



House of Commons
International Development
Committee

**Department for
International
Development:
Departmental Report 2004:
Government Response to
the Committee's Eighth
Report of Session 2003–04**

**Second Special Report of Session
2004–05**

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The International Development Committee

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Second Special Report

On 25 November 2004 the International Development Committee published its Eighth Report of Session 2003–04, *Department for International Development: Departmental Report 2004*, HC 749. On 20 January 2005 we received the Government's response to the Report. It is reproduced as an Appendix to this Special Report.

In the Government Response, the Select Committee's conclusions and recommendations are in bold text. The Government's response is in plain text.

Appendix: Government response

How much? The volume of UK aid

Conclusion 1

We welcome the fact that the Government is trying to shift the discussion away from debt per se, and towards consideration of countries' MDG-financing needs, including, but not limited to, the resource needs of heavily-indebted countries. When the leaders of the G8 meet in Scotland in June 2005, they will be expected to deliver on debt relief; the UK Government must do all it can to ensure that these expectations are not disappointed. In September, the Chancellor of the Exchequer announced that the UK would — out of the aid increases announced in July — finance multilateral debt relief amounting to £100 million. We warmly welcome this move and hope that other G8 nations will play their part in ensuring that debt relief will at long last offer countries a truly sustainable exit from the burden of debt. We in the developed world must do all we can to ensure that developing countries do not face the impossible choice of either servicing their debts, or improving their provision of basic health and education. (Paragraph 13)

We welcome the Committee's comments. Part of the increased settlement DFID received in the last Spending Review was earmarked for debt relief. From these funds, we have committed to covering the UK's share of further multilateral debt relief. We have calculated this to be just over 10% of the debt service owed to IDA and the African Development Fund by all post-Completion Point Heavily Indebted Poor Countries and other IDA-only low-income countries that have the systems to ensure that the resources released can be used effectively for poverty reduction.

We recognise the need for other donors to join us if we are to make a real development impact. This is just one of a number of ways in which aid resources can be increased. We are determined to use opportunities not only at the G8 Summit at Gleneagles, but also at EU meetings, the UN's Financing for Development conference and the Millennium Review Summit to get others to commit to increasing the volume of aid resources to speed up progress towards the MDGs in low-income countries, particularly in Africa.

Where to and why? Poverty, politics and aid

The poverty focus of aid and the multilaterals

Conclusion 2

There is no room for complacency – European aid remains insufficiently poverty-focused – but the Commission deserves credit for the improvements which have been made to the disbursement of EDF funds, as does the UK Government and others who have pushed the Commission to do better. (Paragraph 16)

Conclusion 3

Progress has been made with making EU development policy more poverty-focused, but, particularly in terms of spending, much more needs to be done. The UK Government has to strike a difficult balance in its relations with the EU, just as in its relations with developing countries. Financial support can, through policy dialogue, encourage reform. But in the absence of reform, financial support is money wasted. We will be keeping a close eye on the poverty focus of EC aid, and the UK's contribution to the EU's aid effort. (Paragraph 17)

Reforming EC development co-operation to make it more effective and poverty focused remains the main objective for our engagement with the EC.

One of our key objectives – and a DFID PSA target – is to increase the allocation of resources going to low-income countries to 70% of all EC official development assistance. The current trend is positive with recent figures reported to the DAC standing at 56% for 2003, up from 51% in 2002. The original figure quoted for 2002 of 42% was based on the EC incorrectly reporting its aid. The EC has now submitted data based on correct methodology for 2003, and also revised their 2002 data. This has been checked and published by the DAC. Together with other government departments DFID works to improve this poverty focus in various ways: by lobbying for increased volumes in the annual budget negotiations; by arguing for the next EC Financial Perspective (2007–2013) to introduce a global resource allocation model for its external resources based on needs and performance, with the expectation that this would redirect funds to the poorest countries; by protecting the low-income focus of the European Development Fund in its ongoing revision and replenishment; and by exploring and promoting the option of using more loans in middle-income countries while redirecting grants to low-income countries. Further progress may be harder to gain. The current poverty focus of EDF spending stood at 93% in 2003.

DFID is also striving to make poverty reduction and the MDGs the main focus of all EC development programmes. This principle has been successfully enshrined in the draft Constitutional Treaty, which confirms that poverty reduction is the principal aim of EC development policy. Discussions about a new Development Regulation to steer development expenditure in the Financial Perspective, and an upcoming revision of EC Development Policy, may offer further opportunities to strengthen the policy priorities of

EC aid and reaffirm its focus on global poverty reduction and achievement of the MDGs. This will remain a challenge during the EU presidency.

