Smart Rules

Better Programme Delivery

Version XI: effective 1st April 2019 until 1st October 2019
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EXECUTIVE SUMMARY

The Smart Rules provide the operating framework for the Department for International Development’s (DFID’s) programmes. They do not cover non-programme elements of DFID’s operating framework (i.e. human resources, security and estates).

To eradicate poverty in a complex and fragile world, we need to ensure excellent management of DFID programmes. Delivering results and addressing the underlying causes of poverty and conflict requires programmes that can adapt to and influence the local context.

DFID needs to maintain high standards of programme delivery and due diligence, in a wide range of difficult operating environments. We must make evidence-based decisions, apply professional judgement, act proportionately, learn and share lessons, ensure a clear audit trail of our decisions and be properly accountable to UK taxpayers in everything we do.

To achieve this, the Smart Rules:

- provide a clear framework for due diligence throughout the programme cycle (design, mobilisation, delivery, and closure)
- define accountabilities for decisions
- set out processes that are compulsory: anything not covered here is not a rule

These Smart Rules are designed to:

- encourage teams to focus more on the what and how of delivery and less on the why and rationale
- introduce leaner documentation and processes that encourage a proportionate approach, to help people spend their time on the right things to deliver results and effectively manage risk
- bring together all the information we need to comply with DFID/HMG rules in one place, which saves time and increases compliance

DFID has a Programme Cycle Committee that oversees governance of the programme management cycle. This Committee considers carefully any proposals for new rules or changes to rules, to protect against more rules being added unless absolutely necessary.

The Smart Rules are for everyone: Programme Managers, Advisers, Senior Responsible Owners, Corporate Teams, Heads of Departments, Directors and Top Management as well as our partners and other external stakeholders. Anyone in the Department can propose changes to the Smart Rules. Proposed changes should be emailed to Better Delivery Department (smartruleschanges@dfid.gov.uk) – the email should include the text/wording of the change proposed (in tracked changes on the most recent version of the Smart Rules), plus a rationale for why the change is proposed. You may be invited to attend the PCC to talk about the proposal to help the PCC reach a decision about the
change. If you want to discuss a potential change to the Smart Rules you can e-mail the above address.

1. Better programme delivery structure

1.1 The Smart Rules
1. Principles, rules and qualities
   Part 1 of this document explains the principles, rules and qualities underpinning DFID’s portfolio and programme design and delivery. It explains the difference between rules and our expectations on quality, making it clear where there is room for discretion to innovate and adapt to changing contexts.

2. Governance
   Part 2 sets out DFID’s role in delivering the UK Government’s international development policy priorities, strategic plans, funding sources, management systems and how DFID’s internal governance works to ensure effective programme delivery.

3. Portfolio development standards
   Part 3 sets out how DFID develops programme portfolios for each business unit, with Heads of Department accountable for the delivery of Business Plans.

4. Programme design and delivery standards
   Part 4 sets out DFID’s programme delivery cycle, with Senior Responsible Owners accountable for programme delivery, balancing their team’s effort between design, mobilisation, delivery and closure.

1.2 Templates
   There are templates stored in the Smart Rules site that must be used to ensure a consistent approach to publication and reporting. The main ones are:
   - Concept Note
   - Business case (a single template adaptable to all contexts)
   - Logframe
   - Due Diligence
   - Annual review
   - Formalising Agreements for non-contract funding arrangements
   - Procurement
   - Project completion review

1.3 Discretionary resources and guidance
   A wide range of operational guidance materials is available on Insight. These are designed to share learning and improve the way we design, deliver, monitor, evaluate and learn from Business Plans and programmes.

   These guides do not contain additional mandatory rules (these are covered within the Smart Rules) but do represent professional good practice. Staff and managers can use their judgement in applying them.

   Technical guidance – covering cross-cutting areas such as environmental impact assessments, social impact appraisal, conflict analysis, assessing evidence, and beneficiary feedback – is available on the Evidence and Programme Exchange.
Operational guidance on programme management and delivery is available on the Smart Rules homepage. These are listed as ‘Smart Guides’ and are aligned with the principles and approach of the Smart Rules.

2. How to use the Smart Rules

The Smart Rules are designed for all DFID programme expenditures – from core contributions to multilaterals to small-scale pilot programmes, from non-fiscal programmes to accountable grants with not-for-profit organisations, from large-scale commercial contracts to financial aid to partner governments.

<table>
<thead>
<tr>
<th>10 principles</th>
<th>to guide staff in designing and delivering high-quality programmes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>37 mandatory rules, clearly explained.</td>
<td></td>
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A set of qualities and of standards that illustrate our expectations of effective decision making at both the portfolio and programme level at each point in the delivery chain, while providing the space for discretion and professional judgement according to the individual context.

Good practice reference guides (Smart Guides) that draw on experience and expertise from across DFID and beyond. These documents contain no additional rules or mandatory procedures. They are designed to illustrate what can be done within our operating framework and to deepen learning.

The Smart Rules are structured around the DFID programme management cycle. They start at the portfolio level, setting out the planning framework, rules, operating principles and considerations that apply at all stages of a programme. They then provide rules and standards at the individual project or programme level, linking and integrating the various stages in the programme cycle.

In practice boxes are included throughout the Smart Rules. These are designed to illustrate in concrete ways what can be done within the context of the Rules.

Further information and templates boxes are included throughout the Smart Rules. These are designed to highlight Smart Guides which staff might want to consult to help with their thinking and templates that should be used. All documents can be found on the Smart Rules Insight pages. Smart Guides are internal DFID documents.

The Smart Rules provide the basis for open and flexible development programming, achieving results innovatively and at pace, and are focused on outcomes. We want staff across the organisation to be both empowered and accountable:

- **Empowered** to create better policy and programme outcomes, through increased innovation, taking well-managed risks with flexibility to adapt to realities on the ground.
- **Accountable** for effective delivery, through clarity of roles and responsibilities to consider choices and make good decisions, underpinned by quality information.
BETTER DELIVERY DEPARTMENT

**Smart Rules terminology**

**Head of Department** is used throughout to include Deputy Directors and Heads of Office, where responsibility is delegated to them to manage resources and results within their area for delivering their Business Plan commitments.

**Programme** is used throughout to refer to programmes, projects and investments and the terms are sometimes used interchangeably.
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1. The Principles
In applying the Smart Rules, we are:

1. Professional
   We lead the UK Government’s fight to end poverty permanently, including by addressing its underlying causes, building resilience and avoiding doing harm. We strive to deliver maximum impact and value for taxpayers’ money and follow the Civil Service Code and HM Treasury’s guidance on Managing Public Money.

2. Transparent
   British taxpayers and beneficiaries have a right to know what we’re doing, why we’re doing it, how we’re doing it, how much it will cost and what it will achieve.

3. Innovative
   We are prepared to do things differently to deliver better outcomes and learn lessons. We are creative and try new and original ways to deliver government policy.

4. Ambitious
   We are ready to propose difficult, transformational programmes in high-risk environments and discuss the risks with ministers and colleagues.

5. Context-specific
   We strive to understand the local political, economic and operational environment within which we work. We listen to the views and experiences of citizens and beneficiaries and ensure that our programmes and aid instruments suit and influence the political context.

6. Evidence-based
   We learn from evidence and experience, share lessons internally and with partners and change course as the context—or our understanding of it—changes. We make an open and genuine commitment to identify mistakes, learn from them and share lessons.

7. Responsible and accountable
   We are responsible for delivering the results we have committed to, with a clear understanding of our role and the role of others in delivering the Government’s policy on poverty reduction. We are accountable for effectively managing programme risk and performance.

8. Proportionate and balanced
   We use common sense and judgement to present reasoned, evidence- and risk-based proposals that are appropriate for the situation, the information available and level of urgency.

9. Collaborative
   We work and learn together and help and support each other right across the organisation. We collaborate with partners across Government and globally to create effective partnerships to deliver results.

10. Honest
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We proactively escalate concerns and risks through the management chain so that there are no surprises.

2. The Rules

There are 37 mandatory rules governing DFID’s programme cycle. These are set out below and then repeated in boxes throughout the Smart Rules.

We are responsible and accountable for ensuring compliance with each of these rules in the design, mobilisation, delivery and closure of all portfolios and programmes.

2.1 Operating framework rules

1. The Head of Department must ensure that their portfolio is consistent with relevant UK legislation, in particular the requirements of the International Development Act 2002 (as amended by the International Development (Gender Equality) Act 2014), the International Development (Reporting and Transparency) Act 2006, the Equality Act 2010 (which includes the Public Sector Equality Duty), General Data Protection Regulation and the Terrorism Act 2000 (TACT).

2. The Head of Department must set out in a Business Plan the strategic and portfolio priorities for their area of responsibility. The Business Plan must be submitted to Ministers for clearance.

3. The Head of Department must ensure every programme has by the pre-pipeline stage a designated Senior Responsible Owner (SRO) who is accountable for its design, delivery, closure and archiving.

4. The Head of Department and SROs must ensure that they make decisions within their risk appetite, delegated budget and the levels of authority set out in the delegated authority section and that they record on ARIES any budget authority that they delegate to others.

5. The SRO must ensure that any of their programme’s documents which fall into the 12 document types listed in the Transparency Smart Guide are displayed on the Development Tracker. All documents and other data for publication must be accurate, written in plain English and correctly saved to enable publication. Sensitive information must be handled appropriately and only excluded from publication as a last resort.

2.2 Design rules

6. SRO must ensure that all programmes have an approved concept note at an early stage in the design process.
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- Concept notes valued above £5m must be submitted to the relevant minister according to portfolio and must be escalated to the Secretary of State if above £40m.

At the end of the design process, SRO must ensure that each programme has an appropriately signed-off business case, covering the full duration of all related funding agreements, as follows:
- Business cases valued up to £40m must be submitted to the relevant Deputy Director (Head of Department) for sign-off;
- Business cases valued at more than £40m must be quality assured by the Quality Assurance Unit (QAU) and if the Business Case is valued between £40-£100m must be submitted to the relevant Director for sign-off;
- Business cases that are above £100m or novel and contentious must be submitted to the relevant minister according to portfolio and then submitted to the Secretary of State (see footnotes Table 3: Approval and Sign Off Levels).

All novel and contentious business cases, and those valued at more than £100m must be discussed with the Management Accounts Group, Finance and Corporate Performance Division (FCPD), who will then forward proposals to HM Treasury for clearance. Prior HMT approval is needed for announcements involving spend above £40m in any one year if the related business case has yet to be approved by HMT.

7. The SRO must ensure that a risk assessment is embedded within the business case and that risk throughout the life of the programme is managed within the risk appetite approved within that business case or that changes to the agreed risk level are subsequently approved by HoD or delegate.

8. The SRO must ensure that the impact of development or humanitarian assistance on gender equality is considered for every programme (including cross-HMG funds when funded by DFID and business case addendums). A proportionate statement summarising the impact on gender equality must be included in the concept note and business case or submission, or business case addendum.

9. The Head of Department for a country programme must ensure a Partnership Principles assessment is undertaken and updated, and use their judgement to determine when the most appropriate time for doing this is, for example when the overall strategy for engagement in a country is being considered. All programmes managed by country offices must consider what role, if any, the Partnership Principles will play in the management, monitoring and evaluation of that programme with a proportionate statement included in the strategic case.

10. The SRO must ensure that a concept note, business case, subsequent annual review or extension for a security and justice programme considers the Overseas Security and Justice Assistance guidance, records the outcome of the assessment in the strategic case of the business case, and is approved at the appropriate
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level depending on the risk rating (i.e. a high risk rating requires ministerial approval regardless of value).

11. For any programme that might create a financial asset whether the asset is owned by DFID or a third party through DFID funding, at the concept note stage of the programme the SRO must inform FCPD, and at business case stage must seek approval for the creation of the asset from FCPD via financialaccounting@dfid.gov.uk.

12. The SRO must seek advice at the concept note stage of the programme, and ensure that at business case stage they have approval from: Financial Accounting in FCPD for any liabilities, guarantees, indemnities, returnable investments or other contentious or novel financial arrangements, including projects that will generate income for DFID; from the Finance and Performance Department in FCPD for any non-ODA spend; and Management Accounting for any spend beyond the current Spending Review period.

13. The SRO must seek advice from DFID legal advisers on any issues that may have unclear legal implications.

14. The SRO must ensure that all programmes follow DFID’s UK aid branding guidance – including having a completed visibility statement in place and that digital elements of programmes (e.g. text messaging, cash transfers with a digital angle, websites and databases), are reviewed at the earliest possible stage in the process by DFID’s Digital Service Team.

2.3 Mobilisation rules

15. The SRO must ensure that governing documents such as MOUs, accountable grants, contracts and contract amendments use the model frameworks or templates. A formal agreement, signed by the Head of Department or delegate, must be in place before any commitments to cover programme costs, disbursements or transfers of assets/funding are made. DFID cannot make retrospective payments and an approved Business Case must cover the period in question. No costs may be agreed or commitments made after the expiry of the related funding agreement. For programmes that create financial assets or potential liabilities owned by DFID, the SRO must seek approval from Director of Finance and Delivery (via Financial Accounting@dfid.gov.uk) before entering into formal agreements or transfers of assets.

16. Before any programme becomes operational, the SRO must agree with their Head of Department or delegate, a delivery plan including a realistic logframe or similar, a risk register and frequency of monitoring.

17. The Head of Department or delegate must ensure that either (a) a fiduciary risk assessment has been completed before providing financial aid to a government; or (b) a due diligence assessment, including delivery chain mapping (with the exception of core funding) on AMP, has been completed before funding is disbursed. For rapid onset humanitarian emergencies (a different process applies
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for other humanitarian work) a formal DDA can be completed after disbursing the first funds but the SRO for the programme should have satisfied themselves that any risks are proportionate to the expected programme outcomes.

2.4 Procurement and competitive tendering rules

18. The SRO must ensure that direct procurements with a value above the Public Contract Regulations 2015 threshold (£118k) are commissioned for tender and award through early Procurement and Commercial Department (PCD) engagement, and competed for in line with the Public Contract Regulations 2015. Any exemptions (e.g. emergency procurement) must be agreed with PCD.

19. Procurements below the Public Contract Regulations 2015 threshold (£118k) must be undertaken by Departmental Procurement Officers (DPOs), or others accredited by PCD in line with the principles of the Public Contract Regulations; non-discrimination, equal treatment and transparency.

20. The SRO must ensure that contract amendments comply with the Public Contract Regulations 2015. The SRO must ensure that a robust value for money justification is provided for all proposed contract amendments. ‘Cost’ amendments above £1m must be submitted to the Procurement Steering Board a minimum of 12 months before the contract expiry date. ‘Cost’ amendments of £1m and below must be submitted to the Procurement Steering Board at least 9 months before the contract expiry date. ‘No Cost’ amendments must be submitted to PCD at least 3 months in advance of the change taking effect. If the contract is coming to an end the amendments must be submitted to Procurement Steering Board at least 6 months before the contract expiry date. Amendments that are likely to increase the profitability of suppliers should be submitted to Procurement Steering Board with 6 months’ notice ahead of the effective date. An approved Business Case must cover the full period of any amendments.

21. The SRO must seek ministerial approval for all supplier contracts over £1m, including contract amendments, and call-down contracts from framework agreements following agreement with PCD. Procurement Steering Board and Cabinet Office approval are also required for contracts over £10m.

22. The SRO must ensure compliance with the HR/PCD guidance on engaging self-employed individuals and former DFID staff. In addition, any department directly engaging contractors must complete an “off Payroll” employment status (IR35) assessment prior to contracting.

23. The Head of Department must ensure all staff complete and update HAGRID (Hospitality and Gift Register of Interest Database) in line with DFID’s Conflicts of Interest and Gifts and Hospitality policy. All staff involved in procurement must also complete a Conflict of Interest Declaration form containing the associated HAGRID item number before the release of any tender documentation.
24. The SRO must ensure that Duty of Care is adequately considered in supplier bids during the procurement process in line with the Duty of Care policy and seek advice from PCD where necessary.

2.5 Delivery rules

25. The SRO must ensure that the programme is appropriately monitored throughout the year and that the delivery plan, logframe or similar, risk register and delivery chain map on AMP are updated as necessary, with significant changes to the logframe or risk appetite agreed with the Head of Department or delegate.

26. The SRO must ensure that all projects of 15 months’ duration or more are reviewed annually unless the programme end date is due in less than three months. The first annual review is due within 12 months of the business case’s approval. Heads of Department or delegate must approve annual reviews. A Director may defer an annual review once for a maximum of three months. PCRs may not be deferred.

27. The SRO must integrate improvement measures into the delivery plan of any programme that scores a C or consecutive Bs in its annual review. After six months (or before if appropriate) the SRO must seek approval from the HoD or Delegate (and inform ministers, where deemed appropriate) on whether to close or restructure the programme, or continue with the improvement measures.

2.6 Financial management rules

28. The SRO must ensure that no payments are made in advance of need, i.e. before the funding is needed to enable the programme to proceed.

29. The SRO must ensure that all commitments are made in Sterling and that all commitments made in local currency above £50k are agreed by the Head of Financial Accounting and Policy, FCPD.

30. The SRO must ensure that funds have been paid to the intended recipient and have been used for the purposes agreed, including through the regular scrutiny of invoices, annual audited accounts and financial statements.

31. The Head of Department must ensure that the budgets are profiled at the start of each financial year. The SRO must ensure that financial forecasts for programmes are realistic, updated monthly on ARIES, and should explain any variances and how they will be managed.

32. The SRO must ensure that any relevant taxes (e.g. VAT, customs duties) are included in the budget and all financial forecasts throughout the project. Staff must contact the VAT Liaison Officer within Financial Accounting, FCPD, if they require advice about UK VAT. Staff must never provide tax advice to partners.
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33. The SRO must ensure that there is a complete, accurate and up-to-date inventory for all programme assets owned by DFID, and that physical checks of the assets take place at least annually.

34. The SRO must have Head of Department and Financial Accounting, FCPD, approval before writing off costs related to losses or fruitless payments, including when assets have been lost, stolen or damaged.

35. All DFID staff must immediately report any suspicions and/or allegations of fraud, terrorism financing, money laundering, bribery, corruption, or sexual exploitation, harassment and abuse, to the Head of Internal Audit or the Internal Audit Department’s reporting concerns inbox or hotline: reportingconcerns@dfid.gov.uk or +44 (0)1355 843747.

2.7 Extension and closure rules

36. The SRO must ensure that for a programme to be fully closed and archived:
   - a project completion review is completed within three months of the programme’s end date set in ARIES; it may not be deferred.
   - all outstanding payments are made and liabilities extinguished within eighteen months of the programme’s end date set in ARIES. Those costs must have been agreed and incurred before the expiry of the related funding agreement.
   - all assets are disposed of in a way that represents best value for money with a clear record of decision making, including approval by HoD or delegate.
   - all required audited accounts and financial statements covering the full duration of the programme have been received.
   - any unspent funds are transferred to DFID’s central contingency fund.
   - all available documents have been published in line with Smart Rule 5.

37. The SRO must ensure that all programme extensions and early closures are approved in line with the extension approval and programme closure processes.

3. The Operating Qualities

There is a set of qualities and standards that guide decisions at each point in the programme cycle. It is the responsibility of Heads of Department and SROs to consider these qualities and make judgements as to how they interpret them according to their specific context and type of portfolio and programme. The Head of Department and SRO should be able to provide evidence of their decision making and rationale for the approach taken.

3.1 Technical quality

Better programme delivery is not an end in itself. We want Business Plans and programmes that provide benefits to the poor and that tackle the underlying causes of poverty and conflict.
There are a number of technical considerations to guide the design and delivery of adaptive Business Plans and programmes. These include, but are not limited to: the political economy; conflict and fragility; institutional environment; climate change, resource scarcity and environmental vulnerability; gender equality; social and poverty impact; and human rights.

**Understand the political and economic context and how DFID’s interventions will affect and/or be affected by them.** Is the intervention realistic and feasible given the underlying political-economy dynamics? Do you understand which coalitions will or could support or prevent change? What are the key formal and informal institutions which will affect your intervention?

**Consider how each intervention will contribute to poverty reduction, addressing the underlying causes of poverty**, and the impact on different social and economic groups, including analysis of different needs, rights and patterns of discrimination due to location, gender, disability, ethnicity, religion, sexuality, age and so on. Also, consider the contribution to broader social and political participation.

**Ensure sustainability and resilience.** How will you generate lasting benefits for citizens in the face of possible future shocks (e.g. political, economic, security, environmental, social, climatic)? How do you support resilient households, firms, institutions, societies and environments capable of coping with uncertain futures? This could include: supporting opportunities to deliver climate and environmental benefits; fostering positive change in the political settlement; contributing to peace and stability; providing a stable and good investment climate in which firms can operate and create jobs; promoting rights and choice; and/or addressing underlying gender barriers.

**Avoid doing harm** by ensuring that our interventions do not sustain unequal power relations; reinforce social exclusion and predatory institutions; exacerbate conflict; contribute to human rights or safeguarding risks; create or exacerbate resource scarcity, climate change and/or environmental damage; and/or increase communities’ vulnerabilities to shocks and trends. Ensure that our interventions do not displace/undermine local capacity or impose long-term financial burdens on partner governments.

**Ensure that the views and experiences of citizens and beneficiaries** inform the design and delivery of our programmes. How do programme designs reflect local and national preferences (for instance by promoting collective accountability through democratic institutions such as community groups, local councils and national parliaments)? How do programmes capture and use feedback from partners, communities and individuals we work with (for instance using mobile technology, public audits, third party monitoring and field visits)? How do programmes share relevant programme information with beneficiaries?

**Learning before, during and after programmes.** Continuous learning and adapting is essential for UK aid to achieve maximum impact and value for money. It is important that learning is systematically planned, adequately resourced and acted on in ways that are strategic and can maximise results. Programme design documents and delivery plans
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should have effective feedback loops for gathering and sharing lessons and using these as an input into decision-making and resource allocation.

Spending teams should use professional judgement on the relevance, depth of analysis and the sequence for considering each technical area in the programme cycle, depending on the context and nature of the programme.

For bilateral programmes, the country-level analysis underpinning the Business Plan – currently the Country Development Diagnostic (CDD) – should provide a comprehensive baseline of data and analysis on the relevant technical areas. This provides the frame of reference to inform the choice or area of individual intervention. It also provides an early opportunity to prioritise cross-cutting risks and opportunities (e.g. gender, security, climate change and environment). It will be normal for teams to update their analysis as and when appropriate. Additional analysis may be required at the intervention level – evidence should be used throughout the design and implementation of any given programme (see section 3.3). It may be more appropriate to test assumptions during implementation (e.g. in the terms of reference for suppliers). Outside bilateral programmes, analysis such as the Multilateral Development Review should be used as a starting point.

Further information
Smart Guides on Political Economy Analysis; Climate and Environment; Value for Money; Safeguarding; and Public Sector Equality Duty

3.2 Risk management

Figure 1: DFID’s Risk Management and Assurance Framework

DFID operates in a complex environment and managing risk is important and something that we all do on a daily basis. It is key to the success of our organisation. Given the nature of our work we have a high appetite for risk but this does not mean we take risky decisions which could adversely affect our staff or our funds. Being risk aware means accepting an appropriate level of risk in order to achieve our planned objectives.
Why do we care about risk? Ultimately it helps us do our jobs better, leading to our programmes having a greater impact on improving the lives of the world’s poorest people. It enables us to be better prepared for when things go wrong; which they will do given the contexts we operate in. To do this we need to be explicit about the daily internal and external uncertainties and challenges we face.

Risks need to be properly assessed and understood. But they should not be exaggerated, and nervousness or a lack of clarity should not get in the way of good decision-making. Having a risk-averse approach could curb development impact.

What does success look like? It means more, and more honest, conversations about risk. In practice this means staff at all levels can easily articulate seven things: what are their top risks, mitigating actions, risk owner, current status, what’s changed, what risks are on the horizon and therefore what actions or decisions are required? It means being more explicit about the implicit choices we are already making.

Developing a risk aware culture enables staff to be innovative in their thinking and not be constrained by the potential for things going wrong. Assessing risks is integral to all stages of the programme cycle and will be captured in the development of concept notes, business cases and delivery plans. Risks and opportunities will be identified, assessed and reported to the appropriate level of management. There are five fundamental principles underpinning the risk management framework:

- **Communication**: developing an open and honest culture where risks are discussed openly, internally between colleagues and externally with partners;
- **Documentation and Evidence**: enabling the information to be referenced by those involved in the programme and providing an ‘audit trail’ demonstrating how risks are managed;
- **Professional Judgement**: applying training, skills and experience to focus on what are acceptable risks to take in a given context;
- **Common Language** of risk: to avoid misunderstandings in communication; and
- **The application of DFID’s Smart Rules**: which provide a clear framework for due diligence throughout the programme cycle.

Risks are considered through six categories:

- **Context**: The operating context can affect the implementation of programmes. Risks to consider include political developments, the economic situation and other environmental factors.
- **Delivery**: Risks relating to delivery of the programme of work including those associated with the partner and its supply chain, to beneficiaries as well as the performance of the programme.
- **Safeguarding**: An important aspect of delivery risk is to ‘avoid doing harm’. Risks to consider include those impacting on social exclusion, sexual exploitation abuse and harassment.
- **Operational**: These relate to DFID’s capacity and capability to manage the programme.
- **Fiduciary**: Fiduciary risks relate to the funds not being used for the intended purposes and/or not being properly accounted for.
- **Reputational**: Any risk that could threaten DFID’s reputation.
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The risk appetite should be clearly articulated at the beginning of any work to provide direction on how risks can be addressed and managed. Having an articulated risk appetite will enable teams to be clearer about when to escalate (and delegate) risks.

Having identified the key risks we assess their likelihood of being realised and their impact if the risk is realised. This is the inherent risk. Once mitigating actions have been identified the assessment will demonstrate the level of residual risks. Risks are considered on a four point scale (see table below) and can be plotted on a 5x5 matrix showing likelihood on one axis and impact on the other (see risk management guidance on smart rules site on Insight):

<table>
<thead>
<tr>
<th>Minor</th>
<th>Low probability of risk materialising; limited reduction in outcomes if this occurs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moderate</td>
<td>Low probability of risk materialising; higher but still limited reduction in outcomes if this occurs.</td>
</tr>
<tr>
<td>Major</td>
<td>Higher probability of risk materialising; outcomes reduced if this occurs, but some important outcomes still likely.</td>
</tr>
<tr>
<td>Severe</td>
<td>High probability of risk materialising; very significant reduction in outcomes when this occurs.</td>
</tr>
</tbody>
</table>

It is important to capture risks in risk registers and review risks regularly to make sure they are being actively managed. There are a range of tools which help identify and manage risks including: due diligence; central assurance assessments; fiduciary risk assessments; delivery chain mapping; risk and return; and anti-corruption and counter fraud strategies.

Further information
Smart Guides on Due Diligence and Enhanced Due Diligence on Safeguarding; Fiduciary Risk; Risk Management Guidance on Smart Rules site on Insight.

