



House of Commons
Committee of Public Accounts

**Department for
International
Development: Tackling
rural poverty in
developing countries**

First Report of Session 2007–08

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

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The Committee of Public Accounts

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Summary

The World Bank has estimated that 1.1 billion people worldwide live in extreme poverty, some 75% in rural areas. Even with trends towards urbanisation, two thirds of the poor will still live in rural areas by 2015. The Department for International Development (DFID) manages the UK's contribution to achieving the United Nations' Millennium Development Goals to halve poverty by 2015 and has set its own targets to contribute to this goal. If it is to meet its targets, its aid will need to help make significant reductions in rural poverty.

The livelihoods of the rural poor are often exposed to risks such as poor harvests, and those in remote areas find it difficult to access infrastructure and markets. Service providers may incur higher costs per head to reach rural areas, so the rural poor are often marginalised and excluded from development gains.

A range of DFID assistance benefits the rural poor to some degree, including bilateral country programmes, contributions to multilateral institutions, DFID-commissioned research programmes and its work to influence global policies in areas such as trade reform and climate change. On the basis of a report by the Comptroller and Auditor General,¹ we examined how DFID is tackling rural poverty in developing countries. This report covers three themes:

The importance of the rural poor. DFID needs to tackle rural poverty if it is to meet its own targets but it does not assess how much of its assistance benefits the rural poor. Current funding disadvantages the rural poor both in bilateral assistance (where the rural poor receive less direct funding per head than the non-rural poor), and in its contributions to multilateral institutions which do not target the rural poor or which have limited capacity.

Designing DFID country programmes. DFID is increasing its support for government budgets. But developing country governments are not always efficient at reaching the rural poor or fair in their expenditure allocations. Greater use of well designed projects, and working through civil society organisations, may be needed in such cases.

Monitoring and evaluating effectiveness. Despite difficulties in data collection, DFID's current monitoring of the value for money of aid to rural areas needs tightening. Current management practices do not give sufficient insight into the real needs of the rural poor.

¹ C&AG's Report: *Working with Non-Governmental and Other Civil Society Organisations to promote development*, HC 1311, Session 2005–06

Conclusions and Recommendations

1. **Three quarters of the world's poor are in rural areas where poverty must be reduced if the Millennium Development Goals are to be met.** DFID could not establish the trend in its assistance to the rural poor over recent years. Rural areas are usually significantly poorer than non-rural areas, and the NAO estimated that the rural poor are receiving less assistance per head than other poor people. DFID should find out what share of its bilateral aid accrues to the benefit of the rural poor and adjust its programmes to address their needs.
2. **DFID does not know what proportion of its contributions to multilateral assistance is spent on the rural poor.** Its two largest contributions are to the European Union, which does not have a strong focus on the poorest, and to the World Bank, which found in 2003 that only 25% of its funds were spent in rural areas. DFID should encourage multilaterals to follow the World Bank's example and assess their impact on the rural poor, and to remedy any imbalance in effort. It should also increase training and technical assistance to build capacity of those multilaterals it has assessed as weaker but which are crucial to rural poverty reduction, such as the Food and Agriculture Organisation.
3. **DFID does not know enough about the effects of its aid on agricultural development or on rates of urbanisation.** DFID recognises the links between rural and urban populations but has not evaluated the impact of assistance on patterns of economic migration, so cannot tailor its assistance to minimise harmful effects. DFID should work with other development partners to increase its knowledge about the effects of aid on patterns of work and migration to the cities.
4. **DFID has attempted to influence trade reform and reduce agricultural subsidies in the developed world but so far with little success.** DFID's new responsibilities for UK trade policy and increased 'aid for trade' funding provide an opportunity which it should use to secure greater benefits for the rural poor by increasing international and local trade.
5. **Half of DFID country programme teams using budget support are not satisfied with the efforts of developing country governments to tackle rural poverty.** DFID should analyse each developing government's resource allocation as part of its monitoring and appraisal of budget support programmes to identify any causes of concern. It should then use its budget support as a lever to improve the developing nation's emphasis on rural poverty issues.
6. **Poor dissemination and low use of existing research has led DFID to spend an additional £37.5 million to encourage people to use it.** DFID regards research as a "global good" that can be accessed by other researchers and developing country officials direct. But their own expert advisors in-country are not fully aware of research findings, which represents a missed opportunity to secure maximum value from the research. DFID should improve dissemination of its research results to its own country staff and periodically check the levels of awareness achieved.

7. **DFID does not have a clear picture of the costs of service delivery in rural areas.** The unit cost of many services, including health and education, is likely to be higher in rural areas, but DFID has little data on how much higher. So it is poorly placed to assess the equity of resource allocation, to judge the poverty reduction achievable with available resources, or to compare performance. DFID should secure better cost analysis, either from developing country management information systems or if necessary by commissioning specific studies where gaps are most serious.
8. **Civil society organisations (CSOs) have often performed better than developing country governments in providing benefits for the poorest, but DFID has decreased the percentage of its funding for CSOs.** This Committee has previously recommended that DFID should assess how well beneficiary country funding is targeted at the poorest, and promote increased funding through civil society organisations where they are most effective. DFID's analysis of developing country governments' poverty reduction plans and performance needs to highlight deficiencies in coverage or cost effectiveness of services for the rural poor, and promote the use of civil society organisations to fill these gaps.
9. **DFID does not fully assess how far project benefits can be sustained following project completion, either in completion reports or subsequent project evaluations.** In rural areas, often the poorest areas with the weakest capacity, the durability of project benefits is particularly at risk. DFID should assess the extent of enduring benefits after project completion and periodically analyse the results to identify common risks or success factors.
10. **DFID's professional staff spend less than a week in rural areas each year.** DFID should build on the good practice identified in Tanzania, where staff spend an average of eleven days in the field, to ensure that key programme and advisory staff spend sufficient time in rural areas to understand rural development priorities and to assess what is being achieved through DFID's funding.
11. **In giving evidence to the Committee the Accounting Officer and supporting witnesses disputed the accuracy of parts of the C&AG's report.** There is a longstanding convention that the facts in the C&AG's report and their presentation should be agreed with the Department unless specific reservations are made in the report, so that Committee hearings are not sidetracked by disputed facts. We expect all Accounting Officers to adhere to this convention.

1 The importance of reducing rural poverty

DFID's strategy and targets

1. DFID's overarching objective is to contribute to the internationally agreed United Nations' Millennium Development Goals which aim to halve the number of those living in poverty by 2015. Some 75% of the world's poor live in rural areas and the Department cannot therefore achieve its objectives without significantly reducing rural poverty.² DFID also aims to help the poorest and most marginalised groups. These include the rural poor, as they are isolated from good transport links and their livelihoods are particularly vulnerable.

2. The Department is strongly focused on tackling poverty but does not have a specific strategy for dealing with the rural poor. Instead it concentrates on sectors such as health and education, aligned with the Millennium Development Goal priorities.³ DFID plays a key role in developing the Global Donor Platform for rural development, which established a common vision of development among 25 donor signatories.⁴ But this work addresses high level policy and is not supported by a practical strategy for DFID.

3. There is a tension between DFID's aims of helping the poorest, who are often in remote rural areas, and of making the quickest and most cost-effective progress against poverty reduction goals, which is often easiest in more densely populated locations.⁵ DFID does not analyse the results of its assistance to types of beneficiary such as the rural poor, and does not have targets to prevent some people from getting left behind. Rural areas have remained on average significantly poorer than non-rural areas, and in some countries this gap is increasing.⁶ DFID is currently off track for achieving its Public Service Agreement targets for poverty indicators such as child mortality rates, where rural areas have on average 28 more deaths per thousand than urban areas.

The priority given to tackling rural poverty

4. DFID's bilateral country programmes, its research programme and its multilateral assistance all benefit the rural poor to some degree. But DFID's management information classifies expenditure by country and by sector, so it cannot assess what proportion of this expenditure is tackling rural poverty.⁷ It does not therefore know whether it is increasing or decreasing its assistance to the rural poor.⁸

2 C&AG's Report, executive summary, para 1

3 Q 10

4 Q 25

5 Q 26

6 C&AG's Report, executive summary, paras 2, 1.7

7 Qq 10, 27

8 Q 109

5. The NAO estimated that between 2000 and 2005 the Department spent two thirds of its bilateral expenditure on assistance to the rural poor.⁹ But three quarters of the poor live in rural areas, which means that DFID is currently providing less bilateral funding per head to the world's rural poor than to the rest of the poor,¹⁰ a difference which is accentuated by the higher unit costs of reaching rural areas.¹¹ The needs of the rural poor are often not a major influence in DFID's country planning for its bilateral assistance. Country plans vary in the extent to which they address rural poverty and this variation does not reflect the extent of rural poverty in-country.¹²

6. Agriculture is vital to rural economies and to supporting urban populations. DFID has increased its assistance to social sectors and governance and decreased its assistance to agriculture, even though the productive sectors can be particularly effective in reducing poverty.¹³ The sectors DFID chooses for its bilateral assistance often do not prioritise the rural poor and less than a third of country plans cited rural livelihoods as a priority sector.¹⁴

7. Many developing countries are becoming more urbanised—a process often associated with economic development. But urbanisation can bring its own problems: often those who migrate to urban areas are economically active, and the more vulnerable groups such as children and the elderly are left behind.¹⁵ Promoting agricultural growth enables wide economic transformation which can create new opportunities in both rural and urban areas. DFID recognises the links between rural and urban populations but it has not evaluated the impact of assistance on patterns of economic migration.¹⁶

Working through multilateral agencies

8. DFID paid nearly £1.7 billion (some 40% of its total expenditure), to multilateral agencies in 2005–06.¹⁷ But it has not assessed how much of multilateral organisations' budgets reach the rural poor. In 2003 the World Bank, a leading multilateral, estimated that it spent only 25% of its funds in rural areas. DFID does not know whether other multilaterals have given a similarly low priority to rural areas.¹⁸

9. In 2006–07 DFID channelled £936 million (20% of its total funding), through the European Commission.¹⁹ DFID has little influence over how much of these funds are spent.²⁰ DFID believes that it has played a role in improving the effectiveness of the

9 Q 3; C&AG's Report, executive summary, para 4

10 Qq 2–4, Q 17; C&AG's Report, executive summary, para 4

11 Qq 33–34

12 C&AG's Report, para 4.3

13 Qq 15, 19; C&AG's report, Appendix three, p 32

14 *Ibid*, para 4.4

15 Q 6; C&AG's Report, para 1.6

16 C&AG's Report, Appendix 3

17 DFID, Statistics on International Development 2001–2006

18 Q 7

19 Q 70

20 Qq 81–83

European Commission's use of aid funds in recent years.²¹ But the richest 68% of beneficiary countries still receive 72% of the budget, indicating that aid is not specifically directed to the poorest countries.²²

10. DFID aims to improve the effectiveness of multilaterals and then to increase its funding to them.²³ It is encouraging other donors to help the rural poor: for example, it is encouraging the World Bank to increase its agricultural expertise and the African Development Bank to help farmers get their goods to markets through improving rural roads.²⁴ DFID is also trying to strengthen the capacity of some multilaterals with particular specialisms. For example, the Food and Agriculture Organisation has expertise in early warning systems for droughts and specialises in animal diseases and pest containment but DFID considers it needs to improve its internal planning, knowledge management and monitoring systems.²⁵ DFID has helped sponsor a joint donor evaluation of the organisation which will form the basis of an improvement plan.²⁶

Advocating policy and trade reform

11. DFID also encourages policy reforms by governments in both developed and developing countries in areas such as climate change and trade which would benefit the rural poor. Trade reform, particularly reforming the Common Agricultural Policy, would have considerable impacts on developing countries. DFID has argued for a reduction in subsidies for agricultural production in the developed world to help developing countries to compete, but so far without success.²⁷

12. DFID also supports the development of trade through aid.²⁸ It has not, however, always secured maximum benefit from funding. An evaluation of a trade-related capacity building project in Kenya, for example, found that capacity-building activities did not involve stakeholders outside of Nairobi, and the project did not have the impact that it could have had on trade policy-making in Kenya, with the Ministry of Planning not seeing trade as a tool for growth and poverty reduction. Despite securing good research on links between trade in rurally-produced commodities and poverty reduction, the project missed the opportunity to develop sector-specific policies to maximise the benefits of trade, and mitigate negative impacts, for the poor.²⁹

21 Q 41

22 Q 77

23 Q 124

24 Q 7

25 Q 42

26 Q 42

27 Qq 84–86

28 C&AG's Report, Appendix 3

29 *Evaluation of DFID Support to Trade-Related Capacity Building: Case study of Kenya 2004*, <http://www.dfid.gov.uk/pubs/files/trcb-kenya.pdf>

2 The design of DFID country programmes

Providing assistance through developing country governments

13. DFID is increasing aid through direct funding to national budgets of developing country governments. In 2005–06 25% of DFID’s bilateral funding was spent in this way.³⁰ Historically, most developing country governments gave preference to manufacturing and urban sectors through policies such as keeping food prices down which exacerbated rural poverty. The rural poor have been less effective in demanding their share of government funds so they have tended to miss out on development benefits. This position has started to change, partly because of worries about social unrest.³¹ In Vietnam, for example, concern about security in remote rural areas has been one reason for a strong host country government effort to tackle rural poverty.³²

14. Only half of DFID country teams using budget support reported that they were satisfied with government expenditure in rural areas or its broad geographical focus.³³ Progress was more difficult where governments first need to change their policies or systems. In Uganda, for example, government budget allocations had not clearly favoured the poor.³⁴ Since 1999 DFID had encouraged the Ugandan government to increase its allocations to poorer districts, but in 2005–06 expenditure per head still varied by as much as 100% between districts with similar poverty levels.³⁵ Progress had been slow because of the Ugandan government’s decision not to reduce any district allocations.³⁶

15. To combat rural poverty DFID needs to monitor government expenditure and poverty reduction in rural areas or districts. But developing countries have few targets which are disaggregated and monitored at district level.³⁷ In Mozambique DFID is implementing a new public financial management system to help it track where funds are being spent and will use this improved information to inform a new monitoring framework with more disaggregated targets.³⁸

16. DFID will provide aid directly to government only where that government has a poverty reduction plan.³⁹ But although DFID has encouraged some governments to allocate resources more equitably it does not attach firm conditions about where the money is to be spent nor is it consistent in advocating equitable funding to rural areas or particular regions.⁴⁰ In Mozambique, there are stark differences in poverty levels between

30 C&AG’s Report, para 2.9

31 Qq 5, 32

32 Q 87

33 Q 163

34 Q 29, C&AG’s Report, Figure 7

35 Qq 148–151

36 Ev 25

37 C&AG’s Report, para 2.19

38 Q 31

39 Qq 88–89

40 Qq 23, 31, 87–90

the North and South of the country, with northern areas being more remote and highly rural. Donors there raised concerns about whether government allocations to districts are equitable during routine sector level working groups comprising donors and government officials. For example, the working group on education raised concerns that gender disparities in educational outcomes varied by province. But no working group has made equitable budget allocations to rural areas or districts its top priority. Nor is it clear how the government has acted on these concerns or what happens if no progress is made. In 2006 donors noted that the Mozambique government was still not basing budget allocations to districts on specific criteria, though they had raised this concern the previous year.⁴¹ And the current performance assessment framework agreed between donors and the Mozambique government does not have an indicator to measure improved allocations to poorer or rural districts.⁴²

17. In such cases DFID is relying on donor working groups to raise important issues with the developing nation government. These groups are important to help harmonise donor views and communicate them to the developing nation government. But they do not remove the need for DFID to use its considerable influence to follow up issues of particular concern and to relate UK assistance to progress in those areas.

