation for centrally-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 and reporting against the results framework will be an ongoing task inline with regular programme management and corporate processes.

Six monthly monitoring of the Operational Plan will be used to monitor success during the year against objectives, to correct any areas of under-performance and take mitigating action against rising risks. 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.

Evaluation

Our major programmes are already designed with independent evaluations. PIDG has a rolling programme of evaluations which will be continued. The Technology for Branchless Banking programme has evaluations planned and Fair and Ethical Trade have independent evaluation at the mid-term and completion. We will continue to ensure rigorous independent evaluation is designed into all our major and most innovative programmes. PSD 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 need access to specialist evaluation expertise, it is likely this will be housed centrally either within DFID's evaluation department or potentially within the International Directors Office.

Building capacity of partners

PSD will focus on working with our partners to strengthen the evidence base and work together to fill gaps where they are indentified. Our partners are receptive to results measurement and have good skills and systems in place, areas remain where these systems can be improved 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 hardwire transparency into our work by ensuring our individual performance objectives include a success criteria relating to transparency. 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.

Our Business Innovation Fellows and Touchstone Business Groups programmes will make the way DFID works more transparent to the private sector. We will make clear through a signposting system on the DFID web-site 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 and CDC to update their disclosure policies.