IDC Inquiry - The FCDO's approach to value for money

Submission from Bond (January 2025)

Introduction

Bond is the membership body of UK organisations working in international development, and it currently has a membership of over 350 UK organisations. This submission was produced by the Bond Secretariat but reflects issues and priorities of import to its members.

Bond warmly welcomes this inquiry, given that enormous development needs globally and the recent constraints on UK aid spent overseas (from cuts to the overall budget from 0.7% to 0.5% of gross national income, and due to the large volumes of aid spent on supporting refugees in the UK) require this vital resource to be spent ever more effectively.

1. How does the FCDO currently define the term VfM? Are there any other aspects of VfM that the FCDO should be considering in its assessment?

It is encouraging that FCDO includes the principle of Equity in its Value for Money (VfM) framework, which covers the four principles of Economy, Efficiency, Effectiveness, and Equity. Equity is a vital principle for emphasis, given that it helps to focus attention on reaching the most marginalised consistent with the SDG principle of Leave No One Behind.

The FCDO's Programme Operating Framework highlights the importance of equity in VfM by stating that "*equality and inclusion improves the value for money of programmes, through increased equity and cost-effectiveness*"[1] (guidance on rule 9, on addressing programme impact on gender equality, disability inclusion, LGBT+ and other equality considerations). It also helpfully states that VFH:

> *"…is not about simply opting for the cheapest option or easiest things to measure, but more about understanding the drivers of costs to ensure we get the desired quality at the lowest feasible price."* (introduction outlining the ProF principles)[2]

However, in referencing VfM this key document refers to the importance of securing value to the UK taxpayer rather than to the communities being supported by programmes. Also, this document does not provide adequate guidance for FCDO staff on how to address VfM issues and balance the emphasis on 'equity' in practice, which creates the risk that this principle is neglected. This is because reaching more marginalised groups does often require more resource- or time-intensive interventions, and there will always be a significant risk that it results in disincentives to focus on targeting these groups. The IDC has recently heard evidence 'cost per beneficiary analysis' undertaken by DFID undermined an emphasis on targeting people with disabilities for example.[3]

To best manage and avoid these risks, it is therefore vital that FCDO sets out more detailed and practical guidance on how to effectively address the principle of equity, balance it against the other principles in a fair and evidence way, and ensure that programme activity ambitiously addresses the needs of the most marginalised groups.

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[1] Programme Operating Framework, FCDO, link.

[2] Ibid

[3] BOND Disability and Development Group, link.

Building on work undertaken by Bond's Disability and Development Group, we recommend that more detailed guidance on VfM and addressing equity should incorporate the following elements:

- Addressing equity as both a cross-cutting and a stand-alone issue when assessing VfM of development programmes.
- Ensuring that FCDO programmes 'do no harm' in shaping incentives for interventions to address the needs of 'hard-to-reach' groups.
- Addressing equity throughout the results chain, including procurement of inputs, monitoring of outputs and outcome and procurement of goods and services throughout the project.
- Explicitly accepting that in some cases it means a higher cost per beneficiary and that is often required to reach the most marginalised people.
- Ensuring that the cost drivers of reaching various marginalised groups are identified and justified in programme design and guidance.

2. To what extent did the merger of DFID and the FCO affect what the FCDO considers to be VfM?

There are a number of ways in which the departmental merger to form the FCDO seems to have undermined efforts to address VfM in FCDO programming and interventions, most notably reductions in development expertise and capacity, reductions in record keeping and retention of key information, and the weakening of reporting and transparency at the organisational level.

