

House of Commons
International Development
Committee

ANNUAL REPORT 2002

Second Report of Session 2002–03

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*Report, together with Minutes of
Proceedings*

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INTERNATIONAL DEVELOPMENT COMMITTEE

The International Development Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Department for International Development and its associated public bodies.

Current Membership

Tony Baldry MP (*Conservative, Banbury*) (Chairman)
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Mr Robert Walter MP (*Conservative, North Dorset*)
Tony Worthington MP (*Labour, Clydebank and Milngavie*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in the House of Commons Standing Orders, principally SO No. 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/parliamentary_committees/international_development.cfm

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SECOND REPORT

The International Development Committee has agreed to the following Report:

INTERNATIONAL DEVELOPMENT COMMITTEE ANNUAL REPORT 2002

Background and purpose of the report

The Liaison Committee of the House of Commons has established common objectives for select committees in line with the resolution of the House of 14 May 2002. The Liaison Committee has further asked that the objectives should be reflected in the format of each Committee's annual report. This report describes the International Development Committee's work over the previous year in relation to these objectives and "core tasks". The format of the report is designed to show examples of the work which the Committee has done in relation to the following core tasks:

- Inquiries carried out into:
 - Government policy proposals
 - areas seen by the Committee as requiring examination because of deficiencies
 - departmental actions
 - associated public bodies
 - major appointments
 - implementation of legislation
 - major policy initiatives
- Examination of any draft legislation
- Examination of expenditure
- Examination of Public Service Agreements.

In the case of each major area we have been asked to comment on the extent to which a systematic structure is in place for meeting the indicative tasks listed, and response of the department.

I. IDENTIFICATION OF INQUIRIES CARRIED OUT INTO:

Government policy proposals

1. DFID's primary objective is to halve the proportion of people living in extreme poverty between 1990 and 2015. The international community has adopted this objective as a Millennium Development Goal. This objective, along with the other Millennium Development Goals drives DFID's policies, programmes and spending decisions and forms the primary aim of DFID's new 2003–2006 PSA. The Committee's actions over the past year have closely followed the objectives contained in DFID's Public Service Agreement (PSA).

2. DFID's PSA requirement for a poverty focus stands in marked contrast to the political priorities of the EU's aid programme and its focus on the near abroad. Around 25% of DFID's budget is absorbed by its contribution to European development assistance. Our inquiry into the effectiveness of the Reforms of European Development Assistance

addressed DFID policy proposals in two specific areas. The first concerned progress in achieving a greater impact of EC external programmes on poverty reduction and in particular on working for agreement to increase the proportion of EC Official Development Assistance (ODA) to low income countries to 79%. The second area related to DFID's aim of enhancing the impact of the money spent by the EC on development assistance. Our findings suggested that significant improvements have been achieved in the management of European development assistance; Country Strategy Papers herald an improvement in programming and the devolution of project management to in-country Delegations will speed delivery. However, the geographical allocation and poverty focus of EC development assistance remains a cause of concern.

3. DFID has a policy to increase the impact of key multilateral agencies in reducing poverty and effective response to conflict and humanitarian crises. During the last year, the Committee has carried out two inquiries into humanitarian crises. In both cases—Afghanistan, and southern Africa—the response by not only DFID but the multilateral agencies has been the key aspect of the inquiry. After a highly critical appraisal of the performance of the UNHCR for its lack of contingency planning and coordination in Kosovo, the Committee was pleased to note the effectiveness with which the agency had tackled the refugee situation in relation to Afghanistan.

4. Our inquiry into Financing for Development¹ was a retrospective on the United Nations conference held at Monterrey, Mexico in March 2002. The aim of the conference was not solely to increase aid but rather to mobilise and increase the effective use of financial resources in order to meet the MDG targets. Evidence was taken from the Chancellor of the Exchequer alongside Clare Short, during which the Government's proposal for an international development trust fund came under scrutiny. The inquiry thus represented a cross-departmental scrutiny exercise of a major multilateral initiative.

5. The Committee held one-off evidence sessions in two further areas in respect of policy proposals. These sessions were on the New Partnership for African Development (NEPAD)² and on the Government's restructuring of CDC Capital Partners³ following the decision to abandon the proposed public private partnership.

