



House of Commons  
Environmental Audit  
Committee

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**Government Response to  
the Committee's Tenth  
Report of Session 2005–06:  
Trade, Development and  
Environment: The Role of  
DFID**

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**Third Special Report of Session 2006–07**

*Ordered by The House of Commons  
to be printed 9 January 2007*

## The Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

### Current membership

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### Powers

The constitution and powers are set out in House of Commons Standing Orders, principally Standing Order No. 152A. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

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: [www.parliament.uk/parliamentary\\_committees/environmental\\_audit\\_committee.cfm](http://www.parliament.uk/parliamentary_committees/environmental_audit_committee.cfm).

A list of Reports of the Committee in the present Parliament is at the back of this volume.

### Committee staff

The current staff of the Committee are: Mike Hennessy (Clerk); Sara Howe (Second Clerk); Richard Douglas (Committee Specialist); Oliver Bennett (Committee Specialist); Louise Smith (Committee Assistant); Caroline McElwee (Secretary); and Robert Long (Senior Office Clerk).

### Contacts

All correspondence should be addressed to The Clerk, Environmental Audit Committee, Committee Office, 7 Millbank, London SW1P 3JA. The telephone number for general inquiries is: 020 7219 6150; the Committee's e-mail address is: [eacom@parliament.uk](mailto:eacom@parliament.uk)

### References

In the footnotes of this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated by page number as in 'Ev12'.  
number HC \*-II

# Third Special Report

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## Trade, Development and Environment: The Role of DFID — Government Response

1. The Environmental Audit Committee published its report on *Trade, Development and Environment: The Role of DFID* on Wednesday 16 August 2006 as HC 1014.
2. The Government's Response to the Committee's Report was received on Monday 16 October 2006 in the form of a memorandum to the Committee. It is reproduced as an Appendix to this Special Report.

## Government response

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### GOVERNMENT RESPONSE TO ENVIRONMENTAL AUDIT COMMITTEE REPORT: "Trade, Development and Environment: The Role of DFID" (Tenth Report of Session 2005-06)

We welcome the publication of the Environmental Audit Committee's report "*Trade, Development and Environment: The Role of DFID*". It rightly draws attention to the urgency of the environment challenge faced by humanity.

We agree with the Committee that the international community—including the UK government and the development community—must do more to respond to the growing weight of evidence that our environment is under threat. If not addressed, much of the current and future progress in lifting people out of poverty—the mission of the Department for International Development—could be reversed. Tackling this means working for a collective response at a global level, in close collaboration with our multilateral and developing country partners. We fully recognise the need for action now.

However, we have three main concerns about the report.

First, the report does not reflect the 'ground reality' of our relationship with developing country partners. We work with an enormous range of countries who face diverse environmental challenges. We agree that all countries need to pursue sustainable development—but some of the generalised positions advocated in the report (slower growth, for example) do not reflect differences between countries. The report in many instances implies that DFID is the arbiter of policy direction in our partner countries. We are not. Countries identify their own development paths and donors can assist. We do recognize that in many cases there is room for more intensive dialogue with countries on environmental issues. This is particularly the case in the BRICS countries

(Brazil, Russia, India, China and South Africa), which have an increasing impact on global development with implications for the environment.

Second, we are disappointed that the Committee did not recognise the emphasis placed on the environment in the new White Paper. The White Paper makes clear the centrality of the environment to our mission of poverty reduction. In his Preface, the Secretary of State says that managing our world sustainably is the most important challenge for a changing world.

We are already making progress on a number of fronts to meet the White Paper's commitments. We are strengthening our staff capacity on the environment. We are talking more to key middle-income countries on climate change and the environment and are fully involved in the DEFRA-led sustainable development dialogues. We need a wide range of approaches to engage on environmental issues. We are looking at how to ensure provision of global public goods, including environmental ones such as climate and international fisheries. For example, we have supported the International Task Force for Global Public Goods including hosting its pre-launch at the World Bank Annual Meetings. We will continue to scale up our response to the environmental challenges the world faces.

Third, the report did not give sufficient credit for the work that we are already doing – where we are at the forefront of work to tackle global environmental challenges. This includes our international work on climate change, illegal logging, and illegal and unregulated fishing and strengthening the international system. For example, we are a major contributor to the Global Environmental Facility (GEF) and the UK pledged to increase our share from 7 per cent to 11 per cent for GEF-4 (to £140m over the next four years). We are working closely with the World Bank and regional development banks to develop an Investment Framework aimed at increasing public and private sector investment in energy efficiency and low carbon technologies in developing countries. The Government is promoting reform of the UN including a more effective system of international environmental governance and a strengthened United Nations Environment Programme (UNEP).

The White Paper sets out an ambitious agenda in tackling environmental challenges. The Government is committed to its implementation.

## **Background**

[Paragraph 13] *It is vital that development work and funding take account of the very close and crucial links to the environment that exist for the most poor for whom issues of access to natural resources and the impacts of environmental degradation can very easily become a matter of life and death.*

We agree. As outlined in our Policy Paper “DFID’s Approach to the Environment”, published in February 2006, poor countries and poor people depend directly on environmental resources for their livelihoods to a much greater extent than in richer countries. For example, in many developing countries, 80–90 per cent of jobs are based on natural resources (e.g. agriculture, forestry, fisheries and tourism). Poor people often have inadequate access to assets such as clean water, clean air, and fertile land that are essential for livelihoods and health. Poor people usually also bear the highest costs of environmental hazards and degradation. Climate change is also likely to have a disproportionate impact on the poor and most vulnerable as they have the least capacity to adapt. The priority for development assistance is therefore to reduce poverty through achievement of the MDGs, including MDG 7 on environmental sustainability.

[Paragraph 15] ***Any approach to poverty reduction must integrate what are seen as key priorities by the poor and set them as key priorities for development. The environment is one of these.***

We agree. As the Report notes, DFID-supported participatory poverty assessments reveal that the environment is often central to poor people’s everyday lives. Country-led policies, planning and programmes, such as poverty reduction strategies, should reflect country-specific concerns, such as environmental challenges. But the environment should be set alongside other key poverty reduction challenges, reflecting local circumstances. We can’t dictate how developing country governments prioritise the challenges they face, but we can help ensure that their development strategies are based on a strong knowledge base including on the environment. Donors can then provide support behind such country-led approaches. Our response to other parts of the report, particularly paragraphs 40, 42 and 23, describes links between the country led approach and the environment.

[Paragraph 15] ***DFID’s duty to focus on poverty reduction means that it is absolutely central to its role to have a clear and coherent approach to the environment in its work.***

We agree that DFID should have a clear and coherent approach to the environment. Our Environment Policy Paper together with the new White Paper set out that approach. We discuss this further in our responses to paragraphs 58, 61 and 62 under the section “how does DFID see the environment”.

[Paragraph 20] ***The message from the Millennium Ecosystem Assessment is clear and stark. The environment that we all depend upon, and which is particularly important to the most poor and vulnerable in developing countries, is under threat worldwide from overexploitation. This has serious implications on the availability of resources for future generations and how we attempt to tackle poverty now so as to minimise impacts and ensure real, long-term gains. The Assessment is not a report that***

***can be ignored and DFID must take the lead role in Government in ensuring that its findings are incorporated into how it, and other departments such as DTI and DEFRA, approach development.***

We agree that the Millennium Ecosystem Assessment (MA) is an important report. We believe it provides a useful and comprehensive overview of recent trends in ecosystem functions and their relationship with human wellbeing. DFID provided funding for the coordination of the forests working group of the Assessment. While we agree that DFID should draw on these findings in our work, the MA addressed a range of subjects some of which are the responsibility of other departments, for example Defra who lead on international biodiversity. DFID is using the findings of the report both internally and in our discussions with other government departments. We are also supporting workshops and research on some of the key issues highlighted by the MA. For example, DFID, the Natural Environment Research Council and the Economic and Social Research Council have agreed joint support for a research programme on sustainably managed ecosystems that contribute to poverty reduction in developing countries. The programme will have an initial duration of five years and will start later in 2006.

