



House of Commons
International Development
Committee

**Department for
International
Development
Departmental Report 2006**

First Report of Session 2006–07



House of Commons
International Development
Committee

**Department for
International
Development
Departmental Report 2006**

First Report of Session 2006–07

*Report, together with formal minutes, oral and
written evidence*

*Ordered by The House of Commons
to be printed 21 November 2006*

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*)

Mr Jeremy Hunt MP (*Conservative, South West Surrey*) was also a member of the Committee during this inquiry.

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 Louise Glen (Senior Office Clerk).

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

Footnotes

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 the page number as in 'Ev 12'.

Contents

Report	<i>Page</i>
Summary	3
1 Introduction	5
2 The implications of increasing aid	7
Has aid increased?	7
Increased specialisation, off-shoring and out-sourcing	8
Working in fragile states	9
Working with multilateral institutions	11
Poverty Reduction Budgetary Support	13
3 Constraints on increasing aid	17
Absorbing aid effectively	17
Staffing	18
Working with the Foreign and Commonwealth Office	19
Maintaining the quality of aid	20
Meeting Public Service Agreement (PSA) targets	20
Evaluating DFID projects	20
Quality of technical assistance	21
4 Key issues for DFID	22
Language training for DFID staff	22
The role of China	23
Gender and education	24
Trade — coordinating with EU member states	24
Economic Partnership Agreements	25
5 Conclusion	27
6 Conclusions and recommendations	28
Formal minutes	31
List of witnesses	32
List of written evidence	32
Reports from the International Development Committee	33

Summary

This year, as in previous years, we held a short inquiry into the Department for International Development's (DFID) Departmental Report. It gave us the opportunity to assess major developments in the Department's work and to explore particular areas in depth.

The primary theme for this report is the increasing volume of aid, both nationally and internationally. DFID budgets have risen significantly in real terms in each of the last three Spending Reviews. The 2004 Spending Review alone agreed a 9.2% average annual increase in real terms over the next three years. This means that the budget will increase by 22% by 2008. DFID's budget is set to double over the next 7 years if the UK Government meets its commitment to provide Official Development Assistance (ODA) equivalent to 0.7% of Gross National Income by 2013.

Increases in aid will have a number of repercussions for DFID, particularly as the expanding budget coincides with requirements under the 2005–2008 Efficiency Programme to reduce DFID staff numbers by 10%. This report looks at DFID's options for doing 'more with less' whilst maintaining the quality of its aid, including specialisation, out-sourcing, channelling funds through multilateral institutions and the use of Poverty Reduction Budget Support.

The report also looks at constraints on DFID's ability to increase aid, including developing countries' capacity to absorb increased funds and the need for DFID to meet Public Service Agreement (PSA) targets. The report concludes with a brief exploration of current key issues facing DFID, including trade and Economic Partnership Agreements and China's increasing engagement in sub-Saharan Africa. Our recommendations include:

- the breakdown of ODA figures within Departmental Reports so that readers can easily identify which components of ODA are changing;
- making information available in the Comprehensive Spending Review 2007 on exactly how DFID intends to specialise further, 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;
- making information available on exactly how DFID 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;
- clarification of how DFID allocates funding across multilateral institutions, and how DFID assesses institutions using the Multilateral Effectiveness Framework;
- examination of the long-term viability of budget support before it is introduced and the inclusion of governance where appropriate in budget support criteria;
- the inclusion of specific examples in future Departmental Reports of how DFID seeks to achieve PSA targets, and of corrective or remedial action in instances where PSA targets are not going to be met.

1 Introduction

1. The Department for International Development (DFID)'s Departmental Report 2006 sets out DFID's activities and achievements in the year from April 2005 to March 2006.
2. This year, as in previous years, we held a short inquiry into DFID's Departmental Report (DR). It gave us the opportunity to assess major developments in the Department's work, to explore particular areas in depth and also to assess whether the DR provides an accurate reflection of the Department's performance.
3. Written submissions were received from six UK-based international non-governmental organisations (NGOs): ActionAid, Dalit Solidarity Network (UK), One World Action, Plan B, Tropical Health and Education Trust and World Vision. On 11 July 2006 we took oral evidence from DFID officials: Sir Suma Chakrabarti, DFID's Permanent Secretary; Mark Lowcock, the Director General for Policy and International; Sue Owen, Director General for Corporate Performance; and Nemat Shafik, Director General for Regional Programmes.
4. DFID's DR is structured around DFID's Public Service Agreement (PSA) targets, many of which are based on Millennium Development Goals (MDGs). The intention of the PSAs is to hold DFID accountable to its stakeholders and to provide a mechanism for monitoring its performance. In previous inquiries, we have focused on areas where DFID could improve the structure of the DR. The latest DR shows that DFID has acted upon many of our previous recommendations such as including a brief overview of the Department's risk management processes¹ and including information on the poverty focus of multilateral donors.²
5. 2005–06 was a significant year for DFID. The UK held the presidencies of both the G8 (from January to December 2005) and the European Union (from July to December 2005). Reducing poverty in Africa was a key issue for both presidencies. At the G8 Summit at Gleneagles in July 2005, leaders agreed a package to support Africa's development. Over US\$50 billion in multilateral debt cancellation was agreed for the most heavily indebted poor countries and there was a deal to resolve Nigeria's US\$30 billion debt. Under the UK Presidency of the EU, 25 member states agreed to double their aid to reach over £45 billion in 2010, and to draw up a common vision for EU development policy.³ DFID also had to respond quickly to the South Asian earthquake, in which over 73,000 people were killed, continue its involvement in fragile states and provide humanitarian relief to countries which were affected by the 2004 tsunami in South Asia.⁴

1 Eighth Report from the Committee, Session 2002-03, *Department for International Development Departmental Report 2003*, HC 825. para 16

2 Eighth Report from the Committee, Session 2003-04, *Department for International Development Departmental Report 2004*, HC749. para 18

3 Department for International Development (DFID) *Departmental Report 2006*, Cm 6824, page xv

4 DFID *Departmental Report 2006*, Cm 6824, page xiv

6. One of the major themes in the DR 2006 is the increase in global aid. This trend is also reflected in the increases in UK aid programmes channelled through DFID. DFID budgets have increased significantly in real terms in each of the last three Spending Reviews. The 2004 Spending Review alone agreed a 9.2% average annual increase in the DFID budget in real terms in the next three years. This means that the budget will reach more than £5.3 billion by 2007–08. It is set to increase still further in the longer term if the Government meets its commitment to provide Official Development Assistance (ODA) equivalent to 0.7% of Gross National Income by 2013.⁵

7. DFID has a good reputation amongst other donors for its innovation in aid. The OECD’s 2006 Development Assistance Committee (DAC) 2006 Peer Review states that, “DFID’s knowledge allows it a position of interdepartmental leadership and has raised the profile of development co-operation”.⁶ However, future increases in aid will have a number of implications for DFID, which our report explores.

8. Chapter 2 examines whether aid has increased and the implications of increased aid for DFID. It examines some mechanisms through which DFID can increase its aid funding while keeping administrative costs down. These include focusing on core activities; increasing spending through multilateral institutions and possibly expanding Poverty Reduction Budgetary Support. Chapter 3 looks at some constraints on delivering aid, including the absorptive capacity of developing countries and DFID’s ability to make efficiency savings while maintaining the quality of its aid. Chapter 4 explores some key issues for DFID that have arisen during 2005–06.

5 DFID *Departmental Report 2006*, Cm 6824, paras 1.17 to 1.18

6 OECD DAC *Peer Review: Main Findings and Recommendations*, United Kingdom (2006) The DAC (Development Assistance Committee) is the main body through which the OECD (Organisation for Economic Cooperation and Development) deals with issues related to co-operation with developing countries.

2 The implications of increasing aid

Has aid increased?

9. The UK appears to be well on track to achieve the UN target of Official Development Assistance (ODA) equivalent to 0.7% of Gross National Income (GNI) by 2013. DFID's original projection was that the ODA/GNI ratio would reach 0.39% in 2005 rising to 0.47% in 2007–08. Yet by 2005–06, the UK had already reached an ODA/GNI ratio of 0.48%.⁷

10. However, some NGOs have cast doubt on the underlying volume of aid claiming that, excluding debt relief, aid actually fell from 2004 to 2005.⁸ A report by ActionAid suggested that debt relief should not be counted as aid as “this can vastly exaggerate the sums available to reduce poverty”.⁹ When we put this to the Secretary of State, he disputed this, saying that this was the official OECD DAC method of quantifying ODA and that debt relief frees up funds that can assist progress towards development targets.¹⁰

11. While acknowledging that aid excluding debt relief fell in real terms from the calendar year 2004 to 2005, DFID told us that this was due to timings of large payments (contributions to international institutions were made in late 2004 and then in early 2006) and a negative contribution by the CDC¹¹ towards ODA in 2005, as it received more from loan receipts and equity sales than it invested in equity purchases.¹² In response to ActionAid's claim that debt relief should not be counted as ODA, DFID told us that:

“Debt relief means that countries pay less or no debt service, and can use the savings for poverty reducing investments, such as education and health, instead. This is why the international community represented at the OECD DAC has agreed that debt relief should be counted as ODA where appropriate. The UK abides by the OECD DAC decision, scoring debt relief as ODA where appropriate and clearly identifying debt relief within our ODA statistics”.¹³

It is our view that debt relief can only be counted as ODA where the debt was being fully or partly serviced up to the point of cancellation.

12. Under the International Development (Reporting and Transparency) Act 2006, DFID must now present an annual report to Parliament with a breakdown of total expenditure and indicating progress towards the UN-recommended allocation of 0.7% of GNI to international aid. This is a welcome move towards improved transparency. However, identifying the proportion of debt relief in the statistics within the Departmental Report —

7 DFID *Departmental Report 2006*, Cm 6824, para 7.41

8 *The Guardian*, April 4 2006

9 ActionAid International, *Real Aid: Making Technical Assistance Work*, para 2.1.

10 Evidence taken before the International Development Committee, 19 October 2006, Q 67 [Secretary of State for International Development]

11 CDC Group (formerly the Commonwealth Development Corporation) is a UK Government-owned fund-of-funds with a mission of “maximising the creation and growth of viable businesses in poorer developing countries, through responsible investment and the mobilisation of private finance”.

12 Ev 19, written response to question 1

13 Ev 19, written response to question 2

as well as the annual report to Parliament — would help provide transparency in the underlying trends in ODA. **We recommend that the financial tables in Annex 1 of Departmental Reports include a breakdown of ODA 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.**

Increased specialisation, off-shoring and out-sourcing

13. The OECD DAC’s 2006 Peer Review has summarised the challenge DFID faces:

“[DFID] proposes to more than double its current level of ODA in the next seven years, to deliver its aid better (aid effectiveness, results monitoring) and to move further into more complex and difficult environments for aid delivery (fragile states and situations of conflict). At the same time, it plans to do so with fewer delivery resources, notably a 10% reduction in DFID staff numbers and support service costs as part of the Efficiency Programme 2005-2008. It will be a challenge for the UK to undertake all these tasks while maintaining the quality and innovative character of its aid”.¹⁴

14. Whether efficiency savings are achieved through ‘headcount’ or overall administration costs currently seems unresolved.¹⁵ **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.**

15. The Permanent Secretary told us that that focusing on core areas, off-shoring (which would involve moving some DFID activity away from UK Headquarters to overseas sites) and out-sourcing (which would involve paying the private sector, NGOs or other bodies to carry out activities currently carried out by DFID) are amongst the options it has to “do more with less”:

“The first thing we need to consider is what is core and what is non-core; in other words, what do we want to make in-house — still do the bits it is important for the Department to do — and what sort of things should we do beyond the departmental boundary. We need to look at options for outsourcing and for off-shoring”.¹⁶

14 OECD DAC, *Peer Review: Main Findings and Recommendations*, UK (2006)

15 Q 4 [Sir Suma Chakrabarti]

16 Q 2 [Sir Suma Chakrabarti]

16. The OECD DAC’s Peer Review also supports greater specialisation for DFID. It recommends that DFID should:

“Continue to pursue the geographic concentration of its ODA on poor countries and should build further on its progress in focusing on fewer countries. It should also continue to strengthen its strategic approach through a sector focus that reflects its overarching poverty reduction objective and its comparative advantage”.¹⁷

17. The Permanent Secretary told us that although from a managerial perspective it would be more efficient for DFID to specialise, stakeholder interests may limit the extent to which it can do so. He stated that frequently both local recipients and the UK Government want a DFID presence in many areas and specialisations.¹⁸

18. With regard to the options for outsourcing and off-shoring, the Permanent Secretary indicated that off-shoring may be the preferred option and that expanding the local offices in India and South Africa is a possibility.¹⁹

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.

Working in fragile states

20. DFID’s definition of fragile states “covers those where the government cannot or will not deliver core functions to the majority of its people, including the poor. The most important functions of the state for poverty reduction are territorial control, safety and security, capacity to manage public resources, delivery of basic services, and the ability to protect and support the ways in which the poorest people sustain themselves.”²⁰ As fragile states contain 14% of the world’s population but account for nearly 30% of people living on less than \$1 a day,²¹ the commitment to work more in fragile states fits neatly with DFID’s poverty focus.

21. DFID told us that it intends to divert resources to fragile states as part of its process to focus on priority areas or “core business”. The Director General for Regional Programmes explained, “We are hoping to put more [DFID] people in fragile states because we recognise that it is a huge source of comparative advantage and there is a huge need”.²²

22. However, whether or not DFID has a comparative advantage in fragile states is a moot point. It is not an area in which DFID has long-standing experience or expertise: the

17 OECD DAC, *Peer Review: Main Findings and Recommendations*, UK (2006)

18 Qq 8 and 9 [Sir Suma Chakrabarti]

19 Q 2 [Sir Suma Chakrabarti]

20 DFID, *Why we need to work more effectively in fragile states*, January 2005, page 7

21 DFID, *Why we need to work more effectively in fragile states*, January 2005, page 5

22 Q 5 [Nemat Shafik]

Departmental Report as recently as 2004 makes no mention of the term ‘fragile states’.²³ Whilst this may partly be attributable to semantics²⁴, DFID’s comparative advantage has previously been perceived to lie more in facilitating and developing good policy environments (for instance, in Ghana and Tanzania) rather than state-building in fragile states. As our predecessors said in their report on DFID’s agriculture policy in 2004, “DFID has a comparative advantage in technical assistance, capacity building and institutional reform and development.”²⁵

23. Whilst the importance of donors addressing the huge need in fragile states is undisputed, DFID’s sudden prioritisation of this area and its decisions regarding countries in which it works pose important questions. A key example is DFID’s decision to triple its support to the Democratic Republic of Congo (DRC), so that funding in 2005–06 totalled approximately £55 million. When we asked the Secretary of State about the rapid scaling-up of support to DRC, the reason he gave was twofold: that the end of the conflict and the establishment of the transitional government represented an opportunity, and that too few countries were willing to step in and help in DRC.²⁶ The Director General for Regional Programmes reiterated this last point: “We try and compensate for the failures of the international system.”²⁷ But this does not fully answer the question of why DFID necessarily should be the donor. The inference from DFID’s comments is that it has become a ‘donor of last resort’ — a role that is difficult to square with the Department’s strong international reputation.²⁸ Furthermore, this attempt to spread itself thinly conflicts with DFID’s avowed reason for supporting DRC and fragile states in the first place — to focus on core business and improve quality through specialisation and selectivity (see also the previous sub-section).²⁹

24. Improved donor co-ordination is clearly of signal importance to decisions concerning which donors work in which countries. The Permanent Secretary told us that DFID was working towards improved co-ordination in the DRC.³⁰ However, we found donor co-ordination to be very weak during our visit to DRC in May 2006.³¹ **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.**

23 *DFID Departmental Report 2004*

24 ‘Fragile states’ have been variously referred to in the past within development discourse as ‘difficult environments’, ‘countries at risk of instability’ and ‘weak and failing states.’

25 Seventh Report from the Committee, Session 2003-2004, *DFID’s Agriculture Policy*, HC 602, para 54

26 Oral Evidence taken before the International Development Committee on 8 June 2006, Q 272 [Secretary of State for International Development]

27 Q 7 [Nemat Shafik]

28 OECD DAC Peer Review (2006), p.10

29 Q 16 [Sir Suma Chakrabarti]

30 Q 7 [Sir Suma Chakrabarti]

31 Sixth Report from the Committee, Session 2005-2006, *Conflict and Development: Peacebuilding and Post-Conflict Reconstruction*, HC 923-1, para 131

25. DFID’s growing presence in fragile states also raises questions of risk management. Working in fragile states presents its own particular challenges. It is more costly to deploy staff in fragile states because there are increased security costs.³² Finding the people with the right level of experience is more difficult. As the Permanent Secretary put it: “You get people who are interested in conflict development issues and you tend to get the younger people — people who are not attached and do not have family issues to deal with [...] Some of the issues like getting mid-career people to these places is coming up.”³³

26. Exposure to risk is also increased because aid spent on fragile states may be less likely to have an impact on poverty reduction than aid spent on states with stronger institutions. When asked how the Department manages this increased risk, the Director General for Regional Programmes stated:

“The most important mechanism by which we manage risk that you identify is having a diversified portfolio. So for every additional pound we try and spend in a very difficult fragile environment, like DRC, we also intend to spend more in Tanzania, which is very stable, has reasonable policies, has lots of poor people and we know is quite effective at delivering poverty reduction. So we do not necessarily have to turn to middle-income countries for safety; I think we can do that by having a diversified portfolio of low-income, fragile states but, also low-income, good performing countries.”³⁴

27. But this raises the question of whether, by diversifying its portfolio, DFID is also diversifying the risk to which it is exposed. The Department will need to work hard to manage, not just the efficiency of taking such risks, but the public perception of working in risky environments. The OECD DAC Peer Review recognised this: “In coming years, the balance between good performance and fragile states in DFID’s portfolio will need to be assessed against the ability to have the greatest impact on poverty reduction while demonstrating results to ensure continued public support”.³⁵ **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.**

Working with multilateral institutions

28. Whilst recent years have seen a gradual decrease in DFID’s contributions to multilateral institutions, it appears that the increasing aid budget may be prompting a re-think within the Department. The Permanent Secretary told us that one option for increasing aid without increasing staff levels is through raising contributions to multilateral institutions.³⁶ Currently around 39% of DFID’s budget is channelled through such bodies.

32 Q 5 [Sue Owen]

33 Q 5 [Sir Suma Chakrabarti]

34 Q 17 [Nemat Shafik]

35 OECD DAC Peer Review 2006

36 Q 2 [Sir Suma Chakrabarti]

The largest contributions go to the European Development Fund, the International Development Association (IDA) of the World Bank (the IDA is the concessional lending arm of the World Bank) and international humanitarian organisations, including the UN High Commission for Refugees and the Red Cross.³⁷

29. DFID research indicates that there is a 25% efficiency gain on money channelled into IDA compared to bilateral aid.³⁸ However, there is a case for saying that using multilateral institutions dilutes DFID’s ability to influence aid objectives, including the extent to which aid should be poverty-focused. In its written evidence, DFID told the Committee that: “Increasing aid will mean that donors will need to rely more on multilateral channels to distribute it but at the same time some parts of the international system have either become too complicated and inefficient or simply don’t work at all.”³⁹

30. Evidence that DFID has real concerns over the way certain multilaterals operate became clear in September 2006, when the Secretary of State withheld £50 million from the World Bank due to the Bank’s insufficient progress in implementing reforms on conditionality for countries with high levels of corruption.⁴⁰ When we asked the Secretary of State in October 2006 whether he was now satisfied with the Bank’s reforms, he told us he was waiting to read a further report, promised by the Bank in the run-up to the 2006 Autumn Meetings.⁴¹ He said that the production of this report — which will review conditionality policy — was a direct response to his decision to withhold funds from the Bank.⁴² The fact that DFID has such serious concerns about the manner in which multilateral institutions spend funds raises important questions about the wisdom of potential increases in DFID’s funding of multilaterals. Questions also exist around how the Secretary of State will proceed if he is not satisfied with the Bank’s report once it is published and whether he has any realistic options to spend this pre-allocated money elsewhere.

31. We have highlighted concerns around increased contributions to multilaterals in the past: our predecessors’ report on the 2004 DR identified that “the European Union has been a particular cause for concern as regards the poverty focus of its aid” and pointed out the importance of providing information in the DR on this:

“If stakeholders, including Parliament, are to be able to assess whether sensible decisions are being made about channelling aid through multilaterals, then the Departmental Report must show clearly the poverty focus of the multilaterals through which UK aid is channelled”.⁴³

37 DFID *Departmental Report 2006*, Cm 6824, para 5.1

38 DFID Efficiency Technical Note, online at <http://www.dfid.gov.uk/pubs/files/efficiency-technical-note.pdf>

39 Ev 29

40 DFID Press Release, 14 September 2006. Available online at <http://www.dfid.gov.uk/news/files/world-bank50.asp>. The £50 million sum was distinct from the UK’s main commitment to the World Bank and was earmarked specifically for the implementation of World Bank conditionality reforms.

41 Oral evidence taken before the International Development Committee, 19 October 2006, Q 38 [Secretary of State for International Development]

42 Oral evidence taken before the International Development Committee, 19 October 2006, Q 39, [Secretary of State for International Development]

43 Eighth Report from the Committee, Session 2003-04, *Department for International Development Departmental Report 2004*, HC 749, para 18

32. It should be noted that DFID has taken on board this recommendation and Table 5b of the DR 2006 shows the spend in low-income countries of all the multilaterals.⁴⁴ However, a National Audit Office Report on DFID entitled “Engaging with Multilaterals”, published in December 2005, also notes that DFID is not very selective in choosing the multilateral institutions it funds:

“We could not find any multilateral development institution that DFID had not funded through the provision of either multilateral or bilateral aid. And in only one case had DFID withdrawn funding for a period. The lack of selectivity in choosing multilateral partners raises concerns that the cost-effectiveness of funding has not been considered”.⁴⁵

33. DFID uses a Multilateral Effectiveness Framework (MEF) to evaluate the effectiveness of its multilateral donors. It intends to carry out the evaluation exercise in full every three to four years. DFID told us that, overall, the EC scored above average for the institutions so far reviewed.⁴⁶

34. It is not yet clear how funding to multilateral institutions is influenced by DFID’s evaluation of their work through the MEF. DFID is to review the proportion of spending channelled through multilateral institutions for the Comprehensive Spending Review 2007.⁴⁷ **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.**

Poverty Reduction Budgetary Support

35. Another potential vehicle for increasing aid provision without requiring significant additional Departmental staff is spending via Poverty Reduction Budgetary Support (PRBS). PRBS is a form of financial aid in which funds are provided directly to a partner government’s central exchequer, to spend using its own financial management, procurement and accountability systems and in support of a government programme typically focusing on growth, poverty reduction, fiscal adjustment, and strengthening institutions, especially budgetary processes.⁴⁸

36. The DFID DR shows that in 2005–06 PRBS was a significant funding mechanism for DFID. 25% of the total DFID bilateral programme was delivered through PRBS. It was provided to fifteen countries, including nine countries in Africa, five in Asia and one in Europe.⁴⁹

44 DFID *Departmental Report 2006*, Cm 6824, page 115

45 National Audit Office, *DFID: Engaging with Multilaterals*, December 2005, para 38

46 Ev 28

47 Ev 28

48 DFID Policy Paper, *Poverty Reduction Budgetary Support*, May 2004, para 2.1

49 DFID *Departmental Report 2006*, Cm 6824, para 6.19

37. As with multilateral aid, however, PRBS has risks in terms of its sustainability. Our predecessors' Report on DFID's DR 2004 stated:

“While we understand the department's enthusiasm for PRBS, it must be applied using appropriate risk considerations to determine whether it is the most suitable way of delivering aid, and whether the potential development benefits outweigh the risks that are being taken. Most importantly, future decisions about PRBS must be based on evidence of whether or not PRBS has produced the developmental benefits expected of it. Any future roll-out of PRBS must be evidence based”.⁵⁰

38. Earlier this year, an evaluation of budget support was commissioned by a consortium of donors, led by DFID.⁵¹ The report concluded that PRBS can be an efficient, effective and sustainable way of supporting national poverty reduction strategies and played a clearly positive role in five of the seven case study countries (Burkina Faso, Mozambique, Rwanda, Uganda and Vietnam). However, it also pointed out that PRBS, “as presently designed, is vulnerable to a number of risks, including political risks. These threaten its ability to operate as a long-term support modality. Its sustainability depends on making it more resilient.”

39. The vulnerability of PRBS to political risks was demonstrated when DFID withdrew PRBS in Uganda⁵² and Ethiopia⁵³ because of concerns about political governance and human rights abuses. In Uganda, PRBS was cut by £20m and £15m was reallocated to humanitarian assistance in the north of the country. In Ethiopia, the UK approved £94 million for a new Protection of Basic Services Grant to support education, health care and water and sanitation. The Secretary of State said that the very act of withdrawing budget support was a deterrent to poor governance and rights abuses: it “sent a very strong message about what we regard as acceptable conduct, and I think that is worthwhile in itself”.⁵⁴ However, questions exist around the effectiveness of the measures DFID is putting in place to help these countries get back on track (particularly in Uganda): the sending of political signals — signals that are perhaps partly aimed at bolstering UK taxpayers' support for development interventions — should be part of a restorative process rather than a stand-alone gesture.

40. We note from DFID's written evidence that the Department's expenditure in Ethiopia will increase to £130 million in 2007–08, making Ethiopia the largest DFID programme in Africa.⁵⁵ Whilst we support this effort to address the obvious need in Ethiopia, it is unclear how this scaling-up of resources sits with the political message of PRBS withdrawal.

41. An Overseas Development Institute Opinions Paper argues that these cases show that PRBS may be limited as a tool to encourage good governance amongst states: “Donor pressures and threats to cut aid are less important than internal control over the levers of

50 Eighth Report from the Committee, Session 2003-04, *DFID Departmental Report 2004*, HC 749. para 57

51 IDD and Associates, *Evaluation of General Budget Support Synthesis Report 1994-2001*, S71, May 2006

52 *DFID Departmental Report 2006*, Cm 6824. para 6.22

53 Written Ministerial Statement by the Secretary of State for International Development, 24 January 2006

54 Oral Evidence taken before the International Development Committee, 8 June 2006, Q 320 [Secretary of State]

55 Ev 29

power, especially in countries with weak democratic institutions and traditions”.⁵⁶ The paper also suggests that DFID needs to clarify the political conditionality of aid and form a more robust assessment of the sustainability of PRBS:

“As a number of commentators have pointed out, Zenawi’s [Prime Minister of Ethiopia] and Museveni’s [President of Uganda] democratic credentials have only been established relatively recently [...] Political and historical analysis could have led to a much sounder appraisal of the likelihood of such crises taking place, possibly avoiding today’s need for such drastic measures. Such analysis should inform the shape of the aid agreements that donors sign with recipient countries, spelling out the boundaries of ‘acceptable behaviour’ that both undertake to respect. In existing agreements, governance issues tend to get excessively watered down”.⁵⁷

It is our view that identifying institutions and processes required for effective PRBS will decrease any risk of personalising decisions over budget support.

42. The OECD DAC Peer Review considered that, “A further clarification of the UK’s approach to political conditionality in light of recent events (e.g. Ethiopia) could also help harmonize donor approaches”.⁵⁸ However, the Secretary of State told us that he believed donors were already co-ordinating effectively over PRBS, and gave the example of how a number of donors had come behind the decision to divert PRBS to Ethiopia to the new Protection of Basic Services Grant.⁵⁹

43. The criteria listed in DFID’s policy paper for gauging the appropriateness of PRBS include: “the country’s planned budget priorities in support of poverty reduction; the status of administrative, technical and financial systems; and the specific costs/benefits of PRBS against other types of aid”.⁶⁰ These criteria do not explicitly mention political governance issues, which formed the main reasons for withdrawing aid from Uganda and Ethiopia.

44. The Ethiopia and Uganda cases also flag up the importance of having contingency plans in place in case budgetary support is withdrawn. The cases raise the question of whether the logical corollary to cutting PRBS is the need for all PRBS countries to have contingency plans in place in case the government goes off track. If so, the creation of such contingency plans — which would exist as an alternative way of delivering the same benefits to poor people — surely needs to be taken seriously as a reciprocal arrangement by which the ‘added value’ of PRBS can be assessed. Uganda’s contingency plan turned out to be a redirection of DFID funds to UNICEF. However, when we took evidence from DFID in July, UNICEF had yet to disburse the funds.⁶¹ This again supports the need for effective and sustainable contingency plans to be in place before PRBS is withdrawn.

