



Department
for International
Development



Accounting Officer System Statement

July 2017



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Section 1: Scope of the system

Statement of Accounting Officer Responsibilities

1. The Secretary of State for International Development has overall responsibility for the Department for International Development (DFID). The Secretary of State is supported by junior Ministers. Ministers operate in compliance with the Ministerial Code and are accountable to Parliament on all aspects of DFID's policy and delivery decisions.

Principal Accounting Officer's statement

As Permanent Secretary, I am appointed by HM Treasury as the Principal Accounting Officer to the Department for International Development with responsibility for all funding under the DFID Estimate and the Overseas Superannuation accounts approved by Parliament. I also receive, directly from HM Treasury, a set of delegated spending authorities which specify the circumstances when I seek separate additional Treasury approval to commit resources.

This statement covers my core department, its arm's length bodies and other arm's length relationships. It describes accountability for all expenditure of public money through my department's Estimate, all public money raised as income, and the management of shareholdings, financial investments and other publicly owned assets for which I am responsible.

The primary legal basis for the UK's expenditure on development and humanitarian assistance is the International Development Act 2002. DFID also reports annually to Parliament on development policies and programmes and the provision of development assistance to partner countries under the International Development (Reporting and Transparency) Act 2006. The International Development (Gender Equality) Act 2014 ensures that the department considers gender equality before providing assistance and the International Development (Official Development Assistance Target) Act 2015 commits the UK government to the target of spending at least 0.7% of gross national income (GNI) on overseas aid.

As Accounting Officer I am also responsible for DFID's Overseas Pensions Department (OPD), which administers pension schemes that have been set up under the Acts of Parliament: Overseas Pensions Act 1973, Pensions (Increase) Act 1971, as amended, Hong Kong (Overseas Public Servants) Act 1996 and the UK Police and Firemen Acts 1997.

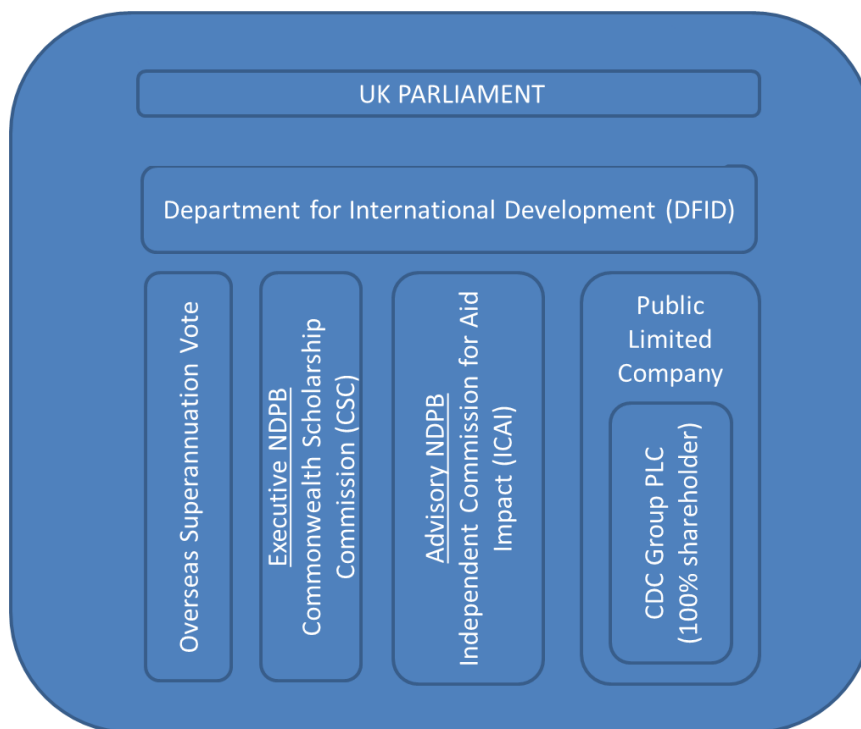
This statement describes the accountability system which is in place at July 2017 and which will continue to apply until a revised statement is published. It summarises the systems I have in place to fulfil my responsibilities as an accounting officer in accordance with HM Treasury's guidance set out in Managing Public Money.