In parallel, DFID is pressing hard for further institutional and management reforms as a means to improve the effectiveness of EC aid. The arrival of the Union Foreign Minister, provided the Treaty is ratified, could pave the way for further institutional reform leading to a better means of managing EC aid. More coherent management of relations with Africa, Asia and Latin America, and a closer institutional link between policy formulation, programming and implementation of development programmes would also contribute.

The programme to reform the management of external action, started in 2000, is now coming to an end. There have been some clear improvements. For example, the creation of EuropeAid has made aid delivery more coherent and effective, and further decentralisation of power to the field has introduced a more coherent programming framework. There is still more to be done and, together with other Member States, we have therefore asked the Commission to identify ideas for further reforms based on a thorough assessment of the programme. We will press the new Commission to pursue this reform agenda during its mandate.

Conclusion 4

If stakeholders, including Parliament, are to be able to assess whether sensible decisions are being made about channelling aid through multilaterals, then the Departmental Report must show clearly the poverty focus of the multilaterals through which UK aid is channelled. The Departmental Report for 2004 fails to do this; such a lack of transparency unhelpfully limits DFID's accountability. (Paragraph 18)

We have noted the Committee's comments, and will include an assessment of the poverty focus of multilaterals supported by DFID in our 2005 Departmental Report.

Iraq: Aid diversion, spending and achievements

Conclusion 5

In order to demonstrate that UK development funds are being spent wisely and are leading to desirable development outcomes in Iraq, DFID must – either in its Departmental Report, or by indicating where such information can be found – make as clear as possible how much of its money is being spent on what, and with what effect. (Paragraph 25)

We accept the Committee's comments and we recognise the importance of transparency in terms of spending in Iraq. Relevant data are available in the latest edition of Statistics in International Development, published in October 2004. We also undertake to present information relating to funds spent in Iraq and development outcomes more clearly in subsequent Departmental Reports. In particular we will distinguish between UK bilateral contributions and their impact and those we are making as part of the wider international effort.

Iraq and Afghanistan: The security/development nexus

Conclusion 6

It is of the utmost importance that the distinction between humanitarian/development work, and security/military work is maintained, in Afghanistan and elsewhere. Security is a pre-requisite for development. Unless development workers and DFID staff can travel around the country, beyond the capital or controlled zones, they cannot obtain a full picture of the country's needs. Unless women feel safe walking down the street, they will not be able to play a full role in society. But security is not the same thing as development. And military objectives must never encroach on humanitarian objectives. We understand that DFID is doing some work on the security/development nexus and look forward to seeing the results. (Paragraph 27)

DFID strongly advocates the differentiation between humanitarian and military work. It works closely with UK Forces and other militaries to promote an understanding of the sensitivities and dangers of any blurring of identities and to ensure that any military interface with humanitarian activities is appropriate. Maintaining the distinction between development and security objectives, particularly in a post-conflict situation, is complex. Poverty reduction cannot be achieved in a volatile environment. Either by dint of their presence alone, or to extend the sway of the legitimate government, the military may engage in activities that contribute to stabilisation and thus lay the foundations for social, economic and political development. DFID is supportive of such activities and again liaises closely with military forces to ensure that such activities are appropriate to the situation.

The DFID Security and Development Strategy is expected to be published in the spring. The Strategy aims to show how insecurity impacts on poor people and how poverty-focused development assistance can contribute to security at all levels, whether individual, national or global. It will make recommendations on how DFID could make a greater contribution to the security of the poor by better integrating a conflict and insecurity perspective into its planning and programming. It will also suggest how the international system might work better to address both security and development objectives.

We are consulting closely with other government departments and civil society in formulating the strategy. Copies of the strategy will be placed in the Libraries of both Houses on publication.

Zimbabwe and Sudan: Responding to humanitarian needs and resolving conflict

Conclusion 7

We would appreciate further explanation of the changes made to the way that DFID allocates funds for humanitarian emergencies, and would like to be kept informed as to their impact. (Paragraph 28)

The bulk of DFID's humanitarian assistance spending comes through country programmes managing DFID's responses to continuing humanitarian crises, through core support to humanitarian agencies, and through our share of European Community

humanitarian assistance. In addition, central funding is provided to DFID's Conflict and Humanitarian Affairs Department to respond to rapid onset disasters or unexpected crises. It is this element of DFID's humanitarian assistance allocations that has changed.