18. DFID is an influential donor but still has a relatively small effect on local attitudes.⁴³ The Ugandan government has improved the allocation system only after years of lobbying by DFID and other donors. Where developing country governments are not concentrating on helping the poorest or where they lack the capacity to act efficiently, direct intervention through projects is an important way of delivering development benefits. For example, in the Democratic Republic of the Congo charities directly fund small sustainable projects in rural areas.⁴⁴

Other types of bilateral assistance

19. DFID spends approximately 60% of its bilateral assistance on projects and programmes, and one of the highest priority areas for DFID action has been improving the governance and accountability arrangements in developing countries. DFID country teams have a strong emphasis on good governance in central government ministries, but are less engaged in governance or service delivery at lower levels of government.⁴⁵ In some countries such as Ethiopia and Rwanda, which have high growth rates, it has still proved hard to reach the poorest.⁴⁶ Here DFID is developing social protection programmes which are similar to social security payments to target resources directly to the poorest.⁴⁷

41 Joint Review 2006; Aide-Mémoire; April 13, 2006; Ev 26-27

42 2007–2009 Performance Assessment Framework. Accessible via: www.pap.org.mz/downloads/paf_indicators_eng.xls

43 Qq 144–145

44 Q 164

45 C&AG's Report, para 2.28

46 Q 22

47 Q 22

20. Overall DFID is employing fewer people in productive sectors, despite the existing UK expertise on sectors such as fishing and private enterprise which can assist the rural poor.⁴⁸ But projects directly related to enterprise can yield important results. For example, microfinance projects can allow the rural poor to access credit, which helps to reduce their vulnerability to external factors such as poor harvests. But microfinance receives only 1% of DFID's total expenditure. In total DFID has spent over £165 million to support microfinance and financial sector projects since 1997 and more than 20 million people have benefited from microfinance initiatives supported by DFID within the last five years, including many in rural areas.⁴⁹

21. DFID has previously said that civil society organisations are often better than state providers at reaching the poorest.⁵⁰ But it has increased its support directly to state governments and decreased the percentage of its funding for civil society organisations. DFID expects developing country governments to decide which service providers, including civil society organisations, to engage with. But this approach relies on developing country governments identifying the relative efficiency of different service providers and on their willingness to use civil society organisations to deliver services when the same organisations may also be challenging government policy.⁵¹

Supporting research and innovation

22. DFID has produced a great deal of research but it is not well disseminated and its use has been patchy. Even its own country teams were not content with the dissemination of UK-funded research findings to themselves or to the poor.⁵² DFID had to commission a separate £37.5 million project to encourage better use of existing research which it had funded as part of the £190 million Renewable Natural Resources Research Strategy.⁵³ DFID's Strategy for Research on Sustainable Agriculture aims to develop the capacity of research organisation in developing countries, for example on crop science research.⁵⁴ DFID has worked with science and agriculture departments of universities in Bangalore and Hyderabad to help rural groups in India.⁵⁵

23. Innovative use of information technology can help the rural poor, particularly in getting research and knowledge to rural communities. For example, Nokia has been innovative in Africa and India in increasing crop yields in rural areas using mobile phone technology to provide advice to farmers.⁵⁶ DFID has funded a research project in Ghana on use of GPS and Google to provide enhanced mapping of rural areas, and facilitating analysis of, for example, village growth, crop patterns and environmental factors.⁵⁷ DFID

48 Q 38

49 Ev 29

50 Committee of Public Accounts Report, HC 64

51 Qq 74–75

52 Q 11

53 C&AG's Report, para 3.9

54 Qq 49–50, footnote to Q 50

55 Ev 20

56 Q 52

57 Q 57, Ev 21

recognises the high potential impact of information technology for development, as demonstrated on projects such as the Financial Deepening Challenge Fund where DFID assisted a mobile phone company to set up banking services.⁵⁸

3 Monitoring and evaluating effectiveness

Monitoring the efficiency and effectiveness of aid to rural areas

24. It is not easy to measure the results of aid. Countries such as India, China and Vietnam have well developed statistical capabilities but other developing country governments generally have weak data systems.⁵⁹ DFID is funding statistical development in many African countries as part of the Marrakech Action Plan to improve statistical capability in developing countries. For example it is financing censuses in Ethiopia and Nigeria.⁶⁰ DFID reported that it does not tie its aid to improved statistical analysis since host country governments support these improvements. But until that statistical capability is developed it is difficult to monitor whether DFID is effective in getting aid to rural areas or districts. Lack of data means that it is also difficult to monitor unit costs: while many services cost more to deliver in remote rural areas, weak data hinders quantification.⁶¹ That weakness in turn hampers accurate assessment of equity in resource allocation or analysis of service delivery performance.

25. Nearly three quarters of DFID's projects examined were largely or completely meeting their objectives, although only 16% fully achieved them.⁶² Close monitoring is important in identifying corruption or wastage. A project in Malawi between 1998 and 2005 which gave starter agricultural packs to individuals was abused because of government bias and corruption.⁶³ Almost a quarter of packs did not reach the intended beneficiaries between 2001 and 2003 for a variety of reasons including corruption in the distribution system.⁶⁴ DFID has a set of safeguards against corruption including project monitoring and internal and external audit.⁶⁵ But in this Malawi case the abuse was not picked up quickly enough to stop the corruption after the first year. Where DFID is concerned about corruption it sometimes puts in place additional monitoring mechanisms. For example, in Ethiopia, DFID has links to 258 different local authorities to examine the potential for misuse, although this arrangement is not common in other countries.⁶⁶

26. DFID's project monitoring and evaluation has carried out little analysis of the efficiency of its interventions and in general, it is stronger in planning its assistance than on proving that it has delivered value for money.⁶⁷ In two thirds of the DFID projects reviewed by the National Audit Office, DFID did not give an estimate of the number of beneficiaries so it was impossible to calculate indicators such as the cost per beneficiary to see whether the

59 Q 60

60 Q 60

61 Q 61; C&AG's Report, paras 1.5, 2.19

62 C&AG's Report, Figure 3

63 Q 46

64 Ev 21-22

65 Q 92; Ev 22-23

66 Q 93

67 Q 19; C&AG's Report, para 2.8

project had been value for money.⁶⁸ And although different project proposals often compete for limited funds, few contracts are let through direct competition.

27. DFID considers whether benefits from interventions are likely to be sustained in the longer term during design phase of projects, but not as consistently during or after the project, which reduces DFID's ability to learn lessons on what factors affect the long term success of projects.⁶⁹ DFID did not pay sufficient attention to ensuring that projects can continue after funding ends. The £2.6 million Land Husbandry project in Kenya was originally designed to become self-sustaining, but when DFID funding ceased the results could not be maintained without further funding.⁷⁰ DFID assessed this project as only partly achieving its objective of increasing farmer incomes.

28. There is relatively little information available on the cost-effectiveness of different types of aid. For example, there is not yet an established way of comparing benefits from projects, such as providing microfinance to rural people, with benefits from broader assistance to host country government budgets. DFID reported that it and its partners carried out a number of surveys and evaluations to evaluate how effective its assistance was at reaching the rural poor, mentioning for example the Joint Evaluation of Budget Support published by the Organisation for Economic Co-operation and Development in 2006.⁷¹ But such evaluations have seldom been focused on rural poverty. The Joint Evaluation did not cover the impact of budget support on rural populations in any depth. DFID has not drawn together the evidence which does exist to assess its overall impact on rural poverty or which types of assistance are most effective, though it has set up a new committee to oversee its evaluation programme and practice.⁷²

Understanding the needs of the rural poor

29. To design and implement effective programmes, DFID staff need an in-depth understanding of the problems the poor face in different areas of the country. DFID's management practices do not give it sufficient insight into the situation on the ground. DFID advisers and programme staff spent little time outside capital cities: the National Audit Office found that on average such DFID staff spent less than five days in rural areas in a year.⁷³ In Rwanda and Nigeria staff spent less than two days in the field each year. DFID acknowledged that visiting rural areas was important in understanding rural needs and that different country offices had taken varying and inconsistent approaches.⁷⁴ In future DFID will require all African offices to follow Tanzania's example of encouraging staff to visit the field more often.⁷⁵

68 C&AG's Report, para 2.8

69 Q 114 ; C&AG's Report, para 2.7

70 Q 37

71 Qq 19, 119

72 Q 65

73 Qq 8, 36 ; C&AG's Report, para 4.13

74 Qq 8, 21

75 Q 9

30. To design good programmes for rural areas staff need rural skills and experience, even where DFID is providing funds to developing country governments, as DFID still needs to carry out detailed monitoring of what is being achieved with UK funds. As direct aid for rural livelihoods and rural development has declined, the number of advisers for these areas also decreased.⁷⁶ DFID has increased its number of governance advisers, who mainly work at central levels and specialise in improving political systems and promoting good accountability and security from 75 in 2003 to 161 in 2005. But over the same period the number of advisers specifically associated with rural poverty reduction such as livelihoods, infrastructure and environment, has decreased. Despite the predominantly rural focus of its country programmes, DFID has reduced its capacity to understand the specific problems and needs of the rural poor.

Formal Minutes

Monday 10 December 2007

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon

Mr Austin Mitchell

Mr Ian Davidson

Dr John Pugh

Mr Philip Dunne

Mr Alan Williams

Draft Report (*Department for International Development: Tackling rural poverty in developing countries*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 30 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

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

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

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

[Adjourned until Wednesday 12 December at 3.30 pm.]

Witnesses

Monday 4 June 2007

Page

Sir Suma Chakrabarti KCB, Permanent Secretary, **Dave Fish**, Director, East and Central Africa, **Sam Sharpe**, Director, Finance and Corporate Performance, and **Jim Harvey**, Head of Profession, Livelihoods, Department for International Development.

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List of written evidence

Department for International Development

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List of Reports from the Committee of Public Accounts 2007–08

First Report

Department for International Development: Tackling rural poverty in developing countries

HC 172

Oral evidence

Taken before the Public Accounts Committee

on Monday 4 June 2007

Members present:

Mr Edward Leigh, in the chair

Mr Richard Bacon
Mr Ian Davidson
Mr Philip Dunne
Mr Sadiq Khan

Mr Austin Mitchell
Mr Don Touhig
Derek Wyatt

Sir John Bourn KCB, Comptroller and Auditor General, **Tim Burr**, Deputy Comptroller and Auditor General and **Nick Sloan**, Director, National Audit Office, were in attendance and gave oral evidence.

Marius Gallaher, Alternate Treasury Officer of Accounts was in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL: TACKLING RURAL POVERTY IN DEVELOPING COUNTRIES (HC 322)

Witnesses: **Sir Suma Chakrabarti KCB**, Permanent Secretary, **Dave Fish**, Director, East and Central Africa, **Sam Sharpe**, Director, Finance and Corporate Performance, and **Jim Harvey**, Head of Profession, Livelihoods, Department for International Development, gave evidence.

Q1 Chairman: Good afternoon and welcome to the Public Accounts Committee. In today's hearing we are considering the Comptroller and Auditor General's Report, *Tackling rural poverty in developing countries*. We welcome back Sir Suma Chakrabarti, the Permanent Secretary at the Department for International Development. Sir Suma, would you like to introduce your team?

Sir Suma Chakrabarti: On my far left is Jim Harvey, head of profession in the livelihoods group in DFID. On my immediate left is Dave Fish, Director for Eastern and Central Africa. On my right is Sam Sharpe, the new Director of the Finance and Corporate Performance Division.

Q2 Chairman: Thank you. Do you accept the Report's broad conclusion that three quarters of the poor in developing countries live in rural areas?

Sir Suma Chakrabarti: As a rough estimate, we accept it.

Q3 Chairman: So why did the Department spend two thirds of its budget in rural areas?

Sir Suma Chakrabarti: On the basis of the sample that the National Audit Office considered, we spend two thirds of our direct bilateral assistance budget in rural areas, but we spend a lot more than that in ways that are not accounted for in the calculation. For example, one third of our research programmes are concerned solely with agriculture and natural resources, and the other two thirds also have an impact on rural areas and are not included in the calculation. Our multilateral share has a focus on rural areas and is likewise not included in the two thirds portion that you mentioned. So spending is more than the £1.7 billion that the two thirds represents.

We also do a lot of policy work that has an impact on rural areas, which is mentioned only occasionally in the Report. It includes work on climate change, trade reform, supermarket supply chains, microfinance and the like. We lead the way on the international approach to rural development—we championed the joint approach towards it among the donors. So we are also doing all those other things beyond financial help which are important to improving the lot of the rural poor.

Q4 Chairman: So essentially you reckon that compared with urban areas, the rural poor get a fair share of the Department's spending.

Sir Suma Chakrabarti: We maximise the impact that we can make. I hope that we shall get a chance to say more about what we are doing to try to improve the activities of national Governments in helping rural areas. That work is to some extent evident from the Report, but we see it as a major responsibility.

Q5 Chairman: On that point, I know that you are trying to increase the amount of the Department's aid that is given to developing countries through their Governments. Might those Governments have some bias against rural areas, given that such areas are politically less volatile and therefore less likely to cause trouble? If more resources are channelled through developing country Governments, there might be a tendency for those Governments to place more emphasis on urban areas.

Sir Suma Chakrabarti: Quite a lot has been written about urban bias in development economics, and what you say was historically true. Most developing country Governments have tended to give privilege to manufacturing and urban sectors, but that has changed in the past 20 years, during which time we have been trying to shift the policies of those

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Governments. For example, in the past, developing countries used to keep food prices down so that the urban and manufacturing sector would benefit. That simply exacerbated rural poverty. The countries used to privilege the urban sector in terms of resource allocation for services and so on but, again, that has started to shift quite radically in the past 20 years. That is partly down to the rise of democratic politics—things are beginning to change even in parts of Africa. In non-democracies, I think that the worry of social unrest because of the inequality of rural and urban areas has concentrated minds.

We are seeing many developing countries shifting resource allocation toward rural areas, which is why poverty in rural areas has fallen rapidly in the past 10 years in a number of countries. The Department has been a part of that story, because it has been arguing for the right policies to help rural areas, and because it has increasingly tried to shift resource allocation and service delivery capacity to rural areas.

Q6 Chairman: Historically, as resources increase slightly in rural areas, there has been a tendency for people to take flight to the cities. What is the latest research that you have on whether any of the aid budgets for which you or national Governments are responsible actually exacerbate that problem? In other words, when you give people more money, they then have the extra resources that they may use to flee to the cities, and so the vicious circle continues.

Sir Suma Chakrabarti: Urbanisation has been growing apace in a number of countries—no one would disagree with that. In some places, that is partly about agricultural stagnation, but it is partly about the rapid growth of job opportunities in urban centres. We see that happening to a large extent in India. At the same time, in other countries, we are increasingly seeing a rejuvenation of the agricultural sector. For example, Malawi has had bumper harvests in the past two years, which has rapidly reduced agricultural and rural poverty, and so has stemmed the flow of migration. The relative growth rates for the two sectors are important, and it differs between countries.

Q7 Chairman: You mentioned other agencies such as the World Bank. Paragraph 3.3 of the Report states that only a quarter of its funds went to rural areas. Are you sure that other multilateral organisations' budgets are not biased against rural areas?

Sir Suma Chakrabarti: I think that we are attempting to have tailored strategies for different multilateral organisations. Clearly, the 2003 study was a wake-up call for the World Bank. We have been pushing the bank to rebuild its agricultural expertise, which used to be very strong. Rather like DFID, the bank has a broad-based strategy, so its help for agricultural areas is not only through agriculture and livelihoods work, but through health and education services and so on.

We have been saying that the African Development Bank (ADB) must do more on rural roads, because it is more focused on infrastructure. Such roads help in terms of rural poverty because, for example, they help farmers to get goods to market. That has been something that the ADB has not emphasised enough, in the Department's view, in the past few years.

The Rome agencies—the Food and Agriculture Organisation and the International Fund for Agricultural Development—have had a rather mixed performance in the past 20 or 30 years. The Department has been trying to lever up their performance, because they are crucial to getting the right policies and standards for the rural sector.

Q8 Chairman: Okay. The amount of days that your staff spend in rural areas is dealt with in figure 18 on page 27. It shows that your staff spend an average of five days a year in rural areas, but sometimes they spend as few as two days a year. Do they spend the rest of the year in the capital city? How can they know what is going on, if they are spending as little as two days out in the field?

Sir Suma Chakrabarti: Well, visits are undoubtedly an important part of being knowledgeable about the rural sector. We have investigated the data set further since the Report was published. If we represent the data without doing so on a per person basis, they look quite different. That is important, because not everyone in the Department's country offices needs to visit a rural area to get the knowledge.

I shall read out some of the data and present it differently. Country offices in Kenya, Malawi, Pakistan, Rwanda, Tanzania, Uganda and Vietnam make 30 to 60 visits to rural areas per year; offices in Bangladesh, China and India make between 60 and 100 visits to rural areas per annum; and offices in Indonesia and Nigeria make more than 100 such visits per annum. We do not expect every person in a country office to do everything that everyone else does, so if we do not divide the total number of visits between people, we get a different outcome.

Q9 Chairman: So the figure is misleading?

Sir Suma Chakrabarti: It gives a misleading picture. The figure is accurate, but it is misleading because the visits are divided between everyone in an office. I agree that every country office needs to build the importance of visits to rural areas into its business plan so that they can get the reality check that such visits provide. At the moment, the office in Tanzania does that. Dave Fish is ensuring that all the African offices do that in future as well so that we have a more consistent picture across all our offices.

Q10 Chairman: Paragraph 4 in the executive summary states that you do not have specific targets for the rural poor. How do you assess what your aid is achieving?

Sir Suma Chakrabarti: We do that by looking at what progress we are making against each of the Millennium Development Goals. In many countries that we work in, the data are not good enough to tell

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us exactly what the divide is between rural and non-rural. Therefore, the key issue for us is to improve the statistics in those countries, so that we have various classifications of data, including rural and non-rural. That is what we are working to do. For example, we are the leading financier of statistics development in Africa. At the moment, the world, not just the DFID, does not have data broken down in that way, because the countries that we work in do not have the capacity to do that.

Q11 Chairman: You say this research is adequate, but paragraph 9 of the executive summary states that: “the country teams and non-governmental organisations we consulted were dissatisfied with the dissemination of findings.” Why do you think that is?

Sir Suma Chakrabarti: Sorry?

Chairman: The dissemination of findings. That is in paragraph 9.

Sir Suma Chakrabarti: Do you mean the research findings? We do not do it, but the vast majority of research findings are between partner organisations in the UK and other developed countries dealing directly with partner organisations in developing countries. The NGOs, or the country teams, that were consulted as part of the Report on which that statement is based are not seen as a conduit for that research. They would be seen as a conduit if they added value to the research in its application in developing countries. Where that is the case, the country teams play a very important role. We have a £37.5 million *research-in-use* programme in which the central research function headquarters, the country teams and the national partner Government institutions work in a virtuous circle. We have plenty of examples that we can share with you that prove that that is working very well.

Chairman: All right, thank you.

Q12 Mr Touhig: Parts of this Report are pretty damning, would you not agree?

Sir Suma Chakrabarti: I do not agree. Overall, the Report paints an impressive picture.

Q13 Mr Touhig: Not complacent, are you?

Sir Suma Chakrabarti: No, I never am.

Q14 Mr Touhig: You do not agree then?

Sir Suma Chakrabarti: No, I do not.

Q15 Mr Touhig: In paragraph 1.15, we see that “DFID has increased its assistance to social sectors and also governance, despite evidence that productive sectors such as agriculture are particularly effective in reducing poverty.” You are going in the wrong direction.