Firstly, addressing VfM effectively and achieving genuine impact requires deep and diverse development expertise. However, as has been widely reported, the merger has led to FCDO losing very significant numbers of development professionals (around 20% in total since the merger began), especially amongst more senior and experienced officials. The Independent Commission for Aid Impact's (ICAI's) synthesis of its findings during 2019-2023 reported that following the merger FCDO lost advisory capacity especially in sectors such as "governance, health, humanitarian, and food and agriculture", all of which are vital to efforts to secure poverty reduction, reach the most marginalised and achieve impact. It also noted that that ICAI reviews on democracy and human rights, agriculture and health had found that a loss of expertise had undermined efforts to achieve impact.[4]

Secondly, addressing VFM effectively requires ensuring that programmes collect, retain and analyse information to support assessing VfM outcomes and the adjustment of programmes to achieve maximum impact. ICAI's follow-up of reviews undertaken during 2020-21 found that the merger had led to "a reduction in the comprehensiveness of record-keeping and documentation of the UK aid programme", and as a result it warned that "FCDO's ability to assess value for money, learn and build on previous experience is compromised".[5]

Finally, there are concerns about the weakening emphasis of FCDO in reporting its results and impact at the corporate level, raising questions about whether there is an adequate emphasis on tracking results and accountability for performance – key factors that feed into VfM. During the 2000s there was a very strong emphasis in DFID Annual Reports in reporting on the Department's contribution to the Millenium Development Goals (MDGs), and during the 2010s DFID Annual Reports incorporated increasingly complex aggregate results frameworks reporting on the impacts of DFID programmes across key sectors.[6] For example, DFID's 2018/19 Annual Report included detailed reporting of results across all of its strategic objectives, including reporting on the number of people reached by humanitarian, education, nutrition, immunisation, livelihoods, family planning and water and sanitation programmes. It also included reference to the Portfolio Quality Index, which is a measure

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[4] "UK aid under pressure: A synthesis of ICAI findings from 2019 to 2023", p5, ICAI, September 2023, link.
[5] "ICAI follow-up review of 2020-21 reports", piii, ICAI, July 2022, link.
[6] "The politics of the results agenda in DFID 1997-2017", ODI, 2017, link.

of how effectively programmes are being delivered.[7] However, the most recent FCDO Annual Reports only detail a handful of organisational results and do not report on portfolio performance.

Therefore, in order to help improve VfM it is vital that FCDO take immediate and ambitious action to invest in scaling-up development capacity, to strengthen data and information management systems for tracking programme results, and to improve results reporting and accountability.

3. Does the FCDO's funding model impact the cost effectiveness of its aid budget?

There are a number of ways in which FCDO's funding model has changed in recent years that impact the sustainability, long-term impact and VfM of its programmes, and which the Committee could usefully explore further. Amongst the most notable has been the degree to which the UK's aid has reflected and responded to the global consensus on aid effectiveness principles and the ability of the department to work through and support local development partners.

Application of aid effectiveness principles

In the late 1990s and early 2000s, donor agencies started to explore the reforms and actions they could take to ensure aid could be more effectively used to support global development efforts. A central conclusion from this process was that development is driven by actors in low- and middle-income countries (LMICs) responding to their lived experience and local challenges, and that the impact of aid is determined by the degree to which it helps to facilitate and support these efforts rather than trying to bypass or replace them. It was also acknowledged that the overuse of discrete projects that did not effectively link to sector-wide development efforts (e.g. local education and health systems) or the work of donor donors would not achieve significant and sustainable impact and undermine cost effectiveness.