At the start of the financial year a notional allocation used to be made to the Conflict and Humanitarian Affairs Department for responding to emergencies. Additional resources were retained by DFID's Contingency Reserve and released if needed later in the year. This approach recognised that the extent of humanitarian needs varies from year to year. However, consistent spending on humanitarian assistance over recent years and increased pressures on the Contingency Reserve have prompted DFID to revise its approach. It was therefore decided that a greater allocation would be made in the initial aid framework to the Conflict and Humanitarian Affairs Department based on historical spending levels. This would streamline management responses to provide funds for rapid onset responses during the year. DFID has also set aside some of this allocation to support better proportionality of funding across crises, through contributing to neglected emergencies, in accordance with the principles and practices of Good Humanitarian Donorship. DFID still retains its scope to supplement these funds from its Contingency Reserve in exceptional cases, as for example in its response to the tsunami disaster in Asia.

Conclusion 8

The UK and other donors face a dilemma. Providing humanitarian assistance to countries such as Zimbabwe may serve to prop-up the regimes whose own policies are causing the humanitarian crisis. In this case we believe that the UK is right to provide humanitarian assistance to prevent more deaths. (Paragraph 30)

We welcome the Committee's conclusion. Although food security remains elusive for many in Zimbabwe, HIV and AIDS are now the greatest challenges facing the country. Around 25% of Zimbabwe's 15–49 year age group is infected with HIV — one of the highest levels of HIV infection in the world. More than 3000 people die every week of AIDS-related causes. More than 1.3 million children (up to 14 years old) have already lost one or both parents to AIDS. The epidemic affects virtually every family. Life expectancy at birth is now below 35 years – one of the lowest levels in the world — having exceeded 55 years in the past. Zimbabwe ranks first in the world in terms of the number of people with AIDS without access to antiretroviral therapy.

DFID's present priority is to strengthen the international response to HIV and AIDS in Zimbabwe, including support for the rollout of treatment and greater attention to orphans and vulnerable children. We will also continue to provide relief to some 1.5 million of the poorest people in the country who remain vulnerable after the humanitarian crisis of the last three years. In all of these areas, the Department will channel its funding through UN agencies and Non-Governmental Organisations. We will continue to work closely with the Foreign and Commonwealth Office, and with other countries within and outside Africa to seek an appropriate international response to the political and economic difficulties facing Zimbabwe.

DFID, poverty reduction and politics

Conclusion 9

We applaud DFID for its efforts to develop a co-ordinated and poverty-focused international approach to meeting the MDGs in MICs. (Paragraph 37)

We welcome the Committee's comments.

Conclusion 10

Those with a commitment to international development and poverty reduction – including ourselves, and DFID – should remain vigilant to ensure that DFID's funds are spent on things which will contribute to poverty reduction, and, in cases where there is a disagreement, should encourage a wider open debate. (Paragraph 39)

We agree. DFID staff have access to guidance and advice on the International Development Act and all new staff undertake an induction programme, which emphasises the need for all spending decisions to be focused on poverty reduction.

Where issues arise about consistency with the Act, these are carefully considered both within the Department and, where necessary, with others in Government, including the Law Officers.

Conclusion 11

The Permanent Secretary was, in giving evidence to us, right to defend DFID's role as an agency focused on poverty-reduction. But DFID's role and relative autonomy is proscribed in part by the Government of which it is part. Operating as part of the Government which determines its role, DFID needs to strike a careful balance between protecting its autonomy as a poverty-reduction agency, and promoting development issues and policy coherence for development across Government. (Paragraph 41)

DFID's mission is clearly stated as the elimination of poverty in poor countries; and our PSA targets, by which we judge progress, are firmly rooted in the internationally agreed MDGs. Decisions on where UK aid is to be spent are based on political judgments, levels of poverty and aid effectiveness criteria. All DFID's interventions are strictly governed by adherence to the International Development Act, as explained in the response to Conclusion 10.

The Committee is right to emphasise the fact that poverty is multi-faceted. Our response to poverty reduction must necessarily therefore be broad ranging and appropriate to the particular circumstances in the country or region.

The promotion of development and increasing policy coherence across the Government is a fundamental part of DFID's engagement. This is expressed most clearly in our joint PSA targets with the DTI, HMT, FCO and MoD but is also reflected in our engagement with other government departments on a wide range of international programmes. All of these play an important role in reducing insecurity, promoting wider trade opportunities and contributing to meeting the MDGs. We will therefore continue to strike a balance between

our role as a bilateral donor and our role within the UK Government and the wider international community.