[Paragraph 23] ***How Millennium Development Goals are met will have a major impact on environmental sustainability and there is not necessarily a clear framework to ensure that all of the Goals are met coherently and simultaneously. This may well prove to be counterproductive in the long term.***

Frameworks to achieve sustainable poverty reduction and the MDGs need to be developed and owned by countries themselves. This includes coherent policies, planning and programmes, such as poverty reduction strategies. They should make the links required to achieve the MDGs, including links between environmental sustainability and the other Goals. The Millennium Review Summit 2005 called on countries to develop or implement national plans to help achieve internationally agreed targets and goals, including the MDGs. The UK supports this approach and the work that UN Agencies are doing to develop guidance and support to countries on how best to make the links to the MDG framework, including on integrating environmental considerations. We recognise that weak progress towards ensuring environmental sustainability will compromise achievement of other MDGs and undermine wider investments in poverty reduction.

[Paragraph 28] ***The clear links between economic growth and environmental degradation, particularly with regard to energy consumption and climate change, make it imperative that every effort is made by DFID to pursue a less resource intensive model for growth and ensure all negative environmental impacts are minimised as countries are assisted in their development***

We agree that efficient resource use is essential for sustainable growth, as highlighted in the new White Paper. Partner countries need to develop their own optimal growth paths which take account of potential environmental constraints and impacts.

We do not believe that growth necessarily happens at the cost of environmental degradation. It is not growth 'per se' that causes environmental degradation but bad policies and practices, such as non-existent or ineffective regulation (particularly environmental regulations) taxation and property rights.

We do recognise that growth is often associated with severe environmental degradation, particularly in developing countries that are heavily dependent on natural resources. Poor countries need to grow and donors can help improve management of the resources which contribute to growth, and to manage the environmental and social impacts of growth. This includes considering how investment decisions can be better informed by appropriate environmental information, such as environmental costs and benefits.

## Development Aid

[Paragraph 39] *Poverty Reduction Strategy Papers undoubtedly represent an improvement on how some aid has been delivered in the past. They encourage good governance, help to ensure predictability of aid, allow much more control by recipient governments and as we heard are encouraging dialogue between stakeholders within countries on a variety of issues, including the environment. However, as DFID itself has recognised PRSPs have not, in the main, handled environmental governance and management well.*

We welcome the report's analysis about the complexities of integrating environmental objectives into country-led Poverty Reduction Strategy Papers (PRSPs) and other national development strategies. This is as much about integrating environmental considerations into country-led processes that lead to PRSPs as about the documents themselves. World Bank assessments of PRSPs show mixed integration of the environment, although there was a gradual improvement from 2002 to 2004. For example, DFID worked with other donors and a Government of Bangladesh agriculture and environment working group to help integrate environment into the PRSP. Assistance was provided to facilitate consultation outside government, identify key poverty and environment issues relevant in Bangladesh, and contribute to the draft PRSP and implementation strategy.

[Paragraph 40] *Some bodies, including the Environment Agency, support a programme based approach to environmental projects because of the particular*

***difficulties associated with incorporating these cross-cutting issues into direct budgetary support of central governments. We agree wholeheartedly with this.***

Donors should use a range of aid instruments to support country-led policy implementation. Recently published DFID guidance for country offices highlights the need to use a mix of aid instruments to maximise our impact. For example, to achieve environmental objectives donors might also use technical assistance to build capacity in the environment ministry and might provide financial support for civil society to build a case for government to take more action on environmental issues. We agree that programme-based approaches are useful in this context. For example, DFID joint funded the UNDP Poverty Environment Initiative (PEI). The PEI has developed programmes in Kenya, Tanzania, Rwanda, Vietnam, and Cambodia to help include environment and poverty links in country planning processes.

However such programmes should not be used to work around developing countries' priorities. As we outline in our response to paragraph 15, we believe in a country-led approach to development and the need to use our aid instruments to best support the priorities articulated by countries themselves. DFID is committed to working internationally to help poor countries better ensure that relevant environmental priorities are included in country-led policies, plans and programmes, including poverty reduction strategies. Hence programme-based approaches should share four features: leadership by the host country; a single comprehensive programme and budget; a formalised process for donor coordination; and harmonisation and efforts to increase the use of local systems.

It is also important to maintain global public goods, including environmental ones such as climate and international fisheries. We will participate in the International Task Force for Global Public Goods, launched in September 2006. For many global public goods issues, the Global Environmental Facility (GEF) is a vital source of financial support.

[Paragraph 42] ***There does not appear to be any sense of urgency within DFID in dealing with the very serious problem of integrating the environment into direct budgetary support. The Institute of Development Studies produced research commissioned by DFID that highlighted this very issue in January 2005 and still little appears to have been done in this area.***

We recognise that the outcomes that can be achieved through budget support are dependent on the quality of PRSPs and budget processes. World Bank assessments of PRSPs showed mixed integration of the environment, although

there was a gradual improvement from 2002 to 2004. As outlined in our response to paragraph 40, we believe that country programmes need to use a range of aid instruments to support implementation of the PRSP.

DFID believes that budget support can provide huge benefits for poverty reduction – for example, through providing more predictable finance which will enable governments to better manage fiscal liabilities. However, we only provide budget support where we judge the benefits outweigh the risks associated with using a partner government's own financial management system. Budget support currently represents 20 per cent of DFID's bilateral aid. The recent Joint Donor Evaluation of Budget Support warned donors against seeking to overload the instrument – it is not intended to achieve all development outcomes. In light of this, we recognise that we need to carefully consider how cross-cutting issues are addressed.

DFID has commissioned specific research into how best to achieve environmental outcomes in the context of budget support. This research will feed into a current revision of our 2004 budget support policy, which we are aiming to complete in 2007. The policy will consider how budget support can be used to achieve sector outcomes, such as environment. As with other cross cutting issues such as gender, this is a complex issue that many donors are seeking ways to address. We will also explore good practice on how to maximise progress on sector issues through the budget support instrument, and include this good practice in our aid instruments guidance.

[Paragraph 45] ***In the long term it is entirely unacceptable that the UK should be providing aid to developing countries regardless of the environmental consequences. DFID must accept that it has a role to play in mitigating the environmental impacts of the development it is endeavouring to achieve.***

The UK does not provide aid to developing countries regardless of the environmental consequences. DFID's environmental screening procedures, which are being strengthened (paragraphs 120,121 and 123), consider environmental consequences of individual interventions. Our guidance for country assistance plans (CAPs) states that environmental factors should be taken into account when defining the main obstacles to reducing poverty, including relevant regional or global issues, such as climate change and shared natural resources. DFID has led the development of OECD guidance on applying strategic environmental assessment (SEA) to development cooperation, and its potential application is included in guidance for DFID CAPs.

We do, however, accept that more is required collectively by partner countries and donors to consider the broad and strategic environmental implications of development. For example, in Pakistan DFID and UNDP have agreed joint implementation of work connected with the environmental consequences of

programmes that support devolution, gender and Pakistani elections. Countries themselves can play a lead role in identifying how they can strategically assess the environmental consequences of development. For example in Ghana, DFID, the Netherlands Commission for Impact Assessment and the EC helped to undertake an SEA of the PRSP document. It is now the Ghanaian intention to use principles of SEA in review and formulation of government policies.