56 Paolo de Renzio, *The primacy of domestic politics and the dilemmas of aid: What can donors do in Ethiopia and Uganda?*, ODI Opinions, February 2006.

57 Ibid

58 OECD DAC Peer Review (2006)

59 Evidence taken before the International Development Committee, 19 October 2006, Q 61 [Secretary of State for International Development]

60 DFID Policy Paper, *Poverty Reduction Budgetary Support*, May 2004, para 1

61 Q 19 [Nemat Shafik]

45. In the case of Ethiopia, the UK approved £94 million for a new Protection of Basic Services Grant to maintain and expand such services as primary schooling, basic health care, water supply and sanitation and agricultural extension.⁶² The Grant carries more comprehensive monitoring burdens than PRBS arrangements, and for the first time requires detailed budgetary information to be made available to citizens.⁶³ **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.**

46. One World Action notes that PRBS also brings new challenges for NGOs who wish to track aid effectiveness:

“DFID could increase action in the following areas:

- Identify and institute clear mechanisms for tracking policy commitments in new aid modalities, especially poverty reduction budget support,
- Greater transparency on levels of poverty reduction budget support.
- Support to Southern CSOs [Civil Society Organisations] and especially gender aware organisations, to strengthen their capacity to engage in national budget processes and monitor expenditure.”⁶⁴

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. 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.**

62 Written Ministerial Statement by the Secretary of State for International Development, 8 June 2006

63 Ev 28

64 Ev 36 and 37

3 Constraints on increasing aid

48. While a focus on core priority areas and expanding the use of multilateral institutions and PRBS might help support an increasing aid budget, there are a number of constraints to increasing aid. These include the capacity of recipient economies to absorb additional aid and the Department's capacity to deliver efficiency savings and maintain the quality of aid.

Absorbing aid effectively

49. Various factors may reduce the ability of low-income countries to absorb aid effectively. Providing aid can increase foreign exchange inflows for the local economy, which may cause the exchange rate to rise and reduce the growth of the export-producing sector. Large-scale intervention may also distort economies within their domestic markets. This is especially the case with regard to food aid. The Deputy Prime Minister of Ethiopia, Addisu Legesse, has been reported to say: "When foreign aid lands, local prices collapse, and farmers who have managed to produce a surplus find their crop is virtually worthless. They have no money to pay for seed or fertiliser for the following year".⁶⁵

50. There may also be labour market constraints which reduce the scope for aid in achieving MDGs in low-income countries:

"Structural features of low-income economies are likely to constrain the capacity to scale up aid. For many countries, because of skilled labour requirements for meeting the MDGs, labour markets in particular are likely to pose constraints to absorptive capacity and the pace of scaling up [...] Increasing demand for large numbers of teachers, clinicians, accountants and engineers will either not be met in the short run or will need to be accommodated through drawing skilled labour from other parts of the economy (public or private sector)."⁶⁶

51. One of the conclusions of a recent Overseas Development Institute Briefing Paper on the implications of increasing aid into Africa was that:

"Rapid increases in aid stand a good chance of being wasted unless they are provided in the context of more carefully prioritised plans than exist at present. Failing this, there is a risk that donor disillusion will develop, leading to broken promises which leave recipient governments with the familiar problem of transient benefits succeeded by high costs as they try to run expanded services and infrastructures with lower than expected resources."⁶⁷

65 Peter Greste, *Ethiopia's Food Aid Addiction*, BBC News, 2 February 2006

66 François Bourguignon and Mark Sundberg, *Constraints to Achieving the MDGs with Scaled-Up Aid*, March 2006

67 Mick Foster and Tony Killick, *What would doubling aid do for macroeconomic management in Africa?*, ODI Briefing Paper, April 2006

52. DFID told us that it takes account of a country’s ability to absorb aid and ensures that collectively the donor community is addressing constraints to absorption. It also uses a Resource Allocation Model to inform decisions about the allocation of its bilateral resources among low-income countries, which takes into account the volume of aid flows provided through multilateral channels and by other donors.⁶⁸

53. However, recent moves by DFID to ‘front-load’ funds suggest that the Department may need to give further thought to how to ensure countries are able to absorb aid. The 2005 launch of the multi-donor International Finance Facility for Immunisation (IFFIm) — a pilot for the International Finance Facility (IFF) — aims to increase the amount of money available for immunisations and developing new vaccines by securing long-term donor funding as collateral for bond issues.⁶⁹ The provision of vaccinations is clearly an example of the benefits of front-loaded investment for reducing later health-care costs. When we asked the Secretary of State about the IFFIm in October 2006, he told us that he hoped it would act as a demonstrator model for future applications of the IFF principle: he said that the IFFIm is “a way of demonstrating that this works because then that means we can continue to keep up the argument with others: if we can do that for vaccination and immunisation, why can we not do that for other things as well?”⁷⁰ But if the IFFIm/IFF policy is expanded, further thought will be needed around how it sits with emerging concerns about the ability of some poor countries to absorb large volumes of aid.

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.

Staffing

55. DFID’s efficiency programme commits it to delivering £420 million of savings through cutting costs or allocating resources better. Annex 8 in the 2006 DR shows DFID’s progress against the efficiency targets. Two of the targets are related to staff: “to reduce staff numbers by 170 UK-based and 124 Staff Appointed in Country (SAIC) posts” and “to relocate 85 posts from London to East Kilbride”.⁷¹ The Department considered it to be too early to say whether the first target is going to be met by 2007–08 whereas the second target, concerning the relocation of staff to East Kilbride, has already been met.

68 Ev 25

69 The IFFIm is supported by the UK, France, Italy, Spain, Sweden, Norway and Brazil and implemented through the Global Alliance for Vaccines and Immunisation (GAVI). For further information, see Box 6c in *DFID Departmental Report 2006*, page 158.

70 Evidence taken before the International Development Committee, 19 October 2006, Q 70 [Secretary of State for International Development]

71 *DFID Departmental Report 2006*, Cm 6824, page 279

56. Beyond the immediate efficiency targets, it is also clear that changes such as off-shoring, outsourcing, greater specialisation in fragile states, increased multilateral funding and PRBS will have a profound impact on both staff numbers and the skills DFID requires in the longer term. To help it meet its staffing challenges, the Department told us that

“Overseas, we are likely to:

- recruit more local staff in fragile states;
- move some UK civil servants from ‘good performing’ countries that receive poverty reduction budget support to fragile states.

In the UK, we are likely to:

- prioritise staffing around core White Paper 3 priorities [helping people get security, income and public services];
- maximise headcount savings from ongoing efficiency programmes, particularly in corporate services; and
- examine the case for moving more staff abroad.

In terms of skills, we will need to develop and recruit individuals to

- work in fragile states (project and programme management skills will be particularly important); and
- influence the international development system.”⁷²

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.

Working with the Foreign and Commonwealth Office

58. As part of the Efficiency Programme, the Government is currently encouraging departments to save costs through sharing services.⁷³ DFID is discussing with the Foreign and Commonwealth Office (FCO) how costs might be saved by sharing services and possibly moving towards a co-location of DFID and embassies and high commissions in more places. Currently, co-location occurs in 34 countries. The Permanent Secretary told us that:

“More could be made of this in some places, and I hope the Comprehensive Spending Review will push us on this front. This cost issue is really important if the UK taxpayer is to get a good deal out of this. DFID can purchase services locally in India and Africa much more cheaply than the Foreign Office currently does, so co-

72 Ev 21

73 http://www.cio.gov.uk/shared_services/

location is not the objective so much as effectiveness plus saving for the UK taxpayer”.⁷⁴

59. The extent of any joint operation between the FCO and DFID would vary depending on the country concerned. In some countries, such as Malawi or Zambia, where the UK’s key interest is development, DFID will take the lead. However in a country like China, where there are also commercial interests, DFID may play a smaller role.⁷⁵

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.

Maintaining the quality of aid

61. Perhaps the greatest challenge facing DFID is increasing aid whilst simultaneously maintaining its quality and effectiveness.

Meeting Public Service Agreement (PSA) targets

62. An important mechanism through which DFID is made accountable to its stakeholders for the quality of its aid is through the setting of PSA targets and through measuring progress against them. The DR is the main publication in which DFID reports on progress against its PSA targets. Many of the PSA targets are related to the Millennium Development Goals. Progress against the targets is often influenced by a wide variety of factors, which make it difficult to assess DFID’s contribution to each target.

63. Where targets are not on course, there is often no specific information in the DR 2006 of the remedial action that DFID is taking. To address this we posed some specific written questions to DFID. In response DFID gave examples of action that it is taking in various countries to meet off-target PSAs; for instance, the proportion of births assisted by skilled birth attendants.⁷⁶ However, this information is not readily available in the DR.

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.

Evaluating DFID projects

65. Maintaining the quality of projects is an important challenge for DFID. One of DFID’s PSA targets is to increase the proportion of its bilateral projects evaluated as successful.⁷⁷ Proper evaluation of DFID projects is therefore vital.

74 Q 35 [Sir Suma Chakrabarti]

75 Q 35 [Sir Suma Chakrabarti]

76 Ev 21 and 22

77 DFID *Departmental Report 2006*, Cm 6824, page 260

66. DFID states:

“Around 56% of projects are reviewed by a team that includes stakeholders beyond the DFID team and/or externally commissioned reviewers. DFID is currently undertaking a piece of work to look in more detail at current practice and determine what the ideal level of external scrutiny might be. Criteria will then be proposed and the relevant guidance will be updated”.⁷⁸

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.

Quality of technical assistance

68. A frequent criticism of aid effectiveness is that it is constrained by overpriced and unhelpful technical assistance. ActionAid’s ‘Real Aid’ report states that, “Technical advisers are often under pressure from donors to “get the job done” rather than take extra — expensive — time to build capacity”; “technical advisers are more focused on meeting donor demands than building capacity [...] In Cambodia, a number of interviewees observed that advisers often write reports that no-one reads because they are long and in English” and “recruitment of technical advisers has tended to focus on the selection of international experts, rather than those who are able to transfer skills”.⁷⁹ DFID has also been criticised in the press in the past for the high fees paid to consultants.⁸⁰

69. DFID told us that, “The best sort of technical assistance is home-grown, locally owned and locally paid”.⁸¹ However, as ActionAid’s memorandum highlights, two recent evaluations of DFID’s technical assistance have cited instances of insufficient local participation and ownership, excessive use of international consultants and insufficient impact upon capacity development.⁸² Yet presumably as part of doing ‘more with less’ — balancing its increasing budget with reduced human resources — DFID will need to contract out more of its work to consultants and other experts. **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.**

78 Ev 23, Response to written question 15

79 ActionAid International, *Real Aid: Making Technical Assistance Work*, pages 29-30, paras a, c and d

80 David Hencke, *The Guardian*, 29 August 2005

81 Q 6 [Nemat Shafik]

82 Ev 33

4 Key issues for DFID

70. There are a number of key issues that have arisen for DFID during 2005–06 that are important to discuss in this report. These issues have varying degrees of prominence within DFID’s Departmental Report, but all remain as current concerns for the Department.

Language training for DFID staff

71. In previous evidence sessions on the Departmental Report we have sought to probe DFID's choice of its partner countries. Identifying what DFID sees as its comparative advantage over other donors has never been easy and at times has seemed to amount to little more than a collection of historic links and the widespread, or official, use of the English language. But with DFID's move into Mozambique and the DRC even those factors seem not to apply. In DFID’s 2003 DR, reference was made to the use of direct budget support as buying donors a “voice” in dealing with the governments of partner countries.⁸³ One of the arguments in favour of budget support is the ability which it gives DFID to engage in policy discussions with governments at a high level.

72. It therefore came as a surprise to us when we visited Mozambique in February 2006 to discover that the language training offered to DFID staff fell far short of that which the FCO provided for its officials in the same postings. The comments which follow should not be read as implying any criticism of the DFID staff in the two countries which concern us here (DRC and Mozambique). In both countries we met DFID staff who were managing to communicate well with relatively little language training. But it was clear to all that the level of language skill was not always up to the task of conducting discussions with ministers and senior officials on the details of the policies which DFID might wish to influence.

73. When we put these points to DFID, Sue Owen, Director General for Corporate Performance, described the FCO, which can offer up to two years of language training before a posting, dependent on job position and country location, as having “a Rolls Royce service and it would be great if we could do that”.⁸⁴ But she added, “It is pretty difficult when you are under the constraints we are under”.

74. We understand the pressure on DFID’s administration budget but that makes it all the more surprising that, in the case of the DRC, DFID has chosen to engage in a French-speaking fragile state. In the case of Mozambique it has decided to make a Portuguese-speaking country one of its largest bilateral partners in Africa. These are DFID's decisions and having made them we expect DFID to equip its staff to do their jobs properly. That means providing a level of language training appropriate to the task. It means resourcing language training from central budgets, and not using up the whole of the DFID Country Programme’s training budget on language training.

83 DFID *Departmental Report 2003*, p.108

84 Q 38 [Sue Owen]

75. We have not explored these issues in detail but, from what we saw in the cases of Mozambique and the DRC, the head of the DFID country team and the majority of the sector advisers need to have a level of Portuguese or French equal to that which the FCO would expect to have in post. If such provision is to be made then DFID will need to look at the length of its staff postings to ensure it gets a reasonable return on the higher investment in language training. We welcome the Permanent Secretary's willingness to discuss this with the Treasury and his acceptance that, as with the FCO, DFID will need a staff margin to allow for people to undertake extended language training.⁸⁵ **We recommend that DFID ensures that key staff in posts such as Mozambique and DRC 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.**

The role of China

76. China's increasing activities in Africa have implications for DFID's China programme, its programmes in sub-Saharan Africa (SSA) and its work with other donors. A report on 'The Impact of China on sub-Saharan Africa' commissioned by DFID-China and published in April 2006 identified six policy challenges for SSA — for example, threats to its manufacturing sector, resource booms followed by economic mismanagement and the overall lack of SSA capacity to respond strategically to China.⁸⁶ The report poses the possibility that China needs to think about engaging with donors on good governance in SSA in order to maintain the rule of law which Chinese investors require if they wish to secure long-term access to SSA resources and markets.

77. The Permanent Secretary told the Committee that, "China is undoubtedly a force for the good and a challenge as well in Africa". He told us that he would be discussing some of these issues in Beijing in September 2006 and was trying to engage the OECD DAC in the dialogue with China.⁸⁷ However, he went on to say, "[Having discussions with the Chinese about good donorship] is proving tough [...] The Chinese have said they are not ready for dialogue yet".⁸⁸ The Director General for Regional Programmes followed up this statement: "[China] have not signed on [to the Extractive Industries Transparency Initiative] yet and our attempts to get them to engage in some of these international fora is hard [...] They do not want to share much information."⁸⁹ **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.**

85 Q 39 [Sir Suma Chakrabarti]

86 Raphael Kaplinsky, Dorothy McCormick and Mike Morris, *Impact of China on sub-Saharan Africa*, April 2006. Available online at <http://www.ids.ac.uk/ids/global/Asiandriversbackgroundpapers.html>

87 Q 34 [Sir Suma Chakrabarti]

88 Ibid.

89 Q 34 [Nemat Shafik]

Gender and education

78. 2005 saw the first MDG target — seeking to eliminate gender disparities in primary education — being comprehensively missed by the global community. Around 60% of those children unable to go to school are girls, and on current rates of progress it will take more than 100 years before all girls in Africa go to primary school.⁹⁰ Missing this first target compromises chances of meeting the 2015 MDG target of eliminating gender disparities at both primary and secondary levels; on current trends, nearly half of all countries will fail to attain gender equality in enrolments even by 2015.

79. Yet, beyond stating that the target remains off-track, DFID makes no mention of this failure to meet the first MDG target deadline in its Departmental Report.⁹¹ In its written evidence, DFID told us that it “gives priority to supporting primary education for all children, especially girls, in countries that are off-track for reaching the education goal.”⁹² Nemat Shafik of DFID told us that the Department is focusing its efforts on areas where the disparities are most extreme.⁹³ We welcome this approach. However, the DR puts forward few concrete policies specifically addressing the failed target, or the resources to underpin them. Promoting the removal of primary school tuition fees is the only substantive policy approach mentioned in the DR — other pledges are vague, such as “raising the profile of girls’ education in PRBS, poverty reduction strategies, sector dialogue and through the Education for All Fast Track Initiative.”⁹⁴

80. Furthermore, the DR lacks information on wider gender mainstreaming measures across DFID’s work, which are central to securing the scaling-up of resources and action necessary to achieve gender equality in education. One World Action’s submission highlighted the need for more effective gender mainstreaming within DFID.⁹⁵ The Permanent Secretary was up-front about the fact that, “We need to do better [...] I am not going to pretend that we have the answer [to gender mainstreaming] yet.”⁹⁶ DFID is due to publish a gender action plan in November 2006. **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.**

Trade — coordinating with EU member states

81. DFID has a joint target with DTI to secure agreement to a significant reduction in trade barriers, leading to improved trading opportunities for developing countries by 2005.

90 Global Campaign for Education, *Girls Can’t Wait* (2005), p.2

91 See also Paragraphs 61-62 on the lack of information in Departmental Reports about remedial actions for missed PSA targets.

92 Ev 31

93 Q 12 [Nemat Shafik]

94 DFID *Departmental Report 2006*, p.30

95 Ev 36

96 Q 11 [Sir Suma Chakrabarti]

This target has not been met despite the ambitious aims for a development-focused round in the WTO. It is our view that, given Doha's billing as a 'development round', DFID should have taken the lead on meeting the joint target, rather than the DTI. There appears to be little appetite on the part of the major powers for agreeing ambitious openings in agriculture, where most distortions remain, or Non-Agricultural Market Access (NAMA) which would enable other aspects of the Hong Kong agreement to be put into effect.

82. A limited development package was agreed in Hong Kong, but this was arguably not a generous offer on the part of the developed countries — in fact the EU already offers much of what was contained in the package. Our recent report on the WTO Hong Kong Ministerial took the view that, despite the UK Government's intention to secure a development round, it was unable to influence its EU partners to adopt a sufficiently pro-development stance in international trade.⁹⁷ The DAC Peer Review comments that DFID's enthusiasm for certain initiatives is not always shared by other partners.⁹⁸ In a context where the European Commission negotiates on behalf of Member states, it is important that Member states share a common position. This should not be left until the last minute in the event that the Doha Round is restarted.

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.

Economic Partnership Agreements

84. DFID's Departmental Report states that "more open markets pose particular challenges for countries which have benefited to date from preferential access to developed country markets — for example the Africa Caribbean Pacific (ACP) group."⁹⁹

85. According to the agreed timelines, 2006 will be the year in which the first draft texts of the Economic Partnership Agreements (EPAs) will be produced, and in which a "formal and comprehensive review" will be carried out of the EPA negotiations.¹⁰⁰ Moreover the non-LDC¹⁰¹ ACP countries have committed to make known in 2006 whether they will be in a position to sign an EPA, or whether they will refer to Article 37.6 of the Cotonou Agreement. In this article the EU has committed to "examine all alternative possibilities, in order to provide these countries with a new framework for trade which is equivalent to their existing situation and in conformity with WTO rules."

97 Third Report from the Committee, Session 2005-06, *The WTO Hong Kong Ministerial and the Doha Development Agenda*, HC 730-1, pp.11-12

98 OECD DAC Peer Review (2006), p.11

99 DFID *Departmental Report 2006*, para 5.7

100 Article 37.4 of the Cotonou Agreement

101 Least Developed Countries

86. While all parties agree that EPAs should, first and foremost, be tools for development of the ACP states, the EU and ACP approaches are not the same. The ACP would like to see, in parallel, greater emphasis on development measures accompanying and linked to the trade negotiations. Some ACP and EU officials and politicians, as well as representatives of civil society, have increasingly questioned the development dimension of EPAs, and a large coalition of North and South non-governmental organisations has even campaigned to ‘Stop EPA’.

87. In April, African trade ministers collectively expressed their “profound disappointment at the stance taken by negotiators of the European Commission in so far as it does not adequately address the development concerns that must be the basis of relations with Africa.”¹⁰²

88. Our predecessors recommended that there should be evidence that EPAs will produce the desired poverty outcomes prior to any final agreement on these. The UK Government response stated that it was working to ensure that analysis of poverty impacts and the Sustainability Impact Assessments (SIAs) will feed into policies on the EPAs.¹⁰³ In a Westminster Hall debate in June 2006, the Government said that SIAs were being conducted but that the results were confidential to the ACP grouping and that neither the Government nor the Commission had seen the results.¹⁰⁴ This begs the question of how the Government and the Commission will ensure that EPAs produce a positive impact on poverty. The Government has said that it supports the conclusions of the European Council which called for SIAs to be conducted at an appropriate time.¹⁰⁵

89. In October the General Affairs Council agreed to provide €2 billion for Aid for Trade, in addition to the current European Development Fund, to support the Economic Partnership Agreements.¹⁰⁶ We welcome this initiative as a positive contribution to helping ACP states with supply side constraints which can prevent them from taking advantage of improved market access.

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 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.

102 African Union Trade Ministers' Declaration on EPAs, Nairobi, 14th April 2006

103 Government Response to the Sixth Report from the Committee, Session 2005-06, *Fair Trade? The European Union's Trade Agreements with African, Caribbean and Pacific Countries*, Cm 6605, p.8

104 HC Deb, 8 June 2006, col 164WH [Westminster Hall]

105 Ev 30

106 Press Release, General Affairs and External Relations 2756th Council Meeting, 16-17 October. 13340/06 Presse 265

5 Conclusion

91. DFID faces a major challenge in doing ‘more with less’: ensuring that expanding budgets are spent in a way that maximises poverty reduction whilst operating within key constraints (notably, reduced staff numbers). Maintaining DFID’s reputation of excellence throughout this efficiency drive will need careful analysis of which aid mechanisms best suit Departmental and global circumstances.

92. As well as making recommendations about DFID’s administration and policy in this climate of change, we have made suggestions in this report as to how future Departmental Reports can convey information regarding DFID’s operations in a clear and accessible way. We look forward to DFID’s response to these recommendations, which are listed below.

6 Conclusions and recommendations

1. We recommend that the financial tables in Annex 1 of Departmental Reports include a breakdown of ODA 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. (Paragraph 12)
2. 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. (Paragraph 14)
3. 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. (Paragraph 19)
4. 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. (Paragraph 24)
5. 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. (Paragraph 27)
6. 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. (Paragraph 34)
7. 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. (Paragraph 45)

8. 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. 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. (Paragraph 47)
9. 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. (Paragraph 54)
10. 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. (Paragraph 57)
11. 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. (Paragraph 60)
12. 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. (Paragraph 64)
13. 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. (Paragraph 67)
14. 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. (Paragraph 69)

15. We recommend that DFID ensures that key staff in posts such as Mozambique and DRC 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. (Paragraph 75)
16. 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. (Paragraph 77)
17. 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. (Paragraph 80)
18. 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. (Paragraph 83)
19. 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. (Paragraph 90)

Formal minutes

Tuesday 21 November 2006

[MORNING SITTING]

Members present:

Malcolm Bruce, in the Chair

John Barrett	Mr Quentin Davies
John Battle	James Duddridge
Hugh Bayley	Ann McKechin
Richard Burden	Joan Ruddock

The Committee considered this matter.

Draft Report (Department for International Development Departmental Report 2006), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 92 read and agreed to.

Summary agreed to.

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

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

[Adjourned till this day at 4.20 pm]

List of witnesses

Tuesday 11 July 2006

Page

Sir Suma Chakrabarti KCB, Permanent Secretary, **Mark Lowcock**, Director General for Policy and International, **Nemat Shafik**, Director General for Regional Programmes, and **Sue Owen**, Director General for Corporate Performance, Department for International Development

Ev 1

List of written evidence

1	Department for International Development	Ev 19
2	ActionAid	Ev 32
3	Dalit Solidarity Network (UK)	Ev 34
4	One World Action	Ev 35
5	Tropical Health and Education Trust	Ev 38
6	World Vision	Ev 39
7	Plan B	Ev 43

Reports from the International Development Committee

The Government Responses to International Development Committee reports are listed here in brackets by the HC (or Cm) No. after the report they relate to.

Session 2005–06

First Report	Delivering the Goods: HIV/AIDS and the Provision of Anti-Retrovirals — Volumes I and II	HC 708–I&II (HC 922)
Second Report	Darfur: The killing continues	HC 657 (HC 1017)
Third Report	The WTO Hong Kong Ministerial and the Doha Development Agenda — Volumes I and II	HC 730–I&II (HC 1425)
Fourth Report	Private Sector Development — Volumes I and II	HC 921–I&II (HC 1629)
Fifth Report (First Joint Report)	Strategic Export Controls: Annual Report for 2004, Quarterly Reports for 2005, Licensing Policy and Prior Parliamentary Scrutiny (CM 6954)	HC 873
Sixth Report	Conflict and Development: Peacebuilding and Post-conflict Reconstruction – Volumes I and II	HC 923–I&II
Seventh Report	Humanitarian Response to Natural Disasters - Volumes I and II	HC 1188-I&II

Oral evidence

Taken before the International Development Committee

on Tuesday 11 July 2006

Members present:

Malcolm Bruce, in the Chair

John Barrett
John Battle
Hugh Bayley
John Bercow

Mr Jeremy Hunt
Ann McKechin
Joan Ruddock

Witnesses: **Sir Suma Chakrabarti KCB**, Permanent Secretary, **Mr Mark Lowcock**, Director General for Policy and International, **Ms Nemat Shafik**, Director General for Regional Programmes, and **Ms Sue Owen**, Director General for Corporate Performance, Department for International Development, gave evidence.

Q1 Chairman: Good afternoon, nice to see you all again. Perhaps you could introduce your team, although we all know everybody.

Sir Suma Chakrabarti: Thanks very much, Chairman. First of all, thank you for rearranging the time and date of this hearing; it helps to have everyone here on the day of the meeting. There have been a few changes so I will go through the team: Nemat Shafik, who I think many of you know, is the Director General for Regional Programmes; on my far left is Mark Lowcock, who has switched jobs and is the Director General who runs Policy International now; and Sue Owen, we are delighted to have her, having been at the Treasury, she has been Director General of Corporate Performance for six weeks now, so is a great addition to our board.

Q2 Chairman: Thank you very much for that. The change of time has slightly diminished our Committee, which is partly due to the Energy Review, but you have got quality here. We will keep you busy! Perhaps if I can just start in the most general of ways. You have had a DAC review, you have produced your Annual Report¹ and produced a White Paper² so nobody can suggest you have been standing around waiting for things to happen, but you have, which any department must regard as a very welcome position, had a substantial increase in funds and a commitment to a substantial further increase in funds, but you are also being constrained in terms of your staffing numbers. I suppose I want to ask you how difficult a problem is that for you? What effect does delivering more aid and more money with less staff have on the Department?

Sir Suma Chakrabarti: Thank you very much. I think it is going to be a difficult management challenge, there is no doubt about that. Just to give

you the background, in the current spending review period we are in, we are halfway through the three years, we had a 30% increase in the budget, as you know, and a 10% cut in the headcount. So we are already having to make a 40% productivity gain. We are on course for doing that. If we, in the next spending review, next July, find we have, let us say, a straight line through to 2013, the 0.7 target date, but with the same headcount, then we are talking about another 40–50% productivity gain. This is a big challenge, undoubtedly, but that is something we are up for. I think we will have to consider a number of things in order to, frankly, give you the quality assurance that we would like to give you, as a board, on the quality of the programmes. The first thing we need to consider is what is core and what is non-core; in other words, what do we want to make in-house—still do the bits it is important for the Department to do—and what sort of things should we do beyond the departmental boundary. We need to look at options for outsourcing and for off-shoring. As a principle, I think we are keener on the off-shoring idea but that would require the Treasury to play ball on our administration costs in order to take advantage of some off-shoring opportunities. So we will have to look at a number of options there. I think we are also in a better position than many other departments in that we have operations overseas; we have already off-shored, in a sense, so we can decentralise. We have big offices in India and South Africa where there are opportunities, obviously, to use Indians and South Africans to help with the programmes, as we have been doing, to grow that. We will have to, I think, also, look at the use of multilaterals. At the moment, we put a little less than 40% through the multilateral channels. There is an issue as to whether multilateral performance can improve sufficiently so that we can put more money through the multilaterals, which also helps with other objectives like harmonisation and so on. So having a reform process and other things like that is very important to us. I think we have to recognise, and we are doing a lot of this already, that we have to look at our work methods. We are known for the quality of our analysis, and I

¹ DFID, *Department for International Development: Departmental Report 2006*, Cm 6824, May 2006: <http://www.dfid.gov.uk/pubs/files/departmental-report/2006/default.asp>

² DFID, *Eliminating world poverty: Making governance work for the poor*, Cm 6876, July 2006: <http://www.dfid.gov.uk/wp2006/>

11 July 2006 Sir Suma Chakrabarti KCB, Mr Mark Lowcock, Ms Nemat Shafik and Ms Sue Owen

do not want that to slip—in fact, I want to improve that in some areas—but we will need to look at whether we can prioritise better and be more selective. You will not be surprised that that will require, frankly, some help from Parliament and from our Ministers to do that. A lot of the choices we make are partly driven by interests here, and quite rightly so. So those are the sorts of issues we face.