HIV/AIDS and sexual and reproductive health

Conclusion 12

Transparency and accountability are important, not least because they can lead to improved performance, but the organisation of efforts to tackle HIV/AIDS and sexual and reproductive health must be driven by realities on the ground rather than by a desire for a clear audit trail. Targets, transparency and accountability matter; results matter more. (Paragraph 43)

We welcome the Committee's comments.

Conclusion 13

It would be better if the USA's Emergency Plan on HIV/AIDS did not create rigidities and obstacles to be worked around at country-level, but given that it does, we were pleased to hear that at country-level, a pragmatic response is beginning to produce results. (Paragraph 45)

We welcome the Committee's comments. The Three Ones was chaired by the UK, US and UNAIDS and provides a policy framework we will build on in 2005. The US/UK Task Force provides the opportunity to work more closely at country level.

Conclusion 14

DFID's work on HIV/AIDS and on sexual and reproductive health is about introducing the linkages between sexual and reproductive health and HIV/AIDS on the one hand, but also recognising that there is a distinct agenda on sexual and reproductive health which is not subsumed within the HIV/AIDS agenda. There are two connected but separate agendas. We support, and encourage DFID to maintain this approach. (Paragraph 49)

Our plans for 2005 will be to deliver this further. One of the areas we will focus on is maintaining prevention momentum and this includes bringing together AIDS and sexual and reproductive health as appropriate.

How? Poverty Reduction Budget Support

Conclusion 15

In future Departmental Reports, DFID should provide a list of the countries receiving PRBS, the amounts of aid they receive and the proportion received as PRBS, and the levels of commitment for future years. (Paragraph 54)

We will publish a table setting out the requested data in the Departmental Report 2005.

Conclusion 16

While we understand the Department's enthusiasm for PRBS, it must be applied using appropriate risk considerations to determine whether it is the most suitable way of delivering aid, and whether the potential development benefits outweigh the risks that are being taken. Most importantly, future decisions about PRBS must be based on evidence of whether or not PRBS has produced the developmental benefits expected of it. Any future rollout of PRBS must be evidence-based. (Paragraph 57)

We agree that future decisions to provide PRBS must be evidence-based. As DFID's PRBS Policy Paper notes, any proposal for PRBS must include a careful assessment of country circumstances, including an assessment of whether the potential development benefits outweigh any fiduciary risk.

Proposals for PRBS in countries which have already been receiving PRBS are required to provide a Project Completion Report (PCR), which describes the impact of the previous PRBS programme. For example, Uganda's recent PCR concluded that provision by DFID and other donors of budget support, coupled with effective policy dialogue and technical assistance contributed significantly to the objectives agreed with the Government of Uganda (continued macroeconomic growth and stability and improved outcomes from public spending).

The ongoing OECD Development Assistance Committee (DAC) Evaluation exercise will also gather evidence on the impact of PRBS in seven countries (Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam).

Conclusion 17

We would welcome further information from DFID about how the donor harmonisation agenda is progressing, at the OECD level, and on the ground in particular countries. (Paragraph 59)

The OECD DAC is currently preparing a report on Aid Effectiveness for submission to the Paris High Level Forum in March 2005, which will review progress since the last High Level Forum in Rome in 2003. This will be based on evidence from a survey on harmonisation in 14 countries, a report on donor progress against their own action plans and a study on incentives for harmonisation. Initial conclusions are that there is a trend towards increased alignment with country priorities as identified in Poverty Reduction Strategies. In a few cases, donors are developing strategies jointly. There has also been an increase in joint funding of projects and programmes, and a growing number of donors providing budget support. However, despite an increasing number of good examples, progress more generally has been slower than desired.

To encourage faster progress the OECD is drawing up a list of priority areas for action, which will have a realistic set of monitorable indicators of best practice against which all donors will be held to account. This will be submitted to the High Level Forum in March. The OECD Working Party on Aid Effectiveness will continue to take forward the harmonisation agenda.

Progress on harmonisation in country varies widely; the following examples are drawn from the DAC's 14-country survey.

In Vietnam, the government is taking a strong lead in setting priorities; two thirds of donors are aligning with government strategy, and progress against the Poverty Reduction Strategy is reported as good. The proliferation of harmonisation initiatives has highlighted the need for streamlining; one initiative has been the establishment of a number of ad hoc donor groups to provide a focus for further harmonisation activities.