Sir Suma Chakrabarti: There is quite a lot of contested argument about how far agriculture drives poverty reduction. The NAO Report cites evidence—

Q16 Mr Touhig: You have agreed that Report with the NAO, have you not?

Sir Suma Chakrabarti: We have agreed it, but we can also cite plenty of evidence that indicates that it is an open debate. There is a 14-country piece of work that has come out recently that says there is not a linear relationship between agriculture, development and poverty reduction. Let me cite two examples, one on both sides of the argument. As I said earlier, the bumper harvests of the last two years in Malawi are directly related to poverty reduction and national economic growth. That is why the team in Malawi is focused on the agricultural sector, and quite rightly so. In India in the '60s and '70s, there was a direct relationship between agriculture development and national economic growth and poverty reduction, but that has broken down. Therefore, the Indian team, quite rightly, has a much more mixed strategy, focusing to some extent on the rural sector but also on other sectors as well.

Q17 Mr Touhig: Look at the overall picture. Your own estimates tell us that the rural poor receive less direct help per head compared with the non-rural poor.

Sir Suma Chakrabarti: As I said earlier, that is the direct bilateral assistance. However, that does not include our research programmes or our multilateral assistance. It does not include all the policy work, which is also seeking to make the terms of trade better for the rural sector.

Q18 Mr Touhig: In looking at this big picture that you refer to in your responses, it seems that you are missing a key area. This Report is about tackling rural poverty in developing countries, and you seem to be coming back with various answers that give a broader, very good, overall picture. I just wonder whether you are missing the fundamental concern here, which is what are we doing to improve the lot of the rural poor.

Sir Suma Chakrabarti: In our view, the fundamental issues that would help the rural poor are the very ones that DFID is working on. One is trying to get the policy framework right in countries. As I said in answer to the Chairman, there has been an urban bias in the policies and resource allocations of many developing countries, so the key issue for our country offices is whether we can shift that bias to help the rural sector much more—that is a fundamental issue of political economy in many of those countries. Secondly, this is to do with working on resource allocations. The Report gives three country examples where our country teams are working hard to shift the way in which policy makers think about the rural sector and to give them a stronger voice, if you like, at the table. Thirdly, quite a lot of this is about service delivery capacity in rural areas—as in the UK and other developed countries, much service delivery capacity is stronger in urban areas—so we have been trying to increase capacity in rural areas in, for example, health and education services.

Q19 Mr Touhig: I appreciate that that is important, but putting food in somebody's belly is a bit more urgent and necessary than help with health and

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education, however right and worthy. However, the Report deals with tackling rural poverty in developing countries, and I would like to develop a point raised by the Chairman. You have carried out little analysis of the effectiveness of your interventions, and I do not quite see how you can justify that, which is why I think that the Report is damning in that respect.

Sir Suma Chakrabarti: There is actually quite a lot of evaluation material and survey work that shows the impact of our work and other donors' work on rural areas.

Q20 Mr Touhig: But paragraph 2.8 of the Report says that you have carried out very little analysis. Do you disagree with the Report? Have you told the NAO that you do not agree with it?

Sir Suma Chakrabarti: We have shared the evaluations that we have carried out and the surveys carried out by other donors. You cannot forget that this is a collective effort between all donors, so you are analysing the efforts not just of DFID, but of all donors, including our partner Governments. We think that there is a wider body of evidence.

Q21 Mr Touhig: We can consider only what DFID does, of course, because that is our responsibility to Parliament. The Report also says that your engagement at local level is patchy, and that seemed to be the case judging by your responses to the Chairman. How on earth can you actively and effectively be of assistance to the rural poor, if you do not actually talk to them?

Sir Suma Chakrabarti: Well, we do. As I said in my answer—

Q22 Mr Touhig: But is it patchy?

Sir Suma Chakrabarti: No. I think that it is not consistent enough. It is not patchy in the sense that no one in any office ever does it—that is not true. Every single office has contact with the rural sector. Some have more contact than others, and we want to make that more consistent. However, through our programmes, we are also working with people in rural areas. I will ask Dave Fish to say something, for example, about Ethiopia, where we have a very strong story to tell.

Dave Fish: One of the things that we have found in several countries—Ethiopia is one, but Rwanda is another—is that even where growth is reducing poverty overall, it proves quite hard to reach the very poorest, and that is actually true in the UK as well. So one of the things that we are pioneering and leading on worldwide is the introduction of social protection programmes—they are almost like social security, to use our terms. With the Governments in Rwanda, Zambia, Kenya and Ethiopia, we are developing social protection programmes to make sure that resources get to the very poorest. We are doing that fully in concert with our partner Governments. To take the Chairman's point about the politics of this, we are very aware that democratic Governments sometimes favour their own supporters, for example, so we are being very

clear not only about what the benefits will be, but, in partnership with Governments, about who the recipients of those benefits will be.

Q23 Mr Touhig: That is encouraging, but the Report also says that you do not take a consistently strong line in monitoring the use of the support that you give and that you do not press Governments to target the rural poor.

Sir Suma Chakrabarti: We feel that we do. We have plenty of evidence of where we do that. The Report cites three countries. What has happened in Vietnam has been influenced by donors, including DFID, and Vietnam has been a major success story. What has happened in Uganda and Mozambique would simply not have happened without DFID country offices pushing those two Governments. That could have been brought out much more strongly in the Report. It is a very strong story, but it is actually better to let the Ugandans and the Mozambicans tell you about it.

Q24 Mr Touhig: You give a strong defence of the Department, and rightly so—I would expect you to do nothing less. However, how can you defend the fact that DFID has no strategic position on the importance of tackling rural poverty for achieving your own objectives?

Sir Suma Chakrabarti: But we do.

Q25 Mr Touhig: I am quoting the Report. Either you have challenged it or you have not.

Sir Suma Chakrabarti: I am telling you that, on the joint donor concept on rural development, which is the internationally agreed strategy, DFID was a leading member.

Q26 Mr Touhig: I am only quoting the Report. If you disagree with the Report, you should be telling this to the NAO. We also learn that tensions exist between your wish to support the very poorest, which is right, and the efficiency of assisting the most easily helped at the cheapest cost. You go for the easy stuff first.

Sir Suma Chakrabarti: Well, we don't. The key thing in our country programmes is trying to shift the resource allocations and policies to favour the rural poor. For many of these Governments, that will cost them much more. The issue is partly political economy, which I talked about earlier, and partly cost-effectiveness. Just as in the UK, the issue is the same in many of these developing countries—providing services in rural areas is more expensive per person. However, because of the depth of poverty, we think that it is still worth these Governments making some money available to rural areas, which is why we push them to do that through our budget support and other means.

Q27 Mr Touhig: But we are also told in paragraph 2.2 of the Report that you have not tried to assess the extent to which your assistance is reaching the rural poor. This seems kind of basic stuff to me.

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Sir Suma Chakrabarti: But as I said earlier, we are doing that, through various surveys and evaluation work.

Q28 Mr Touhig: I appreciate the importance of the comments that you are making and the strength of the argument that you are advancing, but it seems to me that whenever I get to a specific question, you give a very broad answer. My time is limited, and I know that other colleagues will also—

Sir Suma Chakrabarti: Shall I give you a specific answer on Uganda, then? Because of DFID budget support in Uganda, the rural poverty rate fell from 60% in 1992-93 to just over 30% only two years ago.

Mr Touhig: Well that is good, and DFID should be commended for it, but the point that I am trying to get across is that you seem to be giving just general answers.

I will finish on this point. The great socialist James Maxton once said: “Poverty is man made therefore open to change”. You are our hope of making this change. There is a very good book on that written by one G. Brown—he takes over on 27 June, so you might want to read it before then.

Q29 Chairman: I should like to pick up the point about Uganda, which you mentioned. Paragraph 2.14, on page 14, says: “In Uganda, where DFID has been providing budget support since 1998, government allocations to districts had not always been clearly related to the needs of the poorest . . . spending per head in districts with similar poverty levels varied by more than 100%” Mr Fish, you said in an earlier response to Mr Touhig that you were monitoring the situation in allegedly democratic countries to ensure that certain areas were not favoured. What do you say about the clear inequalities in aid uncovered in Mozambique, which is dealt with in paragraph 2.19 and earlier paragraphs?

Sir Suma Chakrabarti: Shall I deal with Mozambique and ask Dave to deal with Uganda?

Chairman: Yes.

Sir Suma Chakrabarti: There are a number of things to say on Mozambique. First, on the pattern of growth and poverty in Mozambique, it is the only country—apart from Vietnam and, until recently, Malawi—where rural growth has been faster than urban growth. A recent Government study actually suggests that inequality is often greater within districts and provinces rather than between them. So, the map of Mozambique hides even deeper and perhaps rather more interesting divisions.

Q30 Chairman: But there is inequality between north and south.

Sir Suma Chakrabarti: Absolutely there is, and there is no doubt—

Q31 Chairman: Do you think that you could have taken a tougher line?

Sir Suma Chakrabarti: Well we have, and I am about to tell you about it. A recurrent theme in our policy dialogue with the Government in Mozambique is

sub-national resource allocation, because we have felt that they have not done enough for the northern and western areas. We have now got them to agree to a new public financial management system, which will allow spend to be classified down to district level. That is because DFID has helped the Government there to think that through and put the systems in place. The Government will therefore be able to track exactly what spending is going to which district, which they could never do before. The new performance framework for budget support will have many more disaggregated targets as well, and we will monitor those targets.

Chairman: All right.

Dave Fish: On Uganda, since 1999 the Government there have had poverty as part of the formulation for allocating resources to districts. They probably did not go as far as we would have liked them to go initially, because the initial political decision was that no allocations to districts would be reduced, so change had to be, I am afraid, incremental. But two years ago, the Government there instituted a completely different arrangement for allocating resources to rural areas, which gives poverty much more weight. In 2008-09, for which we have had a preview of budget allocations, the signs are that poverty and need will be major factors in resource allocation across all districts in Uganda.

Chairman: Okay, thank you very much. On future occasions, if you are dissatisfied with a NAO Report and think that it gives a misleading impression, it would be helpful if you made that clear to the NAO before it comes to the Committee. Otherwise, it makes our hearings very difficult.

Q32 Mr Mitchell: I agree with Mr Touhig that the record is disappointing. Indeed, the records of most of the international institutions seems disappointing—apart perhaps from those of the World Bank and the African Development Bank—perhaps because the effort devoted to rural areas is not proportionate to the problems of poverty and deprivation in those rural areas. Is that not an overhang of the old development pattern, whereby development happens in the industrial sector, building up a huge internationally powerful trading centre of manufacturing that produces growth and drains the population from the rural areas, as it did in this country and in all the dragons—that is happening in China, although they are trying to keep them down on the farm, by force if necessary, after they have seen Beijing? Is this not an overhang of that development strategy, which means that the rural areas are less important to developing Governments?

Sir Suma Chakrabarti: It is a number of things. That is undoubtedly true, and it is what I was saying in response to the first set of questions from the Chairman. Yes, I would say that from the 1950s to about the early '80s there was a massive urban bias in development policy. There was a massive manufacturing bias and a massive urban bias, and that did not help to deal with rural poverty. There were attempts to integrate rural development and various other strategies to try to address some of

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that, but the policies that were pursued, such as holding down the prices of products produced in rural areas, often did not help. That is what we have been trying to shift, and it makes a far bigger impact than aid would on those poor areas.

We have been trying to correct that, but at the same time for the past 20 years we have seen a recognition that if we wait for growth as the only way in which to deal with poverty, a lot of people will die of disease and would not have opportunities for education, and so we have had a twin-track strategy to try to promote growth but also—

Q33 Mr Mitchell: Should we not therefore be leading the other way much more vigorously than we are towards the rural areas?

Sir Suma Chakrabarti: We certainly agree that Governments ought to focus on the poorest—rural and non-rural. Therefore, in our interactions with Governments and international institutions such as those that you mentioned, we are trying to get them to focus on poverty in both rural and non-rural areas. You have some of the examples of what is working in that respect in this Report.

Q34 Mr Mitchell: Vietnam stands out as an example of what is working. The Government there seem more concerned about rural poverty. Should we therefore place more emphasis on giving more help to those Governments that are concerned, on the old Yorkshire principle that: “God helps them that helps theirs”?

Sir Suma Chakrabarti: Our model of allocation depends on two main variables. One is the depth of poverty; the other is the policy response of the Government to that. Vietnam scores well because its policy response is very good. Its depth of poverty has, of course, declined significantly. It will reach middle-income country status very quickly indeed.

Q35 Mr Mitchell: We face real difficulties where Governments do not have that sense of priority.

Sir Suma Chakrabarti: Yes, that is absolutely right. In the more democratic countries in Africa, and in some south Asian countries, the key issues have been about to what extent the rural poor are represented and whether they have a voice in national decision making. That has been a fundamental problem. In Pakistan, for example, a country that is close to this country, we have known for 20-odd years that social sector spending has been too low in many rural areas. We have been pressing them for 20 years to shift allocations in favour of the rural poor, principally through social spending, but that has proved difficult because of representation in the provincial assemblies and the National Assembly. Only in the last two years, interestingly, has spending suddenly shifted in favour of the rural poor.

Q36 Mr Mitchell: Does that not mean that we should be going more directly and immediately to the rural areas? If you are working with the Government, as you are, the temptation is to stay in the air-conditioned capital, is it not? If officers are

tending to spend their time as indicated in the table—you said that it is inaccurate about the number of days spent in rural areas—should not more officers be picking out areas and going to them more directly and for longer in order to help on a more continuous basis and to set an example?

Sir Suma Chakrabarti: Undoubtedly, direct assistance has its place, particularly where the state’s capacity is very weak. For example, in certain countries in post-conflict situations, such as the Democratic Republic of the Congo, where the state is very weak and unable, really, to shift resources to the right areas, direct assistance is undoubtedly the right way forward. However, by and large, we think that the best and most powerful way in which to help the rural poor is to shift—if you like—and influence the political economy.

Q37 Mr Mitchell: In that case, why do we pull the plug on projects such as the Kenya one mentioned in paragraphs 2.23 and 2.7? We pulled the plug on a viable project, and then it faltered.

Sir Suma Chakrabarti: Dave Fish set up the Kenya project, I think.

Dave Fish: Yes, I was based in our office in East Africa at about the time when the project was established. It ran for nine years and contained arrangements for it to become self-financing. In the end, we were unable to reach an agreement with the organisation sponsoring the programme, but we did put it in touch with a replacement mechanism through a joint DFID-Danish programme of business marketing.

The suggestion in the Report, however, that the programme was a complete disaster is inaccurate. At the end of the day, there are strong indicators that the 5,000 to 6,000 families involved—I think that that was about 30,000 people—benefited from improved access to food, nutrition, health and education. It was not a disaster. It was a project that we funded for nine years. Quite honestly, it is impractical to continue funding certain projects ad infinitum.

Q38 Mr Mitchell: Okay, but cutting across the commitment that you say that you are developing in specific areas and projects, actually, you are employing more people on trendy things such as governance—whatever that means—and fewer on direct projects. I noticed that a few years back, in Grimsby, where there is a lot fishing expertise, your predecessor organisation employed a number of people.

Chairman: You do not want DFID to support Grimsby, do you?

Q39 Mr Mitchell: Not Grimsby Town.

People there with fishing expertise were being employed to go and advise on fishing projects in, for example, Uganda and the south Pacific. That yielded marvellous results, because they could advise on catching, storage, transmission and the food chain. However, there is very little of that now.

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Sir Suma Chakrabarti: We are not yet out of the project business. Our budget support is only 28% of that for total bilateral assistance, and we still do a lot of project work. However, the way in which we think about such things has changed. Essentially, we ask Governments what they think is the comparative advantage of the UK in a particular area, and then they can think through what they want from the UK. I gave you some examples of direct assistance, but let me give you another one.

Q40 Mr Mitchell: Practical experience is the best form of direct assistance.

Sir Suma Chakrabarti: Absolutely, but that practical experience can be in a number of sectors. For example, the Indian Government wanted DFID help with water projects in some states in India that are particularly badly governed. That was going to be direct assistance, but we decided to do it through UNICEF, rather than doing it ourselves directly. Sometimes, the model for the provision of that assistance changes, but that is not to say that we will not use people from Grimsby or anywhere else when asked to bring expertise to the table.

Q41 Mr Mitchell: It is just that we have a particular concentration of expertise, both political and in fishing, for example.

In that case, however, if you want to employ more people with expertise in certain areas and bring them directly into projects, why do we pour so much into European Union efforts? We have talked about this before. In our previous clashes, you said that the situation was bad, but improving. However, £936 million is a lot of money to pour into a bottomless pit. I notice that it gives less attention to rural development and rural poverty than any of the other organisations. Given the fact that the European Union is an agricultural protection society, that is not to be wondered at. It does not want the development of rural production.

Sir Suma Chakrabarti: I am not about to go into a full defence of the European Union. The issues are fairly fundamental about over what the DFID and Parliament have control. A large part of our aid programme, which is channelled through Europe, is budgetised and subject to treaty. It is an obligation about which I, my Department and Parliament do not have any say. It is a negotiated share. It is not even negotiated actually; it is set. We have much less leverage over those budgetised programmes.

The programme over which we have a lot of leverage is the European development fund, which is focused on the poorest countries in the world: Africa, the Caribbean and the Pacific, in particular. It is a negotiated share that Parliament can and does debate. It advises on how it can improve. Interestingly enough, it is the most improved multilateral channel. I should like to believe that that is to do with the fact that both the DFID and the national Parliament can become involved in trying to improve it. We have much greater control over it.