6. In addition, as part of the Quadripartite Committee on Strategic Exports, we examined the progress of the Export Control Bill⁴ and its implications for the future of the export control regime. We were particularly interested to ensure that under the new Act, strategic exports will not be allowed seriously to undermine developing countries' sustainable development.

7. The Committee is regularly informed of DFID's policy proposals and, through consultation papers, is able to track their evolution and decide whether an input from the Committee is appropriate. During the last year the Committee has chosen to make its input into policy proposals through the recommendations contained in the reports following its major inquiries. For the future, however, the Committee plans where appropriate to hold the occasional evidence session on the subject matter of DFID consultation documents. This will require DFID giving the Committee sufficient notice of its plans to put various areas of policy out for consultation.

¹ Fifth Report of Session 2001–02, *Financing for Development: Finding the Money to Eliminate World Poverty*, HC 785.

² Minutes of Evidence, Session 2001–02, *Africa, NEPAD and the G8 Africa Action Plan*, HC 1107.

³ Minutes of Evidence, Session 2002–03, *CDC Capital Partners*, HC 194.

⁴ Fourth Report of Session 2001–02, *Strategic Export Controls: Annual Report for 2000, Licensing Policy and Prior Parliamentary Scrutiny*, HC 718.

Areas seen by the Committee as requiring examination because of deficiencies

8. The Committee's major inquiry of the session "Global Climate Change and Sustainable Development"⁵ addressed perceived deficiencies within DFID but also within the international donor community in responding to climate change. The inquiry sought to examine the extent of current knowledge within DFID and the extent to which DFID was prepared to respond to the challenge presented by global climate change. We established that DFID did not have a policy on climate change *per se* but set it alongside other environmental issues and concluded that DFID needed to mainstream climate change through all its development policies. The inquiry also addressed the limitations of previous development assistance aimed at increasing energy access.

9. The inquiry into DFID's Departmental Annual Report 2002⁶ offered the opportunity to examine the way in which DFID integrates the cycle of development policy and practice; to test the criticism that DFID has a "missing middle" and is an organisation which, though it has plenty of strategies, is not a strategic organisation. The evidence session and report addressed DFID's resource allocation process and the potential tension which results from having sectoral targets but geographical resource allocations; the wide range of DFID's country engagements; and the increasing use of direct budgetary support in place of the more traditional programmes and projects approach.

10. The Quadripartite Committee's report into the Annual Report for 2001 on Strategic Export Controls⁷ addressed a range of issues relating to the export control regime which the four Committees regarded as in need of improvement. Of particular interest to us was the interpretation and application of criterion 8 of the Consolidated EU and National Arms Export Licensing Criteria, the "sustainable development" criterion. Deficiencies in this regard, and concerns about the marginalisation of DFID in the licensing process, were brought to light by the case of BAE Systems' application to export an Air Traffic Control system to Tanzania. Inter-departmental discussions resulted in the Government announcing improved procedures for assessing relevant export license applications against criterion 8 on July 31st. In addition, as part of the Quadripartite Committee we continued to press for a system of prior parliamentary scrutiny of licensing decisions.

Departmental actions

11. The Committee questioned witnesses—particularly DFID and NGO witnesses—on specific departmental actions as and when they arose during the course of the year. For example, on the reasons for DFID's selection of partner countries and in particular its engagement with what it saw as "reformers" in Nigeria. In Malawi, the Committee has questioned the timing of DFID's response to the food crisis and the impact which DFID's withdrawal of targeted seed inputs may have had. In addition to questions during evidence sessions, the Committee has maintained a flow of correspondence with DFID about issues of concern as they have arisen. The Committee sees its scrutiny role extending beyond DFID to the multilateral bodies through which DFID spends so much of its budget. In both correspondence and in informal private meetings, the Committee has raised questions on actions taken by the World Bank, the European Commission, the World Food Programme and the governments of countries in receipt of food aid.