In Mozambique, the number of projects across sectors and provinces is making it difficult for the government to take a strong co-ordinated lead. The establishment of a Memorandum of Understanding with 15 donors linked to the provision of budget support should help. Potential obstacles to harmonisation include poor communication among donors at country level, and high levels of fiduciary risk within the government.

In Ethiopia, there is a common understanding that greater harmonisation and alignment are required. The government capacity to lead the agenda is weak. Budget support is still in its infancy and fewer than 10% of donor missions are carried out jointly. Nevertheless, initiatives such as the development of a Harmonisation and Action Plan, the creation of a joint Task Force on Harmonisation and the development of a common framework for budget support all indicate progress.

Conclusion 18

We welcome the fact that DFID is paying close attention to the risk that PRBS might lead to more volatile and unpredictable aid flows. (Paragraph 60)

The UK's draft policy paper 'Partnerships for poverty reduction: changing aid conditionality' highlights predictable funding as a key element of the aid partnership. The policy seeks to establish clear, transparent criteria and monitoring systems for provision of DFID's aid. DFID is also looking into other ways of increasing aid predictability, such as the introduction of rolling, multi-year (three to five year) PRBS arrangements and, wherever possible, early and predictable disbursement. Through the OECD-DAC Working Party on Aid Effectiveness, DFID has been encouraging donors to work together to improve the predictability of overall aid flows.

Conclusion 19

New skills are needed to support the increased use of PRBS. The Department must ensure that it has staff with the necessary skills and experience to support the shift towards PRBS. (Paragraph 61)

DFID's Training and Development Strategy is reviewed annually and updated as necessary to ensure that it remains consistent with DFID's policy objectives.

DFID staff receive specific guidance on PRBS through policy documents such as the 'PRBS Policy Paper' and draft 'Conditionality Policy Paper' as well as How to notes, such as 'Managing Fiduciary Risk when providing PRBS', 'Assessing the Fiscal Stance', and 'Macroeconomic Issues for Scaling-Up Aid Flows'. In addition to learning on the job, there

are regular office seminars and workshops on implementing PRBS. Policy Division's Development Effectiveness Group (which includes teams focusing on poverty reduction strategies, poverty monitoring, and public financial management and accountability) is a source of specialist support to DFID's country programmes.

Conclusion 20

We hope that a shift to PRBS will enhance the effectiveness of DFID's aid to developing countries, and we broadly support DFID's policy in this area. We are concerned however, first to ensure that the effectiveness of PRBS is assessed and such assessments inform policy, second to ensure that DFID and its partner governments are supporting the complementary measures which are needed alongside PRBS, and third to ensure that DFID is paying close attention to the implications and risks of increased use of PRBS. (Paragraph 62)

We welcome the Committee's broad support for DFID's policy on PRBS.

As noted in response to Conclusion 16, we are giving priority to assembling evidence on the impact of PRBS. Since PRBS supports multi-year strategies, it will be several years before the full impact can be assessed. In the meantime, DFID is continually reviewing evidence on progress (including evidence gathered from DFID programmes, from the World Bank and other donors, and by independent researchers). We are adapting aspects of our policy in the light of emerging findings.

The multi-donor evaluation mentioned in the response to Conclusion 16 is assessing to what extent, and under what circumstances or in what country contexts, PRBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The results are due towards the end of 2005.

DFID will continue to work with other donors and partner governments to support complementary measures needed alongside PRBS. These include policy dialogue around budget priorities, technical assistance and project support. A particular priority is supporting partner governments to strengthen their public financial management systems, including through training or other support on planning, budgeting, procurement or audit.

We agree that close attention is required to the implications and risks of increased use of PRBS. DFID's policy on fiduciary risk and budget support was agreed with the National Audit Office and formally set out in a policy note issued in March 2002. The policy acknowledges that in most of the poorest countries which DFID supports, public financial management systems fall well below internationally accepted standards of good practice, but makes clear that, even in such circumstances, budget support may still offer the most effective way of delivering development assistance. It may be provided by DFID, if:

- A thorough evaluation of fiduciary risks has been carried out
- The government has a credible programme to improve standards of public financial management
- The potential development benefits justify the risks, taking into account any safeguards that can be put in place

- These assessments are explicitly recorded as part of the decision making process to provide assistance.

Thus, the decision on whether to provide budget support is based on relating the risks (taking into account evidence of improvement and plans to address current problems) to the anticipated benefits. It is in the first instance the responsibility of the DFID country office to make the benefit-risk judgment, often working collaboratively in a multi-donor budget support exercise. But approval of senior management is required for all substantial PRBS proposals.