Q42 Mr Mitchell: I have one final question. The Report indicates that officers are less enamoured of the Food and Agriculture Organisation (FAO). Why is that?

Sir Suma Chakrabarti: I will ask Jim to say something about the FAO. It has had a chequered history. We have been trying to improve its performance quite a lot. It has done some core things well for a long time and which we need to hang on to, one of which is standard setting across the countries of the Organisation for Economic Co-operation and Development and the non-OECD countries. Another is early warning for drought and so on. Many of our humanitarian responses are because of the FAO early-warning system. The third thing is its certain skills in animal diseases and pest containment—the veterinary skill set. It has been particularly important in the avian flu context in South East Asia.

Does the FAO need to get better? Yes, it certainly does. We have been working hard with the evaluation to improve performance. There is a conference in November at which we shall be using the evaluation to set with other shareholders a new improvement plan. Jim, who will be our next ambassador for the FAO in about two weeks' time, probably knows more about this than anyone else.

Jim Harvey: I have seen the external evaluation quoted as one of the hardest hitting external evaluations of any UN agency. We have not received the final report. It comes out in the third week of July and will be discussed at conference in November. It was originally a UK suggestion. We do not want to broadcast that too widely because we want ownership of the thing with everybody else.

Sir Suma Chakrabarti: I think that you just have.

Jim Harvey: Some years ago, Rome was very much behind getting the idea through.

The initial reaction from the director general was that it gives him the ammunition that needs. Well, we shall wait and see. The key thing will be to make sure that there is not a fragmentation between ourselves as the donors—the G8 or the OECD group—and the G77. There is every indication at the moment of a common understanding that everyone is getting the picture in the aid framework that Sir Suma has been describing, and that everyone wants a better and more effective FAO. Historically, the problem has been a split because some people regarded it as an aid organisation, which it is not. It is not a delivery organisation. That understanding is coming so, over the next three or four months, we shall have to work carefully with OECD and G77 to make sure that everyone is putting pressure.

Chairman: Thank you.

Q43 Derek Wyatt: Am I right in thinking that, despite the problems in Mozambique, you have not raised the issues with the Government yourselves?

Sir Suma Chakrabarti: We have raised those issues.

Q44 Derek Wyatt: Despite the Report saying that you have not.

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Sir Suma Chakrabarti: The Report said that, when the NAO team was out there, it felt that it did get not enough evidence of that. It is an accurate reflection of the NAO's view, so we had to sign up to it. I have evidence here of the number of times that we raised the issues with the Government and what the Government have been doing about it. I described some of them in answer to the Chairman.

Q45 Derek Wyatt: Why is there a discord between the Report and what you are now saying? That has been mentioned already. I am confused.

Sir Suma Chakrabarti: I take the Chairman's point. I think that we should probably have been even clearer during the process of agreeing the Report. We felt that the NAO Report had not done us justice.

Q46 Derek Wyatt: Can you reassure me? In Malawi, which I visited, we had a grow bag scheme through which we gave 1 million grow bags to the poorest people. Within four hours, they were traded on the market, because they were given only to the President's political party. I went to the ceremony to help give them out, and it was disturbing that such a good idea was abused so quickly. Have we stopped that type of process? Have we tightened up how we give such things away?

Dave Fish: We are conscious of that sort of bias in any of our programmes. We work carefully with Governments to ensure that such things do not happen. I do not know the specific case in Malawi, but I can say that as a result of the support we gave to Malawi, over two thirds of the small farmers in the country got access to cheaper seeds and fertilisers in a completely non-political way. That has produced some quite remarkable increased harvests and some tremendous returns on the overall investment. Clearly, there were problems in the case that you described, but not in the much bigger programme that we have been running over the past two years.

Q47 Derek Wyatt: It was a stunning programme, so it was upsetting to see the grow bags on the black market so quickly. Can you confirm the status of the World Bank? Is the amount of money that DFID gives in aid now bigger than the amount that the World Bank gives?

Sir Suma Chakrabarti: No, not yet.

Q48 Derek Wyatt: But it will be shortly?

Sir Suma Chakrabarti: Not for some years. It depends on what our next two or three comprehensive spending review settlements are. At the moment, we are much smaller than the World Bank.

Q49 Derek Wyatt: Thank you. Can you explain how you work with local universities that have achieved excellence in agriculture or horticulture in any of the countries in which you operate?

Sir Suma Chakrabarti: Through our research programmes—

Q50 Derek Wyatt: Do you sponsor science in such universities to help the rural poor?

Sir Suma Chakrabarti: Jim, do you know whether we sponsor?

Jim Harvey: I shall have to give you a written answer.¹

Q51 Derek Wyatt: Under the UK-India education research initiative, which the Prime Minister launched in September 2005, are you working with science, horticulture and agriculture departments of any universities in Bangalore or Hyderabad to help rural groups there?

Sir Suma Chakrabarti: Quite possibly, through our research programmes. I suspect that they would involve quite small amounts of money, but I will need to find out the details and give you a written answer.²

Q52 Derek Wyatt: Let me give you an example of what I saw last week in Hyderabad. Nokia had given phones to rural farmers to take photographs of the roots of various plants, which were sent to the university for analysis by MSC students and then taken back on CD-ROM by a man on a bicycle with a laptop, who went round showing each farmer how to achieve a 50% increase in yields in one year. That strikes me as a rather good project. Do you mean to say that we have not done anything under UKIERI yet, although it is nearly two years old?

Jim Harvey: The new research into use programme that Sir Suma mentioned is being launched formally in South Africa this month, at the Forum for Agricultural Research in Africa. That programme will support partners to use research findings to promulgate technology and ideas, including ICT-type ideas. It is open to all sorts of partners; it is open not to researchers, but to intermediaries, including universities and people involved in such work.

Q53 Derek Wyatt: Has anyone from the Department visited Nokia in Helsinki? Are you aware of what it is doing with the rural poor in Africa and India?

Sir Suma Chakrabarti: I do not know whether anyone from the Department has visited Helsinki; I shall have to check. I know that we have worked with people such as Mo Ibrahim and companies such as Cellnet. It is not as though we do not have discussions with such entrepreneurs about their impact on research, but I will have to check the specifics of the Nokia case.³

¹ *Note by witness:* DFID's Strategy for Research on Sustainable Agriculture follows two key principles—to respond to demand from developing countries and to work with and build the capacity of research organisations in these countries including universities. Through this strategy we are supporting science in a range of developing country universities.

² Ev 20

³ Ev 20–21

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Q54 Derek Wyatt: So how is the Department familiarising itself with the latest technology and working with its partners in the Department for Education and Skills to ensure that the latest technology can be utilised for the rural poor?

Sir Suma Chakrabarti: We have a close relationship with DFES; we had a joint board meeting just a few weeks ago.

Q55 Derek Wyatt: But you have done nothing under UKIERI, after nearly two years.

Sir Suma Chakrabarti: No, not under that specific scheme, but we have worked on other issues. In the autumn, a new science and innovation strategy will come out, which will include ICT. So we need to check on the specifics of the Nokia thing, because I just do not know for sure whether we have been to Helsinki or not.

Q56 Derek Wyatt: Now you know that Nicholas Negroponte has a \$100 laptop for Africa; actually, it is \$175. What content are we going to provide for that? I gather that he has sold 17 million units to Africa, so what discussions have we had with the Massachusetts Institute of Technology and Google to provide a basic education and content to help the rural poor in agriculture?

Sir Suma Chakrabarti: I know generally what discussions we have had, but not in agriculture specifically.

Jim Harvey: We are generating a huge amount of information. I would suggest to people that they actually look at the Research for Development website, which we sponsor; it is part of our DFID website. There is a huge amount of information there. Many of the people generating that information have made it available in all sorts of media for promulgation through these sorts of systems.

Q57 Derek Wyatt: Google announced their investment of \$100 million three years ago. You have had quite a long time to consider how you would put content on to that system.

Sir Suma Chakrabarti: We have had discussions with Google about tie-up more broadly, but not about that system. They have not asked for our help on that, interestingly enough, although we have had discussions at senior level with Google. In fact, I myself addressed the American foundation chief executives just the other day. We have also had a director visit Google and have discussions with them. However, Google did not ask us to put money, or content, into this Negroponte initiative.

Q58 Derek Wyatt: Well, it is not theirs to do; it is MIT's to do.

Sir Suma Chakrabarti: Well, MIT did not approach us.

Q59 Derek Wyatt: Regarding GPS, which is the key means of spotting lots of things now in rural areas, have we research anywhere in Africa or India that is

putting together mapping, the Google mapping system and GPS systems to find things out, right down to the smallest detail in the field?

Jim Harvey: I cannot comment on that, with respect to the Google connection. I think that, if you looked into the research that we have been funding, you would find that there will be some work on that area. However, I cannot say that the Google connection is there; I am not aware of that.

Sir Suma Chakrabarti: The best thing would be for us to produce a note for you on this for the Report, because I think that we ought to research this issue and give you a proper answer.⁴

Q60 Mr Dunne: One of the issues that emerges from the Report—you touched on it a little earlier—is the difficulty of getting data below national level to assess the impact of your aid spending. Do you agree that securing reliable data in the donee countries is a problem?

Sir Suma Chakrabarti: Data are a big issue in many of the countries that we work in. Data are not a big issue in India, China, Vietnam or South Africa, because statistical capacity and availability is very much correlated with the state of development generally in a country and with capacity in state systems. Those four countries would stand up against any other developed country. However, data are a problem in, say, Malawi or Mozambique, those sorts of places. What are we doing about it? Well, as we have discussed in this Committee before, we have invested a great deal in a number of international initiatives to try to improve that situation.

The one initiative that I would particularly highlight, rather than going through a long list, is called the Marrakesh action plan. The importance of that is not that it was in Marrakesh, but that it has essentially put finance into poor countries to develop national strategies to improve their statistics capacity. Ninety countries now have these strategies.

Coming down to country level, we have been financing statistical development in many African countries. I have seen it myself in Rwanda. We are financing censuses at the moment in Ethiopia, Mozambique and Nigeria. We are now the biggest donor of statistical development in Africa. We account for half of all bilateral donor spending on statistical development.

Q61 Mr Dunne: That sounds credible. Do you tie that to your aid? Is it a requirement that there is improved statistical analysis?

Sir Suma Chakrabarti: We do not have to tie it to our aid. It is part of what many of these Governments want to do, because they also want better data. It is also part of their having a better understanding of what is happening with their money, because increasingly they need to explain to their taxpayers what is happening with their money. So the Governments want the data as well. It is actually quite a win-win situation, in that sense.

⁴ Ev 21

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Q62 Mr Dunne: Without proper data, you cannot really assess whether you are being effective in getting aid into these rural areas.

Sir Suma Chakrabarti: Yes, many of these countries have very good district data, actually. Botswana, a place that I worked in, has always had good district data, going back to the 1960s. Mozambique has quite good district data, but what it does not have is the ability to break it down even more between poor and non-poor in those districts or between sub-districts. So that is what we are trying to do. For example, there is a very good map of Mozambique in the Report, which tells you the immunisation rates, and so on, but the Mozambiquans, quite rightly, would like to get below that level—and that is what they cannot do yet.

Q63 Mr Dunne: When analysing your own programmes, do you feel that your own self-evaluation is good enough?

Sir Suma Chakrabarti: We feel that it is very strong, but, as you know, the Secretary of State feels we should have an extra degree of independence in that evaluation. We are going to come forward with some proposals for how we might do that. However, our evaluation systems have been commended by the National Audit Office, the OECD peer review and very recently by the capability review of the UK Government.

Q64 Mr Dunne: Is it more focused on spend rather than outcomes?

Sir Suma Chakrabarti: No, it is increasingly focused around outcomes, but it is also looking at processes, because processes matter, of course. I am making an argument that what is key is the extent to which we are changing how developing country Governments think about the rural poor and about their policies, and so on. One also has to measure and ask, “Are we really changing those policies and resource allocations? Are we actually changing their minds about things?” That is quite an important part of the process, as is the outcome field.

Q65 Mr Dunne: Mr Harvey was suggesting that it was a UK initiative to introduce an independent watchdog for the FAO. I think that you just said that the British Government have also decided to introduce an independent assessment of your own evaluation. Does that mean that an independent aid evaluation body will be set up to cover the work of the Department? Is that what you are suggesting?

Sir Suma Chakrabarti: In the works now are a number of options that we are going to give to the Secretary of State and he will present those to Parliament and decide which one to go for. There are a number of ways of doing this, but it would be a first in the whole international development field for a bilateral agency to have this greater degree of independence. The long-term prize, of course, would be an independent agency that would look at the impact of all the donors together as a collective effort, which the developing countries, rather than the donors, would really be in charge of. That would be a real prize, but I think that is some way off.

Q66 Mr Dunne: We touched earlier on the EU budget and contrasted the effectiveness of DFID with EU spending. You mentioned the treaty commitment; can you remind the Committee what the treaty commitment is?

Sir Suma Chakrabarti: Basically, the obligations under the treaty are as follows: there is a set of budgetised aid programmes that the European Community runs—so they are part of the European Union budget—which are focused on Latin America, Asia, Europe and so on; then there is the European development fund, which is outside that and focuses on Africa, the Caribbean and the Pacific.

Q67 Mr Dunne: But this is not linked to our proportionate contribution, so if you are successful in the comprehensive spending round and increase the proportion of GDP going into your Department, that does not automatically mean that there is an additional contribution to the less effective EU—

Sir Suma Chakrabarti: No; that is quite right. It is quite an important point. Only if the EU aid budget increases would we have to give an increased contribution, because our share would—

Q68 Mr Dunne: Are you anticipating that that is likely to happen?

Sir Suma Chakrabarti: We are some way off from the next set of discussions around the EU budget.

Q69 Mr Dunne: But in terms of your budget planning, are you anticipating an increase?

Sir Suma Chakrabarti: We would have to expect some sort of increase.

Q70 Mr Dunne: At present, I calculate that about 20% of our funding is going through the EU channel.

Sir Suma Chakrabarti: If you were to give me a free choice about this within the EU budget, which I do not have, I would prefer to put more through the European development fund, because it is more effective and we have more control.

Q71 Mr Dunne: Would you anticipate, given what you know at this point, that the proportion going through the EU—whether through the development fund or through the Commission directly—is likely to increase or decrease?

Sir Suma Chakrabarti: The overall proportion?

Mr Dunne: Of your budget. It is currently 20%.

Sam Sharpe: We know essentially what the budgetised share of aid is for a number of years ahead, so we would be expecting the proportion to go down, given what the Government have said about the rise in the total British programme.

Sir Suma Chakrabarti: So the rate of growth in the overall programme is higher than the rate for the EU programme.

Q72 Mr Dunne: Turning to specifics, one of the Millennium Development Goals is universal primary education for all, which I am sure everybody shares. There are various references in the Report to different educational programmes and

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references to the need to design and implement sound programmes for the delivery of the different goals. Could you comment on the approach that you take to working with partner organisations that have a good track record of delivering educational improvement around the countries that you operate in, and whether you would be inclined to work with those organisations, rather than set up specific projects with individual countries' education departments? Where is the thrust going?

Sir Suma Chakrabarti: The thrust of this Government's policies is increasingly to back 10-year education plans in these countries. The reason for 10 years is that in education and health you need quite a lot of predictability. You have to hire teachers, get text books and so on out there. You cannot just switch the aid on and off. Those are essentially Government education budgets that we are financing. Therefore the key for us, in terms of this rural poverty issue, is to try to make sure that the Government education budget is not skewed to urban schools and is actually impacting on rural primary school enrolment.

Q73 Mr Dunne: Where an existing voluntary body or agency is providing high quality education covering rural areas that meets the rural-urban test, would you look favourably on applications from such a body?

Sir Suma Chakrabarti: We would not deal directly with those applications necessarily in these Government programmes, but—

Q74 Mr Dunne: I am thinking of trans-national and I am thinking specifically of a British charity, Book Aid International. Its budget, which you have been funding for 30 years, came to an end on 31 March.

Sir Suma Chakrabarti: In these Government to Government relationships, we would tell the Government that they could use the money in a number of different ways. Many of those Governments do not use it for public education systems. They use it to fund voluntary, charity-run education systems. It is the same in the health sector. Many of these countries do not have the capacity to run public education systems.

Q75 Mr Dunne: Where an established body is providing good educational product and outcomes across a number of countries, such as one that covers 17 countries in sub-Saharan Africa and has done so for 40 years, how does that fit in?

Sir Suma Chakrabarti: Let us take a country example to make it real. We would say to the Mozambiquan Government, "In setting your education plans, in thinking through what you are going to do for 10 years, you are going to need text books and so on. You will want to think about the right suppliers for these. There are a number of choices for you." Book Aid International is clearly one of them as it has been a good supplier of text books in Africa over a long period, but it would be up to the Mozambiquan Government to decide whether to use it.

Chairman: May I ask you, Sir Suma, to raise your voice a little bit?

Q76 Mr Davidson: Like my colleagues, I am very supportive of the work that you do. Many of us have worked with various organisations. But I have never been entirely clear whether you are any good. I want to ask the NAO how this Department compares with other Departments in terms of value for money and delivery. What sort of assessments have you made? Our difficulty is that because so much of what it does is supported, it is a bit like swearing in church or slapping a puppy on the nose to criticise it. It is not the done thing. I am never quite sure whether it is value for money or whether there are ways that it could spend its money better.

Sir John Bourn: What the Department does is different from what anybody else does.

Mr Davidson: That is always a good excuse.

Sir John Bourn: Let me put it forward as a reason. Our general view of the Department is that it has many strengths but it also has areas for improvement, including those that we had analysed and proposed in this and other reports. I suppose that if you sum them up you would say that it is stronger on the ideas for helping countries overseas and weaker in being able to prove that the money it has spent has really produced the dividend. But, in that sense, it is not really any worse than the European Union or the United States Agency for International Development and what the French and German departments do.

