



DFID Response

28 March 2018

DFID Response to the Independent Commission for Aid Impact recommendations on: DFID's approach to value for money in programme and portfolio management, a performance review, published 20 February 2018

DFID welcomes the Independent Commission for Aid Impact's performance review of DFID's approach to value for money (VfM) in programme and portfolio management.

VfM is central to everything we do in DFID. This means that we make the best possible use of our resources to maximise our impact on poor people's lives. Our commitment to VfM is set out in the UK Aid Strategy and DFID's Single Departmental Plan.

As the review recognises, DFID is committed to monitoring, driving and assessing VfM in the most effective way possible. ICAI's review endorses the progress made so far – including finding that DFID is now established as a strong global champion on VfM. We have fully embedded VfM in our programme management processes and our diligence is improving the return on UK investment in aid. For example, the Multilateral Development Review is driving up standards across donor networks; we have established performance-based funding agreements with 24 multilateral agencies and have linked 30% of our funding through the United Nations and its agencies to reform and results commitments.

ICAI's review provides some useful contributions to DFID's work on VfM.

Recommendation 1: DFID country offices should articulate cross-cutting value for money objectives at the country portfolio level, and should report periodically on progress at that level.

Partially Accept

DFID's VfM approach is focused on increasing the development impact of UK aid spending. We will continue to build on best practice examples in portfolio level management across DFID as well as in international development more broadly, and apply this where relevant whilst working to ensure we are effectively articulating what we are achieving at portfolio level.

Country offices have strong portfolio level management moulded to their specific operating environment. It is important that we maintain flexibility and country-led portfolio management methods, while making sure that the key elements of VfM are sighted and assessed, and best practice is developed, shared and implemented. Any new measurement and reporting will be assessed to ensure it improves poor people's lives and achieves development impact, beyond the proactive management already

evidenced within DFID.

DFID has a range of VfM portfolio management tools with ICAI recognising work done to improve coherence and prioritisation of portfolios through the Country Poverty Reduction Diagnostics and Inclusive Growth Diagnostics. Further tools and good practice include: country portfolio level risk management tools, developments in management information available through DFID systems on budgets, risk, finance, results and Annual Review scores, Ministerial challenge meetings, as well as examples of active portfolio management by Senior Management Teams in country offices recognised in the report. ICAI also found that DFID is good at recognising and acting to close and scale back underperforming programmes, reallocating resources to high performing parts of the portfolio.

We welcome ICAI's challenge to raise our ambition in this area and will be improving our current workstreams in two areas in response:

1. Reviewing portfolio level management by looking at best practice across DFID and externally.
2. DFID is currently reviewing its overall approach to results. As part of this, we are considering how best to reflect results at the country level, which is an important element of VfM in portfolio level management.

Recommendation 2: Drawing on its experience with introducing adaptive programming, DFID should encourage programmes to experiment with different ways of delivering results more cost-effectively, particularly for more complex programming.

Accept

DFID has a complex portfolio – with differences across the what (sector, theme), how (delivery channel and partners) and where (globally and in fragile states) we work. We encourage a flexible and adaptive approach to programme management, with extensive experience of experimenting with how to tackle development challenges, and we consider when an adaptive approach is more appropriate than more conventional programmes. VfM assessments and monitoring requirements in adaptive programmes, or those with an adaptive element, are the same as other programmes, all requiring robust business case appraisals, annual reviews and monitoring frameworks. Our VfM approach is used effectively for complex programmes.

Based on the experience of these programmes, DFID produced guidance in 2016 on how to build systematic experimentation into programmes – what we refer to as adaptive programming. We are developing and refining this guidance on an ongoing basis. However, we take on board ICAI's view that VfM management specifically in programmes that are designed to be adaptive – how to approach appraisal, assessment, monitoring and evaluation, could be more clearly defined and explained. This will improve support to staff across DFID managing these programmes and we will develop improved guidance and tools in this area as necessary.

Recommendation 3: DFID should ensure that principles of development effectiveness – such as ensuring partner country leadership, building national capacity and empowering beneficiaries – are more explicit in its value for money approach. Programmes should reflect these principles in their value for money frameworks, and where appropriate incorporate qualitative indicators of progress at that level.

Accept

As the report acknowledges, there is no 'one size fits all' approach to VfM or the application of the development effectiveness principles. DFID guidance and tools are designed to allow portfolios and programmes to be tailored to fit local context, taking account of factors such as the degree of alignment between UK and partner

government objectives, the state of partner government systems, and our assessment of fiscal risk. Guidance underpinning the Smart Rules already encourages DFID staff to consider the development effectiveness principles when developing business plans and business cases, and to provide aid in such a way that it supports and strengthens local responsibility, capacity, accountability and leadership.

We will consider how we can better share experience and best practice in the application of the development effectiveness principles with a view to improving our understanding on how they can improve programme design and delivery, and ultimately reduce our partner countries' future dependency on aid. We are also engaged in ongoing international discussions through the DAC and Global Partnership for Effective Development Cooperation on how to apply and monitor the impact of development effectiveness principles in different contexts. Lessons learned from these discussions will further inform our VfM approach.

Recommendation 4: DFID should be more explicit about the assumptions underlying the economic case in its business cases, and ensure that these are taken into account in programme monitoring. Delivery plans should specify points in the programme cycle when the economic case should be fully reassessed. Senior Responsible Owners (SROs) should also determine whether a reassessment is needed following material changes in the programme, results targets or context.

Partially Accept

We agree with the importance of reassessing the underlying value for money of our programmes during their implementation. Since ICAI completed their fieldwork for this report we have finalised a detailed review of our Annual Review process and revised our templates and guidance. The changes made take on board some of ICAI's points and are designed to drive a better and fuller reassessment of value for money in the light of the original proposition in the Business Case and a greater focus on reassessing the programme's theory of change and underlying assumptions. With those changes now made we believe that our systems and guidance embed this in a sufficient and appropriate way throughout the programme cycle. SROs already have to consider whether a programme should continue to operate if any material changes are proposed. The Annual Review is the established control point at which the VfM case is reassessed. We are also improving the structure of Delivery Plans and providing more training to staff drafting Business Cases to build greater understanding around assumptions and the theory of change.

Recommendation 5: Annual review scores should include an assessment of whether programmes are likely to achieve their intended outcomes in a cost-effective way. DFID should consider introducing further quality assurance into the setting and adjustment of logframe targets.

Partially Accept

Following the 2017 review of the Annual Review process the Annual Review template was revised and teams now have to provide a fuller assessment of whether their programme is likely to achieve the intended outcomes envisaged in the Business Case in a cost-effective way and whether the underlying theory of change remains valid. This then informs a decision about whether the programme should be continued, restructured or closed early.

The Annual Review scores the programme against progress towards the expected outputs which provides a significant part of the VfM assessment. There is also an assessment of progress against outcome and impact indicators. In 2016 DFID considered introducing quantified scoring against target outcomes, either instead of, or in addition to, the existing output-focused scoring. We concluded the evidence was not strong enough that the potential benefits in terms of increasing development outcomes would outweigh the significant

organisation-wide administrative costs of introducing the change. We were also concerned about the potential confusion internally and externally of having two different –but related– scores for each programme.

The rules are clear on how and when logframe changes can be made and who they need to be approved by. However our 2017 review of Annual Reviews and the QAU 2017 Annual Report highlighted scope to improve the visibility of changes made to logframes. Therefore in order to promote greater visibility and easier assurance of logframe changes, we have strengthened the relevant guidance on writing Annual Reviews and will add a tab to the logframe template to record changes made.