3.3 Use of evidence
Using the best available evidence (research, evaluation results and statistical data) is important for delivering development programmes that result in greater impact and deliver best value for money.

- **Evidence is used throughout programme design:** The programme is built on evidence which supports an understanding of the context and need. Evidence is also used to underpin the Theory of Change rationale and to assess how likely the intervention is to achieve its intended impact and to assess options for its effective delivery. The Evidence Transparency Framework, which is available on the internal DFID EPE teamsite, sets out how and where you should be using evidence to inform programme design.

- **Evidence is considered throughout the programme cycle:** We should take into account lessons from independent evaluations and research as well as changes in the global evidence base to inform and change the delivery of the programme and formal agreements with partners. Programmes will generate, learn from and share their own evidence/lessons.
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- **The strength of the evidence base is acknowledged and responded to:** Limited evidence or gaps in the evidence base are acknowledged at the design stage. Weak evidence does not necessarily mean that innovative programmes should not go ahead. However, a strong research and evidence and learning plan (incorporating a mixture of monitoring, evaluation and/or operational research) will be needed to help DFID learn and improve throughout the course of implementation.

### Further information and Templates

Technical Guidance on Evidence and Programme Exchange; Smart Guides on Understanding Data Quality, Evidence, Monitoring, Reviewing & Scoring and Theory of Change; and Business Case template

### 3.4 Value for money

DFID is committed to maximising the impact of each pound spent to improve poor people’s lives (economy, efficiency, effectiveness and equity). We are spending taxpayers’ money and need to be able to explain and defend our decisions.

- **Value for money means aiming for the best feasible programme, not just a good programme.** This means carefully appraising possible objectives and delivery options, considering how to use the market and competition and thinking creatively about how to get the best development impact.

- **That doesn’t mean that we only do the cheapest things.** We need to understand what drives costs and make sure that we are getting the desired quality at the lowest price. We need to influence partners to do the same.

- **Nor do we just do the easiest things to measure.** We need to explain what we value, be innovative in how we assess value for money and what results we are trying to achieve with UK taxpayers’ money.

- **Value for money is not something that applies only to programme design.** It should drive decision making and management throughout the cycle and in relation to our own running costs and be included in programme and project evaluations.

#### In practice

In delivering value for money programmes, teams must ensure programmes represent economic, efficient and effective use of funds for the desired objective. By economic we mean buying inputs of the appropriate quality at the right price. Whilst teams should understand and seek to minimise input and (where possible) output costs, the right price does not always mean the cheapest price. Economy must be balanced with efficiency, effectiveness and equity. If paying a bit more means the programme is more efficiently implemented, outcomes more effectively met and/or greater equity is achieved, then that payment is likely to be justified.

A good example is in our humanitarian crises work, or similar time-sensitive situations, where speed of response is a key determinant of an intervention’s impact. The benefits of intervening rapidly can far outweigh foregone cost savings which might otherwise be secured by slower procurement. The VfM triangle of ‘cost, quality and speed’ provides an alternative approach with which to assess VfM of a programme in these instances.
3.5 Economic appraisal

We need to be satisfied that public funds are spent on activities that provide the greatest benefits to society (through reducing poverty in poorer countries and its underlying causes), and that they are spent in the most efficient way. This means:

- **Careful analysis of the costs and benefits of different options.** Cost–benefit analysis quantifies in monetary terms as many of the costs and benefits of a proposal as is feasible, and estimates the nature and scale of harder-to-value benefits. The results of a cost–benefit analysis can be presented as (a range of) net present value estimates for an intervention or as (a range of) Benefit-Cost Ratios. Cost-effectiveness analysis is an alternative for comparing different ways of producing the same or similar outputs where the lowest cost way is preferred.

- **Identifying** the main benefits of each option; then estimating the scale of each benefit; and, where possible, placing a value on it in money terms. Some benefits can only be expressed qualitatively, but they should be observable and their scale is usually possible to estimate. Many benefits cannot be monetised. Consider the timing of when benefits and costs will happen. Identify capital (initial) and recurrent (operating and maintenance) costs, and plan for financing the recurrent costs.

- **Being explicit about how risks can vary the result.**

3.6 The Partnership Principles

The Partnership Principles (PPs) help decide how we provide development assistance through our bilateral country programmes. They are a commitment to reducing poverty and achieving the Sustainable Development Goals (Global Goals); respecting human rights and other international obligations; strengthening financial management and accountability, and reducing the risk of funds being misused through weak administration or corruption; and strengthening domestic accountability.

Our assessment of a partner government’s commitment to these principles is one important factor in influencing the extent to which – and the manner in which – we work with the government in that country.

While a Partnership Principles assessment must be undertaken for every country where we have a country programme, teams should use their judgement to determine the format, length and content of the assessment as well as when and how frequently they are produced. The SRO is responsible for deciding what role, if any, the PPs will play in the management and monitoring of individual programmes, with a proportionate statement recorded in the strategic case section of the business case. SROs of centrally managed programmes should check the partnership principle assessments for the
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countries that their programmes will operate in and liaise with the DFID offices before agreeing to any activities in those countries.

Further Information
Smart Guides on: Partnership Principles; and Programming Coherently

3.7 Principles of development effectiveness

As a member of the Global Partnership for Effective Development Cooperation (GPEDC), DFID is a champion of four internationally agreed principles to make development cooperation more effective. These principles were agreed in Busan in 2011, and build on previous international efforts in Paris (2005) and Accra (2009) to make aid and development more effective. DFID is held accountable on how we embody these principles in various ways: the International Development Act (2006) requires us to include information on effectiveness in our Annual Report; the GPEDC Global Monitoring Framework; DAC monitoring and Peer Reviews; and continued interest and scrutiny by the International Development Committee and civil society. The importance of development effectiveness principles was also reaffirmed in the 2015 Addis Ababa Agenda for Action, which provides a foundation for implementing the Global Goals.

The principles are:

• **Country Ownership** - ownership of development priorities and outcomes by developing countries is essential for sustainable results. For DFID, this means aligning our programmes with developing countries’ own strategies for poverty reduction, harmonising our activities with those of other donors; and providing assistance in a way that supports and strengthens local responsibility, local capacity (of people and systems), and accountability and leadership.

• **Results** – placing more focus on the impact of our assistance, the tangible difference it makes in poor people’s lives. There are a myriad of ways to deliver support. To be effective we need to find ways to benchmark our interventions and work out which ones deliver the best results in different contexts. Results also need to be measured in ways that are meaningful to different audiences – from UK taxpayers to our partner governments to beneficiaries of aid.

• **Transparency** - Development effectiveness means empowering citizens to hold governments and aid delivery partners to account by being as transparent and open as possible about aid flows and policy approaches, what works and what needs to improve.

• **Inclusive Development Partnerships** - Development will be more effective if we incorporate the contributions of all development players—middle-income countries, global funds, the private sector, civil society organisations—into more inclusive partnerships.

DFID has a wide range of tools and guidance - from the Country Development Diagnostic (CDD), to guidance on Financial Aid, Payment by Results, and Beneficiary Feedback – that will help programme managers consider how to implement these principles in practice and ensure our programmes are transparent and designed to achieve lasting results in a variety of contexts, and with a wide variety of partners.

3.8 Transparency
Transparency underpins our accountability. Good quality, accurate data is important not just for UK taxpayers, but also to help achieve good development outcomes and greater value for money. Transparency can:

- help recipient governments to plan and manage all development resources;
- empower citizens and parliamentarians to hold governments to account; and
- enable beneficiaries to give direct feedback on whether programmes are operating as intended.

Under the Government's transparency commitment, information is released each month about our expenditure and projects. SROs need to make information transparent as a rule and are encouraged to consider how to make it accessible to citizens and beneficiaries.

SROs must ensure all documents and data for publication are accurate and meaningful including project titles, purposes, components and all monthly expenditure above £500. SROs and Heads of Department should use their judgement to identify sensitive information and appropriate handling options. Information should be excluded from publication only where there is a compelling reason.

SROs are encouraged to ensure that any non-core grant, fund or business opportunity that organisations or individuals can apply for, relating to international development work funded, or co-funded, by the UK government are published in the Funding Finder.

The Transparency Smart Guide sets out further information regarding the Funding Finder and some further prompts for teams to consider, including guidance on saving documents correctly on Vault so they are published and excluding information from publication as a last resort.

SROs must satisfy themselves that centrally sourced suppliers and CSO implementing partners fulfill our transparency requirements.

Further Information
Smart Guide on Transparency

3.9 Commercial standards

Applying commercial discipline to how DFID designs and delivers programmes is essential for making the right choices through the programme cycle and maximising development impact. In 2016-17 DFID carried out a Supplier Review to address public concerns about value for money and the ethical behaviour of our suppliers. The review led to the introduction of three new tools (reflected in the text below) to improve delivery and strengthen the case for the broader development budget.

- DFID will procure in line with internationally and nationally agreed policy and regulations, and ensure that the procurement process is conducted in a fair, transparent and equal way.
- DFID maintains and publishes an accurate programme pipeline and uses this information to alert and plan early supply partner market engagement; and to inform demand management, business case development and choice of
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procurement routes/contract models. New contract transparency measures under the Supplier Review will ensure improved value for money from suppliers.

- **DFID uses early engagement** with a wide range of potential partners (including Small and Medium Enterprises) to develop a clear understanding of the market in order to improve decisions on the design and delivery of programmes. Requirements should be designed with supply partner accessibility in mind to maximise competition and VFM.

- **Clear leadership and vision.** DFID will maintain senior management engagement throughout the procurement process, including SROs on all commercial activity and senior commercial oversight. Transparent governance and robust risk and contract management will give supply partners and DFID increased confidence to be ambitious in delivery, flexible in operations and accountable for results.

- Collaborating positively with suppliers, civil society, and multilateral partners while effectively managing their performance will allow joint problem solving and innovation. This requires robust management by DFID, mature relationships and the appetite to challenge them. This includes measurable performance and delivery of agreed outcomes, ensuring contract management capability and application of the right contract model. The Supply Partner Code of Conduct sets out our commercial and ethical expectations of our partners throughout our supply Chains.

- **DFID will collaborate to deliver value for money** and make use of shared capability, existing contracts or sourcing arrangements and use cross government subject matter experts and knowledge wherever possible. Commercial capability will continue to improve, with increased senior involvement and minimal use of interim staff.

- **Commercial discipline** means following the money throughout the whole programme delivery chain in order to understand where and how DFID resources are used and managed by sub-grantees. Making use of flexible commercial contracts will allow adaptation to necessary future programme changes for continued delivery.

- The Supply Partner Code of Conduct sets out mandatory and ethical principles and requirements under 3 compliance levels for DFID direct supply partners and how this applies throughout the supply chain. This was revised in August 2018 to make DFID’s expectations even clearer.

**Further information and Templates**
Smart Guides on Procurement/Commercial; Procurement Frameworks; Duty of Care Policy; Duty of Care to Suppliers Policy; and templates for Conflict of Interest; Strategic Sourcing; Standard Competition and Contracts; Framework and Call Down Competition and Contracts; Research; and Single Tender/Waiver Process

**In practice**
In deciding how best to deliver DFID’s objectives within the framework agreed with ministers, teams will use the principles, standards and rules to design and deliver high-quality portfolios and programmes.
Teams will ensure that they consider these issues at the most appropriate time, given their individual context. For instance, it may be more appropriate to address operational and technical considerations at the portfolio level and refer back to this in later programme design work, reducing duplication or unnecessary work.

Ministers and senior managers (with assurance provided by the Internal Audit Department) look for evidence of sensible and pragmatic decision making not simply box-ticking for compliance.
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Accountability: Leadership group
1. Context

- **DFID** delivers the Government’s policy as set out in documents such as DFID’s Single Departmental Plan, results frameworks, and DFID budget policy.

- We operate as part of the **UK Civil Service**, within the UK Government framework set out by HM Treasury, Cabinet Office and the National Security Council.

- We operate within a clear UK legal framework, including the **International Development Act 2002**.

- We are accountable to Parliament through the **Permanent Secretary as the Accounting Officer**, who is personally responsible for the stewardship of the resources within the organisation’s control, including propriety, selection and appraisal of programmes, VfM, management of risk, and accurate accounting.

- The National Audit Office and the Independent Commission for Aid Impact provide independent scrutiny and assurance to Parliament on our work.

- DFID’s **internal policy and priorities** are set and governed by the Departmental Board, the Executive Committee and its subcommittees. Internal Audit Department provides the Accounting Officer with assurance via the Audit Committee.

- The Programme Cycle Committee is a sub-committee of DFID’s Investment Committee. It provides a transparent governance mechanism which ensures DFID’s programme rules, design and delivery systems remain fit for purpose.

- Choices about what we do and where we do it are considered and made by ministers through periodic **resource allocation rounds**, through which budgets are set.

- These decisions are reflected in **Business Plans** that translate the outcomes of resource allocation decisions into detailed plans that are context specific and risk appropriate.

- Individual **programmes** are designed and implemented to deliver the priorities and results set out in Business Plans, ensuring VfM for UK taxpayers.

2. Funding sources

DFID’s budget is determined by periodic Spending Reviews. The Spending Review is an HM Treasury-led process to allocate resources across all Government departments, according to the Government’s priorities. Spending Reviews set firm and fixed budgets over several years.

Once the budget has been determined, HM Treasury sets an annual **Departmental Expenditure Limit (DEL)**. In addition to their DEL, departments receive a budget for **Annually Managed Expenditure (AME)**. This is for spending that is considered difficult to control within fixed budgets due to its size or volatility, e.g. public service pensions or interest on national debt. Together **DEL** and **AME** make up DFID’s **Total Managed Expenditure (TME)**.
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DFID is required to meet annual targets for the following types of expenditure (known as ‘control totals’):

- **Resource DEL (RDEL)** – a budgetary limit of total revenue expenditure permitted in year. This includes expenditure on Programme, Administration and Frontline Delivery revenue costs.

- **Capital DEL (CDEL)** – a budget limit of total capital expenditure permitted in year, e.g. infrastructure spending or spend by multilateral development banks where DFID is a shareholder. It also includes programme expenditure where our funding creates or acquires an asset and also research and development spend which meets the DFID research definition as approved by the Chief Scientific Advisor. Research and Evidence Division leads on DFID’s research expenditure and is responsible for reporting to HMG and internationally. Teams should ensure that CDEL spend recorded as research is applied in consultation with Research and Evidence Division and meets this definition. If teams are unsure whether a programme meets the definition of CDEL research, they should contact the Research and Evidence Division.

- **Non-Fiscal Capital DEL** (also known as Development Capital/Financial Transaction spend) – this is a subset of DFID’s Capital DEL. The main difference is that DFID is creating an asset on its own balance sheet. Creating this asset will mean that DFID has a legal right to reclaim any returns on its investment (principal, interest and dividends) and/or direct how those returns are to be used.

- **AME (Annually Managed Expenditure)** – DFID has a separate control total for expenditure on areas that are typically volatile and demand-led. This is not subject to firm multi-year limits in the same way as DEL. Examples of AME spend include debt interest and expenditure on provisions (such as providing for revaluation of DFID’s assets). AME budgets can be capital or resource and are managed by central finance rather than delegated out to individual divisions.

Not covered in the Smart Rules

- **Administration costs** – in DFID, Resource DEL is split between Programme budget and Administration costs. Only a fixed amount is permitted to be spent on Administration.

- **Frontline Delivery costs (FLD)** – DFID also has a fixed spending limit to be utilised on FLD (previously Programme Admin). These are costs relating to staff and associated expenses directly associated with running programmes.

Further Information

Smart Guide on Budget Policy

In addition, there are a number of cross-Government funding settlements:

- **Conflict, Stability and Security Fund (CSSF)** – The CSSF (the successor to the Conflict Pool) aims to help prevent conflict and tackle threats to UK interests arising from instability overseas. It came into operation on 1 April 2015. It is under the direct authority of the National Security Council (NSC), and supported by a Joint Secretariat which is housed in the FCO, reports to the National Security Secretariat in Cabinet Office, and is staffed by officials from across the NSC departments. Unlike the tri-departmental Conflict Pool, all NSC departments and agencies are able to access
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resources. Within the overall RDEL allocation, the CSSF is explicitly ring-fenced within DFID’s settlement.

- **International Climate Finance (ICF)** – a tri-departmental allocation managed by DFID, Department for Business, Energy and Industrial Strategy (BEIS) and Department for Environment, Food and Rural Affairs (Defra). It supports international poverty reduction by helping people manage risk and build resilience to the effects of climate change now and in the future, promotes sustainable economic development, tackles deforestation and builds good governance of natural resources. Resources for the ICF are included in each department’s settlement, and each department is responsible for the delivery of its own high quality climate finance portfolios and for specific amounts each year in ways that contribute to the ICF objectives.

- **Ross Fund** – The fund will invest in the research and development of drugs, vaccines, diagnostics and treatments which will combat the most infectious diseases, including the fight to eradicate malaria. It will also support work to fight diseases of epidemic potential, such as Ebola, neglected tropical diseases, and drug resistant infections. This will harness the best of British research to save millions of lives around the world while better protecting UK citizens from the threat of disease. Funding has been allocated to DFID and the Department of Health who are partnering with the Bill and Melinda Gates Foundation.

- **Prosperity Fund** – The fund aims to support global growth, trade, stability and reduce poverty in emerging and developing economies, which will also open up new markets and opportunities to the UK. DFID can bid for money from the Fund.

3. **Governance framework**

DFID operates under the International Development Act 2002 which establishes the legal basis for UK development assistance. This means that the Secretary of State for International Development can provide development assistance for the purpose of reducing poverty.

The International Development (Reporting and Transparency) Act 2006 strengthens the accountability of the UK Government in delivering its pledges to help the world’s poorest countries and people. The Act requires DFID to report annually to Parliament on development policies and programmes and the provision of development assistance to partner countries and the way it is used. The International Development (Gender Equality) Act 2014 ensures that DFID **considers gender equality before we provide assistance**.

DFID is represented in the Cabinet by the Secretary of State for International Development. The Departmental Board is chaired by the Secretary of State and is responsible for DFID’s governance at the overall strategic level. It meets at least quarterly in formal sessions. Its members are: Secretary of State, Junior Ministers, Permanent Secretary, the Directors General, Director of Finance and Delivery, Chief People Officer and the Non-Executive Directors. The Board sets DFID’s strategic direction, including through oversight of DFID’s Business Plan. The Management Board makes decisions on operational and policy implementation issues that require a collective, cross departmental view and benefit from external challenge. The Executive Committee makes decisions on sensitive, time critical, internal operational and policy implementation issues that involve cross directorate trade-offs and a cross departmental impact. Its four subcommittees are the Investment Committee, Senior Leadership Committee, Security Committee and Audit and Risk Assurance Committee (ARAC).

At the operational level, DFID has three mutually supportive roles or ‘lines’. 
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First line – business operations
The majority of DFID staff operate within the first line and are working directly to deliver our programmes or oversee our strategic partnerships. This includes country offices and spending teams, as well as some central departments – e.g. a policy team, working with Research and Evidence Division, commissioning research to support programmes or funding global programmes, a department monitoring the performance of a multilateral partner, or Procurement and Commercial Department’s role in the selection of service providers.

Staff in the first line are responsible for:
• business planning processes to deliver the Government’s policy priorities;
• design, delivery, monitoring and evaluation, and closure of individual programmes and portfolios; and
• learning and sharing lessons at every stage of the programme cycle.

Second line – setting standards and oversight
Many of the functions carried out by Corporate Performance Group, the Quality Assurance Unit and in some cases Directors represent our second line. This is where responsibility for setting the rules and overall governance framework sits, as well as quality assurance and organisational planning and performance management.

The second line helps build operational teams’ capability and incentives to deliver, but has no direct role in operational decisions or approvals. Some areas of policy oversight (such as compliance with the International Development (Gender Equality) Act 2014, human rights or security in justice) are second-line functions. Staff in the second line are responsible for:
• DFID’s overall operating and resources framework
• developing policies, rules and guidelines
• sharing professional best practice, lessons learned and case law
• undertaking sample reviews of how effectively policies are being applied and recommending improvements
• providing support and training to ensure that the first line has the right levels of skills to deliver policy priorities
• portfolio-wide performance monitoring and management
• professional support, advice and challenge.

Third line – independent assurance
This role is played by Internal Audit which provides an objective opinion on our governance risk management and control to DFID’s Accounting Officer.

In practice
Frontline teams are responsible for making sensible and pragmatic decisions on how to design and deliver the best-quality programmes. They interpret the operating framework in the most appropriate way for their context, documenting decisions. They aspire to meet high-quality standards.

Second-line teams ensure an appropriate operating and resource framework and provide assurance and challenge on how well the systems and controls are working. They do not make decisions for the first line. Instead – where required – they provide leadership to help/coach the first line to make decisions themselves.
Successful programme delivery depends on a strong degree of trust and partnership between the first and second lines and also effective sharing of information and learning between all three lines.

**Figure 2: DFID governance structures and programme control environment**

**Further information and Templates**
Smart Guides on Counter Fraud; Reporting Fraud and Corruption; Due Diligence; Fiduciary Risk; Bribery Act; and template for Due Diligence Reporting.

### 4. Internal audit

Internal Audit Department (IAD) reviews all of DFID’s activities (overseas offices every two years, headquarters functions every five years). The aim is to assess the risks faced by DFID in how it operates, and how well these are being identified and managed. This provides an important source of assurance for the Permanent Secretary in their role as DFID’s Accounting Officer, and to the Audit and Risk Assurance Committee (ARAC). It is also an important source of advice and challenge to individual business units in helping them to better understand and manage their risks, and the control systems that address these.

IAD is there to review and provide assurance on how well DFID is managing its resources, people and programmes, and how we might improve. IAD’s audit methodology is designed to assess:
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• not only how well controls are managed but also how well they are designed, with particular reference to the operating context; and
• the level of net risk faced by the organisation, even where controls are well designed and managed.

This means that audit reports now effectively give three judgements:

• an objective assessment of net risk and level of assurance (after application of management controls) faced by DFID in the area under review – this follows a traffic light system with minor risk (green), moderate risk (yellow), major risk (amber) and severe risk (red)
• an opinion on how well controls are designed (taking account of DFID’s risk appetite)
• an opinion on how well controls are operated.

In an ideal world, a business unit should aim to have well-designed and well-managed controls that bring the business unit in line with DFID’s risk appetite. However, what we wouldn’t expect, even where controls are well designed and managed, is that all business areas would be rated as having a low level of net risk, i.e. a green traffic light. This is because we operate in inherently risky environments, often with a high level of risk appetite, which means that even with a well-controlled operating model, there may be a high degree of risk to DFID funds. Indeed, controlling such risk to a low level, while possible, would be potentially expensive and not represent value for money.

The purpose of the traffic light assessment of net risk is not to provide a judgement on the effectiveness of the business unit, but to provide a basis for assessing whether that level of net risk feels reasonable and appropriate, or whether we need to reassess either what we do or how we do it in order to reduce the level of risk.

In practice

Department X operates in a high-risk and fragile context. DFID has a high-risk appetite. It has worked hard to put in place controls and to manage these rigorously. But we work through partners whose systems are inherently weak. There have been examples of fraud, but we have picked these up and recovered all lost funds in line with our zero tolerance of fraud and corruption when we become aware of it. The audit gives the office ‘ticks’ for well-designed and well-managed controls, but a substantial level of net risk. This is discussed with the office, who concludes that this still remains appropriate given what we are trying to achieve. That’s a completely reasonable position (in summary, an amber risk rating but ticks for design and operation).

Department Y operates in a similar context, and with similarly well-designed and well-managed controls; but DFID decides in the light of the assessment that its portfolio is carrying too much risk, and that alternative delivery channels can reduce that risk without compromising outcomes. Same assessment, different response, equally reasonable (so risk has been mitigated, but not within DFID’s risk appetite).

Department Z operates in a less risky environment, but is careless about designing and managing controls. It scores ‘crosses’ in relation to controls, but the net risk is still only moderate because of the less risky overall environment. Doing nothing would be an unreasonable response to the audit report, because in such an environment there is no need for us to carry that level of risk. The fact that its level of net risk is lower than Departments X and Y does not mean that it’s performing better – in fact the opposite is true (in summary, this could be a yellow risk rating but with crosses for design and operation).
Other sources of independent scrutiny include the work of the Independent Commission for Aid Impact (ICAI) reporting to the International Development Committee (IDC), and the National Audit Office (NAO) which reports to Parliament through the Public Accounts Committee.

5. Accountabilities

Applying this assurance framework to individual roles within DFID helps clarify the different roles, responsibilities and accountabilities within the organisation with respect to programme delivery. Collaboration and collective leadership between and within these roles is essential to achieve our aims and objectives.

Departmental Board
Accountable for collectively advising on and monitoring implementation of the department’s strategy and policy priorities by:

- Supporting and advising ministers in setting DFID’s strategic direction, including through oversight of DFID’s Single Department Plan (SDP) and related results
- Monitoring the implementation of DFID’s strategy and policy priorities
- Monitoring and advising on significant risks to implementation
- Recommending remedial actions if operational or financial performance is off track

Executive Committee
Accountable for providing direction and management of DFID’s operations, staff and financial resources by:

- Overseeing day-to-day implementation of DFID’s strategy and policy priorities, in line with the direction set by the Secretary of State, the Departmental Board and the DFID SDP
- Communicating the vision, direction and priorities of DFID to staff and other stakeholders
- Assessing and managing risks to delivery
- Ensuring effective allocation and management of DFID’s staff and financial resources
- Monitoring and improving DFID’s performance and capability

Directors
Accountable to the Executive Management Committee for:

- Delivering the results across each division’s portfolio, taking action to re-balance portfolio programmes to deliver these results
- Thought leadership on emerging development debates and implications for DFID
- Identifying and managing portfolio risks and ensuring that systems are in place to provide assurance that these risks (including the risk of fraud) are being managed properly
- Ensuring that DFID’s controls are effectively operated in their areas, as set out in the Statement of Assurance
- Working with their peers to give corporate leadership on department-wide issues
- Championing the generation and use of evaluation and research to ensure that DFID learns and contributes to improving development practice
- Rewarding and recognising good programme management and design, including learning from success and failure and sharing learning within DFID and with partners
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- Signing off Business Cases within authority thresholds.

**Heads of Spending Teams (policy, multilateral, country offices – Deputy Director or A1)**
Accountable for:
- Ensuring effective design of programmes and policies and delivering portfolio results committed to in the Business Plan
- Policies and programmes that contribute to long-term institutional change
- Empowering staff and creating safe environments based on trust, where use of professional judgement, continual performance improvement, and knowledge and sharing are highly valued
- Evaluations and research that generate rigorous evidence of performance and impact
- Generating open dialogue on lesson learning and failure, linking the work of the office with the wider organisation at the strategic and operational levels
- Identifying the risk appetite that is appropriate to the context, and ensuring systems and processes are in place to systematically manage those risks
- Ensuring that the Senior Responsible Owner (SRO) structure and capabilities in their area of responsibility meet the requirements of their portfolio, including ensuring effective handovers and longer-term staff succession planning
- Signing off Concept Notes and Business Cases within authority thresholds.