Q77 Mr Davidson: I did not doubt for a moment that it was not any worse than the European Union, but that's a straw man isn't it? So, a fair analysis seems to be that the Department talks a good game but we are not really sure whether it actually delivers.

May I follow up on a point about the European Union? The chart on page 22 shows that the European Union gives 15% to the poorest 10%. I would have thought that if there was to be a focus on poverty, misery and general misfortune, the least we could expect is 1%:1% and that the poorest 1% get at least 1% and the poorest 10% get at least 10%. However, we can see that the poorest 10% get only 15% and the poorest 40% only get 28%, which effectively means the section between 10% and 40%—30%—only get, I think, 13% of the budget and the richest 68% get 72% of the EU budget. That seems to be somewhat twisted. Is that simply because the EU is completely corrupt and incompetent, or are there other factors?

Sir Suma Chakrabarti: I will answer that, but first I shall answer what you asked the NAO rather than me about.

Q78 Mr Davidson: We are limited in time, so can you do so in about 30 seconds?

Sir Suma Chakrabarti: I will. Please look at the OECD peer review; please look at the capability review; please look at what other donors and, more

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importantly, developing countries say about us. We have been voted top donor by developing countries, not just by ourselves.

Q79 Mr Davidson: Voted top donor could just mean that you give money away for nothing.

Sir Suma Chakrabarti: Let me suggest that you look at the evaluation of aid to Mozambique—not done by us or by Mozambique, but by Tony Killick—and see what it says about our performance, including on delivery. The issues relating to the EU budget and poverty are essentially a function of a political settlement that, in my view, does not direct aid to the poorest countries.

Q80 Mr Davidson: Would it make sense to have it out of your budget so that it is under the “bribes to the EU” section of national accounting rather than under the “what we are trying to do” section?

Sir Suma Chakrabarti: It scores as overseas development assistance and therefore has to be part of our budget.

Q81 Mr Davidson: But we do not have any real control over that?

Sir Suma Chakrabarti: Not as much control as I would like, no.

Q82 Mr Davidson: What does that mean? Do we have any control over it?

Sir Suma Chakrabarti: Very slight. In the working groups in Brussels we can argue the case about individual projects and so on. In the development council, we argued that money should be directed more towards the poorest countries.

Q83 Mr Davidson: But it is unfair to judge you in any way whatsoever on the lack of success of EU spending in this field, because you have no control over it? Therefore the figures that I have reeled off in relation to the scandalous allocation are not your fault and I should raise it with the Minister for Europe, as it is his fault.

Sir Suma Chakrabarti: We do not have enough leverage to make a difference on that. What the Government have at least managed to do is to lift the proportion that went to the poorest countries from about 38% just a few years ago to 55% now. That is not good enough for us, and we think that it should be much higher, but that is as much as we have been able to do. The European Development Fund, over which the Government and the Department have more say, has improved a lot.

Q84 Mr Davidson: Poverty in Malawi has been greatly helped by the bumper harvests over the last couple of years and I think that you touched on that at the beginning. That confirms my own view that better agricultural industries in poorer countries would cut into poverty rates enormously. Am I correct in thinking that our complete failure to reform the common agricultural policy has kept many people in poverty? Rather than spending lots

of money on aid, reform of the CAP would do more for people in the third world than any other single thing.

Sir Suma Chakrabarti: Undoubtedly international trade reform would make a major difference to poverty generally.

Q85 Mr Davidson: Our support of bloated British farmers has effectively kept poor Africans poor.

Sir Suma Chakrabarti: Successive administrations have been in favour of CAP reform.

Q86 Mr Davidson: Good. There are some on this Committee and elsewhere who support bloated British farmers. As you may have guessed, I am not one of them.

May I ask about targeting support to people in the countryside? One of the headings refers to a transfer of budgets away from agriculture and towards education. However, support of education is not necessarily mutually incompatible with supporting agriculture. I am not clear from the information that we have here about the extent to which education spending is focused on those in the greatest need. Does that entirely depend on the will of the Government involved? I am conscious of the Vietnamese example.

Sir Suma Chakrabarti: Because Governments' budgets are involved, the targeting obviously depends on the extent to which they wish to spend the money in rural and urban areas, but we have shown that we can shift their thinking and move more resources to rural areas. Vietnam is a very good example.

Q87 Mr Davidson: Perhaps the Government of Vietnam is a bad example, as they wanted to do that anyway. We were keen to support their budget, because they were already on the side of good. For those who are not, to what extent does Government financial support come with ties? Do we say, “We will give you x amount of money in budget support provided that you do x, y and z”, rather than just giving them a lump of money to steal?

Sir Suma Chakrabarti: Our policy is not to impose that old-style conditionality, because it did not work. Governments simply rejected our aid or would not comply. We have tried to persuade them that if they are serious about reducing poverty—only then would we want to help them—they really need to think about their resource allocation and skew it in favour of the rural areas.

Q88 Mr Davidson: But if they do not accept what you are saying to them, do you just give them the money anyway?

Sir Suma Chakrabarti: No. Paragraphs 2.9 and 2.11 clearly state the conditions for budget support. When we give budget support, which is, in essence, what you are getting at, the Governments we give the money to have to show us that they have serious poverty reduction plans and not just say so. Part of the poverty reduction planning process would be the extent to which they are impacting on rural and non-rural poverty.

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Q89 Mr Davidson: So there is conditionality then?

Sir Suma Chakrabarti: That is not conditionality. It is a sort of starting point.

Q90 Mr Davidson: It is conditionality if you say to the Governments that if they do not do things that we agree with, we will not automatically give them money, but if they do things that we agree with, we will give them money. If that is not conditionality, I do not know what is.

Sir Suma Chakrabarti: They are the criteria for budget support. In the case of some Governments—for example, I mentioned the DRC, which, frankly, does not have the capacity even to set a proper plan—we would work more directly in the rural areas ourselves.

Q91 Mr Davidson: Right. What happens in those circumstances? Who measures how successful that has been? Do you? To what extent does your moving in to do the work free the Government from needing to bother about doing such work at all? Do they say, “We will spend our money on a new steel plant, or a new airline, or another palace, because the British will take care of education in the rural areas.”?

Sir Suma Chakrabarti: That is a fundamental issue when giving money to any Government, whether through budget support or project support. I hope that the issue will come out in the NAO study later this year. Fungibility is there however money is put in. There is an issue about whether support releases money for bad expenditure. Therefore, it is important that big donors such as this country and the World Bank sit at a table with the Governments to examine how they are allocating their expenditure and whether all we are doing is simply releasing money to go elsewhere for bad uses. As the NAO Report rightly says, the good thing about budget support is that it gives us a seat at the table, in a way that project support does not, to argue the toss about such things.

Q92 Mr Davidson: May I go back to the example of grow bags, and the corruption that it embodies? Presumably you gave support to the Malawi Government not imagining that that would be the result. As I understand it, the Malawi Government have been better recently, but clearly that was a failure. What happens in circumstances where there has been a degree of failure?

Sir Suma Chakrabarti: We need to check the facts of the Malawi case to determine whether DFID money was actually misused. I shall come back with a note on that. I will ask Sam to tell you what happens—what steps we go through—if we think that money has been misused.⁵

Sam Sharpe: First, we have an internal audit department that can investigate carefully. On the very rare occasions when we find that something has gone wrong with a project that we have been supporting, we try to get the money back from the institution that received it. We certainly do not continue to provide funding if things are going

wrong. It is important to emphasise one of the key things that we are doing: one of the reasons why we are investing so much in governance these days is because of the critical importance of getting systems in place to prevent corruption in developing countries.

Q93 Mr Davidson: I understand all that, and I note that you referred to the rare occasions when examples such as this are brought to our attention. However, that cuts both ways, does it not? Had Mr Wyatt not recently been in Malawi, it might not have been brought to your attention.

I am not sure what mechanism exists for identifying things such as the grow bags situation. There is always potential for the misuse of any system, but I have no idea of the scale of this. I am not convinced that you have mechanisms that would pick that up, and I am not sure how you got into that situation.

Dave Fish: May I give you an example of a major programme that we have in Ethiopia—the basic services grant, provided through local administrations, for health, education and water? When Hilary Benn and I were in Ethiopia about a year ago, people told us that this programme faced the grave risk of money being diverted to supporters of the Government, so we put in place monitoring mechanisms to ensure that if that should happen, we would spot it straight away. We have links to 258 different local authorities specifically to examine the potential for misuse. In most of these sorts of areas, I hope that our monitoring arrangements would pick up major elements of corruption.

Q94 Mr Davidson: Perhaps you could tell us whether or not you picked this up. I know that in my area—I am sure that this is the same for my colleagues’ areas—people are supportive of aid to the third world, but they often want to be reassured that it is not being wasted or stolen.

Sir Suma Chakrabarti: I shall be very happy, in the note to the Committee, again to set out our various mechanisms, from project monitoring to audit and evaluation—the lot.⁶

Mr Davidson: Fine.

Chairman: I have to remind everyone that under an agreement with the Treasury notes must be delivered to this Committee within two weeks.

Q95 Mr Khan: In 2005-06, £4.4 billion was spent by DFID. We know from the National Audit Office Report that 57% was in the form of bilateral aid and 38% went through international bodies. In the past 10 years, since DFID became a mainstream Department rather than a subsection of the Foreign Office, what has the expenditure been?

Sir Suma Chakrabarti: It has grown rapidly, as you know. It has been the fastest growing—

Q96 Mr Khan: What is the figure for the past 10 years? It was £4.4 billion in 2005-06—

⁵ Ev 21–22

⁶ Ev 22–24

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Sir Suma Chakrabarti: It is now roughly £6 billion.

Q97 Mr Khan: If each of the past 10 years is added up—you spent £4.4 billion—

Sam Sharpe: It started at about £2 billion; I am sorry but I would have to add it up.

Q98 Mr Khan: What is the ball-park figure?

Sir Suma Chakrabarti: We have moved from about £2 billion to £6 billion.

Q99 Mr Khan: From £2 billion a year to £6 billion a year? So how many years are we talking about?

Sam Sharpe: Well, you said 10.

Q100 Mr Khan: You have been spending money since 1997.

Sir Suma Chakrabarti: Yes.

Q101 Mr Khan: Has the ratio of 57% in bilateral aid to 38% through international bodies been consistent throughout that time?

Sir Suma Chakrabarti: No, if anything the multilateral share has dropped.

Q102 Mr Khan: You have talked about the advantages of bilateral aid—for example, more control and accountability.

Sir Suma Chakrabarti: I am a believer in both approaches. For a start, you cannot make multilateral aid more effective—

Q103 Mr Khan: Has that been deliberate?

Sir Suma Chakrabarti: No, it has not been a deliberate policy of the Government to say that we prefer bilateral to multilateral. Hilary Benn is very clear on this—he is strong on effectiveness—thus the International Development Association, the World Bank's soft loan arm, has done very well from us over the past few years, because it is an effective channel. We have been tougher on some of the other multilateral bodies, as we have discussed. That is part of the reason.

Q104 Mr Khan: What is the trend in relation to the percentage of the budget that is spent in rural parts of a country and non-rural parts? The Chairman put it to you that 75% of people live in rural poor countries but only 66% of your spend is in those areas. Your response was that that was quite a crude calculation.

Sir Suma Chakrabarti: We would have to do a special calculation, because the problem with that figure is that it involves just the direct bilateral assistance. As I have said, it does not take account of the research programmes or—

Q105 Mr Khan: Just on that bilateral assistance, is the graph going up or down, or is it staying level, for the percentage spent in rural parts of these poor countries?

Sir Suma Chakrabarti: Do we know, Sam? If not, we would have to do another special calculation, as we did for this Report.

Q106 Mr Khan: Do you not know the answer to that question? You are not sure whether you are spending more this year in rural parts of poor countries than last year?

Sir Suma Chakrabarti: We do not know for sure, because of the way our programmes are designed—this is why a special calculation had to be done for this Report. They are based around the Millennium Development Goals, which deal with rural and non-rural areas.

Q107 Mr Khan: Do not 75% of the world's poorest people live in rural areas?

Sir Suma Chakrabarti: We agree with that statement; yes.

Sam Sharpe: The Millennium Development Goals are important to emphasise here, because they are about things such as increasing access to primary education and funding unserved areas, which are predominantly rural. We know that because education enrolment rates are going up, things are going well in education in rural areas. What we have not got is the system so that in every country—each one of which defines rural and urban differently—we are able to break down, for each project, how much of what we spend is on rural areas, as defined by that country or in some other way, or on urban areas. What we do know is that most of the things we work on are fundamentally about addressing rural poverty.

Q108 Mr Khan: In your note can you let us know the direction of travel for the money we invest in rural areas in the graph that I have talked about?

Sir Suma Chakrabarti: We will have a go, but there was a special exercise done for this, because of the data problems.⁷

Q109 Mr Khan: That was also a question put to you by Mr Touhig. He asked whether you choose the easy urban areas first, and you said, “No, we don't. We don't choose the easiest areas first.” You can see, if you have a Millennium Development Goal to reduce poverty by half by 2015, the obvious thing to do is to help those poor people whom it is easier to help—the rich poor people, if you like—first; the hard-to-reach poor people you get to afterwards, because it means your numbers are going up. You can see why a perception or concern could be that that is what you are doing.

To alleviate and deal with that concern, you could say, “Hold on a sec; that is not the case, because our figures show otherwise,” or you could say that it was deliberate, because certain people are easy to reach because of what national governments, for reasons that the Chairman has alluded to, may want to do. You might say, “We chose that initially at the outset, but you see from our graph we are investing more and more money each year now in rural parts of those countries.” It seems to me that you cannot answer the question.

⁷ Ev 24–25

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Sir Suma Chakrabarti: Those are assertions. What I was saying was essentially that we try, through our programmes and our policy influencing, to get the developing country governments to focus on rural poverty. As we have shown with three country examples in the Report—there are many more—most Governments are skewing their allocations much more towards the rural poor.

Q110 Mr Khan: We are talking about roughly £40 billion over the last 10 years. You have said that you wish you had questioned some of the evidence on which the conclusions were based by the National Audit Office. That is a failure on the part of both of you, but it does not matter who is to blame. You presumably do not disagree with the conclusions that the NAO reached.

Sir Suma Chakrabarti: I can go through the recommendations if you would like.

Q111 Mr Khan: No. You do not like the word “damning”. The NAO conclusions are not damning, in your words.

Sir Suma Chakrabarti: No, they are not.

Q112 Mr Khan: How would you characterise them?

Sir Suma Chakrabarti: I would say they show there is more to do in a number of areas, and I agree with that. If you want me to go through each of the recommendations, I will.

Q113 Mr Khan: I will go through them, if you like. I will ask the questions. For example, what do you think, when the NAO says that DFID carried out little analysis of the efficiency of interventions?

Sir Suma Chakrabarti: I would say that for those programmes and projects where we can have a defined beneficiary population, we did carry out calculations. For those programmes where, increasingly, we do not have defined beneficiary populations, but they are national, it is impossible to do that. The key thing then is to get the developing country Governments to do the financial appraisals, which we are doing.

Q114 Mr Khan: Your consideration of the sustainability was said to be limited.

Sir Suma Chakrabarti: I completely disagree with that.

Q115 Mr Khan: Okay, fine. You disagree with that.

Sir Suma Chakrabarti: Let me just answer; I think it is a quite important thing to bring out.

Q116 Mr Khan: You can put it in your notes.⁸ I have got 10 minutes to ask my questions.

Sir Suma Chakrabarti: Please look at figure 3.

Q117 Mr Khan: I have got a number of criticisms, you see. If I had just two, you could do that, but there is a third one—that DFID has a strong emphasis on good governance at central level but its engagement at local levels has been more patchy.

Sir Suma Chakrabarti: We have a number of examples where we are engaging very strongly at local levels—the India and Ethiopia programmes, which we have mentioned, and Mozambique.

Q118 Mr Khan: I suspect that is why the NAO used the word “patchy”.

Sir Suma Chakrabarti: The question is whether we do enough in every single country. I would always say we could be better.

Q119 Mr Khan: Another comment is that DFID spends approximately 25% of its bilateral funding through budget support, and little work has been done to review the impacts on rural areas.

Sir Suma Chakrabarti: Well, there was a multi-donor evaluation, which is mentioned at paragraph 2.10. There is also figure 5, about just one school in Mozambique, showing the impact of budget support. We have lots of evidence, and there is an NAO study on budget support coming later this year. I think we have a pretty good story to tell.

Q120 Mr Khan: All right. Then there is the criticism that DFID does not take a consistently strong line in monitoring funding allocations.

Sir Suma Chakrabarti: We do take a strong line in monitoring funding allocations, because it is taxpayers’ money we are dealing with.

Q121 Mr Khan: Okay. It is said that DFID does not press governments to target rural areas.

Sir Suma Chakrabarti: We do. Examples are given in the Report and there are many more.

Q122 Mr Khan: The problem I have is that I read the NAO Report, which is agreed, and the custom and practice is that it does not give us a report unless it has been agreed. The answer that you gave to Mr Toughig threw me—I have to be honest—because I could not ask the questions that I was going to ask you because you do not accept that the premise on which my questions were based.

Sir Suma Chakrabarti: The Report is agreed as a fair version of what the NAO found. There is other evidence, which I am citing.

Q123 Mr Khan: Do you think that you have the right level of bilateral assistance?

Sir Suma Chakrabarti: Overall?

