Operational Plan 2011-2015

DFID International Financial Institutions Department

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Introduction

- The UK Government is determined to help reduce the inequalities of opportunity we see around the world today. We believe that promoting global prosperity is both a moral duty and in the UK's national interest. Aid is only ever a means to an end, never an end in itself. It is wealth creation and sustainable growth that will help people to lift themselves out of poverty.
- In May 2010, the International Development Secretary, Andrew Mitchell, commissioned the Bilateral Aid Review to take a comprehensive and ambitious look at the countries in which DFID works through our direct country and regional programmes. The review focussed on the best ways for the UK to tackle extreme poverty, ensuring that we make the greatest impact with every pound we spend. In parallel, through the Multilateral Aid Review, DFID assessed how effective the international organisations we fund are at tackling poverty.
- On the 1st March 2011, the key outcomes of the reviews were announced, including the results that UK aid will deliver for the world's poorest people over the next four years. The Bilateral Aid Review has refocused the aid programme in fewer countries so that we can target our support where it will make the biggest difference and where the need is greatest. The Multilateral Aid Review findings enable us to put more money behind effective international organisations which are critical to delivering the UK's development priorities. In addition the independent Humanitarian Emergency Response Review looked at how the UK can build on its strengths in responding impartially to humanitarian needs and help ensure future disaster responses can be better prepared and coordinated.
- DFID is committed to being a global leader on transparency. In the current financial climate, we have a particular duty to show that we are achieving value for every pound of UK taxpayers' money that we spend on development. Results, transparency and accountability are our watchwords and guide everything we do. DFID regards transparency as fundamental to improving its accountability to UK citizens and to improving accountability to citizens in the countries in which it works. Transparency will also help us achieve more value for money in the programmes we deliver and will improve the effectiveness of aid in reducing poverty.
- The UK Aid Transparency Guarantee commits DFID to making our aid fully transparent to citizens in both the UK and developing countries. As part of this commitment we are publishing Operational Plans for country programmes. The Operational Plans set out the vision, priorities and results that will be delivered in each of our country programmes.
- We will concentrate our efforts on supporting achievement of the Millennium Development Goals, creating wealth in poor countries, strengthening their governance and security and tackling climate change. The prize, in doing so, is huge: a better life for millions of people, and a safer, more prosperous world.

1) Context

The World Bank and regional development banks, together known as the multilateral development banks (MDBs), play a central role in international efforts to achieve the MDGs. They have large scale financial resources, concessional and non-concessional, and strong expertise to offer in support of developing country priorities. The legitimacy of the regional development banks, with their regional ownership and character, is highly valued and makes them well placed to address some of the more difficult development challenges such as regional integration and climate change. Their focus on economic growth, especially building infrastructure, is critical for development. The World Bank's convening power remains important in individual countries and globally. Its capacity to work across the whole development agenda, particularly its leading role in enhancing knowledge on many issues, makes it important for many UK development objectives and a preferred partner in a wide range of policy areas and DFID partner countries. The MDBs are responsible for a significant share of the international community's support for poverty reduction; for example, in 2010 the World Bank immunised over 13 million children and provided close to 8 million doses of Vitamin A. Donors find the banks an effective channel for their resources, and as a result, agreed substantial replenishments in 2010 of the non-concessional funds of the World Bank and African Development Bank, as well as increases in the capital of most MDBs to enable increased non-concessional lending.

The 2008-09 financial crisis underlined the importance of the IMF and MDBs, especially for middle income countries where these international financial institutions (IFIs) provided quick access to large scale resources that enabled governments to maintain critical public spending and better protect poor people. While the IMF implemented several reforms that meant it was well placed to assist low income countries (LICs), the inflexibility in the availability of concessional funding constrained the responsiveness of the MDBs for LICs. Large scale debt relief had however strengthened the resilience of many of these countries to the crisis, and there were few signs of major risks to their continued debt sustainability. Nonetheless, there are still several countries who have yet to qualify for debt relief and, in many cases, the substantial political progress needed has been slow to materialise.

The fund replenishments and new capital of 2010 were agreed by shareholders on the basis of strong reform programmes to improve the effectiveness and impact of the MDBs, including greater responsiveness to crises.

IFID leads on the UK's institutional relationship with the MDBs (except the IFC), including the UK's core funding of them. It works closely with UK staff in the MDB delegations, DFID country offices and policy departments, HM Treasury, FCO and DECC. It is also responsible for implementation of key elements of UK debt policy, which is set by HM Treasury. It leads on the IMF within DFID, supporting HMT's overall policy lead. IFID's programme budget is just under £5 billion over the SR10 period - the main elements being the UK's contribution to the World Bank's International Development Association (IDA) (66%), the African Development Fund (16%) and debt relief (9%).