## **DFID: Incorporating Environment into Development**

### **Poverty Reduction and Sustainable Development**

[Paragraph 51] *We are concerned that the Development Act's definition of sustainable development is at odds with that set out in the Government's Sustainable Development Strategy, making no explicit commitment to try to balance social and economic needs with the environment. It is unclear why this separate definition exists and what practical purpose it serves. DFID should make explicit the rationale behind this ineffective definition of sustainable development and why it is necessary.*

The definition of sustainable development in the International Development Act 2002<sup>1</sup> was carefully considered during drafting of the Bill and its passage through parliament. The definition reflects the key elements of reducing poverty in the context of development which is environmentally sustainable (maintaining the long term viability of ecosystems), economically viable and socially desirable in that it fulfils people's cultural and material needs.

The International Development Act definition is therefore not at odds with the definition used in the UK Sustainable Development Strategy, which also aims at balancing economic growth, social development and environmental sustainability, but rather aims to align the goals of the 1999 UK Sustainable Development Strategy with the priority of poverty reduction as set out in the 1997 White Paper on International Development.

The 1999 UK Sustainable Development Strategy set out the UK's goal of "enabling all people throughout the world to satisfy their basic needs and enjoy a better quality of life without compromising the quality of life of future generations". In the context of international development the key goals were: "eliminating global poverty and raising living standards in developing countries, tackling global pressures on the environment and resources, promoting a fair and open trade system which respects the environment and strengthening the place of sustainable development in international organisations."

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<sup>1</sup> The definition in the IDA is "any development that is, in the opinion of the Secretary of State, prudent having regard to the likelihood of its generating lasting benefits for the population of the country or countries in relation to which it is provided"

## **DFID Policy**

[Paragraph 52] ***DFID's website structure is outdated and is in urgent need of being redesigned. It copes very poorly with the large number of documents it contains, making many of them virtually inaccessible. This is not only frustrating for the user. It has significant implications for how transparent DFID can be considered as a department.***

We are puzzled that the Committee found it difficult to access information. We have made great efforts to ensure that the DFID website is user-friendly, and that it presents our various activities and documents in a clear, organized fashion. The latest report into Government Websites from Precedent<sup>2</sup> states: 'Navigating the DFID site is simple and its provision effective'.

We do, however, recognise the need for continuous improvement and are currently carrying out a consultation with stakeholders. We plan to redevelop the site and launch an improved version in 2007. We would be grateful for further information on why the Committee feel the site is deficient in order to investigate further and feed the results into our redevelopment.

[Paragraph 56] ***It is difficult to find clear evidence when looking at the broader range of publications from DFID of the good work carried out by the Sustainable Development policy unit. References to the environment are often cursory and demonstrate either a lack of understanding or an unwillingness to incorporate across the board what is - in theory at least - DFID policy.***

We try to focus our subject-specific policy papers on the issue under consideration, which we believe gives greater clarity of argument. Cross-cutting issues such as environment and gender are covered in their own policy papers and appropriately referenced. The fact they may not receive elaboration in policy papers on other subjects should not be interpreted as down-playing.

The new White Paper makes clear the priority we are giving to the environment and natural resource issues. But we recognise the challenge of integrating environment as well as other cross-cutting issues, such as gender, into DFID policy and practice. Ongoing policy development, such as budget support, infrastructure and water policies, will integrate environmental dimensions.

## **How does DFID see the environment**

[Paragraph 58] ***The environmental degradation that goes hand in hand with economic growth and increased industrialisation (unless properly regulated) can have***

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<sup>2</sup> Fourth Annual Report into Key Government Web sites. February 2006 ISBN:0-9549825-2-5

***devastating effects on the environment and itself aggravate poverty, both in rural and urban areas. DFID should have a strategic vision of the environment that encompasses all of these areas and not just a narrow—and counterproductive—vision of the environment as one of many resources for poverty reduction.***

We do not agree that DFID has a narrow and counterproductive vision of the environment. DFID's poverty reduction mission, as set out in the International Development Act, determines the focus of our work. Most poor countries rely on environmental and natural resources and they are critical to the livelihoods of poor people. That is why sustainable use and management of natural resources, focusing on opportunities for poverty reduction, is central to our approach. Further, as set out in the White Paper, the global challenge of climate change requires a global solution and support to developing countries to adapt to the impact that climate change will have on their environment, livelihoods and development.

DFID's environmental policy recognises that environmental degradation has adverse impacts on the poor, stating that "poor people usually bear the highest cost of environmental hazards and degradation". The policy recognises that making a direct contribution to environmental management is one of the basic approaches required. We encourage developing countries to tackle and prevent environmental degradation and pollution that can result from poorly managed economic development and industrialisation. For example, DFID has been a major contributor to slum upgrading programmes in India and is funding major upgrading initiatives across Andhra Pradesh and in Kolkata in West Bengal.

[Paragraph 60] ***The environmental impact of DFID's work - beneficial or otherwise—should be measured against targets that allow a clear assessment of its effectiveness at strategically integrating the environment into how it functions. This should include the introduction of a new PSA target that reflects the need to prioritise issues such as climate change and biodiversity loss.***

We agree that we need to be able to monitor progress in strategically integrating the environment into our development work. We have a number of opportunities to do this including reviewing implementation of the Environmental Policy in Spring 2007, and a planned further review of environmental screening in 2008/9 (see response to paragraph 123).

The future of DFID's PSA will be defined through the Comprehensive Spending Review, due to be finalised in the summer of 2007.

[Paragraph 61] ***DFID needs to remove the artificial distinctions being made between global and local environmental impacts, and ensure that assessments are made of the interactions between both. Until these interactions are accepted and made explicitly clear by DFID it will continue to be held back from having a fully integrated approach to addressing environmental problems***

We do not accept that we make an artificial distinction between global and local environmental impacts.

For example, as noted by the Committee, climate change is the greatest of global environmental threats. This is why it features strongly in the new White Paper. Action includes working across HMG for international agreement on a long term stabilisation goal; supporting international efforts to help developing countries adapt to the local effects of climate change; and working directly with developing countries. The EAC report uses DFID work on forests as an example of how DFID has moved away from assistance with global environmental benefits. Our work on forests is driven by their importance for poverty reduction and development in developing countries, consistent with DFID's poverty reduction mission. But we see local and global environmental benefits as something that need to be tackled at the same time. DFID considers illegal logging as a governance issue because better forest governance is the most important way to make improvements – both for local development and also for environmental benefit.

[Paragraph 62] ***Sustainable development should be about achieving poverty reduction which takes advantage of the environment and its rich resources whilst at the same time avoiding dangerous tipping points. And yet there is very little in DFID's policy or the Secretary of State's speeches that makes clear that the environment is finite and environmental limits exist. On a planet where fish stocks are plummeting, water tables are falling and the pace of climate change is accelerating at an alarming rate, development and poverty reduction strategies, such as DFID's, that fail fully to incorporate this concept will at best only result in temporary successes.***

We agree that the UK needs to work on many fronts to minimise potential environmental tipping points. DFID is working with other government departments on many issues including tackling declining fish stocks, falling water tables and addressing the impact of climate change on human development as well as ecosystem health. For example, DFID actively supports the International Code of Conduct for Responsible Fisheries and has invested in the capacity of developing countries to implement it. DFID is also, with Defra, taking a lead on international action against illegal fishing. The White Paper specifically commits the UK to doing more to support countries in managing water resources in a sustainable and equitable way, recognising that climate change will exacerbate existing challenges of climatic variability.

We do not agree that DFID's policy or the Secretary of State's speeches do not recognise environmental limitations. The speeches made as part of the White Paper consultation identified fast depleting natural resources as a threat to development. In his Preface to the new White Paper the Secretary of State says that managing our world sustainably and fairly is the most important challenge of a changing world, highlighting that many of the natural resources on which we rely are becoming seriously depleted. DFID's Environmental Policy Paper identifies better environmental management as one of three main approaches. The White Paper builds on this and represents a renewed recognition that more is required to tackle unsustainable use of resources "*but most important of all will be the challenge of managing our world sustainably and fairly. Many of the natural resources on which we all rely, and on which our economic development has always depended, are becoming seriously depleted*".

