

**DIRECTOR**  
DEVELOPMENT CO-OPERATION DIRECTORATE  
Director's Office

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To: DAC Delegates and Observers

**United Kingdom Mid-term Review, 14 December, London**

Dear Colleagues,

On 14 December, I visited London to conduct the UK mid-term review, accompanied by Karen Jorgensen, Erin Renner Cordell and Mags Gaynor of DCD. I would like to thank Mr Nick Dyer, Permanent Secretary at the Department for International Development (DFID), and his staff for an excellent programme of meetings and discussions. We met a wide range of senior staff from DFID, officials from the Foreign and Commonwealth Office and Treasury and representatives from civil society and the Independent Commission for Aid Impact (ICAI), who all shared their views on developments in the UK and how the UK is addressing the 2014 DAC peer review recommendations.

While the main objective of the mid-term review was to focus on implementation of the DAC's recommendations, we also discussed changes in the national and international context, including:

- legislation which came into force in 2015 obliging the UK to spend 0.7% of its gross national income (GNI) on Official Development Assistance (ODA), and 2017 legislation increasing the ceiling on transfers from DFID to CDC, a development finance institution, from GBP 1.5 billion to GBP 6 billion;
- the UK Aid Strategy released by Treasury and DFID in 2015 which situates ODA as a tool to respond to global challenges and the UK's national interests, further commits to transparency and value for money, commits to spending 50% of ODA in fragile states and extends responsibility for managing ODA to other government departments;
- the UK decision to leave the European Union by March 2019.

**The UK remains committed to its 0.7% ODA/GNI target**

I was encouraged to hear that cross-party support for spending 0.7% of GNI as ODA remains strong. The UK has achieved this ODA target every year since 2013, while managing to maintain programme continuity and funding predictability to most of its partners. However, we heard that slower economic growth is likely to affect the UK's ODA volumes in the coming years.

## **A whole-of-government approach is emerging but an accountability gap remains**

At the time of the 2014 peer review, 88% of UK ODA was managed by DFID. The 2015 UK aid strategy increases the proportion of ODA to be managed by other government departments, including through five inter-departmental and cross-government funds – Prosperity Fund, Global Challenges Research Fund, Conflict, Stability and Security Fund, International Climate Finance and Ross Fund. Cross-government structures have been introduced to support this new policy direction – particularly a senior officials group jointly chaired by Treasury and DFID.

We heard from DFID that the structures introduced to support whole-of-government approaches and to manage the cross-government funds have fostered discussions on coherence between domestic policies and the UK's development objectives. In addition, the UK is one of the few DAC members where the Secretary of State for International Development has a seat in cabinet and on the National Security Council (NSC). The DFID Secretary of State has overall responsibility for the UK delivering on Agenda 2030 and a working group, co-chaired by DFID and the Cabinet office, tracks the UK's domestic and international efforts to achieve the Sustainable Development Goals. It will be useful for the next peer review to examine whether these structures are effectively managing tensions across the government's multiple objectives, as recommended in previous peer reviews.

Each individual UK government department is accountable for its ODA budget while DFID is responsible for the UK's ODA target and effectively balancing the books at the end of the year in order to meet a precise target of 0.7% GNI. However, no single part of government is tasked with ensuring delivery of the UK's aid strategy or that all spending reported as ODA is in line with UK legislation. The combined efforts of DFID, the senior officials group, ICAI, the National Audit Office and the parliament's International Development Committee are commendable but do not provide a clear point of accountability for the overall effectiveness and coherence of ODA expenditure. In addition, more clarity on what Departments are expected to deliver under the first three objectives of the UK aid strategy – addressing global challenges and national interests – may be needed before departments are able and willing to adopt consistent approaches to managing ODA. Once the question of accountability is clarified, the UK should be able to ensure that it both meets its ODA target and subjects all of its ODA to the same standards of accountability, transparency, value for money, untied aid and effectiveness.

As ODA allocations to other departments increased, DFID was tasked with building capacity across government to understand ODA definitions, principles and policies. As a result, DFID is providing extensive training, guidance, workshops and staff secondments. In addition, ICAI conducted rapid reviews of the cross-government funds while they were still in a start-up phase in an effort to strengthen their design and procedures. This impressive capacity-building effort will require sustained effort in order for other departments to mirror, over time, the high standards set by DFID.

## **DFID remains committed to transparency, learning and managing for results**

It is commendable that DFID remains willing to subject its ODA budget to scrutiny. It is proactive in providing factual information to the British public and meeting International Aid Transparency Initiative standards. A more consistent approach to transparency in relation to ODA budgets across government will help to build public confidence and trust in the UK's new ODA instruments and approaches. Over recent years, DFID has decentralised its evaluation function to the field with a focus on individual country programmes. The DFID evaluation unit is now positioning itself to address an emerging gap in thematic and strategic evaluations across DFID. We heard that ICAI is now focusing more on ODA delivered across government and strategic management issues.

Since the last review, DFID has replaced its 2011-2015 corporate results frameworks with a performance framework of 14 standard indicators, covering both programme and organisational results. In tandem, DFID has cut a number of spending targets. These are positive developments and should help to re-focus attention on longer term change and a country-led focus. While the UK aid strategy commits to increase the use of payment by results, a recent review concludes that DFID should exercise caution in scaling up its performance-based approaches.

## **New procedures encourage adaptive programming and clarify the appetite for risk**

The 2014 peer review found that DFID procedures were burdensome and, combined with pressure to demonstrate quick results, were impeding the UK's efforts to collaborate, innovate and use country systems. We heard that while DFID retains high standards and rigour, it has taken a number of steps to address the rigidity and weight of its internal procedures and to manage risk.

