



House of Commons
International Development
Committee

**DFID Departmental
Report: Government
Response to the
Committee's First
Report of Session
2006–07**

Third Special Report of Session 2006–07

*Ordered by The House of Commons
to be printed 20 February 2007*

HC 328
Published on 26 February 2007
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

International Development Committee

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

Current membership

Malcolm Bruce MP (*Liberal Democrat, Gordon*) (Chairman)
John Barrett MP (*Liberal Democrat, Edinburgh West*)
John Battle MP (*Labour, Leeds West*)
Hugh Bayley MP (*Labour, City of York*)
John Bercow MP (*Conservative, Buckingham*)
Richard Burden MP (*Labour, Birmingham Northfield*)
Mr Quentin Davies MP (*Conservative, Grantham and Stamford*)
James Duddridge MP (*Conservative, Rochford and Southend East*)
Ann McKechin MP (*Labour, Glasgow North*)
Joan Ruddock MP (*Labour, Lewisham Deptford*)
Mr Marsha Singh MP (*Labour, Bradford West*)

Powers

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

Publications

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

Committee staff

The staff of the Committee are Carol Oxborough (Clerk), Matthew Hedges (Second Clerk), Anna Dickson (Committee Specialist), Chlöe Challender (Committee Specialist), Katie Phelan (Committee Assistant), Jennifer Steele (Secretary) and Alex Paterson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk of the International Development Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 1223; the Committee's email address is indcom@parliament.uk

Third Special Report

On 30 November 2006 the International Development Committee published its First Report of Session 2006-07, *Department for International Development Departmental Report 2006*, HC 71. On 26 January 2007 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

[Paragraph 12] We recommend that the financial tables in Annex 1 of Departmental Reports include a breakdown of ODA [Official Development Assistance] figures, so that readers can easily identify which components of ODA—contributions from CDC, debt relief, the DFID budget—are changing. With regard to debt relief, we recommend that relief only on the amount being paid in debt servicing can reasonably be classed as ODA, and that the UK Government should give a detailed breakdown of this amount when apportioning debt relief to the ODA total.

We will provide a detailed breakdown of ODA, including the breakdown of contributions from CDC, debt relief and the DFID budget, in the Departmental Report 2007 and in future Departmental Reports. We will report this data separately from Annex 1, since that annex reports data by financial year on an accrual accounting basis, whereas ODA is reported by calendar year on a cash accounting basis.

As noted in paragraph 11 of the report, the UK abides by the OECD DAC (Development Assistance Committee) decision to score debt relief as ODA and we clearly identify this within our ODA statistics. We do not plan to classify only the amount being paid in debt servicing as ODA or break down debt relief in this way.

[Paragraph 14] We encourage HM Treasury to make overall administration costs, rather than staff headcount, the focus of DFID's efficiency savings. This will help ensure that DFID has the necessary human resources to support the Department's increasing financial resources.

DFID is committed to reducing administration costs and staff numbers over the 2005-8 period in order to increase the funds that go to developing countries. Over the period of the current efficiency programme the quality of DFID's portfolio of projects and programmes has increased, alongside the reductions in staff numbers. Going forward DFID and the rest of government remain committed to bearing down on administration costs to release resources to the front line.

We are developing a Corporate Plan that will provide: (a) a vision of what DFID will be like by 2013 and (b) a specific plan for the 2008-11 period on how we will deliver on our White Paper and Comprehensive Spending Review commitments. How to deliver on an

expanding programme of work with diminishing administration resources will be a key issue for this plan.

[Paragraph 19] We recommend that information is made available in the Comprehensive Spending Review 2007 on exactly how DFID intends to specialise further beyond its focus on low-income countries, how it plans to divert activities from non-core to core activities and what cost savings can be generated through off-shoring and outsourcing of activities.

We agree that these are important issues, particularly in the context of a Government-wide reduction in administration budgets aimed at releasing resources for frontline services. We are exploring options as part of the Comprehensive Spending Review (CSR) covering the period 2008/09 to 2010/11. Details on how the funds will be spent both on programme and administrative activities will be announced following the settlement.