Q124 Mr Khan: You talked about the fact that the percentages of bilateral and multilateral funding are, to some extent, outside your control, but do you think that that is the right level of control at the moment?

Sir Suma Chakrabarti: Based on effectiveness criteria, they are probably right, but the question is whether we can improve some of the multilaterals enough in the way that we would like to do, so that we could give them a bit more money if they were more effective.

⁸ Ev 25

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Q125 Mr Khan: But multilaterals?

Sir Suma Chakrabarti: Some of them in a multilateral area, yes.

Q126 Mr Khan: My final question—my time is up—is on the Report that I have read—this may also be not correct. In previous reports, you have said that civil society organisations are often better than state providers at getting aid to the very poorest, yet it seems from the Report—this may be an error on its part—that DFID has increased its provision of budget support.

Sir Suma Chakrabarti: We have increased our provision of budget support; that is right.

Q127 Mr Khan: Directly via the civil society organisations, or by other routes?

Sir Suma Chakrabarti: Most of the support goes to government, but civil society is important for two things. First, for service delivery in hard-to-reach areas, in particular, so many governments use civil society to deliver services, such as Malawi, where most of its rural health system would be delivered through civil society.

Q128 Mr Khan: Are you sure that they use their civil society?

Sir Suma Chakrabarti: Yes, they do. I have visited a number of the clinics in rural areas that the Malawian Government are financing in terms of civil society. The civil society is also important for accountability in terms of pushing government to be accountable to the rule of law. In Tanzania, we are financing a lot of work by civil society to do exactly that.

Mr Khan: I am afraid that my time is up. Thank you, Chairman.

Q129 Chairman: Sir Suma, you made an important constitutional point a moment ago. You said that it is agreed that the Report is fair in terms of the view that the NAO took. I rather thought that NAO reports were a fair view, full stop. I had better ask Sir John to comment, because that is an important point. I would like the Treasury official to listen very carefully, so that this can be disseminated around Whitehall.

Sir John Bourn: That is right, Chairman. In reaching agreement on the facts of the Report, it is always open to the Permanent Secretary to draw my attention to the form of presentation—indeed, in this case he specifically asked me. If Sir Suma had said to me that he had reservations about the way that we had put it, or that there was more to be said, I would have been glad to discuss it with him, and to have taken account of it in producing the Report. However, he agreed to it in the form in which it comes before you.

Q130 Chairman: He did not make such representations to you, then?

Sir John Bourn: Not of the kind that he has mentioned this afternoon. As I said, he would have been welcome to do so, and I would have been glad to consider them if he had.

Q131 Chairman: I think that that is a very important response, and I hope that the Cabinet Secretary will make other permanent secretaries aware of the position.

Q132 Mr Davidson: May I just be clear whether that is accepted by Sir Suma? Officials sitting behind you are shaking their heads indicating that that is not the case. Given that you run the Department, I want to be clear whether you accept the fairness of what is being said at the moment.

Sir Suma Chakrabarti: Sir John and I have a good relationship. If I had made a massive representation to him, there would be no doubt. However, I felt that his staff and my staff had worked tirelessly on this. They had tried to iron out differences of view. At the end of the day—and this is probably my mistake rather than anybody else's—we felt that that was what the NAO had found and who were we to second guess it, so we did not.

Q133 Mr Davidson: Do you accept that that was wrong?

Sir Suma Chakrabarti: Now, clearly—

Mr Davidson: “Ye ken noo” as they say.

Sir Suma Chakrabarti: In future, perhaps I should be a bit more stubborn about agreeing these Reports.

Q134 Chairman: I do not think that it is a question of being stubborn. I think that your action has been a bit casual.

Sir Suma Chakrabarti: I do not think that we have been.

Q135 Chairman: After all, this is the Public Accounts Committee. We are supposed to be Parliament asking you to account for public monies. We cannot have permanent secretaries saying, “Well, we took the view that they tried their best but there is no point in going on arguing about it.”

Mr Touhig: I have served on this Committee for only a year, but I have never known an NAO Report to be disputed so much by a Permanent Secretary.

Mr Khan: With respect, that is not the point. The point is that this is the first time that many of us have heard that there is a concern. In the past, we have known something about reports in advance—it has been telegraphed—and agreement has been reached. Through you, Chairman, may I say that I had no idea until Mr Touhig asked his questions that there were so many concerns about and caveats to the NAO Report.

Chairman: Nor did I. Is there nothing else to say, Sir John? Is that it?

Sir John Bourn: It is. I repeat that Sir Suma could have made his points to me and I should have been glad to consider them.

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Q136 Chairman: I think that he has taken the point and that he has, effectively, apologised. You have been very honest, Sir Suma.

Sir Suma Chakrabarti: Absolutely. I do not think that it is anybody's fault but mine; not even that of my staff. I could have come in again and made representations, but I did not.

Chairman: That is very fair. Thank you. It is good to clear these things up so that we can get them right in future.

Q137 Mr Bacon: If that exchange leads to clearer reports with less opaque language and more frequent mention in NAO reports of occasions on which there are clear disagreements, that will be welcome. Occasionally, the NAO says that it was unable to find evidence of x, or that it believes the following, and adds a sentence that says, "The Department, however, believes" or "maintains" such and such. It helps to clarify matters when you see that in black and white.

I should like you to clear up a couple of points from earlier questions before I ask about the urban bias in budget support. You mentioned an evaluation by Tony Killick of aid to Mozambique. Was that in a published report?

Sir Suma Chakrabarti: I believe so.

Q138 Mr Bacon: By whom?

Sir Suma Chakrabarti: It was a multi-donor evaluation, so many donors were involved and the Mozambique Government led the way. We can give you a reference.

Q139 Mr Bacon: Could you send it? Is it very long?

Sir Suma Chakrabarti: I am sure that there is a summary.

Q140 Mr Bacon: If you could send us a summary and perhaps an internet link as a note, that would be great.⁹

My second question concerns paragraph 2.21, which relates directly to our discussion of a moment ago. It states that the NAO: "did not see evidence that DFID raised these issues formally with the Government of Mozambique." You have been saying in your answers, which I wrote down, "we have raised these issues". What evidence is there that you have raised those issues with the Government of Mozambique?

Sir Suma Chakrabarti: In the number of discussions that we have had with the Government of Mozambique in multi-donor forums, and also directly. I told you about some of the changes that have occurred.

Q141 Mr Bacon: Are there letters? The sentence is very carefully drafted. It says: "we did not see evidence that DFID raised these issues formally with the Government of Mozambique." Did you raise those issues formally with the Government of Mozambique and are there dated letters to that effect?

Sir Suma Chakrabarti: I do not know whether there are dated letters, but certainly we would have raised them in all the donor group discussions with the Government of Mozambique.

Q142 Mr Bacon: So it was spoken but not written.

Sir Suma Chakrabarti: It might have been. We would need to check.

Dave Fish: If donor discussions tend to be as a group of 18 donors to Mozambique—so there are 18 people round a table with the Government—there will be some kind of written record of those discussions.

Q143 Mr Bacon: Perhaps you could send us those minutes and also, if there are very specific concerns, it is not uncommon to write a letter saying so. Any evidence that you could send to the Committee would be helpful.¹⁰

Dave Fish: The best evidence is the change of behaviour.

Q144 Mr Bacon: Send us some information on that as well, but not instead of the minutes. That would be very helpful.

I should like to ask you about the shifting the political economy, Sir Suma. You said that the question is a fundamental issue of political economy and that the most powerful way is to shift the political economy. We are talking about the urban bias and not reaching the rural poor. We are one of the richest countries in the world, yet we still face an issue of fundamental political economy. I represent a very rural constituency in which the largest town is quite small—it has about 10,000 electors and will be smaller still after the next boundary change. In Wales and Scotland, much more is spent per head on health care than in England. That is undoubtedly for good reasons—I do not know whether it is because they are more ill in Scotland or because of the cost of delivering health care in a wide area. There is obviously a reason for it and I am sure that Mr Davidson would go into it if he had the chance, which he does not.

None the less, those are issues of political economy that we have not solved—they are still there; they are inherent. We have not solved them here, yet you are hoping to solve them several thousand miles away in countries where we spend relatively small sums and have a relatively small impact on the political culture. Is that not a rather ambitious way of trying to do things? Is it not better to try to do it directly? Instinctively, my hackles rise over the whole question of budget support. It makes me wonder whether it is actually about making things easy, rather than effective, and general rather than specific, and about having a seat at the table rather than being in the driving seat as would be the case if one were managing a project directly. Operating directly is more difficult, but is it not more effective?

Sir Suma Chakrabarti: We shall deal with the NAO review of budget support later this year, but the multi-donor evaluation discusses the pros and cons

⁹ Ev 25–26

¹⁰ Ev 26–28

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and shows how we have shifted what you might call political economy. We are quite a big donor in a substantial number of the relevant countries; particularly in Africa, where in the case of many countries we are the biggest donor. Our seat at the table is therefore rather larger than that of many others, and our views are taken seriously. That is clearly much less true in relation to less aid-dependent countries such as China, however.

Q145 Mr Bacon: Nevertheless, your view is that you can effect a lasting shift in the attitude of a recipient Government that has demonstrated the right track record by increasing budget support and decreasing project support.

Sir Suma Chakrabarti: Provided they are meeting the basic criteria.

Q146 Mr Bacon: It was interesting that you said that the Department is not at all out of the project business—yet. The implication was that there might come a time when the Department would indeed be totally out of that business.

Sir Suma Chakrabarti: Only if all the countries where we are active followed the criteria in paragraphs 2.9 and 2.11 of the Report, which would constitute a pretty tough test for many of them. Some have not even developed a poverty reduction plan of the sort that Mozambique and Vietnam might have. The criteria have to be met first, and then there has to be work on financial management, fiduciary risk and the like.

Q147 Mr Bacon: Last autumn I was in Kenya with Mrs Brooke of this Committee, and it was quite obvious that the DFID people out there were much more trusting of the Ministry of Education than of the Ministry of Health, and were much more willing to engage in budget support to the Ministry of Education. Would it characterise your general stance to say that the Department is content to adopt a variegated approach, whereby it might do one thing in one place but not in others.

Sir Suma Chakrabarti: Having worked there, Dave is the expert on Kenya. I believe that the Ministry of Education has a track record of effectiveness and our projects and programmes with it have been quite successful, whereas that has been much less true of the Ministry of Health. Overall, we are not in the business of budget support to Kenya—for good reason.

Q148 Mr Bacon: May I ask the NAO about the chart in figure 7 on page 15? The human poverty index referred to there is, I believe, a composite index that measures deprivation in three dimensions—long and healthy life, knowledge, and a decent standard of living. I think it is fairly obvious that the budgeted transfer *per capita* increases as one goes up the vertical axis of the graph. However, does the horizontal axis indicate increasing poverty from left to right, or *vice versa*?

Jim Harvey: It increases from left to right.

Q149 Mr Bacon: So if my poverty index is 60, I am very poor, and at 70 I am the poorest on the chart. Is that right?

Jim Harvey: Yes.

Q150 Mr Bacon: I understand. There is a cluster of transfers to districts around the middle of the chart. It does not appear, however, that the budgeted transfer *per capita* rises as poverty increases. In fact, the cluster is between 35 and 50 despite one's expectation that there would be a skew, with a line from bottom left to top right, such that poorer people would get more money. Have I interpreted the chart correctly in saying that that is not the case?

Jim Harvey: Yes.

Q151 Mr Bacon: Sir Suma, could you account for that?

Sir Suma Chakrabarti: I would have to ask that of the Uganda team. My supposition is that when the Ugandan Government started to shift allocations to the poorer districts it did not cut the level of allocations in other places, with the result that the shift has been a very gradual one.

Q152 Mr Bacon: It would be good if you could double check and send a note to the Committee.¹¹ You mentioned microfinance earlier. Do you know how much the Department spends in supporting it?

Sir Suma Chakrabarti: Overall? We would have to add up the various elements.

Jim Harvey: It is £70 million over the past three years.

Q153 Mr Bacon: That is out of a total budget of what? You told Mr Khan earlier.

Sir Suma Chakrabarti: It is £6 billion.

Q154 Mr Bacon: £70 million is only just over 1%.

Sir Suma Chakrabarti: That is the bilateral spend. Obviously, there are multilateral contributions through the International Finance Corporation and others.

Q155 Mr Bacon: I visited the Jami Bora Trust in Nairobi. I do not know whether you happen to know whether the Secretary of State has done likewise; I spent a long time encouraging him to do so through his private office because it was one of the most impressive things that I have ever seen. From the available evidence, it seems that microfinance is not only one of the most self-sustaining but effective ways of achieving the kind of change that you want to see. That being the case, why does it not have a

¹¹ *Note by witness:* Figure 7 uses data which cannot capture the progress that has been made over time in using poverty as a factor in district resource allocations. The government, supported by DFID and other donors, has had a policy of increasing the influence of poverty in district transfer allocation formulae since 1999. This policy was strengthened in 2004 following a major review. But a decision was made at the beginning that no district would have its funding reduced as the policy was rolled out. This has meant that the impact of the new formulae has been incremental.

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higher profile? Why does it not get more of the cake? Is it because most of the cake goes into things such as education?

Sir Suma Chakrabarti: It has a pretty high profile. In the past two or three years, we have been doing a lot more.

Q156 Mr Bacon: It is £70 million out of £6 billion.

Sir Suma Chakrabarti: That is out of the bilateral total, which is less than the overall total. I agree that £70 million is not a large share, but if you look at the number of microfinance programmes and projects that we have set up, and at the international initiatives that we have mounted, you will see that we are attracting a lot of co-financing from other donors. We actually have quite a good story to tell on the matter.

Sam Sharpe: Having worked on microfinance a lot in South Africa, I can say that getting the banking system and commercial suppliers involved in the microfinance industry is a key part of what we are trying to do. There is a limit to how much subsidised finance one would want to put in.

Q157 Mr Bacon: I understand that, but it also means that a little goes a long way. The Jami Bora Trust started with 50 poor street beggars, some of whom were drug addicts, some of whom were prostitutes, and now there are 130,000 members. It is like a small building society. It has tremendous power to deliver change which, if it does not cost much, you can do again and again.

Sir Suma Chakrabarti: We are trying to get other donors to buy into such projects through co-financing. We have set up the Africa Enterprise Challenge Fund, which you know about, and the Financial Deepening Challenge Fund to attract other donors to co-finance with us.

Q158 Mr Bacon: Is it possible for you to send us a note that tells us the story of microfinance in the past few years, how it has grown, how much money you have put in, what its effects are, and where you see it going?

Sir Suma Chakrabarti: Yes.¹²

Chairman: Mr Khan has to leave now. Before he does so, I would like to thank him very much, because he leaving the Committee. He has been a most assiduous Member of the Committee and his questioning has always been very robust. We are sorry to see him go, but he has been promoted to the Government.

Q159 Mr Dunne: I have a quick follow-up question to what Mr Davidson said about governance. Where there is a clear allegation of wrongdoing in a donee country, what steps do you take to investigate? Would you take a statement from an individual who makes an allegation, in particular if that person is an employee of the Department or one of its agencies?

Sam Sharpe: I have been DFID's Finance Director for only two months, and I am already aware of several cases that we are investigating, about which we would certainly take evidence from people who wanted to blow whistles.

Obviously, there may be cases in which we know that there may be some questions to be asked before we can take a statement from an individual because of other things that might be known. Clearly, the first thing to do in any case is investigate thoroughly all of the evidence that is available. That will involve the Department, but we will also work with our partners.

Q160 Mr Mitchell: What is the position on land reform? We all know the story of the Kulaks of Russia and the increase of production and that of the expropriation of the white Kulaks in Zimbabwe, which has led to a disastrous fall in production. One hears reports about big commercial agriculture driving out small peasant agriculture in large parts of Africa to supply goods such as flowers for the European market. How do you interact with that? Do you have to cope with the consequences of the commercialisation of agriculture and try to offset it, do you want to sustain peasant agriculture, or do you roll with the punches?

Sir Suma Chakrabarti: Our fundamental mission is to eradicate poverty, so it rather depends what sort of land reform you are talking about. If land reform is clearly going to impoverish people, we would not be in favour of it.

Q161 Mr Mitchell: You cannot say that until it is done.

Sir Suma Chakrabarti: One has to take a view in different contexts. For example, in some places land reform has been extremely successful in dealing with poverty—South Korea and Japan are good examples. In India, a good example would be the Punjab and bad example would be West Bengal. There are a number of different cases and we would have to do an analysis, in each case when a Government put forward a proposal, of what it would do in terms of rural poverty. In the Zimbabwe case, we said up front that the proposal would impoverish the rural poor.

Q162 Mr Mitchell: So you tackle the poverty, really, whether it is a consequence of land reform or of not having it?

Sir Suma Chakrabarti: Yes, that is right. Everything comes back to that.

Dave Fish: We have two good examples in Africa at the moment of tackling land reform for poor people. One is in Rwanda and one is in Mozambique, both with a strong push from the Government to produce land laws that protect the interest of the poorest, so the issue is something that we are very interested in.

Q163 Chairman: Just one last question, slightly on that point, on channelling more of our taxpayers' money through the Governments of developing countries, I presume you agree with this statement, in paragraph 2.19, on page 17 of the Report: "In our

¹² Ev 28–29

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survey of country offices, only half of those country teams using budget support reported they were satisfied with government spending in rural areas or its broad geographical focus.” That is pretty damning, is it not? I presume that you accept it?

Sir Suma Chakrabarti: I accept that, but I also accept that an even lower proportion would have been satisfied 10 years ago. In other words, what we have been doing is trying to improve Governments’ focus on rural areas. We have got to that stage, but it is still not good enough.