**Senior Responsible Owners**
Accountable to the Head of Department for:
- Delivery of DFID’s objectives as set out in the programme’s Concept Note, Business Case and Delivery Plan
- Designing and adapting programmes to changing contexts, based on learning and feedback
- Compliance with the Smart Rules (with respect to design, delivery and closure of programmes)
- Being objective about areas of under-performance, taking action to improve, restructure or close
- Ensuring that all the risks associated with programmes are clearly articulated and summarised in the business case and delivery plans
- Providing professional handover to their successor as SRO when moving posts

**Heads of Corporate Teams**
Accountable for:
- Establishing an effective and appropriate operating framework for DFID, supported by well-designed systems and processes
- Supporting ministers and the Executive Committee to establish and maintain high-quality leadership, oversight and management information
- Ensuring HM Government’s professional standards for resourcing, financial management and operational excellence
- Establishing and maintaining professional rules and standards, building on Government policy and best practice

**Heads of Policy and Research Teams**
Accountable for:
- Developing policy in line with Government priorities and evidence
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- Commissioning research on key questions in development and contributing to the global body of evidence on what works, what doesn’t and why
- Robust evaluation of DFID programmes ensuring that evidence and lessons from evaluations are accessible, disseminated and reach those who need them
- Testing policy implementation by spending teams, through ex-post sampling and lesson learning
- Providing support and guidance, developing research and policy-specific training

Heads of Professions
Accountable for:
- Maintaining professional standards in their areas of responsibility
- Deepening professionalism by ensuring that cadres and professions benefit from access to high-quality and relevant evidence and learning
- Providing leadership on policy and programming, arranging timely and appropriate deployment of staff, including in hard-to-fill posts
- Facilitating networks, communities of practice and knowledge flow within and between cadres and professions

Advisers
Responsible for:
- Effective performance as an SRO (where applicable)
- Contributing technical knowledge and expertise to the content and delivery of strategy, policy and programmes in DFID
- Effective development of diplomacy, national and sector-specific dialogue to achieve results for poor people
- Reporting to the SRO in ensuring that smart rules are followed in delivering the programme and alerting the SRO to problems arising, escalating risks etc.
- Applying the latest evidence from research and evaluation findings and sharing practitioner experience and know-how
- Working across and beyond their cadre to share learning

Programme Managers
Responsible for (see Programme Delivery Capability Framework for details in each area):
- Effective performance as SRO (where applicable)
- Effective relationships with suppliers/partners
- Managing results and supporting effective monitoring & evaluation & learning (MEL)
- Effective financial management
- Effective risk management including alerting SRO to problems arising
- Managing programme procurement processes
- Reporting to the SRO in ensuring that rules are followed in delivering the programme
- Executing key tasks around the programme cycle (e.g. due diligence, programme audit)
- Working across the programme management network to share lesson learning

Commercial Delivery Managers (CDM)
Responsible for:
- Commercial input on direct and indirect procurement programme/third party intervention/ and business case development for all programmes regardless of the form of agreement.
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- Collaboration with the Market Creation and Programme Sourcing team on early market engagement.
- Support in developing Commercial and Appraisal Cases >£5m (and other sections of the BC where appropriate) in consultation with Adviser/SRO.
- Developing and implementing Commercial Delivery Plans (CDP) including improvements in commercial capability/ and Commercial Data Portfolios, for approval by Head of Department.
- Updating and ensuring accuracy of the procurement pipeline.
- Support allocation of procurement requirements, using the contract segmentation tool.
- Provide advice and support on effective supplier and contract management including contract amendments.
- Engagement and collaboration with third party implementing partners, civil society, multilaterals and overseas governments, to improve commercial capability, developing and implementing Commercial Capability Improvement Programmes.
- Commercial quality assurance of Business Cases >£40m.
- Share lessons learned and best practice.

Procurement Managers/Specialists
Responsible for:
- Developing Sourcing Strategies for all procurements above £10m and light touch sourcing strategies for all procurements £10m and below
- Seeking Procurement Steering Board approval of sourcing strategies above £5m
- Ensuring Cabinet office approval of sourcing strategies and at preferred bidder stage
- Developing and managing the sourcing process in line with Public Contract Regulations
- Ensuring technical evaluators are appropriately trained and accredited
- Managing contract amendments in line with Public Procurement Regulations
- Developing with programme teams the approval to contract submission and SRO declaration.
- Effective handover of contracts to spending teams

Finance Managers/Business Partners
Responsible for:
- Ensuring appropriate financial scrutiny of programmes in line with HM Treasury guidance
- Providing assurance that planned expenditure is in line with available resources and aligned to business/Business Plans
- Regular financial monitoring of programme portfolio to ensure delivery within control totals and spending targets and that remedial action is taken if there is any risk of control totals being exceeded or underspent

Corporate Policy Teams
Responsible for:
- Clear and concise guidance on operational processes
- Support and guidance, developing policy-specific training where necessary and appropriate
- Reviewing effective implementation of corporate policies
- Continuous improvement of corporate polices
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Departmental Procurement Officers (DPOs)
Responsible for:
• Low-value procurements (<£118k)
• Guidance on effective tendering

Fraud Liaison Officers (FLOs)
Responsible for:
• Retaining a register of all ongoing fraud investigations
• Liaising with counter-fraud and whistleblowing unit

6. Delegated authority

The delegated authorities set out below give DFID standing authorisation to commit resources or incur expenditure without specific prior approval from HM Treasury (HMT). In addition to the delegation limits, a disclosure threshold has been set for programmes.

HM Treasury approval
Programmes (and internal funding allocations) require HMT approval where they exceed, or are likely to exceed, the Department’s delegated authorities (set out in Table 1). HMT approval is also required for certain categories of spending that override any delegated authority (set out in Table 2). These include proposals that are novel or contentious, could cause significant repercussions for others or set a potentially expensive precedent. You must seek guidance in advance if you are unsure whether your proposals meet any of the aforementioned criteria. The first point of contact should be your Finance Manager. HMT approval also extends to the renewal of existing programmes where significant changes are being proposed and the programmes of our non-departmental public bodies.

Approvals process
If your proposal needs HMT approval, you should first get ministerial approval via a Concept Note. Proposals should be submitted to the relevant minister through an appropriately delegated DFID manager (see Table 3) and copied to your Finance Manager. If ministerial approval is granted, your Finance Manager will work with Management Accounts Group in FCPD, to put a proposal to HMT to obtain clearance.

HM Treasury levels of delegated authority
DFID’s levels of delegated authority from HM Treasury to commit expenditure are highlighted in column A of Table 1. A disclosure threshold (column B) has also been introduced for which HM Treasury is provided with details of proposed expenditure.

Table 1: HM Treasury delegations and disclosure thresholds

<table>
<thead>
<tr>
<th>Nature of delegation</th>
<th>i Delegated limit</th>
<th>ii Disclosure threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>All projects and Programmes; and announcements and policy proposals with a defined lifetime</td>
<td>Resources and capital</td>
<td>£100m (whole-life cost in today’s prices)</td>
</tr>
</tbody>
</table>
PART 2: GOVERNANCE

In addition, given the particular nature of DFID’s budget, at the start of each quarter DFID will send HMT a list of all projects planned for the next 12 months.

At the beginning of each quarter, DFID will send HMT details of all non-ODA (Official Development Assistance) spend to date, and all non-ODA planned spend for the remainder of the year. Non-ODA spend is considered novel & contentious.

As part of the disclosure threshold process, DFID will share with HMT all business cases that go through the Quality Assurance Unit. QAU formally reviews all new business case proposals that are above £40m or that are novel or technically contentious, prior to their receiving ministerial approval. This includes the proposed use of DFID funds via cross-Government funds e.g. CSSF.

In addition to this, authority is not delegated in the instances shown in Table 2 and HMT approval must be sought in advance of any commitment.

Table 2: Prior HM Treasury approval required irrespective of value

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Novel, or contentious spend – including spend on public–private partnerships, spend on a complex or non-standard commercial model (e.g. joint financing) and any negotiations or legal disputes with Government’s strategic suppliers</td>
<td>‘Novel’ may be anything that is original and of a kind not seen before, perhaps including a non-standard transaction. This includes all non-fiscal programmes (and extensions) and programmes where DFID enters into a guarantee. ‘Contentious’ might cover a proposal that could hold the potential for dispute as well as cause controversy. While it is not possible to cover in detail what could be seen as novel/contentious, an example may be a programme that recommends an unusual financing transaction with lasting commitments.</td>
</tr>
<tr>
<td>Any advance payment related to a contract</td>
<td></td>
</tr>
<tr>
<td>All Development Capital Investment programmes that create financial assets owned by DFID; this approval should explicitly include the classification of the programme as ‘non-fiscal’. The Office of National Statistics is ultimately responsible for non-fiscal classification and, in some complex cases and HMT may refer the classification decision to them.</td>
<td></td>
</tr>
<tr>
<td>Could cause significant repercussions for others (previously called politically sensitive)</td>
<td></td>
</tr>
<tr>
<td>Could exceed the agreed Departmental Expenditure Limits and Estimates limits, i.e. outside the Spending Review</td>
<td></td>
</tr>
<tr>
<td>Commits to significant spending in future years for which plans have not been agreed, i.e. beyond the current Spending Review period. Treasury approval is required when programme spend extends into the next spending review period.</td>
<td></td>
</tr>
<tr>
<td>Could set a potentially expensive precedent</td>
<td></td>
</tr>
<tr>
<td>Requires primary legislation</td>
<td></td>
</tr>
<tr>
<td>New policy proposals and announcements with financial implications that are outside delegated authority and/or are to be submitted to the Cabinet or a ministerial committee for collective approval</td>
<td></td>
</tr>
<tr>
<td>Where HMT consent is a statutory requirement (for contingent liabilities over £250k)</td>
<td></td>
</tr>
</tbody>
</table>
DFID’s internal levels of delegated authority
The Secretary of State and the Permanent Secretary have approved internal levels of delegated authority. Please note the following:
The figures given to staff are maximum rather than automatic figures for each level. Those delegating authority must relate the level of delegation to the experience of the individual concerned and the nature of the project. Project Approval\(^1\) limits by Grade for each DG area are set out in Annex C of the Delegated Authority Corporate Guide

- Delegated authority levels are set through ARIES and confirmation is given in writing, in the form of an automated email. In ARIES, there are two types of delegated authority levels: project approval (Table 3) and approval of requisitions (Table 4).
- Officials approving proportionately modest incremental increases carrying an original approved budget beyond their own authority should exercise judgement as to whether the changes require scrutiny and formal approval at higher level.
- To ensure appropriate separation of responsibilities, staff must not be given delegated authority to approve projects for which they have been or are the SRO or Project Officer.
- Heads of Department, with the approval of the Director, may formally delegate their full financial authority during an absence to the officer deputising as Acting Head.
- Approval of Concept Note and Business Case by SoS is required in all politically sensitive, novel or contentious cases.

### Table 3: Approval and Sign-off levels for concept notes, business cases and contracts

<table>
<thead>
<tr>
<th>Value</th>
<th>Concept Note Approval</th>
<th>Business Case Sign-off</th>
<th>Contract Approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;£1m</td>
<td>Head of Department</td>
<td>Head of Department</td>
<td>Head of Department</td>
</tr>
<tr>
<td>&gt;£1m-£5m</td>
<td>Head of Department</td>
<td>Head of Department</td>
<td>Relevant Minister according to portfolio (see (^{12356}))</td>
</tr>
<tr>
<td>&gt;£5m to £40m</td>
<td>Relevant Minister according to portfolio (see (^{12356}))</td>
<td>SCS Head of Department</td>
<td>Relevant Minister according to portfolio (see (^{12356}))</td>
</tr>
<tr>
<td>£&gt;40m to £100m</td>
<td>SoS (via Junior Minister) (see (^{123456}))</td>
<td>DFID Director (QAU for review of Business Case)</td>
<td>Relevant Minister according to portfolio (see (^{12356}))</td>
</tr>
<tr>
<td>Over £100m</td>
<td>SoS (via Junior Minister) (see (^{123456}))</td>
<td>HM Treasury (via DFID’s Management Accounts Team) SoS</td>
<td>Relevant Minister according to portfolio (see (^{12356}))</td>
</tr>
</tbody>
</table>

\(^1\) Project approval is called ‘DA project limit’ on ARIES
PART 2: GOVERNANCE

<table>
<thead>
<tr>
<th>(QAU for review of Business Case)</th>
<th>Relevant Minister according to portfolio (see 12356)</th>
</tr>
</thead>
<tbody>
<tr>
<td>*Cases that could cause significant repercussions for others (previously described as politically sensitive), novel or contentious projects of any value. Includes all General Budget Support.</td>
<td>SoS (QAU for review of Business Case) HM Treasury (via DFID’s Management Accounts Team)</td>
</tr>
</tbody>
</table>

1. Cost extensions of up to and including £5m require an addendum to the business case and can be approved by the Head of Department unless it brings the cumulative total of the programme above £5m for the first time, in which case, the concept note should be approved by a minister.
2. Cost extensions over £5m require an addendum to the business case and this should be approved by the relevant official (up to £100m) or minister (over £100m) following the standard ministerial approval process, involving HMT and Secretary of State if over £100m (see section 2.8.7).
3. If the project is judged to be politically sensitive, novel or technically contentious (irrespective of value), then it must be sent to QAU for review before seeking approval. This includes all non-fiscal programmes irrespective of value.
4. If a concept note >£40m is in the portfolio of a junior minister, they will review the intervention first, before sending it to the Secretary of State for final approval.
5. The UK Government have committed in the UK Aid Strategy to end traditional GBS in conventional aid settings. Any exception request to make a payment or start a programme which might score as GBS spend by the OECD DAC criteria will need to be cleared at an early stage by SoS.
6. Contracts and amendments over £10m need to go via Cabinet Office for approval as well as to Ministers – see Figure 6 for more details.

* Certain types of spending always require Treasury approval. Where Treasury review is required business cases require Ministerial approval prior to this:
  - Financial Transactions (ie. equity investments and lending) including spending through non-standard instruments which is often novel or contentious and involves complex accounting treatment;
  - Core contributions to multilaterals;
  - Spend on public private partnerships, which generally creates commitments beyond the current Spending Review period and requires complex contracting which is considered novel or contentious; and
  - Spend on complex or non-standard commercial model (eg. joint venture) for a service or Business Process Outsourcing is considered as novel or contentious spend and any negotiations or legal disputes with government’s strategic suppliers is considered as spending that could cause repercussions elsewhere in the public sector.
  - Prior Treasury and Ministerial approval of the Business Case is needed for announcements involving spend above £40m in any one year.
Table 4: Approval levels for requisitions\(^2\) (where submission/business case approval has already been granted)

<table>
<thead>
<tr>
<th>Types of requisition approval</th>
<th>Maximum amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Admin resource, Front Line Delivery, and admin capital (for projects in ‘A’, ‘AP’ and ‘C’ budget centres)</td>
<td><em>B grade</em> staff: £30,000</td>
</tr>
<tr>
<td></td>
<td><em>A grade</em> staff: DFID land and buildings, net present value: £50m</td>
</tr>
<tr>
<td></td>
<td><em>A grade</em> staff: IT, net present value of project: £30m</td>
</tr>
<tr>
<td>2. Project resources (for projects in ‘P’ and ‘CP’ budget centres)</td>
<td>See Annex C (project resource) of the Delegated Authority Corporate Guide for limits by grade/DG area</td>
</tr>
<tr>
<td>3. Consultancy support funded from admin resource</td>
<td>All grades <strong>£20k</strong> (after clearance from DG Finance and Corporate Performance)</td>
</tr>
<tr>
<td></td>
<td>Minister of State clearance is required for proposed spend over <strong>£1m</strong></td>
</tr>
</tbody>
</table>

7. Programme accountability chain

**Accounting Officer**

*The Accounting Officer is the person accountable to Parliament for the stewardship of the Department’s resources.* DFID’s Accounting Officer is the Permanent Secretary, who acts on ministers’ instructions and is supported by the Executive Committee and its subcommittees.

The Accounting Officer is personally responsible to Parliament and the Public Accounts Committee (PAC) for the Department’s compliance with the principles set out in Managing Public Money. The PAC may seek assurance on propriety, regularity, value for money and feasibility of the use of the public money provided by Parliament to their departments.

**Budget holders and delegated budget holders**

Budget holders and delegated budget holders include Directors General, Directors, Deputy Directors and Heads of Office. These individuals are personally accountable for delivering agreed outputs and targets as effectively, efficiently and economically as possible. Budget holders are encouraged to sub-delegate to ensure that business is managed efficiently and at the right level.

Budget holders are accountable at the portfolio level. For instance:

- A Head of Department is accountable for the portfolio of programmes within their Business Plan and delegated budget.
- Budget holders are accountable for ensuring that they have sufficiently qualified and capable SROs for their portfolio. A budget holder may also be an SRO.

\(^2\) Requisition approval DA is named ‘DA resource limit’ on ARIES
PART 2: GOVERNANCE

In practice
A budget holder might be:
- a Regional Director with responsibility for a number of country programmes
- a Head of Department accountable for centrally managed policy funds set out in the Business Plan
- a Head of Office accountable for the delivery of a Business Plan.

Senior Responsible Owners
SROs are accountable for the implementation and delivery of the individual programmes for which they have oversight as an SRO. They are expected to account for and explain the decisions and actions that have been taken to deliver the projects for which they are accountable. A programme may only have one SRO. There should be a nominated DFID SRO even if DFID funds are being mingled with, managed by or transferred to another UK Government Department.

In practice
The SRO will be appointed by the Head of Office/Department and can be any member of staff who is capable of fulfilling the functions of the SRO role. The SRO should be appointed and their name entered on the Aid Management Platform as soon as design of a programme begins and no later than the pre-pipeline stage.

8. Programme controls
DFID’s programme control framework consists of eight control points.

1. **DFID’s Single Departmental Plan and results and resources framework.** These set the overall policy and resource framework for the Department’s work and allocate resources to individual business units to deliver specific results.
   Accountability: Permanent Secretary and Executive Committee

2. **Business Plan.** Individual departments develop Business Plans setting out what and how they will deliver, consistent with DFID’s SDP and results and resources framework. The Business Plan is submitted to ministers for approval.
   Accountability: Head of Department

3. **Concept Note.** The Concept Note sets out a proposal for an individual programme, explaining how it fits with the strategic objectives in a Business Plan, what the proposed intervention is and why it is recommended for Ministerial approval (or approval by officials for lower value proposals).
   Accountability: Senior Responsible Owner

4. **Business case.** The business case sets out the detail of how an individual programme would achieve its objectives and how it will contribute to delivering the Business Plan strategic objectives and results.
   Accountability: Senior Responsible Owner

5. **Formal agreement.** The formal agreement establishes roles and responsibilities between DFID and our implementing partner/supplier.
   Accountability: Head of Department
6. **Delivery plan.** SROs are responsible for developing and updating a delivery plan that sets out for each programme, in a proportionate way, delivery priorities, key milestones, a finalised logframe or other results framework, roles and responsibilities and risk management strategies.
   Accountability: Senior Responsible Owner

7. **Annual review.** All programmes are reviewed annually, providing an assessment of performance, ongoing relevance, value for money, lessons learned and any remedial action required.
   Accountability: Senior Responsible Owner

8. **Project completion review.** All programmes have a project completion review within three months of formal operational closure.
   Accountability: Senior Responsible Owner

<table>
<thead>
<tr>
<th>In practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Head of Department (spending team/country office) has responsibility and accountability for the delivery of the Business Plan commitments. Individual programmes are delegated to the SRO, who is responsible and accountable for acting within the parameters agreed in the concept note and business case or subsequent decisions.</td>
</tr>
</tbody>
</table>

**Separation of duties**
At each point in the programme cycle, it is important to ensure separation of duties so that the person responsible for identifying or proposing a project or payment is different from the person approving it.

**9. Seeking legal advice**

DFID legal advisers can provide advice to DFID headquarters and overseas offices. All requests for legal advice (other than routine employment advice, which HR should continue to send directly to GLD employment Group) should initially be made to DFID legal advisers.

<table>
<thead>
<tr>
<th>In practice</th>
</tr>
</thead>
</table>
| A Smart Guide is available advising when and who to contact for legal advice. Examples of issues that you should consider contacting DFID legal advisers about include: the exercise of the functions of DFID or the Secretary of State including issues arising from the scope, interpretation and application of legislation; DFID’s powers to make or terminate an agreement (e.g. a cooperation agreement, or MoU); drafting legal and legislative documents; and participating in cross-Government legal discussions.  

Issues relating to international law will generally be referred to FCO legal advisers (DFID legal advisers will deal with some international issues – contact them first). However, foreign domestic legal issues may require advice from local law firms. The British High Commission or British Embassy may be able to recommend reputable firms. Commercial law issues may need to be referred to Government Legal Department Commercial Law Group or external lawyers.  

In all instances, unless other arrangements have been agreed with DFID legal advisers, DFID staff should consult DFID’s legal advisers first. Requests should ideally be made in writing, |
clearly setting out the question and indication of when an answered is required, although where appropriate legal advisers are happy to provide initial advice by phone or in person.

Further information
Smart Guide on Legal Advice
PART 3: PORTFOLIO DEVELOPMENT STANDARDS

Accountability: Head of Department
1. **Operating framework rules**

1. The Head of Department must ensure that their portfolio is consistent with relevant UK legislation, in particular the requirements of the International Development Act 2002 (as amended by the International Development (Gender Equality) Act 2014), the International Development (Reporting and Transparency) Act 2006, the Equality Act 2010 (which includes the Public Sector Equality Duty), and the Terrorism Act 2000 (TACT).

2. The Head of Department must set out in a Business Plan the strategic and portfolio priorities for their area of responsibility. The Business Plan must be submitted to Ministers for clearance.

3. The Head of Department must ensure every programme has by the pre-pipeline stage a designated Senior Responsible Owner (SRO) who is accountable for its design, delivery and closure.

4. The Head of Department and SROs must ensure that they make decisions within their risk appetite, delegated budget and the levels of authority set out in the delegated authority section and that they record on ARIES any budget authority that they delegate to others.

5. The SRO must ensure that any of their programme’s documents which fall into the 12 document types listed in the Transparency Smart Guide are displayed on the Development Tracker. All documents and other data for publication must be accurate, written in plain English and correctly saved to enable publication. Sensitive information must be handled appropriately and only excluded from publication as a last resort.

2. **Business Plans**

The Business Planning process provides a single layer of planning across the organisation below DFID’s Single Departmental Plan. It translates the outcomes of the Spending Review and resource allocation round into a framework that sets out a context-specific and risk-appropriate plan and the results that an individual department will deliver with the agreed resources. The way individual Business Plans are developed will depend on the business area and operating model. The commissioning process is run by the Finance and Corporate Performance Division (FCPD) and Directors.

There are a number of ways in which DFID develops spending portfolios to allocate and spend Official Development Assistance (ODA).
PART 3: PORTFOLIO DEVELOPMENT STANDARDS

3. Portfolio development

3.1 International Development Act (IDA) 2002

The IDA 2002 provides the legal authority for most DFID expenditure and puts poverty reduction at the heart of decision making. Development assistance must pass the basic purpose and poverty reduction tests.

The tests apply at the point at which the decision to give the assistance is granted. Whether this is a one-off decision, or is taken in stages, will be a question of fact in relation to the particular arrangement. There is no general duty in law to keep existing arrangements under review for compliance with the IDA tests. However, as a matter of policy, it is desirable to keep all projects under review for compliance with their original objectives.

What can you do?
There is no general limit on UK assistance as long as the purpose test and poverty reduction test are met. Specifically, there is no ban on the following:

- Different types of assistance – such as assistance to the military or the police (Using ODA for Peace and Security Smart Guide provides more information).
- Funding of particular activities – such as political parties or political candidates. Each case should be considered on its merits, although the purpose test is unlikely to be met by funding political parties as our purpose in assisting, and theirs in existing, is unlikely to be sustainable development.
- Providing assistance to countries with the death penalty. However, human rights considerations should be taken into account in deciding whether to give assistance. If assistance is to be given in relation to a prosecution that may lead to the death penalty, specific rules apply and legal advice should be sought.
- Taking wider considerations into account when deciding whether to give assistance as long as you satisfy the IDA tests, e.g. you can take into account your diplomatic relations with a country in deciding whether to grant assistance. But any assistance that is granted should be for the primary purpose of furthering sustainable development or improving welfare, not furthering good relations between your two countries.
- Assistance benefiting the UK – as long as this is a consequence of a decision to grant assistance, not its purpose.

What can’t you do?
Preventing tied aid was one of the intentions behind the introduction of the Act and providing aid that is untied has become a central pillar of UK aid policy. The legality of tied aid has not been tested in a court. However, any aid limited to countries or projects that, for example, supported UK political or commercial interests, might well be at significant risk of successful challenge. In addition, the Public Contract Regulations mandate EU-wide competition, and no restrictions are allowed in favour of narrow national self-interest.

3.2 Other restrictions on the use of development assistance

In addition to any limitations in IDA 2002, there are certain goods that the Government does not want to be supported under the aid programme. The reasons for this might be political, economic or social.
Aid funds should not be used to fund or procure the following:

- Support which strengthens the fighting capacity of a partner country's military, and the supply of lethal equipment. There are limitations on using aid funds for military actors to deliver humanitarian assistance, and several additional specific inclusions and exclusions especially where the military is involved. The Using ODA for Peace and Security Smart Guide provides more information.

- Exploitation of adult workers or employment of children.

- Luxury goods. While 'luxury' is subjective, the following should be considered ineligible for aid funding: alcoholic beverages, manufactured and unmanufactured tobacco, fur skins (raw, tanned or dressed), pearls and precious and semi-precious stones.

- Drugs not on the World Health Organization Essential Drugs List unless there are compelling and clearly documented technical reasons for doing so.

- Pesticides, unless agreed by a Climate and Environment Adviser. The UK is a signatory to the Stockholm Convention that seeks to eliminate 12 persistent organic pollutants: aldrin, chlordane, DDT, dieldrin, endrin, heptachlor, hexachlorobenzene, mirex, toxaphene, PCBs, dioxins and furans.

- Chlorofluorocarbons (CFCs). The UK is a party to the Montreal Protocol and the substances currently controlled by the Protocol may not be supplied under the aid programme.

- Tobacco. Because of the health implications of tobacco consumption, aid funds should not be used for any purpose that identifiably supports the tobacco sector, including the agricultural production and processing of tobacco. The concept of identifiably supporting is important – the provision of inputs or assistance specifically targeted at the tobacco sector is not permitted although general agricultural supplies, such as fertilisers, are often supplied and it is not practical to affect their distribution. In this case, the product can still be supplied because the tobacco sector is not an identifiable consumer.

- Brewers and producers of alcoholic beverages without approval from Ministers as it could be misunderstood and is, potentially, contentious.