[Paragraph 24] Millennium Development Goal 8 seeks to build "a global partnership for development", and towards this goal donors should participate in a coherent process when co-ordinating countries of operation. DFID has not fully made the case for its comparative advantage in focusing on fragile states such as the Democratic Republic of Congo. We expect a clear explanation of why DFID is investing considerable resources in DRC.

We are investing in DRC because we are confident we can help DRC make progress towards the Millennium Development Goals. DRC has 60 million people, almost all of whom are poor. Progress in this vast country is essential for stability in central Africa, as was shown during the last war when virtually all of DRC's neighbours were involved militarily. The MDGs will not be achieved in Africa without progress in the big, populous states of DRC, Sudan, Nigeria and Ethiopia.

We believe that it is important to take advantage of the opportunity that exists to help secure and sustain peace in DRC. The international community has provided essential support to the transition and DFID was the biggest bilateral funder of last year's successful elections. But elections were only one step towards developing a democracy and DRC remains underaided. This is the time when resources can have a major impact. Evidence suggests that in years four to seven after conflict, when donors tend to withdraw, aid is twice as effective as in similar countries at peace.¹

DFID's investment is already making a difference. Our support to the Humanitarian Action Plan contributed to: giving 500,000 people emergency access to water and sanitation, and a further 300,000 a permanent water supply; and vaccinating 1.59 million children. We have helped protect a million people from malaria by providing anti-malaria bednets and are expanding this to reach 3.6 million people.

¹ Collier, P. and Hoeffler, A. (2002) 'Aid, Policy and Growth in Post-Conflict Countries', World Bank Policy Research Working Paper 2902.

Finally, we believe that we do have a comparative advantage in fragile states, such as DRC. This comparative advantage comes from: our experience in Sierra Leone, Rwanda and Uganda—countries that were fragile states and are now making progress; our untied and flexible approach to how aid is delivered; our ability to work closely with other Government Departments, particularly on security issues; and our decentralised structure, which enables decisions to be informed by a good understanding of the country context.

[Paragraph 27] We welcome DFID's commitment to work in fragile states. However, in order to maximise poverty reduction and retain public support, we encourage DFID to make information available on exactly how it intends to balance good performers and fragile states while at the same time increasing its specialisation and focusing on what it deems to be "core" activities.

Through the CSR process, we are looking at how to put into effect the White Paper commitment to work more in fragile states. Decisions on the balance between good performers and fragile states, as well as those on specialisation and core activities, will be made after the CSR settlement is announced in mid-2007.

[Paragraph 34] We recommend that when it reviews the proportion of spending channelled through multilateral institutions for the Comprehensive Spending Review 2007, DFID makes information available on how it allocates its funding across such institutions. We also recommend that, when publishing this information, DFID makes clear how the Department assesses multilateral institutions using the Multilateral Effectiveness Framework (MEF) and how the MEF influences its funding decisions.

We agree. As part of the CSR, we are considering the amounts that DFID should spend through multilateral organisations. A number of criteria will inform these judgements, including the requirement to pay membership subscriptions (eg to certain UN organisations), our sector and international system reform objectives as set out in the 2006 White Paper, and what we know about the effectiveness of individual organisations and the results which they deliver. Information on effectiveness is being systematically reviewed as part of this exercise, including from the results of the DFID Multilateral Effectiveness Framework (MEFF) which was published in 2005.

[Paragraph 45] We were pleased to hear that Ethiopia's Protection of Basic Services Grant provides for regular financial monitoring, including the provision of detailed budgetary information to citizens for the first time. However, we recommend that these monitoring arrangements—particularly making detailed budgetary information available to citizens—are extended to all PRBS arrangements to enable improved transparency and accountability. We plan to visit Ethiopia early in 2007 as part of our Water and Sanitation inquiry and will follow up on these points during the visit.

We agree that improving the budgetary information available to citizens is important. The White Paper emphasises DFID's support to improved transparency and accountability from outside government, including civil society, the media and parliaments.