UK reform objectives at the MDBs can only be achieved in partnership with other shareholders. The plans of action agreed by shareholders as part of the replenishments, capital increase and voice negotiations provide the primary basis for such partnerships.

2) Vision

Overview: Our vision is for the MDBs to be making the best possible contribution to poverty reduction, particularly in the poorest countries. We want to see high ambition, with them continuing to strengthen their focus on delivering results for poor people and providing better value for money. As part of this we want to see them responding more effectively to some of the more difficult and pressing development challenges – building capable governments in fragile states, meeting the specific needs of women and girls, addressing climate change, integrating African markets, and supporting broad based growth that creates jobs and wealth for the poor.

DFID’s Multilateral Aid Review (MAR) provides an assessment of the strengths and weaknesses of each bank and sets out an agenda for reform. Some elements are common, with the need for continued effort from the banks to better articulate the results of their work and its contribution to the MDGs; to bring about greater decentralisation and introduce more flexible instruments to enhance their ability to cooperate with partners and work better in fragile states; and a stronger focus on driving down costs. Greater emphasis to climate change and the needs of women and girls are also important common weaknesses.

We will work with HM Treasury to encourage the IMF to maintain the greater flexibility in its concessional programmes for LICs that it adopted during the 2008/09 crisis, and over the medium term help LICs restore and embed economic stability and growth. We want to see countries that have received debt relief continuing to manage their borrowing well and use savings to invest in poverty reduction. We will work with HM Treasury to see what further action can be taken to tackle vulture funds, to ensure the full value of agreed debt relief is realised by poor countries. On those countries yet to qualify, we want to see the international community respond quickly and effectively on debt issues when constraints to eligibility are overcome, so that debt relief supports wider efforts to secure development progress.

Alignment to DFID and wider HMG priorities: The IFIs play a critical part of the role that the DFID Business Plan sets for multilateral bodies. IFID’s funding of IFIs underpins five of the six Structural Reform Pillars in the DFID Plan (aid transparency, wealth creation, governance and security in fragile states, improving the lives of girls and women, and combating climate change). It supports HMT Structural Reform Plan actions on debt. Through its efforts to improve the effectiveness of IFIs in fragile states, IFID also contributes to the National Security Strategy objective to promote stability overseas.

What we will stop doing: We will continue to set our objectives in light of ministers’ priorities, the resources we have and the opportunities for securing change. We will not micro-manage the banks and only focus on the key reforms identified in the MAR and those issues critical to their effectiveness.

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3) Results

Headline results for MDB concessional funds aggregated by UK share

Pillar/ Strategic Priority	Indicator	Baseline (incl year)	Expected Results (incl year)
Water and Sanitation	People reached with improved sanitation facilities by IDA People with new or improved access to water and sanitation by IDA	160,000 (annual average 2006-09) 166,000 (total over 2006-2008)	180,000-220,000 by 2015 290,000 (2011-2013)
Maternal Mortality	Women receiving antenatal care during a visit to a health provider funded by IDA	70,000 (annual average 2006-09)	100,000 – 150,000 by 2015
Wealth Creation	Roads constructed or rehabilitated by African Development Fund Small and medium enterprise loan accounts opened with Asian Development Fund support	417 km (total 2006-2008) 280 (total 2004-2007)	826 km (2011-2013) 10,000 (2009-2012)
Climate Change (DFID climate change programming is subject to the strategy and allocations of the UK's cross Government International Climate Fund)	Discussion of climate change vulnerabilities as part of the development challenges and priorities in the Country Assistance Strategies (CAS) of IDA eligible countries	Climate in 70% of new CASs (2009)	Climate in 100% of CASs by 2014
Governance and Security	Increase in average score of World Bank operations in Fragile Countries as assessed by its Independent Evaluation Group.	69	75 (2014)
Global Partnerships	Progress on the Heavily Indebted Poor Countries initiative	32 countries at completion point (2010)	36 countries at completion point by 2014
Global Partnerships	MDB compliance with the International Aid Transparency Initiative good practice and project beneficiaries and the general public able to track progress of projects through MDB websites.	2 MDBs have joined IATI (2010) and 2 MDBs piloting interactive aid mapping websites (2011)	Four MDBs join IATI by 2011. Pilot aid mapping websites tested and if successful become fully operational in at least three MDBs (2014)
Global Partnerships	MDBs have scorecard or similar systems in place to track results which are used by shareholders to drive and assess performance	2	4 (2014)