12. The Secretary of State represents the UK at the Autumn Meetings of the World Bank. As in previous years, the Committee took evidence from Clare Short on the outcome of the

⁵ Third Report of Session 2001–02, *Global Climate Change and Sustainable Development*, HC 519.

⁶ Sixth Report of Session 2001–02, *Department for International Development: Departmental Report 2002*, HC 964.

⁷ Fourth Report of Session 2001–02, *Strategic Export Controls: Annual Report for 2000, Licensing Policy and Prior Parliamentary Scrutiny*, HC 718.

discussions.⁸ On this occasion the focus was on implementing the Monterrey consensus on development financing, and on debt relief.

Associated Public Bodies

13. DFID has no associated public bodies. The Commonwealth Development Corporation was transformed from a statutory corporation into a public limited company in 1999. For the time being it remains wholly government-owned. The Committee held an evidence-only scrutiny session with CDC⁹ in July and, following major changes to its organisation, repeated the exercise in December,¹⁰ on the latter occasion also taking evidence from Clare Short. These sessions questioned CDC's withdrawal from its traditional support for agriculture and examined whether CDC would be able to complement DFID's poverty-focussed development strategy in view of its remit both to operate in poor countries and also to attract private capital by securing commercial rates of return on its investments.

Major appointments

14. The Committee has not had the occasion to interview any new appointees to major posts in the last year. As DFID has no associated public bodies, the Secretary of State makes very few major appointments. The heads of multilateral organisations such as UN agencies are appointed by the member governments and as such the Secretary of State does have a role to play. We have questioned her on the way in which such appointments are made though we have not pursued any individual cases. The Committee has held two informal meetings with the new Director of the World Food Programme in the context of the inquiries which were underway at the time.

Implementation of legislation and major policy initiatives

15. The International Development Act came into force on 17 June 2002. It sets the statutory framework for DFID's activities and in particular the requirement that development aid must have a poverty focus. The task of the Committee therefore is to hold DFID to account for the goal of poverty reduction now established in the Act and more specifically for the achievement of the goals set out in the new Public Service Agreement.

16. The MDGs have for some time now been effectively "mainstreamed" into DFID, and the congruence between the MDGs and the daily business of the Department has recently increased further with the new Public Service Agreement. The MDGs and the new PSA can therefore be expected to drive major DFID policy initiatives. The Committee uses the MDGs to guide its work and to ensure that DFID's actions accord with them.

17. As part of the Quadripartite Committee on Strategic Exports, we have monitored the progress of the Export Control Bill through Parliament, and noted the importance of the associated secondary legislation and guidance notes.

18. *Extent to which systematic structure is in place for meeting the indicative tasks listed, and response of department?*

The Committee has been kept well informed of policy initiatives by the Department, and conducts inquiries into these as and when appropriate. A similar approach applies to the investigation of areas of possible deficiency, which tends to be on a topical basis. The Department has been helpful and cooperative in response to the Committee's inquiries.

⁸ Minutes of Evidence, Session 2001–02, *The Autumn Meetings of the IMF and the World Bank*, HC 1297-i.

⁹ Minutes of Evidence, Session 2002–03, *CDC Capital Partners*, HC 194 (incorporating 1028-i, Session 2001–02).

¹⁰ Minutes of Evidence, Session 2002–03, *CDC Capital Partners*, HC 194-i.

II. EXAMINATION OF ANY DRAFT LEGISLATION

19. The Department has not produced draft legislation.

III. EXAMINATION OF EXPENDITURE

20. DFID's Annual Departmental Report 2002 formed the basis for the evidence session with the Permanent Secretary. In addition to the oral evidence session the Committee asked a range of written questions relating to the lack of categorisation of planned expenditure by Millennium Development Goal and the increasing use of direct budget support. The Departmental Report did not explain the thinking behind DFID's policy of continuing bilateral programmes in so many partner countries (145), or the criteria for allocating resources to the individual countries. These subjects proved worthwhile areas for scrutiny during the evidence session. In addition, on a more technical level, the Committee raised the apparent non-reconciliation between the figures contained in the total resource budget as reported in the Departmental Report and the figure contained in the Estimates. The Committee also queried the changes in provisions identified in the Main Estimates.