As the volume of budget support has increased, DFID has taken steps to refine and to standardise the processes for dealing with fiduciary risk. A guidance note was issued in September 2004. This sets out how fiduciary risk assessments will be carried out and introduces a central scrutiny process for these assessments, to introduce greater consistency.

With what results? Monitoring the impact of UK aid

Conclusion 21

Where DFID is failing to meet its PSA targets, or where future slippage is anticipated, the Departmental Report should specify what actions are being taken – by DFID, and by others – to attempt to get progress back on track. (Paragraph 66)

We will endeavour to set out this information in the Departmental Report 2005.

Conclusion 22

We appreciate the difficulties involved in developing country data and welcome DFID's work to improve statistics in this area. This work is very important and must remain a focus of DFID's attention. Reliable data is essential if realistic and meaningful targets are going to be set and progress is to be monitored. (Paragraph 69)

We are committed to our important work in improving the quality of statistics in developing countries. In our partner countries, we are increasing resources towards building policy-relevant statistical systems, with an emphasis on poverty monitoring. Internationally, we are working with the PARIS 21 (Partnership in Statistics for Development for the 21st Century) consortium of donors, partner countries and multilateral agencies to raise awareness of the problems linked to inadequate statistics. We also provide targeted support to help countries assess their priority statistical requirements. We are working with the International Financial Institutions and UN system to increase the resources devoted to building statistical capacity in partner countries. We are also beginning work to establish indicators of data quality, which would alert users to the reliability of particular indicators used in the international system.

Conclusion 23

While we welcome the use of the traffic light system, its usefulness could be improved by providing more information on how progress, particularly likely or anticipated, has been assessed. More information should also be provided on the action DFID is taking to address targets where progress has slipped, along with an indication of how long it might take to get progress back on track. (Paragraph 71)

We have noted the Committee's comments. The traffic light system is indeed a useful tool and could be enhanced by greater explanation of how progress has been assessed. We will try to provide further clarity in the Departmental Report 2005.

Conclusions: Learning to be more effective

Conclusion 24

The information provided in the Departmental Report for 2004 on administration costs is of little or no use to the reader. Subsequent Departmental Reports must present such information more transparently. (Paragraph 74)

The table on administration costs in the Departmental Report is one of the common core tables that the Treasury require to be included in Departmental Reports. Its format is largely determined by the way that information about DFID's budgets is held on the Treasury's Public Expenditure Survey database.

DFID will provide additional commentary and analysis of our administration costs spending in future Departmental Reports to make the reasons for changes in the totals more transparent to readers of the Report.

Additional comments

DFID policy on PRBS for governments with problems of corruption and human rights abuses (paragraphs 33–35)

The Report notes that donors and recipients must be clear about the point or threshold beyond which a country's record on corruption or human rights is simply unacceptable.

DFID provides PRBS on the basis of a government's commitment to poverty reduction. It considers the extent to which the government is taking poverty reduction seriously and not infringing on the rights of the poor to participate in economic, social and political life. It also carries out a careful assessment of the fiduciary risks associated with problems of corruption. Where DFID does not consider the development benefits to outweigh risks associated with corruption, it does not provide PRBS.

The UK's draft policy paper 'Partnerships for poverty reduction: changing aid conditionality' notes that judgments in this area must be considered carefully. Should there be concerns about political governance, we immediately bring these to the attention of our partner government and initiate a process of dialogue about our concerns to seek a negotiated resolution.

In determining whether the basis of the partnership has broken down, it is important to assess whether there are special mitigating circumstances, such as the existence of firm evidence that the breach will be reversed, or that the government is making efforts to address the problem in question. Each case must be considered individually, looking at the opportunities for influencing the situation and whether reducing funding or adding conditionality will be effective or counter-productive. It is critical to ensure that there is a good understanding of the long-term direction of change, and that good monitoring systems exist to distinguish minor from more serious breaches.

Provision of PRBS to Ghana (paragraphs 55 and 56)

DFID's approach to PRBS in Ghana, as elsewhere, is based on assessment and management of risks. There has been considerable improvement in public financial management over the last three years. A decision on a three-year programme of budget support in June 2003 was backed by a fiduciary risk assessment that concluded that the conditions for budget support were met. Since then a range of fiduciary risk assessments has been carried out, including one by the International Monetary Fund that reports significant progress in reducing the level of risk. In the meantime budget support from all sources has led to direct benefits for domestic borrowing and interest rates, poverty related expenditure, and releases to local authorities for development projects.

Department for International Development

20 January 2005