## **Water**

[Paragraph 69] ***We have no way of knowing the environmental impacts of DFID's water policies as there is not a single mention of sustainable water management or environmental considerations in either of its Water Action Plan updates. This is entirely unacceptable and must be addressed by DFID immediately.***

The Water Action Plan Updates focus specifically on what DFID is doing to meet the water and sanitation MDG targets on increasing access to safe water and basic sanitation. They do not therefore include references to DFID's work on water resource management, rural development or climate change adaptation, where principles of sustainability are central. Sustainable, equitable water resources management is included in our work with partner governments on water sector governance reform and institutional strengthening. In addition, DFID is the largest donor for the Global Water Partnership, (GWP) which is the international lead for the UN on coordinating and monitoring progress on the MDG target for Integrated Water Resource Management. GWP is supporting national Integrated Water resource Management planning in over 20 countries. At the country level DFID also has a number of programmes working specifically on water management and environmental sustainability. These include a regional programme in South Africa on transboundary river management, and China's Water Resource Demand Management project.

## **The Role of the Private Sector**

[Paragraph 75] ***We do not take a view on whether private or public sector involvement is the best way forward for infrastructure provision. However we are concerned about several issues. In particular, the fact that the ability of the private sector to provide an effective water service for the most poor and most at need in developing countries is increasingly being called into question. We also take the view***

***that for private sector provision to be effective in providing a public service it must exist in a strongly regulated environment, as it does in the UK.***

DFID's support to developing countries on water and sanitation is not principally through the private sector. Over 90 per cent of our funding goes through the public sector, humanitarian assistance or community organisations. For example, in Bangladesh DFID has spent £11,500,000 over five years in support of the UNICEF and Government of Bangladesh programme to provide access to water, sanitation and improved hygiene practices for 7.5 million people. DFID is providing £4 million to Southern Sudan to provide water and sanitation for 400,000 people. DFID is also providing £6.5 million to the Government of North West Frontier Province (GoNWFP) of Pakistan to improve sustainable access to, and use of integrated safe drinking water and sanitation services for over 1 million poor people living in the rural communities of NWFP. This reflects the fact that most service delivery in developing countries is still through the public sector. However, we do believe that the private sector has a role to play both in helping to meet the large finance gap through investment, and in providing technical expertise.

Where DFID does provide bilateral support to developing countries to harness the international private sector it is principally through support for regulation (as in Ghana, Tanzania and Sierra Leone). DFID supports, mainly through the World Bank, a number of financial mechanisms for harnessing the private sector including the Global Partnership for Output Based Aid and the Emerging Africa Infrastructure Fund. DFID is focusing, through its support to the Water and Sanitation Programme managed by the World Bank, on unlocking the constraints to the successful operation of the domestic private sector in developing countries. DFID also supports some Public Private Partnerships such as the Water and Sanitation for the Urban Poor project. This project involves the international private sector, international NGOs, academic institutions and consultancy firms. It supports local authorities and community-based organisations to deliver water services.

[Paragraph 78] ***Ensuring a robust regulatory environment assures the provision of infrastructure with minimal detrimental impacts. Regulatory bodies—if properly instituted—enable proper water resource management to be incorporated to ensure a long term sustainable water supply that does not damage the environment. None of this is possible without regulation and it is this, not privatisation, which DFID should be focusing its efforts on if it really is serious about ensuring long term poverty reduction that is sustainable.***

DFID agrees that regulation is important whether services are delivered by the private or the public sector and does support developing countries to strengthen their governance through better regulation of the sector. Good regulation of the water sector must include regulation of economic (pricing) aspects,

environmental sustainability and the standard of service/water quality. The infrastructure financing facilities, described in the response to paragraph 75, support governments to effectively regulate the private sector and develop approaches for increasing access to the poorest. In addition, our wider work with partner governments on institutional strengthening and governance reform is crucial to building capacity for effective regulation.

### Climate Change and Energy

[Paragraph 83] *DFID's awareness of climate change issues, in its policy at least, is not in question. Its 2000 publication Achieving Sustainability: Poverty Reduction and the Environment covers the issue extensively. It cites numerous examples of the predicted impacts of climate change, including the fact that it is estimated that Bangladesh will lose 17 per cent of its land area due to rising sea levels. And yet, in evidence to us we were told that DFID is only now—six years later—beginning to look at how to incorporate climate considerations into its work.*

It is not the case that DFID is only just beginning to look at how to incorporate climate considerations into its work. In 2001, DFID commissioned a report on 'Predicted impact of global climate change on poverty and the sustainable achievement of the Millennium Development Goals'. The report, published in 2002, provided the impetus for the preparation during 2003 and publication in 2004 of a series entitled 'Key Sheets on Climate Change and Poverty' which explored action that can be taken at national and international levels to manage the impacts of climate change on the achievement and sustainability of the MDGs. In June 2004, DFID and Defra jointly commissioned the 'Africa Climate Report' to review African climate science, policy and options for action, in preparation for our G8 Presidency focus on Africa and climate change. The conclusions of this report were discussed at a joint meeting of G8 Environment and Development Ministers, in March 2005, following which G8 Heads committed to taking action.

To take the example of Bangladesh, DFID has piloted work on climate change and development. It has started work to understand the risks of climate change with the Government of Bangladesh and key development partners (particularly UNDP). DFID posted the first international adviser in the Ministry of Environment in 2003. Since March 2004 DFID Bangladesh has been providing financial support to the Comprehensive Disaster Management Programme—which includes £1.2 million worth of funding to a Climate Change Cell in the Ministry of Environment and Forests. During 2006 DFID is looking at how to mainstream climate change concerns across the DFID-Bangladesh portfolio.

Since Gleneagles, DFID has pushed forward with implementation of the Gleneagles commitments, including improving climate change information in Africa and working with other donors to develop climate risk screening and management procedures for development

investments to increase their resilience to climate impacts. This will involve setting up of pilot climate risk assessments in two low income countries and two middle income countries in Africa and Asia.

DFID has also been substantively engaged in making operational two UN Framework Convention on Climate Change funds (the Special Climate Change Fund and the Least Developed Countries Fund), committing £10 million over three years to each.

[Paragraph 84] ***DFID must act now to address the climate implications of how it provides aid—both directly and through multilateral organisations. It must also—in the interests of equity—put pressure on the UK Government and other donor countries to put their own houses in order and address the environmental impacts of their own actions, including emissions of greenhouse gases and the unsustainable use of natural resources.***

The response to paragraph 83 describes recent DFID work on climate change and development. We are taking further immediate steps to address the climate implications of aid, both bilateral and multilateral. A good example of this is the work we have been doing with the multilateral development banks to develop an Investment Framework for clean energy and development (in response to a call from the G8 at Gleneagles). The Framework will help countries to understand and address the links between the energy choices they make and climate change. Energy efficiency and renewable technologies will have a key role to play - in both developed and developing countries. We are helping regional development banks contribute towards the Investment Framework and are assisting the EBRD in its Sustainable Energy Programme. We also intend to fund extra posts in international development agencies to work on implementing clean energy, climate friendly investments and to work on adaptation

We are very much part of the UK effort, led by Defra, to make the case internationally for urgent action to tackle climate change. Other elements of the Gleneagles Plan of Action on Climate Change, Clean Energy and Sustainable Development (which all the G8 signed up to) include improvements to energy efficiency in appliances and buildings; cleaner vehicles; developing cleaner fuels (particularly reducing emissions from coal); renewable energy; and promoting research and development. The UK is calling on G8 countries to report on progress against these commitments at yearly ‘Gleneagles Dialogue’ meetings of Energy and Environment Ministers. The most recent meeting took place in Mexico in October.

