



HM Government

# HM Government Response

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17 March 2017

## HM Government Response to the Independent Commission for Aid Impact recommendations in the rapid review of the cross-government Prosperity Fund: February 2017

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Her Majesty's Government welcomes the report of the ICAI Rapid Review of the Prosperity Fund. We are pleased that ICAI has acknowledged the significant progress made to date and the constructive recommendations on areas for improvement. The recommendations largely reflect work already underway to build and deliver a strategic portfolio that matches UK government priorities. We are committed to learning and will work actively on the issues identified with partners across government to quickly implement the recommendations.

Sustained economic growth is the only long term solution to poverty. The Prosperity Fund supports the vital economic development needed to help middle-income countries – home to around 70% of the world's poor – to reduce poverty and become our prosperity partners of the future. Shared prosperity is a key part of the UK Aid Strategy.

**Recommendation 1:** The government should consider adjusting the planned rate of expenditure of the Prosperity Fund as its delivery capacity develops, if necessary by spreading its resources over a longer period. The Fund should consider holding back more resources for allocation in later years, and ensure it has adequate flexibility to reallocate funds between programmes to reflect their performance.

### Accept

- We agree that our top priority should be ensuring impact and value for money. Detail of the overall Fund spending trajectory will emerge once business cases are approved and project spend profiles are agreed.
- As ICAI noted, the Fund spending profile is already under active consideration. The priority is to give sufficient time to rigorously assess business cases, and ensure adequate programme management arrangements are in place to support delivery.
- There is a major capacity support effort underway. Over 200 staff have already been trained to support Prosperity Fund delivery.

- We agree that the ability to actively manage the portfolio is essential to ensure impact and value for money. The Fund has already agreed the principle of active portfolio management.
- Contingent on Spending Review decisions, HMT have agreed in principle to extend the lifetime of the Fund for one additional year to help ensure delivery departments continue to focus on ensuring impact and value for money.

**Recommendation 2:** The Prosperity Fund should refine its strategic objectives and develop a set of portfolio-level results indicators, to which each programme should align. It should ensure that its monitoring, reporting, evaluation and learning services are integrated with management and learning processes at both portfolio and programme levels.

### **Partially Accept – already implementing**

- The Prosperity Fund has put extensive effort into identifying strategic priorities. This was based on analytical work and lessons from DFID, the World Bank and private sector about how best to add value.
- We support the need for portfolio level indicators, in addition to project-level indicators. There has been early and rapid progress in defining a Monitoring, Reporting, Evaluation and Learning (MREL) strategy which will facilitate agreed, aggregatable indicators across the Fund.
- The Fund is designed as a portfolio, not a single programme. Based on DFID, World Bank and wider experience, however, we are cautious about being too mechanical with our targets and indicators and creating perverse incentives. Fund-level indicators must be coherent at the portfolio level *and* reflect the interventions on the ground.
- We agree with ICAI that MREL services must be integrated with management and learning processes at both portfolio and programme levels. The design and oversight of the MREL system, led by a dedicated team in the PFMO, will ensure that programmes, their managers and the Fund will receive critical feedback on the approaches taken, their effectiveness and lessons learned. Regular updates to the Portfolio Board and Ministers will cement this join-up.

**Recommendation 3:** For Prosperity Fund programmes spending UK aid, the process for ensuring ODA eligibility should be explicit and challenging. The Fund should ensure that business cases include a plausible strategy for delivering primary purpose and secondary benefits, based on sufficient evidence and analysis, and give adequate consideration to gender equality, in compliance with the International Development Act.

### **Accept**

- The Prosperity Fund concept note template and guidance note is explicit about the need for Fund initiatives to support poverty reduction and promote sustainable economic growth, giving adequate consideration to gender equality. In response to the report we have further clarified the existing requirement that all business cases must be ODA eligible and comply with the relevant legal base. This will be considered explicitly in the assessment process.

- Prosperity Fund business cases are being assessed closely for their strategic aims and delivery plans, specifically:
  - compliance with IDA and OECD ODA guidelines;
  - demonstrating compliance through the inclusion of a theory of change as to how each initiative will address economic development, poverty and consider gender inequality;
  - strength of evidence underpinning the development rationale for the programme;
  - a clear route from input to impact, with a good understanding of local context and risk factors;
  - a clear plan to deliver secondary benefit.
- In response to the ICAI report we will also strengthen the PFMO capacity to monitor and support programmes on gender issues.

**Recommendation 4:** The Prosperity Fund should formalise and be more open about its engagement with UK and international firms. It should manage its supplier pool with a view to avoiding conflicts of interest, securing value for money and achieving both primary purpose and secondary benefits.

#### **Accept**

- Involving business expertise in programme delivery will help maximise impact. Competitive selection of delivery partners and robust management of suppliers will ensure the maximum impact and value for money.
- All supplier engagement will continue to be open and transparent in line with UK law, namely The Public Contracts Regulations 2015. Tenders and contract award notices are published where applicable through the Official Journal of the EU (OJEU). Additionally, we have and will continue to hold supplier events for specific tenders, and will publish invitations for these through OJEU and our eProcurement systems.
- Each business case will specifically address the points recommended by ICAI (securing value for money and achieving both primary purpose and secondary benefits).
- We will set up quarterly meetings to review all market engagement, to ensure that recipients of Prosperity funds have the commercial capacity and capability to deliver value for money and identify opportunities for more effective co-operation and collaboration. The PFMO and delivery departments will ensure they have sufficient commercial advisor capacity and oversight to deliver major aid programmes, Fund-level oversight on market engagement and compliance with OJEU.
- We will continue to work with external assurance bodies including the Infrastructure and Projects Authority (IPA) to ensure our processes are robust and stand up to external scrutiny. As an immediate step we will invite one non-executive member to join the Portfolio Board to provide additional external oversight and challenge.

**Recommendation 5:** As a new aid instrument, the Prosperity Fund should establish its procedures and report its progress on the basis of full transparency, in line with the government's public stance on this issue.

#### **Accept**

- The Fund has already agreed to adopt a proactive and resourced approach to Transparency and aims to achieve an Aid Transparency Index rating of “good” by 2020, as outlined in the 2015 UK Aid Strategy.
- The Prosperity Fund has had a presence on GOV.UK since January 2016. This has been updated regularly and we will add relevant information to the page over the duration of the Fund’s lifetime including additional information on the Fund in spring 2017 and core data for all year 1 projects by summer 2017.
- We will invite IATI to help ensure the Fund and component programmes are on track to meet the aid transparency targets.