In particular, DFID's Smart Rules, introduced in 2014 and updated twice a year, provide programme cycle guidance using a combination of 37 rules and less rigid quality expectations. These rules provide the basis for flexible programming and should make it easier for DFID to collaborate with others, including non-traditional donors and private companies. The Smart Rules allow for "adaptive programming" and a delegated risk appetite which, combined with tools like a new GBP 500 million annual crisis fund, is encouraging innovation. We were impressed by DFID's continued willingness to innovate and take risk. Maintaining this risk appetite and encouraging uptake of adaptive programming will be essential if the UK is to spend half of its ODA in fragile states.

## **CDC has become an increasingly significant channel for UK ODA**

As noted in the 2014 review, the UK had expanded its range of development finance instruments. Of particular relevance is the CDC (formerly the Commonwealth Development Corporation) which is now projected to receive up to 8% of the UK ODA budget or GBP 600-700 million per year on average over the next 5 years. We heard that DFID has been actively engaged in developing CDC's 2017-2021 strategic framework, focusing CDC investment on poor and fragile countries and states in Africa and South Asia. DFID and CDC are developing a robust monitoring and evaluation framework to ensure that CDC's investments achieve its dual objectives of development impact and financial returns, specifically track the volume of jobs and taxes generated, and pay due attention to issues of responsible investment, climate change and gender equality. In view of the recent DAC agreement that CDC funds can be reported 100% as ODA as long as they comply with the ODA definition, DFID has an important role to play in continuing to ensure that ODA managed by CDC contributes to the UK aid strategy and is subject to the same standards as the rest of the UK's ODA budget.

## **The UK remains committed to driving multilateral reform**

The 2015 UK aid strategy and 2016 multilateral development review reaffirm the UK's commitment to multilateralism, which it expects to become even stronger as the UK leaves the EU. DFID sees itself as a trailblazer in multilateral reform. On the development side, a proportion of both core and non-core funding is linked to performance and reform targets. DFID is active in the Multilateral Performance Assessment Network and, in response to feedback, has convened a coalition of countries on UN reform to support and accelerate the Secretary General's reform agenda, focussing on leadership, efficiency, accountability and performance. It is not yet clear how this like-minded grouping will complement the work of the governing boards. Reform of the multilateral system is also a core objective of the UK's humanitarian agenda under the Grand Bargain agreed at the World Humanitarian Summit in 2016. The UK's approach has been to provide four-year core funding to seven UN humanitarian agencies with disbursements linked to their collective performance on a number of reform targets which the agencies themselves identify. The UK's experience with this approach will be of interest to many DAC members.

## **The UK continues to engage at country level but with limited support for country systems**

While the UK aid strategy focuses on global challenges, much of the ODA budget continues to be disbursed at country level through both HQ funds and country offices. The UK's expanded range of financial instruments allows it to adapt to different country contexts, using a new country diagnostic process. We heard that DFID has made progress in mapping and communicating its full country presence but the UK is not yet capturing its whole-of-government footprint at country level. This makes it difficult to demonstrate that all UK ODA is in line with both the UK aid strategy and national development plans, and that non-ODA activity complements development objectives.

The 2014 peer review noted that the UK's enthusiasm for using country systems as the default approach had waned and this trend appears to have continued. The smart rules mentioned above reference the Global Partnership for Effective

Development Co-operation and we heard from staff that development effectiveness was experiencing something of a re-birth in DFID under a banner of sustainability and value for money. However, it is not clear that sufficient incentives are in place to encourage programme managers to build and support national systems and capacity in the face of perceived reputational and fiduciary risks, although we heard of discrete efforts to build country statistical systems. It will be timely for the next peer review to assess how development effectiveness principles are understood across government and applied in practice.

### **Engagement with civil society remains important**

Civil society in the UK has been a staunch, if critical, champion of ODA, and DFID's work in particular and a fifth of UK ODA is channelled through civil society. In our conversations with non-government organisations (NGOs), we heard that the process of formulating the new UK aid strategy and designing cross-government funds had departed from UK's long tradition of engaging civil society, although it was acknowledged that some more recent strategies had been developed with civil society input. We also heard that the decision to stop unrestricted core funding partnerships for selected NGOs has changed DFID's relationship with civil society and impacted on the ability of these organisations to be responsive and to undertake strategic policy work. NGOs cited examples where tenders had focused on value for money at the expense of effectiveness and where DFID procedures had excluded local organisations. NGOs felt that provisions for flexibility and innovation have not been extended to civil society, e.g. multiannual funding for humanitarian assistance. While the UK's intention to move to more open, competitive awards and to support more local NGOs is positive, continued engagement with civil society as development partners in their own right remains critical.

### **Conclusion**

Overall, the UK has taken steps to address all of the DAC's 2014 recommendations while responding to a new aid policy which presents both opportunities and challenges for the government. DFID remains a mission-driven, forward-looking department and we were particularly impressed by its efforts to balance risk-taking, transparency and value for money as it adapts to a constantly evolving environment. As other UK government departments develop their ODA management capacity, it will be necessary to ensure adequate attention to development principles and results. The next peer review will allow for a more in-depth examination of arrangements for delivering development co-operation objectives across the UK government.

Finally, I wish to thank the Mr. Neil Briscoe and his team, including the UK OECD delegation, for helping to organise a most productive and enjoyable day of discussions in London.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jorge Moreira da Silva', written in a cursive style.

Jorge Moreira da Silva

CC: Ms. Charlotte Petri Gornitzka, DAC Chair  
Ms. Karen Jorgensen, Development Co-operation Directorate