Dear Stephen,

ICAI’S 2015-16 ANNUAL REPORT – ADDITIONAL EVIDENCE

During the evidence session with you and the Committee on 18th October that discussed ICAI’s 2015-16 Annual Report; I offered to provide you with some additional information.

Please find a note enclosed setting this out.

Yours,

MARK LOWCOCK

Enc:
Follow up evidence to IDC hearing on ICAI 2015-16 Annual Report

1. DFID Response to the ICAI report ‘DFID’s results in water, sanitation and hygiene’ (WASH)

Stephen Twigg MP asked about ICAI’s outstanding concerns regarding the revised DFID response to their WASH report.

We will discuss with ICAI exactly what additional information they are seeking from DFID in relation to their report on water, sanitation and hygiene and will take forward with them directly.

2. Payment by results

Mr Jeremy Lefroy MP asked for instances where DFID had withheld a payment-by-results payment.

Joy Hutchison highlighted the Girls Education Challenge as an example. This £355m fund is improving the lives of up to 1 million marginalised girls by getting them in school and ensuring they receive a quality education. It works across 18 countries, and around 430,000 of the girls being supported are in fragile and conflict affected states and regions. For 16 of the projects funded, 10% of funds are withheld unless and until statistically significant – and stretching – improvements in girls’ literacy and numeracy are demonstrated. Equally, where our partners excel, delivering above-target improvements in the girls’ learning, this is rewarded by up to an additional 10%.

The achievement of our partners is measured using independently commissioned randomised control trial and other approaches which are agreed with the supplier at the outset to minimise the risk of disagreement over the results achieved and to ensure payments are made or withheld only for rigorously established results.

At midline evaluation, 11 of our suppliers had an average of 57% of their variable tranche withheld due to the results they have achieved to date, with the total amount withheld for these suppliers standing at a little over £2m.

3. DFID spend by country

Mr Jeremy Lefroy MP asked for an update on capturing DFID ODA spend by country.

DFID publishes data on spend by country in DFID’s National Statistics publication, Statistics on International Development. This includes analysis of spend by country broken down by government department and analysis of imputed multilateral shares by benefitting country. The latest SID was published on 17 November.

We have developed our systems to allow us to capture information on DFID programmes working in multiple countries. We are currently using the data within our internal management information tools, including a country dashboard. Before making the complete dataset available publicly we need to fully assess the quality of the data and if necessary refine the data capture system further.
4. Private Sector Development in Fragile contexts

Mr Stephen Twigg MP asked for information about the adaptation of DFID's private sector development work to fragile and conflict affected environments. The following are some examples.

Democratic Republic of Congo – adaptive programming

The DFID Private Sector Development (PSD) portfolio in the DRC uses an adaptive programming approach that is able to amend, augment, or abandon interventions in response to emerging opportunities and risks. This recognises that windows of opportunity are fleeting and unpredictable. The programme is structured around two interconnected programmes, operating at micro and macro levels.

Our Elan market development programme works at the micro level to alleviate market failures in target sectors. With four operating offices across the country, Elan runs interventions in agriculture, renewable energy, access to finance and transportation. Some examples of its work includes: developing a coffee outgrowers model in conflict-affected eastern DRC; a nationwide awareness campaign to build trust in mobile money; and reducing the multitude of illegal taxes and payments that river boat operators face on the Congo river. This diverse portfolio enables Elan to drop interventions in response to the changing context, or initiate interventions when opportunities arise. Elan employs a robust top-down/bottom-up approach to political economy and conflict analysis, ensuring that its interventions "do no harm" in a complex, ever changing environment.

At the macro level our Essor programme works flexibly with public and private actors to support business environment reform. Essor has scoped interventions into areas such as: taxation, anti-corruption, access to electricity, access to finance and construction permits. Interventions have started on a number of fronts, but in small steps. Progress to subsequent phases is dependent on real reform being possible. This flexibility enables the programme to understand vested interests and test appetite for reform. Decisions can then be made on which interventions to prioritise.

Somalia – job creation

The Sustainable Employment and Economic Development (SEED) programme (SEED) was the first DFID Private Sector Development programme in Somalia. It was a four year £22.9m programme which started in 2011 to create jobs through the development of market infrastructure, value chains and the enabling environment of the private sector.