DFID has agreed we will not have any strategic relationship, financial or programmatic collaboration, in any area of DFID's bilateral work, with Breast Milk Substitute manufacturers that violate the International Code of Marketing of Breast Milk Substitutes. DFID may on a case by case basis engage with these companies in multilateral or multi-donor funded programmes or initiatives, if approved by the Director General for Policy, Research and Humanitarian. Further guidance on this can be obtained from the Nutrition Policy Team and will be added to the Smart Guide on Engaging with Business.

**Further information**

Smart Guide on Counter-Terrorism Financing

### 3.3 Official Development Assistance (ODA)

DFID’s budget is almost entirely classed as ODA. ODA activities must comply with internationally agreed rules that are overseen by the OECD’s Development Assistance Committee (DAC). ODA must only be spent on activities which have the economic development and welfare of a developing country as their main purpose. Countries must be officially deemed eligible to receive ODA – the OECD DAC has a list of eligible countries. For any planned spend which is non-ODA please seek approval from the
PART 3: PORTFOLIO DEVELOPMENT STANDARDS

Finance and Performance Department in FCPD. Responsibility for adhering to the ODA rules lies with programme managers and SROs. The OECD DAC website contains several key documents (including a guidance note called “Is it ODA”). If in doubt please contact FCPD’s Finance and Performance Department team.

Further information
Smart Guide on Using Official Development Assistance (ODA) for peace and security

3.4 Principal spending routes

3.4.1 Multilateral support
The multilateral organisations are an integral part of DFID’s programme and of the wider international architecture. Multilaterals enable bilateral donors to support development and humanitarian objectives in a much wider range of countries, including some where DFID and other bilateral donors do not work; the scale of their operations enables them to deliver specialist technical advice, other knowledge services such as research, and Global Public Goods, and deliver financial products such as grants and loans, and essential commodities (e.g. drugs), sometimes via innovative mechanisms, within a shorter timeframe, and at a lower cost; their leadership and co-ordination function can reduce transaction costs for both donors and developing countries; and their role in brokering and monitoring adherence to international agreements can strengthen norms and raise standards across the international system as a whole.

DFID’s decisions to support multilateral partners will be based on assessments of an organisation’s delivery of results, its role in the international system, its alignment with DFID’s strategic objectives, and its capacity and commitment to delivering improvements and organisational reform. The Multilateral Development Review is an important source of evidence, as are DFID Annual Reviews and PCRs. For major partners, DFID also completes engagement strategies that set out specific UK objectives for the organisation and how to deliver these through, e.g. engagement in formal governance processes. Progress in delivering these objectives is also considered.

3.4.2 Bilateral programmes
Country programme portfolios are developed on the basis of analysis of the political economy and the causes of poverty, instability, insecurity and conflict as well as the opportunities to strengthen resilience and our humanitarian response, and promote global prosperity. Country need and our comparative advantage are also key factors. Offices use a range of tools to determine how our resources can be best used to contribute to the UK Aid Strategy, DFID’s Single Departmental Plan and the Global Goals. Country offices with a poverty focus use the Country Development Diagnostic tool (CDD) to assess how best to reduce poverty and its underlying causes. Equivalent analytical tools e.g., the Joint Analysis of Conflict and Stability (JACS) are used to assess needs in other countries where poverty may not be the main purpose of our intervention. These tools ensure that offices have a coherent narrative and evidence-based rationale for the programme they propose.

The CDD is based on the premise that the task of poverty-reducing aid is to support a country in establishing its own mechanisms for a self-financed, timely and secure (low-risk) exit from poverty. It is a multidisciplinary model that looks at the political
PART 3: PORTFOLIO DEVELOPMENT STANDARDS

settlement and institutions; conflict; state capability; growth; growth transmission; social policy and service delivery; and resilience.

The JACS is a cross-Government approach to understanding conflict and stability in fragile states. It aims to provide an agreed rigorous basis to support integrated planning, policy and resource allocation, creating synergy between the UK’s diplomatic, development and defence tools.

Country programmes will invest through a range of channels, including government, private companies, non-governmental organisations (NGOs) and multilateral organisations (‘multi-bilateral expenditure’). Business planning in each country will include an assessment of potential partners.

3.4.3 Global, regional and other central programmes

Many spending departments’ programmes will affect the objectives of other parts of DFID. For example, teams in Research and Evidence Division fund research programmes operating in a DFID priority country that delivers evidence that informs programming in country offices and will also help a policy team in Policy Division to refine and develop policies based on what works and what does not. Conversely, country offices fund programmes that deliver results in their country and may also contribute to learning for policy leads in central teams.

DFID funds global, regional and multi-country programmes for a range of reasons. These include: rapid development of policy and programming for emerging priorities; delivery of global or regional public goods such as research or trade infrastructure; delivery of services and results commitments where there is a VFM case for it; inviting innovation through challenge funds; reaching the poor in parts of the world where we have no bilateral presence; supporting the negotiation of global or regional agreements; and core funding to multilaterals and civil society.

Central and regional teams develop Business Plans on the basis of DFID’s policy priorities and have a responsibility to ensure that appropriate consultation is carried out with other parts of the organisation that have a stake in the programme, including country offices. Conversely, country teams can involve policy leads in the development of new programmes in particular sectors, and should consult other relevant country teams when developing programmes with a regional footprint.

Further information

Smart Guides on Programming Coherently; Humanitarian Programming; and Global Funds Country Partnerships

3.4.4 Private sector instruments

DFID programmes may provide funding to the private sector to promote growth, create jobs and opportunities for poor people or improve access to services, or achieve other development objectives. DFID will not normally invest directly in private companies and will instead channel resources through funds or other intermediaries that take individual investment decisions on our behalf. DFID may provide resources to intermediaries as grants or as investments where DFID expects a return. On occasion, DFID may be involved in creation of a new fund or intermediary.
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To avoid creating market distortions, intermediaries will normally invest DFID’s money in private companies on commercial terms. However, subsidies may occasionally be justified to achieve particular development outcomes and address market failures. DFID’s Policy on Subsidy to the Private Sector defines six conditions that should be met when providing subsidy to for-profit firms.

Programme teams should seek advice from their Private Sector Advisor (and potentially Private Sector Department) when designing such programmes. Where a Multilateral Development Bank is involved, International Financial Institutions Department should be consulted. Where a sovereign is involved, Growth and Resilience Department should be consulted.

Further information
Smart Guide on Development Capital Investment, Smart Guide on creating Financial Assets
PART 4: PROGRAMME DESIGN AND DELIVERY STANDARDS

Accountability: Senior Responsible Owner
1. Introduction: the programme cycle

There are four stages of the programme cycle:

1. Design
   In order to deliver the objectives set out in a Business Plan, teams set out the objectives and outline of proposed interventions in a Concept Note. Following Concept Note approval teams do the detailed design of the programme to develop a robust business case setting out the strategic context, evidence and options, delivery plans, monitoring, evaluation and learning plans and an illustration of results. This includes early engagement with all project partners and suppliers to ensure the design of an effective delivery model. Teams should ensure that the programme is designed with sufficient flexibility to adapt to changes in context. Proactive engagement at this stage with potential beneficiaries is also encouraged.

2. Mobilisation
   On approval of the business case, teams contract and commission partners to deliver programme objectives. This includes establishing a formal agreement and setting the tone of the partnership, providing clarity on the roles and responsibilities, accountability and risk management. Monitoring frameworks are finalised at this point, but should be adjusted during delivery as necessary. Teams and commercial specialists should ensure that funding agreements contain the right balance between accountability for use of taxpayers’ funds and flexibility to adapt to changes in context and knowledge of what works.

3. Delivery
   Teams commission and manage partners and suppliers to deliver our programme objectives including through effective relationship management, financial management, management of resources, risk management, lesson learning and monitoring and evaluation. Ongoing monitoring, evaluations and reviews are used to take stock of progress; check assumptions, continued relevance and value for money; manage risks; and adapt the programme to changes in context and learning. Teams ensure that the programme is sufficiently flexible to adapt to changes in context.

4. Closure
   At this stage teams will evaluate past performance, learn and share lessons and adapt future project designs. This may also include a project extension or responsible exit and closure.

Figure 3 illustrates the programme cycle within the wider context of the Government’s international development priorities and portfolio management. The seven numbers in the central column are the seven control points mentioned in Part 2.

At each point in the programme cycle, we want to ensure that DFID programmes are of high technical quality, context-specific, achieving results and value for money, learning and applying lessons, and using and developing evidence.

The 10 Delivery Questions after Figure 3 below are for consideration throughout the programme cycle.
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Figure 3: The Smart Rules for better programme delivery

1. Single Departmental Plan

PORTFOLIO DEVELOPMENT
2. Business Plan

10 high-level principles

37 mandatory rules

PROGRAMME DELIVERY

1. Design
   - Strategic choices to deliver business plan commitments
   - Business case sets out context, evidence, what DFID will deliver and how

2. Mobilisation
   - Formal identification of partners, due diligence, assessment and formalising agreements (i.e. contracts, Memorandum of Understanding)
   - Finalise results and monitoring frameworks

3. Delivery
   - Delivery plan, risk and relationship management, ongoing monitoring and review. Escalate issues when tolerances or assumptions exceeded
   - Adjust and adapt

4. Closure
   - Evaluate performance, learn and share lessons and adapt implementation in continuous cycle, including re-design, extension and closure

LEARN & ADAPT

Programme Controls
3. Concept Note
4. Business Case
5. Formal Agreement (including Logframe/results framework
6. Delivery Plan
7. Annual Review
8. Project Completion Review
PART 4: PROGRAMME DESIGN & DELIVERY STANDARDS

In practice
In addition to following the smart rules, there are a number of important DFID systems processes which need to be followed in parallel with the programme cycle. These include Aid Management Platform (AMP), ARIES, MI Gateway, Vault, and Development Tracker. Further guidance on how these systems link with the programme cycle is available in the Smart Guide on Project Cycle and Systems.

10 Delivery Questions to consider throughout the programme cycle

1. Does the programme deliver the 2015 UK Aid Strategy?
2. Does the programme suit the local context and is it flexibly responding and adapting to changes, opportunities and citizen feedback?
3. Is there sufficient understanding of the Theory of Change and evidence? Where there isn’t, are we developing and sharing evidence and learning incrementally?
4. Is the programme delivering our vision and does it continue to be good value for money? How are we evaluating impact and value for money?
5. Do we understand delivery risks, including the risk of fraud? Are they consistent with the risk appetite within which the programme is operating and are we able to mitigate these appropriately through the life of the project? Is it clear when to escalate issues to senior managers or ministers?
6. Have the plans of others working in this area changed and is there space for further, even more effective collaboration or complementarity?
7. How will we determine, measure and learn from success or otherwise? How do we know the programme is working? Are we engaging beneficiaries in monitoring and evaluation and learning processes? Is the programme flexible enough to adapt, including to learning?
8. Are we clear on roles and responsibilities and do we have the right skills to provide leadership and management throughout the life of the programme?
9. Is the timeframe realistic? Does it take account of lead-in times and experience of previous projects?
10. Have we set clear conditions for project partners? Are we tracking progress on recommendations from annual reviews, due diligence and performance improvement measures?

2. Design

The design phase is an iterative process whereby teams develop and appraise options to deliver the results set out in the Business Plan. This culminates in the approval of a business case. Design will usually be undertaken by DFID staff, though separate design funds can be
approved from the programme budget at the discretion of the Head of Department or delegate.

This is the opportunity to build programme agility and learning into design – creating space to develop a structured approach to adapt to new and emerging opportunities and to anticipate and respond to changes in context. Examples of this approach are available on the Smart Rules webpage.

2.1 Design rules

6. SRO must ensure that all programmes have an approved concept note at an early stage in the design process.
   • Concept notes valued above £5m must be submitted to the relevant minister according to portfolio and must be escalated to the Secretary of State if above £40m.

   At the end of the design process, SRO must ensure that each programme has an appropriately signed-off business case, covering the full duration of all related funding agreements, as follows:
   • Business cases valued up to £40m must be submitted to the relevant Deputy Director (Head of Department) for sign-off;
   • Business cases valued at more than £40m must be quality assured by the Quality Assurance Unit (QAU) and if the Business Case is valued between £40-£100m must be submitted to the relevant Director for sign-off;
   • Business cases that are above £100m or novel and contentious must be submitted to the relevant minister according to portfolio and then submitted to the Secretary of State (see footnotes Table 3: Approval and Sign Off Levels).

   All novel and contentious business cases, and those valued at more than £100m must be discussed with the Management Accounts Group, Finance and Corporate Performance Division (FCPD), who will then forward proposals to HM Treasury for clearance. Prior HMT approval is needed for announcements involving spend above £40m in any one year if the related business case has yet to be approved by HMT.

7. The SRO must ensure that a risk assessment is embedded within the business case and that risk throughout the life of the programme is managed within the risk appetite approved within that business case, or that changes to the agreed risk level are subsequently approved by HoD or delegate.

8. The SRO must ensure that the impact of development or humanitarian assistance on gender equality is considered for every programme (including cross-HMG funds when funded by DFID and business case addendums). A proportionate statement summarising the impact on gender equality must be included in the concept note and business case, or submission, or business case addendum.

9. The Head of Department for a country programme must ensure a Partnership Principles assessment is undertaken and updated, and use their judgement to determine when the most appropriate time for doing this is, for example when the overall strategy for engagement in a country is being considered. All programmes managed by country offices must consider what role, if any, the
10. The SRO must ensure that a concept note, business case, subsequent annual review or extension for a security and justice programme considers the **Overseas Security and Justice Assistance guidance**, records the outcome of the assessment in the strategic case of the business case, and is approved at the appropriate level depending on the risk rating (i.e. a high risk rating requires ministerial approval regardless of value).

11. For any programme that might create a **financial asset** whether the asset is owned by DFID or a third party through DFID funding, at the concept note stage of the programme the SRO must inform FCPD, and at business case stage must seek approval for the creation of the asset from FCPD via financialaccounting@dfid.gov.uk.

12. The SRO must seek advice at the concept note stage of the programme, and ensure that at business case stage they have approval from: Financial Accounting in FCPD for any liabilities, guarantees, indemnities, returnable investments or other contentious or novel financial arrangements, including projects that will generate income for DFID; and from the Finance and Performance Department in FCPD for any non-ODA spend; and Management Accounting for any spend beyond the current Spending Review period.

13. The SRO must seek advice from DFID legal advisers on any issues that may have unclear legal implications.

14. The SRO must ensure that all programmes follow **DFID’s UK aid branding guidance** - including having a completed **visibility statement** in place - and that digital elements of programmes (e.g. text messaging, cash transfers with a digital angle, websites and databases) are reviewed at the earliest possible stage in the process by DFID’s Digital Service Team.

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### In practice

Teams should think carefully about approval. For example if an extension is under £5 million but exposes DFID to significant risks, teams may decide ministers need to be consulted.

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### 2.2 Compliance with gender sections of 2002 International Development Act

Under the Act, DFID must have meaningful yet proportionate regard to the contribution its assistance is likely to make to reducing gender inequality (development) or to gender-related differences in needs (humanitarian) **before assistance is provided**.

The decision to approve funding in DFID is in practice made through the concept note and business case or, in the case of humanitarian emergency support, a funding submission, approved by the Secretary of State.

‘Meaningful yet proportionate regard’ means:
PART 4: PROGRAMME DESIGN & DELIVERY STANDARDS

- For all interventions, consider the impact on gender inequality – the impact of the intervention on the different genders (men and women) and the relationship between them. Humanitarian responses should consider the different needs of girls and women and boys and men.

**Clear evidence of compliance will be provided in every business decision:**
- A clearly flagged, proportionate statement to confirm and summarise ‘regard’ must be included in the concept note, strategic case section of a business case, submission for humanitarian aid, cost extension submission, or applications for cross-HMG trust funds (i.e. Conflict Pool/CSSF etc.). No investment made by DFID is exempted from the Act, including through multilateral trust funds, and all Development Capital loans, grants and subsidies.
- Programme leads should ensure that regard is made by those with the appropriate skills to do so (Social Development Adviser or equivalent).

If a team or Senior Responsible Owner (SRO) needs further clarification, they can refer to the Smart Guide and Gender Equality Act team site which provides a helpdesk function, sample business cases and frequently asked questions.

**Further information**
Smart Guide on Gender

### 2.3 Compliance with the Terrorism Act

DFID has to ensure it complies with both domestic and international law, particularly in relation to counter terrorism financing. Financing of terrorism is a serious threat even if instances of aid diversion are rare.

We adopt a risk based approach to our work. This means identifying organisations and individuals we work with that may present a greater risk because of the context in which they operate, or the entities which they deal with.

There must be clear documented evidence of the risks involved in all interventions and this must be outlined in a statement which, if appropriate, should be included in the Assurance table of the Concept note and strategic case section of the business case/funding submission.

**Further information**
Smart Guide on Counter Terrorism Financing

### 2.4 Understanding the market

As part of the design process, DFID examines the market to ensure that we fully understand all the delivery options and can use the design process to develop a business model that will work. Through this engagement process we can build our understanding of our potential supply partners’ constraints and challenges, and so we can design programmes to capitalise on their comparative strengths. This might include determining the most appropriate routes to market for different programmes.

This also provides opportunities to help develop the market, for instance considering the capacity of local organisations, forming coalitions or stimulating market entry.
This early engagement is important for developing a realistic picture of the feasibility of further investment and make informed choices between different types of partnerships.

**In practice**
While it may not be possible to run a formal competition between a multilateral organisation, a private sector contractor or a non-governmental organisation (NGO) to test which route offers the best value for money, teams can use early market engagement tools (discovery days, pre-bid meetings, workshops and consultations) to determine the best choice for the individual context.

2.5 The concept note

With effect from 28th January 2019, the Concept Note is the first formal approval stage of the programme design cycle. This gives Ministers early and clear decision-making opportunities within the strategic portfolio framework. Concept Notes are required for the design of all Programmes (programmes under £5m do not submit to Minister for approval).

2.5.1 Developing a concept note

The Concept Note should clearly indicate how the proposed programme will address the challenges and opportunities identified in DFID context analysis and how it operationalises the Operational Plan / Business Plan approved by Ministers.

The primary audience of the Concept Note is DFID’s Ministerial Team. Concept notes should be developed collaboratively, drawing on expertise from commercial, finance and programme management colleagues.

The concept note requires programme teams to specify:
- The programme title and proposed value
- The rationale for UK spending
- Narrative of the programme
- Strategic fit of the programme
- Stakeholder considerations
- Risk considerations
- Proposed internal team
- Next steps and timeline for programme design

Annex A in the concept note template also requires teams to note any considerations related to legislation, value for money, financial (incl. cross HMG funding), safeguarding, commercial and evidence.

The concept note template is designed to provide a concise overview of the relevant considerations for Ministerial decision on approval. Concept Notes should be proportionate, bearing in mind that they are written before the detailed programme design stage. More guidance on how to develop a concept note can be found in the Smart Guide on Concept Notes. The Concept Note template contains useful prompts/guidance points and references further Smart Guidance at relevant sections.

The Concept Note should be reviewed in accordance with Department/Country Office procedures for submission to Ministers.
Where a concept note proposes anything which will impact on DFID’s balance sheet, such as DFID making an investment directly, or issuing a guarantee, then advice should be sought from Financial Accounting, FCPD. Dependent on the level of risk and complexity, the concept note may need clearance from Director of Finance and Delivery, and potentially the Accounting Officer.

2.5.2 Submitting a concept note
Following the Submissions guidance on Insight, the Concept Note should be submitted to Ministerial Private Offices using the DfID “Submissions” distribution list. The hard-copy submission should be sent to the relevant Minster’s Box as per their Portfolio.

The relevant Minister will review the Concept Note and provide one of three responses (i) Approved; (ii) Approved with Caveats; (iii) Rejected. In cases where Concept Notes have a higher value than £40m (as per the thresholds for approval) - the junior Minister’s Private Office will escalate Concept Notes to SoS Private Office for approval.

2.5.3 Concept note approval
If the Concept Note is Approved then no further Ministerial correspondence is required unless i) the Minister has specifically requested they would like to see the Business Case; ii) the Programme is over £100m, in which case final sign off of the Business Case by Secretary of State is still required or iii) the Business Case diverges significantly from the Concept Note in terms of scope or value, in which case re-approval will be required.

If the Concept Note is Approved with Caveats then further conditions will need to be met. Private Offices will specify in their feedback whether the Concept Note needs to be resubmitted to ensure the conditions have been met or whether the Ministerial Team member is happy for this responsibility to be delegated downwards to the DFID official that signs off the Business Case as per the threshold for approvals.

The official responsible for sign-off of the business case is required to reach a judgement about whether the design of a programme represents material change to the intent of the concept note. If they judge that this requires re-approval by Minister then they will describe this change in a submission to Ministers, seeking re-approval, prior to signing off the business case. See section 2.8.1 and the Concept Note Smart Guide for further guidance about reaching this judgement.

When the programme remains within the scope approved by Ministers via the Concept Note relevant officials may sign-off the programme for implementation at the business case stage. Should Ministers wish to do so, they can follow progress on Business Case development through routine engagement with officials and portfolio meetings.

Following approval of the Concept Note the programme will move from Pre-Pipeline to Design and Appraisal stage on AMP. Bear in mind that the approval of the programme budget happens at the the Business case approval stage.

Concept Note and Business Case approval steps are summarised in Figure 4.

2.6 Detailed design and the business case

The business case:
• sets out the case for a programme, adapted to suit the context
• explains very clearly what the programme will do within what timeframe, and is explicit about the risks and uncertainties
• records an understanding for DFID, our partners and intended beneficiaries about what we are planning to do and the results we expect to achieve
• allows DFID to report to the UK public on what we are doing with taxpayers’ funds.

The intensity of design and level of detail in a business case is a matter of judgement and at the discretion of the design team, depending on the nature of the programme and context. For instance, a tried and tested approach could be expected to have a less intensive design phase than a new or innovative approach. Equally, an urgent humanitarian response or immediate post-conflict recovery programme will need a faster, more nimble approach than a major long-term development programme.

Business cases should be proportionate to size and risk. They should provide sufficient information based on the facts currently available for the approver to make an informed decision on whether or not it is worthwhile to invest in the intervention. Teams should avoid a disproportionate focus on need rather than how programme design will deliver expected results.

Good programmes will learn and have the flexibility to adapt, which is part of good design (rather than a substitute for it). This means explaining how a flexible approach will operate in practice (i.e. a guided process with feedback loops, sufficient time and realistic expectations). The scope for adaptation and learning is often constrained by the delivery choices made in design or poorly thought-out terms of reference.

Section 2.8.3 contains more details of the Business Case approval process (and Figure 4 provides a summary).

In practice
Some circumstances, for example responding to a humanitarian emergency, will require rapid programming. In such cases Secretary of State approval of a submission will allow teams to commit and disburse funds. The business case can be developed in slower time, but must be written as soon as possible and approved at the appropriate level of delegated authority for the planned spend. The commitment to spend and release funding before approval of a business case is potentially politically contentious and so must be signed off by the Secretary of State or relevant duty Minister.

Further information and Templates
Smart Guides on Business Case and Humanitarian Emergency Programming; and Technical Guidance on Evidence and Programme Exchange; and template for Business Cases
PART 4: PROGRAMME DESIGN & DELIVERY STANDARDS

Figure 4 – Summary of Concept Note and Business Case approvals steps

* Steps for > £100m also apply to Business cases which are novel or contentious
2.6.1 Business case development
Designing a programme and developing a business case is a task for a multidisciplinary team. Finance and Commercial experts should be involved from an early stage. Teams with too narrow a range could miss important considerations, leading to more work during implementation. Design teams should meet early in the design process, drawing on a range of professional expertise and think through the technical considerations (see Part 1, Section 3) and a range of design considerations. The design team will then use the business case template to develop a proportionate case.

Design funds may be approved at the level of delegated authority as part of the programme budget (Capital Departmental Expenditure Limit/Resource Departmental Expenditure Limit (CDEL/RDEL). This would generally be through a submission and/or concept note approval and can be used once a programme reaches pipeline status on ARIES.

For programmes that create financial assets, initial due diligence should be completed before business case sign off. The spending team is responsible for the due diligence and decides on a proportionate approach considering the value of the investment and the assessed risk. For partners who have not delivered Investment Capital programmes before, the due diligence should be commissioned from an independent provider. The due diligence framework for these programmes is included in the Investment Capital Smart Guide.

In practice
Programmes that create “information assets” must comply with the Government’s “Security Policy Framework” and “DFID’s Information Security Policy”

2.6.2 Business case structure
The business case is structured around HM Treasury’s Five Case Model. Within this broad framework the design should be adapted to suit different contexts and programme types. The agreed structure sets out key titles/headings that approvers will expect to be addressed. The content is indicative, not prescriptive, and teams are encouraged to use judgement in using a logical argument to make the case in a way that suits the individual programme.

Each section below includes a range of questions and statements that design teams should consider during the process of developing the five cases (Further guidance is provided in the Business Case Template) However, this is not a checklist and only the questions relevant to the context should be answered. Teams are reminded to check their compliance responsibilities, for example as set out in Sections 2.2 and 2.3

i. The strategic case
The substantial content of this section will be provided by the content of the Concept Note. The content should be updated to reflect direction or caveats provided through the Approval process and any further work conducted between the Concept Note and the Business Case.

This section makes the case for DFID intervention by setting out the overarching context and the problem to be addressed. It should be clear what the programme will do and how, with evidence. It should link to, but not repeat, the Business Plan with a clear illustration of how the programme contributes to DFID’s global and portfolio priority of poverty reduction. There are mandatory sub-headings on Gender Equality and Terrorism and Financing. If applicable, include key information from the partnership principles assessment and the
Considerations for the strategic case

a) Strategic fit – Bilateral programmes:
   • What is the political economy context, the partner government’s response to this need and DFID’s comparative advantage?
   • What role should the Partnership Principles (PPs) play in the management and monitoring of the programme?
   • DFID capability – why we have core competences to intervene?
   • Understanding of the supplier base and how the market will respond?
   • For security and justice sector programmes: how will the Overseas Security and Justice framework be considered in the business case?

b) Strategic fit - Multilateral programmes:
   • How will working through a multilateral organisation address the problem?

c) Impact and outcomes:
   • Be explicit about uncertainty of outcomes in cases where the intervention focuses on hard to measure benefits (such as confidence building in a post-conflict setting).
   • Are the Impact and Outcome clearly specified and consistent with the Theory of Change outlined in the Appraisal Case?
   • Is there a clear link between the need and the expected Impact and Outcome that our funding will contribute to in terms of poverty reduction and an explanation of the likely consequences of not intervening?

d) Sustainability:
   • How would a programme fit within a long-term plan in the identified sector or (in the case of core funding) the multilateral organisation?
   • Do the partner government and/or the international community support a programme by DFID and what is the evidence for this? If not, be explicit about the logic of the intervention at this stage.
   • How would the benefits of the programme be sustained beyond the period of DFID support?

e) Evidence:
   • What is the evidence base for the proposed programme? Which parts need further evidence to be generated? If there is weak evidence, what will be done about it? What learning is there from previous DFID work (evaluations, team experience etc.)?
   • Use available services offered by the Research and Evidence Division through the Evidence Department, the Heads of Profession Group and their Knowledge for Development programme that delivers quality assured evidence and knowledge services to staff.

f) Feasibility:
   • Do actors/stakeholders face incentives to act in a way that will bring about the programme’s intended impact or can they be changed?
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g) For a country programme:
• Is it politically feasible for DFID to intervene?
• What institutions do we think matter most for this country’s development? How will this intervention – and the way we plan to implement it – influence these institutions?

h) For core funding (multilaterals/civil society):
• Does senior management share DFID’s objectives? What about other funders of this organisation?