2. DFID delivers objectives which are set out in the Government's UK Aid Strategy. Some 99 percent of our budget is classed as Official Development Assistance (ODA) under new rules established by the OECD. Each calendar year DFID has to ensure that the UK Government meets its target to spend 0.7% of GNI on overseas aid.
3. Through Overseas Pensions Department, DFID administers 102 pension schemes to former expatriate colonial civil and public servants and their dependants, OPD is also responsible for the formulation of the UK Government's policy on overseas pensions and UK pension increase supplements.

Section 2: System of accountability

- DFID leads the UK's work to end extreme poverty, deliver the UN Global Goals for Sustainable Development and tackle global challenges. DFID is a Ministerial department supported by two arm's length bodies: the Independent Commission for Aid Impact (ICAI) and the Commonwealth Scholarship Commission (CSC). DFID was established in 1997 and employs around 3,000 staff who work in our offices in London, East Kilbride and globally. We work in countries across Africa, Asian and the Middle East, many of which are fragile or at risk from fragile neighbours. We also have regional programmes in Africa, Asia and the Caribbean, and development relationships with aid-dependent Overseas Territories. In addition to working directly in countries, DFID also provides UK aid through multi-country global programmes and core contributions to multilaterals.
- DFID works with non-governmental organisations (NGOs), overseas governments and other development actors including multilateral organisations. By utilising this operating model, DFID can deliver at scale and flexibly across a number of fragile and conflict-affected countries. DFID uses a range of funding instruments to fulfil its policy objectives including grants, contracts and financial investments. Our accountability system is provided through a rigorous, clear, evidence-based business planning process, supported by governance, monitoring, audit, and assurance and risk management processes.

Figure 1 – Scope of the System



- DFID currently has 1,200 live programmes. We introduced a set of “Smart Rules” in July 2014 to provide an updated and enhanced operating framework for all programme expenditure. These set out the approval and management processes which spending teams have to follow. The Smart Rules are reviewed every six months and revised when necessary. They are built on the principle of ‘empowered accountability’. Senior Responsible Owners (SRO) are identified for each programme and held accountable for the delivery of their programmes. They are empowered to make day-to-day decisions. The Smart Rules and supporting documents make it clear that programme teams should proactively escalate concerns, major risks or significant changes in operating environment. Ministerial challenge meetings provide an opportunity for a regular strategic stocktake and discussion on each spending department's portfolio.

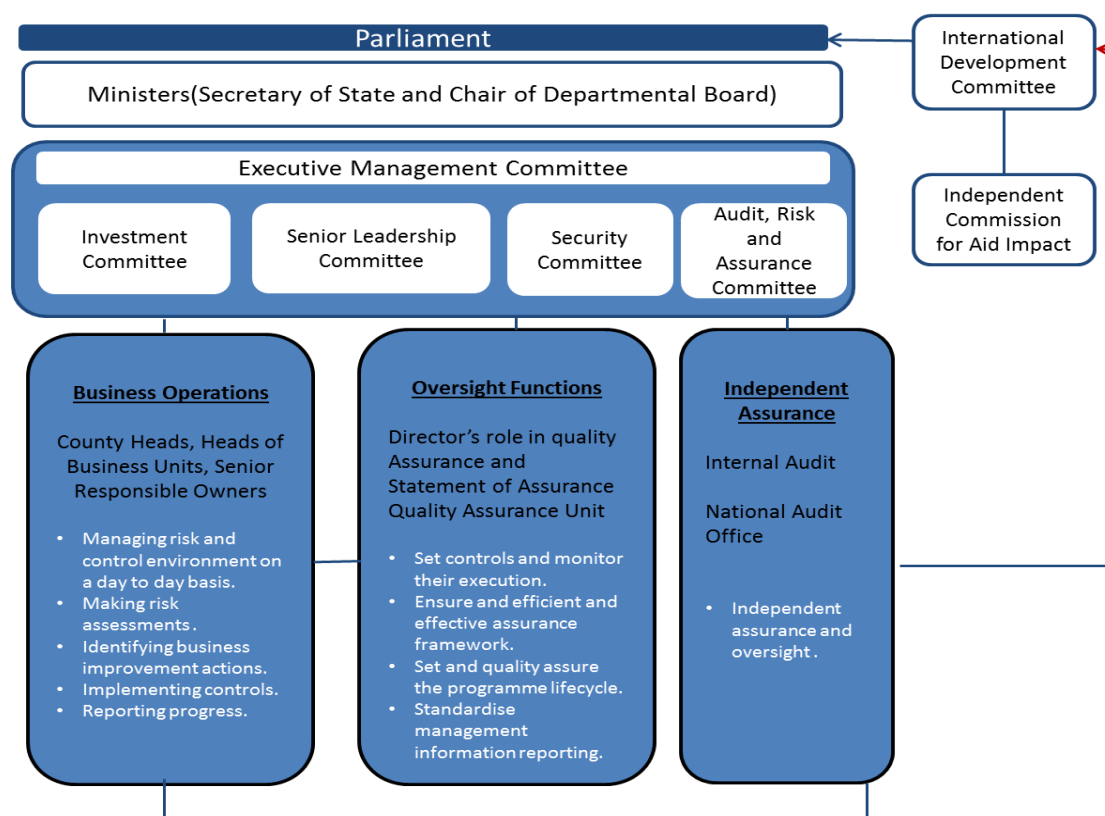
7. Programmes are delivered within a governance framework which provides oversight from resource allocation, through programme design, to closure. DFID's programme governance framework consists of seven control points which are set out below, using standard templates wherever possible. The scope of this framework is applicable for all forms of bilateral and multilateral expenditure:

- **Single Departmental Plan (SDP):** DFID's SDP sets the overall policy and resource framework for the department's work and allocates resources to individual business units to deliver specific results.
- **Business Plans:** Individual business units develop business plans setting out what and how they will deliver, consistent with DFID's SDP. Business Plans are approved by Ministers.
- **Business Case:** The Business Case translates elements of the SDP into an individual programme, setting out how each programme will contribute to deliver the Business Plan results. Ministers approve all business cases over £5m.
- **Formal Agreement:** Programme delivery mechanisms are formalised through a variety of agreements using a set of standard templates. These include clauses to ensure DFID adheres to legislative requirements and clarifies partner organisation responsibilities with respect to fraud and loss. DFID uses a suite of delivery mechanisms and formal agreements. The most suitable delivery method and formal agreement is identified as part of the Business Case development. The formal agreement establishes roles and responsibilities between DFID and our implementing partner/supplier.
- **Delivery Plan:** SROs are responsible for developing and updating a Delivery Plan that sets out delivery priorities, key milestones, a log frame, roles and responsibilities and risk management strategies for each programme in a proportionate way.
- **Annual Review:** All programmes are reviewed annually, providing an assessment of performance, ongoing relevance, value for money, lessons learned and any remedial action required. From this data, we derive an overall portfolio quality score which gives us an assessment of how our programmes are performing.
- **Project Completion Review:** All programmes have a Project Completion Review within three months of formal operational closure, ensuring that all monies are accounted for; unspent funds are returned and lessons learned are captured.

Section 3: Responsibilities within the core department

8. DFID's internal policies and priorities are set and governed by a Departmental Board, an Executive Management Committee (EMC) and its subcommittees.
9. The organisational component of DFID's control environment is structured across the three functional areas (business operations, oversight functions and independent assurance) with oversight from the Departmental Board. The Departmental Board, supported by the EMC and other sub-committees, has overall responsibility for DFID's governance.