Results (continued)

Evidence supporting results

The results chosen are largely drawn from the MDBs' own results' frameworks. They are not comprehensive but rather represent the results that we judge to be critical in ensuring that the banks are making the most effective contribution to the MDGs. Some of these are areas where the banks have a particular comparative advantage, including water and sanitation and roads. Others are areas which DFID considers crucial in meeting the MDGs, including maternal mortality and action on climate change. Our indicator on progress on the Heavily Indebted Poor Country (HIPC) initiative reflects the Coalition Government commitment to ensuring debt relief is provided as speedily as possible to the poorest countries.

We have also included two reform indicators, drawn from the MAR, which set out DFID's key priorities for strengthening the MDBs - all banks need to continue to improve their results frameworks and monitoring, and their transparency.

We judge that the MDBs have the resources and capacity to achieve these results over the SR10 period. IFID's contributions to the MDB replenishments and capital increases will continue to contribute significantly to this. The reform indicators are more stretching.

VFM Rationale

The outcome results chosen are those we think will have the maximum impact on the MDGs and therefore represent good value for money. Reform objectives will make the MDBs more effective organisations and therefore increase the VFM of future DFID contributions to them. Given that the MDBs have robust systems, and that UK plays an active role on the board, we judge that the risks to these priorities are manageable.

4) Delivery and Resources

DFID’s levers for achieving these results in the IFIs are:
i) our shareholder function;
ii) financial resources to the IFIs as replenishments of funds (to enable grants and non-concessional loans), capital (to enable non-concessional borrowing), and in support of debt relief programmes **-** and monitoring the expected outcomes of these inputs (*see Monitoring and Effectiveness section)*
iii) dialogue on the development of sectoral and cross-cutting policies; and
iv) the strategic use of funding of catalytic technical expertise in the MDBs to develop areas of emerging priorities.

IFID leads in DFID on the shareholder function, working in very close partnership with the UK’s Executive Directors in all six MDBs, and in determining DFID’s financial contributions. It is a 17 person department based in London, headed by an SCS Deputy Director. It also coordinates with other parts of DFID in promoting policy dialogue and the strategic use of the catalytic technical expertise, particularly Policy Division (on climate change, fragile states and girls and women), the Regional Divisions, Private Sector Department and Global Partnerships Department. It also works closely with HMT, DECC and FCO.

IFID delivers these roles by undertaking the following activities:
i) analytical work to gain a better grasp of MDBs use of resources, policies and organisational effectiveness; and their ability to delivery;
ii) relationship building with the MDBs to hold them to account for delivering on their commitments to reform and to influence future reforms;
iii) relationship building with borrower shareholders and other stakeholders to understand their concerns about the banks' performance, and with them and other donor shareholders to build like-minded coalitions; and
iv) networking with other parts of DFID, particularly Policy and Regional Divisions, to ensure the coherence of DFID’s objectives for the IFIs.

Organisational Design (continued)

Workforce Planning

IFID has for some time comprised three teams working on - a) the World Bank, b) the regional development banks and c) debt and IMF engagement in low income countries. Members of these teams also work on cross-cutting issues such as Climate Change, Fragile States, MDB effectiveness and corporate issues. The case for a revision to this structure was considered as part of development of the Operational Plan. Whilst any final resolution of low income debt issues could warrant a reduction in the number of teams, this is unlikely to be warranted in the next two years.

There have recently been significant reductions in IFID's Administrative Cost funded posts – from 21 staff in 2009 to 17 in 2011. This was achieved by reprioritising work areas in order to reduce the size of teams; reducing resources on debt issues in particular to reflect the shift from the development of new debt initiatives to monitoring implementation of existing commitments. In 2012/13 we will strengthen our approach to delivering results and value for money by appointing a new Front Line Delivery-funded Adviser, focused on supporting DFID Country Offices in effective delivery of bilateral spending through IFIs.

IFID is also responsible for three posts in the UK Delegation to the World Bank and one post at each of the African, Asian and Inter American Development Banks. These posts are funded by the banks themselves and we do not envisage any reduction in their numbers. UK representation at the Caribbean Development Bank is covered by the DFID Caribbean Head of Office.