Further information and Templates
Smart Guides on Gender; PSED; Partnership principles; Climate and Environment; Overseas Security and Justice Assistance; and template for Due Diligence

ii. The appraisal case
The appraisal case explores how we will address the need in the strategic case in a way that optimises value for money. It appraises genuinely feasible options for achieving the objectives, including high-level commercial choices, with a summary of the quality of evidence. The appraisal considers delivery mechanisms including capability and capacity, costs and benefits, risks and likelihood of success. It concludes with a summary VfM statement for the preferred option.

Considerations for the appraisal case

a) Options
• State if a prior strategic or political decision has been made to work with particular partners or to support a particular programme, and briefly explain why.
• For core funding, highlight the UK’s burden-share, outline our preferred burden-share and explain the likely impact and actions of other donors.
• Does the case explain the choice of strategic and/or delivery options? Does the case set out an even-handed discussion of alternatives to the preferred option?

b) Economic appraisal
• Consider the extent to which benefits can be quantified. Some benefits can only be expressed qualitatively, but they should be observable. Many benefits cannot be monetised.
• Be explicit about how risks can vary the result.
• The analysis should be proportionate, based on the size and complexity of the intervention.
• Use the analysis to identify what matters for value for money and how you will monitor it.

c) Theory of change
• Set out what the selected option would look like and explain the theory of change. What is the rationale leading to the outcomes and impact and what assumptions are being made for this to be successful? How would the inputs, outputs and outcomes add up to the overall impact statement? Are there potential contextual factors that might help or hinder the programme? How can the impact of these factors be minimised or leveraged?
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d) Evidence
   • Assess the strength of the evidence of the assumptions made in the theory of change, rating the quality of evidence.
   • Acknowledge gaps in the evidence base, if appropriate, and consider how this might influence project risks (and therefore monitoring). Consider whether there are opportunities to build the evidence base using evaluation or research.

e) Appraisal
   • Explain how we will ensure that the programme meets policy priorities and technical quality considerations.

f) Value for money statement
   • How will DFID ensure value for money from the programme throughout the programme cycle?
   • How will value for money be monitored during implementation?
   • How do you know this programme represents better value for money than alternative options to deliver the Business Plan?

Further information
Smart Guides on VfM; and Technical Guidance on Evidence and Programme Exchange

iii. The commercial case
This section of the business case provides more detail on implementation and how value for money will be achieved. It sets out the procurement approach and requirements, proposed funding instrument and how the choice of instrument will be used to ensure value for money. It considers the marketplace response to this intervention, with an explanation of how supplier performance would be managed. It sets out the procurement policies, capabilities and systems of the third-party entity to ensure we get value for money.

Considerations for the commercial case

a) Commercial contract
   • What actions have been taken to date (pre-business case engagement/shaping the requirement)?
   • What further actions will be taken (targeting supply partners/discovery days) and will the team continue to undertake them?
   • How do we anticipate the market will respond where competition is required through a mini-competition under a DFID framework, a new competition under the Public Contract Regulations, or a lower value local competition?
   • Use prescriptive terms of reference with suppliers for how they will deliver on a fees and expenses basis (input-based contract) if you are sure of the tasks and indicators needed to achieve the outputs/outcomes. Provided there is a strong market, the drive should be to reduce cost and obtain sufficient expertise to deliver the programme.
   • Use stripped back terms of reference with supply partners if the programme requires innovation and expertise to propose and develop a methodology to deliver outputs/outcome (output-based contract).
   • What will success look like?
b) Financial aid
- Are the government systems capable of delivering the outcomes intended? What plans are in place to strengthen them?
- What are the capacity-building requirements to strengthen country systems, including procurement?
- Is there a recent fiduciary risk assessment (FRA) or a high-quality FRA conducted by another party, and how does it inform the programme development? If not, when will this be done?

c) Third-party entity
- What assurance do we have on the capability and capacity of the organisation to deliver in-country? If weaknesses are identified how will they be addressed?
- If the organisation does not have a track record in delivering the relevant programme, state how it will obtain the expertise needed to deliver successfully.
- If the organisation will be procuring services, commodities, goods or equipment, provide evidence of the organisation’s procurement capability.
- How can the same commercial principles outlined in contract management (below) be applied and how will the organisation manage delivery risks?
- State if there is an opportunity for DFID to drive greater efficiency from the organisation throughout this intervention. If such opportunities exist, set out how the project will ensure value for money.
- How will DFID undertake a mandatory due diligence assessment of the partner including the enhanced requirements on safeguarding?

d) Delivery and risks
- How will the programme be delivered to effectively and efficiently manage risks to achieve the programme’s objectives within the approved risk appetite?
- How will we formalise agreements with suppliers/partners to deliver the programme (direct procurement, memorandum of understanding, accountable grant, financial aid, other)?
- How will we manage arrangements for implementing this option, the sourcing strategy and achieving value for money, as well as relationships with supply partners and the wider supply chain?
- How will the agreement be structured: i.e. results-based, flexible, agile, what success would look like, how delivery will be measured, type of agreement and risk sharing?
- How can incentives such as payment by results be applied to the programme?
- How will supply partner performance be managed?
- How will we build in flexibility to scale up/down the intervention, subject to performance, continuing need and changes in the context?

e) Supply partner management
- The extent to which the terms of reference set out what the supply partner is expected to achieve.
- The use of work plans to drive and monitor progress.
- Sufficient flexibility to enable suppliers to manage risks and future changes to requirement.
- The intended link between progress against outputs and payment.
- The escalation process for managing off-track performance.
- The use of break clauses to enable DFID to review priorities, incentivise supply partners and mitigate risks.
PART 4: PROGRAMME DESIGN & DELIVERY STANDARDS

- How partners will share and manage investigations of allegations of fraud and corruption.

Further information
Smart Guide on Fiduciary Risk, Procurement/Commercial; Procurement Frameworks

iv. The financial case
This section sets out issues of affordability and the sources of funding. It includes a high-level budget which does not impair value for money in procurement exercises for individual contracts. It sets out how funds will be disbursed and how expenditure will be monitored, reported and accounted. It highlights the evidence underpinning a judgement that funds will be used for the intended purposes.

Considerations for the financial case
- The expected resource costs and the main drivers of these costs (cost drivers) with an analysis of those which may be useful to the management and monitoring of the intervention.
- The administration costs within the supply chain.
- The costs associated with programme monitoring, evaluation, learning, verification or research.
- Set out how the fixed operational budget will be developed and what changes would trigger reapproval.
- Will HM Treasury approval be required? Is the required funding available through current resource allocation or via a bid from DFID’s contingency fund? Is it a Crisis Reserve bid?
- Will it be funded through capital, programme or administrative resource?
- Is the control of funds clear, especially when ownership of funds passes from DFID?
- Will benefits be sustained? What funding from other parties is required, or is likely?
- How will continuing costs be met after DFID’s programme finishes?
- When creating a new entity, or investing in an entity for the first time, have a due diligence assessment (DDA) and an assessment of our legal rights and obligations been completed? Is there a full suite of governance documents available (e.g. a shareholder agreement, operating procedures, etc.)?
- Where the contribution to an entity is classified as non-fiscal capital, do the legal agreements set out clearly how our funds will be used, the circumstances for the return of our investment (original investment, interest and any dividends) and for the biannual valuation of assets?
- What will be the impact of exchange rate fluctuations?

Further information and Templates
Smart Guide on Due diligence; and template for Due Diligence

v. The management case
This section focuses on governance and management arrangements and the ability to deliver. It sets out the management implications for the business unit/level of effort with realistic timings for mobilisation and start up. It outlines the expected roles and responsibilities, including DFID’s own resourcing strategies (SRO, project team, etc.).

It sets out how the programme will respond to changes in context and the key elements of the delivery plan, key milestones and decision points where we can course correct. It
PART 4: PROGRAMME DESIGN & DELIVERY STANDARDS

includes a clear illustration of the risks, tolerances and approach to escalating problems and issues as well as exit and possible closure scenarios.

**Considerations for the management case**

a) Approach
   - The management case clearly explains the delivery approach.
   - It has a realistic timeframe, with sufficient time built in to allow for set-up/contracting/commissioning.
   - It is clear about how the programme will be closed, including break points and how poor performance will be addressed.
   - It considers key delivery risks and sets out a plan to address them through the life of the project.
   - It sets out how lessons will be captured and fed back into the programme and how they will be shared within DFID and with partners.
   - It sets out how results and impact will be assessed. This will include a draft logframe or results framework, which might include mobilisation outputs and indicators.

b) For programmes using the Partnership Principles (PPs) in their management and monitoring:
   - What is the process for assessing and monitoring progress against the PPs?
   - How would a possible deterioration of commitment to the PPs be addressed through the oversight and management arrangements?
   - Specify any other specific conditions attached to the disbursement of aid.

c) Risks
   - Set out processes to identify, assess, allocate, manage and monitor current, anticipated and emerging risks and issues within DFID’s risk management system.
   - Where risks and issues remain unresolved, set out a clear plan to manage and reduce them within the approved risk appetite.
   - Explain how risk management systems in partners are (or will be) identified and assessed and how assurance over their operation will be delivered.
   - Set out how risks of fraud and corruption will be assessed and managed.
   - Explain how and when risks and issues will be escalated to ministers should agreed tolerances be exceeded or potentially exceeded.
   - Set out how poor performance will be addressed. Do we have sufficient review points built in so we can stop if needed? Is there an exit plan?

d) Monitoring, evaluation and learning
   - Do you have clarity on how you will monitor, learn and evaluate?
   - How does the evaluation approach fit with DFID’s priorities? What opportunity exists to learn and adapt based on findings?
   - Does your framework for results/logical framework, illustrate areas of uncertainty and a process for completion.
   - How does the programme align with partner countries and promote the use of existing data?
   - Have you identified whether and how beneficiaries will be involved in monitoring and evaluation activities?
   - What have you learnt? How will you use and share that learning?
PART 4: PROGRAMME DESIGN & DELIVERY STANDARDS

In practice
Design teams need to consider monitoring, evaluation and other evidence needs at the design stage of a programme and allocate adequate resources accordingly. When deciding the level of resources needed it is important to reflect on learning needs, timeframes, evidence available and how evidence generated will inform programme decisions.

Mobilising evaluation suppliers before delivery begins increases the opportunity for measuring impact and generating evidence to inform design, learning and adaptation.

e) Issues to address in the delivery plan
   • What are the milestones and deadlines for key elements of the programme? This should outline the elements in the business case relating to design and delivery, e.g. when/how the programme will address any technical considerations (e.g. social, climate, and conflict) and operational aspects (procurement, inception, date).
   • What triggers/decision points will be built into the programme to ensure delivery and, in the event of non-performance, manage closure?
   • Who are the key stakeholders and how will we engage them?
   • What are the required resources to manage the programme?

In practice
When developing a business case teams will need to:
   • be honest about what information and evidence is not yet known, and state what the process for gathering this information will be, by whom and when
   • consider how to integrate flexibility to adapt to changes in the context, being mindful not to over-engineer
   • be realistic about timeframes and resources required both internally and from our suppliers, to ensure effective implementation
   • think about risks to delivery and develop appropriate strategies
   • identify the circumstances that will lead them to escalate issues or decisions to senior management or ministers (e.g. when risk tolerances are exceeded)
   • consider the complexity of the intervention and the proposed management arrangements and think how it will be managed;
   • be realistic about what can be managed with the resources available to the programme team, and avoid complicated multi-part programmes unless there is strong evidence of additional benefits to components being done together

There is no set length for a business case, though teams are encouraged to develop a case that is concise and usable throughout the life of the programme.

2.6.3 Start-up times
In many circumstances, there will be a period of time when contracts/agreements are finalised and inception work completed. The SRO will want to ensure that these activities are adequately included and weighted in early versions of the logframe or results framework to ensure a way of tracking process through mobilisation. These outputs may be replaced by delivery outputs in due course. During this time it may be important to include outputs that focus on ongoing engagement with stakeholders (governments and citizens).
Where there is expected to be a long period of mobilisation (e.g. an over threshold tendering process), teams may decide to focus the initial results framework on the mobilisation milestones (or inception phase), making it clear that these will be replaced once contracts are signed and the programme is running.

2.7 Framework for results

A clear framework specifying expected results is a pre-requisite for assessing value for money. Results can be qualitative, quantified or monetised. They should be clearly defined and observable, with a timeframe for monitoring and assessment. However, for some projects (long-term institutional reform) or contexts (active conflict) this may be unrealistic and this should be explained.

The framework for results (usually set out in a logframe) demonstrates the objectives, inputs, milestones and indicators, and key assumptions. A quality framework for results is a living document that is updated regularly with formal changes approved at the appropriate level and explanations documented.

While a clear framework for results is important, this won’t always be finalised until the programme becomes operational (end of the mobilisation phase). For programmes operating in challenging environments, where continuous learning, revisions and redesign are expected, business cases should set a basis in qualitative statements of expected progress, using evidence to help reprogramming. A high-quality framework for results:

- illustrates a clear and logical results chain based on evidence and a clear outcome that sets out the changes and who will benefit
- has inputs that show the amount of money provided by DFID and any partners including, where relevant, the partner government’s own contribution
- has outputs that are specific, direct deliverables of the project
- links clearly to the theory of change, the expected results and has a set of relevant indicators for monitoring progress
- is impact-weighted, demonstrating the percentage of the contribution each is likely to make towards the achievement of the overall purpose
- has robust baselines (or is clear about when these will be developed) to show the starting point and data sources
- is clear about the assumptions made, and the rationale for the project’s outcomes and individual outputs
- has clear measurable and actionable performance measures/indicators at each level
- has a qualitative or quantitative target for each indicator which shows what success at the end of the project would look like and sets milestones at appropriate intervals during the lifetime of the project when data will be used to monitor the targets
- is clear about the source of the data that will be used to monitor progress against the milestones and who will be responsible for doing that
- uses standard indicators and existing information sources where relevant
- is disaggregated where possible and gender sensitive
- is used proactively by both DFID and partners throughout the programme’s life

2.7.1 Format

The framework for results will usually be the DFID logframe format if DFID is leading the programme. Other formats may be used e.g. when working in partnership with others who are leading on the programme, or where the team believes an alternative results framework will better measure programme performance. Other results framework formats may be
more appropriate than a logframe where a programme is expected to experiment and generate learning as well as (or instead of) delivering predetermined outputs.

If using an alternative results framework, you should ensure that it will enable you to generate an Annual Review score. This requires (a) defined outputs or performance areas, with impact weightings, and (b) a means to define expectations of performance that the programme can be scored against.

**In practice**
When thinking about what to include in your framework for results, it is important to be realistic in setting milestones. Setting milestones which reflect different stages of the programme cycle (e.g. process and learning outputs) will enable you to track progress and consider lessons being learned.

Also remember that a framework for results is a dynamic tool that can be changed throughout the course of the programme. Ordinarily, changes will be made at key points in the programme cycle (following annual reviews) or on the basis of a clearly documented process, for example if new evidence shows that the underlying assumptions or context has shifted and the programme approach needs to adapt.

The framework for results is updated with any changes, and to show the achieved results at least at each review, and can be updated at any time when new results are available or when the objectives have changed as above. Ideally changes should not be made to any targets or indicators less than six months before they are being reviewed unless agreed with the Head of Department. The programme theory of change should be reviewed as frequently as the logframe or results framework. Think carefully about the weightings between different outputs and the possible impact of those weightings on review scores (for example having two outputs each of 50% may make it harder to come up with an overall score if the two outputs score differently).

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**Further Information**

Smart Guide on Logical Framework

### 2.8 Business Case Assurance and sign off

**2.8.1 Approvals**
Business cases are signed off by DFID officials according to levels set out in Table 3.

The Head of the Department is responsible for the portfolio within their remit and therefore should sign-off all business cases that then need to be submitted to the Director, QAU and/or ministers if appropriate. When reviewing the business case, DFID officials can refer to the business case checklist for a list of key considerations. These considerations should be addressed in reaching the decision about whether to sign-off in support of proceeding with delivering the programme as described.

In addition, officials responsible for sign-off should apply judgement as to whether the business case is suitably aligned with the concept note approved by Ministers. Officials should assess whether the business case represents material change to the intent of the concept note – affecting time, cost, delivery channel or the intended results - with a significant erosion of the expected value for money. The Concept Note Smart Guide provides
further guidance on key considerations when assessing whether there is significant divergence from the Concept Note.

If the final design of a programme diverges significantly from the Concept Note approved by Ministers, the official responsible for the sign-off of the business case will detail the divergence in a submission to Ministers for approval, prior to signing off the business case.

The SRO is responsible for the overall quality of the business case and for ensuring that the key delivery questions are considered throughout the design process and beyond. The SRO will need to be satisfied that the business case sufficiently and proportionately sets out the case for a programme, justifies the commitment of funds and explains the key decision points and delivery milestones. The SRO should ensure that there are sufficient resources available to deliver the programme before its submission for sign-off.

2.8.2 The Quality Assurance Unit (QAU)
All programmes over £40m or that are novel or technically contentious are reviewed by the QAU. This is a key part of the second line of defence, providing an independent assessment of large business cases. The process takes five weeks and concludes with a set of recommendations for teams to consider. The QAU also does regular sampling of the quality of business cases under £40m. QAU will forward cases above £40m to HM Treasury for information.

2.8.3 Submission of business cases
Where Ministerial approval of the business case is required (e.g. >£100m and/or novel/contentious) the SRO should submit the business case to the relevant private office with a short submission.

All novel and contentious business cases, and those valued at more than £100m must be discussed with the Management Accounts Group, Finance and Corporate Performance Division (FCPD), who will then forward proposals to HM Treasury for clearance. Prior HMT approval is needed for announcements involving spend above £40m in any one year if the related business case has yet to be approved by HMT.

Any sensitive information/advice should be put in the submission and classified accordingly, rather than in the business case.

2.8.4 For cross-Government instruments there are variations in the approval process

- **International Climate Finance (ICF)**

  All DFID climate finance contributes towards HMG’s reported ICF. Responsibility for and management of ICF funds is decentralised and fully integrated into DFID programme management systems. No additional formal approval of individual DFID climate finance investments is required. ICF spend is identified and approved as part of the concept note and business case approval process. The SRO of a programme which is spending ICF as part of its budget must comply with ICF procedures which are summarised in the Climate and Environment Smart Guide. SROs are accountable for monitoring appropriate outcomes against climate objectives in the relevant log-frame (if possible, using one or more of the ICF Key Performance Indicators), and the climate relevance of the programme should be clearly identified and referred to in the project description.

- **Conflict, Stability and Security Fund (CSSF)**
The CSSF operates on the principle that all policy and programming decisions are taken jointly by the NSC departments. Programmes (covering cross-Whitehall activity in a thematic area or in a country) over £2m funded by the CSSF need to be approved by the relevant cross-departmental Regional Board, chaired at Director level by FCO. One department then leads on the implementation of a project in accordance with its own procedures but following minimum standards, using common CSSF programme documentation. Regional Boards meet quarterly to assess progress against results, risks and financial management. All CSSF programmes and projects led by DFID will follow programme management processes as set out in the Smart Rules. In short, teams need to follow standard DFID procedures.

- **Prosperity Fund**

First, a cross-Whitehall Ministerial Board considers a Concept Note. If the Concept Note is approved (by Ministers where over £5m), programme proposers are invited to turn their Concept Note into a full Business Case up to an agreed allocation amount. The Business Case is submitted to the Prosperity Fund Management Office which will quality-assure each business case based on the Ministerial Board steer and the agreed Prosperity Fund assessment criteria. The business case then goes to the cross-departmental Prosperity Fund Portfolio Board (PFPB), chaired at Director level by the National Security Secretariat (NSS). If approved by the PFPB, the Business Case then moves to Departmental Assurance processes, and must be finally approved by a minister in the department proposing the programme. Once final ministerial approval has been given, the Ministerial Board will be notified by write-round, and the SRO for the Prosperity Fund will send an SRO approval letter to the relevant Department.

### 2.8.5 Business Case Time extensions

Extensions to project timescales (or no-cost extensions) which do not affect the value for money of the project should be made by a submission to the Head of Department or individual with appropriate delegated authority. The Head of Department will want assurance that closure has been genuinely considered and SROs will want to be mindful of optimism bias.

### 2.8.6 Business Case Cost extensions

Business cases are not required for cost extensions to provide bridge funding or to finance the scale-up of an existing programme.

- **Bridge funding**
  
  Unexpected changes to the political and/or operating environment require an increase in budget to respond to a rapidly changing context or to sustain delivery of results during a period of transition.

- **Financing for scale-up**
  
  The programme has a demonstrated track record of good performance and there is a high level of confidence in the expected results.

Approval should be sought via a submission setting out how the extension meets the four principles in the flowchart (Figure 5), and the completion of the addendum to the business case form. This form will usually be published on the external website.

Where the Business Case extension leads to a contract or contract amendment, PCD should be engaged early in the process, (see Section 3.3 Suppliers) to ensure the contract notice included provision to amend. Depending on the context and nature of the intervention, teams may opt for writing a full business case.
2.8.7 Business Case Cost extensions

Depending on the value of the programme before and after an extension, there are several scenarios teams will consider in order to comply with Smart Rule 6. For programmes valued more than £5m, it is for the Head of Department/Director (as appropriate to the programme value) to judge whether the cost extension to the business case represents material change to the intent of the concept note and requires re-approval by the Minister. For programmes becoming greater than £40m for the first time Secretary of State approval is needed. If the cumulative value increases over £40m or the programme is novel or contentious the Director signing off the extension should also make a judgement whether QAU review is appropriate.

- **Original value of programme £5m or less:**
  > If the cumulative total remains £5m or less it can be approved by HoD unless novel or contentious, in which case ministerial approval is needed.
  > If the cumulative total becomes greater than £5m (the delegated authority threshold), then ministerial approval is needed, as well as appropriate sign-off (following the sign-off thresholds set out in Table 3).

- **Original value of programme over £5m:**
  > Cost extensions can be signed off by the relevant authority (within the sign-off thresholds set out in Table 3.), i.e.:
  > Head of Department approval is needed where cumulative total is £40m or less
  > Director approval is needed where cumulative total is more than £40m, up to £100m. If the cumulative total becomes greater than £40m for the first time then Secretary of State approval is needed
  > HMT approval (via FCPD) and Secretary of State approval, via Junior Minister if in their portfolio, is needed if cumulative total is over £100m.
  > If novel or contentious, it should be approved by Secretary of State and HMT.

- **More than one cost extension:**
  > Each extension needs to be signed-off by the relevant official or Minister according to the sign-off thresholds in Table 3, based on the cumulative total. If the cumulative value of the extensions takes the programme above £5m for the first time ministerial approval is needed.

In practice

Teams should think carefully about approval. For example if an extension is under £5million but exposes DFID to significant risks, teams may decide ministers need to take a decision. There is no limit on the number of extensions a programme can have. However, all extensions must have clear justification. Teams should request extensions as far ahead as possible and should plan ahead if extensions are likely to be required. Similarly contract amendments also require careful thought and early planning. See Section 3.3.9 below.
PART 4: PROGRAMME DESIGN & DELIVERY STANDARDS

Figure 5: Business Case cost-extension decision-making guide

Extending programme value

Does the added investment contribute to the same overall impact or outcome as the original investment?

Yes

No

Cost-extension not appropriate. Complete a separate full concept note

Bridge funding

Increase in investment to either:
(a) adapt to changes to political and/or operating environment or
(b) sustain delivery during programme transition, provided that value for money can be justified (increase in cost versus results to be achieved).

Scale up

High-performing programme can be scaled up to increase coverage/number of results, provided that scale-up is consistent with corporate ambitions.

Teams and approvers should ensure extension meets the four key principles

1. There is a clear need for more funding and a clear rationale for an extension in line with corporate objectives. There is clarity about extra outcomes, and results can be obtained through an extension.

2. There is strong evidence of programme performance and delivery and/or a high level of confidence in the expected results.

3. Any new or emerging risks that would affect the feasibility of extension have been clearly identified with mitigating actions. Findings from reviews of the programme have been properly considered.

4. If the cumulative value increases above £40m, judgement as to whether the scale of the increase merits the formal OAUP process should be made at the level of Deputy Director.

Can the team demonstrate that the proposals meet these principles?

Yes

No

Cost-extension not appropriate. Complete a separate full concept note

Further Information
Smart Guides on UK Branding; and Digital
PART 4: PROGRAMME DESIGN & DELIVERY STANDARDS

3. Mobilisation

The mobilisation phase follows business case approval and focuses on the contracting process and formalising agreements with delivery partners. This culminates in the signing of contracts or agreements at the appropriate level of delegated authority and approval of a delivery plan by the Head of Department.

3.1 Mobilisation rules

15. The SRO must ensure that governing documents such as MOUs, accountable grants, contracts and contract amendments use the model frameworks or templates. A formal agreement, signed by the Head of Department or delegate, must be in place before any commitments to cover programme costs, disbursements or transfers of assets/funding are made. DFID cannot make retrospective payments and an approved Business Case must cover the period in question. No costs may be agreed or commitments made after the expiry of the related funding agreement. For programmes that create financial assets or potential liabilities owned by DFID, the SRO must seek approval from Director of Finance and Delivery (via Financial Accounting@dfid.gov.uk) before entering into formal agreements or transfers of assets.

16. Before any programme becomes operational, the SRO must agree with their Head of Department or delegate, a delivery plan including a realistic logframe or similar, a risk register and frequency of monitoring.

17. The Head of Department or delegate must ensure that either (a) a fiduciary risk assessment has been completed before providing financial aid to a government; or (b) a due diligence assessment, including delivery chain mapping (with the exception of core funding) on AMP, has been completed before funding is disbursed. For rapid onset humanitarian emergencies (a different process applies for other humanitarian work) a formal DDA can be completed after disbursing the first funds but the SRO for the programme should have satisfied themselves that any risks are proportionate to the programme’s expected outcomes.

In practice

It is important to understand the difference between advance payment (also known as payment in advance) and payment in advance of need. While not encouraged, advance payment (usually for up to no more than 3 months) is possible if the SRO can provide sufficient justification. For example, a civil society organisation has a limited cash flow so requires funds in advance to commence the programme. Advance payments for a contract always require HM Treasury approval. Advance payments normally lead to a prepayment.