SEED Phase I (ended June 2012) focused on building the evidence base on market approaches to sectors with potential to generate employment and income for the poor and use of conflict sensitivity to inform policy and programming on what works, what doesn't and why across Somalia. Phase II (completed September 2014) increased the scope and coverage of the interventions, building on the achievements and lessons of phase I. The goal of the SEED programme was to improve economic and employment prospects, targeting women and youth through two components:
**Component One:** A market development component, implemented by UN Food and Agriculture Organisation (FAO), to develop markets and create employment, with accompanying skills in three different regions – focusing on crop farming in South Central, livestock in Somaliland and fisheries in Puntland.

**Component Two:** An investment climate component, implemented by the World Bank, as a Multi-Donor Trust Fund (MDTF), to support the investment and regulatory framework in Somaliland with the objective of increasing private investment, and the development of Private Public Partnerships (PPP) policy in environmental and port development projects.

A number of important measures were taken to deliver this programme in a conflict affected environment, including:

- Adopting **conflict sensitive approaches** to delivering project outputs against a backdrop of different layers of conflict cutting across socio-economic and political divides. SEED made a significant contribution to the development and adoption of conflict sensitive approaches (CSA) in Somalia. CSA was comprehensively internalised by DFID’s partners and has now been adopted as a standard tool by FAO and other agencies for programming. The approach involved conflict analysis, and the use of indicators to facilitate conflict monitoring and mitigation.

- World Bank **political economy analysis** helped identify constraints to private sector led growth and job creation with a particular focus on the key economic sectors of gums and resins, livestock and fisheries, together with private sector provision of key infrastructure services.

- **Disaggregated results** by gender as well as a regional balance in programming helped address horizontal inequalities.

- The SEED programme commissioned and disseminated a number of **research papers** on livestock value chains, conflict sensitive approaches in market development, and the impact of employment generation on conflict.

- Independent third party **monitoring** helped capture more evidence to underpin the SEED programme’s contribution to long-term development, employment and stability. For example, GPS cameras enabled DFID to confirm the status of infrastructures in areas in South Central Somalia predominantly under Al Shaabab control.

SEED delivered the following high level results:

- **568,656** - person days/temporary employment created under cash for work. This work included rehabilitation of dilapidated market infrastructure which injected much needed cash into the local economy.

- **30,200** - additional long-term jobs created.
$22 Million – of private funds were leveraged under the SEED programme, which included private capital raised from beneficiary led associations (under Component 1), and over $16m of private investment catalysed by the Somaliland Business Fund (under component 2).

$300 – cost of starting a business by simplifying licensing process (down from $2,800).

3 - New One Stop Business Centres (OSBC) established to simplify licensing procedures.

**Afghanistan – mobilising economic growth**

Mobilising economic growth and reducing aid dependence are key pillars to ensuring a viable state in Afghanistan.

DFID Afghanistan has a portfolio of private sector development programmes that aim to improve the investment climate and support the development of strategic economic sectors including agriculture and extractives.

Our programmes have focused on a risk-sharing approach to avoid distortions caused by grant subsidies. The Afghanistan Business Innovation Fund (ABIF) used a challenge fund mechanism to support the development of small and medium enterprises, the £50m CARD-F programme, which aims to develop commercial agriculture by leveraging £1 from the private sector for every £1 invested by DFID, while the new financial sector programme will pool donor funds and use risk sharing to mobilise private investment. DFID has led the development of public private partnerships in Afghanistan, leveraging UK expertise, through the Afghanistan Investment Climate Facility (AICF). AICF also supported land, business licensing and financial sector reform. Land reforms have mobilised more than US$500m of investment and created over 19,000 jobs alone.

Our technical support aims to build the capacity of institutions undermined by decades of civil war. The Extractive Sector Support Programme has supported the Ministry of Mines and Petroleum to develop new laws, regulations and fiscal regimes, while building a new contract inspection capability to improve compliance.

We work closely with the Department of International Trade and the Foreign and Commonwealth Office to promote critical reforms, public-private dialogue and inward investment with an increasing focus on new partners in the UAE, China and India.
5. **DFID investments**

Mr Jeremy Lefroy MP requested a list of investments on DFID’s balance sheet. This is set out in the table below.