Figure 2 – Governance structure

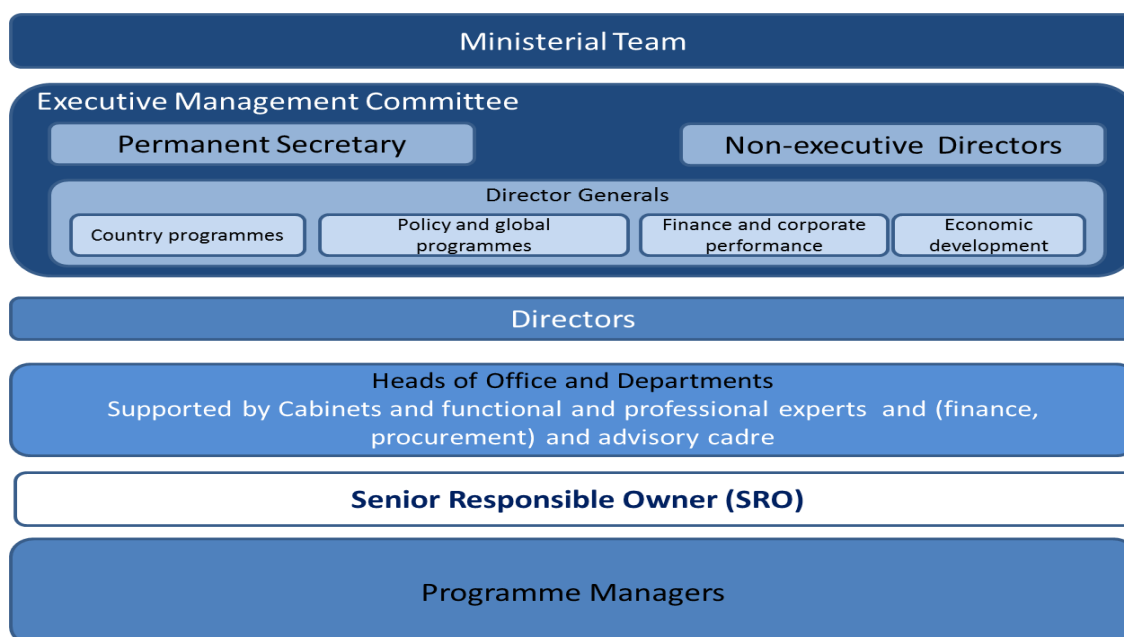


10. The Accounting Officer, supported by the Board, is responsible for ensuring that there are robust governance, risk management and internal control arrangements across the whole organisation. They are supported by those responsible for business operations who deliver DFID's objectives and identify and provide assurance on key risks that could be a threat to DFID's ability to deliver its outputs or its reputation.
11. The Departmental Board advises on, and monitors, the delivery of the Secretary of State's strategy and policy priorities. The Board sets DFID's strategic direction, monitors policy and priorities, has oversight of DFID's SDP and advises on significant risks to implementation. It recommends remedial actions if operational or financial performance is off track. The Departmental Board is chaired by the Secretary of State and meets at least quarterly in formal session.
12. The Executive Management Committee provides strategic direction to the management of DFID's operations, staff and financial resources by guiding our strategy and policy priorities in line with direction set by the ministerial team and Business Plan. It

communicates our vision, direction and priorities to staff and other stakeholders, ensuring effective allocation and management of our staff and financial resources and monitoring and improving our performance and capability.

13. The Investment Committee is responsible for providing assurance that the programme portfolio is delivering value for money. To do this, the Investment Committee looks across the integrated control and quality assurance framework to ensure the seven control points along the programme cycle are working well and delivering value for money, independently and together. To achieve this, it systematically monitors portfolio performance and quality through management information and other qualitative reports, taking action as appropriate
14. The Senior Leadership Committee is responsible for ensuring that the structure and role of DFID's Senior Civil Service (SCS) is designed to meet our future and changing leadership needs. It also manages SCS performance, pay and rewards, ratifies appointments, and leads on talent and succession management.
15. The Security Committee is responsible for monitoring the adequacy and effectiveness of all aspects of DFID's global security. Its primary focus is on security of DFID staff, however it also reviews all aspects of physical and information security; along with health and safety.
16. The Audit, Risk and Assurance Committee has an executive function in advising the Board and the Accounting Officer on the assurance processes and actions in relation to management of risks, strategic processes for risk management, internal control and governance. This includes accounting policies, financial statements and DFID's Annual Report. It has oversight of DFID's anti-fraud policies, procedures, whistleblowing processes and arrangements for special investigations, each of which is reviewed on a regular basis.
17. Accountability is delegated by the Accounting Officer to DFID's Directors General, Directors and Deputy Directors, who have the authority to approve expenditure and commit resources within predefined limits, together with the responsibility for proper stewardship of these resources and compliance with the requirements of HM Treasury's Managing Public Money.