Q164 Chairman: When I was in the Congo in September, I was very struck by the desperate nature of Government efficiency—or complete lack of it—and impressed by the actions of much smaller charities, such as War Child, which were channelling all their money not through the Government, but

directly into very small sustainable projects. I am worried, because I rather thought that that was an increasing focus of our activities.

Sir Suma Chakrabarti: One has to separate a few things. On DRC, I would agree with you. In DRC, the fundamental task for DFID would be to try to get the state to show some semblance of being able to run anything and to use direct assistance much more; but in Mozambique, Tanzania and Vietnam, the state does function.

Q165 Chairman: All right, a fair answer. Thank you very much. This has been an interesting hearing, but we are worried that there is perhaps either an insufficient emphasis on prioritising the rural poor—either by multilateral agencies or by DFID—or insufficient use made of research. Sir Suma, unless you can convince us otherwise, our Report may well reflect that point of view.

Sir Suma Chakrabarti: We will send you the notes that you asked for.

Chairman: Thank you very much, gentlemen.

 Supplementary memorandum submitted by the Department for International Development

Question 51 (Derek Wyatt): *Under the UK-India education research initiative, which the Prime Minister launched in September 2005, are you working with science, horticulture and agriculture departments of any universities in Bangalore or Hyderabad to help rural groups there*

The UK-India education research initiative (UKIERI) aims to improve educational links between India and UK, and provide an opportunity for high level dialogue between the two countries on areas of mutual policy interest such as quality assurance and international standards in education. HMG has pledged £12 million through contributions by the Department for Education and Skills (DfES), the Foreign and Commonwealth Office (FCO) and the British Council (BC) and the private sector has added £4 million. The Department of Science and Technology (DST), Government of India has also pledged matching funding for science related collaboration under the initiative.

DFID’s cooperation with universities in India is not directly under UKIERI, since UKIERI is not directly focused on poverty reduction. DFID India and DFID’s Central Research Department complement UKIERI’s work through strengthening primary education for poor people and building the capacity of Indian research organisations to deliver research results to meet the needs of poor farmers.

DFID has worked with the science, agricultural and horticulture departments of Universities in both Bangalore and Hyderabad. For example, funding has been provided to the Department of Plant Pathology, University of Agricultural Sciences (Bangalore) for research on tomato leaf curl virus disease, and to the Tamil Nadu Agricultural University; University of Hyderabad for research on mildew resistance of pearl millet hybrids.

Question 53 (Derek Wyatt): *Has anyone from the Department visited Nokia in Helsinki? Are you aware of what it is doing with the rural poor in Africa and India*

DFID recognises the high potential impact of mobile technology for development. For example, our work on financial inclusion involves supporting the development of mobile phone banking and other new technologies. These have the potential to reach poor people in developing countries who are beyond the reach of branch networks and other providers of formal financial services.

DFID works in close collaboration with a wide variety of private sector partners, as well as other donors, governments and multi-laterals to encourage innovation and to ensure that new technologies are harnessed to benefit the poor. Recent examples include:

- DFID and Nokia are both members of Vodafone’s Socio-economic Impact of Mobiles (SIM) Panel, a programme of research focusing on the impact of mobile phones in Africa. The panel, which last met in Helsinki, aims to increase access to information and communications technology and to bridge the digital divide.

- Through the Financial Deepening Challenge Fund, DFID provided a grant to Safaricom, a Vodafone subsidiary in Kenya, to pilot M-Pesa, a mobile banking solution for unbanked people to send and receive money through their phones. Already there are 90,000 users in Kenya. Vodafone and Citigroup have now announced international remittances service from the UK to Kenya.
- DFID has supported Opportunity International Bank of Malawi in using fingerprint recognition technology to deliver cash transfers to illiterate beneficiaries in remote regions. Over 10,000 individuals are already benefiting from this service.
- DFID is a founding member of the Consultative Group to Assist the Poor (CGAP)—a consortium of 32 donors including the Gates Foundation and the Dell Foundation. DFID is working with CGAP and the GSM Association in ten countries to create a regulatory environment that encourages business models that harness new technology to reach the poor.
- DFID supported a project with the Department of Communication, University of Hyderabad to work on information technologies to benefit communities and poor people in developing countries including rural areas from 2003–05.

Question 59 (Derek Wyatt): *Regarding GPS, which is the key means of spotting lots of things now in rural areas, have we research anywhere in Africa or India that is putting together mapping, the Google mapping system and GPS systems to find things out, right down to the smallest detail in the field*

DFID staff have not had any discussion with Google about the One Laptop Per Child initiative. DFID staff have had a very preliminary exchange of ideas with Google on the wider questions raised by Mr Wyatt about the potential use in development of geographical data and Google products such as Google Maps and Google Earth.

We agree the use of GPS and information technology presents exciting opportunities to get research and knowledge to rural communities. DFID research has focussed on both generating new knowledge and the use of IT for its dissemination. For example, we support, among other institutions, <http://www.research4development.info/ResearchContacts.asp?OrgID=1520> the Department of Civil Engineering, Indian Institute of Technology, and the GB Pant Institute of Himalayan Environment and Development; Resources Development Division, Regional Research Laboratory to develop an interactive web-based/standalone GIS on the Management of upper water catchments, especially in dry forests in India.

We have also funded research on use of GPS and satellite imagery. In Ghana we supported a project which developed a new methodology for collection of natural resource and socio-economic information. This combined the use of satellite image base maps and GPS. The use of historic maps and recent satellite imagery proved to be very useful in examining and quantifying the direction and rate of recent (and rapid) urban growth from which village characteristics and nature may be implied.

A new methodology for collection of natural resource and socio-economic information was devised and tested. The aerial digital photography (ADP) products, combined with the use of satellite image base maps and GPS, proved to be very useful for more detailed collection of natural resources (eg: extent and type of crops, water courses). The ADP images produced at large scale provided a stimulus and new perspective in discussions with local dwellers. Most dwellers (literate or illiterate) were able to interpret the imagery and draw information about their local environment from it. The images were found to be useful for demarcating land and village boundaries, and also for raising issues and providing information on such issues as pollution of water courses, and allocation of land for housing developments.

In East Africa we supported a programme investigating the impact of brucellosis on public health and animal health. GPS was used to select study villages and map households. This enabled livestock densities and the prevalence of disease in these areas to be mapped, and has helped in identifying where animal husbandry practices need improving.

All of the details of DFID funded research are available on a dedicated web portal—www.research4development.info. This is directly linked to Google's search engine, and all information is available to the Google mapping system.

Question 92 (Mr Ian Davidson): *May I go back to the example of grow bags, and the corruption that it embodies? Presumably you gave support to the Malawi Government not imagining that that would be the result. As I understand it, the Malawi Government have been better recently, but clearly that was a failure. What happens in circumstances where there has been a degree of failure*

This question refers to the Starter Pack Programme and the Targeted Inputs Programme (TIP). Over the 1998–2005 period DFID support to these two programmes amounted to £34.2 million. The Government of Malawi contribution to these programmes more than doubled the total amount spent on the programmes.

DFID support had a strong monitoring and evaluation component. A readable summary of the evidence produced is available in the book *Starter Packs: A Strategy to Fight Hunger in Developing Countries?* edited by Sarah Levy and published in 2005.

The key finding is that the programme proved cost-effective relative to other available alternatives, in particular maize importation. However, the total impact varied depending on the size of the programme. In 1999–2000, when almost three million households (virtually all households in the country) received the pack the additional maize production was estimated at 346,000 tons (16% higher than it would have been otherwise). When the number of packs was reduced to 1.5 million and one million households in 2000–01 and 2001–02 respectively, the impact of the programme was dramatically reduced to an additional maize production of just 54,000 and 34,000 tons.

DFID support was also used to pre-register and distribute the packs to beneficiaries. This system helped mitigate the risk of the packs being used as a political reward. However, during the 2001–02 and 2002–03 seasons there were substantial leakages from the system with 19–25% of packs distributed not reaching the intended beneficiaries. This reflected the fact that some beneficiaries chose to trade within their own villages the vouchers that entitled them to the packs. A more serious problem that emerged during 2002–03 was leakage in distribution—it was found that 10% of packs never reached the intended villages. As a result a penalty system was introduced, whereby distributors were charged for every unaccounted for pack—the result was that in the following year (2003–04) less than 0.5% of all packs was unaccounted for.

Overall, the programme was deemed to have made a positive contribution towards the country's food security. This impact was disproportionately diminished when the programme was scaled back to target half or less of the country's population. Moreover, the attempt to target according to basic socio-economic criteria failed. The conclusion from the DFID-funded evaluation was that the rationale for a targeted programme was much weaker than for one aiming to benefit all farming households.

The Government discontinued the TIP in 2005 to replace it with a seed and fertiliser subsidy. The subsidy builds on the TIP evidence and systems, and has been successful in contributing to two consecutive record harvests in 2006 and 2007.

Question 94 (Mr Ian Davidson): *Perhaps you could tell us whether or not you picked this up. I know that in my area—I am sure that this is the same for my colleagues' areas—people are supportive of aid to the third world, but they often want to be reassured that it is not being wasted or stolen*

Systems to ensure that DFID's funds are used as intended
As a manager of taxpayers' money, DFID has to be able to provide assurance: (a) that we have paid money to the intended recipient and (b) that funds have been used for the purposes agreed. This is a key part of our broader responsibility for ensuring that our spending represents Value for Money (VfM) and contributes to delivery of the Millennium Development Goals (MDGs).

DFID has established a strong set of controls to manage the risk of misuse of funds, and throughout the management of our programmes, there is a strong emphasis on establishing comprehensive arrangements to guard against fiduciary risks. The rules of UK Government accounting are rigorously applied.

DFID's internal rules and processes are available on the website: DFID Essential Guide to Rules and Tools. Responsibility for implementing these rules has been delegated to DFID's spending Divisions. Our corporate governance arrangements include individual annual assurances on the risks and controls operating in the organisation from each of our Directors. In implementing these rules, Divisions are supported by DFID's Financial and Corporate Performance Division (FCPD), who provide guidance on the design and implementation of effective programmes, and a specialist procurement function to manage international competitions for goods and services.

To ensure adequate evidence of the proper use of funds, these rules require that:

- Evidence that we have paid money to the intended recipient is obtained.
- Evidence that funds have been used for the purposes agreed is obtained through regular project monitoring.
- All DFID funding is formally audited.

Evidence of payment

Evidence that we have paid money to the intended recipient is normally generated through the standard payments system (eg for all financial aid, Crown Agents Bank (CAB) provides us with a satisfactory degree of assurance that payments have been transferred to the intended recipient; and for non-financial aid our own accounting and banking systems provide this assurance).

Monitoring arrangements

A primary responsibility of DFID's country offices is the regular monitoring of all projects and programmes. One of the main reasons DFID has offices overseas is to enable us to maintain regular contact with programme implementers, and to review progress on the ground.

DFID's Country Assistance Programme documents must set out the overall objectives of our country programme, and how results will be tracked and measured. Wherever possible, we link our results framework to the country's own poverty reduction strategy.

We also monitor each individual spending commitment. All DFID's project and programme documents must set out how regular monitoring will be conducted. All commitments with a value of more than £1 million must include a Logical Framework setting out the quantitative indicators against which progress will be measured, and the means by which the relevant data will be obtained. DFID offices are required to review projects and programmes regularly; and to score progress on each programme annually on a scale of one to five to provide a readily accessible overview of progress to DFID management. A full Project Completion Report is required at the end of the project.

Where we are providing aid as Poverty Reduction Budget Support, programme monitoring includes tracking progress against specific benchmarks agreed for the programme, as well as monitoring of overall budget spending (see answer to Q 143 for an example of this in the case of Mozambique). Wherever possible, the agreement of benchmarks and monitoring of performance is carried out jointly with other donors.

Audit Arrangements

For financial aid other than Poverty Reduction Budget Support, where there is a detailed specification of what funds are to be used for, and where money is being reimbursed to the partner government for local expenditure, DFID require either: Annual Audited Statements (AAS) from the Auditor General which confirm that the partner Government has used DFID finances as intended; or an alternative audit discharge through independent continuous audit or other external audit.

For financial aid expenditure and where DFID itself buys goods and services, DFID requires invoices and supporting vouchers and documentation associated with the payment to confirm what the money has been spent on.

For programme and project grants to international organisations DFID relies on the organisation's own audited accounts, or special audited statements. Requirements are set in standard (MOU) texts.

For Accountable Grants to Civil Society Organisations (CSOs)/Non Government Organisations (NGOs) others, DFID requires Annual Audited Accounts which show funds received from DFID, or a separate audited statement specific to the DFID grant. Requirements are set out in a standard Accountable Grant letter.

For financial aid in the form of Poverty Reduction Budget Support (PRBS), the basic accounting discharge is provided by Crown Agents Bank, which confirms that funds have reached, for example, the Consolidated Fund of the partner country concerned. For appraising and implementing budget support proposals, DFID has formulated a Fiduciary Risk Policy, which has been scrutinised by NAO. This requires DFID to undertake a Fiduciary Risk Assessment (FRA) as part of our appraisal, and to ensure that arrangements are in place to strengthen weaknesses identified through the appraisal. Where possible DFID draws assurances about the use of funds from partner Governments' Reporting and accounting systems, and the Reports of the partner Government Auditor General. Where necessary, this is backed up by seeking additional information or safeguards. In most cases, assessment and monitoring are part of a common Reporting and audit framework for all funders, and there will often be an agreed financial management reform programme to support and strengthen these local systems.

Assurance on the strength of DFID systems

DFID's Internal Audit Department (IAD) provides an independent and objective opinion on the adequacy of systems of risk management, control and governance, by measuring and evaluating their effectiveness in achieving DFID's objectives.

DFID's work is also subject to regular review by the National Audit Office (NAO). In addition to conducting a programme of reviews and visits to support their audit of DFID's annual accounts, the NAO conduct periodic value for money studies on aspects of DFID's work.

DFID's Audit Committee provides assurance to the Accounting Officer, by monitoring and reviewing the risk, control and governance systems in the organisation, and the associated assurance processes. The Committee provides oversight and guidance, where necessary, on the work of FCPD. It also reviews the work programme of IAD. Until March 2007, the Committee included three independent members recruited from outside DFID and two DFID Directors. Two additional external members are currently being recruited to replace the internal Directors, so that the Committee will be entirely made up of external members.

Response to Allegations of Fraud

The nature of DFID's programmes and activities, and especially of the difficult environments in which we work, means that fraud and corruption have both been identified within DFID's risk registers as significant risks to the UK aid budget.

In response, DFID has established a clear counter-fraud strategy and supporting procedures. DFID's policy states that the Department is committed to ensuring that the UK international development budget will be used only for the purposes intended. Fraud and corruption against DFID funds will not be tolerated, and appropriate disciplinary and/or criminal action will be taken against anyone found to have engaged in such activities including, wherever possible, action to recover any funds that have been lost.

To help manage the fraud risk within DFID's programmes and other activities, the Department has established a specialist counter-fraud section—the Fraud Response Unit (FRU), with skills and expertise including accounting, procurement and fraud investigation. The FRU resides within the Internal Audit Department, and Reports via the Head of Internal Audit to DFID's Audit Committee and Management Board.

The FRU's mandate includes proactively assisting DFID management with strengthening safeguards to ensure that the UK aid budget is spent as intended, as well as leading reactive investigations into allegations of fraud and corruption when these arise. The Unit's cases have ranged from procurement frauds, through thefts of cash and assets, double-billing by grant recipients and tax irregularities, to diversion of salary payments. The FRU liaises with other donors and counter-fraud agencies to share intelligence, and works together with other agencies on fraud cases where this is appropriate. It also supports DFID's partners to help them address the weaknesses which enable fraud and corruption to take place, and there are a number of other DFID teams which are engaged in similar capacity-building activities within the aid effectiveness agenda.

Assessing the Impact of DFID spending

DFID's Evaluation programme is managed by Evaluation Department (EvD). EvD evaluations have two purposes—lesson learning and accountability. Lesson learning studies seek to learn from experience through discovering whether particular development interventions have worked or not, and through understanding why they have been relatively successful or unsuccessful in particular contexts. Accountability studies set out to account for the use of resources to ourselves, parliament, taxpayers and our partners. In reality, there are elements of lesson learning and accountability in all of our studies.

Evaluation normally takes place when the project or programme has finished and involves a combination of methodologies and in-depth analysis. Whilst evaluations make use of and inform internal performance assessments, they are distinct from these activities in that they usually involve external, independent views and lead to an independent Report.

The Reports of evaluations undertaken on DFID programmes around the world and in specific sectors are published on the DFID website: DFID Evaluation Study Reports.

Hilary Benn announced on 9 May new arrangements to strengthen the independence of DFID's evaluation work. A new Independent Advisory Committee on Development Impact will be established to determine which programmes and areas of UK development assistance will be evaluated and when; to determine whether relevant standards are being applied; and comment on the overall quality of the programme of evaluation work carried out against these. The Committee will be made up of six members appointed under Nolan procedures. Members of the Committee will chair the steering groups responsible for major DFID evaluations. The Chair of the IACDI will write an open letter to the Secretary of State every year, providing an overview on lessons learned and giving advice on how evaluation efforts can be improved.

Question 105–108 (Mr Sadiq Khan): *Trends in rural spending by DFID*

Unfortunately, we do not hold data in the form requested by Mr Khan, and it would be very difficult for us to calculate this accurately.