We are providing this support in a number of ways. In Ethiopia, technical support to the government and to civil society to strengthen financial accountability is integrated into the Protection of Basic Services Grant. In other countries, we provide support to strengthen budget transparency and improve financial accountability to the public in parallel to budget support, through separate programmes. For example, in Tanzania we have supported transparent annual public expenditure reviews and citizens' access to parliamentary debates. Through the Civil Society Budget Initiative of the International Budget Project, we support the strengthening of NGOs to engage with the budget process in Indonesia, Burkina Faso, Malawi, Bolivia, Mozambique, and Ethiopia. In many countries we support core public financial management systems so that they produce more accurate and timely information. In Sierra Leone we support public expenditure tracking surveys to understand how well resources are reaching health and education facilities and how systems can be strengthened. We are also funding a programme of support to the Sierra Leone Audit Service. In Uganda and Vietnam, governments publish budgets at community level so that citizens are aware of the resources reaching facilities such as clinics and schools. The Ethiopia programme focuses on improving local level information, because the programme delivers resources for use at the local government level and because there is a particular focus on promoting local accountability.

[Paragraph 47] We recommend that DFID examines the long-term viability of budgetary support before it is introduced in order to reduce the likelihood of withdrawal and that it includes political governance where appropriate in the criteria for PRBS [Poverty Reduction Budgetary Support]. We also recommend that DFID considers immediate follow-up measures to assist countries in getting back on track, puts contingency plans in place prior to PRBS being withdrawn and builds NGOs' capacity to track the effectiveness of PRBS.

PRBS Policy

We agree that we need to consider carefully the likelihood that we will be able to deliver predictable resources before engaging in PRBS. We are currently updating our PRBS policy in light of the findings of the multi-donor evaluation of General Budget Support in 2006. We intend to strengthen the policy in this area in two ways. Firstly we will use the framework for choosing financial aid instruments that is set out in the 2006 White Paper. This includes an explicit consideration of governance issues when deciding whether to provide general budget support. Secondly we will set out a new set of expectations about the benefits that PRBS can deliver and will emphasise that these benefits are highly dependent on predictable aid delivery. We will ensure that when we assess the expected benefits that budget support may deliver, the likelihood of delivering predictable resources will be taken into account.

Ethiopia

We agree that it is important to assist governments to get back on track when budget support has been withdrawn. In Ethiopia, we have recently established a more structured approach to dialogue with Government on governance and human rights. The "Newai Group" has agreed on a governance matrix which includes priority areas of action on governance and human rights. This will be included in the Government's new national poverty strategy (the Plan for Accelerated and Sustained Development to end Poverty) which we expect to be published very shortly. Working closely with the FCO, we also pursue high level bilateral and EU dialogue with Government. This often addresses difficult issues such as governance and human rights.

We expect to set up a programme with other donors to support these governance objectives e.g. to strengthen federal and regional parliaments, the Human Rights Commission and the National Election Board. We are also working in a range of other areas to build capacity and hope soon to start a new programme to help improve the effectiveness of the Civil Service.

Contingency Planning

We agree that contingency planning is an important component of risk management. We routinely undertake risk assessments when we prepare County Assistance Plans and fiduciary risk assessments when we prepare a PRBS programme. Decisions are then taken on what level of risk is acceptable, how to manage that risk and what contingency plans are needed so that DFID can respond effectively should risks be realised. We generally maintain a mixed portfolio of programmes within each country, particularly in higher risk situations, which ensures that there are options to disburse aid in effective ways if any part of our programme (either PRBS or another) is affected by a deteriorating political situation or a specific event.

Within each country it is not possible to set out contingency plans for every eventuality. Precisely how we will respond to any breach of conditionality will depend on the seriousness of the breach and the impact that any decision will have on poor people and longer term poverty reduction efforts. For example, we may be able to continue to support the government through targeted sector programmes, or we may reallocate resources to other countries.

Role of NGOs

We believe that it is important that civil society and parliaments are able to demand and interpret information about government expenditure so that government can be held to account. We do not, however, believe it is appropriate for NGOs to monitor how PRBS is spent, nor what it achieves, separately from the rest of governments' resources. Where appropriate we support both civil society and parliaments to strengthen their ability to fulfil this role. For example, in Tanzania we have supported transparent annual public expenditure reviews and citizens' access to parliamentary debates. In Zambia we support parliamentary oversight of public finances, including PRBS, as part of our PRBS programme. In South Africa, we supported the Budget, Public Accounts and Local Government committees for 5 years.