## **Energy Policy**

[Paragraph 88] *We invited CDC to give evidence before us but they felt unable to do so. It is deeply concerning that a company wholly owned by DFID, which has holdings of nearly half DFID's yearly aid budget and is responsible for the emissions of around 2.2 MtC into the atmosphere every year, did not feel it had any obligation to report to Parliament on its activities and environmental impacts.*

CDC have informed us that they provided written evidence and were ready to give oral evidence to the Committee. They have told us that their CEO, Richard Laing, was out of the country on business on both of the dates proposed by the Committee. He offered to give evidence on his return, but was informed by the Clerk that the Committee was not taking any further evidence and that he was not required to attend.

We understand that Mr Laing and the Chairman of the Committee have exchanged letters and that the situation has now been clarified. CDC have emphasised that they fully understand their responsibilities and are ready to report to Parliament whenever required.

[Paragraph 91] *There is nothing to prevent environmental parameters, particularly in relation to carbon emissions and renewable energy, being set by DFID for CDC's investments. The White Paper includes a commitment to focus on clean energy. Given CDC's already considerable interest in energy it is in the ideal position to increase its involvement in this area. Indeed if we are to believe the Prime Minister's words when he called climate change a "challenge so far reaching in its impact and irreversible in its destructive power, that it alters radically human existence" there can be no argument for it not doing so.*

Included in CDC's Investment Policy are the Business Principles, which require CDC to ensure that its investee companies apply best practice in all aspects of corporate social responsibility. In the case of environmental guidance, the Business Principles include clear objectives to encourage the efficient use of natural resources and to promote the improvement of the environment wherever possible. Its major investee power company also has clear environmental protection objectives. In order to achieve this, CDC seeks to assess and minimise the environmental impact both of its own operations and to invest in businesses which take account of the environmental impact of theirs.

The Government continues to take the view that it is the responsibility of the Board of CDC to ensure that the Investment Policy and Business Principles are followed comprehensively.

[Paragraph 92] *DFID's climate change policy lacks coherence. On the one hand it highlights the seriously detrimental impacts of climate change on the most poor, and is beginning very slowly to make this central to how it funds projects. On the other it is directly and indirectly responsible for very significant emissions of carbon into the*

*atmosphere through the projects it funds. This is a contradiction that needs urgently to be resolved.*

We do not agree that DFID's climate change policy lacks coherence. Dealing with climate change is essential to making development and poverty reduction sustainable. Managed well, international action to cut emissions could create opportunities to help developing countries accelerate sustainable development. This is why a key priority for DFID is working for international agreements that: stabilise greenhouse gas levels in the atmosphere; leave room for developing countries to grow; create incentives and generate investment for clean energy; and help poor countries to adapt.

There is a clear distinction between the energy needs of poor households and energy for industrial development in emerging economies. 2.4 billion poor people rely on traditional fuels for their livelihoods - this means collecting and burning wood, dung and other agricultural residues for cooking fuels, which is a huge burden for women and children. 1.6 billion people have no access to electricity. Meeting the energy needs of these poor households with fossil fuels would lead to an increase in greenhouse gas emissions, but this would only have a tiny impact on global totals. Industrial development, in contrast, involves much larger energy demands.

DFID is supporting developing countries to develop energy strategies that take climate change priorities into account (i.e. by taking low carbon trajectories wherever possible). At the same time, these strategies help countries adapt to the impact of high oil prices. Sustainable energy planning can meet these twin concerns, as countries increasingly seek to implement efficiency measures and develop national energy resources, including renewable resources.

Projects directly funded by DFID have a very small effect on global emissions. Projects funded indirectly (e.g. by the World Bank) have greater impact. We work with international organisations to continually improve their environmental safeguards to help ensure that their investments are appropriately assessed.

[Paragraph 93] *When asked whether it had any targets on either improving energy supply generally, or increasing renewable energy use in particular, we were told by DFID that it had neither. Given the dramatic impacts that even limited improvements in energy supply can have on the life of the most poor we find this extraordinary. For DFID to have no clear strategy in this area, and for its main focus to be to work through multilateral organisations and its arms length ownership of CDC is entirely unacceptable. Given the intricate links between energy, poverty and climate DFID should be focusing with at least equal financial vigour on increasing supply through renewables and microgeneration projects.*

We do not agree that DFID has no energy strategy. We have considered whether setting targets would be a helpful way of increasing action on energy access, drawing on international experience (for example, targets have been included in an energy access programme jointly funded by the Netherlands and Germany) but the experience is that they are difficult to define, measure and verify. Energy access targets are best set at a national level by partner countries, taking into account local circumstances and in support of country-led planning; not by external donors.

The investments needed to improve access to energy are very large. For example, the World Bank estimates that in sub-Saharan Africa \$4 billion per annum will be needed to achieve 35 per cent electricity access by 2015– at present access is about 24 per cent. Clearly this is well beyond the resource levels that DFID could provide alone. For that reason we work with other donors and the international finance institutions to increase attention and commitments to improving energy access for growth and development.

We are working closely with the World Bank on their new Investment Framework for Clean Energy and Development, which aims to improve access, promote transitions to low carbon economies and help countries adapt to climate change. The World Bank and the Regional Development Banks should set themselves ambitious and stretching targets; together securing total public and private investment of \$20 billion in the next four years to 2010 in alternative sources of energy, energy efficiency and adaptation. We are supporting innovative work in the European Bank for Reconstruction and Development on energy efficiency.

We have pressed the World Bank to do more on renewable energy and energy efficiency. In June 2004, the Bank announced that it would increase by 20 per cent a year over five years its financial commitments for renewable energy and energy efficiency projects, effectively doubling its efforts to US \$400 million a year by 2010. We welcomed the Bank's commitment but continued to press for a greater commitment to renewable energy, cleaner energy technologies and improved energy efficiency. The Bank committed \$680 million to year ending June 2006 on renewable energy (excluding large hydropower) and energy efficiency.

Renewable energy and other options play an increasing role in expanding access to affordable services, especially as fossil fuel prices rise. National energy policies should diversify supplies and improve energy efficiency.

[Paragraph 94]        ***Encouraging developing countries not only to adapt to climate change, but also to avoid emissions whenever possible as their economies grow is not only beneficial for the climate, it makes enormous economic sense. It will provide them with a significant advantage in a world that is inevitably moving towards a low carbon***

*future. More generally, any efforts that assist countries to avoid the “dirty”, and in the long term costly, development route taken by countries such as China can be nothing but beneficial.*

We agree that low carbon options make sense to mitigate climate change and enhance energy security. Interest in renewable energy technologies and energy efficiency is growing fast. We support this. As in the response to paragraph 93, the World Bank has announced increased financial commitments to new Renewable Energy and Energy Efficiency projects: 37 per cent of power sector commitments and 20 per cent of Bank total energy sector commitments in 2006, which reached \$4.4 billion.

We are working with our developing country partners (especially emerging economies) and the multilaterals to make further progress. For countries with the highest predicted energy requirements, the Bank has been urged to carry out the necessary analytical work to ensure that ‘lower-carbon’ development paths are integrated into the analysis underpinning its Country Assistance Strategies and into recipient government’s planning documents. And, as mentioned earlier, we have been working closely with the World Bank and regional development banks to develop a Clean Energy Investment Framework aimed at increasing public and private sector investment in energy efficiency and low carbon technologies in developing countries. The Framework has Pillars looking at both mitigation and adaptation – allowing countries to look at the problem holistically. DFID has provided technical assistance support to the regional development banks to help them develop their contribution to this work, and will help them take this work forward.