Payment in advance of need is when funds are given before it is agreed that the funds are needed. Some organisations, like multilaterals, may request this type of payment to reduce their own funding risks. Payment in advance of need is not allowed unless approval from HM Treasury is obtained via Financial Accounting. DFID is unable to make any commitments or payments to cover programme costs incurred before a project is approved and a formal agreement is signed by the Head of Department or delegate is in place.
3.2 Delivery options

There is a wide range of commissioning models and delivery options, from strategic partnerships (such as financial aid multilateral financing, core funding to non-government partners) to grants and contracts to deliver specific objectives. A single programme may, for instance, contain a number of different instruments. There are also new models of partnership such as co-production, where we design a programme with a partner or a group of partners or communities.

The choice of delivery options – established in the business case – will determine the level and nature of DFID involvement, which will vary depending on our strategic and management objectives.

As in all programmes, DFID will consider the full range of options as part of the design process to ensure the right choice of business model. We apply commercial and value for money standards to all partners, however selected, to maximise our development impact.

Reasons for choosing a partner without a competitive process would include:

- unique access, e.g. in fragile states
- relations with government or other important stakeholders
- specialist knowledge which cannot easily be procured commercially
- multidonor arrangements
- responding to a proposal from a not-for-profit organisation.

3.2.1 Aid instruments and forms of agreement

The International Development Act 2002 grants the Secretary of State powers to use a range of instruments to achieve departmental objectives. In summary:

Table 5: Aid Instrument and Forms of Agreement

<table>
<thead>
<tr>
<th>Partners</th>
<th>Aid instruments</th>
<th>Funding type</th>
<th>Forms of agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suppliers</td>
<td>Where DFID contracts a partner through a competitive process to deliver a specific set of objectives</td>
<td>Formal tendering process in line with the Public Contract Regulations</td>
<td>Contract</td>
</tr>
<tr>
<td>Multilateral and international organisations</td>
<td>Core contributions to multilateral partners</td>
<td>Assessed contributions</td>
<td>Partner documentation</td>
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<td></td>
<td>Debt relief initiatives</td>
<td>Instruments of Commitment</td>
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<td>Voluntary contributions</td>
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<td>Development Bank replenishments</td>
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<td>Partners</td>
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<tr>
<td>Non-core contributions</td>
<td>Bilateral arrangements with multilateral partners to deliver specific programmes or projects</td>
<td>Multi-bilateral assistance (multi-bi)</td>
<td>Memorandum of Understanding</td>
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<tr>
<td></td>
<td>European Commission</td>
<td></td>
<td>Contribution Arrangement drawn down from the Organisational framework arrangements (e.g. UN agencies, Africa Development Bank)</td>
</tr>
<tr>
<td></td>
<td>UN Multi-donor Programmes</td>
<td></td>
<td>UN Memorandum of Understanding DFID template (where no Financing Agreement is in place)</td>
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<td></td>
<td>Transfer agreement (when providing funding to an EU managed programme) or delegated agreement (when the EU provides funding to a DFID managed programme).</td>
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<td></td>
<td>Standard Administrative Arrangement (UN)</td>
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<tr>
<td>Emergency/ Humanitarian Assistance</td>
<td>Where DFID responds to humanitarian need</td>
<td>Accountable grant</td>
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<td>Agreed Partner MoU</td>
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<td></td>
<td>Contribution Arrangement</td>
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<td></td>
<td>drawn down from the organisational framework arrangements</td>
<td></td>
</tr>
<tr>
<td>Partner governments</td>
<td>Financial aid (including general and sector budget support) is paid directly to a partner government (including technical cooperation)</td>
<td>Budget support MoU</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-budget support financial aid</td>
<td></td>
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<tr>
<td>Other international partner governments</td>
<td>Joint programme with other partners</td>
<td>Pooled funds</td>
<td>MoU (depending on government)</td>
</tr>
<tr>
<td></td>
<td>*BMZ German Federal Ministry for Economic Cooperation and Development/GIZ Deutsche Gesellschaft für Internationale Zusammenarbeit</td>
<td></td>
<td>Delegated co-operation arrangement</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>*Note: When working directly with GIZ use a contract (the Public Contract Regulations apply). When working with BMZ who have appointed GIZ as their implementing agent use a joint MoU</td>
</tr>
</tbody>
</table>
### PART 4: PROGRAMME DESIGN & DELIVERY STANDARDS

<table>
<thead>
<tr>
<th>Partners</th>
<th>Aid instruments</th>
<th>Funding type</th>
<th>Forms of agreement</th>
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<tbody>
<tr>
<td><strong>Not-for-profit partnerships</strong></td>
<td>Other grant aid to not-for-profit partnerships (which may include not-for-profit companies, foundations, universities)</td>
<td>Project funding (including humanitarian)</td>
<td>Accountable grant</td>
</tr>
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<td><strong>Standard MoU</strong></td>
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<td><strong>Low value (&lt;£100k) grant letter</strong></td>
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<td><strong>Contracts</strong></td>
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<td>Strategic partnerships established centrally</td>
<td>Programme partnership arrangement</td>
<td><strong>MoU (DFID template)</strong></td>
</tr>
<tr>
<td><strong>Other UK government departments</strong></td>
<td>Funding of other government department portfolios or programmes in line with the International Development Act</td>
<td></td>
<td><strong>UK government department MoU (template)</strong></td>
</tr>
<tr>
<td><strong>Other private sector instruments</strong></td>
<td>Non-grant financial instruments where DFID directly provides funding with the expectation of future reflows, or charges a fee and agrees to underwrite the cost of a possible future outcome (these instruments create assets on DFID’s balance sheet)</td>
<td>Can include:</td>
<td>A contract must be used when formalising any Development Capital interventions where DFID will have a legal right to the return of all or some of its funding in the future (seek advice from Financial Accounting)</td>
</tr>
<tr>
<td></td>
<td>Capitalised vehicles where DFID provides a grant to a third-party organisation which invests in non-grant instruments, but where DFID does not hold the asset on its balance sheet and does not have a defined legal right to the assets</td>
<td></td>
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</tbody>
</table>

DFID should ensure robust and comprehensive transparency of all non-core funding opportunities, even when our partners are managing grants on our behalf. This will enhance competition resulting in better value for money. SROs should ensure that grant funding opportunities, including anything that is regularly open to competitions, challenge fund or specifically working on a demand basis, are published in Funding Finder.

### Further Information and Templates

Smart Guides on Using World Bank EFOs; Using World Bank Trust Funds; Duty of Care Policy; Prepayments in Trust Funds; Liquidity; Formalising Agreements. And templates for: Accountable Grants; Standard MoUs; Delegated Co-operation Agreements; Multilateral Agreements; Other UK Government Department templates; and Partner Government Agreements templates.

### 3.3 Suppliers
PART 4: PROGRAMME DESIGN & DELIVERY STANDARDS

Tendering is a key part of the commissioning process where DFID chooses to use a supplier through a competitive process. At the outset of any procurement process, teams should consult their Commercial Adviser and/or Procurement and Commercial Department, who will allocate a specialist to work with them. Regular communication between programme and commercial teams will facilitate effective planning and ensures we are better equipped to launch and manage a variety of contracting, programme and financing models.

3.3.1 Procurement and competitive tendering rules

18. The SRO must ensure that direct procurements with a value above the Public Contract Regulations 2015 threshold (£118k) are commissioned for tender and award through early Procurement and Commercial Department (PCD) engagement, competed for in line with the Public Contract Regulations 2015. Any exemptions (e.g. emergency procurement) must be agreed with PCD.

19. Procurements below the Public Contract Regulations 2015 threshold (£118k) must be undertaken by Departmental Procurement Officers (DPOs), or others accredited by PCD, in line with the principles of the Public Contract Regulations 2015; non-discrimination, equal treatment and transparency.

20. The SRO must ensure that contract amendments comply with the Public Contract Regulations 2015. The SRO must ensure that a robust value for money justification is provided for all proposed contract amendments. ‘Cost’ amendments above £1m must be submitted to the Procurement Steering Board a minimum of 12 months before the contract expiry date. ‘Cost’ amendments of £1m and below must be submitted to PCD at least 9 months before the contract expiry date. ‘No cost’ amendments must be submitted to PCD at least 3 months in advance of the change taking effect. If the contract is coming to an end the amendments must be submitted to Procurement Steering Board at least 6 months before the contract expiry date. Amendments that are likely to increase the profitability of suppliers should be submitted to Procurement Steering Board with 6 months’ notice ahead of the effective date. An approved Business Case must cover the full period of any amendments.

21. The SRO must seek ministerial approval for all supplier contracts over £1m, including contract amendments, and call-down contracts from framework agreements following agreement with PCD. Procurement Steering Board and Cabinet Office approval are also required for contracts over £10m.

22 The SRO must ensure compliance with the HR/PCD guidance on engaging self-employed individuals and former DFID staff. In addition, any department directly engaging contractors must complete an “off Payroll” employment status (IR35) assessment prior to contracting.

23 The Head of Department must ensure all staff complete and update HAGRID (Hospitality and Gift Register of Interest Database) in line with DFID’s Conflict of Interest and Gifts and Hospitality policy. All staff
involved in procurement must also complete a Conflict of Interest Declaration form containing the associated HAGRID item number before the release of any tender documentation.

24 The SRO must ensure that Duty of Care is adequately considered in supplier bids during the procurement process in line with the Duty of Care policy and seek advice from PCD where necessary.

### 3.3.2 Competitive tendering standards

**i. Designing specifications: getting the terms of reference right**

Developing a strong terms of reference (ToR) is the backbone of the commercial contracting process. In the ToR, teams can determine exactly what they need to deliver the programme objectives and it is up to them – drawing on commercial advice – to decide what is most appropriate to deliver the programme. Programmes often have separate TORs and tendering processes for delivery, payments by results verification, and evaluation, so it is important to determine the responsibilities of each supplier in relation to each other. There is a range of alternative approaches to ToR that teams can consider. ToR can, for instance:

- focus on outputs and deliverables and how these will be managed
- incorporate specific procedures and processes for learning, flexibility and adaptability to facilitate programme adjustments based on learning and changes in context
- set rigid outputs that a supplier will deliver
- pay attention to not being too prescriptive on inputs, especially where we want to incentivise innovation, learning and risk transfer
- build in flexibility to scale up/scale down project requirements
- transfer risk, responsibility and accountability.

**ii. Contract options**

- **Output-based contracts** can link payment to the delivery of outputs. The ToR must therefore include clear outputs, key performance indicators and a contract/payment structure to support delivery.

- **Input-based contracts** are more detailed on the specific activities required for delivery. The supplier costs are on a fees and expenses basis, focusing on the inputs to deliver programme outputs. The contract will also include key performance indicators and a payment structure to support delivery.

**iii. Tender evaluation**

Before issuing the tender documentation, procurement and spending teams need to establish the criteria by which the resulting bids or proposals will be evaluated using the most appropriate balance of technical and commercial criteria. Getting the right balance of technical and commercial criteria is essential and warrants significant attention at the very start, since this will determine the entire bidding and selection process. All technical evaluators must have successfully undertaken the PCD evaluation training which accredits them for 12 months to evaluate proposals.

**iv. Documentation including terms and conditions of contract**

The procurement process can include a number of different documents/templates from adverts through standard selection questionnaires (SQ) and invitations to tender documentation. The contract contains the agreed terms and conditions and forms the
primary reference point for performance and dispute resolution. Any deviation to standard terms and conditions must be included in Special Conditions (Section 4 of the contract).

All contracts must be issued in standard DFID templates, including an ARIES purchase order number, and cannot be issued without a financial commitment.

v. Contract management
To obtain best value from supplier contracts, programme and procurement staff should work closely to manage supplier performance effectively, in line with best practice.

Teams should consider the methodologies and mechanisms that will support delivery to the right standard, within budget and on time. This could include strategic oversight, financial control, meaningful incentives, clarity of deliverables, flexibility, risk management/ownership, key performance indicators variation processes and monitoring/management of supplier performance.

vi. Procurement of goods and equipment
Procurement of goods may be undertaken in a number of ways and the option offering best value will depend on the specific circumstances of each requirement. See Procurement Commercial Smart Guide for options.

vii. Separation of roles and responsibilities
For transparency, and as a defence against potential fraud or corruption in the project/procurement cycle, at least two and preferably three staff should be involved in the identification/selection/approval/payment process.

viii. Conflict of interest
A conflict of interest arises when an individual could be, or is, influenced by personal considerations in the course of doing their job. This introduces the risk that decisions are made for the wrong reasons and that financial reward may adversely influence objectivity, integrity or professional commitment; this can lead to fraud. All programme team members who will be represented on technical evaluation panels must sign and date the Conflict of Interest Declaration prior to evaluating any proposals.

ix. Supplier references and Completion Certificates
Any request for a supplier or a contract completion certificate should in the first instance be forwarded to the Head of Programme Sourcing in PCD.

x. Duty of Care
DFID has an up-front duty to make reasonable assessment as to whether a particular supplier is able to properly discharge its security and safety responsibilities in light of any foreseeable risks. This aspect of Duty of Care applies regardless of whether or not DFID is directly supervising or directing the work of the supplier.

Principles
- Suppliers are responsible for the provision of suitable security arrangements for their domestic and business property unless a clear exception has been stated and agreed contractually.
- DFID does not engage in the provision of security outside any agreed contractual terms.
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- If there is reason to believe suppliers will not in practice be able to live up to the Duty of Care commitments within the contract, DFID should consider whether to terminate or suspend the contract, or to vary the terms.

In summary, the Duty of Care policy includes:

**Project initiation stage**
- Before any procurement process can start, the SRO ensures a risk assessment matrix is completed, assigning the intervention a risk rating number between 1 and 5 to illustrate whether security risk is low, medium or high.
- If the intervention is rated medium or high risk, then the programme team will seek Head of Office or director approval to go ahead with tendering.

**Manage competition**
- Standard language in the ToR states that the procurement process will include an assessment of supplier capability to properly discharge its security and safety responsibilities if awarded the contract.
- Exceptions do exist where DFID may explicitly choose to accept security and personnel protection responsibilities and provide similar care to suppliers as it does to DFID employees. Any such decisions must be set out in writing in the ToR.
- Through the competition, suppliers will need to confirm that they fully accept their Duty of Care responsibilities.
- If the supplier does not pass the Duty of Care test, it cannot be awarded the contract.

**Following contract award**
- Country offices maintain a Duty of Care risk register and regularly update this.
- Where new security information is made known to DFID, this should be passed on to relevant suppliers, taking reasonable care to ensure accuracy and state any limitations.

3.3.3 Engaging Self-Employed Individuals
Self-employed individuals are an expensive option for filling resource gaps (core services), but can provide value for money where specialist skills, experience and/or innovation (non-core services) are key requirements. Self-employed individuals must not be used to fill what would normally be an in-house 'business as usual' position.

**Core Services** are defined as those skills DFID would normally hold in-house and that we "should" be doing ourselves - those would be deemed to include leading on business case development, annual reviews, leave cover/maternity/paternity – please note that scarcity of resource is not sufficient justification for a self-employed individual contract.

**Non-Core Services** are defined explicitly as those where we do not have and it is not reasonable that DFID would have the required specialist skills within the organisation.

3.3.4 Hiring Former DFID Employees
Any consultancy work to be done by a former member of DFID should in the first instance be commissioned by an officer senior to the individual to be rehired on consultancy terms.

Commissioning officers should establish that the task is properly a contract for services (non core) and arrange appropriate ToR. Standard contractual terms and conditions will apply.
Departments can subsequently arrange individual assignments through standard contract documentation.

3.3.5 Engagement of former DFID staff through a consultancy company

Former DFID staff who have left in the last two years are able to work with (not for) DFID through a consultancy company providing a number of conditions have been met:

- The work is a contract for service: it is a type of work that DFID usually subcontracts to third parties.
- The DFID contracting manager can demonstrate that no influence has been put on a supplier to engage a specific ex-DFID employee as a consultant. The supplier can demonstrate that it selected to use an ex-DFID employee based purely on an objective assessment of the skills and experience required to deliver the ToR or contract. There has been no contact between DFID and the ex-DFID employee during the contracting stage (e.g. DFID has not told the ex-employee to register as an associate of the supplier in order to be (potentially) engaged in the work).
- The supplier was selected through a legitimate, open and fair procurement process.
- The contract with the supplier is for a range of work. It is not just for the work that will be supplied by the ex-DFID employee.

An individual must not earn a higher remuneration simply by the fact of engagement through an intermediary. In this case, the remuneration to the individual must not exceed that which would have been paid on a self-employed individual contract. The overall fee rate paid to the company will include an element for the consultancy company overhead. DFID will need to be persuaded of the added value to justify the additional cost. DFID reserves the right to require a detailed fee-rate breakdown before awarding the contract.

It would not be appropriate to set fee rates for competitive bids/tenders. In such cases DFID will look carefully at competitive bids/tenders to ensure we are not being asked to pay a higher fee rate for the services of ex-DFID staff than we could have secured from a non-competitive contract.

Under the Civil Service Commission, Recruitment Principles Annex C, ‘Exceptions to Selection for Appointment on Merit’, former civil servants (not just DFID staff) can be reappointed without competition if they were originally recruited through fair and open competition. The HR Resourcing Adviser can provide additional advice on this exception.

3.3.6 Competitive tendering routes

Supply route choices should not be based solely on resource intensity or speed, but on which supply route gives access to the best range of suppliers able to successfully deliver programme requirements. Programme teams will work with PCD to develop a sourcing strategy for all procurement £10m and over. A light touch sourcing strategy will be required for all procurement under £10m. The strategy must clearly set out the commercial aspects (key cost drivers, market and options analysis and how the contract shall be managed) of the programme in detail and evidence how the strategy will deliver value for money through the proposed sourcing route and programme life

i. Prior information notice

A prior information notice (PIN) provides prospective bidders with a formal indication of a forthcoming tender. The issuing of a PIN does not guarantee that a contract will be placed but doing so may mean the subsequent tendering timetable may/can be reduced.
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ii. Low-value procurements
Below threshold contracts are not subject to the full extent of the Public Contract Regulations but should be tendered in line with the principles of non-discrimination, equal treatment and transparency.

A low-value competition normally involves a selection of known suppliers or use of local media to advertise the opportunity. For service requirement procurements below £25k, a simple request for quotes or single tender process is available, but should be defended and justified. Spending departments may seek to waive competition for contracts above £25k and up to £118k, provided there is compelling justification and formal approval from the Head of Department.

iii. High-value procurements
High-value procurements are those over the threshold of £118k. DFID follows the Public Contract Regulations, which provide a framework of rules that ensure the application of best practice and transparency. They set out minimum response timescales for both selection questionnaires (SQ) and proposal submission, and measures including the grounds for mandatory and discretionary exclusion criteria by public authorities.

There are three main options.

- **Restricted procedure**: this is a two stage process; Stage 1 – suppliers are invited to express an interest in submitting a tender and are issued with a Standard Selection Questionnaire (SQ) that establishes their initial suitability ruling out tenderers that are unlikely to meet the tender requirements; Stage 2 – shortlisted tenderers who meet the selection criteria will be invited to submit a technical and commercial tender. This procedure should be used where programme teams can easily define the requirements of the programme.

- **Open procedure**: a one stage process covering both selection and award under which all interested suppliers may respond to the advertisement by tendering for the contract. This procedure should be used where programme teams can easily define the requirements of the programme but want to broaden the supply market.

- **Competitive procedure with negotiation**: provides DFID the opportunity to clarify with suppliers throughout the process. As the grounds for this have been broadened, various safeguards concerning the conduct of the procedure have been added to ensure equal treatment and transparency including: setting minimum requirements at the beginning and not changing them during negotiations; having stable award criteria and weighting; not revealing confidential information from a tenderer to other participants without specific consent; and documenting all stages of the process. Clarifications may take place on all aspects other than minimum requirements in stages with successive elimination by applying the award criteria and; on all tenders but the final one. The procedure should be used where programme teams are unable to clearly define the requirements of the programme prior to going to market.

iv. Research Contracts
Research and development activities are exempt from the full application of the Public Contract Regulations if: 1) the benefits do not accrue exclusively to the contracting authority
for its use in the conduct of its own affairs; 2) the services are to be wholly paid for by the contracting authority.

Regardless of exemption three things still apply to any procurement process: 1) the principles of equal treatment, non-discrimination and transparency; 2) rules on technical specifications; and 3) rules on publication of Award Notices.

v. Framework agreements
A framework agreement is an agreement with a supplier(s) that sets out terms and conditions under which specific procurements can be made throughout the term of the agreement in the form of ‘call-down’ contracts. DFID has a number of framework agreements in place for key categories of spend. Frameworks have already been subject to a competition under the Public Contract Regulations and, therefore, provide quicker access to supplier services that can be called-down on an ‘as and when’ basis through mini-competition.

vi. Procurement of emergency aid
DFID’s emergency aid is normally provided through the Conflict, Humanitarian and Security Department (CHASE). This includes lead responsibility within DFID for responses to rapid onset emergencies. Other departments needing to procure emergency aid should contact PCD.

vii. Fragile and conflict-affected states
DFID has established Rapid Response procurement processes for urgent situations (outside humanitarian response and in line with the Public Contract Regulations). You must contact PCD which will allocate a member of the team to work with you.

3.3.7 Contract approvals
PCD monitors the progress of live procurements and uses this information to forecast planned contract awards.

As per Figure 6, following PCD and SRO approval, contracts:

- Below £1m are approved by the Head of Department or Delegate;
- Between £1m and £10m are approved by the relevant Minister with a light touch review by the Procurement Steering Board if above £5m;
- Above £10m are approved by the relevant Minister following DFID Procurement Steering Board and Cabinet Office agreement.

All submissions for contract approval above the threshold of £118k – be it to the Head of Department/Delegate, Procurement Steering Board, Cabinet Office or Ministers – are drafted and submitted by the SRO with input/agreement from PCD.

As per above and Section 3.3.9 below, all planned contracts over £10m, contract amendments over £10m or amendments that take the value of a contract over £10m will need to go via Cabinet Office (who will reply within four weeks) for consideration and if approved will then be submitted by SRO to the appropriate minister.

3.3.8 Submission to minister
The SRO should seek approval for contract from the relevant private office with a submission agreed by PCD that will clearly set out:
PART 4: PROGRAMME DESIGN & DELIVERY STANDARDS

- decision sought – summary, purpose, value and term of the contract or amendment (if applicable), including name of supplier
- the programme the contract relates to, its duration and date of approval
- whether a statement of priorities has been signed
- pricing structure (‘fees and expenses’, ‘milestone payments’ or ‘outputs-based’)
- how the proposed contract meets or exceeds the key assumptions included in the approved business case
- what action has been taken to maximise value for money during the design of the programme and in the award of the contract
- how the proposed supplier has demonstrated the capability to deliver the requirements/outputs at the agreed cost
- how the proposed contract establishes appropriate performance criteria and incentives to manage the supplier during delivery
- how the contract includes sufficient flexibility to manage programme risks and future changes to requirements (e.g. to scale it up or down based on impact)
- how continuous learning, flexibility and decisions to adapt the programme will be controlled to maintain accountability
- how the contract aligns with DFID’s payment by results approach.
- Include Annex: Approval to Contract Declaration
- that Cabinet Office agree to the proposed contract (for all contracts over £10m)

Figure 6: Contract approval flowchart

1Programme Sourcing Team (PST) is responsible for leading procurement and contracting process and will liaise with the rest of PCD as required. They will work closely with the Senior Responsible Owner (SRO) and the relevant Commercial Delivery Manager.

2Officials with the necessary delegated authority can approve contracts up to and including £1m. Once approved, the contract will be signed within PCD.

3Contracts up to and including £10m don’t need to go via Cabinet Office. Contracts (including amendments) between £5m - £10m require a light touch review by procurement steering board and ministerial approval.

4All contracts (including amendments) >£10m require Procurement Steering Board, Cabinet Office and Ministerial approval.
Approval must be sought from the Cabinet Office and then the relevant minister before appointing preferred bidder. Approval is required from both prior to contract signature. All Ministers can approve contracts of any value in their respective portfolios.

3.3.9 Contract Amendments (including extensions)

In considering amending contracts, DFID must ensure that:

1. any amendment is in compliance with public procurement legislation; and
2. there are appropriate mechanisms in place to ensure the change represents value for money and will deliver efficiency and effectiveness.

Detailed guidance on necessary steps and requirements are set out in the Smart Guide on Contract Amendments.

i. Definition of a contract amendment

There are three types of contract amendments – cost, substantial no cost and simple no cost.

<table>
<thead>
<tr>
<th>Type of Contract Amendment</th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td>Cost Amendment</td>
<td>Any increase to the financial limit of the contract which may include extending the contract end date.</td>
</tr>
<tr>
<td>Substantial No Cost Amendment</td>
<td>No increase to the contract financial limit but changes to the terms of the contract including amendments to the budget or significant changes to fee rates, which might increase profitability to the supplier. See paras below too.</td>
</tr>
<tr>
<td>No Cost Amendment</td>
<td>Non-material changes (changes within original scope) to the terms of the contract, and no significant change within the budget. (See paras below too)</td>
</tr>
</tbody>
</table>

ii. Contract Amendment Process and Timeline

The Smart Guide on Contract Amendments sets out the process. There are also contract amendment templates (cost and no cost) that must be completed.

All proposed contract amendments must be in accordance with the following timetable (all dates refer to submission of the approval form to the Procurement Steering Board);

<table>
<thead>
<tr>
<th>Proposed value of amendment is over £1m and requires Ministerial and/or Cabinet Office approval (CO approval required above £10m)</th>
<th>Submit amendment approval form at least 12 months before existing contract end date or sooner if programme is of high complexity, strategically or politically important as determined by Programme SRO/Head of Office.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed value of amendment is £1m or below</td>
<td>Submit amendment approval form at least 9 months before existing contract end date or sooner if programme is of high complexity, strategically or politically important as determined by Programme SRO/Head of Office.</td>
</tr>
<tr>
<td>Substantive No Cost Amendment</td>
<td>Submit amendment approval form at least 6 months prior to the start date of the required change taking effect</td>
</tr>
<tr>
<td>No Cost Amendment</td>
<td>Submit amendment approval form at least 3 months prior to the start date of the required change taking effect</td>
</tr>
</tbody>
</table>


iii. Approval Process

- For no cost amendments the 'no cost amendment approval' form must be submitted at least three months prior to the start of the required change taking effect.
- For cost amendments £1m and below the 'cost amendment' approval form must be submitted at least 9 months before the existing contract end date.
- For cost amendments between £1m and £10m the 'cost amendment' approval form must be submitted at least 12 months before the existing contract end date.
- For cost amendments over £10m the 'cost amendment' approval form must be submitted at least twelve months before the existing contract end date.

iv. Exceptions Process

Situations of sudden humanitarian onset are exempt from this process.

It is also recognised that in some cases it will not be practical to provide 3/6/9/12 months’ notice. Therefore the amendment approval form must be submitted as early as possible to the Procurement Steering Board who will consider the request. Following consideration of the procurement steering board the final decision will be made by the Head of PCD about whether to approve it (£1m or under) or submit to Ministers (over £1m).