Q3 Chairman: I know that colleagues will want to explore some of the points you have made in a bit more detail, but there is one slightly simple, stark point about numbers. I cannot remember the exact figure but the difference in the costs of employing people in London versus East Kilbride seems to be very substantial. First of all, why is the difference as great as it is? I can say, as a Scottish MP, I am delighted to hear of the transition but I am not delighted to hear that people are not getting equal pay, but is that an element of the structure? Is it a real cost saving if, for example, you based people in East Kilbride instead of London because you simply reduce your administrative costs?

Sir Suma Chakrabarti: That is a very good point and I will ask Sue to talk about the cost issues, as to whether there really is a cost saving overall. For us the key issue on East Kilbride has been, perhaps, unlike the first 15, 20 years of East Kilbride, the question of making sure it really is seen as the other headquarters of DFID. We have two headquarters. We are committed to East Kilbride and keeping that office going. What is interesting is that we have, of course, a lot of people who are now mid-career who, frankly, cannot afford to live in the South East.

Chairman: We have met a few of them.

Sir Suma Chakrabarti: You have. For us, therefore, we can build up some policy capacity in East Kilbride with people who want overseas/East Kilbride careers rather than London/overseas careers. That is great news but we have to build up a minimum size of teams there for that to be viable. We are doing that, as you have probably seen. On relocation, we have done very well in terms of relocating over 80 jobs in the last couple of years. That has gone well. Sue, do you want to say a bit about costs and so on?

Ms Owen: Yes. We have saved a bit with the relocations that we have made, and that comes through the difference between the fact that people in Scotland do not get the London Weighting, but against that there is the cost of the relocation itself. So we have saved about £600,000 through relocating about 85 posts to East Kilbride. However, that is not the reason why it is cheaper to have people there, and the reason it is cheaper to have people there is not because of pay—people are paid the same, apart from a little bit of London allowance. So the unit costs of East Kilbride versus London will depend entirely on the grade mix of the people that you have got in the two locations. The fact that it is cheaper is largely to do with other administration costs. We pay rent in Parliament Street but in East Kilbride we own the building and so we pay a capital charge to the Treasury for that, which is considerably smaller

than the rent that we pay in London. Then there are other costs which are slightly cheaper—cleaning and that kind of thing—but the driving factor is the difference in the accommodation costs.

Q4 Chairman: The point is, of course, the Treasury are asking you to reduce your headcount, not just your administration costs, there. At the moment you have got to reduce your numbers even more. I think that is the point to stick to. You have said you are up for it and you say you can do it; I think colleagues will want to press that a bit further. I just want a final question on this one: if you are taking that cut, one thing people are saying is well, maybe you were actually over-staffed or well-staffed because of historical reasons. Where will the cuts fall? Will they fall on the field offices or will they fall on the larger offices? Is there an irreducible minimum size of office?

Sir Suma Chakrabarti: I will ask Nemat to say a bit about size of offices because we have different models for different places. I do not want to pre-empt the analysis, obviously, of what is core and non-core, but I would be very surprised if the analysis did not show that our field presence was part of our core. It is what makes us more effective than most other donors because we are in the field with such a big presence. There would have to be shifts within the field between fragile states and better performing states, and we can talk about that. I think there is an issue in the spending round as to whether the Treasury focuses on headcount, which is actually a more limiting constraint, or administration costs overall. On the other point you make about whether we are, in a way, well-staffed, I ask myself: in 13 December 2011—round that time—when actually the British aid programme will be as big as the size of World Bank programmes now, the World Bank has 10,000 people and we currently have 2,800. I think that speaks for itself.

Q5 John Battle: Just a comment: some of the national charities, when there was a debate about moving out of London and relocating in Manchester, Leeds and elsewhere, found that they then paid everybody transport costs to come back for meetings in London and actually lost the benefits of moving away. So there are tensions either way. I actually do not want to ask about home and the arrangements here, but the arrangements internationally and overseas. In terms of capacity, it strikes me, while we have been looking particularly at African countries dealing with post-conflict, that some of the very good and innovative work that DFID staff are doing is trail-blazing. Are you able to get the best and the brightest into the field in the right volume in the right places, or do we end up with more staff in a country that, perhaps, has a programme that is ticking over and doing okay and you are able not to move enough staff perhaps to post-conflict situations where the real imagination and action needs to be carried forward? What are the tensions there and how are you able to manage that?

Sir Suma Chakrabarti: I am going to ask Nemat and Sue to say something about that, but that is a very germane point for us. If we are going to do more in fragile states—the DRCs, Somalias and so on—we have to make sure we have some of our best, brightest and most skilled people going into those places. Our experience at the moment is a bit that in some of these conflict situations you get people who are interested in conflict development issues and you tend to get the younger people—people who are not attached and do not have family issues to deal with—or people who are towards the end of their careers. Some of the issues like getting the mid-career people to these places is coming up. Nemat, do you want to say a bit more?

Ms Shafik: As Suma said, the headcount pressures, what we expect in coming years is actually we are hoping to put more people in fragile states because we recognise that it is a huge source of comparative advantage and there is a huge need. We expect to have less people in our well-performing, low-income countries where they do not need as much support from DFID people, and we expect fewer people in middle income countries, going forward. Having said that, Suma is absolutely right in terms of the incentives to get people to go to those places. We have recently done an exercise where we have surveyed them and asked them what is it that would be required to attract more of them into these difficult environments, and I think Sue will summarise that, but it is a complicated set of issues. Money is part of the story but it is not the whole story; it is also other things around recognition, around flexibility, around spouses and support needed at different stages in life for spouses and children. Sue, maybe you want to highlight that.

Ms Owen: Yes, it is a challenge for us. At the moment, in a lot of those countries we do have a lot of vacancies because those posts are hard to fill; in some cases because they are plain dangerous and in other places because they are unattractive places to live. We have different arrangements for staff in countries depending on the security threat, for example. So in Iraq and Afghanistan we do not allow people to travel with partners or children; in Pakistan, which you have just been to, we do allow partners but we do not allow children over eight. So there are various restrictions like that which impinge on people. We do pay higher allowances. It does cost us more as a department because in dangerous places we give people patterns of working like six weeks on and two weeks off, and we have to arrange for cover and that sort of thing—breather breaks. It is quite stressful for people in some of these places and a lot of people are put off by that. There are people who rise to the challenge and some of our best and brightest young people have been to these difficult places, risen to the challenge and proved that they have got the qualities for promotion and have actually been promoted earlier than they might otherwise have been as a result. Overall, the bottom line is that it costs us about double to put someone in a fragile state than it does in another country abroad. I have not got precise figures but that is the sort of ballpark we are talking about. So for the

spending review period which Suma was talking about, yes, we can do what Nemat was saying, we can reduce numbers in well-performing, low-income countries and we can do more through multilaterals, but to the extent that we are putting more people into fragile states it is going to cost more. So going forwards into the spending review period, a flat admin budget, probably if it was flat in real terms, we could manage but a flat nominal administration budget would be a real challenge for us. Similarly, if we had some flexibility on headcount it would be a little bit easier.

Q6 John Battle: Let me, as it were, give you more arrows for your armoury. As well as the innovative work in the fragile post-conflict states, what about somewhere like Malawi, where 20% of the highest level civil servants in the Ministry of Agriculture have been devastated by HIV/AIDS and wiped out? So they are asking us to help with technical assistance. The report from DAC recently showed a reduction in DFID's technical assistance—I think it is down to only 9% in 2004 from 20%. Have you a problem reconciling those figures as well? If we are asked for more technical assistance are you in a position to provide it? If we do not provide it does that jeopardise the programmes?

Sir Suma Chakrabarti: I think there may be an issue about how technical assistance is scored there. Taking Malawi, where you have been and which you know well, in the emergency health service programme, where we have, with VSO support, helped fill gaps and get training, all that is working well and retention in the health service has improved in Malawi in the last two years. I do not think that scored as technical assistance because I think that would be scored as a financial aid transfer, but actually what they are using the money for is technical assistance.

Ms Shafik: Exactly right, and what is going on is that we have learned over time that the best sort of technical assistance is home-grown, locally owned and locally paid. What we count as technical assistance is really external advice and external experts, whereas increasingly our budget support is helping the government to hire its own staff to do its own work, and I think that is a lot more effective.

John Battle: Thank you.

Q7 Chairman: That just raises an issue about the visits we have made. Inevitably, of course, your staff on the ground are bound to complain if they feel they are being asked to do more with less, and we would be quite sympathetic to that. However, a place like the DRC is not somewhere where we have a traditional connection. It is staff-intensive at every level, partly because of language, partly because it is new and partly because it is a conflict situation. In this kind of pressure do you not sometimes think: “Why should we be there as opposed to being in the places where we have a good track record and we know about, and where we can staff it up properly?” Is there a conflict there? Hilary Benn gave us a

 11 July 2006 Sir Suma Chakrabarti KCB, Mr Mark Lowcock, Ms Nemat Shafik and Ms Sue Owen

reason but we still ask the question: what is it that DFID has to offer the DRC that other donors do not have?

Sir Suma Chakrabarti: I have not been to the DRC but I think Nemat has.

Chairman: This is not a criticism, by the way, of DRC staff.

Sir Suma Chakrabarti: No, and to be honest, from our point of view as managers, we welcome this sort of questioning because I think that is exactly what we think about: is there a comparative advantage for us to be in DRC? There are two: one is a broad level thing, which is happening everywhere, which is that DFID is now seen second only to the World Bank, as a sort of global donor in low-income countries. Therefore, partner countries want us there. It is very difficult for us to persuade countries that we should get out of a sector, or out of a country; that is not something they want; they like DFID being there. That is a macro problem. Then, at the DRC level, I think there are probably two issues for me. One is that one of DFID's strengths, as people like Nemat and Masood Ahmed who was here with us before are always pointing out, is in the area of political economy and governance. I guess, as you are moving along that continuum in DRC from conflict through to trying to have a more effective state, DFID's skills are actually important. The other reason often given is that the donors you see in the DRC (again, I have not been there) are not perhaps the most like-minded type of donors, and perhaps do not subscribe as strongly as some others to the Paris Declaration on aid effectiveness, and so on. DFID does, and helps the Government to try and bind some of those donors together.

Ms Shafik: I would add three points to what Suma said. First, in terms of our decision to go into the DRC, we use three criteria to decide which countries we are in: need, how much poverty there is, how good their policies are and then, increasingly, we are looking at whether they are over-aided or under-aided by the rest of the world. We try and compensate for the failures of the international system. DRC is a country which has historically been under-aided by all donors to an extreme degree. So that was an important and compelling reason. On the poverty numbers they clearly score—it is one of the poorest countries in the world; Jan Egeland has called it the largest humanitarian crisis in the world. So on need they qualify and their policies are dreadful but in terms of support from other donors they do terribly badly, so we felt we had a unique role, in particular because of our comparative advantage on governance as well as on the humanitarian side. I think we had quite an important contribution to make.

Q8 Mr Hunt: On the occasion of your departmental report, let me start by congratulating DFID because I think you are, without question, the nicest government department. In my year on this Committee I do not think I have met a single person from DFID that I have been able to dislike. There is, I think it is worth saying, a fair degree of cross-party consensus about international development issues.

My concern is that in that rather cosy environment—cross-party consensus, nice department and popular Secretary of State—some of the big questions are not being answered, or even asked. If you look across the whole world you can see, over the last 20, 30 years, some tremendous development success stories, particularly in India and China, which feel like they have cracked the problem; even if they are not there yet, they will be in due course. However, in Africa it has been a pretty static situation, in terms of poverty, despite huge effort, huge goodwill and huge amounts of money being poured in. The comparison I make is the way the private sector in the rich world has carried on growing like crazy, and the private sector really does it by specialisation; you have one company that says: "We are just going to be doing not just IT but this bit of the IT market and we are going to be the best in the world at that." That specialisation seems to be totally missing from the international development sector, with a few honourable exceptions—perhaps Médecins Sans Frontières, or whatever. Basically, everyone tries to do everything in a way that seems to work very well for political audiences at home. If there is a terrible crisis on AIDS then every development agency can say: "We have contributed *this*", and if there is a terrible tsunami every agency can say: "We did *that* for the tsunami", but you do not have that specialisation. I want to put it to you that in an environment where we are massively going to be increasing aid we need to address the hard question of whether the global development community should be responsibly specialising; whether DFID should say: "Okay, we are just going to do health", or "We are going to do health and something else", or "We are just going to do these 10 poorest-of-the-poor countries", and set an example to other donors and encourage them to specialise. I am sorry it is a long question but I am coming to the point. My concern is the big flaw in the structure, at the moment. There is no real accountability; if we miss our Millennium Development Goal on AIDS, which I happen to be interested in, the truth is that it will be no one's fault because everyone will be able to say they did something for HIV/AIDS and it will be no one's responsibility that we have failed to halt or reverse the spread of HIV/AIDS. So I just want to ask whether we should be addressing some of those big questions and, given DFID's incredibly influential role in the global development community, whether DFID should not be taking more of a lead in that area.

Sir Suma Chakrabarti: I am not sure whether "nice" is a word I would really like very much. I think we are hard-headed as well as being nice, actually. I think, if I may say so, we do ask ourselves those questions. They are not in the public debate and they ought to be, so I am really glad you have raised them. I want to answer a number of points you made. First of all, on Africa (we will no doubt come back to this later on), it is worth saying that Africa is not the basket case it is painted to be always. For the last five years—not well-known—Africa has out-performed the world economy every year. That has not happened since the 1960s. There are a number of

11 July 2006 Sir Suma Chakrabarti KCB, Mr Mark Lowcock, Ms Nemat Shafik and Ms Sue Owen

African success stories now, but also many countries where we are really quite worried about policies and so on—Nemat mentioned one of them. India and China are quite interesting. The India renaissance, in many ways, started in the early-90s with the debt crisis. Until then, India's policies were hopeless. What is the lesson I take from that? I think policies matter, to the extent that the Committee and others can press us to push for good policies. That is really important, and that is one of the lessons for Africa as well—governance, good policies, and so on. Specialisation and trying to cover the waterfront, absolutely. I think the international system is all over the place in terms of too many donors trying to do too many things. Some countries, to be frank, are better at this than others. Some donors do have little space in their capitals to specialise more. The Dutch, Germans, Swedes and Norwegians have much more. They have debates in their parliaments and in their headquarters but their field staff are given more of a steer that it should specialise a bit more. One of the problems I alluded to earlier is that DFID, because of its success, everyone wants us in every field. We can go through all the MPs here who have raised questions in every single area, and if we pulled out of one area we would undoubtedly get questions as to why we were doing so. So the political incentives in the UK are part of the issue here as well. Therefore, what I think is leading to specialisation for us is actually at the country level. Certain countries are themselves saying: "Yes, we think DFID is great but we do not want you in every sector, thanks, because we do not want a donor in every sector. Take Zambia, where I have just been a couple of weeks ago. The Government there, quite rightly, said "We will do a division of labour." In the end, DFID still ended up in five sectors; there should have been fewer but they have chosen five, and the Norwegians and Germans three and two. So the actual specialisation, I am afraid, is going on more in the field now. I think, at headquarters level, a lot of it is to do with not just the bureaucrats wanting to do this but actually having the political support for doing so.

Ms Shafik: The best thing we have for specialisation is our commitment to put 90% of our aid in low-income countries, and that forces us and enables us to resist a lot of pressure and to spread ourselves out more thinly, particularly in middle-income countries where there are huge pressures and demands.

Sir Suma Chakrabarti: Our concentration ratio has risen in the last few years.

Ms Shafik: Which we have met for the first time this year.

Q9 Mr Hunt: Can I come back to you on this accountability issue, because if we miss all the Millennium Development Goals it is going to be no one's fault and we are all going to be able to pat ourselves on the back and say: "We increased aid to 0.7% of GDP; we were good people, we did our bit". Do you not think if DFID was bold and said: "We will take responsibility for malaria", and you announced that by 2015 malaria was wiped out of Africa, let us say, your 2,800 people would damn

well make sure that malaria was wiped out by 2015 because, having made that commitment, you would focus everything on making it happen and you would have that commitment to a single purpose, which is what makes Microsoft so successful in its sector, or Toyota so successful in its sector. I know you can overdo these comparisons but do you not think we need a more accountable system?

Sir Suma Chakrabarti: I fundamentally agree that the system would benefit from more specialisation, and so I would be up for that. Microsoft and Toyota do not work in a politically accountable system where a number of different stakeholders are saying: "Actually, I want out of Toyota 10 different types of cars". So they are much more demand determined. We are demand determined as much as we can be but we also have supply as well, and pressure groups and interest groups here. So if I said "We will just do malaria" and if Hilary Benn agreed to that, on which I would be surprised, but if he did, then the people in Parliament who care about water, who care about HIV/AIDS, and so on, might think it is a bit of an odd choice. That is part of the pressure we are under, but from a manager's point of view I wholeheartedly agree with you.

Q10 Mr Hunt: At the end of the day, what you are really saying is that our customers actually are parliamentarians and the British public, not the poor people of the world. I am proposing a model which I think would be far more effective for tackling poverty, and I would like, if you thought it was a better model, DFID to be taking a lead in saying: "Look, if you really want to tackle poverty we need specialisation, we need to concentrate on certain sectors and become experts, not spread ourselves thinly."

Sir Suma Chakrabarti: I think we have multiple stakeholders: obviously, taxpayers here, parliamentarians here, ministers here, but we also do have poor countries and their people, and what I think I am saying, fundamentally, is we are getting more joy in terms of specialisation from the demand end of the spectrum than we are at the supply end. I am being very frank about it. I think that is what is happening. Talking about accountability, I could not agree with you more; that is what this is about. A few years ago you would not have had in here a Public Service Agreement (PSA) which actually says: "Yes, we are collectively responsible for these Millennium Development Goals (let us say in Africa)". However, if things are going wrong on primary school enrolment for girls in Africa we have to bear part of the blame, and what are we doing about it, as an organisation? That is what this is all about. You quite rightly asked us in a written question "Well, what are you doing?" We have tried to have a more accountable system. This is a system which we are trying to sell now to the other donors, not with a great deal of joy, I have to say, for some of the reasons you point out. We are quite comfortable with our collective accountability—all too comfortable.

 11 July 2006 Sir Suma Chakrabarti KCB, Mr Mark Lowcock, Ms Nemat Shafik and Ms Sue Owen

Q11 Joan Ruddock: My question is, where does gender lie in your policies? I tackled the Department on this just a year ago, I think, and I am very keen to follow up. I am also looking at One World Action and their written submission to us, in which they tell us: “The restructuring of the Policy Division has resulted in the position of a Gender and Rights Adviser in the Exclusion, Rights and Justice Team³.” This amounts to just two staff members. They also comment that within the five Policy Division groups and teams, gender mainstreaming is patchy. I said a year ago you did not have a gender strategy. I wonder if you believe you have one now.

Sir Suma Chakrabarti: I will ask Mark to comment on this in detail because this morning our development and policy committee met to discuss where we were on gender, and it was not because we knew we would face a question on this; I can assure you it was programmed in before. As I said last year to you, I did think there was an issue here, I am not denying that. What had happened is that 10 years ago we were seen as amongst the leaders in this area, and I think we have done an evaluation now which I think we publish this month or next, and that will show undoubtedly that we are still doing very well on the policy work, but what has gone wrong is the movement from policy into the mainstreaming of the programmes, partly because programmes have shifted—there is a lot more budget support around and so it is more difficult to identify the gender component. Nevertheless, even so, I think there is a job to do in terms of working with some of those countries on making sure gender is part of their plan, so part of their strategies, and so on. So there is an issue there. What is going to happen to follow this up? We are going to write up a gender action plan and that will be about mainstreaming and how we do better in DFID on that. That will be ready, I think, in the autumn to show to the Committee. We have got two or three good examples of country programme level where we are taking gender seriously—Zambia, again, where I have just visited, girls’ education, abolishing primary school fees and so on has lifted the ratios, but we need to do better. So I am not going to pretend that we have the answer yet. Mark?

Mr Lowcock: The fundamental position is we have made a start but we have got an awfully long way to go. The evaluation will be published later this month, but the headline is that compared to a decade ago there are more people in the organisation who are better sensitised to these issues. We have got better policy and knowledge management work. The fundamental challenge is mainstreaming. So we can point to, as the evaluation itself does, a bunch of examples which are very good. In Nepal we have contributed to a halving of maternal mortality over the last 10 years. In the education sector, the announcement the Government has made to spend £8.5 billion over the next decade on education will fundamentally address the gender inequality at the primary level. In Zambia we have just had very good monitoring reports on the reduction in the gender

gap there, but the problem is these examples do not add up to a big enough overall package and impact. This mainstreaming challenge is the generic challenge, actually, that all of the agencies committed to better progress on gender are trying to get to grips with, and that is one of the things the evaluation says. The problem we have is the same problem the Nordics and the other progressive donors have. So what the action plan will do is set out actions in a number of areas. One is to do with our own skills levels. It is not the case that we only have two people in one little bit of the Policy Division who work on gender. I had a meeting this morning with our education team who have a couple of people who work on the gender dimension and a meeting yesterday with our growth people, who are thinking about how women can benefit from economic growth, and we can tell a similar story in other country programmes. Skills are still a big issue. Another is getting into countries’ own development strategies a stronger focus on the position of women and the things that would make a difference to women. Some of them are to do with public expenditure, like better maternal health services; some of them are to do with wider issues of public policy, access to land and access to credit services. Personally, I think the biggest single challenge for us in this area is to do better in helping developing countries integrate gender issues into their own development strategies. It will be a very good test for us to continue to be asked these questions: are we doing better in future than we have done in the past? That is the fundamental test.

Q12 Joan Ruddock: I am grateful and, obviously, look forward to reading the evaluation report. You mentioned Nepal, which is a bit off this Committee’s agenda, but I have to say I think there is a very good example in Nepal of a failure of DFID’s which is to deal with the situation, or to provide support, to the widows’ organisation in Nepal. It is one of the biggest issues of all; women are completely scorned if they are widowed in Nepal. They are suffering, obviously, because of the tremendous loss of life there of the men and I think you will find there was a request for support for a shelter, which has been turned down. I would just say that there are some things that are not the obvious ones, like maternal mortality and girls’ education, that need to be addressed, and I think you may find an example right under your nose there in Nepal, if I might say so. I do not expect you to respond to that. Can I move to the issue of girls in school, because, of course, one of the shocking things that we already know is the missing of the first MDG target on gender disparities in primary education in 2005. I wonder what has been the Department’s reaction to that and what kind of changes do you intend to make to try to advance the achievement of the target.

Sir Suma Chakrabarti: It is, again, going back to the earlier question, this is exactly the sort of thing we ask ourselves when we see our directors around the PSA objectives. “What are we going to do, collectively with other donors?” “How are we going

³ Ev 36

to push the others and how are we going to push the countries to focus more on these issues?" Nemat, do you want to say a bit about what we are doing on that target?

Ms Shafik: As Suma said, I meet regularly with each of the directors for each of our regions and probe each MDG and say: "What are you doing and why are you not delivering?" In the case of gender equality on education, what we have done is focus our efforts on areas where the disparities are most extreme. We have just launched, for example, a major programme in northern Nigeria where, as you probably know, the social outcomes statistics are dreadful, even by African standards. That is very focused, looking at a very creative mix of girls' schools, female teachers, flexible hours, and so on, to try and increase female enrolment. We have had more success in places like Uganda and Malawi where we have seen female enrolment come up quite a bit, I think, with this focus on parts of countries in the regions and countries where the problems are greatest. We have got a similar story in Asia, where, again, particularly in Bangladesh and Pakistan, we have very gender-focused primary enrolment efforts to try and increase the numbers.

Q13 Joan Ruddock: Can I ask one final question of you in terms of the evaluation that you have seen, and that is whether you would consider an accountability matrix being applied, similar to that which has been adopted by the World Bank?

Sir Suma Chakrabarti: I do not know about the accountability matrix of the World Bank, so I may have to look at it and get back to you on that. Mark, do you know?

Mr Lowcock: I think we will have something which is very explicit about what the actions are, who internally is responsible for them and how we are going to monitor progress against them. That is, essentially, the principle behind the Bank's frame. So, yes, we will have something very similar to that.

Joan Ruddock: Thank you.

Q14 Hugh Bayley: Sir Suma, I would like to push you a bit further on what you mean by productivity. I am not sure it is wise, if your goal is to maximise the outputs or, better still, the outcomes of the Department, to use the word productivity to describe a process where fewer staff are disbursing more money. If your function is to disburse money, of course, fewer staff disbursing more money would equal a productivity gain, but if your goal is to buy, as efficiently as possible, progress against Millennium Development Goals, then disbursing more money with fewer people may not lead to more efficient purchasing, pound-for-pound spent. What exactly is productivity?

Sir Suma Chakrabarti: Productivity and efficiency, basically, in the terms I was using, is simply the programme resources as your numerator and your headcount as your denominator. However, I think your point is absolutely right; if we do not do something about making sure the quality of our outputs—if you like, what we are doing—are maintained then we will not be as effective. There is

an effect on this issue here that I am really concerned about and, I think, the Committee is clearly concerned about, as we go forward, and that is the issue that with a headcount of 2,800 or 2,900 and with a programme the size of whatever it will be in 2010/11/12, there is some serious work to be done to maintain our effectiveness.

Q15 Hugh Bayley: As an outsider I would expect your productivity to decline in two ways if you were reducing the staff and if you were increasing the programme. If you double the size of the programme in Africa, I would assume that the things you spend the additional 50% of your expenditure on will buy less in terms of development gains than the things that your original budget would be spent on because you, presumably, try and spend your money as efficiently as possible, and for each additional million pounds incrementally you are likely to buy less. Secondly, if you have fewer staff supervising the programme, surely you run the risk, at least, of spending that money less well in terms of development gain per pound spent. How do you overcome that? What sort of discussions do you have with the Treasury about the difficulties that you face as a result of sharp increases in the programme and yet reducing your staffing oversight of that spending?

Sir Suma Chakrabarti: We are just beginning this conversation with the Treasury in the last couple of months—we have kicked it off—and it will be the conversation to be having with them over the next year until we get to the comprehensive spending round results. You are absolutely right; I think on portfolio quality we have a very good portfolio and Nemat has done some real work with directors to improve the portfolio in the last year or so, which we ought to talk about. One of the issues is about having enough supervisory time and effort to oversee those projects which are going off track and getting them back on track and so on. That is the thing that we need to maintain. I would obviously be worried if, as an accounting officer, I was finding that actually we did not have the supervisory staff who could do that any more, because of the headcount constraints. I think you can rest assured on this Committee that—and certainly it is something I have said to Hilary Benn and to the Treasury—for us fundamentally, as managers, all four of us, quality assurance is important. If we find that the headcount constraint is actually leading us to make choices which do not fit the country context, do not worry we will be saying so; we will be saying: "Look, we should not be doing this because it is the wrong thing to do in terms of the quality of the output we are trying to achieve."

Q16 Chairman: Your staff on the ground have been saying that, and I certainly thought "they would, wouldn't they", but some of them clearly feel that, and are slightly looking to you to fight the corner.

Sir Suma Chakrabarti: I think those staff that know us well—and there have been some cases where we have had to be very blunt that we should not be doing this or that—know that we are doing that. I

 11 July 2006 Sir Suma Chakrabarti KCB, Mr Mark Lowcock, Ms Nemat Shafik and Ms Sue Owen

think what we need to do is, clearly, try always to tailor our instruments and so on to the country context. Why is it that we did not spend as much budget support, for example, in the last year that we thought we were going to? Now, from a headcount point of view, clearly, it would have suited us to do that, but we did not because it was not the right thing to do. So we gave advice, saying: “We should not do this”; so we care more, at the end of the day, about quality. What this will lead to, though, if we find there are lots more cases like that over the coming years, is the conversation will go back to Mr Hunt’s question, which is about selectivity. One way you can maintain quality with a smaller number of staff is, frankly, making some choices about sectors, about countries and those sorts of things.