[Paragraph 54] We agree with DFID's emphasis on ensuring the predictability of aid flows, improving public financial management and addressing the effectiveness of sector institutions. We recommend that DFID carefully monitors emerging lessons from the experience of the International Finance Facility for Immunisation about the potential value of front-loading aid in certain circumstances, and how this can be balanced with concerns about absorptive capacity.

We agree with the recommendation. The International Finance Facility for Immunisation (IFFIm) issued its first bonds in November 2006, raising US\$1 billion which has been transferred to the Global Alliance for Vaccinations and Immunisations (GAVI) to fund their programme of work.

IFFIm's performance and impact on GAVI activities will be monitored closely by the GAVI Secretariat. As a member of the GAVI board, DFID will be monitoring countries' capacity to absorb GAVI (and IFFIm) funding through GAVI's annual reports, country level reports and the recommendations of the Interagency Coordinating Committees (ICC) to the GAVI Board. These should indicate any lessons on front-loading aid.

At country level, GAVI monitors activities and absorptive capacity in 3 ways:

- i. Recipient countries prepare an annual report to GAVI, which sets out how funds have been used and their impact;
- ii. An annual Data Quality Audit helps evaluate the quality of a country's health information system and checks the accuracy of reported data. An ICC convenes at country level to review the recommendations outlined in the Data Quality Audit and develop action plans to provide to the GAVI Board during the next annual review;
- iii. Recipient governments provide a financial audit: the ICC can call for a more detailed audit if necessary.

[Paragraph 57] We recommend that DFID continues to monitor the impact of relocation of staff to East Kilbride. We also recommend that DFID shows in its Comprehensive Review 2007 how future shifts in policy impact on future recruitment patterns and training. In addition, it would be useful to show how resources—human and financial—align with Public Service Agreement targets.

We agree with the recommendations. We will continue to monitor the impact of relocation of staff to East Kilbride and we will be looking at identifying the savings available from the more efficient use of our accommodation. DFID is preparing a Corporate Plan to ensure that we have consistent, credible and sufficiently ambitious plans across DFID for how we will achieve PSA and CSR objectives.

[Paragraph 60] We are pleased that DFID is liaising with the FCO on how to co-ordinate more effectively to save money for the taxpayer by sharing services. We recommend that the Comprehensive Spending Review 2007 contains specific proposals on this.

We agree that close co-ordination with the FCO is important and have developed, with FCO, a Shared Services Delivery Plan. That plan outlines how we will build on the already substantial degree of co-operation between the two departments. It focuses on increasing the number of co-located offices and increasing collaboration on procurement and information systems over the CSR period.

[Paragraph 64] We recommend that future Departmental Reports give specific examples of how DFID seeks to achieve PSA targets. We also recommend that DFID provides evidence of corrective or remedial action it is taking in instances where PSA targets are not going to be met.

We structured the Departmental Report 2006 around the Public Service Agreement so that the links between DFID's work and achievement of the PSA was clear. In future Departmental Reports we will continue to have an explicit focus on the PSA, whilst also ensuring that we respond to the requirements of the International Development (Reporting and Transparency) Act.

We also report on progress towards the PSA in the Autumn Performance Report. The 2006 Report was presented to Parliament in December. It included a chapter on "tackling underperformance" in which we provided further information on what DFID is doing to address off-track targets. We will include similar chapters in future Autumn Performance Reports.

[Paragraph 67] We are pleased to see that DFID is reviewing its evaluation system. We believe that external scrutiny of projects is important and that there is scope for having a greater element of external scrutiny than at present. We expect DFID to report on steps it is taking to improve scrutiny in its next Departmental Report.

As requested, we will report on the steps we have taken to increase the scrutiny of projects in the next Departmental Report.

[Paragraph 69] We recommend that DFID carries out a full analysis of how its technical assistance can maximise local capacity development, participation and impact on poverty. Furthermore, we recommend that DFID outlines the process by which it evaluates external technical consultants and sets out the proportion of funds spent on consultancy fees in its Departmental Reports.