Further information and Templates
Smart Guides on Procurement/Commercial; Procurement Frameworks; Duty of Care; Duty of Care to Suppliers Policy; Output-Based Contracting; Engaging Self-Employed Individuals; Contract Amendments (including extensions) and templates for Strategic Sourcing; Standard Competition and Contracts; Framework and Call-Down Competition and Contracts; Research; and Single Tender/Waiver Processes. Cost Amendment approval form; No cost amendment approval form.

3.4 Multilateral and international organisations and partners

3.4.1 Multilateral – core contributions
DFID will at times provide core support to our multilateral partners. Core support is provided for any purpose under an organisation’s mandate without specific conditions on the activities or purposes for which the funds will be used. DFID can be obliged by statute to make these contributions (assessed contributions) or choose to do so as we recognise they are good value for money (voluntary contributions). These contributions include our support to the EU (assessed contributions), Global Funds and Development Bank concessional fund replenishments (voluntary contributions), key UN agencies and debt relief initiatives. Both of these types of contributions are classified as “core contributions to multilaterals”. These arrangements are formalised using a range of agreement types, set out below. These confirm the amounts and timing of contributions. The spending team satisfy themselves that any such arrangement provides appropriate assurance and will need to judge which parts of the standard arrangement checklist are relevant in their case.

3.4.2 Multilateral – non-core contributions

DFID provides aid through a multilateral organisation to implement a specific programme or project. DFID may be one of many donors contributing to a particular programme, in which case contributions will be pooled in a multi-donor trust fund.

DFID formalises arrangements using funding agreements with the implementing organisations. These can take a variety of forms and depend on the partner that we are engaging with. You are encouraged to consult the DFID team that manages the institutional relationship with a multilateral before entering into a funding agreement.

3.4.3 United Nations agencies

We have agreed framework arrangements with a number of UN agencies to be used when DFID is entering into a single donor programme with those agencies. In these cases individual MoUs must not be negotiated, regardless of value. You must instead complete the associated ‘Contribution Arrangement’ template or agreed MoU for each specific activity with the partner.

Responsibility for monitoring and updating organisational-level framework arrangements lies with DFID’s United Nations and Commonwealth Department (UNCD) for UN development agencies or CHASE for the UN humanitarian agencies. Any renegotiation of framework arrangements must involve the Finance and Control team in the Finance and Corporate Performance Division (FCPD) at the earliest opportunity, who will consider the appropriateness of deviations from the arrangement checklist found within the Formalising Agreements Smart Guide.

For other UN agency partners where there is no framework arrangement in place, you should use the UN MoU template (where no Formal Agreement exists). Changes should not be made to the core text without first consulting the arrangement checklist found within the Formalising Agreements Smart Guide.

i. UN-managed multi-donor trust funds

When DFID is entering into a project with another bilateral donor, where the UN agency is leading or acting as the trustee, the ‘Standard Administrative Arrangement (SAA) Using Pass-Through’ should be used. As with all multi-donor arrangements, the processes of the lead donor should be largely respected; however, spending teams should make reference to the arrangement checklist found within the Formalising Agreements Smart Guide and make informed decisions on the appropriateness of any deviations. There is limited scope to
include additional provisions and/or deviations in an annex or covering letter to the SAA, and these need to be negotiated and agreed with the relevant UN agency.

The SAA should also be used if more than one UN organisation is involved in a programme.

ii. Framework arrangements

- UN International Children’s Emergency Fund (UNICEF); UN Development Programme (UNDP); UN Population Fund (UNFPA); World Health Organisation (WHO); Food and Agriculture Organisation (FAO); UN Women, UN Industrial Development Organization (UNIDO); and World Food Programme (WFP).

iii. UN agencies without frameworks

- UN High Commission for Refugees (UNHCR) – agreed MoU template
- UN MoU template (where no Framework Agreement exists)

iv. Agreements for multi-donor or Pass-Through funding, and those programmes with more than one participating UN organisation

- UN Standard Administrative Arrangement

3.4.4 Multilateral development banks

Framework arrangements exist for the Inter-American Development Bank (IADB) and the African Development Bank (AfDB). In these cases, individual MoUs must not be negotiated, regardless of value. You must instead complete the ‘administration arrangement’ associated with the framework.

i. Standard MoUs

DFID has agreed standard MoU formats with the World Bank Group. These are based on standard terms and conditions for all activities, with local specific modifications allowed only in agreed sections.

In the case of the World Bank Group, there are different templates for the International Development Association/International Bank for Reconstruction and Development (IDA/IBRD), the International Finance Corporation (IFC) and ‘externally financed outputs’, which use the EFO Arrangement. These templates have been developed to support single and multi-donor contributions.

The International Financial Institutions Department (IFID), supported by the Finance and Control team, monitors the effectiveness of the MoU templates and framework arrangements. All organisational-level negotiations must involve the Finance and Control team in FCPD at the earliest opportunity, who will consider the appropriateness of deviations from the arrangement checklist found within the Formalising Agreements Smart Guide.

ii. Framework arrangements

- IADB; AfDB.

iii. Standard MoUs/exchange of letters/administrative arrangements

- World Bank Group

iv. No standard template
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- European Bank for Reconstruction and Development (EBRD); Caribbean Development Bank (CDB); Islamic Development Bank (ISDB); Asian Development Bank (ADB).

3.4.5 Other multilateral partners
A standard MoU has been agreed with the International Committee of the Red Cross (ICRC), and the International Federation of the Red Cross (IFRC), to be used in all programmes with that partner. Further guidance can be found in the Humanitarian Programming Smart Guide.

When DFID wants to make a contribution to a multilateral with whom there is no agreed framework or template, the standard DFID MoU (or, where appropriate, partner documentation) should be used. Spending teams should not make changes to the core text without first consulting the arrangement checklist found within the Formalising Agreements Smart Guide. Changes should be explicitly approved by DFID staff, with the appropriate delegated authority.

i. New multilateral framework/standard arrangements
When a multilateral lead department wants to negotiate a new organisational framework arrangement for all future interventions with that multilateral, they should first consult Finance and Control. The multilateral lead, on advice from Finance and Control, will decide whether to start the negotiation on the basis of the standard DFID MoU or a model supplied by the partner. In either case, DFID’s arrangement checklist found within the Formalising Agreements Smart Guide should be used as the governing guide to what is required. A decision on whether the negotiation has provided sufficient assurance to proceed should be taken jointly by the programme team, Finance and Control and the multilateral lead department.

Further information and Templates
Smart Guides on: Prepayments in Trust Funds; Formalising Agreements. And templates for Standard MoU; Delegated Cooperation MoU; Multilateral Agreement; Accountable Grant Agreement;

3.5 Partner governments

3.5.1 Single donor (DFID–partner government) arrangements
There are two main mechanisms by which DFID disburses aid to partner governments:

- budget support – a form of financial aid which is provided directly to partner governments. This can take the form of general or sector budget support.

- non-budget support financial aid – DFID may choose to provide assistance through partner government systems but not provide budget support; e.g. with targeted interventions to meet the costs of specified projects or expenditure items.

Where DFID has a one-to-one relationship with the partner government, the partner government MoU templates must be used. There is a separate template for budget support and non-budget support, as the provisions for these arrangements can differ significantly and each mechanism needs a separate arrangement.
Technical co-operation interventions can also be formalised through these templates when it is part of the same project or the non-budget support template can be used when it is a stand-alone project.

The partner government MoU template covers all mandatory provisions required for one-to-one arrangements, direct with partner governments. The template provides space for spenders to set out exact details relevant to individual arrangements, e.g. what the reporting requirements will be, whether there will be a technical co-operation element, or any specific conditions that have been agreed. These spaces are annotated with **bold text in brackets** {}. Any changes to the core wording within the template must not be made without first consulting the arrangement checklist found within the Formalising Agreements Smart Guide.

### 3.5.2 Partner government multi-donor arrangements

When delivering aid directly to partner governments, DFID may choose to pool resources and work with other donor governments. In these situations, one donor will act as the **lead donor and become a trustee for other donor funds**. In this case the processes, procedures and arrangements of the **lead donor** ought to be largely respected by the other donors.

When another donor government is acting as the **lead donor**, we will normally sign a delegated co-operation arrangement with that donor. Spending teams and staff with delegated authority must compare arrangements with the arrangement checklist found within the Formalising Agreements Smart Guide.

When DFID is the lead donor or all donors have separate arrangements, DFID’s templates can be used to formalise the arrangement with the partner government.

When DFID is acting as the **lead donor** and holding the funds on behalf of other donors, Crown Agents Bank is usually used by DFID. In this scenario, spenders are advised to refer to the Third Party Money Crown Agents Guidance.

### Further information and Templates

Templates for Partner Government Agreements; and Development Partnership Agreements

### 3.5.3 Additional points to consider when formalising arrangements with partner governments

i. **Specific conditions and performance/results-based aid**

   A specific condition is an action, circumstance or outcome which is required for committed aid to be disbursed. If the condition is not fulfilled it is likely to lead to development assistance being interrupted or suspended. Spenders may find it helpful to set out specific conditions to assess the Partnership Principles (PPs) and include them within the allocated space in the template.

ii. **Partnership Principles**

   Annex 1 of the partner government MoU template sets out the shared commitment of both governments to the PPs, DFID’s right to assess the partner government’s commitment to these principles and the procedures to be followed if there is a breach.

iii. **Procedures and practices for budget support/non-budget support**
Annex 2 of the partner government MoU template sets out in detail the payment and audit process for the respective mechanisms and the procedures if a procurement agent is appointed or where a partner may procure technical co-operation through their own systems. Annex 2 must be included within all arrangements, using the template.

iv. Multi-year budget support programmes
When a budget support programme is expected to last more than one year, there will normally be an indicative commitment set out for the future years of the programme. This must be clearly segregated within the arrangement. Where this is the case, it is good practice for spenders to update governments annually about our commitment and disbursement plans for the forthcoming financial year.

v. Programme reporting and reviews
Arrangements for project reporting and reviews of project effectiveness, lessons learned progress against objectives and financial performance must be agreed upfront and set out within arrangements. It is often good practice and more efficient to align these reviews to an existing national process, wherever possible. At times it may be appropriate for an external review to be conducted and here spenders will need to consider if this would:

- add value
- strengthen mutual accountability through independent monitoring rather than self-reporting
- be acceptable to or welcomed by the partner government
- be desirable to other donors where partnership talks are likely to be held jointly.

vi. Development partnership arrangements
Development partnership arrangements (DPAs) provide an opportunity for country offices to formalise a long-term UK commitment to aid and the likely delivery of that aid to allow for more effective long-term planning for partner governments. DPAs are not a replacement for MoUs and all funding still needs to be formalised with an MoU.

Further information
Smart Guides on Payments by Results; and Partnership Principles

3.5.4 Other international donor governments
DFID may pool resources with other government donors from time to time. The procedures to follow and the arrangement to be signed with the partner vary depending on the partner that the donors are working with and on who is acting as the lead donor. This has been set out within the respective sections above.

As well as an arrangement with the lead partner, there will often be a need to formalise the arrangements between all members of the donor group. There are several templates available for this, depending on who is in the donor group and how many donors have underlying arrangements with the lead partner.

Delegated Co-operation Arrangement
The Delegated Co-operation Arrangement (DCA) can be used to agree the arrangement between the donor countries, when only the lead donor has an underlying arrangement with the implementing partner. If DFID is the lead donor, the appropriate DFID arrangement templates can be used.
3.6 Not-for-profit partnerships

3.6.1 Programme funding

When DFID is providing project or fund-specific grant support to not-for-profit, civil society and research organisations, the standard accountable grant template must be used. The key criteria for an accountable grant are as follows:

- We are funding a civil society, non-government or not-for-profit organisation or partnership and not a partner government or multilateral.
- Funding is provided to an organisation whose primary purpose is not for profit and we have verified its status.
- We are confident that our decisions are not open to criticism of anti-competitiveness, and we can demonstrate that we are achieving value for money and maximum impact.
- The organisation (or group of organisations) has approached DFID with a proposal for funding.

The standard **accountable grant template** has been designed to meet all the provisions of the arrangement checklist but also allows spending teams to add and annex particular project conditions, etc. Changes should not be made to the core text without first consulting the arrangement checklist found within the Formalising Agreements Smart Guide. If DFID is designing and determining the detailed objectives and scope of the work, a contract and full tender process needs to be considered, unless we can provide evidence that there is no legitimate competition or that we have exhausted the market. If this is the case then the **Standard MoU template** should be used.

At times DFID will employ a fund manager to manage our larger funds. DFID’s arrangement with the fund manager will be formalised through a contract. It is good practice for the fund manager to use the DFID template when formalising its arrangements with the downstream grantees. A Fund Manager AG template has been developed to help ensure DFID’s reporting mechanisms and standards are adopted through the fund manager with partners.

In practice

If a non-government partner approaches DFID with a proposal, we can work with them to improve the proposal to align with our objectives. The decision as to whether to use an accountable grant is made by the spending team.

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**Further information and Templates**

Templates for Accountable Grant Agreements; and Smart Guide on Due Diligence

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3.7 Other Government departments

When working with other UK Government departments, the first consideration for spending teams is whether a central government transfer can be made through the annual budget estimates process with HM Treasury in March or the supplementary estimates process in December. This will typically be the easiest and most efficient way to formalise this type of intervention and make accountability and ownership clearer. It is at the spending team’s discretion as to whether an MoU would add value in these scenarios.
There may be times where a budget transfer is not appropriate, e.g. when a project needs to be established very quickly. In these instances, spenders can use the Other Government Department MoU template found on the Smart Rules site.

3.8 Non-fiscal programmes and private sector instruments

The choice of approach will affect what budgets DFID can use (RDEL, fiscal CDEL, or non-fiscal CDEL) and the correct statement of DFID’s overall financial position on its balance sheet. FCPD must be closely consulted.

Where DFID is expecting a return, the legal documentation must set out this expectation clearly, and provide for regular valuation of the asset for DFID’s balance sheet. The process and the timing of this valuation must be agreed with Financial Accounting within FCPD.

DFID gives intermediaries a clear mandate for the development outcome to be achieved, setting out in appropriate documentation how the desired balance between development and financial returns is to be managed. Staff should agree with intermediaries how development results will be measured and ensure that remuneration arrangements incentivise the intermediary to deliver DFID objectives.

Issues to consider

- Ensure that DFID’s relationship with the intermediary reflects the scale of our contribution, and its share in relation to those of other contributors; carefully consider the proportion of overall funding that DFID will provide in concept notes and business cases; and ensure that governance arrangements appropriately protect DFID’s interests and manage risks to the Department.

- Ensure that strong governance structures are in place. Investment decisions involving DFID funds should be taken by a professional board or a professional investment or credit committee which reports to a professional board. A key responsibility of the board will be to ensure adherence to the investment code as outlined in the relevant governing documents.

- Ensure that the board has the right skills and expertise, sound operating procedures (including for reporting to shareholders and avoiding conflicts of interest) and clear accountability. Generally, expect board members to be appointed through an open competitive process, with arrangements for performance assessment and rotation of boards.

- Ensure that, in cases where subsidy is provided to for-profit firms, the six conditions in DFID’s Policy on Subsidy to the Private Sector are adhered to. The Policy Framework details these conditions, provides guidance and highlights potential risks.

Further information

Smart Guide on Development Capital Investment

3.9 Due diligence

Due diligence is designed to obtain a level of assurance of a potential delivery partner’s capacity and capability to deliver DFID programmes. A due diligence assessment (DDA) has to be completed before funding is disbursed with the exception of humanitarian emergency
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programme DDAs which can be completed after disbursement of the first funds. The framework examines the partner’s capacity, systems, policies and processes to provide DFID with a fuller picture of strengths and weaknesses, and of the risks involved in working with that partner. If done properly, this will be proportionate to the value and assessed risks of the planned intervention and inform the nature of the ongoing partnership. The responsibility for these processes rests with spending teams.

Risks and issues requiring follow-up should be considered as part of the regular risk management and monitoring processes including annual reviews. Recommendations and actions should be included in risk registers and delivery plans. Due diligence for Investment Capital programmes needs to be provided to the Director of Finance and Delivery when seeking approval for formal agreements. For Investment Capital programmes with new partners, due diligence will be completed by an independent provider where DFID does not have the capability to undertake one. The due diligence framework for these programmes is included in the Development Capital Investment Smart Guide.

In March 2018 the Secretary of State introduced new, enhanced and specific safeguarding standards related to sexual exploitation, abuse and harassment to be integrated within DFID’s due diligence assessments for all organisations that are funded by DFID. The standards have been integrated into DFID’s due diligence assessments, Supply Partner Code of Conduct and ongoing programme management and compliance checking processes.

3.9.1 Competitively tendered contracts
For competitively tendered contracts, the contracting process provides the required due diligence.

3.9.2 Multilateral and not-for-profit partnerships
DFID undertakes a due diligence assessment (DDA) for organisations not selected through competition (e.g. NGOs and international organisations).

Decisions about the scope and depth of the DDA are the responsibility of the SRO, who needs to be confident that the proposed implementing partner has sufficient capacity and capability to manage UK aid. The scope and depth of a DDA should be proportionate to the scale and extent of a partner’s proposed involvement in the programme, and DFID’s existing knowledge of the partner.

The outcome of a DDA will be a clearer understanding of strengths and weaknesses. Based on the DDA, the spending team may decide not to proceed with the partnership. More routinely, the DDA will inform the ongoing partnership, providing DFID and the implementing partner with the opportunity to collaborate in strengthening their capacity to manage delivery. Significant issues or areas for improvement raised in the DDA should be followed up in subsequent annual reviews and programme discussions.

For multilaterals with which we have a significant number of financial relationships, institutional leads will undertake central assurance assessments. These will provide basic information on central systems and policies which can help programme managers decide what additional due diligence is required for individual programmes. A good due diligence assessment will:
- be proportionate to the intervention
- be risk based
- provide a better understanding of the partner
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- identify pre-funding risks/control weaknesses
- allow the programme team to implement controls to mitigate risks
- provide an assessment on the partner for future funding consideration.

In practice
If the team has completed a previous DDA of a partner (i.e. for another programme), this may be sufficient. Equally, if another partner has already conducted a due diligence assessment, this may be sufficient provided the team is content it provides the required information. Either way teams need to check compliance against the enhanced requirements on safeguarding introduced in 2018. If we are funding an organisation for a specific output, then the DDA would be most likely to focus on its ability to deliver that output. If we are providing long-term programme or core funding, the DDA would need to look more closely at its governance and decision-making structures.

Further information and Templates
Smart Guides on Due Diligence, Safeguarding and Delivery Chain Mapping; and template for Due Diligence

3.9.3 Government partners
DFID undertakes a fiduciary risk assessment (FRA) of partner government financial systems for financial aid only. This examines the commitment to reforms, specifically the commitment to improving public financial management; the commitment to strengthening domestic financial accountability through improved external audit and parliamentary scrutiny; and the commitment to tackling corruption. A quality FRA will include:
- an assessment of the levels of residual risk (i.e. after short-term safeguards), fiduciary risk and corruption risk
- an assessment of partner government commitment to improving public financial management, strengthening domestic financial accountability and fighting corruption
- the overall public financial management performance and identification of key fiduciary risks
- the key fiduciary risks not addressed by existing reform programmes
- conditions or recommendations to address any concerns about partner government commitment to improving public financial management, domestic (financial) accountability and anti-corruption reforms
- short-term safeguards recommended to mitigate fiduciary risks
- residual fiduciary risks when providing financial aid, accepted by the country office, and implications for the design of individual aid instruments
- how dialogue with partner governments on short-term safeguards, public financial management conditions and reform recommendations will be taken forward
- monitoring arrangements (including through annual statements of progress and review of partner government financial reports).

A clear record should be kept of all sources used in the FRA, including partner country reports and findings from key diagnostic studies, noting when each report was produced. If we are satisfied with existing analysis, this may be sufficient and a separate DFID FRA is not required.

In practice
If the team is content that an existing FRA (or one conducted by another partner) is adequately robust, this may be sufficient. Equally, if there have been no significant
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changes to the fiduciary environment over the three years since the last FRA, there may not be a need to redo it.

Further information
Smart Guide on Fiduciary Risk

3.9.4 Other private sector partnerships
The Corporate Engagement Risk Assessment (CERA) is designed to help assess the credibility of a for-profit organisation as an effective DFID partner working to reduce poverty. Reputation risk assessments complement the assurance process of the DDA.

3.10 Signing formal agreements

Commercial contracts have their own approvals process (see 3.3.7 and 3.3.8 above)

All other agreements, including any amendments must be signed by the Head of Department – or delegate - who should be content that the agreement and due diligence provide sufficient assurance on the use of DFID funds.

The exceptions to this are for agreements which create a financial asset (for example, shares) or a potential liability (for example a guarantee) directly for DFID. These agreements must be signed by the Director of Finance and Delivery, as they impact on DFID’s balance sheet.

4. Delivery

The delivery phase focuses on managing programme implementation. The nature of DFID’s role will depend on the type of partnership and context set out in a delivery plan.

4.1 Delivery rules

25. The SRO must ensure that the programme is appropriately monitored throughout the year and that the delivery plan, logframe or similar, risk register and AMP delivery chain map are updated as necessary, with significant changes to the logframe agreed with the Head of Department or delegate.

26. The SRO must ensure that all projects of 15 months’ duration or more are reviewed annually unless the programme end date is due in less than three months. The first annual review is due within 12 months of the business case’s approval. Heads of Department or delegate must approve annual reviews. A Director may defer an annual review once for a maximum of three months. PCRs may not be deferred.

27. The SRO must integrate improvement measures into the delivery plan of any programme that scores a C or consecutive Bs in its annual review. After six months (or before if appropriate) the SRO must seek approval from the HoD or delegate (and inform ministers, where deemed appropriate) on whether to close or restructure the programme, or continue with the improvement measures.

4.2 The Delivery Plan
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The delivery plan follows directly from the management case of the business case, documenting in one place the monitoring (and where applicable, lesson learning and evaluation) approach; the risks, issues and delivery challenges; and the priority actions due to changes in context or poor performance. The delivery plan is an internal document (i.e. it is not published on DevTracker).

The delivery plan:
- links back to the concept note and business case, ensuring that the key issues identified are addressed in implementation; it should not repeat business case content, but could highlight changes and operational/delivery detail
- helps provide assurance that the 10 Delivery Questions are continually considered throughout the programme cycle
- sets out the key decision points during the programme
- specifies the extent and type of involvement of DFID (including clarity on roles and responsibilities) and key actions over the year in managing programme delivery, which will vary significantly depending on the nature of the programme
- evolves as the programme progresses, proportionate to the information available and the level of detail required
- sets out roles and responsibilities and how the supplier/partner will be managed
- integrates risk management strategies (especially if there are issues outstanding from the DDA and/or FRA)
- provides a mechanism to monitor the assumptions set out in the theory of change/business case
- tracks more operational (financial/reporting) arrangements set out in business case
- articulates the use of assurance and audit tools in delivery
- identifies approaches for the management and control of programme assets
- tracks any risk/value for money tolerances or assumptions from the concept note and business case.

In practice
The delivery plan is a versatile tool to track the programme throughout its life. There will be scenarios where not all information is fully known during business case design and approval. In these instances, it will be important that the delivery plan sets out timeframes for resolving these issues, or implementing the recommendations from the quality assurance and approval processes.

4.2.1 Structure of a delivery plan
There is no formal format for the delivery plan, though Heads of Department or delegates will want to agree a structure that works best for their teams. Plans should be adaptable, short and visual. The delivery plan flows directly from the management case of the business case. It should not duplicate the management case or any part of the business case.

4.2.2 Adjustments and updating the delivery plan
Teams will want to update the delivery plan following an annual review (as well as more frequently throughout the life of the programme). This update (carefully version controlled) helps the team to:
- ensure that any recommendations and key learning from the annual review or other reviews are properly reflected in the plan, including action on poor performance
- update and revise the activities, timelines and resources
• amend the logframe or results framework to reflect any changes agreed with the Head of Department or delegate
• ensure that programme activities are focused on addressing the risks and issues
• ensure that internal resources are being used effectively
• update risk management plans
• include performance improvement measures, which are mandatory if the programme scored C or a consecutive B at annual review.

In this way, the delivery plan facilitates an adaptive approach to programming, ensuring that key strategic directions are recorded. Determining the precise content and proportionality is the responsibility of the SRO with agreement from the Head of Department or delegate.

In practice
There will be different types of delivery plans, depending on the context. For example, for a contract it might focus on the commercial process, roles and responsibilities. The delivery plan could be a collaborative effort, produced in partnership with others. It might also be based largely on a plan produced by our implementing partners and suppliers, with minimal involvement from DFID. In certain cases, it might focus on DFID’s political engagement and influencing strategy for a programme.

4.3 Contract and relationship management

During programme delivery, we will build professional relationships with partners and suppliers to ensure that there is regular and structured communication between partners. Issues to consider include:

Ownership and governance
• Clear roles and responsibilities.
• Early warning signs – resolve problems before they escalate, and then have clear escalation routes.
• Risks and mitigating actions where appropriate.
• Wider contextual factors and assumptions that could affect delivery and agree contingency plans/mitigation strategies.
• Relevant lessons from previous partnerships or elsewhere.

People
• Skills and capabilities to resource the relationship.
• Institutional memory and experience.

Administration
• Be aware of your contract links to the overall partner portfolio

Relationships
• Support policy priorities.
• 360 degree feedback. DFID will support and advise on concerns and technical and commercial issues.
• Ensure that there are clear and well-defined communications linked to the agreed governance arrangements.

Performance
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- Monitor progress, tracking key performance indicators, complete partner scorecards and agree course correction.
- Ensure appropriate data and evidence is recorded to support performance improvement measures.
- Link to programme cycle documents
- Collaborate to capture and share learning and be open about failure.
- Consider the impact on incentives of different payment approaches.

Development
- Ensure that everyone is clear on the key terms of the agreement—termination, intellectual property, security, disputes, commercial performance improvement processes, etc.
- Ensure appropriate commercial planning around contract end dates.
- Develop opportunities to innovate and try new things (e.g. mutual accountability).
- Have discussions around strategic initiatives.

In practice
In a contracting environment, teams may decide to capture these actions in a contract management template, which in turn could become part or the basis of the delivery plan.

4.4 Assets
Any equipment and supplies purchased from programme funds are defined as programme assets if they meet both of the following criteria:
- they have a useful life of more than one year; and
- the purchase price or development cost of the asset is in excess of £500 or equivalent in local currency. The value might be for a group of assets rather than each individual asset when it comes to what are known as “attractive” assets such as mobile phones, laptops, satellite phones etc.

4.5 Learning
DFID’s ability to deliver high-quality programmes and to achieve UK Government international development objectives depends on our ability to systematically learn and share knowledge and know-how.