Q17 Hugh Bayley: There is quite a lot of debate, of course, in the context of a rapidly growing aid budget to Africa, about absorptive capacity, but there is less of a debate about—I suppose you would call it “disbursive capacity”—and perhaps there needs to be a debate on disbursive capacity. I strongly support the Government’s policy decision to concentrate resources on least developed countries; the implication being that middle-income countries or higher low-income countries ought to develop domestic policies to redistribute resources from their general budgets to poverty alleviation. However, in terms of buying poverty alleviation gains, you might well be able to do that more efficiently in middle-income countries because you are supported with an infrastructure and capacity which is not available in lower-income countries. How do you reassure us that you do not address the problem of disbursive capacity, or lack of disbursive capacity, by redirecting resources to poor people in middle-income countries?

Sir Suma Chakrabarti: Fortunately the Government, in its wisdom, has a PSA target which is 90% of our bilateral aid has to go to low-income countries. That is not there for any other reason than because the Government says exactly as you do, that the pound spent in the low-income countries has a greater impact in terms of poverty reduction than it does in middle-income countries. That is what the research evidence shows, and that is why it has that. So as long as that target is there it is actually a very useful selection criterion for us to give us some focus. As Nemat said, we have achieved that this year. Your point is right; both in terms of disbursive and absorptive capacity we have got issues. On the disbursement side we have just talked about some of the issues we have to attend to and hope to maintain quality; on the absorption side, I think we all believe there is enough headroom still in Africa for absorbing the increased state aid that we and others will be providing, but we have clearly to work at the same time on capacity building in Africa. That is partly about some of the technical assistance issues and making sure ministries function well and so on, and it is partly about donor behaviour changing so that we do not impose higher transactional costs on any of these countries. The *Zambian* example is a good

one, where the *Zambian* Government says: “We do not want donor X in sector Y, thank you very much; that is imposing extra costs on us.”

Ms Shafik: One additional point: probably the most important mechanism by which we manage the risk that you identify is having a diversified portfolio. So for every additional pound we try and spend in a very difficult, fragile environment, like *DRC*, we also intend to spend more in *Tanzania*, which is very stable, has reasonable policies, has lots of poor people and we know is quite effective at delivering poverty reduction. Similarly in *Asia*; for every additional pound we spend in *Nepal* we are also going to probably spend a bit more in *India*, which is again quite an effective state and good at reducing poverty. So we do not necessarily have to turn to middle-income countries for more safety; I think we can do that by having a diversified portfolio of low-income, fragile states but, also, low-income, good performing countries.

Sir Suma Chakrabarti: There is an agenda on middle-income countries which, I hope, we can come to in the questioning, because actually it is quite an interesting agenda for us going forward.

Q18 Chairman: There was a point raised by the budget support switch in *Uganda*, in the switch from *Kampala* to projects in the north. Our understanding was it was given to *UNICEF* to distribute to *NGOs*, which is effectively handing over the disbursive capacity to somebody else, and the feedback at the moment is that the *NGOs* are still waiting for their allocation. Is this an example with budget support, in staff terms—is it easier when you hand over to your overseas agencies and lose control?

Sir Suma Chakrabarti: I do not know about—

Ms Shafik: Your concern is around whether we have lost control in the case of the *UNICEF* funding?

Q19 Chairman: *Hilary Benn* withdrew £15 million budget support from the Government, ironically, he said, because of the harassment of the Opposition, although some of us thought it might also have been due to the lack of transfer funds to the north. He said the money would go to the north, but we are told that the mechanism was *DFID* to *UNICEF* for them to disburse it and they have not yet done so.

Ms Shafik: I think the primary concern, though, as you say, was we did not want to give the money to the Government of *Uganda* as a very clear signal of our dissatisfaction with their behaviour around the elections. So we had to find a non-governmental delivery mechanism because we felt that for *Uganda*, as a country, we should not punish poor people in northern *Uganda* because their state mishandled the elections. It is unfortunate that *UNICEF* has not been able to disburse those funds as we would like, and that is often the problem with non-governmental channels, but I still think given the choices we had we did have to find another non-governmental mechanism, and *UNICEF* has the best delivery capacity we could find.

Mr Hunt: Have you sent the cheque to UNICEF?

Q20 Chairman: I think the Committee's view, and I am sorry for those colleagues who work in Uganda, was that the Government of Uganda was not delivering all of the services to the people in the camps that they had reason to expect of the Government of Uganda. For example, the schooling situation was pathetic, policing was non-existent and the medical facility we saw was being provided by external NGOs. So that should have come out of the budget support, in our view, and if the British Government was transferring the money from the Ugandan Government it is a pity they did not transfer it to the services that the Ugandan Government should have been providing anyway.

Ms Shafik: And earmark it for the north. Is that what you are saying?

Chairman: That was a bit of a specific, but that is an example where we felt that DFID was not entirely in control of the situation.

Q21 Ann McKechin: If I could turn to the issue of education, I think there has been a certain amount of criticism that the Millennium Development Goals on education have concentrated on issues of quantity rather than quality, and, also, clearly the issue of capacity in government educational systems. I wonder if I could raise another issue, which has struck me when I have gone abroad with the Committee, and that is whether the Millennium Development Goal is too narrowly drawn in terms of educational targets. When we visited Pakistan two weeks ago I spoke to a group of women in an isolated mountain community, and I asked them whether the girls in the village attended school. They said yes, they had attended primary school (which, in Pakistan, finishes at the age of 10); none of the girls had gone on to secondary education, and that did not really seem to be a realistic prospect at that time. To be honest with you, there did not seem to be the external environment to encourage an attitude and environment of self-teaching. By that I mean there was no access to books or reading material, and all the adults in the community, so far as I am aware, were illiterate. Jeremy Hunt has raised this afternoon the issue of specialisation. Given that we are a country which is many generations from when we suffered from mass illiteracy (I might say that my own surname was the result of a 19th Century illiteracy attempt, a guess, at what the name is and that is why I have ended up with this surname), we do not have much experience of taking a community where there is mass illiteracy in its entire population and bringing them up to the stage of literacy, but there are other countries in this world who have had recent historical experience of actually achieving that—countries such as Cuba, Nicaragua and China have managed to do it over a remarkably short period of time. I wonder whether or not you could give me some insight about your views about adult illiteracy.

Sir Suma Chakrabarti: I will be looking to my colleagues to help me on this. You started off with a question about whether it was too narrowly drawn a

target—the MDG on education, and primary education, really. I think our view would be no, it is the right thing to focus on. I will come on to why it is also important to deal with secondary and tertiary, but in terms of all the evidence on returns to education the highest returns are at the primary level. That is the research evidence over 30 or 40 years now. Having said that, the Pakistan case is worrying because what it tends to show is that girls having done the primary are not then going on to secondary, so there is a whole set of issues around whether the Pakistani policy makers and so on are focused on actually translating the gains they are making in primary into secondary. I think, in Pakistan, this has been a 25-year dialogue, frankly, between us and them about taking more of an interest, frankly, in girls' education beyond the primary stage. To continue the dialogue, they are putting in more money, actually, to this area than they did in the past—that has been one of the linkages on policy to our support in Pakistan—but it is going to take some time, frankly. On secondary and tertiary, I do think they are important. The returns overall to a society are slightly lesser than primary, but they are important, for a number of reasons, for the economy. In terms of vocational training, for example, and so on, in terms of tertiary education the capacity issues we discussed earlier, the very people who will be running ministries, private sector firms and so on, need to get through secondary and tertiary education systems. So we do not neglect them; they do not get as much money, certainly, from us as primary but we have a scholarship programme, we have the links scheme, we have the development partnerships for higher education—a new programme we have—and we have a paper (I think, Mark, you are bringing out soon) on post-primary education because of exactly the point you make. Adult literacy must be part of that, it seems to me, but it is not the only part; it has got to be linked in with some of these other things as well.

Q22 Ann McKechin: You mentioned, obviously, the question of economic growth and there seems to be a clear tendency of your Department to move towards greater emphasis on private sector development, and we all anticipate the White Paper in the next couple of days, but that seems to be a clear trend in your own thinking, in terms of policy development. Given the fact that it is utterly essential to develop a robust SME market in many developing countries, clearly the issue of technical education is utterly core to that, yet it does not seem to be core in terms of the way that the donor community is currently acting. I do not single out DFID, but I think there seems to be a really significant gap in terms of trying to develop what is an essential support for private business.

Sir Suma Chakrabarti: I think in most of the countries we are focused in the fundamental problem is primary education, but there are a number of them where your point is absolutely right. If you go to India, the first discussion you have with any chief minister now in any Indian state is not so

much about primary education, not because it is solved but because there is at least a plan to solve that problem. So the Indian Government has enormous resources which it is bringing to primary education. The chief ministers of those states are meeting on the same point you are on, which is: "I've got all these private sector companies coming into, I do not know, the coast of Orissa, I have not got enough people in Orissa who have got vocational training to actually supply this, and all that will happen is that outside labour will come in. How do I solve this? Can DFID help?" And we are beginning, with some of these countries and some of these states, some of the more advanced ones in particular, to get into these questions of vocational training and tertiary education.

Mr Lowcock: It is a very timely question. On Friday we are publishing the post-primary education strategy, and, as you know, we are publishing the White Paper on Thursday, and we have got things to say on this topic in there as well. I just want to make two points, if I could, on this generic topic. The first thing is if we look back over the last 20 or 30 years on what development assistance has focused on, it is incontrovertible that there was a scandalous lack of attention in the 80s and 90s to primary education. When the Government was elected in 1997 one of the things it said is we have to do something about that, and we were, frankly, very comfortable about that because one thing you do know is that if a child does not get a basic education it does not get a secondary or tertiary education either, and doing something about that, which as Suma says has higher returns, has been a really, really important thing to do. DFID has some comparative advantage in that because most of the things you have to do to address basic education are recurrent cost financing. You need to hire teachers, you need to build some schools (that is actually a very small element of it) and you need to pay for some books and some uniforms. It is very largely recurrent cost financing, and that is one of the things we are good at. Now, though, notwithstanding the fact that we are some way off achieving the basic education MDG, we have made lots of progress, and it is a good time to start to focus on the post-basic. That has the set of dimensions that you talk about: adult illiteracy, the technical, and so on. We will have to find our niche in those areas. Actually, some donors do a lot in technical already; the Germans, for example, are strong in that area. So one thing we will have to do, as we detail how we will take forward the strategy we are publishing on Friday, is work out our particular niche.

Q23 John Bercow: Chairman, thank you very much and I apologise to colleagues and our witnesses for being late and unavoidably detained. I entirely understand, Chairman, where Ann McKechnin has just been coming from in the early part of her inquiries, and for what it is worth I do not disagree, but I think it is actually possible, also, to critique in a constructive way from the opposite vantage point—the two are not mutually exclusive: narrowness and breadth. In a sense, what Ann appears to be saying, and I entirely understand and

respect this point of view (and, indeed, concede the merit of it) is that it is too narrow a target; why not look at all sorts of other elements of education which ought to be addressed as well instead of just confining oneself to primary? I think what I would like to put to you, as a panel, to Sir Suma and colleagues, is that there is a sense in which, in fact, you could argue, on the contrary, that the target is very broad and that there is a tendency—an understandable but, nevertheless, a dangerous tendency—to avoid a sufficient focus on the narrow elements that make up that broad target. So if you take, for example, universal access to primary education, yes, a thoroughly good target, entirely laudable, very long overdue and greatly welcome, but it does have to be rigorously enforced, regularly reviewed, regularly monitored, and progress, therefore, measured. In the process, does one not want to be confident that all elements of the population are getting a fair crack of the whip? I give the example: if we are concerned about general equality, presumably we are also concerned about respect for the rights, probably historically neglected on grounds not only of resources but of attitudes, of people with disabilities. Therefore, I say to you, yes, it is okay to have this great target that says "universal access to primary education" but you could perhaps benefit from having an interim target of the kind for which Jeremy has very successfully argued in respect of anti-retroviral drugs. It is all very well having a target for some years hence, with people thinking: "This is a marvellous, high-faluting declaration of good intent but there is not much evidence of its achievement", and therefore Jeremy took it back to brass tacks and said: "Wait a minute; it is all very well saying: 'It is not for us to be so presumptuous as to interfere' and all this sort of self-effacing modesty that suddenly overcomes the domestic governing politician but, actually, do we not need to know what the interim target is so we can see we are making some progress?" How are we doing with particular groups? As I understand it, and I have not got the figures in front of me, people with disabilities in the developing world are disproportionately likely to be excluded from participation in primary education. I suppose what I am saying is whilst respecting the principle, to an extent but not exhaustively or exclusively, of national sovereignty in the use of resources, we do want to press governments, whom we are assisting in their programmes with our taxpayers' money, to ensure that those people get a look in. I would not want all children with disabilities in developing countries to be left to last. There is the attitude, implicitly or explicitly, of let us deal with the relatively straight forward cases first and then see if we can say to these chaps and chapesses to consider incorporating children with disabilities. No, absolutely not, they should be dealt with contemporaneously.

Chairman: It seems to be a conservative weakness today, very long questions.

John Bercow: It was articulated in a well meaning spirit.

 11 July 2006 Sir Suma Chakrabarti KCB, Mr Mark Lowcock, Ms Nemat Shafik and Ms Sue Owen

Sir Suma Chakrabarti: I think it is well taken and we would agree with quite a lot of where you are coming from. Let us have a frank discussion about this. On education, as a good example, we are concerned that a lot of the aid is going to go in, because government budgets do not always distinguish between primary and within primary what elements, and some of the money may go into levels or areas or sections of the population which do not necessarily need the money as much as others, so Nemat is very keen to kick off some work within DFID that is really required to get below the top level composition of the government budget and get down to where is it really going this money. If you provide support, is it really going to primary education, and within primary education going to the most needy as defined? Some countries are doing better at this than others, and you will not be surprised which ones are good at already decomposing in this way. Vietnam is putting in an education programme which is quite focused around disabled kids, because the Vietnamese Government takes your approach to this. It is not shy about saying that is what it is doing, so quite publicly identifying itself with a particular section of the population. Other governments tend to be rather worried about that if they say that for the disabled, what does this mean for other castes, or what does this mean in the terms of the political economy they are working in. You get this a lot in Indian States, the unwillingness to say there will be a skewing of the budget.

Q24 John Bercow: I understand that, you have the rather good and the perhaps less good, maybe awful, maybe you are understating it. To what extent, when you encounter those forces of resistance, or dare I say a reaction to say “No, no, terrible problems in the community if we do that. It will upset the dominant group or caste,” do you, to be blunt, take them on? To what extent do you feel we cannot do that and take the line of least resistance that at least if they are helping somebody, they are not helping as many disabled children as we would like, or as many children from minority tribes or castes where there is broad stability, ie you are providing development assistance, but where there is still fairly widespread discrimination. To what extent do you just concede, and how robust are you?

Sir Suma Chakrabarti: We are in a fortunate position with DFID in that there is robust dialogue and we do not hide behind there being an acceleration to have this dialogue. We do have a robust dialogue. In some cases that dialogue is well informed. In the Indian case, because Indians do have statistics by caste and group and so on, there is a lot of data which is in the public domain and can be used therefore as part of the debate. Of course a lot of governments at the State level want to do that, and some do not. Take the position of Dalits in India. This is part of the dialogue of DFID in India, is this money really focused on the Dalits, who have very few resources of their own. I think it does vary. It is partly data driven and knowledge driven, but it is not an unwillingness on our part or some shyness. We definitely try and do that. There are some very

difficult public policy issues of understanding in some other places. Take health and anti-retroviral drugs. One of the issues with anti-retrovirals, as you run up towards universal access, is on the way there several groups are not going to get access very quickly. How does a government decide what criteria should we be using to decide who gets access first? It is a public policy choice that we face in the UK quite often, but it is a stark choice when you have limited resources. Take the Malawi Government; it is having to make those awful decisions. Does it prioritise extension workers because it is important for Malawi's future prospects over people laying roads in terms of anti-retroviral treatment? That is a discussion we are getting into in a lot of these countries. Again the data is not good enough to really inform the debate in some places but we are not shy about taking this on.

Q25 John Battle: Could I ask some questions in the general area of the Poverty Reduction Budget Support (PRBS) process, because more money is going into budget support. Do you imagine that will continue, and do you want the programme to go in that direction? Let me try and focus on three points around that. As well as the questions over UNICEF and Uganda, the plan B, if we withdraw the budget support who do we go through, what about stepping up budget support, particularly in cases of emergency and crisis? Can we shift from emergency responses to gearing up development so we do not just replace what was there before in a crisis, such as Pakistan with the earthquake, but we shift up a gear in development terms? Maybe that puts the budget support in different terms and uses the crisis and the emergency as an opportunity to get closer to the Millennium Development Goals and work with the governments to do that. That is one example. The second is a question of governance. It is a point I put to you that I have not discussed properly with colleagues or thought through, but sometimes we think good governance is having elections. Elections are important but they are a tiny part of a massive political process, about political understanding, involvement in politics, and engagement in political parties. I sometimes think we focus on the processes of politics as if we sort the people out, make sure they stand in the right place, put the right thumb print on the right paper without any corruption on the day, but no real focus on the more difficult business, that is not the executive side of the house, if you like, but the political side of the house. We have elections coming up in the DRC. They may well be verified as completely non-corrupt but it might simply reinforce the current politicians and give them an electoral mandate to continue the situation. I put that up as a question mark. Do we need to think of ways, that means us as parliamentarians, of engaging more in political processes at local government, regional government and political level across party organisations and injecting some of that into the debate rather than just insisting that governance is just a technical process? I think we are missing something there. If I could just talk about India, because a large part of the programme still

 11 July 2006 Sir Suma Chakrabarti KCB, Mr Mark Lowcock, Ms Nemat Shafik and Ms Sue Owen

goes to India. In the Departmental Report, on page 166, under the Predictability of PRBS in 2005–06, as of March 1 this year, it says “Additional funding agreed as programme making good progress.” Last year some of us were in India and we looked at the programme there, the scale and size of it. Not to neglect the scale of poverty in India, but we are into the budget support arrangement. I just wonder, on the question of human rights in governance, what scope we have for pressing the questions rather harder. We had a workshop, if I remember rightly, with some members of staff of DFID working with people who are described as Dalits, people who are part of the excluded class there. It is a massively sensitive area, and we all appreciate that, but I worry that as the world is more local as well as global, the global issues are in my neighbourhood and all our neighbourhoods now, we are all in it together. Some of the issues, according to recent reports, of the caste discrimination are now washing up here in Britain. I wonder if we are doing enough at the India end, and how that would fit with the discussions that take place around the budget support programme.

Sir Suma Chakrabarti: I will try to answer some of those questions and I will have to ask for some help. In terms of the future of budget support, you know the criteria that we have set down for budget support and that criteria will be driven by it. We came in below what we expected last year because conditions were not met in some countries, but basically budget priorities have to be in line with poverty reduction strategies and also the fiduciary and risk management side has to be attended to as part of this criteria. I need to assure myself this money is going to be spent in the way the Government says it is going to be spent. I think we will be doing more budget support. We expect in some of the countries like Tanzania which has performed very well, if we are going to scale up there, we will provide more budget support. Some of the plans are in the report. Your question was very interesting about using emergencies as a way of changing the nature of the debate. That is really what has happened. I know this because I was involved in Indonesia after the Tsunami. Partly because there was a change of government just before in Indonesia, that led to a completely different dialogue in Indonesia about how aid money was going to be used, the transparency mechanisms. The Indonesian Government designed all sorts of new things. It wanted a civil society to be part of the monitoring organism, things that were not remotely possible before the Tsunami hit because of the worries about misuse of money. In Pakistan similarly with the DFID programme, Nemat and her team have to rethink the shape of the programme completely and re-shape the dialogue with the Pakistan Government. She can say something about that. On governance it is more than politics, it is more than technical fixes; frankly it is both. You need all these things and we define governance in quite a wide sense. What we are about is trying to get more transparency and accountability into the systems, and elections are only part of it. Just getting the financial management right is only part of it. We

need to work on a wide canvas. I do not want to preempt the White Paper because it will say quite a bit about this. This is actually the centre piece of the White Paper so you will see that on Thursday and Hilary will no doubt say more about it then. Nemat may want to say a bit about the Indian programme and the class discrimination and how we take account of it in our dialogue with the Indian Government. Just to say that on the few occasions I have been to India to look at the programme, I have also been given a line to take by DFID India when I go and see any Indian minister to hit them with these issues. Some of these are at Federal level and some are at State level so the dialogue I had with the previous chief minister of Andhra Pradesh, Chandrababu Naidu, who then lost the election, was very much around Dalits in the rural areas. He had done quite a good job in urban centres in terms of the poverty but not such a good job in agricultural rural areas. It was around that sort of dialogue and when will you roll out the programmes to the rural areas.

Q26 Chairman: Elections have a role to play because that is where the votes were and that is why he lost.

Sir Suma Chakrabarti: There is an interesting issue there because an Indian analysis would suggest if you look in Andhra Pradesh that is the case, but if you look in other places reformers did very well, so it depends on what sort of reform and whether you are reaching out to a wide enough audience.

Q27 Chairman: That is an even better recommendation.

Sir Suma Chakrabarti: I am all for reform.

Ms Shafik: I cannot resist saying something about elections in the DRC case. You are quite right that it is an incredibly expensive election. None of us could think of any alternative to that process to deal with the post-conflict situation in DRC. We know that civil war cost about four times GDP, and the devastation which you saw on your visit showed the cost of not having some kind of reasonable political process. Having said that, one of the lessons we have learned in our governance work is that we were probably too fixated on the executive, and we were probably too fixated on anti-corruption campaigns, anti-corruption commissions and drafting more laws and more regulations to respond to poor governance. In fact, there is a lot more we can do in areas of voice, accountability, freedom of the press, transparency, the legislative branch, looking at deregulation as an opportunity for reducing opportunities for corruption, accounting finance issues, the way financial markets operate. All of those we need as critical pieces of the governance story.

Q28 John Battle: Could I suggest another one? Who are the appropriate people to work on politics? I will give an example, and it is not a person working for DFID, as far as I am aware, in the DRC. The person was suggesting to me that they had taken part in elections in Britain where there was a pretty low turn out and we had burn out policies in Britain so it was not worth doing here any more, but they were

encouraging people to vote in another country in Africa. Perhaps in the DRC we have encouraged everyone to vote, things seem the same, so massive disillusion builds in. Where I would be thinking about the next election the day we are elected, so we are thinking of a process all the way through. How do you engage politicians as well as civil servants in the process? Do we do more to involve the Westminster Foundation, Hansard, the parliamentary organisations internationally? I do not think we do as a bulwark to the development work, in other words we pile it all on to the people who may not have the experience and expertise and it does lead to disillusionment sometimes. Is there any conversation taking place to build politics in as part of the process of governance?

Ms Shafik: You are quite right. The evidence shows that the risk of conflict during an election is quite low. It is after the election that the conflict risk escalates enormously, and that is the biggest risk we face.

Q29 Chairman: The one thing the election will do is end the Government of National Unity.

Ms Shafik: The UN is actually thinking a bit more creatively than usual on this. They are looking at ways to compensate the losers and to bring some of the potential spoilers into the process by creating a House of Lords thing, or some kind of advisory council, or something like that, to find ways to bring the potential spoilers into the process. There is some creative thinking. The biggest risk I see is the level of external support diminishes after the election and you have to watch that.

Q30 John Barrett: If I could ask two completely unconnected questions, and one is about the front loading of the International Finance Facility. With the commitment to doubling of aid to Africa by 2010, we have seen that some of the poorest States, those that most need the aid, have the least capacity to absorb that increased aid, with the possible exception of vaccinations where it is very clear as to why it makes sense to make the investment up front to stop the ongoing costs. The International Finance Facility, is that going to produce more problems? Do you need it like a hole in the head? Where the money would be generated are for the countries least able to accept or to make effective use of front-loaded aid. Would you see in those countries rapid and diminishing rate of returns? While considering that, on our recent visit to Pakistan we had a very lively debate about whether or not the flag should be flown on different projects and I would like some thoughts on that.

Sir Suma Chakrabarti: On IFFIm⁴ in a way I repeat the answer to an earlier question. There are capacity issues clearly in many of the countries. Front loading undoubtedly saves more lives earlier, that is a good thing, provided we can solve those capacity issues. Part of the money from IFFIm will not just go to vaccinations but to build up health systems at the same time so it is an integrated process. We, with our

bilateral aid, and with others, will also be trying to improve health systems. Health systems are at the heart of why maternal mortality rates are what they are so it has a number of benefits. We need to tackle those. The good thing about the IFFIm in terms of the burdens it might put on countries compared with some other international channels, is it is very much uses the country's own channels. It does not try to have its own offices running this in the country. It is light on transaction costs compared to many others but it is something we do need to watch, and your point is correct in that sense. On the question of the flag, we have a view on this which the Government has taken since 1997, that it is bad for country ownership to put the flag on humanitarian aid, for example. It is looking at this policy again, at least in the UK, because it is important for the UK taxpayer to know how all this money is used. It is considering whether we should not have a more pro-active policy and badge some of our aid, e.g. when it leaves East Midlands airport or whatever, partly because Hilary does feel Oxfam and others badge as their aid money that has gone from DFID to them.

Chairman: In Pakistan we saw the Norwegian Refugee Council.

Q31 John Barrett: We were on the point of congratulating the Norwegians on the fine job they were doing and we then realised it was UK taxpayers' money.

Sir Suma Chakrabarti: That is the point. Hilary is trying to hit two objectives. We do not want to detract from the country ownership objective, which is really important, and countries like Pakistan say they do not like the flags. They do not like the Norwegians putting a flag on it. At the same time, Hilary does want to explain to the UK taxpayer it is their money and it has been used for this purpose.

Ms Owen: At present, as you know, there is not a sign there. The USA is one of the biggest exponents of branding but the Canadians and the Dutch do not do it either. The risks we have seen are that it can be patronising for the beneficiary. There is also the fact that we do not have much control of where the brand is placed and you do risk high profile footage of looting and rioters, disturbances and that kind of thing. For me the most serious risk you have to think about is security. In Iraq and Afghanistan, for example, I want as little badging as possible for the safety of our staff. However, as Suma said, Hilary Benn has recently agreed to some badging, and the principles that we have set out are that the branding should not obstruct or detract from the humanitarian operation; secondly that it should not increase the risk to DFID staff; and thirdly that the branding should not be undignified in any way. The sort of things that we might see now are the branding of DFID funded flights from the UK, staff in the field wearing DFID-branded clothes, and that specific large items procured by DFID, such as helicopters, and greater media coverage for teams on the ground. We will consider all these options on a case by case basis.

⁴ International Finance Facility for Immunisation

11 July 2006 Sir Suma Chakrabarti KCB, Mr Mark Lowcock, Ms Nemat Shafik and Ms Sue Owen

John Battle: I am not in favour of badging at all. They should ban badging from all agencies including NGOs. In Pakistan there are lots of posters everywhere with everybody claiming their bit. I tend to take the view that we should enable people to be able to take steps to move forward and not be giving them help and aid all the time. It is a massive devaluation of what development is about to have badges of aid with any labels anywhere. I would be encouraging our partner country donors and NGOs to pull their banners and badges and flags back so that eventually the people can say, as one famous person said, "We did it for ourselves." We should be going in that direction. That is the way our policy tends to go on the ground with our DFID practitioners and I think we should stick to it.

Chairman: We had a very lively debate about this.

Q32 John Bercow: Unfortunately I did not join in the badinage because I was not in Pakistan. I understand my honourable friend, the Member for Grantham and Stamford, expressed himself eloquently and at some modest length and with intensity on this matter. I usually agree with him but I do not agree with him on this. It does seem to me the absence of badges is one thing, but if the effect of the absence of the United Kingdom badge is that a wholly contrary and misleading impression is given that a project which is, in fact, due to us is due to another country, that is a most unsatisfactory state of affairs. Can I say in parenthesis, and not entirely with levity, that given funds that come from this country come ultimately from the United Kingdom Treasury it does not seem unreasonable that a British flag should be installed where appropriate to mark the fact that it is our contribution, the more so given that the Chancellor of the Exchequer apparently wants to see a flag in all of our gardens.

Sir Suma Chakrabarti: As you can see, this is a lively issue. As Sue said, Hilary Benn is considering this on a case by case basis. I really agree with Mr Bercow about the issue that if it is quite clear that this was a British project, why are we allowing someone else to take credit for it. I do find that very irritating indeed.