Figure 3 – Organisational structure



18. Directors are accountable to the EMC for delivering business plans across each division's portfolio, taking action to re-balance programme portfolios when necessary. They identify and manage portfolio risks, ensuring that systems are in place to provide assurance that these risks (including the risk of fraud) are being managed properly. They are accountable for ensuring that DFID controls are effectively operated in their areas, working with their peers to give corporate leadership on department-wide issues. The annual Statement of Assurance (SOA) forms an integral part of this control environment. It requires Directors and Heads of Department (HoD) to provide assurance that DFID's prescribed internal controls and corporate governance arrangements have been consistently applied within their business unit.
19. The HoD can include Deputy Directors and Heads of Office, where responsibility is delegated to them to manage resources and results within their area. They are accountable for their portfolio of programmes. The HoD appoints an SRO for each programme who is accountable for its design and delivery oversight. The SRO leads a team of DFID staff which includes commercial, financial, programme management and technical (e.g. health) expertise. The SRO role includes ensuring:
 - Delivery of DFID's objectives as set out in the programme Business Case and Delivery Plan.
 - Designing and adapting programmes to changing contexts, based on learning and feedback.
 - Compliance with the Smart Rules (with respect to design, delivery and closure of programmes).
 - Objectivity when evaluating under-performance, taking action to improve, to restructure or to close.
 - All the risks associated with programmes are clearly articulated and summarised in the Business Case and Delivery Plan.

Audit and assurance

20. DFID's risk and assurance arrangements support the delivery and accountability requirements of the Accounting Officer and the Board, providing evidence-based assurance on the management of risks that threaten successful achievement of public service delivery objectives.
21. An annual Governance Statement is included within the Annual Report and Accounts. It covers DFID's corporate governance, risk management and internal control arrangements. This statement incorporates an evaluation on how well the arrangements have operated in practice based on assurance received by the Internal Audit Department (IAD) and through the SOA exercise. It requires Directors and Heads of Office/Department to provide assurance that DFID's prescribed internal controls and corporate governance arrangements have been consistently applied within their business unit (or to explain where it has not been so applied).
22. IAD reports outside of the line management chain to the Accounting Officer and reviews all DFID's activities (overseas offices every two years, headquarters functions over five years). The aim is to assess the risks faced by DFID and how effective they are identified and managed. This provides an important source of assurance to the Accounting Officer and to DFID's Audit and Risk Assurance Committee.
23. The National Audit Office, as DFID's external auditors, has a statutory responsibility for the audit of DFID's annual report and accounts. They also undertake periodic reviews and thematic investigations to assess whether DFID spending represents value for money.
24. Further scrutiny and independent oversight is also provided by the Parliamentary International Development Committee (IDC, the Public Accounts Committee and the Independent Commission for Aid Impact (ICAI).

25. The IDC monitors DFID's policy, administration and spending, along with that of its associated public bodies. The IDC takes an interest in the policies and procedures of the multilateral agencies, contractors and non-government organisations to which DFID contributes. The Committee consists of eleven Members of Parliament and sets its own programme and chooses subjects for inquiries.
26. The Public Accounts Committee scrutinises value for money (the economy, efficiency and effectiveness of public spending) and generally holds DFID and its non-departmental bodies (NDPB) to account for delivery.

Section 4: Relationships with Arm's Length Bodies

27. DFID has two NDPBs for which the Accounting Officer is accountable: the Independent Commission for Aid Impact (ICAI) and the Commonwealth Scholarship Commission (CSC).