IFID staff primarily focus on working with MDB management and other shareholders to improve MDB corporate governance, financial and human resource management and the manner in which MDBs engage with client countries (e.g. lending instruments). This requires IFID to have a combination of generalists with experience of development and international organisations (12 as at April 2012), economists with macroeconomic and financial management expertise (4 as at April 2012) and an individual with private financial sector experience. We will keep this balance under regular review. Our modest requirements for other professional advice to support these roles requires access to such expertise in other divisions in DFID. We also need to maintain the flexibility to cope with new priorities as they emerge. This might include the need to enhance our understanding of the future role of concessional finance in the multilateral system, further work to strengthen the system's response to crises and coherence of the architecture as new funds emerge (such as the Green Fund for climate change.)

IFID relies on DFID's Regional Divisions and Policy and Research Directorate to provide country and policy expertise to engage with the MDBs on issues that are country specific and policy specific (e.g. on fragile states, gender and energy). IFID relies on FCO where there are no DFID country programmes.

We will develop and implement annual Learning and Development Plans to identify the required core skills (such as an understanding of MDB financial structures, communications, influencing) and set out how these will be achieved. We will also take action on the results of the regular Staff Engagement Surveys to ensure that IFID both achieves its business objectives and is a dynamic place in which staff are motivated and developed.

Organisational Design (continued)

Programme Spend

Pillar/Strategic priority	2010/11 (outturn)		2011/12		2012/13		2013/14		2014/15		TOTAL 2011-15	
	Resource £'000	Capital £'000	Resource £'000	Capital £'000	Resource £'000	Capital £'000	Resource £'000	Capital £'000	Resource £'000	Capital £'000	Resource £'000	Capital £'000
Wealth Creation											0	0
Climate Change											0	0
Governance and Security											0	0
Education											0	0
Reproductive, Maternal and Newborn Health											0	0
Malaria											0	0
HIV/Aids											0	0
Other Health											0	0
Water and Sanitation											0	0
Poverty, Hunger and Vulnerability											0	0
Humanitarian											0	0
Other MDG's											0	0
Global Partnerships	16	1,295	50	1,049	25	1,110	12	1,286	12	1,349	98	4,794
TOTAL	16	1,295	50	1,049	25	1,110	12	1,286	12	1,349	98	4,794

Organisational Design (continued)

Operating Costs

	2010/11 (outturn)	2011/12	2012/13	2013/14	2014/15	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Frontline staff costs - Pay			65	65	65	195
Frontline staff costs - Non Pay			3	3	3	9
Administrative Costs - Pay	1,067	960	962	960	960	3841.5
Administrative Costs - Non Pay	250	118	115	110	110	453
Total	1316.594	1078	1145	1137.75	1137.75	4498.5

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

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Organisational Design (continued)

Efficiency savings

Category	Details	Residual cost in the SR period £'000
Strategic Reprioritisation	As a result of our lobbying, IDA 16 includes indicators on speed, costs and other measures of operational effectiveness which we will track to ensure greater efficiency.	
Further examples of Programme efficiency		

Administrative Cost Savings Initiative	PAY £'000	Non Pay £'000	PAY £'000	Non Pay £'000	PAY £'000	Non Pay £'000	PAY £'000	Non Pay £'000
Reduction in Consultancy Payments		20						
Reduction in Travel		100						
Reduction in Training		5		8.5				
Reduction in Estates & Property Costs								
Reduction in costs as a result of Office Restructuring								
Other Reductions	162							
Total	162	125	0	8.5	0	0	0	0

5) Delivering Value for Money

IFID seeks to gain value for money (VFM) through the World Bank and five Regional Development Banks (RDBs). This involves pursuing VFM in the banks directly, as well as engaging with other shareholders to drive effectiveness in bank strategies and operations. IFID will prioritise the banks' administrative budgets and the cost of development projects.

The MAR assessed AsDF and IDA as providing 'very good' VFM in terms of their organisational strengths and contribution to UK development objectives, AfDF and EBRD as 'good', and CDB and IADB as 'adequate'. In each case, the MAR identifies areas where each bank needs to improve its VFM. These provide the basis for DFID's institutional engagement with each over the coming years. There are a number of common challenges.

- **Results:** All banks have some form of results framework. But gaining VFM requires management and project staff to focus on the achievement of the results rather than measuring performance in terms of inputs.
- **Strategies:** The banks work in different environments and must set their policies accordingly. It is important that resources are focused on where they can achieve most and where the need is greatest, particularly on fragile situations and poorer countries.
- **Cost effectiveness:** None of the banks could demonstrate that they always provided the most cost effective solution to their borrowers in project design and implementation.
- **Administrative costs:** Measures of administrative efficiency vary from bank to bank, but in all cases, costs are driven by staff salaries and the control of other administrative expenses. We need to be able to compare banks in order to identify best practice and to demonstrate how to gain greater VFM.