This means prioritising learning from rigorous evidence (including research evidence, evaluations and statistics) monitoring, contractors, stakeholders and beneficiaries at all stages in the delivery chain and having the confidence to learn from and communicate what is working well and what is not. This means:
- Using rigorous evidence to inform the design and implementation of the programme, and adapting in response to the evidence available
- having communication and learning plans in place as soon as possible
- allocating sufficient time to reflect and allocating programme resources to learning activities
- using technology and networks to share and assimilate knowledge products
- building the confidence to discuss failure
- continuous monitoring, learning and adapting
- a commitment to understanding the perspective of others – with practical attempts to get feedback on our performance, however challenging it may be to hear
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- committing to collate and share lessons from annual reviews, project completion reviews and evaluations
- Recognizing learning which would be of relevance to other parts of DFID and beyond, and finding platforms to share and discuss that learning

Learning will take place continuously throughout the programme cycle. Opportunities to take stock and focus on learning are also built into the delivery of programmes through monitoring, evaluation and reviews.

4.6 Monitoring
Monitoring is part of good programme management and should take place throughout the programme cycle and culminate in formal annual reviews and project completion reviews.

A continuous process of monitoring helps to track the performance of implementing partners, check that what has been delivered is in line with expectations and reporting, strengthen feedback loops and learning and ensure that programmes adapt to changing realities on the ground. It should be clear what data will be collected, by whom, how frequently and for what purpose. This could link upwards to the Business Plan results framework and DFID framework for results and downwards to the detailed activity monitoring carried out by implementing partners. Monitoring might include structured quality assurance of existing protocols, spot checks and/or field visits to engage with key stakeholders and beneficiaries. It is also an opportunity to proactively gain assurance that programmes are not being used to exploit or abuse vulnerable individuals. Individual monitoring plans will be set out in the delivery plan.

Where DFID holds a legal right to an asset or has the ability to direct how potential returns are used, it is important to monitor the financial performance of the asset or potential returns and ensure the continued integrity of the governance arrangements under which they are managed.

In practice
Departments may not have the human resources they need to monitor a programme with the frequency or in the detail that they feel is required given the programme’s risk profile. Staff could consider building third party monitoring into the programme design and having a component for that using programme funds. Monitoring activities by DFID staff should not be charged to the programme budget, but should be charged to FLD.

4.7 Evaluation
Evaluation uses monitoring data and other information sources to independently assess the relevance, efficiency, effectiveness, impact and sustainability of interventions and produces actionable learning for performance improvements. Internationally, evaluation has a dual purpose – accountability and learning. In DFID it contributes to improving the impact and value for money of development spending and supports the effective delivery of our Strategic Objectives.

DFID’s evaluations can broadly be categorised into three types:
- Impact evaluations establish causal attribution in relation to an intervention and its effects
- Performance evaluations evaluate the effectiveness of an intervention and its contribution to development outcomes and impacts
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- *Process evaluations* provide deeper understanding of the quality of implementation including integrity, relevance and coherence.

These three types of evaluation are not mutually exclusive, and impact evaluations will often include performance and process evaluations components.

Whether or not to evaluate an individual programme should be considered at the design stage, and based on factors such as policy priority, innovation, existing evidence, value, risk, feasibility of conducting an evaluation and the potential for use of the findings.

4.8 Annual review

Annual reviews examine progress against the business case, providing an assessment of progress against the logframe indicators or other performance expectations, recommendations for follow-up action and an analysis of learning. The annual review focuses on the point in time of the programme cycle. The initial review may focus on arrangements during the mobilisation phase and the transition to implementation.

Multilateral arrangements will generally have their own performance review arrangements, which DFID may want to use. Teams can conduct annual reviews at any point in the year to align with a partner’s review cycle and should draw on (or, if public, refer to) partner documentation.

4.8.1 Template

There is a standard template which must be used for all annual reviews.

4.8.2 Items for consideration in the annual review

A high-quality annual review will consider:

- The concept note, business case and previous annual reviews and their recommendations in a continuous process of review and improvement
- significant changes to the assumptions made in the concept note or business case (i.e. context, risk, value for money, operating or political environment)
- new evidence from public research or evaluations
- whether the targets are still realistic
- the effectiveness of partnerships, including government viewpoint, suppliers’ performance and contract implementation
- the relevance of the programme and whether it should continue, be stopped or reset
- whether poor performance has been identified and is being managed, including whether improvement measures are required
- evidence of learning and continuous improvement during the project’s implementation and how lessons will be shared more widely
- the impact of the Partnership Principles on the programme
- risks identified in the Due Diligence Assessment, Fiduciary Risk Assessment or contracting process and consider how these have been addressed
- specific, time-bound recommendations for action that are consistent with the key findings

In practice

An annual review may take place at any point in the 12 months following approval of the last annual review or the Business Case. This allows teams to synchronise with other
partners or government spending cycles and manage workloads. Teams may choose to do an annual review at the end of the mobilisation phase to make a clear divide between mobilisation and the start of delivery. In these circumstances, teams will need to make a judgement about the level of information provided, making sure they clearly document the decision-making process and rationale. If data is not yet available, it would be better for teams to do a review focusing on process information that is available rather than to defer a review. Your Annual Review can be approved up to three weeks before the due date without affecting the annual due date in the future. Anything outside this three week period will result in your due date being reset to one year from the approved date.

Further information and Templates
Smart Guide on Reviewing and Scoring Projects. Templates for Annual Review; and Project Score Calculator

4.8.3 Exemptions from annual reviews and project completion reviews
In certain scenarios, teams may wish to exempt a programme from the annual review and/or the project completion review process. Staff should contact their directorate for confirmation of the process in their respective directorate. Criteria for an exemption (which then needs to be agreed by the Head of Department) include:

For annual reviews only
- the programme’s next annual review due date is within three months of the programme’s end date
- the programme has a duration of less than 15 months

Annual reviews and project completion reviews
- the programme is under £1m and was approved before 1 January 2011
- debt relief
- core contributions to a multilateral organisation once the replenishment period has finished or once all deposits have been made, whichever is later (or were completed before 2011 for PCR exemptions)
- Managing financial transactions (loans, pensions, banking services)
- Secondments
- EC attribution

In practice
Project scoring should be an aid to making decisions about programmes, but not drive those decisions. Nevertheless, when setting targets, indicators and weightings in frameworks for results, staff should think about the mechanics of the annual review and project completion review process. A programme’s score is automatically generated and contributes to DFID’s Portfolio Quality Index via the scores for each output. It can be problematic therefore if a programme only has two, equally-weighted, outputs one of which scores an A and one a B: what should the overall score be? Sometimes one heavily weighted indicator score will lead to a particular score which may feel at odds with overall progress. Programme staff should consider these eventualities when designing frameworks for results. Staff may also want to run the scores on the system and ensure they feel the scores reflect an accurate and fair assessment before committing to a score with external partners based on a more quantitative discussion, although that should always be a key part of the process. When designing frameworks for results, staff may also want to consider including SMART outputs and indicators which perhaps capture
more qualitative measures related to the quality of the management of the programme. Annual reviews and project completion reviews can refer to (and do not need to duplicate) other publicly available information.

Further information and Templates
Smart Guide on Reviewing and Scoring Projects; Templates for Annual Review, Project Completion Review; and Project Score Calculator template

4.8.4 Concept note or Business case amendments
If changes are agreed during the Annual Review process, then Programme teams should seek the judgement of Head of Department/Director (as appropriate to the programme value) to determine whether the amendments require the official to revisit the sign-off. In addition, if the Head of Department/Director feels that the changes reflect a material change to the intent of the concept note, then re-approval from ministers will be required. There is further detailed guidance in the Smart Guide to concept notes – but revisiting the sign-off would typically be required if:

- the overall outcome/impact statement changes;
- there is significant diminution in value for money, or increase in the risks associated with the programme, that warrant ministerial attention/steer;
- there are other changes to assumptions made in the concept note or business case (e.g. context, operating or political environment) that affect the programme significantly enough to warrant ministerial attention/steer.

Amendments can be done directly or usually by publishing an addendum to the business case. Cost extensions to Business Cases require an addendum. (see Table 3 in Part 2).

Further information and Templates
Template for Addendum to Business Case

4.8.5 Improvement measures
Where a programme is seriously underperforming (scores a C) or failing to improve (scores a consecutive B), improvement measures will be included within the delivery plan. Quality improvement measures include:

- agreements between all parties on areas of underperformance
- measurable actions to get back on track
- areas of course correction
- influencing strategies
- timeframes and possible scenarios.

Ministers receive a strategic overview of poorly performing projects, based on data held by FCPD and regional divisions, every quarter as part of regular board reports.

In practice
While we aspire to improve portfolio performance, we recognise that many programmes will underperform. Teams will consider the options objectively. It may be that an underperforming programme accompanied by robust management and learning is more valuable than top performance that has low ambition or poor management.
Some programmes will score consecutive Bs and Cs and continue to operate. The key is to clearly demonstrate what we are doing to get them on track and be clear about when to escalate issues to senior managers/ministers.

4.9 Financial management

4.9.1 Financial management rules

28. The SRO must ensure that no payments are made in advance of need, i.e. before the funding is needed to enable the programme to proceed.

29. The SRO must ensure that all commitments are made in Sterling, and that all commitments made in local currency above £50k are agreed by the Head of Financial Accounting and Policy, FCPD.

30. The SRO must ensure that funds have been paid to the intended recipient and have been used for the purposes agreed, including through the regular scrutiny of invoices, annual audited accounts and financial statements.

31. The Head of Department must ensure that the budgets are profiled at the start of each financial year. The SRO must ensure that financial forecasts for programmes are realistic, updated monthly on ARIES, and should explain any variances and how they will be managed.

32. The SRO must ensure that any relevant taxes (e.g. VAT, customs duties) are included in the budget and all financial forecasts throughout the project. Staff must contact the VAT Liaison Officer within Financial Accounting, FCPD, if they require advice about UK VAT. Staff must never provide tax advice to partners.

33. The SRO must ensure that there is a complete, accurate and up-to-date inventory for all programme assets owned by DFID, and that physical checks of the assets take place at least annually.

34. The SRO must have Head of Department and Financial Accounting, FCPD, approval before writing off costs related to losses or fruitless payments, including when assets have been lost, stolen or damaged.

35. All DFID staff must immediately report any suspicions and/or allegations of fraud, terrorism financing, money laundering, bribery, corruption, or sexual exploitation, harassment and abuse, to the Head of Internal Audit or the Internal Audit Department’s reporting concerns inbox or hotline: reportingconcerns@dfid.gov.uk or +44 (0)1355 843747.

4.9.2 Financial management standards

In-year financial management is vital to achieving DFID’s financial targets and to ensuring ongoing scrutiny of allocation of resources and value for money. To manage DFID’s project resources and to ensure that we achieve our strategic key results, it is important that in-year programme slippage is managed effectively.
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Departments are encouraged to over-programme to do this. Over-programming can be achieved in two ways:

- having more approved, pipeline and pre-pipeline projects than affordable and actively managing pipeline projects to address slippage throughout the year
- having more ‘live’ projects in a portfolio than affordable in any one year but having the flexibility to accelerate or decelerate the pace of spend across years to ensure that the Department remains within the resource allocation.

Divisions should ensure that total approved project budgets do not exceed total resource allocation at divisional level (for any one year). Spending departments should profile total approved project budgets across the life of each project, taking into account risk and probability of delivery, to manage slippage and remain within annual resource allocations.

The Budget Policy sets out a clear framework for managing in-year resources, with guidance on the use of financial reporting, portfolio management, the maintenance and management of budgets and the recycling and reuse of funds through contingency.

Definitions

- **Pre-pipeline** status projects should include all plans prior to the Business Case being written. This will include projects at the very early concept stage, or funds which teams have a reasonable degree of confidence will be spent on the programme in the future.

- **Pipeline** status projects should reflect all projects where full business cases are being written, through to those that are awaiting business case approval. ARIES pipeline status projects should contain profiled budget information for the current year. For all future years of the project’s life, this should be profiled at a monthly level where known, or held on an annual basis. Planned additional funding for an existing programme in an amendment or addendum should be entered as pipeline.

- **Approved** status projects should reflect projects that have been fully approved through the business case process.

There are no restrictions on the number of pre-pipeline and pipeline projects that can be held within a division and divisions are encouraged to maintain an active pipeline to create choice of competition within its portfolio to maximise value for money and deliver results commitments.

**Further information**
Smart Guides on Budget Policy; VAT

4.9.3 Making payments

HM Treasury’s Managing Public Money sets out rules and requirements when handling public finances. In principle, DFID aims to make payments in arrears wherever possible, helping assure us that monies have been paid to the intended recipient and used for the purpose intended. The key distinction is that the money must be required for the programme to proceed (i.e. for partners to enter into contractual relationships). It is important that DFID does not fund partners in advance of need (see rule 28).

Advance payment is possible when working with civil society/not-for-profit organisations as well as occasionally through contracts. Any advance payment under a new contract requires
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HM Treasury approval via Group Operations in FCPD, and any queries should be directed to Programme Sourcing, in PCD.

Partners may factor the cost of borrowing (i.e. interest) into proposals and have these met by DFID.

Invoices must be paid within 5 days of receipt in DFID, unless they are disputed.

In practice
If specified in the formal agreement, it is possible to make an advance payment for partner activities in order to enable programmes to operate effectively as long as this represents value for money and has sufficient fiduciary safeguards. For multilateral partners, this is often standard practice to enable them to enter into subcontracting commitments.

4.9.4 Advance payments
Where advance payments have been agreed in the business case and subsequent formal agreement, teams will consider a range of issues before making payments. This may include issues such as:

- obligations set out in the agreement with the partner
- the balance of DFID funds with partner and proportion of last disbursement spent
- the latest assessment of performance
- (for financial aid) the date of the updated assessment of the Partnership Principles (PPs) and any changes in the PPs’ assessment
- whether the work plan/budget for period of disbursement is in line with the overall work plan/budget
- whether the amount being requested is in line with the payment schedule in the funding agreement
- whether the funds being requested are for a period indicated in the funding agreement
- invoice accuracy (where applicable)
- the latest narrative and financial report, including the spending pattern/performance of the partner
- whether the funding arrangement/agreement is still valid
- when the last audit was carried out and the audit opinion in the report (where applicable) – are there any audit concerns that need following up
- whether this creates a prepayment (discuss with your Finance Manager)

4.9.5 Financial management of commercial vehicles and programmes involving financial assets
For commercial vehicles, the definition of ‘in advance of need’ and the policy to be followed for disbursements should be agreed with Financial Accounting before the first disbursement. It is recognised that these vehicles may require an interpretation of need which takes into account their ability to act in the marketplace. Consider the cash balance of a vehicle before any disbursement. Consider commitment instruments, such as promissory notes, in cases where it is required to capitalise a vehicle ahead of its need for cash.

Where DFID holds a legal right to a financial asset or the potential to receive reflows from the programme, monitor the potential official development assistance (ODA) impact of these reflows and notify FCPD if there is a possibility of negative ODA flows. A financial asset
is defined as a non-physical asset which has monetary value derived from a contractual claim and includes, but is not limited to: buying shares, providing loans/finance/endowments.

For programmes where DFID holds a legal right to a financial asset, agree the auditing and valuation approach and requirements (including frequency and timing of valuation) with Financial Accounting in advance of disbursal. The SRO ensures that valuation requirements are met and accurate valuations are provided to Financial Accounting to the timings agreed. Where an SRO or their team becomes aware of a deterioration, or potential deterioration, in the financial position of a financial asset (usually ahead of a valuation), report this to Financial Accounting immediately.

4.10 Audit requirements
Audit requirements depend on the aid instrument used. In summary:

Table 6: Audit requirements

<table>
<thead>
<tr>
<th>Partner type</th>
<th>Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner government</td>
<td>The basic accounting discharge is provided by the partner government, which confirms that funds have reached, for example, the Consolidated Fund of the country concerned.</td>
</tr>
<tr>
<td>Budget support (general and sector)</td>
<td>The level of financial or audit discharge should be proportionate to the level of risk as identified in the Public Expenditure Financial Accounting programme (PEFA), FRA or other available partner analysis. Details of the types of assurance mechanisms and practices expected within operating partners are set out in Due Diligence and Fiduciary Risk Assessment Smart Guides and Memoranda of Understanding.</td>
</tr>
<tr>
<td>Non-budget support</td>
<td></td>
</tr>
<tr>
<td>Financial aid</td>
<td></td>
</tr>
<tr>
<td>Multilateral</td>
<td>Audit provisions are set out in all formal exchanges with international/multilateral organisations. We need either audited statements at the project level or an audit framework at the organisational level, e.g. the UN’s single audit framework, which provides a sufficient level of general assurance.</td>
</tr>
<tr>
<td>Core contribution</td>
<td></td>
</tr>
<tr>
<td>Replenishment/subscription</td>
<td></td>
</tr>
<tr>
<td>Debt relief</td>
<td></td>
</tr>
<tr>
<td>Voluntary contribution</td>
<td></td>
</tr>
<tr>
<td>Not-for-profit</td>
<td>Record evidence of the use of funds through the receipt of annual audited accounts, which show funds received from DFID, or through a separate audited statement. Our requirements are set out in the standard accountable grant letter and PPs arrangements.</td>
</tr>
<tr>
<td>Organisations, civil society organisations and research institutions</td>
<td></td>
</tr>
<tr>
<td>Contract</td>
<td>Regularly review invoices, supporting vouchers and documentation associated with the payment to confirm what the money has been spent on. Audit requirements should be set out in the ToR/contract.</td>
</tr>
</tbody>
</table>

4.11 Losses and write-offs
A write-off occurs if DFID funds, or goods purchased with them, are lost/stolen/damaged, or where proper accounting documents for expenditure cannot be obtained. It also occurs when DFID has incurred non-refundable expenditure but has not received the benefit of these payments, such as cancelled flights or training courses. Such items cannot be charged against DFID’s budget as normal expenditure in delivering international development. They must, however, still appear in DFID’s accounts.

This is done by the process of writing off. It is the last resort in dealing with a loss of funds or goods. It must only be done after all possible action to recover the loss has failed. After the requirement to record a write-off has been identified, staff must prepare a write-off submission for endorsement from their Head of Department. Following this approval, the write-off submission must be submitted to Financial Accounting for secondary approval covering:

- **background** — a short summary of the case and why the need for a write-off has arisen, e.g. equipment damaged, lost or stolen
- **amount to be written off** — includes the replacement value of any equipment
- **attempts made at recovery** — and what the results have been (e.g. police reports)
- **prevention of recurrence** — steps that have been, or will be, taken to prevent a recurrence
- **transaction details** — details of the original posting transactions (i.e. the component, budget centre and account code).

In order to maintain better control and transparency of write-offs for reporting purposes, as required by HM Treasury, Financial Accounting has set up specific account codes for use in write-off scenarios.

### 4.12 Other technical issues

**Promissory notes**: this is a written undertaking to pay money on demand, up to a specified limit, to a named recipient. DFID uses them mainly, but not exclusively, as part of the arrangements whereby we pay certain sums to International Development Banks and Funds. These will be signed by the Director of Finance and Delivery. The SRO should contact Financial Accounting.

**Further information**
Smart Guide on Promissory Notes.

**Contingent liabilities**: Contingent liabilities are potential calls on government funds, i.e. dependent upon particular events happening in the future. They include commitments to pay subscriptions to international financial institutions, guarantees, indemnities and letters of comfort whether given in the normal course of business or otherwise. Contractual commitments, or commitments to pay grants in future years, do not count as contingent liabilities when made in the normal course of DFID’s business.

### 5. Closure

The final phase in DFID’s programme life cycle is closure. During this phase, DFID terminates contractual obligations, disposes of assets and focuses on lesson learning, sharing and exit. Teams will consider closure activities as part of the business case and delivery plans, and should start planning for closure as early as possible.
5.1 Closure rules

36. The SRO must ensure that for a programme to be fully closed and archived:
- a project completion review is completed within three months of the programme’s end date set in ARIES; it may not be deferred.
- all outstanding payments are made and liabilities extinguished within eighteen months of the programme’s end date set in ARIES, but those costs must have been agreed and incurred before the expiry of the related funding agreement.
- all assets are disposed of in a way that represents best value for money with a clear record of decision making, including approval by HoD or delegate.
- all required audited accounts and financial statements covering the full duration of the programme have been received.
- any unspent funds are transferred to DFID’s central contingency fund.
- all available documents have been published in line with Smart Rule 5

37. The SRO must ensure that all programme extensions and early closures are approved in line with the extension approval and programme closure processes.

In practice
After a business case is formally approved, the programme team will load it on ARIES entering the programme’s start and end dates. A programme with a start date in ARIES of May 2014 and end date of October 2018 will have a PCR due in January 2019 (3 months after the ARIES end date). All payments will need to be made by April 2020 (18 months after the end date on ARIES), but for most programmes it is likely to be sooner than that.

5.2 Closure standards

Programme teams are expected to explicitly consider the ongoing relevance and value of all programmes and to be prepared to close programmes at any point in the programme cycle. This could be for a wide range of reasons:
- the natural end of the programme
- poor performance without sufficient assurance of an improvement
- fraud/mismanagement
- reprioritisation of DFID resources
- a major change in the context of or key assumptions underpinning the programme
- a change in value for money of the programme
- a change in the risk environment and decision to discontinue
- insufficient capacity to manage or implement the programme
- unrealistic targets
- breakdown in relationships between stakeholders, rendering the programme undeliverable.

Where a programme is closed before its natural end, the exact process will depend on the form of agreement and context, reinforcing the importance to consider closure scenarios as part of the design process. This decision should be taken at the same level of delegated authority as the original approval. Programme teams are encouraged to complete this via a formal submission that considers options and any reputational risks. Once approved, teams will run a well-documented process that:
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- discharges any financial and legal responsibilities
- ensures that any unspent balances are returned
- takes into consideration stakeholders and ways to maximise investments.

Table 7: Stages of programme closure

<table>
<thead>
<tr>
<th></th>
<th>Determined in agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>End of agreements</td>
<td></td>
</tr>
<tr>
<td>Operational closure (ARIES end date)</td>
<td>Determined in project document and set on ARIES</td>
</tr>
<tr>
<td>Project completion review</td>
<td>Three months from operational closure</td>
</tr>
<tr>
<td>Financial closure</td>
<td>Eighteen months from operational closure</td>
</tr>
<tr>
<td>Archiving</td>
<td>Once all required audited accounts and financial statements have been received</td>
</tr>
</tbody>
</table>

5.3 Operational closure

This is the point when the programme formally ends, after which it needs to be formally closed in line with the stages above.

**In practice**

Setting the right programme end date at the start is an essential part of planning. Teams will want to ensure that the end date provides sufficient time to gather all the information required to conduct the project completion review. In some circumstances where partners have fixed reporting cycles, it may make sense to synchronise the end date. The accountability of the SRO for closure-related activities will often extend beyond the operational closure of the programme and the loading of the PCR, given that most programmes will enter into both the Financial Closure and Archiving periods.

5.4 Investing with the private sector – programme closure/exit

Where DFID holds a legal right to a financial asset, teams should ensure that programmes are only closed once: (i) all rights to the asset have been exercised – the asset has been sold, repaid, written off or transferred; and (ii) the return on such assets is received and recorded by DFID. To sell, write off or transfer a financial asset, contact Financial Accounting for advice on the required approval process.

Where DFID has the ability to direct how potential returns are used, ensure that programmes are only closed once DFID has taken a final decision over the use of these funds. Appropriately document this decision when it is taken. Ensure that funds are returned to DFID, although teams decide on how to get the best value for money. If DFID chooses to allocate the full control of the funds to a third party, ensure that the same points are satisfied as for the disposal of other assets.

5.5 Disposal of programme funded assets

At the end of a programme, the SRO will consider how to maximise the value from the disposal of any remaining equipment and assets. Heads of Department have delegated authority to approve plans for disposal by sale, transfer of ownership to the aid recipient or by transfer to a third party. Assets also include consumable assets, e.g. medical supplies; and capital assets, e.g. vehicles.

The presumption is that DFID will get best value for money by selling programme assets, transferring them for use in other programmes or retaining them for its own use. However, if this is not possible or good value for money (e.g. if the cost of selling the assets or using
them elsewhere exceeds their value), then assets can be transferred to the existing delivery partner or a third party. Before agreeing to a transfer of ownership to an external body, Heads of Department must be satisfied on the following points:

- the asset will be put to a good developmental purpose
- the recipient has adequate resources to maintain and operate the asset, including purchase of any consumables
- the item will not be sold or disposed of, or diverted for another purpose, within a reasonable time period
- the recipient has adequate controls in place to ensure that the assets are used as intended
- any local requirements, regarding duties and taxes, or any other formalities, on transfer will be met
- IT Equipment is disposed of in line with EU Waste Electrical and Electronic Equipment (WEEE) Regulations and all personal data will be removed

These points should be agreed as conditions of the transfer by an exchange in writing with the recipient and must be signed by the HoD or delegate, before the transfer takes place.

**In practice**

By maintaining a clear asset register throughout the programme, teams will be able to plan for disposal well in advance of programme end dates. Teams should also plan for the eventuality that asset disposal may take longer than expected. The accountability of the SRO for closure-related activities will often extend beyond the loading of the PCR.

5.6 Project completion review

A project completion review is the final review document, recording performance over the life of the whole programme (it is not just another annual review). It provides a final assessment against the logframe or other results framework, the extent to which the programme has achieved its objectives, an analysis of learning and recommendations for the future. When a programme under an approved business case is closed early and/or there has been no expenditure a project completion review should still be completed unless the Head of Department or delegate think otherwise. The review is due three months after operational closure and cannot be deferred.

A high-quality project completion review will:

- be proportionate to the type of programme
- comment on the validity of the theory of change
- assess whether the assumptions held
- be evidence-based, scoring the project consistently with evidence presented
- draw lessons on key issues which could include: level of optimism/realism when the programme was designed; quality of DFID management; partner performance; quality of interaction of other stakeholders; and sustainability
- provide evidence of learning and adaptation during the project’s implementation and demonstrate how lessons have been shared

Before sending the project completion review for approval, teams reduce the budget available against each component to the amount required to cover any expenditure expected during the closing stages of the project (e.g. outstanding invoices).

**Further information and Templates**
5.7 Financial closure
The financial closure of a project is eighteen months after the operational closure date to allow for any final financial activity (e.g. paying invoices or retrieving unspent funds). If there are outstanding invoices at the point of financial closure, teams will need to extend the life of the programme to ensure that there is sufficient time to make any final payments. If the extension reaches the next review point (i.e. 12 months from the project completion review), SROs should update the project completion review and reload on ARIES.

5.8 Archiving
Teams will also need to consider when annual audited accounts and financial statements linked to the final year(s) of the programme’s expenditure are due and ensure that they are received, even though this may be after the project completion report has been completed. Teams also need to ensure that any money owing to DFID is repaid, in line with Smart Rule 36, something that may not occur until after financial closure.

Contributions to multilateral Trust Funds in sectors such as infrastructure may involve long time lags between DFID’s money being disbursed, committed, spent and accounted for: teams will need to consider how best to manage this when setting dates on AMP and drafting their framework for results.

END