Independent Commission for Aid Impact

28. ICAI is an Advisory NDPB and was established in May 2011. It provides independent scrutiny of UK Government aid, to promote value for money on behalf of British taxpayers and to maximise the impact of aid. It reports direct to Parliament through the IDC. The Secretary of State is accountable to Parliament for ICAI. The Secretary of State and EMC meet ICAI regularly to ensure that it is able to carry out its work effectively. The Head of ICAI's secretariat is appointed by the Permanent Secretary as the designated Accounting Officer and is responsible for the safeguarding of public funds.
29. A Framework Agreement between DFID and ICAI sets out the governance arrangements that are designed to ensure ICAI's propriety and value for money while safeguarding its operational independence. The Financial Memorandum to the Framework Agreement sets out arrangements for the delegation of financial responsibilities to ICAI. All payments for ICAI are made through DFID systems and, as such, are subject to DFID's control framework including review by DFID's Internal Audit Department. The most recent audit was completed in March 2017. ICAI publishes its Annual Report and Accounts in June of each year.

Commonwealth Scholarship Commission

30. CSC was established by an Act of Parliament in 1959. It is an executive NDPB comprising of up to fourteen Commissioners and a Chair, who are appointed by the Secretary of State for International Development in line with Cabinet Office Public Appointments code of practice and the International Development Act 2002. The CSC manages the UK's contribution to the Commonwealth Scholarship and Fellowship Plan (CSFP), an international programme under which member governments offer scholarships and fellowships to citizens of other Commonwealth countries.
31. The Secretary of State is accountable to Parliament for the activities and performance of the Commission. The International Development Act (IDA) 2002 sets out the responsibilities of the Secretary of State. The CSC Accounting Officer role is held by the Chair of the Commission and appointed by DFID's Permanent Secretary.
32. The Commissioners are selected via an open, competitive process on the basis of merit, in accordance with the principles of the Code of Practice for Ministerial Appointments to Public Bodies. The Commissioners are responsible for overseeing the running of CSC, taking decisions on its strategic direction and, most importantly, selecting scholars and fellows. The CSC has no employees, contracting out its secretariat and other management functions to two external bodies: the Association of Commonwealth Universities and the British Council.
33. In line with Cabinet Office guidance on NDPBs, CSC's governance, financial controls, assurance arrangements and performance monitoring mechanisms are set out in the Framework Document and an associated Financial Memorandum signed between DFID and CSC. DFID's Internal Audit Department carries out regular audits of CSC. The latest audit was completed in November 2016. The Cabinet Office carried out a review of the three scholarship programmes provided by HMG (the "Cluster Review"), which concluded in April 2016. A further tailored review of the scholarship schemes is due in 2018.

Section 5: Overseas Superannuation Vote

34. DFID, through its Overseas Pensions Department, is responsible for the administration and payment of pensions and related benefits to former expatriate colonial civil and public servants, including those derived from service and military capacity in former British India, Sudan and Egypt public service. The schemes managed by OPD are closed to new members. OPD is also responsible for the formulation of HMG's policy on overseas pensions and UK pension increase supplements.
35. The majority of pensions paid by OPD derive from two policy initiatives by the British Government: a 1962 agreement to supplement the pensions paid to certain former colonial civil servants; and a 1970 announcement that the British Government would assume responsibility from overseas governments for the payment of pensions due to expatriate colonial civil servants who had mainly been appointed by, or on behalf of, the Secretary of State for the Colonies. The 102 pension schemes that have been set up are covered under the following Acts of Parliament:
- Overseas Pensions Act 1973
 - Pensions (Increase) Act 1971, as amended
 - Hong Kong (Overseas Public Servants) Act 1996
 - UK Police and Firemen Acts 1997
36. OPD is part of DFID's control and assurance framework and the accounts are audited by the Controller and Auditor General.