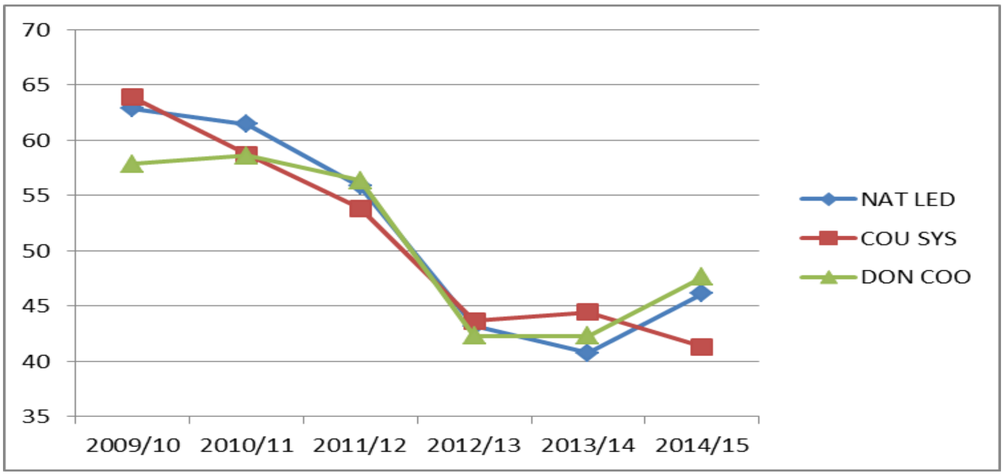
These conclusions led to the principles of local "ownership" of development interventions and "alignment" with country priorities and systems taking centre stage in international aid reform agreements, such as the 2005 Paris Declaration on Aid Effectiveness, and further agreements in Accra (2008) and Busan (2011) and beyond. The UK was a leader in designing and securing these agreements, and for a long time it was of the foremost actors in implementing them, through the provision of budget support (aid delivered directly to the budgets of partner countries), financial aid (aid delivered using elements of national institutional systems to support governments to deliver in partnership with donors, whilst applying additional safeguards to spending) and support to sector wide programmes (interventions linked to sector plans and coordinated with other donors.

However, there is extensive evidence that the UK's commitment to the principles of ownership and alignment has declined significantly since the early 2010s. Figure 1, below, illustrates that the proportion of DFID bilateral programmes (by value) that were led by national institutions and used key elements of country systems for delivery declined from almost 65% in 2009/10 to around 45% (nationally-led) and 40% (use of country systems) in 2014/15. Similar, though less pronounced, trends were seen with the proportion of programmes formally coordinated with other donors. DFID stopped reporting its own data for tracking these characteristics of its aid programmes in 2015. However, international aid monitoring processes reported that in 2018 26% of UK aid funding disbursed to the public sector used countries' Public Financial Management systems (17% for

[7] "Department for International Development Annual Report and Accounts, 2018-19", p26-28, DFID, July 2019, link.

financial reporting and 13% for budget execution), a decrease from 65% in 2016, and below the average of OECD DAC members of 55%.[8]

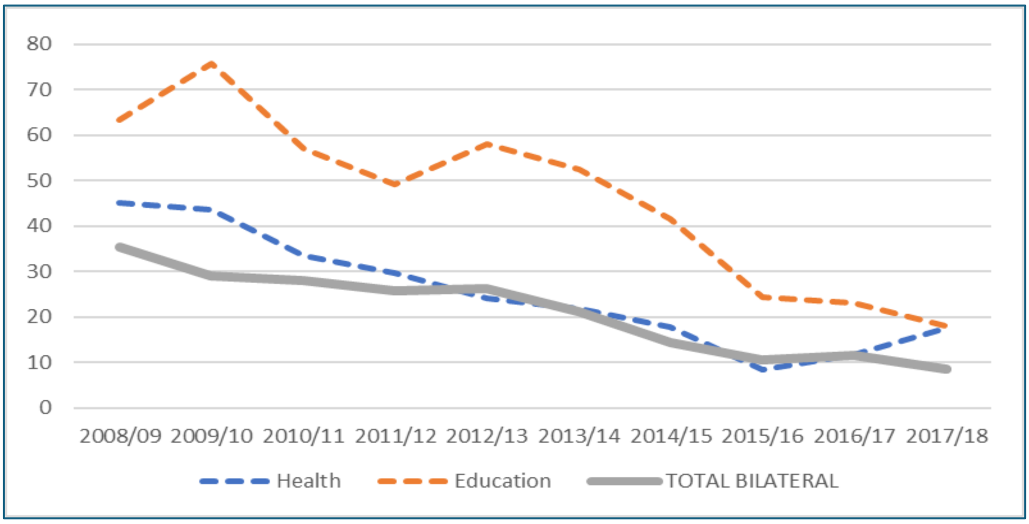
<u>Figure 1</u> – Trends in the % of DFID bilateral programmes by value that were nationally led, use country systems or are formally coordinated with other donors