We will improve the impact and cost effectiveness of the trust funds that we establish with MDBs, focusing in particularly on those with the World Bank.

IFID's administration cost allocation represents only 0.08% of the programme allocation over SR10. This very low administration to programme ratio is only made possible by the close cooperation with DFID country offices and Policy Division and a focus on those issues that have a systemic impact on MDB projects and policies. Our annual Learning and Development Plans will assess the requirements for enhancing VFM skills throughout IFID, joining other DFID departments in addressing these where this is more cost effective. We will continue to ensure that all travel and job-related training are fully justified by their contribution to achieving our business objectives.

6) Monitoring and Evaluation

Monitoring
The Multilateral Development Banks (MDBs) all have established results frameworks, which we will use to monitor and measure progress on both development impact and internal reforms. Those banks with concessional fund replenishments (the African, Asian, Caribbean Development Banks and World Bank) report progress against their results frameworks at the replenishment mid-term reviews, and at the end of the replenishment cycles (which are three or four years long). All the banks produce annual reports on development effectiveness as well as financial and operational statements. The banks participate in the Multilateral Organization Performance Assessment Network (MOPAN) and the Common Performance Assessment System (COMPAS), which benchmark them against each other and other multilateral organisations on performance and delivery. We will also rely heavily on feedback from UK Delegations and the use of DFID's network of country offices to monitor the impact and effectiveness of the MDBs' operations in the field. We will use all these sources of evidence to monitor the effectiveness and impact of the MDBs, and use that evidence as a basis to seek performance improvements through MDB Boards of Directors and Governors.

Evaluation
The MDBs all have independent evaluation bodies or systems that report directly to boards of directors rather than to bank management. They typically spend between one and two per cent of their administration budgets on evaluation. DFID's Multilateral Aid Review found that the MDBs do act consistently on evaluations and that they are open to changing policies and procedures in response to evaluations. We will also work to embed evaluation expertise within IFID and ensure that we learn lessons from DFID's experience of other multilaterals organisations' evaluation functions. We will continue to monitor MDB responses to evaluations and, where appropriate, we will press bank management to act on their recommendations. We will also investigate the extent to which the MDBs use impact evaluations, and aim to determine whether their use can be increased, including by providing support (e.g. DFID funded health trust fund on impact evaluations) . We will commission independent evaluations of any technical assistance or non-core funding of more than £5m that IFID provides to the MDBs.

7) Transparency

Transparency is one of the top priorities for the UK Government. We will ensure that we continue to meet our commitments under the UK Aid Transparency Guarantee including publishing detailed information about DFID projects, including programme documents and all spend above £500. We will continue to ensure that information is accessible, comparable, accurate, timely and in a common standard with other donors and that we provide opportunities for those directly affected by our projects to provide feedback.

We will continue to encourage full transparency in the Multilateral Development Banks (MDBs), including through their adoption of the standards of the International Aid Transparency Initiative (IATI). The AfDB, IADB and AsDB all became signatories to IATI during 2011, and are now working on implementation.

We will use opportunities in 2012/13 to increasingly encourage MDBs to make available information to local communities on projects that affect them. For example, we will monitor the success of the World Bank's Mapping for Results programme which combines human development data with specific project locations for active Bank- financed projects across a number of pilot countries, in a highly visual intuitive application. The main objectives of the programme are (i) to support the monitoring of results by providing users with an analytical tool to analyse and visualise the geographic location of Bank-funded projects at the sub-national level ; (ii) to improve aid effectiveness by enhanced transparency and accountability of donor-funded operations and (iii) to strengthen the participation of multiple stakeholders, including civil society organisations and citizen groups in the Bank's work at the country level. The Inter-American Development Bank also launched their own version in March 2012 called MapAmericas. We will encourage other MDBs to learn from the experiences of the WB and IADB, and encourage the expansion of these initiatives.

IFID will ensure full compliance with the UK Aid Transparency Guarantee in its own internal working. We have published the MAR assessments relating to the MDBs. We will publish business cases, annual reviews and project summaries, as well as information on all financial transactions over £500. We will ensure that the information on internal systems (Aries) is accurate and comprehensive.

We will also publish an annual report on how DFID works with the World Bank to make progress on our shared objectives.