### Agriculture

[Paragraph 98] *We find it reprehensible that DFID—whatever it is doing on the ground—can produce such a short-sighted paper on agriculture policy that whilst clearly setting out the many and serious impacts of careless and poorly implemented agricultural development, and the need to minimise these, does not set out how it intends to do this.*

The purpose of DFID’s 2005 Agriculture Policy Paper is to provide the rationale for DFID to support agriculture. It is neither a blueprint nor a detailed operational guide. The paper outlines principles and priorities that should guide our work. These include sustainability. The paper is also clear that, guided by its principles, DFID’s country programmes will develop appropriate responses tailored to context and within the framework of national strategies for sustainably reducing poverty and increasing growth.

We do not agree that the agriculture paper is short-sighted. The paper includes global food and demand and supply projections to 2025, notes emerging trends associated with globalisation and changing supply chains, and outlines how agriculture will need to respond to this changing context. Feedback from our partners is that the paper has succeeded in getting agriculture back into development dialogue, largely as a result of its specific focus on the role of agriculture - particularly improving agricultural productivity - in accelerating growth and reducing poverty. To maintain this focus, wider issues such as the role of agriculture in livelihoods and in food security are covered in complementary policy papers (which are referenced in the document). The environment policy paper and DFID's Strategy for Research in Sustainable Agriculture were produced after the agriculture paper and picked up on environmental integration and sustainability issues.

[Paragraph 99] *The lack of proper integration of the environment into agricultural policy is clearly brought home by the fact that there is only one very vague commitment in the policy paper to dealing with environmental impacts, pledging to support recipient governments in ensuring that agricultural development strategies provide incentives for the sustainable use of natural resources and environmental services. It would be of interest to us to hear from DFID the detail of how it intends to do this effectively.*

In DFID's agriculture paper the environment is integrated as a component of sustainability. We recognise that there are lessons to be learnt from the original "Green Revolution" which, while greatly increasing agricultural productivity, resulted in adverse environmental impacts due to the overuse and misuse of water, fertilisers and pesticides. Ensuring sustainability is therefore one of five key principles, identifying the importance of:

- better soil and water management for both the effectiveness of production and the sustainability of agricultural systems;
- actions to both adapt agriculture to the effects of climate change, and to mitigate agriculture's own contribution to greenhouse gas production; and
- reform of perverse incentives governing the use of water and power.

How these principles are put into practice will be guided by developing countries themselves, by the priorities and decisions of DFID's country programmes, and our relative strength and presence in specific countries. This will include a combination of direct budget support; rural livelihoods, watershed and income generation programmes; research; engagement in policy reform dialogue; and support to other agencies.

Regional approaches include our support for the Comprehensive Africa Agricultural Development Programme (CAADP), an African-led process and part

of NEPAD which is informing national policies on agriculture. One of its four central pillars concerns land and water management and their role in delivering sustainable growth in agriculture.

Examples of national approaches in Africa include support to the Plan for Modernisation of Agriculture in Uganda, which includes sustainable management and use of natural resources. In Ghana we have worked together with the government and World Bank in assessing the sustainability of growth, including in agriculture. The conclusions of this influenced Cabinet decision making, and has catalysed other processes and work such as the Country Environment Assessment. Similar work has been conducted in Nigeria.

[Paragraph 100] ***There is the potential for oil prices to increase much further in the next decade if the warnings about peak oil production are proved to be correct. If realised they will have serious impacts in developing countries - and not only on trade and export models of agricultural development. Because of this it is an issue that DFID must consider as a matter of urgency.***

Predicting oil prices is always difficult and there is considerable uncertainty about whether current high prices will be sustained. Currently supplies are improving and high prices are reducing demand growth, as explained in the IEA's Oil Market Report of July 2006. Prices may ease over the next few years, although this depends on many factors including the stability of supplier countries. Predictions about an approaching peak in global oil production have been made for many years, but these have not yet been realised. According to the IEA, oil depletion is a factor affecting the energy markets but new oil developments are expected to keep pace with demand. However, we are aware of the issues and will continue to seriously consider the implications.

Higher oil prices have had an adverse impact on the economies of poor, non-producer countries, although producer countries have benefited from substantial windfall revenues. For sub-Saharan African non-oil producing countries, each \$10 increase typically costs one per cent of their GDP. Some of these countries have been able to offset this cost with rises in the value of their own exported commodities. The International Monetary Fund established a new Exogenous Shocks Facility to complement its existing tools for helping poor countries affected by shocks like higher oil prices, and the UK committed up to £50m over five years in financial support. This assistance will help countries adjust in the event of further and prolonged rises in oil prices and other possible adverse changes in the economic environment.

We are working through various programmes with other donors to help countries adapt to the effects of sustained high energy costs. Examples include the Global Village Energy Partnership (GVEP) which helps countries to develop pro-poor energy strategies and the EU Energy Initiative, which seeks to improve access to

affordable energy services. We are also working with the World Bank on their new Investment Framework for Clean Energy and Development. The launch this year in New York of the Global Bio-energy Partnership (GBEP) is also welcome.

[Paragraph 101] *Policy documents such the Water Action Plan and the Agriculture policy paper both summarise the potential environmental pitfalls of the development proposed by DFID. They both fail properly to set out how they are to be addressed. This is not acceptable. Any policy proposal from DFID should come with a clear assessment of the environmental impacts of what is proposed and set out concrete actions and processes that will be put in place to ensure these are addressed at a strategic level. Currently this is not the case and as a result it is impossible to get a clear picture of the impacts of the DFID’s activities. We find this entirely unacceptable and it must be addressed by the Department.*

DFID policies set out approaches to development in support of developing countries’ own processes. They are not operational guides. We agree that such policies should take account of cross-cutting issues such as the environment, gender, conflict, governance, and corruption. But as we say in our response to paragraph 56 we believe our policies have greater weight when they are subject-specific. We are working to ensure coherence between policy themes but do not support a mandatory environmental impact assessment for every policy proposal within DFID – we think that would be a blunt instrument to integrate environment into DFID policy.

## **Growth**

[Paragraph 102] *It is becoming increasingly clear that there are environmental restrictions that limit the amount of growth that is possible. The question we must ask is this: how can poor countries develop within the significant environmental constraints that we know exist? This is a question that we have seen little evidence of DFID having posed for itself at a strategic level, let alone made any attempt to answer.*

We recognise that there is an ongoing debate about environmental and resource limitations to global growth. Recent estimates suggest that 20 per cent of the world’s population consumes more than 80 per cent of the world’s resources. In the opening section of the White Paper, the Secretary of State clearly refers to the importance of tackling the consumption patterns in OECD countries – “*meanwhile, the consumption patterns of those of use already here – mainly in developed countries – is running at unsustainable levels*”.

However in poor countries there is overwhelming evidence that economic growth is the main driver of poverty reduction (see response to paragraph 106). We recognise that all countries must pay close attention to the environmental impact of their actions.

First and foremost, developed countries need to address their own impact on the broader global environment. As outlined in the new White Paper for example, the Government is committed to seeking ways to reduce the impact of the UK's consumption patterns on the environment. For example we are working with DEFRA in their Food Industry Sustainability Strategy (FISS), which has been set up to consider how to “secure significant reductions in the level of external costs associated with the domestic transportation of food.”

We believe it important to recognise the differences between the *local* environmental impacts of economic activity, and the *global* impacts, especially climate change. For example, the Committee rightly highlights (paragraph 27) that the overwhelming majority of carbon emissions are emitted by the developed world and rapidly developing Brazil, Russia, India, China and South Africa (the BRICS). However, emissions per person in much of the developing world are still very low compared to those of developed countries, with Africa only emitting one tonne of carbon per person compared to 20 tonnes for the USA. As the carbon footprint of the poorest countries is so small, it is accepted that the cost of adjustment should be borne by those who emit the most. This principle is enshrined in Article 3 of the UN Framework Convention on Climate Change. A global scheme that is realistic, robust, durable and fair could help provide the framework and some of the resources to help developing countries in their transition to a low carbon economy.