Source: DFID project database (sourced in 2014)

The use of financial aid to promote aid effectiveness is most important in sectors such as education, health and other basic services, where donors need to support or link to the work of national systems for delivering these services if they are going to have a transformative and sustainable impact. Figure 2, below, illustrates that the proportion of education and health services that were funded using financial aid fell from around two-thirds and just under 50% respectively in 2008/9 to reach just under 20% in 2017/18. Data for tracking this characteristic of UK aid programmes has not been published in recent years, and therefore more recent trends are not available.

Figure 2 - share of financial aid in DFID bilateral aid (by value) to education and health sectors, 2008/9-2017/18



Sources: DFID GPEX (2014, 2015, 2016 and 2019)

Analysis suggests that a key reason for these trends and the decline in DFID's adhere to aid effectiveness principles was that a reduced risk appetite and an increased emphasis on being able to

[8] "United Kingdom: Development partner monitoring profile", GPEDC, link.

attribute concrete measurable results to DFID's own programmes disincentivised ways of working where UK aid was part of larger country-led and/or multi-donor programmes.[9]

The result is that UK bilateral aid is now (once again) increasingly delivered through discrete projects, which are often implemented outside of national institutions/organisations and multi-donor mechanisms. Although these projects can report substantial results during implementation, the risk is that the interventions they support are not adequately connected to local organisations and systems that lead development efforts, creating challenges for achieving long-term impact and being responsive to local actors. To quote Valters and Whitty (2017), who reviewed the evolution of the results agenda in DFID over the period 1997-2017:

> *"…the results agenda was politically understandable. It has made DFID more focused on what it can achieve. Yet it has oriented DFID's vision to the short-term and narrow results of projects rather than wider processes of change. It has shifted the balance towards prioritising accountability to UK taxpayers over poor people abroad."*[10]

If FCDO wants to achieve more transformative and sustainable impacts from its aid programmes then it needs to return to emphasising principles such as 'ownership' and 'alignment', alongside the more recent and worthy emphasis on transparency and results. This should involve making more use of financial aid, especially in service delivery sectors. Although these steps may involve taking more risk and create more challenges for assessing the results of FCDO programmes, these approaches will ultimately improve the long-term impact and VfM of its development interventions.

Delivering through local civil society and other non-state actors

In addition to working more collaboratively with the state in key sectors, it is widely acknowledged that designing and delivering appropriate development interventions and achieving sustainable impact and VfM requires finding ways to increase the delivery of aid programmes through local civil society organisations and other non-state actors. This conclusion has been recognised by the 'Grand Bargain' commitment at the 2016 Humanitarian Summit to deliver 25% of humanitarian aid through local actors, international commitments to untie aid and allow for more local procurement[11] and the OECD-DAC commitments on supporting civil society.[12]

In recent years the UK's aid programme has performed poorly in delivering their programmes through local non-state actors. A 2018 ICAI review of UK efforts to fund the UN humanitarian system found limited commitment from the UK to deepen its efforts to localise humanitarian aid[13] and the UK has not been reporting transparently on its delivery of the Grand Bargain commitment. Although the UK's aid is officially untied (i.e. there is no formal requirement to purchase UK goods and services), the proportion of UK aid contracts (by value) awarded to UK firms increased from 68% in 2008/09 to above 85% since 2010/11 (in 2019/20 it was 85%), and in 2019/20 less than 1% of its contracts (by value) reported to the OECD-DAC were awarded to organisations in low- and middle-income countries.[14] In terms of support to civil society, UK aid funding to NGOs from low- and