Q33 Chairman: On that particular project, the Norwegian Refugee Council was 55% funded by DFID and only 25% funded by the Norwegian Government. Interestingly enough, they also made the point that DFID, on the other hand, was much more rigorous in finding out how the money had been spent than the Norwegian Government.

Sir Suma Chakrabarti: I think we have also said we have to up the communications effort. One of the criteria Sue read out was very much trying to do more to explain what we are doing in these crises. In the Pakistan case the British public was quite well informed about what the UK Government was doing, if not on the individual projects but on the overall impact of the UK aid.

Q34 Hugh Bayley: This is a national question not a flag question. China's economic development is having an enormous impact on Africa. What is the Department doing to equip Africa to rise to the

challenge of Chinese competition and the opportunities? For instance, should they be putting in resources to enable the African Union to set up a China strategy unit? What are we doing in our bilateral relations with China to encourage them to think of what the consequences of their perfectly reasonable search for raw materials will have on Africa's development? Are we in any way in a position to shape their thinking?

Sir Suma Chakrabarti: I am glad we are getting into a discussion on this because this is a middle-income countries issue and we need to move on to post-aid issues. China is undoubtedly a force for the good and a challenge as well in Africa. The good part of it is the demand for raw materials is one of the reasons Africa's growth rate has improved so much in the last few years. That is why for five years running it has been above the world average. A lot of these countries have done well, like Zambia, because of that demand. It has some issues in terms of driving up exchange rates and that has an impact in Zambia in terms of the non-traditional export sector. The difficult side for us is that Chinese money is often a soft loan, and therefore as the UK and others write-off multilateral and bilateral debt in Africa, our concern is some of these African countries are getting themselves in a bit of a potential debt issue some years down the line. Secondly, some of the governance and economic policy issues, the dialogue you would encourage us to have and we are having, the Chinese, who are now very big players in terms of financial flows to Africa, are not having that dialogue and not interested in that dialogue so much. In a way there is a concern that it is going to dilute the policy reform process that has been taking place in Africa. It is a balanced picture I am trying to give here. Africans themselves are very interested in this and very concerned, on one hand, but also pleased about the increased investment. It is very notable that the African Development Bank's next annual meeting is going to be in China. Why is that I wonder? We have, in the African Bank, a great president, Donald Kaberuka, who sees both the pluses and the minuses. That is one of the reasons he is keen for this. What does this mean for DFID?

It means in Africa for many of our country offices, take the Zambian office, they are beginning to have a dialogue with the Chinese Embassy. The Chinese Embassy and DFID had never heard of each other until quite recently and they now have to have this dialogue. What does it mean for DFID in China? As you know, we have a small resource transfer programme, about £30–35 million, but what we are doing is reducing the resource transfer, because we will graduate from there, and moving more into a dialogue with China about its global and regional development footprint, bad and good. The Country Assistance Plan for China looks very different from what it would have looked like two or three years ago. We would have just described our programmes and projects in China. It now talks about climate change, Africa, those sorts of issues where we need to interact with China. As it happens, I am being sent to Beijing in September to have a discussion with the Chinese on some of these issues. We are also trying

11 July 2006 Sir Suma Chakrabarti KCB, Mr Mark Lowcock, Ms Nemat Shafik and Ms Sue Owen

to engage the OECD DAC, the Development Assistance Committee, to try and have a discussion with the Chinese and the Indians about good donorship principles. That is proving tough. It is finding it difficult to get meetings in Beijing. The Chinese have said they are not ready for dialogue yet. We think it is part of China becoming a member of various international clubs like the World Bank, the IMF, and potentially in the future the OECD. We should be using that process in the way that we might use joining the EU to try and improve standards, and that is where we are. Nemat has been trying to get Whitehall very interested in this discussion to spark a debate on this. We think our globalisation strategy in Whitehall is a bit too focused around the traditional suspects, scholarship programmes and the like, and China needs to tackle some of these other issues too.

Ms Shafik: The scale is phenomenal. Our latest estimates were that Chinese commitments to investments to Africa last year exceeded all official development assistance to Africa and exceeded all private investment in infrastructure in Africa. The scale is phenomenal and Suma is right, we have to engage. We have no choice: if we care about Africa, we have to. It seems right to point out that it is difficult. We have particularly tried to engage China in some of the transparency work, to get them to join the Extract Industries Transparency Initiative, for example, since 58% of their investment is around oil and about 24% around minerals. Transparency issues, revenues and contracts, are quite key. They have not signed on yet and our attempts to get them to engage in some of these international fora is hard. Sometimes they do not show up. They do not want to share much information. There is a sense that although Beijing has actually published an African Strategy recently, I do not think they are quite ready to join some of these international clubs.

Sir Suma Chakrabarti: There is a Chinese Commissioner on the Commission for Africa.

Ms Shafik: That is right. We also invited the Chinese, as part of this bringing them in, and Mark was leading on that.

Mr Lowcock: We had a Chinese observer on the review by the DAC of the UK programme, and that was about this strategy of engagement. Our view is that we have to play to what Chinese interests are. If they are going to lend money to Africa, then they become a creditor and have a similar set of interests to other creditors. We have engaged them in discussion in the Paris Club. It has to be something which plays to China's own interests otherwise it is not going to be a productive dialogue.

Q35 Mr Hunt: I had a couple of questions and the first is just a practical one. When you are dealing with small African countries, or even big African countries, but very undeveloped African countries where really the UK agenda is wholly about development, why do we have a separate Embassy and DFID infrastructure? Should not the person in charge of DFID actually be the Ambassador with a small additional staff to deal with diplomatic issues?

Would it be much more sensible, from a UK taxpayer point of view, to integrate those two infrastructures?

John Bercow: We should have the Foreign Office permanent secretary here.

Sir Suma Chakrabarti: My colleagues are laughing because this is a question we have been debating, and it is part of the dialogue we are having with the Foreign Office and Treasury as part of the issues the Foreign Office face as well, given their own headcount issues. How do they maintain a global network without having to pay the overheads? You are right. Take the case of Malawi or Zambia, the UK's key interest in these countries is now in development. There is some consular work, even some minor commercial work and as economies improve British investors will want to go in, and these are Foreign Office things, but there is a dialogue going on, exactly as you say, as to a more joint operation, with DFID taking the lead in some places but perhaps not in the High Commissioner role. Perhaps there could be someone in the DFID office from the Foreign Office who would be the High Commissioner reporting to a regional hub or to London or whatever. That would possibly save the UK taxpayer some money overall and allow Britain to have a global network. That is a possibility. The cultural and systems issues Sue has been looking at and she may say something about the shared services issues underlying this. It is helpful for both this Committee and the Foreign Affairs Committee to start thinking about this. I think it is in other places like China we might want to think about the reverse, where the issues are of a global development nature, but there are other UK interests with China as well and a more joined up operation may be sensible there, with us being the smaller amount part of that. We are up for this.

Ms Owen: Already at the moment, as you know from your visit to Pakistan, we are moving towards having a co-location of the DFID office with the Embassy, but it is still very much a separate office as you will have seen in Pakistan. That helps us share some costs like security, which in some countries are very high, and some satellite communication costs, that kind of thing. One problem is that in many cases sharing services with the Foreign Office does not mean it is cheaper, sometimes it means it is more expensive so we have to be quite careful that we only share services where we are getting proper value for money for that. To date I do not think we have any examples of a country where there is only a DFID office.

Sir Suma Chakrabarti: Central America, Nicaragua, where the Foreign Office closed down, Honduras may be another one. Basically the Foreign Office closed down and we provide some consular services that are required. More could be made of this in some places, and I hope the Comprehensive Spending Review will push us on this front. This cost issue is really important if the UK taxpayer is to get a good deal out of this. DFID can purchase services locally in India and Africa much more cheaply than the Foreign Office currently does, so co-location is not the objective so much as effectiveness plus savings for the UK taxpayer.

Q36 Hugh Bayley: Can I make a few comments about what I find useful in the Annual Report and give comments about what might be useful innovations? Having an index is very important. I think to list all your publications is very important, but I think it would be really useful for the public to see where they are available on the website. I think it followed a conversation we had at this Committee three or years ago that you started publishing your Annual Report on your work with the World Bank, which I think is a very useful publication. When you read your report within this Annual Report on the World Bank you have a page and a half, or couple of pages, about something that is now absorbing half a billion pounds. Maybe that is the right amount of detail in this report given that you do a separate Annual Report on the Bank, but I certainly think within your section in this report you should refer to the fact that you do an annual publication of a 40 page document about the Bank. I wonder whether you ought to publish similar reports on the other big multilateral agencies. Should you have a report on your work with UNDP: what you are putting money in for and what you are getting out of the money you give them? If not, I think you ought to say more about these big programmes in the Annual Report. You should say more about the EU programme. I notice this year, for the first year, the IDA⁵ is getting more money than the EU, but nevertheless the EU is getting about £1 billion of British taxpayers' money and it would be useful to have a clearer statement of what it is that the British taxpayer gets in return for that money. A final comment is this. After this year's spring meetings I picked up fairly quickly the Chancellor's statement on top line key decisions made at the IMF meeting which he published as Chair, but there was not a similar statement from DFID. I searched for it and I assumed there would have been a Written Ministerial Statement since there was not an oral one. I put down a PQ and the Secretary of State wrote a really good note about what the UK had taken to the World Bank spring meeting and what had come out as a result. Could we have that sort of statement produced routinely, maybe as a written parliamentary statement after the spring meeting, certainly after the annual meeting?

Sir Suma Chakrabarti: I will ask Sue and Mark to help me out on this. I think the first point, index, list of obligations linked to web site, absolutely, we can do that in the future. That is not a problem. We will refer to the report on the work on the World Bank, that is a good idea. It would be helpful as a heads up for the Committee that we ought to have some discussion about strategic direction of the World Bank. This is something that is clearly quite important to all of us. The World Bank is the other great institution in development. Is it now fit for purpose is an issue coming up. Mark will be involved in IDA 14 Mid-term Review and 15 replenishment coming up, so heads up on that. Similar report on the multilaterals, we will have more about them in the Departmental Report. I think we will be definitely willing to do more of that. EU, it is worth

remarking on the European Union programmes. We feel the EDF, the European Development Fund, is probably the most improved channel of assistance in the last few years. There were issues about disbursement rates which came out in one of the reports today but in terms of quality it has improved a lot. This says a lot about UK investment in Brussels in terms of people to improve the quality of the EDF. It says quite a lot about the fact the EDF on the ground is increasingly co-financing the World Bank and DFID programmes which helps the quality, because they do not necessarily have very good staff. The third thing is it does say a lot about taking a hard-nosed approach to replenishment, unlike on the EU budgetised programmes where we do not have any say because they are Treaty obligations. The EDF story is a quite interesting one and we would be willing to talk more about that in the future. Finally, on the top lines achieved at the spring meetings on the Development Committee side, we should certainly do that for the spring and annual meetings. I will have to talk to Hilary Benn about that but I am sure we are willing to do that.

Mr Lowcock: This is the longest and most expensive report we have ever given you. We have tried to make more use than in the past of this technique of cross-referencing to other documents. Clearly we have not cracked that yet but we will try to do that again next year. One of the other things that we will do is if it is enacted following the passage through the Commons, is have additional reporting obligations as a result of Mr Clarke's Private Member's Bill. We are gearing up now for how we are going to discharge those. The Bill sets us a set of additional responsibilities on reporting, including on the multilateral agencies so we are looking at that as an active issue. We are developing a new tool to provide ourselves with better information on what we think about the quality of activity and spending in the major multilaterals, and clearly that is something which speaks to your point: how do you know how effective the spending through this set of institutions is. We are looking at the issue of how we publicise the outcome of that work and we will complete it later in the year, and that is what does the tax payer get for the investment in these institutions.

Ms Owen: We do welcome this kind of feedback about what you would like to see and what you would not. We will need to discuss with you, if the Bill goes through, whether we include that reporting in the Departmental Report or as a separate report. I would also say on the cost front, any ideas you have about what we can drop from the report are also welcome.

Chairman: I would just echo it is actually a very good, well presented report and is easy to use as a working document. What one wants is a useful document rather a trumpet for the Department.

Q37 John Battle: We asked questions about staff and what the Department is doing. I have to say in the eight countries I visited in the last 18 months everyone that we have met, whether it has been Prime Ministers, Presidents, ordinary people on the ground, have been full of genuine praise for DFID's

⁵ International Development Association

11 July 2006 Sir Suma Chakrabarti KCB, Mr Mark Lowcock, Ms Nemat Shafik and Ms Sue Owen

staff. I have never ever heard criticism, marking out DFID staff to be ahead of the game, enlightened and leading the debate and leading the action. It might not always get reported back into the system and it should be said. In terms of the report, I know we pushed as a Committee in the past for there to be a refocusing on agriculture and the report came forward. That was welcome this year. The UN now projects that most people on the planet will live in cities by 2025 and most of the poor will live in megacities, so the whole debate is from agriculture to urban. I know there was a passage on page 155, Faith in the City, "Towns and cities are the primary source of the future growth of developing countries." You have a fund of about £10 million that goes into slum upgrading in India. I do not know if that is expended elsewhere. There was a picture of Kingston in Jamaica and challenging crime there. Are you doing more work in research, or thinking of doing more work in research, on developing urban strategies for development and collaborating with other bodies to do that?

Sir Suma Chakrabarti: First of all, thank you very much for what you say on DFID staff, which you have picked up from the countries you have been to. It is very nice to hear and we will pass it on to our staff. It is very kind to let us know that. On urbanisation, this is an up and coming issue. It is very obvious in South Asia in our programmes there and the programmes Nemat is managing in India. That is a feature of the content of the programme. In Calcutta, for example, the whole urban services debate, how Calcutta can be rejuvenated, is now taking off because of policy reform and DFID is at the leading edge of that. That may be an issue as to whether we now need to re-look at our policy of urbanisation across the board. I would not want to give up on the fact that in many African countries rural poverty and growth in the rural sector is something we need to keep attending to. We sent our chief economist and chief scientist to Malawi and they are about to come up with views on how to get agricultural development going. It may not be something DFID needs to do, I hope, but someone needs to work with the Malawi Government on this. You can get eight times the output from a hectare in Zimbabwe, or at least before recent troubles, than in Malawi. That is partly managerial issues, partly technology, partly transport costs, all those things are part and parcel of this. There is a big job in agriculture to do.

Ms Shafik: We are doing on that in partnership with others. The work in India is being led by the Cities Alliance which is a consortium of all the donors concerned about urban issues and that is specifically being led by UN Habitat and the World Bank.

Q38 Chairman: Two things that were of interest to us, one mentioned in passing, relating to the language issue. It was mentioned both as a requirement but also we got the impression it was a constraint. In particular we have been to Mozambique and the Democratic Republic of Congo. Mozambique is a Portuguese speaking country. In both cases DFID staff had language

training and were doing very well with it, but they also said they are supposed to be engaged in quite sophisticated discussions with ministers and their capacity in the language is not good enough. That is even more true in the DRC because in Mozambique there is a reasonable use of English which did not materialise in the DRC; French was absolutely the language. We were told the trouble is, of course, if they got the Foreign Office length of training then that creates more staff pressure and that creates more budgetary pressure. It raises two questions. Clearly to go into a country where English is not the language of government has significant implications for your staff and budget. On the other hand, if you are going to do it you have to do it properly. Are you going to address these issues?

Ms Owen: It is an issue, and it is an issue not only in so-called fragile states but other countries too. You have already answered the question: it is one about cost. The Foreign Office, as you know, has a Rolls-Royce service and it would be great if we could do that. It is pretty difficult when we are under the constraints that we are under. If you would like to try and help persuade the Treasury to keep our budget at least flat in real terms, if not growing, I think we could do more there. We will have to do more selectively on this in countries where we are finding it difficult to post people as well. For the Foreign Office there they talk about six months to a year before posting. The other thing, of course, they do, which we would need to do to get a return on that kind of investment, would be to encourage staff to stay in post for at least three years to make that worth it.

Q39 Chairman: The point I am making, and I think Suma you said before, we are up for this staff debate. You have decided to go into the DRC, you decided to go into Mozambique and you brought these problems on yourself. There are two arguments. You could say given the staff constraints, we cannot do that, or alternatively you do need to make a pitch to say we think it right to do that but that needs to be taken on board when you are talking about staffing levels and so forth. I think we need you to give a bit of thought about that.

Sir Suma Chakrabarti: Sue said we do think it is a constraint on our business in some places. I would say it is more of a constraint on DRC than Mozambique. Many of the key policy makers and people we work with in Mozambique do speak some English. It is more of a problem outside of Maputo than in Maputo. In the DRC it is a fundamental problem with government all over the place. It is a constraint so we have to try to resolve this and put some money into it. We need to have a discussion with the Treasury about this, because if we are going to build this into our postings plans then we do not have, as the Foreign Office does, a margin. They have a margin at any one time where people go on language training. We do not have that. Maybe that is what we need to do for one or two of these postings.

11 July 2006 Sir Suma Chakrabarti KCB, Mr Mark Lowcock, Ms Nemat Shafik and Ms Sue Owen

Q40 Chairman: In these fragile state areas are issues of corruption, security, fraud and so forth. In the DRC we had problems with the roads programme and I do not know whether you have managed to resolve that or where you are. We have had debate—and I raised it in the Liaison Committee—about Afghanistan and Iraq and the extent to which you have been asked to do an aid programme in a very difficult security situation, and monitoring and supervision is difficult. How are you going to keep tabs, because it is not going to help anybody if substantial aid money goes into these areas but does not reach the people?

Sir Suma Chakrabarti: I think we are coming to the end of the session but I am glad we touched on this. This is one of the biggest concerns of the four of us: quality assurance around programmes in these very difficult places like Iraq and Afghanistan. There are a number of issues. The security one in a place like Basra. In Basra two years ago you could get things done. UK staff could get out and about, monitor, supervise and do that sort of thing. That is very difficult now, in fact virtually impossible, and it makes the quality of the programme more difficult to deliver. Afghanistan is a bit better, except if you go to Helmand and then it is the same sort of issues. Beyond that, governance, policy issues, it is very difficult to get a dialogue going if you cannot get out and see what is happening and go to the ministries and have that sort of dialogue. We have lots of second best-type of solutions, and Nemat and her team have been very creative in finding these but they are second, third and fourth best solutions and they are not the solutions we would really like to have.

Ms Owen: It is not just about whether we can monitor where the money goes. Sometimes it is a real practical issue of how we get the money there. You are talking about cash certainly in Afghanistan and Iraq. There is very little electronic transfer of money available, so you have got immediately a risk of money simply being stolen.

Ms Shafik: There is an issue of effectiveness. If you look at our portfolio, our worst performing projects are in Iraq and Afghanistan.

Sir Suma Chakrabarti: Which is not surprising. All of us pay tribute to our staff who are working in those very difficult situations. The fact we have some quality programme is due to them and their courage.

Chairman: We also appreciate there is a political reason for you being there which you might not have chosen. We have to take on board that creates difficulties.

Q41 Ann McKechn: There is concern, particularly among the NGO community, and particularly in Afghanistan, over the link with the military operation. I can understand the principles, behind it but I think it is whether or not there is the ability to protect civilian workers working both for DFID and NGO projects which may be sponsored by DFID, and whether we are taking into account their concerns.

Ms Shafik: By sheer coincidence I was speaking with our team in Kabul this morning. We held a meeting with all the NGOs operating in Afghanistan this week, 14 of them, to identify what their concerns are. Their major concern was they did not want to be very associated with the military operation or with the Government of Afghanistan. We have compiled a list of seven or eight key concerns they have in order to be able to operate more effectively and we are going to do the best we can to enable that.

Q42 Chairman: Their judgment was that was a better security than being protected. I do not think we should pursue that. Thank you very much. There may be one or two questions we have not got around to which we may put to you in writing. This has been a good session and I hope it benefits you. We will produce a report on this.

Sir Suma Chakrabarti: Thank you very much. We take this very seriously. It has been a good session for us too and gives a heads up on a number of the issues you want to pursue. We are always happy to answer your questions and we will send you written answers to the questions you asked.

Written evidence

Memorandum submitted by the Department for International Development: Responses to questions from the International Development Select Committee

1. *Can you confirm that excluding debt relief and payments to Iraq, UK's aid contribution fell in real terms last year?*

Figures published by the OECD show that UK official development assistance (ODA) is estimated to have been £5,916 million, or 0.48% ODA/GNI, in 2005, compared to £4,301 million, or 0.36% ODA/GNI, in 2004. The increase reflects both the implementation of the plans set out in Spending Review 2004 and a significant short-term increase due to the debt deal agreed with Nigeria.

UK ODA excluding debt relief fell slightly in real terms between calendar years 2004 and 2005. However DFID's budget rose by over £600 million between fiscal years 2004–05 and 2005–06. There are three main reasons which explain this divergence:

- (i) The OECD ODA figures are on a calendar year basis. Because substantial payments to international institutions such as the World Bank fell due at the end of calendar year 2004 and at the beginning of calendar year 2006, the increase in DFID's budget of over £600 million between fiscal year 2004–05 and fiscal year 2005–06 translates into an increase of only £350 million between calendar year 2004 and calendar year 2005. This still represents a 6.8% real terms rise.
- (ii) The OECD figures include ODA spending by other Government Departments. Excluding the contribution of CDC, the increase in ODA spending from calendar year 2004 to 2005 was £406 million. This represents a real terms increase of 8.6%.
- (iii) CDC contributed around £210 million to UK ODA in 2004, but in 2005 CDC received more from loan receipts and equity sales than it invested in equity purchases. This resulted in a negative contribution to ODA of around £200 million. The net effect of this means that from calendar year 2004 to 2005, the OECD figures for UK ODA excluding debt relief are flat in nominal terms or show a 2% real terms decrease.

2. *Many organisations criticise the inclusion of debt relief in aid figures. Why do you do this? Do you think it is worth monitoring aid flows, excluding debt relief?*

Debt relief means that countries pay less or no debt service, and can use the savings for poverty reducing investments, such as education and health, instead. This is why the international community represented at the OECD's Development Assistance Committee (DAC) has agreed that debt relief should be counted as Official Development Assistance (ODA) where appropriate. The UK abides by the OECD DAC decision, scoring debt relief as ODA where appropriate and clearly identifying debt relief within our ODA statistics.

We agree that it is appropriate to break down ODA figures so that the different kinds of financial support, including debt relief, are clear. There is already monitoring by the DAC of aid flows, both including and excluding debt relief. The UK also monitors and reports our aid flows both including and excluding debt relief. We are also pressing for independent monitoring of each donor's aid commitments and delivery to ensure that promises on increased aid are met.

3. *How are you measuring the effectiveness of PRBS in each country?*

When any PRBS programme is designed, we set out in advance what we expect the programme to achieve in both the short and the medium term. The indicators that we use to monitor progress are set out in a performance measurement framework, either in our own documents, or using shared documents as part of a harmonised approach involving partners and other donors. We measure effectiveness of the programme through regular monitoring of these indicators. We normally use data produced and used by government and other donors for monitoring such as the Annual Progress Review of the PRSP and individual sector reviews.

4. *Does DFID have a list of criteria that the country or Government has to meet before the decision to fund aid via PRBS is made?*

Yes. Our 2004 policy states that we consider providing PRBS if the following criteria are met:

- the partner government's planned budget priorities support poverty reduction;
- there is commitment to strengthening administrative, financial and technical systems so that funds help to reduce poverty effectively; and
- delivering aid through this instrument will produce benefits including sustainable poverty reduction that we would be unlikely to achieve through other forms of aid delivery.

In addition, before a decision is made to provide PRBS, DFID carries out a Fiduciary Risk Assessment. This assesses national public financial management systems and the risk of corruption. Partner governments must have a credible programme to address fiduciary risks. Where risks are high, additional short term safeguards, such as independent audits, may be used.

The 2006 White Paper sets out a new framework within which we will choose financial aid instruments. In particular it introduces good and improving governance as a criterion for providing general budget support, and says that we may provide budget support when governance is weaker, but only alongside safeguards such as earmarking or additional financial management procedures. We will update our PRBS policy and set out how we will apply the White Paper framework to PRBS.

5. *Is there a risk that aid via PRBS is being wasted because PRBS is being delivered before a full assessment of its effectiveness is known?*

There is evidence that, where circumstances are right, PRBS is an effective way of delivering aid. The recent evaluation of General Budget Support in seven countries found that:

- Budget support delivers significant benefits in recipient countries.
- Budget support has increased expenditure on the poor, including on health and education services.
- Budget support has improved predictability of funding so that countries can better plan to deliver services for the long term.
- Budget support strengthens government systems, including public financial management.
- Budget management is more transparent and Ministries of Finance have more control over expenditure decisions.
- Flexible budget support funding has increased the efficiency of all resources (including other forms of aid).

6. *(i) How was the decision to withhold direct budget support to the Government of Ethiopia made? (ii) Does the Department think that the decision to withhold direct budget support will create incentives for the Government of Ethiopia to improve their governance and human rights record?*

(i) The decision was taken by the Secretary of State for International Development following the election-related disturbances and human rights abuses.

(ii) The human rights abuses were a violation of one of our fundamental principles for providing aid. We are withholding direct budget support because we believe that the conditions in Ethiopia no longer provide us with the necessary assurances required for such a flexible form of aid. We are, however, engaged in ongoing dialogue with the Government on governance and human rights as we believe that improvements are most likely to come through constructive engagement.

7. *How important will the assessment of a country's public financial management be in deciding whether or not to give budgetary support?*

Very important. A standardised assessment of fiduciary risk—ie the risk that funds are not used for their intended purposes, do not achieve value for money or are not properly accounted for—is mandatory before any PRBS decision is made.

The Fiduciary Risk Assessment involves:

- a consideration of the current performance of the national public financial management (PFM) system against a set of benchmarks in order to identify areas of weak performance that give rise to risk;
- an assessment of ongoing PFM and anti-corruption reform programmes focusing on whether they cover all key risk areas and are credible (ie the planned reforms are realistic and achievable); and
- consideration of whether any additional safeguards are required for risks which are not adequately addressed by ongoing reform programmes.

All Fiduciary Risk Assessments are subject to a Central Support and Scrutiny process led by Finance and Corporate Performance Division to ensure that DFID guidance has been followed and judgements made by Country Office teams are consistent with the evidence provided.

8. *Will the increase in the proportion of aid via budgetary support mean that new skills are required by DFID staff?*

Yes. Our approach to recruiting, supporting and developing staff is based on a number of external and internal drivers of change. These include changes in the way we deliver aid, including moves to budget support and closer working with other donors.

9. *Has the staff relocation to East Kilbride had any impact on staff retention, recruitment and general morale?*

The relocations have gone well. The variety of posts in the East Kilbride has increased. Excellent video-conferencing facilities have enabled good communication with the London office. Staff who have relocated have given positive feedback on their experience.

10. *What changes are DFID envisaging in the composition of its staff in the balance between staff based in the UK and staff based overseas; and in terms of skills?*

Overseas, we are likely to:

- recruit more local staff in fragile states;
- move some UK civil servants from “good performing” countries that receive poverty reduction budget support to fragile states.

In the UK, we are likely to:

- prioritise staffing around core White Paper 3 priorities;
- maximise headcount savings from ongoing efficiency programmes, particularly in corporate services; and
- examine the case for moving more staff abroad.

In terms of skills, we will need to develop and recruit individuals to:

- work in fragile states (project and programme management skills will be particularly important); and
- influence the international development system.

11. *DFID anticipate that the targets relating to girls and boys enrolled in primary school, increase in the proportion of births assisted by skilled birth attendant and reduction of under-five mortality rates are not going to be met (DFID Departmental Report 2006, page 23). What remedial action are you undertaking to ensure that the above targets will be met?*

Examples of the action we are taken are given below.

PRIMARY SCHOOL ENROLMENT

General

DFID is increasing its financial commitment to education and plans to spend at least £8.5 billion on education over the next 10 years. This will include entering into ten year agreements with poor countries to finance ten year education plans.

Africa

We are increasing our financial support to education and are encouraging partner governments to improve girls’ participation at primary level.

DFID continues to encourage removal of school fees—such as recently in Burundi—enabling children from poor families, especially girls, to attend school. The new White Paper commits us to supporting the removal of user fees for primary education in all our partner countries.

Following the publication of our strategy on “Girls Education: Towards a better future” (January 2005) we have redoubled our efforts to encourage partner Governments in Africa to improve girls’ participation at primary level. Progress has been made in Nigeria, Rwanda, and Zambia amongst others. In Nigeria we are providing £26 million to support a UNICEF programme to address barriers to girls’ enrolment in six northern Nigerian states.