[Paragraph 104] ***The White Paper does acknowledge that ensuring that growth is based on the sustainable use of natural resources is one of the challenges for the future. However, it does nothing to address the increasing evidence of the tensions that exist between economic growth and environmental limits, and the need to tread carefully when pursuing development.***

We accept that more work is needed to develop a greater understanding of the complex relationship between sustainable use of natural resources and growth, particularly at a country level. Developing countries will need to develop and use good practice, and donors can assist.

More work is needed to establish the relationship between economic growth and environmental degradation. Adverse environmental impact often owes more to poor policy and regulation that has accompanied growth in some countries, than to growth itself. In the early stages of development, growth can be associated with local environmental degradation, such as local air and water pollution. Once a country reaches higher income levels growth can be associated with environmental improvement. However, evidence also suggests that this argument does not fit the experience of many forms of environmental change – including biodiversity loss. There is also less evidence of direct effects of growth on global issues such as carbon emissions and climate change. As highlighted in the speech by the Secretary of State in January this year, it is a myth that developing countries can grow now and worry about the environment later. Policy measures must be adopted which reduce

environmental degradation whilst supporting development outcomes. One such measure is to reflect the value of environment assets in national accounts to complement existing measurements of economic growth – DFID is preparing tools and guidance to assist us in including innovative work in this area in our dialogue with developing country governments and other partners.

As outlined in our response to paragraph 102, there is also a need to consider the impact of the policies and actions of developed countries on the global environment, and on the environmental resources of many developing countries. For example, we believe that any future framework for climate change needs to be realistic, robust, durable and fair. It is also imperative that developed countries should significantly increase funds for climate change adaptation and mitigation in the developing world. The work DFID is doing with the World Bank and the regional development banks (see paragraph 94) is specifically aimed at helping developing countries to take a lower carbon development route.

[Paragraph 106] ***We would like to see DFID focus on slower, more resilient, growth that addresses the needs of the most poor and ensures that economic development is not at the expense of the environment or of those on the economic margins, who already suffer disproportionately from the impacts of environmental degradation.***

We do not agree that slower growth is necessary or desirable. The answer lies in sustainable growth, which in many countries needs to be faster than in the past. Growth in most poor countries has been painfully slow in recent years. Africa's growth was negligible during the seventies, eighties and nineties though real GDP per capita was positive at 1.8 per cent from 2001-06 and is expected to remain positive until 2015.

There is overwhelming evidence that economic growth is the main driver of poverty reduction. Whilst poverty increased in Africa during the 80s and 90s, Asia grew at around six per cent per annum. This level of growth saw the fastest fall in poverty reduction in human history. Recent research by the World Bank, DFID, AFD (French Aid) and the German government has estimated that approximately 80 per cent of the change in poverty in 14 countries in the 1990's can be attributed to growth.

We recognise that growth is a necessary but not sufficient factor to ensure poverty reduction and therefore DFID is committed to targeting sustainable pro-poor growth initiatives in its programmes. For instance, DFID has spearheaded the Extractive Industries Transparency Initiative, to help ensure that the poor benefit from the sale of natural resources.

Implementing a policy of slower growth would mean not meeting the MDGs, thus perpetuating disease and poverty, and would harm the ability of developing

countries to invest in the kind of technologies that help to reduce environmental degradation. As outlined in our response to paragraph 28, we need to work with countries to help promote sustainable growth rather than promoting “limits to growth”.

As an example, the UK and India signed a Sustainable Development declaration in October 2005 to work closely to find fresh approaches to global environmental, economic and social challenges.

### **Departmental Structure and Capacity**

[Paragraph 113] *The lack of foresight at senior level in the Department that has allowed the environment to lose ground in recent years saddens and alarms us. The widespread loss of environmental expertise, both in head office and country offices, is a clear example of this. Sustainability and environmental issues are complex and cross-cutting, and – we reiterate—vital to development. They stand little chance of being addressed properly if DFID does not have sufficient capacity and expertise to ensure the environment is properly integrated to its work. The situation must be remedied as a matter of urgency.*

It is correct that we have fewer environment advisers working in our country offices than in 2003. And since 2005 the environment head of profession has been combined with another head of profession post (Livelihoods). Over the same period, however, posts filled by appropriately qualified Livelihoods or Infrastructure advisers have incorporated environmental responsibilities – with the effect that we have the same number of professionals (20) working on environment as in 2003. Our Sustainable Development Group in Policy Division, with 40 staff overall, has replaced the old Environment Policy Department. Our Chief Scientific Adviser has had input into important environmental issues such as climate change. We do, however, accept that environmental capacity will need to be further increased to deliver DFID’s White Paper commitments and we are starting to do this (see response to paragraph 114).

[Paragraph 114] *We welcome the Minister’s statement to us regarding the two reviews being undertaken within DFID: one on senior structure across the Department, and a second one on advisory skills. We look forward to seeing the conclusions of these reviews. We likewise welcome the announcement that we can expect to see an increase in DFID’s environmental capacity. This increase should enhance expertise in both the UK and country offices, including the creation of dedicated environmental posts in all country offices where staffing levels make this feasible. Where this is not possible expertise must be put in place at regional level at the very least.*

As we indicated to the Committee, we are increasing our capacity to work on environmental issues. As first steps, we are in the process of recruiting a Head of Profession for Environment, in addition to a Head of Profession for Livelihoods, and extra staff to work on climate change. In addition, we are also advertising for new staff in some regional and country offices. We agree that where locating environmental advisory capacity at country level is not feasible then a regional approach is appropriate. In response to a recent review on environmental screening (see response to paragraphs 120 to 123) we have developed a work programme for strengthening our screening procedures. We will ensure that there is adequate capacity for appropriate screening and follow-up. This includes additional learning and development and accreditation procedures for staff having responsibility for completing, signing-off and following up Environmental Screening Notes (ESNs).

[Paragraph 115] *We very much welcome DFID's increased funding from £3.8 billion per year in 2004/05 to £5.3 billion per year by 2007-08. However, this makes it imperative that any changes to staffing and processes for integrating the environment are comprehensive and timely enough to ensure these increased funds are spent wisely. We would like to see DFID set out a timetable for how this is to be achieved.*

We agree with the emphasis in this paragraph on ensuring that capacity and systems ensure that expenditure increases are spent wisely. In response to a recent review on environmental screening (see response to paragraph 120) we have also developed an action plan for strengthening our screening. Environmental screening will be subject to a further review in 2008/09. We expect to fill new posts outlined in our response to paragraph 114 within the next six months. We will continue to keep our staffing needs under review, for example to deliver aims of the White Paper, within total staff and administration ceilings

### **Environmental Screening**

[Paragraph 120] *The quality of environmental screening notes varies to such an extent that it is difficult to see how they could have been produced under the same guidance. This leads us to conclude that, as we were told during our inquiry, the seriousness and thoroughness with which the environment is considered in country offices is very much dependent on the knowledge and commitment of individuals. This has got to change.*

We commissioned a review of environmental screening in DFID by an independent consultant prior to the Committee's inquiry. The review's findings have been published as Evaluation Working Paper No. 21, available on the DFID website. The review considered all interventions over £1 million approved between April 2003 and March 2005. It shows that some things are done well and appear to have been improving over the two years. For the majority (99 per

cent) of our activities for which environmental screening is mandatory an environmental screening note (ESN) was prepared. Overall the quality was acceptable (72 per cent of ESNs were rated good or better). However, record keeping needs improvement (the study found a significant number of cases where ESNs were not lodged on corporate electronic data systems).