**Figure:** Investments on DFID’s balance sheet (including those managed directly by DFID and those managed by external institutions).

<table>
<thead>
<tr>
<th>Investment Name</th>
<th>Investment management</th>
<th>Value of investment at 31.3.2016 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDC Group Plc</td>
<td>DFID direct investment</td>
<td>3,901.2</td>
</tr>
<tr>
<td>International Bank for Reconstruction and Development</td>
<td>DFID direct investment</td>
<td>1,111.1</td>
</tr>
<tr>
<td>European Bank for Reconstruction and Development</td>
<td>DFID direct investment</td>
<td>993.2</td>
</tr>
<tr>
<td>International Finance Corporation</td>
<td>DFID direct investment</td>
<td>801.7</td>
</tr>
<tr>
<td>Asian Development Bank</td>
<td>DFID direct investment</td>
<td>248.3</td>
</tr>
<tr>
<td>Inter-American Development Bank</td>
<td>DFID direct investment</td>
<td>169.3</td>
</tr>
<tr>
<td>African Development Bank</td>
<td>DFID direct investment</td>
<td>111.1</td>
</tr>
<tr>
<td>Caribbean Development Bank</td>
<td>DFID direct investment</td>
<td>56.6</td>
</tr>
<tr>
<td>Multilateral Investment Guarantee Agency</td>
<td>DFID direct investment</td>
<td>32.6</td>
</tr>
<tr>
<td>Samirhi Fund</td>
<td>Managed by third party</td>
<td>26.6</td>
</tr>
<tr>
<td>Africa Risk Capacity Insurance Company Limited</td>
<td>Managed by third party</td>
<td>16.4</td>
</tr>
<tr>
<td>GuarantCo Ltd</td>
<td>Managed by third party</td>
<td>13.0</td>
</tr>
<tr>
<td>Neev Fund</td>
<td>Managed by third party</td>
<td>5.1</td>
</tr>
<tr>
<td>DFID Impact Fund</td>
<td>Managed by third party</td>
<td>5.0</td>
</tr>
<tr>
<td>Asia Climate Partners L.P.</td>
<td>Managed by third party</td>
<td>3.3</td>
</tr>
<tr>
<td>DFID Impact Acceleration Fund</td>
<td>Managed by third party</td>
<td>3.1</td>
</tr>
<tr>
<td>IFC Catalyst Fund (UK), LP</td>
<td>Managed by third party</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>7,500.2</strong></td>
</tr>
</tbody>
</table>

**Note:**
The above is DFID’s portfolio of equity investments.
Value of investment: this is the fair value as at year ending 31st March 2016. It does not represent the cash outlay from DFID.

6. **ICAI Business in Development report**

Fiona Bruce MP asked for further information about the role of business in development in the context of ICAI’s follow up work.

DFID regards business as a key party in contributing to poverty reduction. Through its activities, business creates jobs, raises incomes and provides important goods and service. We therefore work closely with business in support of these objectives. For example, DFID works with Unilever to identify social business models to improve water, sanitation and hygiene for low-income households. Similarly, the UK has supported Care and Danone in Bangladesh to create a rural sales force comprised of destitute women.

More broadly we have been developing our approach in a number of areas:

- “New guidance on business engagement” – a new process of Inclusive Growth Diagnostics has been completed which have identified the business partnerships that will help deliver poverty reduction. The resulting approaches are being
reflected in operational and business plans. Operational guidance and tools for engaging business continue to be refined reflecting experience.

- "Improving linkages between central and country-managed initiatives with business" – new guidance has been developed reflecting best practice overall in coordinating activity between country and centrally managed initiatives. Improved information management systems have strengthened staff's ability to coordinate easily. The Inclusive Growth Diagnostic process has also facilitated improved coordination ensuring better linkages between our economic development programming at central and country level.

- "Improvements to the monitoring and evaluations of business engagements" – Ensuring appropriate appraisal, monitoring and evaluation, including impact on poverty reduction, remains central to all of our activities, including our engagement with business. Across DFID's economic development portfolio, approximately 100 out of nearly 700 programmes have independent evaluations planned, under way or completed. DFID is recruiting a new evaluation advisor to the Private Sector Department to further strengthen our approach.