DFID is also working with UNICEF to strengthen their capacity to implement the UN Girls’ Education Initiative (UNGEI) which coordinates efforts to promote girls’ participation in education (www.ungei.org).

Asia

In Bangladesh DFID is supporting a sector-wide Primary Education Development Programme (£100 million). This aims to improve the quality and completion rates in primary education. In Nepal, DFID is supporting the Education for All Programme, with support of £20 million over five years. In India, DFID is supporting the Government of India’s *Sarva Shiksha Abhiyan* (SSA) universal elementary education programme with a commitment of £210 million over five years (2003–08). The aim is to ensure that by 2015 all children in India are receiving eight years of basic education of acceptable quality, regardless of sex, caste, creed, family income or location.

MATERNAL AND CHILD HEALTH: INCREASE IN THE PROPORTION OF BIRTHS ATTENDED BY SKILLED BIRTH ATTENDANTS AND UNDER-FIVE MORTALITY

DFID is prioritising the scaling up of basic health services to improve maternal and child health including strengthening national health systems and delivery of key interventions such as vaccinations and malaria bednets.

Globally, DFID is working with the World Bank, WHO, The Global Fund on AIDS, TB and Malaria and other bilateral agencies to deliver better financing and technical assistance to countries. DFID is continuing to engage and support global efforts such as the International Partnership for Maternal, Newborn and Child Health and the Global Health Workforce Alliance.

Africa

In Mozambique, maternal and child health are now priorities for the Sector Wide Approach in health. In Malawi, the Emergency Human Resource Programme aims to increase the number of health professionals. In Sudan, we are supporting the provision of emergency obstetric care through NGOs such as Medecins Sans Frontieres and Merlin. In Sierra Leone, we are developing a new programme of support with the World Bank and other partners focusing on the achievement of maternal and child health related MDGs and specifically scaling up the number of skilled health professionals.

In Zambia, we are supporting the National Strategic Health Plan. This focuses on improving child health through expanded immunisation services, curative care and increasing access to basic health services. In Tanzania, DFID is supporting the social marketing of bednets, as part of the National Insecticide Treated Net Programme, which aims to ensure that most of the 31 million people at risk from malaria, including children, will be protected by 2007.

Asia

In Cambodia we are supporting the development and implementation of a national plan to reduce unsafe abortions, as part of our work aimed at reducing maternal mortality. In Nepal we are supporting the national Safe Motherhood Programme. This has increased skilled attendance from 3% to nearly 18% in districts supported by the project.

In India we are supporting the national Reproductive and Child Health programme with financial and technical assistance. The programme aims to reduce the Maternal Mortality Rate from 407 in 1998 to 100 per 100,000 live births in 2015, and the Infant Mortality Rate from 70 to 30 per 100,000 live births. If the programme achieves all its targets, over one million lives will be saved each year.

In Pakistan, DFID is planning to make a contribution of £90 million from 2006 to 2011 to implement the Government of Pakistan's national Maternal, Newborn and Child Health policy and strategic framework. It is estimated that this support, combined with government and other development partner inputs, will save the lives overall of at least 30,000 women and 100,000 babies, and prevent serious ill health and disability for 3.5 million women.

12. (i) *As your targets are typically outcome targets (i) and influenced by a large number of factors, how can you assess DFID's contribution to performance of the targets? (ii) Also what mechanisms are in place to hold DFID accountable to the taxpayer, given that targets are heavily influenced by external factors?*

(i) We agree that attributing DFID's contribution to overall progress towards the MDGs is difficult. But we think that it is right that we use progress towards the MDGs in the countries in which we work to assess overall progress. DFID identifies key actions it can take to support achievement of the PSAs and includes these in Directors Delivery Plans. These actions are then reviewed on an annual basis by DFID's Management Board. In addition, Country Assistance Plans identify the particular contribution of DFID and progress is reviewed annually. DFID also has a comprehensive system of assessing the performance of its own bilateral projects and programmes over £1 million on an annual basis. The assessment looks at the effectiveness of programmes in meeting their objectives and is therefore able to clearly demonstrate the effectiveness of the Department's contribution. The aggregate performance scores are reported publicly as part of our PSA reporting.

(ii) The key mechanisms in place are: the Autumn Performance Report, the Departmental Report, Select Committee enquiries, Parliamentary Questions and Parliamentary debates. From 2007, we will report annually to Parliament on the effectiveness of UK policy and expenditure in helping to reduce poverty and support sustainable development, in line with the International Development (Reporting and Transparency) Act.

13. *“The United Kingdom (2006) DAC Peer Review: Main Findings and Recommendations” found that “in keeping with the Paris Declaration, DFID is encouraged to avoid setting additional aggregate sector and thematic spending targets, so as not to undermine partner country ownership and aid effectiveness”. How is DFID intending to implement this recommendation?*

DFID remains committed to a country-led approach to development and to supporting priorities identified by partner countries as far as possible. However, at the same time we consider that there are key sectors where long term investment is critical for poverty reduction and to promote growth.

The White Paper sets out a commitment by DFID to ensure that 50% of its spending will be targeted on public services that we consider to be critical to the sustainable alleviation of poverty and sets some specific targets for our global spending on education and water and sanitation. However, these commitments do not translate to hard spending targets within country programmes. Our investments in social sectors, growth and governance at country levels are and will continue to be determined by the priority given to these sectors by our partners and by a sensible division of labour among donors.

14. *Your targets for reducing poverty in sub-Saharan Africa and Asia are based on the performance of 16 key sub-Saharan countries and seven key Asian countries. Is there a risk that this creates incentives for you to overlook the plight of non-key countries?*

We have chosen a limited number of PSA countries because we think that it is right that we focus our bilateral efforts on a limited number of poor countries. This creates incentives for us to prioritise our financial and human resources effectively. We contribute, of course, to a much wider range of countries through our multilateral and other contributions.

15. *The target for the increase in the index of DFID’s bilateral projects evaluated as successful is on course. You have informed us previously that “For larger projects/programmes, it [the evaluation] is likely to involve a range of stakeholders beyond the DFID team, including partner governments, any other donors also involved in the project/programme and external reviewers”. Do you have any criteria for when and how often you use external reviewers for review of your projects?*

Recent analysis suggests that around 56% of projects are reviewed by a team that includes stakeholders beyond the DFID team and/or externally commissioned reviewers. We are currently undertaking a piece of work to look in more detail at current practice and determine what the ideal level of external scrutiny might be. Criteria will then be proposed and the relevant guidance will be updated.

16. *The proportion of DFID’s high risk projects evaluated as successful by commitment value has fallen from 51% in Q4 2004–05 to 30% in Q4 2005–06 (see Departmental Report 2006, page 261). What is the reason for this?*

There are notable differences in the composition of the high risk portfolio at these two periods. When it was at its peak of 51% in Q4 2004–05 it contained 38 projects/programmes with a total commitment value of £334 million. At the end of Q4 2005–06, it contained 62 projects with a commitment value of £639 million.

At both time periods this was a relatively small portfolio in terms of the number of projects. Under DFID’s present methodology for calculating our “value for money” score, small portfolios can be subject to fluctuating portfolio quality if there is a significant movement in a number of high value projects/programmes. Movement can be into or out of the portfolio (as new projects start or old ones are completed), due to a change in performance score, or due to a change in risk rating which means something that was high risk becomes medium risk or vice versa. Among the new projects joining the portfolio between Q4 2004–05 and Q4 2005–06 were six projects of over £20 million that scored outside the “successful” value for money category. In addition, two completed projects of over £50 million that were previously evaluated as “successful” graduated from the portfolio. This will also have impacted on the score.

Changes to the methodology for calculating value for money between the 2003–06 and 2005–08 PSAs mean that the problem of small portfolios has been reduced (although not eliminated).

17. *(i) What is the process by which you are drafting targets for the next Spending Round? (ii) What consultation process are you undertaking to set up new targets? (iii) Will you provide the Committee with copies of draft targets for comment?*

The current Comprehensive Spending Review process provides the opportunity for Departments to review and reassess their current PSA (2005 to 2008) targets and consider the target regime for the period 2008 to 2011. The process will be taken forward by Departments drawing on guidance provided by the Chief Secretary to the Treasury.

The policies and priorities outlined in the White Paper together with the ongoing work on the Comprehensive Spending Review will form the background to our review of the Department's existing PSA targets and our discussions over the best way of framing our targets for the period 2008 to 2011. We are awaiting guidance from the Treasury on the detailed process for revising PSA targets, including on consultation.

18. *It is unclear why some of the targets for 2003–06 Spending Review in the Departmental Report 2005 have changed in the 2004–06 Spending Review in the Departmental Report 2006. Please could you provide an explanation for the changes?*

Changes in the targets were undertaken to address a measurement issue. There were problems in the 2003–06 PSA where targets gave specific baselines, since the international datasets used to provide the data were subject to regular updating which included alterations to the baseline position. In response to this, the 2005–08 PSA targets have been adapted so they are based largely on percentage gains which are therefore immune to changes in baselines. For each of the PSA sub-targets based on the MDGs, DFID attempted to set stretching but realistic targets.

With regard to target 1, sub target 4 on under-five mortality, it was clear at the time we set the 2005–08 target that we had been over-ambitious with the 2003–06 target and thus we scaled down our anticipated improvement for the next period. This target is very difficult to predict as the data come from modelled series, so it was a case of estimating what might be realistic.

For sub target 5 on births assisted by skilled birth attendants, the lack of progress over the 2003–06 period caused us to revise downwards the anticipated rate of progress for 2005–08, although this target still remains ambitious and is off-track at present.

For sub target 6 on HIV/AIDS, the baseline position is not stated for the 2005–08 PSA period, due to the issue raised above about changing baselines in the international data series used to monitor progress against these targets.

	<i>Departmental Report 2005</i>	<i>Departmental Report 2006</i>	
Target 1 Sub target 4	A reduction in under-five mortality rates for girls and boys from 158 per 1,000 live births to 139 per 1,000 [reduction in 19 per 1,000 live births] Anticipated progress by 2006—Off track	A reduction in under-five mortality rates for girls and boys by eight per 1,000 live births Anticipated progress by 2008—Met	Why is the target less ambitious for 2004–06 Spending Review?
Target 1 Sub target 5	An increase in the proportion of births assisted by skilled birth attendants from 49% to 67% [this is an increase of 18 percentage points]	An increase in the proportion of births assisted by skilled birth attendants by 11 percentage points	Why is the target less ambitious for 2004–06 Spending Review?
Target 1 Sub target 6	A reduction in the proportion of 15–24 year old pregnant women with HIV from 16%	A reduction in the proportion of 15–24 year old pregnant women with HIV	Why is the target less specific for the 2004–06 Spending Review?

19. *Capital spending is set to reduce 60% from £31.9 million in 2005–06 to £20 million in 2006–07 (see Table 1, page 221 in DFID Departmental Report). What is the reason for this reduction?*

DFID's capital budget is a net figure including both expenditure on administrative capital projects (eg new IT systems and office accommodation) and financial capital items within the programme (eg subscriptions to the EBRD and some capital receipts). The change between 2005–06 and 2006–07 reflects current forecasts for timing of capital payments and receipts, particularly for financial capital; there are no changes in plans for investment in administrative capital.

20. *Expenditure on Southern African Regional reduced from £32.9 million in 2004–05 to £24.7 million in 2005–06 (see Table 4, page 224 in DFID Departmental Report). What is the reason for this reduction, given the huge incidence of HIV/AIDS in that area?*

The 2004–05 framework was inflated due to year-end accounting adjustments that were made to the regional framework that year. This gives a false impression of a declining aid spend in 2005–06. Spending on HIV/AIDS programmes in Southern Africa has not in fact declined in 2005–06 and remains a priority for the Southern Africa office which is reflected in our current programmes. We are providing £18 million over the next three years to UNICEF to manage a regional programme aimed at supporting children affected by AIDS across six countries in the region. In addition, the Secretary of State recently approved the design of a new regional programme on infectious diseases. This programme, worth £40 million over the next five years, will work with a range of partners to tackle HIV/AIDS, tuberculosis and malaria in Southern Africa.

21. *If scaling up involves writing off unpaid debt then absorptive capacity is not really an issue. How much of the scaling-up of DFID's doubling of aid will be in the form of debt relief?*

Most of the UK's bilateral debt relief is provided on debts held by the Export Credits Guarantee Department (ECGD), and does not incur costs to DFID's budget. Bilateral debt relief that goes beyond what is required by international agreements is funded by DFID, as are costs stemming from the Multilateral Debt Relief Initiative agreed last year under the UK Presidency of the G8. Debt relief constitutes a form of ODA and therefore contributes towards progress against the target to achieve an ODA/GNI ratio of 0.7%. The proportion of DFID's budget that will be applied towards debt reduction efforts will depend on the progress made by countries through the internationally-agreed debt relief initiatives such as HIPC, as well as eligibility for our unilateral efforts such as our support of debt relief for non-HIPC low-income countries.

22. *Those states in most need of aid will also be the ones with limited absorptive capacity. When is too much aid a bad thing? How is DFID designing its development interventions to take absorptive capacity constraints into account?*

Many of the states needing aid have limits to their absorptive capacity. There is evidence to suggest that capacity to absorb aid can diminish at very high levels of aid dependency (eg when aid flows begin to exceed about 20–30% of GDP), and that the impacts of aid are greater when recipient policies and institutions are strongest. Too much aid may hurt these economies if it skews incentives to raise taxes, increases inflation, appreciates the real exchange rate (which can make exports uncompetitive) or compromises macroeconomic stability. To minimise the risks, aid will need to be balanced between expenditures to meet social objectives and those needed to improve productive capacity. In addition, increasing aid spending on imports relative to spending on domestic goods and services can help manage inflation and minimise any risks to export competitiveness. Capacity to absorb aid can also be enhanced by following appropriate policies, which support institution building and good economic management. This will increase aid effectiveness, which is why alignment behind national strategies is an important part of our work together with harmonisation between donors, the World Bank and the IMF.

In developing Country Assistance Plans and deciding how to deliver our assistance, DFID takes account of absorptive capacity constraints and ensures that collectively the donor community is addressing these constraints. Many plans include a focus on improving public financial management and the effectiveness of sector institutions. We believe that technical assistance can contribute to capacity development and that it works well when institutions themselves want to change and are ready to lead reform. We believe that technical assistance should be provided through government systems so that developing countries can design and manage it to meet their needs.

DFID uses a Resource Allocation Model to inform decisions about the allocation of its bilateral resources among low income countries. The model takes account (among other things) of the volume of aid flows provided through multilateral channels and by other donors.

23. *Are the problems with absorptive capacity to do with the macro-economic impact of large aid volumes, or with the capacity of the recipient country's institutions to make use of the aid. If it is the latter, should DFID reassess its attitude to providing technical assistance?*

The macroeconomic impact of large aid inflows will partly depend on how the aid is spent and partly on the recipient country's economic policies. Potential problems associated with large aid inflows and absorptive capacity can be due to either or both of these issues. As part of the country planning process, DFID assesses constraints to absorptive capacity and decides what mix of aid instruments will be appropriate according to country circumstances. DFID is also working with countries, donors, the World Bank and the IMF to highlight the importance of macroeconomic stability and the need for appropriate economic policy responses to large aid inflows.

Where institutional weaknesses hinder implementation of poverty reduction programmes, we will take actions, together with the donor community, to address those constraints. We believe that technical assistance works well when institutions themselves want to change and are ready to lead reform. We believe that technical assistance should be provided through government systems so that developing countries can design and manage it to meet their needs.

24. *The basis for the IFF is that Africa's development needs are so large that aid needs to be frontloaded. How does this policy sit with concerns which are emerging about the ability of some of the poorest states to absorb large volumes of aid?*

The IMF and World Bank have reported that additional aid can be absorbed effectively and actually encourages private sector investment. Studies show high rates of return even in countries with aid/GDP ratios above 30%. The World Bank has estimated that countries in Asia and Sub-Saharan Africa could effectively manage at least a 60–100% increase in aid flows in the short term. The Bank has also estimated that of the 65 countries unlikely to meet the poverty goal without further external assistance and/or policy changes, 43 could effectively absorb more aid today.

The UN Millennium Project estimated that global assistance will need to rise to \$135 billion in 2006, and \$195 billion by 2015 to achieve the MDGs. In 2004, total DAC ODA was \$79 billion. At the 2005 G8 Summit, donors agreed to increase ODA by \$50 billion by 2010 compared to 2004 levels. The IFF can have a major role both in providing additional resources, and in helping countries that may have difficulty in meeting their 2005 commitments by providing an alternative route. In any event we will not meet the MDGs just by scaling up the current policies and practices of the global aid system. The IFF could significantly improve the quality of global aid if it spends money in a way that reinforces the principles of aid effectiveness set out at the Paris High-Level Forum: in particular by financing long-term, predictable aid through governments' own systems. Based on donors' legally binding long-term commitments, the IFF will be able to frontload aid to generate economies of scale, the benefits of early intervention, and provide aid in predictable multi-year programmes. In addition the IFF could:

- (a) Improve the **allocation of aid** among poor countries. Some might argue that this means using an allocation formula focusing on good performers. We would prefer the IFF to balance the aid allocations of other donors, by allocating resources disproportionately to under-funded "orphans".
- (b) Strengthen **country-led development** by maximising the resources available to countries for spending on their own national plans for meeting the MDGs—routed either through their own budgets, or through agencies which they have chosen.
- (c) Strengthen **funding of the multilaterals**—the implication of recent increased aid pledges by donor countries is that the share of multilateral funding in total aid will go down. Given that multilateral aid can bring benefits in comparison with many donors' bilateral programmes, there is a case for disbursing the IFF through multilateral channels.
- (d) Finance particular **sectoral outcomes**, eg on education and health.

25. *The provision of vaccinations is perhaps the most obvious example of an area where front-loaded investment is likely to reduce later costs, in terms of health care provision. Will it really be possible to learn any wider lessons from the experience of the IFFIm, about the potential value of front-loading in areas where this connection is less clear?*

The success of the financing structure for IFFIm will prove the concept of the main IFF, in particular that donor countries can make binding long-term commitments and that these assets can be efficiently securitised by the financial markets.

26. *Do you have any concerns about conflicts between economic growth in middle income countries, the associated energy use and carbon emissions, and the implications of these for climate change? What can DFID do to address these issues?*

Energy and development are critically linked—both within poor countries, where access to reliable and affordable energy services is essential for development and lasting poverty reduction, and at a global level, where rising carbon-based energy use is increasing the threat of climate change to all countries, especially the poorest and most vulnerable.

We recognise that countries like China, India, Brazil and Mexico will have significant emissions in the future (though their emissions will still be low per person compared to developed countries for the foreseeable future). All countries need to work together to address global emissions. For this reason, the new White Paper includes a chapter on *Working Internationally to Tackle Climate Change*. The White Paper commits the UK Government to:

- Work for international agreement on a long term stabilisation goal to avoid dangerous climate change, and for a way of reaching the stabilisation goal which enables developing countries to grow, helps to fund the investment needed for clean energy and helps developing countries to adapt.
- Support the World Bank's Energy Investment Framework to increase private sector investment in low carbon energy and energy efficiency in developing countries.
- Work through the UN to develop mechanisms linked to international agreements on cutting emissions that maximise investment in clean energy in developing countries.
- Work with the G8 and EU to develop and use clean energy technology in developing countries.

27. *What is the main problem here, the cut in DFID staff, or the size of the increase in the aid budget? Will DFID hit bottlenecks as it starts to scale up?*

We recognise that increasing our aid budget with a constrained headcount represents a tough management challenge. DFID's Zero Based Reviews are looking at options to manage the expanding agenda and budget by delegating its bilateral aid management where appropriate, re-focusing its policy function and reducing staff in corporate services to re-deploy staff to front line delivery. We need to push harder on the harmonisation agenda, focus on core business, consider off-shoring and outsourcing options, get better at assessing and improving multilateral effectiveness, and improve the way we prioritise.

28. *Is DFID relatively expensive because of its leading role in policy formulation? Will DFID have to contract out more of its thinking to the ODI and others, and, if so, how would this affect the type of staff DFID can attract?*

Overall, DFID is not relatively expensive in terms of administration costs as a proportion of programme costs. According to the OECD DAC Peer Review of DFID (2006), DFID's Policy Division has proven effective in focusing national and international attention to issues of policy debate and in developing policy guidance that is used across government, within DFID headquarters, and in country offices to achieve development policy coherence. It also indicated that this policy function is instrumental in supporting DFID's leadership at home and abroad.

317 staff (11% of total staff) currently deliver this policy support. This represents 13.5% of DFID's administration costs (£31.4 million) and 0.72% of total programme spend. Like other areas of the business, the policy group has to contribute to DFID's current and likely future efficiency targets. There is a continuing review of whether and which work can most efficiently and effectively be done in HQ, in the field, or by outside groups. Any major shifts in the sourcing of policy work would be for decision during and after the CSR. Staff come to DFID expecting to work at different times on both policy and operations; we would not expect changes in the amount of work done in-house to affect the staff wanting to work for us.

29. *What estimate have you made of the cost and impact on staff numbers which will result from the requirements placed on DFID by the provisions of the International Development Reporting and Transparency Bill?*

We are currently considering the implications of the new Act. We have not yet made an estimate of the financial costs or of the impact on staff numbers. But we expect these to be relatively small as we will adapt current reporting systems to respond to the requirements of the Act.

30. *DFID has a resource allocation model to inform its allocation of bilateral programme spending among the Low Income Countries and maximise DFID's impact on poverty reduction. How does the "resource allocation model" (whose criteria include the likely effectiveness of aid in reducing poverty) fit with the higher risks involved in operating in an increasing number of fragile states?*

We aim to allocate our bilateral aid among countries in such a way as to maximise its impact on poverty reduction. The model takes account of relative country need and performance and as part of the CSR Zero-Based Reviews has been expanded to cover both LICs and MICs, take account of aid flows from other donors and take into account DFID's multilateral as well as bilateral aid. The resource allocation model informs decision-making but is only a starting point in allocating resources. Other factors are taken into account including poverty and the MDGs, governance (including political governance), risk (including fragile and post-conflict countries) and country footprint (looking across political, economic, environmental and social factors).

We recognise that there are risks in working in fragile states and think that the challenge is to manage these risks effectively. This includes managing risks within countries (eg by having a mix of aid instruments) and managing risks across our bilateral programme (eg by balancing the allocations to fragile states with allocations to more stable policy environments).

31. *The DAR (5.19) states that European Community aid is becoming gradually more effective. Nevertheless, in terms of spending in LICs, there remains a long way to go. DFID tracks the results of the multilateral institutions through a Multilateral Effectiveness Framework (MEFF), what is this tool telling DFID? Is DFID intending to push more of its funding through the multilaterals and, if so, which ones?*

Evidence provided by the EC and from independent studies shows that Community assistance has become more effective following the implementation of reforms since 2000. For example, disbursement ratios have improved and independent project evaluations show improved performance.

DFID has used the MEFF to provide an initial assessment of the organisational effectiveness of multilateral organisations, including the EC. The MEFF identified the relative strengths and weaknesses of each institution's management processes in addition to other criteria and is helping to inform DFID's Public Service Agreement monitoring and Institutional Strategies. Overall, the EC scored above the average for the institutions reviewed. It is intended to repeat the exercise in full every three to four years and to track three focus areas relevant to each institution on an annual basis.

No decisions have yet been taken on whether to channel more resources through the multilaterals. This will be determined as part of the Comprehensive Spending Review.

32. *Which multilaterals are best at delivering aid? Has DFID reviewed its portfolio of funding to multilateral development institutions and considered the breadth of organisations funded in light of the transaction costs arising from each additional partner, as recommended in the NAO report?*

Different multilateral organisations demonstrate different attributes in the delivery of aid. This is often dependent upon the context or service in question. DFID is reviewing its portfolio of multilateral development expenditure, and what is done also through its bilateral programme, global funds, the private sector and civil society as part of the Comprehensive Spending Review. Multilateral expenditure in the future will continue to be informed not only by what we know about the effectiveness of individual multilaterals, about which a lot of information is already within the public domain, but also a range of other considerations. These considerations include how we can promote an even more effective international system, for example through the reform of the UN.

33. *Does DFID have an indicative percentage for the proportion of its budget which will be spent as budget support in three years' time?*

No we do not have a view on how much of our aid will be spent through budget support in three years' time. We aim to increase the proportion of country programmes channelled through Programme-Based Approaches to 53% in 2007–08. (Note: Programme-Based Approaches include, but are not limited to, general and sector budget support.)

34. *The DFID written statement of 8 June on UK assistance to Ethiopia provides for a Protection of Basic Services Grant in place of the now suspended PRBS. The statement talks about "the project providing for regular financial monitoring and reporting to ensure that funds are being allocated fairly and are being used for the agreed purposes. For the first time detailed budgetary information will be provided to citizens to increase local accountability. Shouldn't these requirements be fundamental to any budget support given by DFID?"*

Budget support programmes are always associated with financial monitoring and reporting so that we understand where governments are spending their resources. We normally use the reports that governments produce according to their own financial management legislation and regulations. We also support them to improve their financial information and analysis, for example through supporting annual public expenditure reviews.

The Ethiopia Protection of Basic Services Grant requires the government to provide additional financial management information about the flow of funds to the local level. When providing budget support we do not always require financial management information that is additional to the information already generated by the country. In each country case we need to decide whether additional information is required to address a particularly high risk area, or whether to focus on strengthening the government's own monitoring and reporting processes.

As part of our support for greater domestic accountability in countries where we provide budget support, we often encourage improved access to detailed budgetary information by citizens. For example, in Tanzania we have supported transparent annual public expenditure reviews and citizens' access to Parliamentary debates. In some country programmes where we provide budget support, we also promote greater transparency of local level expenditure as part of our support to decentralisation processes. The Ethiopia programme focuses on local level information, because the programme delivers resources directly to the local government level and because there is a particular focus on promoting local accountability.

35. *Are DFID country teams in selected “risky” countries being asked to prepare “Plan Bs” in case budget support is removed? If they are, can these Plan Bs, by providing an alternative way of delivering the same benefits (to the poor), become a tool for measuring the added benefits that PRBS is intended to bring?*

Risk assessments are undertaken in the preparation of County Assistance Plans. Decisions are then taken on what level of risk is acceptable and what contingency plans are needed so that DFID can respond effectively should risks be realised.

36. *In Ethiopia the aid which will now flow as a Protection of Basic Services Grant is still fungible. Is this a concern to you?*

We have minimised fungibility by restricting the use of the funds to four sectors (health, education, water and sanitation and agriculture) at the local level and by agreeing with the Government that it will increase its funding for these services, and that our funds will be additional. We will be receiving regular expenditure data, which will enable us to monitor this commitment.

37. *Ethiopia has been one of DFID’s most important focus countries. Where does Ethiopia now figure in the scaling-up of DFID aid?*

Ethiopia remains one of our most important focus countries. We are planning to increase annual expenditure to £130 million in 2007–08. This would make the Ethiopia programme the largest DFID programme in Africa.

38. *At a time when global ODA sums are rising, the proportion of aid spent through the multilaterals is falling. In DFID there has been a gradual shift to a greater proportion of bilateral spending. What is the future for multilateral and bilateral aid?*

The UK is strongly committed to working through the international system to reduce poverty in developing countries. Increasing aid will mean that donors will need to rely more on multilateral channels to distribute it but at the same time some parts of the international system have either become too complicated and inefficient or simply don’t work at all. DFID will use its resources and influence to strengthen the international system and will decide how to allocate resources in the future based on success rather than history.

39. *How will DFID seek to ensure that the European Consensus on Development, which makes poverty reduction a priority, does not become marginalised compared to other strategic objectives such as the European Neighbourhood Policy?*

The European Consensus, signed by the Prime Minister and the Presidents of the European Commission and European Parliament in 2005, states that, “The EU shall take account of the objectives of development cooperation in all policies that it implements which are likely to affect developing countries”. We will continue to ensure that the Consensus and this commitment are reflected in all relevant policy frameworks, regulations, instruments and management documents. We will do this by working closely with other Government Departments, the Commission, European Parliament and other Member States. The near finalised draft EU Regulation establishing a European Neighbourhood and Partnership Instrument for 2007–13 states that support provided within the framework established by the European Neighbourhood Policy should be coherent with the objectives and principles of the European Consensus.