We are implementing a range of measures including better record keeping, clearer accountability and capacity building to ensure the screening is carried out to a high standard.

[Paragraph 121] ***The system as it exists—although we accept it is currently being reviewed—fails in its purpose and needs serious reform. The aim of this must firstly be to ensure that all within DFID take the screening process as seriously as it deserves to be taken; secondly to ensure that there are sufficient skills within DFID to ensure that this process is undertaken properly.***

The purpose of environmental screening is to identify and make recommendations for managing environmental risks and opportunities. It is not a full Environmental Impact Assessment, although this may be recommended as a follow up to screening.

The Preface to Evaluation Working Paper No. 21 (see response to paragraph 120) outlines our response. Divisions have been requested to systematically review the arrangements in place for environmental screening and follow up. This includes making clear where responsibility lies for screening, in line with new guidance; and ensuring that there is adequate capacity for appropriate screening and follow-up.

[Paragraph 123] ***Any system however decentralised must still be accountable for its actions and the quality of its work must be assured. If we had found that the environmental screening process was clearly working we would still be unhappy about the apparent lack of accountability of country offices as to what follow up actions are pursued. As it is we are deeply concerned and hope to see this addressed as a matter of urgency within DFID's current review of environmental screening.***

The Preface to Evaluation Working Paper No. 21 outlines actions we are taking in this area. Ongoing reforms to our record-keeping, including programme monitoring and assessment will improve our ability to report on follow-up actions to screening notes. Over the next year, we propose to: integrate environmental screening requirements into our new electronic project and document management systems; improve guidance and provide best practice examples and reinforce staff awareness of them; and to develop learning and development materials and accreditation procedures for all staff having responsibility for completing, signing-off and following up ESNs.

We will undertake another review of environmental screening in 2008/9 which will focus on how measures have been implemented in the programme.

[Paragraph 126] *The conclusions of the recent evaluations of DFID country programmes could not be more damning. They demonstrate DFID's failure to implement a coherent approach to integrating the environment on the ground. They also clearly show that environmental screening has been allowed to become nothing more than a poorly drafted paper exercise. The situation as stands is a tragic waste of both resources and opportunities that has got to change quickly.*

We do not agree. There are good examples of how country programmes are taking on environmental challenges.

In Rwanda, our engagement includes strategic input to the design of the UNDP/UNEP Poverty Environment Initiative to support environment integration in the preparation of Rwanda's second PRSP, participation in the Environment and Land Use Management Sector Working Group which is contributing to PRSP development; support to the land reform process which is essential for better land and natural resource management, and support for institutional reform of the Ministry of Agriculture which will include attention to requirements for sustainable agriculture.

In Ghana, our engagement has included environment-related support (see response to paragraph 99). The external evaluation of the Bangladesh Country Programme commented positively on how DFID integrates environment across a number of programmes, notably in the transport and water supply and sanitation sectors. The evaluation also acknowledged that DFID Bangladesh is likely to increase its actions to directly address environmental concerns - particularly integrating disaster risk reduction and climate change across the portfolio.

In Bolivia, other donors have large environment and natural resource management programmes. Consequently environment has not been a focus area for DFID. We have nevertheless ensured that natural resources and environment issues have been mainstreamed throughout. For example, our work on pro-poor governance included support to local governments to better manage natural resources.

We recognise, in common with other donors and developing countries themselves, that the integration of environmental factors into national development and poverty reduction strategies remains weak. More needs to be done. DFID is not alone in facing this challenge and there is a need to find ways for more coherent, harmonised and effective approaches.

## **An Environment Strategy**

[Paragraph 130] ***Our only conclusion can only be that there needs to be an urgent assessment of DFID's overall approach to environment, encompassing policy, implementation, and assessment, monitoring and reporting. This must be carried out at a senior level and have the full weight of support of senior management. In addition, we call on DFID to produce an environment strategy, together with a clear implementation plan, covering the same areas. This must make clear the importance of the environment as a crosscutting issue and cover all areas of DFID's work comprehensively. DFID should also report to Parliament on a regular basis on the environmental impacts of its activities as part of its duties under the International Development (Reporting and Transparency) Act 2006.***

DFID has a clear policy framework for how we address the environment in our work. This includes the White Paper, the Environment Policy Paper and, more broadly, the Sustainable Development Action Plan in response to the UK Sustainable Development Strategy. We want to focus our efforts on implementation. We will monitor progress and keep the need for further measures under review.

DFID reporting frameworks already include cross-cutting issues. We will report annually to Parliament on the effectiveness of our aid in achieving the MDGs, including MDG 7 - ensuring environmental sustainability - as required by the International Development (Reporting and Transparency) Act 2006. We will monitor progress in meeting our White Paper commitments. DFID will also review progress against its Sustainable Development Action plan annually.

[Paragraph 132] ***Our conclusions in this Report, together with the similar findings of the European Court of Auditors on EU development aid, need to be addressed both at national and EU level. We would hope to see the UK Government and Commission learning from each other how best to address the issues and co-operating wherever possible to ensure effective and coherent policy.***

We agree. DFID already engages with the Commission and Member States on environmental issues and we will continue to do so. The EU Forest Law Enforcement, Governance and Trade Programme is one example of collaborative working that brings the respective strengths of the Commission and Member States together. We will continue to work with the EC and other donors in the Poverty Environment Partnership. We welcome the outcome of the EU Consensus on Development that has specific and cross-cutting references to the environment and natural resources. We will continue to seek opportunities to second staff into the Commission and other European Institutions.

## The White Paper

[Paragraph 134] *The White Paper is another missed opportunity for DFID to make the environment as central to its work as it has made clear it should be in many of its policy documents and in evidence to us. In his first White Paper speech the Secretary of State called the idea that developing countries can pursue growth and worry about environmental sustainability later a myth. Yet again it appears his Department has shown little willingness to apply these fine words to how it functions.*

We are disappointed that the Committee has failed to recognise the emphasis we have placed on the environment in the new White Paper. The White Paper states clearly the centrality of the environment to our mission of poverty reduction. In his Preface, the Secretary of State says that managing our world sustainably is the most important challenge for a changing world. The Government has every intention of fulfilling the commitments set out in the White Paper.

We are already making progress. We are strengthening our staff capacity on the environment, as noted above. We are talking more to key middle-income countries on climate change and the environment. We are working closely with the World Bank and regional development banks to develop a Clean Energy Investment Framework aimed at increasing public and private sector investment in energy efficiency and low carbon technologies in developing countries. The Government is working for international agreements on climate change that stabilise greenhouse gas levels in the atmosphere; enable developing countries to grow; create incentives and generate investment in clean energy; and help poor countries adapt to the impact.

## **Conclusion**

[Paragraph 135] *DFID is regarded as a world leader and innovator in many areas. It now has a firm focus on poverty reduction, no longer ties aid and has abandoned economic conditionality; all of which we very much welcome. It has also produced extensive and very valuable research in many areas, including the environment. What we would like to see in the future is DFID taking the lead internationally, as it has with conditionality, on integrating the environment into development. What is needed more than anything is the urgent recognition throughout the Department that the environment is vital to sustainable development and the will at senior level to ensure this is now translated into working practice.*

We are grateful for the Committee's recognition of DFID's firm focus on poverty reduction and that it is a world leader and innovator in many areas. We agree that the international community—including the UK—must do more to respond to the growing weight of evidence that our environment is under threat. If not

addressed, much of our current and future progress in lifting people out of poverty – the mission of the Department of International Development – could be reversed. Tackling this means working for a collective response at a global level, getting UK policy right, and working with our multilateral and developing country partners. We fully recognise the need for action now.

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