21. *Extent to which systematic structure is in place for meeting the indicative tasks listed, and response of department?*

The Committee's annual session on the Departmental report is a regular occurrence in the scheme of work, and is preceded by detailed written questions to the Department.

IV. EXAMINATION OF PUBLIC SERVICE AGREEMENTS

22. The above mentioned evidence session with the Permanent Secretary covered performance against past targets and PSAs and the development of new ones for the forthcoming year.

23. *Extent to which systematic structure is in place for meeting the indicative tasks listed, and response of department?*

As for the scrutiny of the department's annual report (see paragraph 21 above).

V. OTHER GENERAL COMMENTS

24. Looking to the future, DFID has an extremely ambitious new PSA for 2003-06 and the Committee will want to direct its energies to ensuring that DFID achieves the goals which it has set for itself. The new Public Service Agreement largely incorporates the MDGs and demonstrates their use as a framework for DFID policy and operations. It provides a more reliable translation of the MDGs into practical goals for DFID, and as such reduces the need for the Committee to look "behind" the PSA to get at how DFID delivers on the underpinning MDGs .

25. There are dangers implicit in using outcome targets such as the PSA and MDGs in a manner which might distort DFID policy. An example might be concentrating aid only on the countries which are most likely to be able to use it to make a discernible difference to targets. Taken to an extreme, this would involve neglecting the poor in countries with "poor policy environments". This is obviously contrary to the spirit of the MDGs. Another example might be focussing within countries on the "barely poor", for whom relatively

small benefits from aid might push them above the poverty line—and so ignoring the extreme poor, who are always the hardest to reach. There is no indication that the PSA objectives will be used in such a manner. Nonetheless, the possibility remains that they may come to be used in this way (perhaps particularly as donors approach the 2015 deadline), and the Committee’s inquiries should provide one important check to ensure that DFID does not pursue its performance goals by aiming for “low-hanging fruit”.

26. DFID has a completely different rationale and set of powers compared to its predecessor, the Overseas Development Agency. It has a brief to promote international development, rather than merely to administer aid. The principle underpinning this difference in mandate is that aid is only part of what is required to reduce world poverty: trade policy, the prevention and resolution of armed conflict, and debt relief are all as important. This basic point has two immediate implications: first, the need for DFID to work with other parts of Government in order to do its job, and second, the need for DFID to pay as much attention to leveraging other international actors towards acting in ways which promote the achievement of the MDGs as it does to the efficient and effective delivery of aid. This issue of overlapping remits becomes more pronounced in the latest PSA, in which DFID’s responsibility for outcomes is shared: with the FCO and MoD for conflict resolution; with HM Treasury for debt relief; and with the DTI and FCO for the reduction in trade barriers which harm the poor.

27. The Committee will need to reflect this change in the nature of DFID’s institutional remit in the way it organises its own work. This process has already begun. The Committee’s next inquiry is into trade and development. During the course of the inquiry the Committee hopes not only to engage with the interdepartmental nature of the task but also to bring in witnesses from developing countries, “southern voices,” on a scale which it has not previously managed to do.

28. The core tasks for select committees do not apply in equal measure to all committees. DFID generates little by way of legislation; it has no associated public bodies and the Secretary of State is rarely responsible for major public appointments. The Committee has therefore to adapt the core tasks to the circumstances of the government department which it monitors. DFID has vested considerable importance in working with and influencing key multilateral development agencies (in particular the International Financial Institutions (IFIs), the EU, the UN system and regional development banks). Improving the effectiveness of UK and other European ODA channelled through the EU external cooperation programmes is particularly important, given the absolute size of these expenditures, their importance as a proportion of DFID’s budget and the serious concerns about the effectiveness of EU aid.

29. We have therefore maintained the practice, established in earlier Sessions, of setting aside a significant part of our workload for the examination of i) the performance of multilateral agencies and ii) the performance of DFID in exercising influence which improves these multilateral institutions and their ability to contribute to the MDGs. Assessing influence is however a methodologically challenging task, and the Committee will need to consider what indicators should be measured, and how. The indicators should be chosen on the grounds that they i) can reasonably be assumed to link DFID actions (e.g. the placement of senior advisors within the policy units of multilaterals) to expected future outcomes (e.g. the increasing pro-poor geographical focus of EC external programmes) and ii) are, preferably, objectively measurable.