Section 6: Grants to private and voluntary sector bodies

37. DFID provides grants to Civil Society Organisations (CSOs), both through its country offices and central departments.
38. Grants to CSOs are designed, approved, managed and closed in line with DFID's programme cycle and the seven control points outlined in section 2. In summary, DFID transfers accountability for delivery of the grant outputs and outcomes to the grant recipient through a formal grant agreement. DFID receives initial assurance that the recipient's policies, procedures, processes and systems are sufficiently robust through a due diligence assessment prior to awarding the grant letter. Assurance throughout the delivery of the grant comes from regular meetings with partners, monitoring of logical frameworks and evaluating progress against delivery plans as well as via formal annual reviews. Project Completion Reviews are undertaken to provide final assurance that the grant has delivered expected outputs and outcomes.
39. DFID may choose to engage a fund manager to manage larger grant schemes. In such cases, DFID transfers accountability for the proper selection and management of grants in line with DFID and wider government rules through a contract following a formal contracting procedure. The final recommendations on awarding grants are made by DFID officials and approved by the Secretary of State. More detail on the accountability and assurance systems for contracts is provided in section 7.
40. In December 2016, Cabinet Office introduced government grants minimum standards to ensure that taxpayers' money, awarded through government general grants, is spent as intended. The standards are embedded in DFID's Smart Rules and we gain assurance of compliance through our programme cycle and control framework which are well aligned with the standards. DFID is continuing to work with Cabinet Office to further strengthen our alignment with the standards. In particular we are focused on improving the quantity and quality of DFID's grants data on the Government Grants Information System (standard 2); and finding a systematic, proportionate way of engaging with the New Grants Advisory Panel (standard 3).

Section 7: Major contracts and outsourced services

41. Contracting is an important part of DFID's overall delivery model which provides DFID with access to world class expertise in specialist areas, whilst allowing operational flexibility. We are committed to providing an end-to-end procurement and commercial solution delivering the right interventions at the right time.
42. DFID's contracts are tendered in compliance with the EU Public Procurement Directives and the UK Public Procurement Regulations 2015. This legislation requires authorities to observe the principles of equal treatment, non-discrimination, transparency and proportionality. DFID's contracts are competitively tendered following a set of standard processes set out in the regulations.
43. If a contract with a supplier is selected as the best delivery route, the programme management cycle provides for value for money to be maximised throughout the life of the contract. Consideration is given to the programme design, route to market, tender evaluation and the management and evaluation of the programme. This includes options to scale up or close down programmes.
44. All of our partners are subject to rigorous scrutiny of their effectiveness and value for money, both in advance and throughout delivery. To be successful in a comprehensive tendering process, DFID looks for the right combination of technical and country expertise, ability to provide value for money, and capacity to mobilise and manage the programme in-country. Corporate support in areas such as fraud and financial management, communications and human resources are also critical to success.
45. All DFID suppliers sign up to our Statement of Priorities and Expectations for Suppliers and Partners which sets out expectations for integrity, transparency, accountability as applicable to supply partners and their treatment of supply chain partners. This also drives performance improvements and ensures that these priority areas are aligned with our own. In 2016 the Secretary of State ordered a fundamental review of DFID's supplier management to benchmark the department's commercial and procurement standards against a wide range of organisations, in both the private and public sector.
46. DFID has clearly set out its intention to ensure robust scrutiny of suppliers, greater transparency, and enhanced disclosure of relationships and conflicts of interest with the aim of further strengthening supplier management.

Section 8: Multilateral Funding

47. DFID is a founding member and major shareholder of many of the world's leading international organisations including the World Bank, the United Nations and newer public/private development financing bodies such as the Global Funds. These organisations' leadership, convening and co-ordination functions can reduce transaction costs for developing countries and donors; and their role in brokering and monitoring adherence to international agreements can raise standards across the international system as a whole.
48. The multilateral system has received around 40% of DFID's budget in core contributions in the last five years. DFID's share of core investment in multilateral institutions differs in relation to their alignment with the UK aid strategy and a sharing of burden with other donors. In addition DFID's bilateral programmes commission multilaterals to deliver particular projects, accounting for a further 20% of DFID's budget. The rules governing these bilateral-through-multilateral projects are set out in separate Memoranda of Understanding and relevant Smart Guides (and are subject to the same business case approval process).
49. Decisions to fund multilateral organisations are appraised, designed, approved, managed and closed in line with DFID's programme cycle and the seven control points outlined in section 2. DFID's decisions are informed by central assurance assessments, which assess the multilateral organisation's role in the international system, its track record in delivering results and its capacity and commitments to improvements through reform. At a Country level, DFID's regular due diligence sheds light on the maturity of the organisation's systems in the local context.
50. The UK has a prominent position in the governing bodies of multilateral agencies, in keeping with its significant financial contributions, public profile in development and DFID's capacity to engage across the range of multilateral policy. Through UK board membership, at board meetings and in committees, DFID and UK delegations to multilateral institutions work closely with other member states to hold managers to account and to secure improvements to policies and regulations where evidence shows this is necessary.
51. In December 2016 the Government published a Multilateral Development Review (MDR) which systematically assessed the performance of the 38 multilateral institutions that each receive over £1 million in core funding annually from DFID. It identified that approximately two thirds of multilateral institutions are working well, with some achieving exceptional results. The UK will continue to give these agencies strong support while pressing for even higher standards.
52. DFID receives additional assurance on multilateral performance through its membership of the Multilateral Organisation Performance Assessment Network (MOPAN). This is a network of 22 donors who fund assessments to identify strengths and areas for improvement in the multilateral organisations. Areas assessed include multilateral organisations' management of strategic, operational, relationship and performance aspects (organisational effectiveness) and whether the organisation makes an efficient contribution to relevant and sustainable results. Findings are used for discussions with the organisations and with their partners to improve effectiveness. In 2017-18, MOPAN is assessing 14 multilateral organisations in 13 countries. .