40. *In terms of the areas essential for attaining the MDGs (peace and security and good governance) how will the EU work with the AU to enhance the AU’s Peacebuilding and conflict prevention capacity? How does the EU’s Africa Strategy link with existing African initiatives to promote peace and security? Is the EU limited in such activities by a lack of coherent approach between member states?*

The EU’s Africa Strategy includes commitments to work with the AU, sub-regional organisations and African countries to predict, prevent and mediate conflict, including by addressing its root causes. The Strategy supports existing African plans and initiatives, particularly the African Peace and Security Architecture (APSA). Earlier this year the EU agreed to provide a further €300 million between 2008 and 2010 to the Africa Peace Facility (APF). Created in 2004, the APF has helped the AU to deploy troops in Darfur and build its longer term capacity. EU officers are deployed with the AU in Darfur to support aspects of the mission, including the civilian policing component. The EC also provides financial and practical support, in co-operation with other partners including the UK, to develop the AU’s African Standby Force (ASF) which aims to provide enhanced African capacity to deploy observer and peace missions on the continent. The EC Delegation in Addis Ababa plays an active role in ensuring coherent Member State support for the AU mission in Darfur and for longer term capacity building.

41. *How coherent is the UK position on promoting the use of trade to reduce poverty with that of its EU partners? How will the Department work to ensure that the objectives it has for securing a reduction in EU and world trade barriers are shared by other Whitehall Departments and by EU partners?*

DFID's PSA target on reducing barriers to EU and other markets is formally shared with DTI. Although not formally shared with DEFRA, it does repeat some of DEFRA's own language in their PSA targets for reducing the costs of the CAP. But we recognise also that since trade is a Community, not a Member State competence, our impact on EU trade policies depends on our ability to influence. Therefore we must rely on other Government Departments also to deliver the target, including in particular the FCO and the network of overseas posts. We work very closely with all interested Government departments in both developing and monitoring the PSA target. We also work closely with other EU Member States to try to share the evidence base on the need for and benefits of trade liberalisation, and seek their support for the most liberal outcome possible to discussions on both multilateral and EU trade policies.

42. *What role does DFID intend to play in the EU's 2006 Review of the EPA negotiations; and what is the strategy after the Review, if development concerns have not been addressed? (for example, how will DFID seek to influence the Commission and other member states to come on board with a poverty reduction agenda)*

We intend to support a comprehensive and effective Review that genuinely includes participation from ACP countries and regions.

The terms of reference for the Review, broadly outlining the process and content, have been drafted by both the EU and ACP, taking into account ACP concerns raised at the Joint Ministerial Trade Committee on 28 June. These are to be finalised shortly.

DFID's role to date in the Review has been to help support the drafting of the terms of reference. We will stand ready to assist with research or technical support required to feed evidence into the policy dialogue during the Review. We will also ensure that the recommendations and conclusions of the Review will be taken into account in the negotiations.

The UK position is that EPAs should be genuine tools for development and poverty reduction. Following the outcome of the Review, this will continue to be the position we will take in discussion with all our partners in the EPA negotiations, including the European Commission and other Member States.

43. *What mechanisms does the Government have to ensure that "analysis of poverty impacts and Sustainability Impact Assessments feed into policies on the EPAs" as set out in the Government response to the IDC report on EPAs? Are there any examples of how this is working so far?*

The Government believes that analysis of the impact of EPAs is critical for checking whether EPAs bring benefits to countries in the African, Caribbean and Pacific (ACP) countries. However, we do not currently have formal mechanisms in place to feed analysis of poverty impacts and Sustainability Impact Assessments (SIAs) into the ongoing negotiations.

The reasons for this are that the European Commission has already supported studies on SIAs, which have been undertaken in the regions and countries of the ACP. However, most studies are confidential to the ACP governments as they potentially contain information relevant to their own negotiation positions. Unfortunately, a number of stakeholders have expressed concern over the quality of these studies, including leading experts in the field. The weakness of these studies is partly due to the fact that the assessment of the poverty impact of trade policies requires very specific knowledge, for example exactly what products and tariffs will be liberalised, and in what timeframe.

In addition, since June 2005 when the Government last responded to the IDC on EPAs, the negotiations have not progressed into greater detail. As these details become clearer and a picture emerges of what EPAs will look like in different regions in the ACP, stakeholders can begin to analyse the likely trade, growth and poverty impacts. This is why we continue to support the conclusions of the EU Council in April, which called for SIAs to be conducted at an appropriate time.

44. *DFID went through a difficult restructuring process in 2003. (i) How are you monitoring whether the anticipated benefits from the process were realised? (ii) Has the restructuring worked as intended? What documentation exists to support improvements in costs, effectiveness and systems?*

(i) Policy Division (PD) has a Performance Framework designed to help PD decide what its key divisional priorities should be; track and report on delivery of these priorities; and explain what PD does to its key stakeholders.

(ii) PD has been better set up into a Group structure (Development Effectiveness, Governance & Social Development, Growth & Investment, Human Development and Sustainable Development) to be responsive, as it is able to move people within Groups and around the Division more easily than when they were separate Departments. Like other DFID divisions, PD's priority-setting has benefited from the establishment of a system of Director's Delivery Plans, reviewed by the Management Board. All PD teams are set up for multi-disciplinary working, whereas the previous departments were broadly from one

discipline or sector. Staff in other donor agencies (bilateral and multilateral) frequently say that they regard DFID's policy products (many generated in PD) as making a leading contribution to forward thinking on development issues.

PD's Performance Framework is divided into two areas, the performance framework, which looks at what PD is delivering to/with key clients, and the management framework, which looks at how PD goes about its business covering issues such as management (HR and financial resources). The Management Board reviews annual performance and approves forward plans for PD on an annual basis.

45. *Currently none of DFID's PSA targets incorporate environmental or climate issues. (i) How can DFID incorporate climate change into its thinking/policy? (ii) What environmental assessments of projects do you carry out?*

(i) Chapter seven of the new White Paper outlines our approach to climate change; and this will also inform our approach to the current Comprehensive Spending Review;

(ii) All DFID projects over £1 million are screened for environmental risks and opportunities before they are approved. In addition, the White Paper commits us to helping partner countries identify and respond to environmental opportunities and risks, for example by helping them to undertake strategic environmental assessments.

46. *Do you use PSA Targets at all for internal management purposes? (If YES), how do you use them, eg supply them to the Board on a monthly basis? (If NO), how do you ensure that remedial action is undertaken in response to targets slipping?*

Yes. Updates on the PSA are included in the Quarterly Management Report that is reviewed by the Management Board on a quarterly basis and on an annual basis the Board review the overall performance of divisions in directly addressing the targets.

47. *Do you think there is a sense in which DFID has lost contact with the lower ends of the development spectrum, particularly in light of the other comment in the DAC review that DFID in country staff need to get out more?*

No. DFID remains focused on our goal to eliminate poverty and, as the DAC review noted, DFID staff are highly-motivated. We agree that it is important that staff visit the field so as to understand the realities of poor people's lives.

48. *Much of the concern about the future of SSA is to do with economic growth and job creation. How does a policy that prioritises education to primary level conform to this approach—does it mean schools turning out students who are literate but not employable?*

Greater investment is needed at all levels of education if we are to reach the MDGs. A key focus on primary education is appropriate as the education Millennium Development Goal to achieve Universal Primary Education is centred on ensuring that by 2015 children everywhere, boys and girls alike, will be able to complete a full course of primary schooling. DFID gives priority to supporting primary education for all children, especially girls, in countries that are off track for reaching the education goal. Education is a right and our priority is to get the 100 million children of primary school age who are not currently attending school into a classroom with a teacher.

However DFID's support is not restricted to the primary sector. While universal primary education remains our priority, there is also a growing need to invest in secondary and higher education and vocational skills training. DFID fully recognises that investment is needed in secondary, tertiary and vocational education, lifelong learning and skills in order to increase the ability of governments and the private sector to deliver basic services and to promote sustainable growth. This is best done through a sector-wide approach, which means supporting the whole education system.

The UK commitment to provide some £8.5 billion to education in developing countries over the next ten years will focus on supporting our partner governments' plans to distribute funding in a balanced way across all levels of their education systems in order to meet the MDGs.

DFID funds will also support a number of innovative post-primary programmes. The recently launched £15 million programme, Development Partnerships in Higher Education, will support a variety of partnerships between Higher Education institutions, enabling them to collaborate in activities linked to sustainable development, poverty reduction and science and technology in DFID's 25 priority focus countries across Africa and Asia.

49. *The submission from One World Action refers to DFID's 2005 evaluation of DFID's gender policies. What is the preliminary feedback on this evaluation? One World Action state that gender equality and gender mainstreaming are usually marginalised to "social" dimensions of development cooperation. How can you ensure that gender mainstreaming can go beyond the social development cluster and enter the "hard areas" of climate change, trade, security and migration?*

The evaluation concluded that DFID demonstrated strengths in policy-making and knowledge development but that the mainstreaming of gender equality in our programmes was uneven.

We recognise that eliminating gender inequality and promoting women's empowerment are essential to the achievement of all the Millennium Development Goals (MDGs) and we are working to ensure that gender issues are made a priority across our work, and that developing country partners integrate gender into their own national plans. DFID also supports specific activities to promote the rights of women and girls, including in the areas of girls' education, maternal mortality and reproductive health.

But we acknowledge that there is scope to strengthen our work in this area, to ensure that we are having maximum impact. The White Paper commits DFID to giving more priority to our work in support of gender equality and women's rights. We are currently in the process of developing a Gender Action Plan (target completion date November 2006) which will set out steps to be taken across DFID to strengthen our gender mainstreaming commitments.

Areas to be looked at include: (i) reinforcing the links between gender equality and other development objectives, including poverty reduction; (ii) the role of management information systems and performance management in supporting gender mainstreaming; (iii) supporting better integration of gender in national policy and results frameworks, consistent with DFID's emphasis on country-led approaches; (iv) identifying the appropriate level of skills and expertise to support gender mainstreaming, and (v) opportunities for strengthened engagement on gender issues at an international level.

50. *A final thought—just how many issues can be "mainstreamed" at any one time? Would DFID consider, mainstreaming other issues across DFID, such as private sector development or climate change?*

Many issues in development cut across a number of areas and therefore need to be considered when decisions are taken. Gender, climate change and the private sector are all examples of such issues.

Our plans to address climate change are outlined in chapter seven of the White Paper.

We believe that the private sector is key to generating economic growth and giving poor people better access to markets. We have made a number of commitments in chapter five of the White Paper to promote private sector development. The White Paper also recognises the need for improved governance and transparency in the private sector and the benefits that these can bring for stability, democratic change and development. Our forthcoming response to the IDC Enquiry on Private Sector Development provides an opportunity to more fully respond to the Committee's question in so far as it relates to the private sector.

August 2006

Memorandum submitted by ActionAid

DFID EXPENDITURE ON TECHNICAL ASSISTANCE: IS IT ACHIEVING VALUE FOR MONEY?

1. TECHNICAL ASSISTANCE—THERE ARE SERIOUS CONCERNS ABOUT TA AS AN EFFECTIVE DEVELOPMENT TOOL

1.1 There are concerns about both the scale and effectiveness of DFID's Technical Assistance programmes. Globally, TA is one of the most criticised aid modalities, and one of the least well evaluated. Last year's OECD DAC Development Cooperation Report's chapter on Technical Assistance concluded "There is little data-based analysis of the overall effectiveness of TC as an aid instrument, whether in terms of cost/benefit, impact on growth, fiscal impact or other financial measures."¹

1.2 DFID's own review of its TA to economic management in South Africa, concluded that "it is only in a minority of the cases reviewed that a capacity development impact can be identified."²

1.3 Given these broader concerns about the effectiveness of Technical Assistance, and the large proportion of DFID's bilateral budget which is spent on TA—24% or £500 million per year—we believe this to be a vital topic for future in depth evaluation by the IDC.

¹ 2005; Development Cooperation Report; OECD; p 119.

² 2006; Developing Capacity? An evaluation of DFID funded Technical Co-operation for Economic Management in sub-Saharan Africa; pxiv; Oxford Policy Management.

2. DFID'S EXPENDITURE ON TA CONSTITUTES A SIZEABLE PROPORTION OF ITS TOTAL SPEND

2.1 "Technical Assistance" encompasses expenditure on consultancy, research and training. It accounts for 24% of DFID's bilateral expenditure, or £508 million in 2004–05.

2.2 DFID TA programmes exist in 90 countries, and in 39 they are a majority of the expenditure. In seven of those countries, DFID's expenditure on TA is over £11 million—the average size of a DFID country programme.

3. DFID POLICY STATEMENTS ON TA

3.1 Currently, DFID does not have a formal policy on TA, but has made the following commitments in the 2006 White Paper:

"Technical Assistance—often comprising specialist staff and training—offers new ideas and ways of working. Such support only works well when the institutions themselves want change and are ready to lead reform . . . As with financial aid, we believe technical assistance should be provided through government systems so that developing countries can design and manage it to meet their needs. And donors should pool funds to improve co-ordination and reduce administrative burdens."³

We are encouraged by this statement from DFID, but it must now be accompanied by clear plans for implementation.

3.2 DFID has also recently produced a "How To" note for staff on TA, which contains support for TA reform along the lines of the statement from the White Paper. However, many of the statements on TA are accompanied by caveats, and the language of the document is altogether less strong than that in the White Paper. Neither is the note binding, since it is for guidance only. Whilst the "How to Note" is welcomed as a step forward in DFID's commitment to better TA, it does not provide a clear policy, nor a plan for real reform.

4. PREVIOUS EVALUATIONS OF DFID'S TA

4.1 In 2005 DFID published an evaluation report of Project Completion Reports in PRISM, including feedback on a number of TA projects, which cited instances of insufficient local participation in design and selection, insufficient ownership of projects, too much use of international consultants, and ineffective short-term consultancy.⁴

4.2 More recently, DFID have also published an Oxford Policy Management evaluation of the impact of DFID TA on capacity building in sub-Saharan Africa.⁵ Whilst the evaluation found that: "In general planned project or programme outputs have been produced successfully"; overall the report concluded that "it is only in a minority of cases reviewed that a capacity development impact can be identified". This is a particularly concerning conclusion given that DFID cites its reason for providing TA as supporting partner institutions to develop their capacity.⁶ This suggests deep seated problems as DFID TA is found to be meeting its stated objectives, without impacting on its core aim of capacity development.

5. POSSIBLE ISSUES TO BE INCLUDED IN AN EVALUATION

5.1 *Is the market working?* Concerns around the TA market centre on two key areas:

- (a) Openness: a genuinely open market would be likely to see TA consultancy contracted out to an increasingly broad range of suppliers, with an emphasis on the most competitive offers. However, five years after untying, only 5% of the value of centrally awarded contracts⁷ go to developing country firms. The remaining 95% are awarded to developed country firms, the vast majority of which are UK companies.
- (b) Costs: DFID figures show that a consultant is typically paid somewhere in the region of \$200,000 per annum,⁸ and developing country officials we speak to often raise concerns about the relative expense of DFID consultants, as compared to similar consultants used by other donors.

5.2 *Is DFID TA effective?* The Oxford Policy Management evaluation of DFID's TA clearly indicates that its impact on capacity development is limited. In so much as TA is designed to be a contribution to transformational capacity development, this implies a clear need to evaluate the whole of DFID's TA programme for a robust effectiveness assessment.

³ 2006; White Paper on International Development; p 25; DFID.

⁴ 2005; PCR Synthesis Report; DFID.

⁵ 2006; *Developing Capacity? An evaluation of DFID funded Technical Cooperation for Economic Management in sub-Saharan Africa*; p xiv; Oxford Policy Management.

⁶ 2006; *How to note*; p 1.

⁷ 90% of DFID's contracts are awarded centrally; DFID Procurement Department.

⁸ 2005; *Development Cooperation Report*; OECD; Development Assistance Committee; p 123.

5.3 *Does DFID have adequate systems for monitoring and evaluating its TA?* This year's OPM evaluation is a rare, but limited example of external evaluation. Given the concerns it raises, DFID should consider undertaking independent evaluations to assess the impact that its Technical Assistance has on the goal of transformational capacity development. Unfortunately, existing monitoring and evaluation systems are lacking, and there is no comprehensive approach to monitoring all Technical Assistance projects funded by DFID. Projects over a value of £1 million are required to complete a "Project Completion Report", however, anything which falls under a lesser costing bracket is not subject to strict evaluation guidelines, and certainly, evaluations of smaller TA projects are not made publicly available.

5.4 *How does DFID TA match up to its commitments in the White Paper?*

The White Paper commits to supporting TA only in cases where there is:

- Developing country ownership.
- Use of country systems and or support of pooled arrangements.
- Donor coordination of TA—DFID has also signed up to a key TA commitment through the Paris Declaration agreement on donor harmonisation and alignment. Through indicator 4, the UK has committed to ensuring that at least 50% of its TA will be run through co-ordinated programmes consistent with national development strategies, by 2010. DFID has chosen to interpret this target of 50% as pooling (where donor resources for TA are pooled to avoid duplication of donor work). However, the "How to note" comments that the DAC target on the partial pooling of TA is "challenging", suggesting that current practice is considerably out of line with policy.

5.5 *Is DFID reporting accurately and transparently on its TA?*

- There are concerns over the assignment of internal research and consultancy services to the TA budget instead of the administrative budget.
- An absence of public information on costs also makes it very difficult to ascertain whether DFID is obtaining value for money with regard to its procurement contracts.
- A general absence of information on TA including where contracts have been procured (centrally or locally), the nationality of the company or individual consultant used, and poor maintenance of central records on procurement makes it very difficult to ascertain whether DFID are in fact following the policy commitments they have made.

6. ACTIONAID'S WORK ON TECHNICAL ASSISTANCE

6.1 ActionAid recently produced *Real Aid 2: Making TA work*, the second of our detailed international reports on aid quality. The key focus of this report was Technical Assistance, and the ways in which systemic inadequacies in the way TA is delivered, result in aid money being spent inefficiently. We also co-hosted an expert seminar in May of this year with the Overseas Development Institute and contributed to a UK Aid Network (UKAN) aid network seminar in July.

July 2006

Memorandum submitted by Dalit Solidarity Network (UK)

1. The Dalit Solidarity Network (UK) is a charity which has worked on issues of caste discrimination in South Asia and other parts of the world since 1998. It aims to build awareness of the effects of caste discrimination in India, the other countries of South Asia, Japan and several countries in Africa where discrimination by work and descent occurs. The DSN (UK) is a member body of the International Dalit Solidarity Network based in Copenhagen which has member bodies in several different countries.

2. This memorandum is addressed in part to the coherence of DFID's policies and practices with other government departments and to development co-operation in the European Union, where there is an increasing awareness of the effects of caste discrimination in South Asia. Our remarks are addressed in particular to Section 3 in the Report, "Reducing Poverty in Asia".

3. DSN believes that the Report does not take sufficiently seriously the contribution of caste discrimination as a cause of poverty in India and the other countries of South Asia. The Report itself states that one-third of the world's poor live in India (3.45), the great majority of these are Dalits and hence 25–30% of the world's poor will not be properly helped if caste discrimination is not vigorously addressed. As an example, on page 55, in relation to "Progress towards the Millennium Development Goals", the Report believes that more progress is needed if the MDGs are to be met, "particularly on gender equity". We strongly believe a phrase such as "and on ending caste discrimination" should have been added. On the same

page, in relation to Tsunami relief, information is increasing that Dalits have been discriminated against in the relief and reconstruction programme, in fact we understand that some have still not received any assistance more than a year after the event.

4. In the sections which relate to India there is very little reference to caste discrimination. For example in Box 3c in relation to the SSA programme in India there is no reference to its effect in limiting access for children to school. We noted the references to caste in paragraphs 3.45 and 3.51 but we still believe the overall analysis is weak.

5. We could not see any reference at all to the issue of caste discrimination in the material on Nepal, Bangladesh or Pakistan, yet there is increasing evidence that caste plays a crucial role in preventing the poorest in those countries to escape from their poverty.

6. Our communications with the EU, the European Parliament and the other European countries are increasing and although there is growing awareness of caste again insufficient action is directed towards it. We understand the issue is not yet an integral part of EU Development programmes in caste-affected countries.

7. We would wish however to record our support for a great deal of the work that DFID does. The Department has begun to listen to our concerns on caste discrimination and we hope to work with the Department and the Committee more effectively on this issue in the future. Finally we would comment in passing that DFID seems increasingly unable to fund small organisations such as our own. Too many administrative hurdles make success very difficult, far more seems to be spent on consultants than campaigners.

June 2006

Memorandum submitted by One World Action

PROMOTING GENDER EQUALITY AND EQUITY IN DFID DEVELOPMENT CO-OPERATION

1. One World Action welcomes the Department for International Development's (DFID) Annual Report 2006. One World Action wishes to concentrate this submission on the impact of the DFID's work in promoting and advancing gender equality, equity and women's human rights in its development co-operation. One World Action will address four issues outlined in the IDC's Press Notice announcement of the 11 May, 2006 viz:

- The coherence of DFID's policies and practices with those of other Government departments.
- The organisation of the Department.
- Aid modalities.
- EU Development Cooperation.

The coherence of DFID's policies and practices with those of other Government departments—within DFID's partner countries as well as in the UK.

2. DFID is perceived to be a leader in the development co-operation field so is in a strong position to lead on women's rights/empowerment, gender equality. It has a strong track record and is respected for its work in this area. Many other government departments such as the Department of Trade and Industry (DTI) and the Foreign and Commonwealth Office (FCO) take their lead on gender equality and equity issues from the DFID. Within the European Commission and with developing partner countries, the UK is considered to be a key player in furthering this agenda. However several evaluations show that there is a widening gap between policy and practice and DFID needs to make it a priority to close this gap. With an increased aid budget in the UK (and elsewhere) and push towards 2015, now is the right time to step up its commitment and performance. It is urgent that DFID take action in the following areas:

- Allocate significant financial and human resources to gender mainstreaming.
- Build up a strong programme of support to women's organisations and specific activities.
- Strengthen accountability systems, processes and procedures at headquarters and country office level. This could be achieved through clearly defining and expressing expectations of delivery in performance appraisals, work plans and reports, using clear guidelines on accountability to governance structures, annual reports, and reporting on progress. DFID could consider developing an accountability matrix similar to that prepared by the World Bank⁹ to ensure that lines of responsibility are clearly defined.
- Strengthen senior level commitment, leadership and support, through training, exposure sessions and information analysis.
- DFID should consider developing country-specific gender action plans clarifying priorities and objectives and developing mechanisms for monitoring progress on gender equality.

⁹ *Integrating Gender into the World Bank's Work: A Strategy for Action*. World Bank (2002).

- Much more needs to be done to explore and develop the linkages between cross-cutting themes, such as gender, governance, human rights, environment, etc. At present these are often regarded as separate agendas and staff feel overloaded. Our research shows that, in practice, aid management offices tend to pay more attention to “pro-poor” issues and neglect the intersections between gender equality goals and other development goals such as poverty reduction or cross cutting priorities such as HIV/AIDS. Theorising poverty in a vacuum ignores the structural issues such as gender, caste, class or race that compound poverty.

3. Linked to the coherence agenda, the *European Consensus on Development* (November 2005) is the most recent reaffirmation of the commitment to greater policy coherence. It states the EU will “Take account of the objectives of development co-operation in all policies that it implements which are likely to affect developing countries and that these policies support development objectives.” It explains that the “primary and overarching objective of EU development co-operation is the eradication of poverty in the context of sustainable development including the pursuit of the MDGs”. In its draft work programme for 2006–07 (new Commission Staff working paper) discussed at the April 2006 GAERC, it was proposed that the Commission and Member States would pursue their work on policy coherence for development in 12 different policy areas, considered important for assisting developing countries to achieve the MDGs. These are: trade, environment, climate change, security, agriculture, fisheries, social dimension of globalisation, employment and decent work, migration, research and innovation, information society, transport and energy.

4. Increased attention to policy coherence for development and stepped up actions are very welcome, however there are concerns. Gender equality and gender mainstreaming are usually marginalised to “social” dimensions of development co-operation. The DFID must ensure that gender equality and women’s empowerment are incorporated in key areas particularly, trade, environment, security, agriculture, migration.

The organisation of the Department—does DFID’s structure reflect the volume and purpose of UK aid? How successful was DFID’s 2003 organisational restructuring in fitting the Department to meet its aims?

5. Prior to the 2003 organisational restructuring Social Development Advisers (SDAs) were responsible for conducting social, including gender, appraisal of all projects. SDAs gave advice but often were not in control of budgets, therefore their impact was very limited.¹⁰ The restructuring of the Policy Division has resulted in the position of Gender and Rights Advisor in the Exclusion, Rights and Justice Team. Currently there are two staff members in the team responsible for gender. While this is a welcome move, it is difficult to comprehend how DFID expects to mainstream gender fully into all its work with such limited staff capacity.

6. In One World Action’s evidence to the 1998, 2002 and 2004 Inquiry, we argued that women’s rights and gender equality were not high priority outside of the Social Development Department within DFID. Today evidence of effective gender mainstreaming outside of the social development cluster remains disappointing. Within the five Policy Division groups and teams (Development effectiveness group; Governance and social development group; Growth and investment group; Sustainable development group; Human development group) gender mainstreaming is patchy. While the section on Gender, inclusion and rights in the Annual report explicitly says that “DFID promotes participation, human rights, gender equality and inclusion across all areas of work”, there is little evidence of this in “hard areas” such as climate change and access to clean energy. Further, the restructuring of the Policy Division has led to reduced space for civil society engagement.

Aid modalities—The implications of DFID’s withdrawal/reduction of direct budget support in Ethiopia and Uganda for the future of budget support

7. DFID is committed to delivering aid through governments’ own systems. In the past few years, it has increasingly moved away from project funding to Poverty Reduction Budget Support—a form of aid where funds are provided directly to a partner government’s central exchequer to support government programmes. This has increased steadily in the past two years from 15% in 2001–04 to an estimated 25% in 2006 with Africa receiving 32% budget support. DFID argues that this new strategy of delivering aid will improve effectiveness and impact of public expenditure within sectors and towards poverty reduction goals overall. While this strategy is potentially positive as it offers the possibility of direct policy dialogue with national governments and fosters ownership, tracking aid effectiveness through direct budget and sector support is difficult. These changes also bring new challenges for Southern (and Northern) women’s or other civil society organisations wishing to monitor how development assistance is spent and its relationship to stated government and donor priorities. DFID could increase action in the following areas:

- Identify and institute clear mechanisms for tracking policy commitments in new aid modalities, especially poverty reduction budget support,
- Greater transparency on levels of poverty reduction budget support.

¹⁰ Gender equality and Mainstreaming in the UK Department of International Development: A brief for the UK Gender and Development Network. May 2003.

- Support to Southern CSOs, and especially gender aware organisations, to strengthen their capacity to engage in national budget processes and monitor expenditure.

8. Poverty Reduction Budget Support and sector wide approaches are welcome but need strong and clear monitoring mechanisms and public accountability. All sectors, in particular those with major DFID funding such as infrastructure, macro economic policies and aid for trade, need to ensure that the differential impact of PRBS on men and women is considered and addressed.

9. One World Action fully supports the rights of all human beings as enshrined in the Universal Declaration of Human Rights, International Covenant of Economic, Social and Cultural Rights, International Covenant of Civil and Political Rights. Further the UK government is committed to international agreements, such as the Beijing Platform for Action, and to achieving the Millennium Development Goals. The UK government must uphold these rights in its development co-operation as an absolute minimum. With regard to PRBS, DFID should ensure that the principles are applied transparently, consistently and fairly.

EU Development Cooperation—implications for DFID of the European Consensus on Development and the EU Africa Strategy

10. One World Action supports the European Consensus on Development and the EU Africa Strategy.

11. Currently the European Commission has put out a draft EC Communication on Promoting Gender Equality in EU External Relations. One World Action welcomes the Commissions' efforts to draft a Communication that aims to strengthen the promotion of gender equality in EU External Relations. This is a timely and crucial initiative that will help to ensure that the strong commitments made by the EC and the Member States to "include a strong gender component in all its policies and practices in its relations with developing countries" in the *European Consensus on Development* will be implemented in practice.

12. We particularly support the recognition and reaffirmation of the importance of the twin-track approach—the focus on both gender mainstreaming and on women-specific action—for the promotion of gender equality and strongly encourage the up-coming evaluation of the Action Programme of 2001. We also welcome the envisaged stock-taking and re-examination of the role of the EU and the EC with the aim of increasing accountability in management structure and towards the public. In order to strengthen the Communication, we would like to make the following recommendations:

- Improve conceptual clarity by explicitly referring to the three domains of gender equality and women's empowerment (capabilities domain, access to resources and opportunities domain, security domain).
- Include more concrete actions on how gender mainstreaming will be strengthened.
- Include a comprehensive list of EC and EU commitments to the promotion of gender equality.
- Include reference to women's rights throughout the Communication.
- Strengthen mechanisms for monitoring and increased accountability.
- Improve the analysis of the structural and global context.