30. Perhaps 90% of DFID’s spending is made overseas. It is therefore not surprising that the Committee spends around three working weeks a year on its overseas visits. During the last year the Committee visited Ghana and Nigeria in connection with its climate change inquiry and general oversight of DFID programmes. Later in the year the Committee split into two groups, with three members visiting Afghanistan as part of a reconstruction

inquiry and the remainder of the Committee visiting Malawi for the southern Africa humanitarian crisis inquiry.

31. These visits form an essential part of the Committee's work. Though linked to inquiries on which the Committee is working at the time, they are also an opportunity to study the range of DFID's involvement in partner countries. Through the visits, the Committee has a greater exposure to its department's officials (and *vice versa*) than any other departmental select committee. But the oversight role extends not only to DFID, the Committee uses the visits to evaluate the different approaches used by other donors and to see for itself the work of the multilateral bodies. As a follow up to the Committee's reports on the EC's aid programme, the Committee has set itself a target of visiting the European Commission's country offices wherever the opportunity arises. DFID's new PSA sets out 16 key sub-saharan African and four Asian countries on which DFID intends to concentrate. The Committee will want to take this focus of DFID's activity into account in choosing which countries to visit in future.

PROCEEDINGS OF THE COMMITTEE RELATING TO THE REPORT

THURSDAY 23 JANUARY 2003

Members present:

Tony Baldry, in the Chair

John Barrett
Mr John Battle
Alistair Burt
Hugh Bayley

Mr Tony Colman
Chris McCafferty
Mr Robert Walter
Tony Worthington

The Committee deliberated.

Draft Report, [Annual Report 2002], proposed by the Chairman, brought up and read the first time.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraph 1 to 31 read and agreed to.

Resolved, That the Report be the Second Report of the Committee to the House.

Ordered, That the list of Committee publications and Government replies in 2002 be an Annex to the Report.—(*The Chairman.*)

Ordered, That the Chairman do make the Report to the House.

[Adjourned till Tuesday 4 February
at a quarter past Nine o'clock

ANNEX

INTERNATIONAL DEVELOPMENT SELECT COMMITTEE
PUBLICATIONS IN THE CURRENT PARLIAMENT**Session 2002-03**

FIRST REPORT HC 84
Afghanistan: the transition from humanitarian relief to reconstruction and development assistance

Minutes of Evidence:

The Autumn Meetings of the IMF and the World Bank, 5 November 2002 HC 1297-i /
HC 256

CDC Capital Partners, 2 July 2002 and 17 December 2002 HC 194

Session 2001-2002

FIRST REPORT HC 300-I and II
The Humanitarian Crisis in Afghanistan and the Surrounding Region

FIRST SPECIAL REPORT HC 633
Government Response to the Committee's First Report of Session 2001-02

SECOND REPORT HC 417-I and II
The Effectiveness of the Reforms of European Development Assistance

SECOND SPECIAL REPORT HC 1027
Government Response to the Committee's Second Report of Session 2001-02

THIRD REPORT HC 519-I and II
Global Climate Change and Sustainable Development

FOURTH SPECIAL REPORT HC 1270
Government Response to the Committee's Third Report of Session 2001-02

FOURTH REPORT HC 718
Strategic Export Controls: Annual Report for 2000, Licensing Policy and Prior Parliamentary Scrutiny

FIFTH REPORT HC 785-I and II
Financing for Development: Finding the Money to Eliminate World Poverty

THIRD SPECIAL REPORT HC 1269
Government Response to the Committee's Fifth Report of Session 2001-02

SIXTH REPORT HC 964
Department for International Development: Departmental Report 2002

Minutes of Evidence:

Afghanistan: Further Developments, 26 February 2002 HC 653

Africa, NEPAD and the G8 Africa Action Plan, 16 July 2002 HC 1107

Minutes of Proceedings for Session 2001-02 HC 1326

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