There are a number of reasons why the data is not directly available:

- DFID's statistical systems record expenditure against sectors and countries. This means that it is possible to identify precisely how much has been spent on health or HIV/AIDS and the countries where that expenditure was made, but not to identify spending on a particular section of the community.
- Developing country and donor plans and expenditures are not disaggregated by rural and non-rural categories. It would be expensive for DFID to maintain expenditure classifications which are not available from developing countries and other donors.
- Statistics are maintained by sector codes and the Millennium Development Goals (MDGs). None of the MDGs (except for water) separates out rural and non-rural.

- There is no standard international definition of “rural”. Different countries use different definitions to suit their own purpose.
- Rural poverty is a cross-cutting issue and hence is an implicit factor in all of DFID’s targets and fund allocations.

The NAO Report included an overall estimate of DFID’s spending in rural areas. This was done through estimating the rural components of a sample of DFID’s bilateral projects. DFID’s field staff undertook the estimates which covered work from the late 1980s to the present.

To estimate how far the proportion of rural spending has changed over time would require us to conduct further special surveys to assess the rural and non-rural percentage of all the projects in our portfolio in each year. The exercise would be more extensive and expensive (in staff time) than the survey undertaken for the NAO Report. It is impossible to undertake this in time for 20 June deadline. In addition, even by using considerable resources, the survey can at best provide only an indication of spending and trends since we do not have a detailed methodology for assessing retrospectively the proportion of each project which was considered rural. Disaggregating the NAO survey data between those projects started before 2000 and those started after 2000 showed no significant difference in the percentage of spending classified as rural (66% of total commitment value for projects before 2000, 68% for projects after 2000), but it is not possible to say whether the sample is representative of the overall shape of our portfolio for the two periods. Therefore, it would not seem to be good value to conduct an expensive survey if the final data adds little to the information published annually in Statistics in Development.

What we do of course know is that the proportion of our spending going to the poorest countries has risen substantially since 1997, that many of these countries have a high percentage of rural poor, and that our partners’ strategies as well as our spending is increasingly focused on achieving the MDGs, including through increasing access to basic services for previously underserved areas. This suggests that the proportion of DFID spending reaching the poorest groups will have significantly increased.

Question 114–116 (Mr Sadiq Khan): *Your consideration of the sustainability was said to be limited*

The NAO Report (paragraph 2.7) says that “Issues regarding sustainability were considered in more detail at the design than evaluation stage.”

The Report is correct that sustainability is a key consideration for DFID in design and appraisal of new commitments. Our guidance to staff planning new investments is set out in our Essential Guide to Rules and Tools—the Blue Book. This is available on our website: www.dfid.gov.uk/pubs/files/blue-book.pdf. The guide includes social, economic and institutional analyses which consider the stakeholders’ and partner’s ability to maintain the impact of the project after funding ends. The system is rigorous in ensuring quality and consultation in project design and implementation.

Assessing the sustainability of benefits is implicit in our monitoring of programmes. Most of DFID’s projects are very successful. Figure 3 in Report shows NAO recognised over 94% of projects performed satisfactorily (scores of one to three) and over 70% were good or better (scores of one to two). Given the capacity constraints in the countries where DFID is working, this is a very high level of success.

DFID’s Evaluation Department undertakes independent evaluations, including of Country Programmes, using the usual DAC evaluation criteria. These include impact and sustainability of programmes. The Reports of evaluations undertaken on DFID programmes around the world and in specific sectors are published on the DFID website: DFID Evaluation Study Reports.

The Report highlights the issues arising for DFID in cases where successful project activities are not self-sustaining without continued donor funding. In some cases, it may be right to extend donor funding, particularly if there is a prospect that the activities may become self-sustaining. But in others, it will be right for DFID to take the tough decision to withdraw funding because resources can be better used elsewhere. It is important to distinguish between the sustainability of programme activities and the sustainability of programme benefits. The fact that programme activities have to stop at some point does not necessarily mean that the benefits which have been delivered during the period of DFID funding are unsustainable.

Question 140 (Mr Richard) Bacon: *If you could send us a summary and perhaps an internet link as a note, that would be great. (Reference to Q79, Tony Killick Report on Mozambique)*

Extract from the Summary of the Report on the Programme Aid Partners “Perfect Partners?” of May 2005 Maputo, Mozambique:

The Report provides an assessment of the performance of the Programme Aid Partners (PAPs) during 2004 and Reports on Mozambican perceptions of donors’ activities.

Principal points from the assessment of PAP performance include:

- The questionnaire-based survey and the PAPs’ PAF reveal that, overall, the situation is good and improving, with Mozambique’s donors in advance of their counterparts in most other countries.

¹ DFID is categorised as the only strong performer. See page 56 of the Report.

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- More donors now provide at least two-thirds of their aid as programme aid and more aid is coming on-budget. Overall, PAPs are well aligned with GoM processes. Predictability of disbursements has been improved, and a high proportion of disbursements occurs in the early months of the fiscal year. There seems little tendency for donors to seek to enforce conditionality over and above that in the MoU.
 - A system of scoring of individual donor performances is introduced. This shows only one PAP classified as a “strong” performer, but none was “weak”. The rest were in an intermediate group but with four donors at the bottom end of that category.
 - Among the principal remaining weaknesses, Reporting to DCI is still patchy, as is delegation of authority from head offices. Progress in harmonising bilateral agreements with the terms of the MoU is slow; there has been limited progress in reducing administrative burdens on the GoM, with modest increases in joint missions and an increase in the total number of missions. The indicators and target values chosen for the PAPPAP have been unambitious and should be made more demanding.

As regards Mozambican perceptions, (the study team) found clear and strong support for increasing the share of DBS in total aid. However, there was awareness of some risks in this and the desirability, therefore, of a gradual transition. The predictability of DBS was seen as having improved but less so than our PAP evidence indicated. Much the same was true with respect to harmonisation and alignment. The MoU’s PAF for the government was regarded as capturing GoM priorities reasonably well but as still too elaborate and unfocussed. The MoU was seen as having reduced transactions costs but the overall burden was still viewed as excessive, relative to departmental capacities. Partly as a result of donor encouragement, interactions between the GoM and CSOs has been improving but the capacities of the latter remain weak and donors should be more active in this area. We caution against assuming the existence of a consensus from the apparent absence of controversy about the policies associated with the MoU and PAPs.

Full Report can be accessed: http://www.pap.org.mz/downloads/pappa_Report.pdf

A further and recent Report can be accessed at:

http://www.pap.org.mz/others_Reports.htm

Programme Aid Partners Performance Review 2006

Question 143 (Mr Richard Bacon): *Perhaps you could send us those minutes and also, if there are very specific concerns, it is not uncommon to write a letter saying so. Any evidence that you could send to the Committee would be helpful*

The explanation below sets out how DFID presents its concerns to the Government of Mozambique and how those representations have been acted upon. The internal documents referred to can be provided to the Committee if required.

The primary policy dialogue between the Government and donors in Mozambique takes place through the structure of a Group of 19 donors, known as the G19 or Programme Aid Partners (PAPs). The G19 are in regular dialogue with the Government of Mozambique through 29 working groups in areas such as education, health, decentralisation, budget execution and public financial management. Policy dialogue continues throughout the year, and twice a year at the “Mid Year Review” and “Joint Review” there are assessments of the Government’s performance. During these reviews key policy concerns and issues are formally relayed and discussed with Government.

DFID is represented in the key working groups, either directly or through bilateral partnerships with other like minded donors, for example the Irish currently represent DFID in the Agriculture working group and in return DFID represents the Irish in the Roads Working Group. During 2006 and 2007 DFID led the Human Capital pillar for the Joint Reviews which means that DFID had a lead role in the dialogue and messages to Government on health, education and water.

Working group papers reflect not only the concerns raised by the donor community with regards to rural poverty but also include key recommendations for action. The Reports show how DFID Mozambique, through its participation in working groups, has addressed the issues raised in the NAO Report namely: poor resource allocation; politicisation of regions; public financial management; regional variations in service delivery. Copies of all working group papers in addition to papers on both the annual mid year and joint reviews are available from the PAPs’ website: http://www.pap.org.mz/working_groups_Reports.htm.

These working group papers not only represent a formal minute of the concerns raised by the donor group but form an integral part of both the Mid-year and Joint Review and reflect the basis of dialogue between donors and the Government. Comments are not specifically attributed to any individual donor given the importance of presenting consistent messages to Government. However, as the largest budget support donor, DFID plays a key role in contributing both to the assessment of Government performance and the final policy recommendations.

Below is a summary of some of the key points raised by the Donor Community, including DFID, in the Working Groups.

Working Group on Budget Execution

- In 2005, Donors called on the Government to start discussions “on new, improved indicators for spending priorities (including spending in provinces/districts” http://www.pap.org.mz/downloads/wg_Reports_jr05/bag_jr05_en.doc
- In 2006, the Donor group went further and called for further decentralisation and deconcentration of spending, resource allocation and public administration to province/district level. http://www.pap.org.mz/downloads/working_groups_Reports_jr06/pillars/pillar1_growth_and_macro/budget_execution_en.doc
- In 2007, the Working Group welcomed the improvements which had been made in budget execution at provincial and district level but called for greater clarification in the provincial and district level resource allocation criteria. http://www.pap.org.mz/downloads/wg_Reports_jr07/orcamento_rc07.doc

Working Group on Decentralisation

- In their contribution to the 2005 Joint Review, the Working Group, highlighted their grave concerns notably with regards to the quality of district development plans and their link to the longer term objective of effective service delivery; the geographical inequality in expenditure and a review of public financial management at district level. http://www.pap.org.mz/downloads/wg_Reports_jr05/decentraliz_jr05_en.doc
- In 2006, Donors called for greater prioritisation of institutional and human capacity development at the provincial, district and municipal level; support to districts and municipalities in the areas of planning, budgeting and implementation of their plans and improvement of the participation and accountability mechanisms. http://www.pap.org.mz/downloads/working_groups_Reports_jr06/pillars/pillar2_governance/decentralization—en.doc
- In 2007, the Working Group welcomed the steps taken to decentralise some fiscal responsibility to districts but expressed concern that a similar process in respect of municipalities was not meeting the expectations created by the second Poverty Reduction Strategy Paper (PARPA II) and other decentralisation strategy documents. http://www.pap.org.mz/downloads/wg_Reports_jr07/decentralizacao_rc07.doc

Working Group on Education

- In the 2005 Joint Review, the Working group on Education called on the Government of Mozambique to “implement actions to accelerate progress in the area of gender, prioritising those districts with the greatest disparities or gender gap”. http://www.pap.org.mz/downloads/wg_Reports_jr05/education_jr06_en.doc
- In 2006, the Working Group considered lesson learning resulting from joint visits to the provinces and called for more strategic action to tackle inequalities at district level: “The PARPA commitment to reduce regional, gender and poverty disparities should be transformed into methodologies to prepare budgets that enhance equity and encourage expenditures geared to the fight against poverty. Likewise, the actions of the Ministry of Education and Culture should focus in particular on the districts with higher disparities (recommendation from the 2005 Report and from the PARPA);” http://www.pap.org.mz/downloads/working_groups_Reports_jr06/pillars/pillar4_human_capital/education.doc
- In 2007, the Working Group welcomed the involvement of provincial directors and partners in the Coordination and review meetings, but called for greater alignment of the planning, budgeting and evaluation processes to reflect the requirements of the decentralisation process. It called on the Provinces to translate national objectives into local objectives and ensure greater equality in the allocation of funds. http://www.pap.org.mz/downloads/wg_Reports_jr07/educacao_rc07.doc

Evidence of Behavioural Change

The focus on rural poverty is not only raised by DFID through the formal working groups, but through negotiations with the Government of Mozambique on specific programmes. As the negotiations underpinning these strategic agreements are lengthy actual minutes do not exist of each meeting but the conclusions are reflected in the DFID Programme Documentation which accompanies each submission for funding.

Education

The MoU on the Second Education Sector Strategic Plan (ESSPII) signed between the GoM and the Cooperation Partners, including DFID, in May 2006, clearly highlighted decentralisation as one of its key goals:

1.3 “Improving the management of education through the strengthening of institutional and human capacity, systemic restructuring and reform—including decentralisation, and improved procedures for financial management and procurement, as well as human resource management and development, is considered key to a successful implementation of the proposed reform agenda that the ESSP II represents”.

The Education Performance Indicator Framework which accompanies the signed MoU provides a number of clear indicators and actions which will measure progress in tackling regional disparities in the education sector. (Component 1: Universal Completion by 2015; Component 2: Literacy; Component 12: Institutional Development-Guarantee an efficient decentralisation of the education system management to the districts and the schools with respect to planning, implementation and accountability at all levels).

Similarly the Programme Document accompanying DFID’s ten year commitment to Education Sector (Oct 2006) recognises the need for “targeted regional programmes that ensure resources are disproportionately channelled to the districts with the worst indicators” and that “Greater pro-poor prioritisation and allocation of resources, both through systemic and targeted programmes, will be necessary to address both gender and geographical disparities.” (Education Sector Support 2007-2016 DFID Programme Document, p.11)

The Programme Document makes clear that responses to these weaknesses had already been considered and a number of solutions were proposed including:

- “DFID will also support and promote greater use of targeted allocative funding formulas by Ministry of Education and Culture as part of the overall annual strategic planning and budgeting process. In addition, current wider discourse on targeted social protection mechanisms, in particular types of cash transfers for marginalised groups, may provide a basis for developing strategies to improve education opportunities for the poor in Mozambique. This is an area where DFID may provide policy advice in cooperation with other Cooperation Partners (especially the World Bank, Netherlands and UNICEF).”

The commitment to supporting targeted allocative funding to districts and marginalised groups is not simply an empty promise. DFID, the Dutch and UNICEF have been rigorous in challenging the Ministry of Education and Culture on regional service delivery disparities. The donor group used the first annual evaluation to call on the Government to allocate additional funding to districts and provinces in 2007 and 2008. Furthermore, the Donor Group, represented by UNICEF, used their speech at the annual review meeting to highlight their concerns at the disparity in the education indicators between sectors and provinces. The Donor Group called for the implementation of clear recommendations to address these disparities and to ensure that these were well communicated to ensure widespread public and political support.

Net Impact of Donor (including DFID) influence

The Ministry of Education and Culture planning department recently developed a formula to ensure that the 10,000 or so new teachers that have been agreed in the budget will be allocated to provinces against a formula, so that those with the worst pupil teacher ratios (such as Zambezia) get preferential HR allocations. (Ministry of Education: New Admission Criteria 2007)

Roads

DFID Mozambique is planning to contribute £19.54 million programme of support to the Mozambique road sector PRISE programme over ten years, 2007–17. (Funding not yet formally approved) DFID has been played a leading role in the design of the three year Roads investment programme, placing great emphasis on the need to address resource allocation to unclassified roads.

Net Impact of Donor (including DFID) Influence

Road Investment plans are very well distributed nationally with 54% of unpaved road maintenance funds and 63% of paved road maintenance funds being spent in the north of the country. Overall the urban sector has been allocated just 1.7% of the total funding.

Although the programme uses a classification system that is strongly poverty weighted to select roads, DFID will continue to emphasise the importance of improving interventions at this level in the medium-term through its involvement in the Working Groups.

Question 158 (Mr Richard Bacon): *Is it possible for you to send us a note that tells us the story of microfinance in the past few years, how it has grown, how much money you have put in, what its effects are, and where you see it going*

Two billion people worldwide lack access to basic financial services—many of them live in rural areas. Microfinance has shown its potential to reduce poverty and now serves nearly 100 million poor people. For DFID, support to microfinance is part of a broader strategy to promote stronger and more inclusive financial sectors that benefit the poor.

The majority of the world's poor live in rural areas. Most lack access to any financial services and where they exist they can be expensive, inflexible and unreliable. Expanding access to financial services can help to reduce poverty and vulnerability to shocks.

The UK's 2006 White Paper on International Development commits to tackling barriers to access to markets and financial services, and supporting microfinance initiatives in partnership with banks and regulators.

DFID is currently supporting 79 microfinance and financial sector programmes in 28 countries. DFID works in close collaboration with other donor governments and multilateral institutions, such as the World Bank, who are also providing financial and technical support for many of these programmes. For example, in Bangladesh, DFID has committed £40 million over seven years to PROSPER, a Financial Sector programme which includes capacity building for microfinance institutions, which seeks to leverage a further £33 million from other donors and national partners.

A recent, brief review of the largest programmes shows that by the end of 2006 more than 20 million people had benefited from microfinance initiatives that received support from DFID in the last five years.

In total, DFID has spent over £165 million to support microfinance and financial sector projects and had committed £140 million more at 31 October 2006.

DFID has funded a number of country-level initiatives to strengthen rural financial markets for the poor:

- In India, DFID support enables partners to offer micro-finance, including micro-insurance and pensions to farmers using internet portals to lower costs and expand access. DFID direct support is now reaching over seven million people in India and is expanding quickly:
- In South Africa, DFID set up the FINMARK Trust, which seeks to “Make Financial Markets Work for the Poor”. Since 2004 over two million people have opened “Mzansi” basic bank accounts, 60% of whom had never had a bank account before.

DFID has also been successful in leveraging financing from the private sector to support international initiatives:

- DFID provided a first-loss facility of £820,000 via the Financial Deepening Challenge Fund that generated a total fund of £40 million from 13 institutional investors for the Global Commercial Microfinance Consortium. 10 of this facility's institutional investors had not invested in microfinance before. The Consortium has approved funding for 30 microfinance institutions in 26 countries with 1.4 million clients.
- The Africa Enterprise Challenge Fund is a multi-donor fund, due to be launched in June this year with an expected capital of around £25 million, of which DFID will contribute around £10 million for the first three years. The fund will leverage private sector resources and expertise to support projects with a focus on agriculture and financial services to improve the lives of poor people in rural areas.