DFID evaluation on gender mainstreaming

13. One World Action welcomes and supports the DFID evaluation currently undertaken. DFID's overall policy framework highlights gender inequality as a key factor in poverty and expresses commitment to reducing gender inequality and promoting women's empowerment as part of its overall strategy to eliminate poverty. It has adopted a "twin track" strategy combining specific activities aimed at empowering women with a commitment to pursue gender equality in the mainstream of all development programmes (gender mainstreaming). Preliminary evaluation findings show that to date these commitments have not been implemented thoroughly or consistently.¹¹ One World Action strongly encourages DFID to use the evaluation as an opportunity to step up and strengthen commitments to gender equality, equity and women's empowerment.

International Development Committee follow-up inquiry

14. We urge the Committee to conduct a follow-up inquiry on women and development to assess progress on the recommendations of its 1998 Inquiry. We recommend the Committee open up a formal inquiry into DFID's Annual Report inviting civil society organisations to submit oral evidence.

June 2006

¹¹ Preliminary feedback from 2005 Evaluation of DFID's policy and practice in support of gender equality and women's empowerment.

Memorandum submitted by the Tropical Health and Education Trust (THET)

1. THET (founded in 1988) is the umbrella body for long-term Links between NHS institutions and medical, nursing and other health professional training schools in the UK and their counterparts in developing countries globally—fruitful partnerships for development as championed as a Millennium Development Goal. It also mounts demonstration projects with African partners to model accessible health care in Ethiopia, Somaliland, Ghana, Uganda and Malawi, typically addressing the needs of people with chronic conditions (such as epilepsy, mental illness, diabetes and chronic heart and lung conditions) in more remote rural areas. In all of THET's work the training and continuing medical education of health workers, to create long term capacity, is key. The overall aim is to strengthen basic, sustainable health care services for the general population.

2. *Coherence with other Government Departments.* NHS Links bring threefold benefits: to the developing country via building of healthcare capacity; to the NHS or UK teaching staff involved, because of the insights, skills and personal development that result; and to development awareness in the UK, because they create an important constituency of involved people and their supporters within NHS institutions or medical schools, committed to the cause of international development.

3. These three interrelated dimensions inevitably pose a challenge to separate Government Departments and compartments. Possibly for this reason, DFID has perhaps been a little slow to grasp the potential of Links as a means of harnessing the immense resources of the NHS and UK health professions to international development efforts. The efforts to collaborate with the Department of Health (DoH) are recent and as yet less steady than the collaboration with DFES over school links and development awareness. Most individual Links get no DFID support either for direct international development contributions or development awareness. There are, however, good signs for the future: there have been high level meetings between DFID and DoH about better support for health links; DFID has recently awarded a grant of some £500,000 over three years from the Civil Society Challenge Fund to THET to support its Links work; and DoH has in parallel seconded a senior manager to THET to assist our promotional work among NHS institutions. We sense an openness to further change for the better, eg a more strategic and systematic approach to funding Links work at different levels, and recognising in concrete ways the contribution of such Links to development awareness as well as international development goals. These good possible trends need reinforcement.

4. There is a particularly significant strategic opportunity now, because Sir Nigel Crisp has been asked by the Prime Minister to report to him and the Secretaries of State for International Development and Health by the end of the year on how the UK can give greater assistance to strengthening the health systems of developing countries. This should open up ideas for further collaboration across Departmental boundaries, clearer recognition of the potential of Links at different levels for the threefold benefits already identified, a more strategic and determined approach to foster and support them, and integrate them in sector wide approaches to supporting the healthcare systems of developing countries. It would be very helpful if the Committee were to shine a light on this area and lend impetus to the efforts being made by DFID, DoH and Sir Nigel and his team, and NGOs like THET, to make the most of this opportunity.

5. *Increasing Aid Volumes.* It follows that one important area for increased assistance should be the encouragement of Links activity in health both for its direct impact on international development goals and its role in the international development awareness and commitment of the health workforce and medical and nurse training student bodies in the UK. More generally, THET can testify to the great importance of long term support by international donors such as DFID for human resource planning for health, as advocated so persuasively by the WHO. Promoting the supply and continuing training of health workers in developing countries cannot be properly undertaken in three year or even five year fits and starts. Health Ministries need reliable and long term commitments (even though they cannot be completely unconditional), linked to strategic plans to meet healthcare needs as a whole. In THET's view, this is a more promising approach than investing in vertical programmes defined by particular diseases such as HIV/AIDS. All too often the latter inadvertently undermine the basic health services of the country by setting up separate UN or NGO systems, paying higher salaries than the health services and sucking vital health workers out of the basic health care systems where they are desperately needed. THET commends the efforts by DFID to strike a new balance in favour of more support for health systems and human resource plans "owned" by the developing countries' own authorities. Links should be integrated in these plans and co-ordinated by indigenous Ministries of Health. Such donor support, if related to the needs highlighted by the WHO and sustained for the long term as it needs to be, could absorb fruitfully a substantial part of the increased aid volumes. We hope the Committee will agree and encourage this direction.

6. *The organisation of the Department.* The international development universe is now very complex globally, and traditionally DFID has helped UK-based NGOs to navigate it. This ability to help UK NGOs make the most of their contribution could be affected by three organisational developments. One, DFID is so decentralised that we are sometimes told, in effect: "for an answer to that you really need to speak to DFID's representatives in half a dozen or more separate country offices". This can be unrealistic for smaller NGOs. Two, the consultancies to which important DFID functions have been outsourced are no substitute for expertise in house which can more readily be integrated with policy and strategic considerations and brought to bear in a manageable set of relationships with DFID officials. Three, if DFID in the interests of aid harmonisation surrenders its own active presence in Ghana or Tanzania to other countries, it is

important that NGOs which may find it difficult enough to maintain good relationships with a range of DFID officials, let alone those of the Netherlands etc too, are helped to achieve good access to the officials of such other countries. Otherwise, what may seem sensible or neat from the point of view of rationalising DFID's efforts may end up making it more difficult for the NGOs and other players in the UK to make their contribution in countries where the UK has had specially strong traditions. The Committee could helpfully explore these issues.

7. *Aid Modalities.* There is no one means of support which is uniquely right for every circumstance. THET supports the direction of current policy in favour of more support through budgets or sector wide approaches to systems of health and to strategic plans for balanced health care services, including crucially human resources. We recognise that such schemes of "horizontal" support cannot be unconditional; there must be conditions relating to the transparent use of the funds for agreed objectives, to progress made and to certain values which are non-negotiable if UK public support for international development aid is to be sustained. The potential clash of imperatives creates arduous dilemmas for DFID Ministers which are appreciated here, and which should not discourage them from persevering with the best long term approach as circumstances allow, and finding second best ways of continuing to achieve the most important strategic objectives where necessary.

8. In particular, we would emphasise the importance of long term support for human resource plans owned by the developing country's Ministry and health authorities. Without it, all kinds of promising projects cannot be replicated and excellent efforts, including NHS Links, cannot reach their potential and may not be sustainable.

9. This involves making sure that the indigenous health authorities have the capacity to assert and keep control, keep the multitude of development agencies and NGOs in their place and achieve a reasonable balance of power in the relationship. For this reason, DFID's grant to THET for promoting NHS Links includes provision at our request to support pilot Links Co-ordinator posts in four developing countries, so that the promotion and co-ordination is not all at the UK end, and so that Links with other developed countries can be taken into account.

10. Nevertheless, within this broad framework we must beware a simplistic and "one-eyed" approach, with the pendulum swinging from one extreme position to the other. The case for some conditions has been acknowledged above. The Committee will also be well aware of the importance of assisting civil society in developing countries to thrive and exert influence, not least by providing a voice to groups who would otherwise tend to be unheard, and to hold the authorities to account. Moreover, even with capacity-building support, Ministries of Health and other indigenous health authorities will remain under great constraints and almost overwhelming pressures. In order to develop plans for health care in different dimensions, they will often need ideas, experience, resources and skills from outside, and continuing support and engagement from those who have won trust as faithful partners genuinely working to the priorities of the developing country partner and not imposing their own. It would be unrealistic to conceive of writing a cheque and leaving them to get on with it unassisted. As enshrined in the Millennium Development Goals, proven global partnerships for development are to be celebrated and supported, and should not fall foul of a narrowly interpreted ideology of budget support.

11. These are the issues on which THET feels it has the experience to testify to the Committee. We are glad that the Committee is undertaking this Inquiry and should be glad to elaborate on this evidence in any way that would be helpful.

June 2006

Memorandum submitted by World Vision

World Vision values the opportunity to respond to the Departmental Report 2006 published by the Department for International Development (DFID) and to the request for evidence from the International Development Committee. This Memorandum constitutes the written comments/evidence of World Vision.

World Vision—a leading international faith-based humanitarian aid and development agency—is a remarkable network which brings together 80 southern and northern civil society organisations in poverty reduction. This connects people fighting poverty worldwide—from 40 million in the South to over three million in the North. Through effective child-focused development and humanitarian programmes in over 15,000 communities and growing advocacy and policy influence with national governments and international institutions, World Vision's contribution towards the Millennium Development Goals (MDGs) is among the most significant of any non-governmental organisation in both scope and scale. As an influential member of this international network, World Vision UK has matured to become an organisation active in policy engagement, public advocacy and development awareness, built on its growing constituency of 165,000 committed supporters.

AREAS OF INTEREST

1. COHERENCE AND COOPERATION

World Vision is concerned with DFID's close cooperation with the Ministry of Defence; particularly in regard to the use of military resources in humanitarian assistance. World Vision believes that whilst in the short-term, the use of military resources to respond to natural disasters (such as the Tsunami and the Pakistan earthquake) can be necessary, they should not prevent longer-term development of better civilian resources and support mechanisms as backed by DFID and other donors. Military involvement cannot by definition be humanitarian (albeit it can be deployed towards humanitarian ends) and will always be subject to partiality and is by no means neutral.

Furthermore we would ask that DFID carefully consider how "security" is delivered in conjunction with humanitarian assistance. Promoting *human* security through civilian humanitarian assistance or peace-building activities, is in stark contrast to the approach to greater security in Afghanistan, where military forces have become involved in the delivery of humanitarian aid, which has caused confusion about the respective roles played by military forces and development workers.

Nonetheless we welcome the changes brought forward in the recent Humanitarian Policy paper "Saving lives, relieving suffering and protecting dignity."

World Vision support calls on DFID to commit to military resources only being deployed as a last resort in concurrence with current UN guidelines on Military and Civil Defence Assets in disaster relief.

World Vision recommends that military assistance should only be implemented upon receiving a request from the relevant civilian authorities in the host country.

World Vision strongly believes that DFID should continue to emphasise this human security approach in its humanitarian operations—as laid out in the Humanitarian Policy paper—and should avoid utilising military capabilities for tasks with humanitarian objectives except when there is no viable civilian alternative.

2. EFFECTIVE RESPONSE

World Vision welcomes DFID's rapid responses to a number of disasters over the past year. However, it is a concern that insufficient attention is given to the needs and rights of children in both emergency response and post-disaster reconstruction. History has shown us that unless special consideration is given to child protection in the initial stages of an emergency response, the plight of children is likely to get worse despite the arrival of aid.¹²

Due to children's particular vulnerability to illness, malnutrition and abuse, their uniquely dependent social status, and the fragility of their physical and mental development processes, their protection should be a primary consideration in the design and implementation of any humanitarian response. This can be done through ensuring that the following five elements are included in such interventions:

The creation of "Child Friendly Spaces" (CFSs) in camps and communities

In crises children need a structured and safe environment. A "child friendly space" is an area where children and youth can come and meet other children, learn age appropriate competencies that help them deal with the risks they face, be involved in expressive and educational activities, and relax in a safe place focused on them. CFSs give children the sense of safety, structure, and continuity that provide psychosocial and physical support amidst overwhelming experiences. As such, they are both a protective environment and one that enables children's healthy development.

This approach is a practical one. It reaches the largest number of children, it re-establishes the child's link with education and routine, it allows for the integration of local social and cultural practices, and it aims to build local and individual capacities for coping with grief and loss. For generations past, cultures have developed their own cultural understanding of what is happening to them. This local understanding, which is ever changing and may reflect ideas from many different cultures, often provides the basis for the creation of an appropriate response for the children who are profoundly affected, something which Western notions of "trauma" or PTSD counselling often fail to do in such situations.

Moreover, a CFS provides the opportunity to identify the smaller number of children who are in need of more focused attention and refer them to specialized services if available. It also provides a forum in which children can feel confident in reporting abuses.

¹² For example, the UNHCR/Save the Children UK report of 2002 that alleged sexual exploitation of children by aid workers in West Africa.

The registration of all separated children and family tracing as a first priority

Separated children are particularly vulnerable to abuse, exploitation, disease and malnutrition. All children who have been separated from their primary caregiver must be identified, registered and reunited with their families, or found other suitable alternative care arrangements, in order to prevent their exploitation. A CFS can provide a suitable place for doing this. Moreover, it can also be a place where parents/relatives/siblings can enquire about missing children.

The creation of suitable alternative care arrangements and a focus on children in the family/community

Providing for the care of separated children must be an urgent priority in emergency situations. Residential institutions must be a last resort, with first priority being given to strengthening families and communities to care for their own children. Where children are unable to be cared for by extended families or families in their community, small group care within the community should be sought. Adoption should not be an option in an emergency context.

A practical commitment to child protection from all response agencies and donors

Part of the protection of children in emergency response situations involves the implementation and adherence to a child protection policy by those organisations working with the affected communities. Such a policy specifies the commitment to a child safe organisation and supporting the safety of children in their communities. All organisations responding to the crisis should have such a policy. Moreover, the existence of a child protection policy should be a condition placed on aid by donors.

A concerted effort to identify and meet the needs of “invisible” children

All interventions must seek to be inclusive, to ensure that those children who do not typically take part in mainstream activities are considered in both design and implementation of responses. These children are often the most vulnerable.

The UK Government prioritises the protection of children within UK-funded disaster-response programmes.

The UK Government places the registration of all separated children and family tracing as a first priority in disaster situations.

In the past many countries recovering from disaster, and those agencies purporting to support them in recovery, have tended to pay insufficient attention to children and their rights. In light of this World Vision would urge:

That the UK Government recognises and respects the human rights of children and mainstreams them across all UK-funded reconstruction policies and programmes.

That UK-funded reconstruction programmes actively consult and involve local children at all stages of the reconstruction process.

That planners pay particular attention to ensuring the rights of those children that often fail to have their basic needs met. For example, schools and hospitals should be rebuilt in a way that allows disabled children access.

That the principles on long-term care arrangements as outlined in the “Interagency Guiding Principles on Unaccompanied and Separated Children” are adhered to with regards to separated and orphaned children who cannot be reunited with their families. Priority must be given to community-based care solutions and the best interests of each individual child must be considered.

That child protection considerations continue to be foremost in the reconstruction phase and local capacity to ensure child protection is supported.

3. THE IMPACT OF INCREASING AID VOLUMES ON DFID POLICY

World Vision welcomes DFID’s commitment to funding civil society organisations; we believe that to be successful in poverty reduction, state-centric approaches which focus on accountability between donor and recipient governments without promoting similar accountability between states and their citizens must be avoided.

It is vital that this takes place either through strengthened institutions such as parliaments and traditional structures, via Civil Society Organisations (CSOs), and via other innovative methods.

DFID and other donors must continue to champion the opening up and implementing of formal spaces for policy dialogue across all forms of bilateral and multilateral assistance with non-government actors.

World Vision believes that CSOs are important agents in enabling poor women and men to hold their governments to account because of their direct work with the poor, mostly in the context of delivering services but also in championing their rights via local advocacy initiatives. Although DFID has alluded to working with CSOs in the pursuit of greater accountability, it currently has no clear policies or implementation plans on how to work with civil society in different developing countries and contexts.

DFID must establish clear policies and implementation plans on support for building citizen engagement and increased accountability through CSOs, such as making provision for Southern CSOs to actively take part in policy dialogue, implementation and accountability initiatives with regard to direct budget support or other assistance approaches.

World Vision recommends that DFID should make greater use of the “Drivers of Change” analysis that has been used in some countries for other purposes.

DFID must also aim to influence other donors on similarly improving CSO engagement.

4. EDUCATION FOR ALL

World Vision welcomes the UK government’s commitment to supporting education for all and achieving the MDG on universal primary education. However, 115 million children are still denied an education and within this figure one third are ignored. 40 million of the 115 million out of school are disabled children: without education they are condemned to lifelong poverty.

Following the international community’s failure to meet the 2005 MDG 3 on gender equality, DFID took the bold step of creating a strategy for Girls’ Education. It is now increasingly clear that without dedicated action to reach disabled children, the 2015 goal of Education For All will also be missed and 40 million children will continue to be denied an education.

As such, World Vision recommends that DFID should recognise the urgency of action and commit to a similarly ambitious strategy to tackle the needs of disabled children excluded from school.

This strategy must:

- recognise the vital role that teachers play in bringing disabled children into education;
- call for all pre- and in-service training of teachers in developing countries to concentrate on clear, accessible and participatory teaching focussed on the needs of each child;
- show how the government will work with developing country governments and other donors to address conditions that prevent teachers from teaching in a way that includes all children; and
- be developed through a process of consultation, particularly with disabled people’s organisations and other civil society organisations working on this issue.

World Vision welcomes the leadership that the UK government has taken in its commitment to support developing countries’ long-term education plans, including provision for teacher salaries.

World Vision recommends that, order to achieve the MDG of universal primary education, such support should prioritise inclusive education.

To be effective dedicated action on disability must be approached as a core part of education system development. For success, DFID will need to treat inclusion as fundamental to basic education planning, not as a separate or secondary concern.

DFID should include acting as a champion for inclusion within the Fast Track Initiative.

5. AID MODALITIES

World Vision supports DFID and other donors shift towards Poverty Reduction Budget Support (PRBS) as a means of enabling greater country ownership and donor harmonisation, both of which are key factors in aid effectiveness. However, the examples of Kenya, Ethiopia and Uganda cited by the Secretary of State in White Paper consultations demonstrate the need for development of a more flexible range of aid instruments appropriate for different country contexts.

When states meet the PRBS criteria allowing greater co-operative donor support this should predominate, whereas in contexts of failing or fragile states aid through UN and NGOs is an appropriate interim alternative. In between these two poles a mix of aid instruments should be considered, including earmarked funding through government (eg for education or other basic services) and funding for local civil society organisations to enhance citizenship, strengthen government services and other poverty reduction programmes that align with national level PRSPs (Poverty Reduction Strategy Papers.)

World Vision research in Zambia and Bolivia, has confirmed that donors often insist on improving recipient government systems in order to protect aid money from corruption and ensure greater coherence and effectiveness, but often do very little to make sure that they are individually or collectively supporting sectors of development where countries actually want assistance.

DFID must continue to use its influence, via funding to the EC and other multi-lateral institutions, to ensure assistance strategies are driven by developing country priorities, established through participatory poverty reduction strategies or national development plans and evaluation of aid effectiveness continues.

6. OVERALL RECOMMENDATIONS

- DFID must continue a human security approach when carrying out Humanitarian operations, and to minimise the use of military resources.
- Military assistance should only be implemented upon receiving request from the relevant civilian authorities in the concerned nation.
- DFID must ensure that special consideration is given to child protection during the early stages of relief and post-disaster reconstruction; whether this be through the creation of Child Friendly Spaces, the registering of children and family tracing or by recognising the invisible children following disasters.
- DFID must continue to work with Civil Society Organisations in order to promote accountability between recipient governments and their citizens.
- DFID must commit to a strategy that includes disabled children in education as they have recently done with gender equality.
- DFID must ensure that assistance strategies are developed in line with developing country priorities.

June 2006

Memorandum submitted by Plan B

SUMMARY

Domestic and international energy policies are undergoing profound reviews in response to climate change and energy security issues. The public will look to government for a strong lead in the coming years in developing a low-carbon economy.

DFID support for the oil industry developed before the current scientific consensus on climate change and subsequent targets for reduced carbon dioxide emissions. It developed in a time when oil supplies seemed more secure than they do now. Historically, aid for oil companies has most often undermined economic and social conditions in developing countries with oil reserves.

This memorandum highlights the incoherence of DFID support for the oil industry with the following three aspects of government policy. Aid for the oil industry works against:

1. national and international policies to reduce carbon emissions;
2. DFID's progress on the Millennium Development Goals;
3. developing energy security through locally-produced renewable energy.

1. DFID support for the Oil Industry works on three levels:

1.1 *Providing Financial Contributions:* This includes direct funding to oil corporations, through bilateral and multilateral grants, loans and credit guarantees; forgoing government revenue, due from oil corporations; providing goods and services to oil corporations.

For example, from 2000–03, DFID provided a grant of £0.6 million for a project entitled “Assistance with Oil Taxation Reform”¹³. The report recommended to the Russian government that it slash its taxes on oil extraction, which, if accepted, would mean that the Russian government would lose considerable potential for revenue¹⁴.

1.2 *Providing General Infrastructure:* Infrastructure investment to service oil corporation activity; for example in roads or power supply.

1.3 *Providing a free ride (externalities)* Communities and societies in developing countries absorb the cost when oil corporations generate impacts from climate change, local pollution and adverse socio-economic impacts.

¹³ National Economic Research Associates, AUPEC Ltd, Independent Fuel and Energy Institute/Vanguard, 2002, Russia: Oil Tax Reform—Phase 2 Extension Final Report, Summary.

¹⁴ For further information, see page 7 of *Pumping Poverty*, Britain's Department for International Development and the oil industry. 2005 Platform Research.

2. DFID aid for oil corporations is incompatible with efforts to reduce CO₂ emissions

Box 1. *Once in full production, the Baku-Tbilisi-Ceyhan pipeline will transport 365 million barrels of oil. When burnt this will produce 160 million tonnes of CO₂ each year. This is equal to the pollution from every power station in the UK (163 million tonnes CO₂). Some Common Concerns, Platform Research March 2005.*

2.1 The impacts of climate change resulting from oil and gas development are already being felt by the poorest and most vulnerable people worldwide, and are likely to undermine decades of development. DFID told the Stern Review that the “mitigation of greenhouse gases poses a fundamental equity problem.”

2.2 While the UK Energy Review and the World Bank’s Clean Energy Investment Framework refer to incentives for clean renewable energy alternatives, DFID has yet to develop a policy framework to promote sustainable energy supply.

2.3 DFID rejected the recommendation of the World Bank’s “Extractive Industries Review” to phase out funding for fossil fuels by 2008 and increase funding for renewable energy by 20% annually.

2.4 Continued support for expansion in the oil industry undermines efforts in developing countries to develop or sustain low carbon economies. “Subsidies for fossil fuels remain a serious constraint to improving the financial viability of renewables”. (World Bank Clean Energy Investment Framework 2006) DFID is well placed to improve support decentralised, small scale renewable energy technologies in low-middle income countries.

Box 2. *Fossil fuel technologies are often only “cheaper” than renewables and more readily available because they have for years, been supported by the financial feather-bedding of massive government subsidies. A shift of investment towards clean renewables will both improve and save millions of lives in the majority world. NEF, 2004 The price of power; poverty, climate change, the coming energy crisis and the renewable revolution.*

3. Extractive Industries and the Natural Resource Curse

While development aid for oil is often justified in terms of host countries’ energy needs, in reality oil is extracted primarily for export to industrialised countries rather than bringing energy to those in poor and remote areas who need it most. Indeed, the energy needs of the poor can better be met through renewable energy technologies, which are smaller-scale, less subject to price swings and do not pollute.

3.1 *The resource curse*; this describes the fact that the more dependent an economy is on natural resource exports, the worse its economic performance will be over the long term¹⁵. The Extractive Industries Review (EIR) of the World Bank, noted that between 1970 and 2000 the number of petroleum-rich states with disappointing outcomes in terms of economic growth and poverty alleviation far outweighed the number of successful outcomes.¹⁶

3.2 The Chad-Cameroon pipeline was meant to be a model for how oil projects can be effectively developed, with the World Bank claiming that the project “*is designed to carry oil wealth not to a few, but directly to the poor*”.¹⁷ Despite high levels of corruption, weak institutions and recent conflict, the WB believed that the project could go ahead by introducing governance measures in parallel with the oil development. The Bank has recently admitted that this approach has not worked.¹⁸

3.3 The Extractive Industries Review of the World Bank recommended the principle of “sequencing” governance and investment. Good governance is a necessary precondition for the achievement of positive outcomes in both private and public sector development. The recommendation of the EIR stated that the WBG should focus first on supporting the development of such governance mechanisms, and only support extractive industries once those structures are in place.

3.4 Providing development aid support for oil and gas projects, without a coherent policy structure for measuring the impact of such developments against agreed development baselines such as the Millennium Development Goals¹⁹, has undermined the goal of working for long-term sustainable development.

¹⁵ Sachs, J and Warner, A. (1997) Natural Resources and Economic Growth. Revised version. Harvard Institute for International Development Discussion Paper.

¹⁶ The World Bank (2003) Extractive Industries and Sustainable Development: An Evaluation of World Bank Experience. Washington DC.

¹⁷ World Bank press release, 10 October 2003, “Chad-Cameroon Pipeline Represents New Approach” an interview with Country Director All Khadr on the start of oil production in Chad.

¹⁸ Further information on the Chad-Cameroon Pipeline project is available on p 10 and 25 of *Pumping Poverty*.

¹⁹ For an analysis, see Table 3: The local impacts of oil production on achievement of the Millennium Development Goals, p 27, *Pumping Poverty*.

Box 3. *The world's oil, gas and mining industries account for nearly two-thirds of all violations of human rights, environmental laws and international labour standards. The extractive industries also account for most allegations of the worst abuses, up to and including complicity in crimes against humanity. Interim report of the Special Representative of the UN Secretary-General on the issue of human rights and transnational corporations and other business enterprises, February 2006.*

4. *Energy Security: improving energy security through clean, locally produced renewable energy*

4.1 In parallel with limits to carbon emissions, the political and practical limits to oil supply are being debated in public and scientific spheres. Peak oil (the point at which oil production rises to its highest point before declining) at the global level is a real possibility within our lifetimes. Almost all expert opinion agrees that it is possibly within five to 15 years. The government uses International Energy Agency estimates of 30–40 years, but these are predicated on a stable geo-political environment.

4.2 Whatever scenario one uses, oil is set to become an ever more volatile commodity. International development policy should help improve energy security for the poor while mitigating its effects on climate change. In this context, continued DFID support for the oil industry is untenable.

RECOMMENDATIONS FOR DFID

4.3 In recognition of the negative impacts of oil extraction on poverty alleviation, DFID should phase out, over a limited timeframe, all bilateral development aid for the oil industry.

4.4 Whilst this phase out is implemented, DFID should rigorously assess the poverty alleviation and sustainable development impacts of overseas development aid for the oil industry. DFID should evaluate existing bilateral grants, and where possible use its influence to improve their poverty alleviation impact.

4.5 In order to assist the Government's goals of reducing greenhouse gas emissions worldwide, DFID should formulate a strategy to address the causes of climate change to augment its strategy for adaptation. This must involve proactive promotion of a low-carbon development model, delivered through a coherent strategy of support for sustainable renewable energy provision in developing countries, including timings and targets.

4.6 DFID should use its vote on specific projects and policies in line with those recommendations—specifically, denying investment approval in the absence of adequate institutional and governance capacity or of free prior informed consent of indigenous peoples, voting against financing of oil projects after 2008, and using its influence to argue for a phaseout strategy.

Box 4. *Global subsidies to the power sector have been estimated to exceed \$200 billion per year prior to the increase in energy prices since 2003. In many countries subsidies are broad-based, rather than targeting the poor who may need the income support. As a result, price signals for energy use induce sub-optimal decisions regarding technology, further exacerbating the problem. Low consumer prices also undermine the financial viability of power companies, leading to high loss levels in their networks (typically in the 20–40% range compared to about 7% in OECD countries), poor maintenance of existing assets, and compromises in technology selections for new investments. World Bank Clean Energy Investment Framework 2006.*

5. *Recommendations for the International Development Select Committee*

5.1 The International Development Select Committee should carry out an investigation into the positive and negative impacts of DFID's support for oil development on poverty, climate change and energy security, including its participation in the Foreign and Commonwealth Office's "energy security" strategy and the US-UK Energy Dialogue.

July 2006