We have recently carried out an in-depth analysis of our approach to technical assistance, including a major evaluation of our technical assistance for economic management in sub-Saharan Africa. As a result of this we published a new good practice guidance note in June

2006. The guidance sets out how to provide technical assistance to maximise local capacity development and the participation of the partner country.

During 2007, we will be focusing on disseminating the new guidance, both within DFID and to external partners. We will also monitor our White Paper commitments on improving the effectiveness of technical assistance, pooling our funding with other donors where possible, increasing our use of local providers and ensuring value for money.

We will outline the process by which we evaluate external technical consultants in the next Departmental Report. The proportion of funds spent on consultancy fees is already published each year in *Statistics in International Development* (see table 3.2 on page 28 of *Statistics in International Development 2006*).

[Paragraph 75] We recommend that DFID ensures that key staff in posts such as Mozambique and DRC [Democratic Republic of Congo] have a level of language skill equal to that which the FCO would expect to have in post. This requirement will have implications for assessing what duration of staff posting is cost-efficient. We look forward to hearing the outcome of the Permanent Secretary's discussions with his Treasury colleagues concerning language training for DFID staff.

Most of our posts do not require language training and we do not expect to make major shifts in investments in language training. We have put in place language policies for instance in DRC and Mozambique for staff who need language skills to effectively deliver our programmes. We have provided additional funds for immersion training. The HR transformation programme will be looking at the costs and effectiveness for different lengths of posting. We will continue to keep this under constant review and continue discussions with other Government Departments.

[Paragraph 77] We recommend that DFID engages with other donors to identify and pursue matters of interest regarding China's operations in Africa. A pragmatic approach would be to focus on the mutual interest in commerce as a way in to dialogue with China on governance issues in Africa.

We agree with the need to deepen dialogue with China about Africa. China is becoming a very significant player in Africa. Two-way trade is expected to reach \$100 billion by 2010, more than 10 times the level in 2001. Chinese foreign investment was \$6.3 billion at the end of 2005. China has invested more in infrastructure in Africa in the last three years than all of the OECD countries. Plans were announced at the China-Africa summit (held in Beijing last November) to double Chinese aid to Africa by 2009. It is essential that all countries interested in the development of Africa, including the UK, work more closely with China.

The UK recognised the importance of engagement with China at an early stage. In early 2005, the Prime Minister invited China to provide a representative on the Commission for Africa, the only non-OECD, non-African country to be invited. Over recent months we have discussed African issues with the Chinese at senior official level, working closely with

the FCO. These discussions will continue throughout 2007, notably at the annual meeting of the African Development Bank in Shanghai in May.

We are encouraging other donor countries to engage similarly with China. We want to encourage the Chinese Government to take a closer interest in good governance in Africa, partly since a well governed country will be a more stable place in which to do business (as the Select Committee suggest). We would also like the Chinese Government to become more active in the development discussions that take place in African capitals and elsewhere; and for them to take a more substantive role in relevant multilateral organisations, for example the African Infrastructure Consortium.

[Paragraph 80] We are concerned that the Departmental Report fails to set out concrete and time-bound policies for meeting the first failed MDG target seeking gender equality in primary education. We are also disappointed at progress on gender mainstreaming within DFID. We expect to see detailed policies relating to both these areas in DFID's forthcoming Gender Action Plan.

We recognise that we have not made as much progress as we would have wished in embedding issues of gender equality and women's empowerment across our development programmes. In response, the Gender Equality Action Plan will set out how we will strengthen the impact of DFID's development efforts on gender equality and women's rights over the next three years in line with commitments set out in the White Paper.

The Plan will focus on improving gender mainstreaming across our work and provide an overarching framework for more detailed plans at country and policy level. It will also form the basis of DFID's Gender Duty Scheme, to be published in April 2007, which will bring together our work in support of gender equality in our development policies and programmes, and in our own employment practice. The Plan will recognise girls' education as an important part of our work in promoting gender equality, but at the same time, that progress on girls' education needs to be supported by wider improvements in women's rights.