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[9] "The politics of the results agenda in DFID 1997-2017", Valters and Whitty, ODI, September 2017, link.
[10] "The politics of the results agenda in DFID 1997-2017", p8, Valters and Whitty, ODI, September 2017, link.
[11] See "Busan Partnership Outcome", paragraph 18e, GPEDC, 2011, link.
[12] "DAC Recommendation on Enabling OECD Legal Instruments Civil Society in Development Cooperation and Humanitarian Assistance", section 4a, OECD, link.
[13] "The UK's approach to funding the UN humanitarian system: A performance review", ICAI, December 2018, link.
[14] "2022 Report on the Implementation of the DAC Recommendation on Untying Official Development Assistance", OECD-DAC, September 2022, link.

middle-income countries has fallen by nearly two-thirds since 2017, reaching less than 1% of total UK ODA for the first time in 2022.[15]

One of the challenges in understanding to what degree UK aid is delivered through local actors is that there is limited data available on programme delivery chains, as local actors are most commonly sub-contractors in these programmes. A key tool for exploring this picture and the nature of DFID delivery chains was the Annual Procurement and Commercial Report[16] that that was introduced towards the end of the Department's existence. This Report detailed the biggest recipients of DFID contracts and key indicators around their practices, including how much they sub-contract through local organisations.[17] However, since the formation of FCDO this report has been discontinued.

The 2023 UK White Paper on International Development included a welcome commitment for the UK to "work towards a more inclusive and more locally-led approach" and to "publish a strategy setting out how the UK will support local leadership on development, climate, nature and humanitarian action".[18] However, to date there has been limited concrete action to deliver on these commitments and it seems that with the change in Government the commitment to produce a local leadership strategy has been deprioritised or dropped.

If FCDO wants to ensure that it improves the VfM of its programmes, it needs to take action to reform its procurement policies and systems so that a significantly increased proportion of its contracts can be delivered through local civil society and other non-state actors.

As regards programmes focussed on civil society it also needs to take a range of other actions around promoting locally-led programmes and interventions, including[19]:

- **Have difficult conversations that focus on redressing power imbalances**: Facilitate and engage in sector-wide discussions to achieve an equitable power balance, address racism and commit to being an advocate and ally as a funder to build trust with civil society and support locally led development, ensuring to tackle the root causes of the problems.
- **Coherence across the department**: Prioritise developing the local leadership strategy as a cross-department piece of work, in a meaningful and inclusive manner that centres people from lower- or middle-income countries (LMICs) and the diaspora.
- **Design funding to flow directly to the heart of communities**: Design funding so that it supports locally led development. Give unrestricted flexible funding and ringfence at least 25% funding to go directly to LMICs and diaspora communities.
- **Invest time in civil society**: Invest more time and resources in building genuine relationships with civil society and communities, providing transformational funding that reaches those that need it.

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[15] "Aid for Civil Society Organisations (CSOs)", OECD DAC, February 2024,
[16] "Annual Procurement and Commercial Report Financial Year 2019/2020", DFID, July 2020, link.
[17] The 2018/19 report details information reported by DFID's seven largest private contractors (who won £471 million in contracts, nearly the half of total DFID contracts awarded by value), who on average sub-contracted 22% of their DFID revenue to in-country supply partners in 2018/19. There were though large variations in local procurement activity across these contractors, as the share of DFID revenue paid to in-country providers ranged from a low of 4.4% (Mott MacDonald) to a high of 42% (DAI Europe).
[18] "International development in a contested world: ending extreme poverty and tackling climate change: A White Paper on International Development", para 2.17-2.18, HMG, November 2023, link.
[19] For a full elaboration of a reform agenda for localising support to civil society see "FCDO engagement report on shaping the future of centrally managed civil society and civic space programming", WACSI, December 2023, link.