Section 9: Investments, joint ventures and other assets

53. DFID is increasingly making investments, which we call development capital, to create jobs, catalyse private sector investment and build markets in challenging regions. Long-term capital can demonstrate the financial viability of investing in the world's poorest countries, reducing costs and risk for private investors. In this way, DFID-supported investments can draw in multiples of the funds invested and put economic development on a sustainable footing.

CDC Group plc

54. DFID holds 100% of the issued share capital of CDC Group PLC, which is a development finance institution. It invests in private sector businesses in Africa and South Asia to create jobs and make a lasting difference to people's lives in some of the world's poorest places.

55. As the UK's development finance institution, CDC is therefore our principal partner on development capital. CDC brings much-needed capital to the poorest and most fragile countries to support businesses to thrive. CDC brings development benefits alongside financial returns, demonstrating that investments in challenging environments can be commercially viable and building markets that generate investment opportunities for the long term. CDC has made pivotal investments across sectors including finance, mobile telecoms and infrastructure.

56. CDC is governed by a Board of Directors answerable to DFID as shareholder through normal company governance processes. The Secretary of State appoints the Chair of the board and two of the non-executive directors, and agrees CDC's Investment Policy. The Investment Policy sets five-year objectives including instruments, geographies, excluded activities, reporting obligations and performance targets linked to financial returns and development impact. It also incorporates a Code of Responsible Investing which sets compliance standards for environmental, social and governance issues. Quarterly shareholder meetings are held to review results and progress against performance measures. CDC prepares and publishes annual audited financial statements to 31 December which it presents to the Department at an Annual General Meeting.

57. DFID sets two performance targets for CDC which are equally weighted:

- Financial return.
- Development impact.

58. All profits generated by returns on investments made by CDC are recycled into new investments to deliver additional development impact. New legislation passed in 2017 will enable DFID to increase the level of financial support it can invest in CDC. DFID currently has no plans to sell any of its shares in CDC.

Other investments

59. The Department holds the UK interest in a number of International Financial Institutions¹, which invest in and advise developing countries. DFID's strategy is to hold these investments for the long term.

¹ International Bank for Reconstruction and Development, International Finance Corporation, European Bank for Reconstruction and Development, Asian Development Bank, Inter-American Development Bank, African Development Bank, Caribbean Development Bank, Multilateral Investment Guarantee Agency and Asian Infrastructure Investment Bank

60. DFID also holds a number of development capital investments including investments in private equity funds, limited partnerships, companies limited by shares and debt. These investments are designed to achieve specific development aims across a sector or geographical location. The private equity funds and limited partnerships are for a fixed term and DFID will exit the investments when they are wound-up at the end of their life. The debt instruments all have agreed schedules for repayment. For the companies limited by shares, the intention is to exit by selling shares at the end of the investment period set out in the business case.
61. Given the additional complexity of financial investments, DFID's Director, Value for Money is responsible for all approvals prior to a business case submission to Ministers.