Our commitments on girls' education are set out in the Strategy *Girls' Education: Towards a Better Future for All*. That strategy, launched in January 2005, recognised that the initial target of getting equal numbers of boys and girls into primary and secondary education by 2005 was likely to be missed. The Strategy set out how the UK Government would step up efforts to support countries that have the largest number of girls out of school, identifying priorities such as more money for education, strengthening international leadership and supporting national governments to develop strong education strategies. We have also increased our support for international efforts such as the Fast Track Initiative, to ensure that more money from this initiative is disbursed to countries with the greatest number of children, especially girls, out of school.

The first progress report on our Girls' Education Strategy was published in December 2006. It charts the progress made in the first year of the strategy and sets out the priority focus areas for DFID's future work in this area. These will include helping partner countries to:

1. Improve the quality of education so that more girls complete primary education with improved ability.
2. Reduce other costs of primary education (eg uniforms, books, transport) now that tuition fees have been removed in most of our key partner countries.
3. Support gender-aware HIV and AIDS programmes in schools.
4. Make schools safer places for girls.
5. Expand opportunities for girls to progress to secondary schools.

Copies of the Progress Report have been placed in the House of Commons Library.

[Paragraph 83] We were disappointed with the outcome of the Hong Kong Ministerial and more so with the decision in July to postpone indefinitely the Doha Round. The UK Government has not met the 2005 target that it set for itself despite its efforts in this regard. In the light of the suspension of the Doha Round the Government should revise this target and, in the first instance, work towards ensuring that its partners in the EU share the same objectives in relation to developing countries in the event that the Doha Round is restarted.

We share the sense of disappointment that negotiations on the Doha Round were suspended in July 2006. Informal negotiations re-commenced in November 2006 and we continue to urge all our partners—including EU Member States, developing countries and the US—to work hard for a resolution. DFID and DTI share a revised Public Service Agreement target for 2005-08 to this effect, to “Ensure that the EU secures a significant reduction in EU and world trade barriers by 2008 leading to improved opportunities for developing countries and a more competitive Europe”. We remain strongly committed to this target and continue to talk in depth and on an ongoing basis with our EU partners about wider development objectives for the Doha Round and trade reform, including the review of the Common Agricultural Policy in 2008.

[Paragraph 90] The UK Government has said that it supports the conclusions of the European Council which called for Sustainability Impact Assessments (SIAs) to be conducted at an appropriate time. We agree with this conclusion but remain concerned that a comprehensive and effective Review cannot be undertaken until potential developmental impacts are known. It would be irresponsible of the EU not to meet the ongoing concerns of the Africa Caribbean and Pacific (ACP) group of states about the lack of a development perspective in the Economic Partnership Agreements (EPAs). The EU should not wait until the last minute to do so. Measures must be put in place now, as part of the Review process. If concerns about the lack of a development perspective are not met, the EU must be prepared to think about, and discuss openly, alternatives to the EPAs.

We agree with the Conclusions of the 2006 European Council, which recognised that Sustainability Impact Assessments (SIAs) are important tools to be conducted by the

Commission at an appropriate time. We have some concerns, however, about the timeliness and application of the SIAs which have been conducted, as these have not always been prepared in good time or used meaningfully to inform trade negotiations. It is also important that all three areas of assessment—economic, social and environmental—are fully addressed within SIAs.

We have been promoting a comprehensive review of the EPA negotiations that covers the trade and development aspects of EPAs. We welcome the fact that the terms of reference for the review, jointly agreed by the EU and the ACP in July 2006, provided for a more comprehensive review than that foreseen by Article 37(4) of the Cotonou Agreement. These terms of reference include an assessment of key development aspects, such as the development content of trade and trade-related provisions.

We agree that the EPA review process provides the European Commission with an opportunity to respond to ACP concerns about the negotiations. We believe that the review should be conducted in such a way that it enables a genuine assessment of whether EPAs, as currently being negotiated, will deliver the intended benefits for development. We also agree that the review is an appropriate and timely forum for the discussion of alternatives to EPAs.

Department for International Development
26 January 2007