



House of Commons  
International Development  
Committee

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**Department for  
International  
Development:  
Departmental Report  
2004**

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**Eighth Report of Session 2003–04**

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

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## The International Development Committee

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

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### Footnotes

In the footnotes of this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated by the page number as in 'Ev 12'

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## Summary

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In this report we explore a range of issues which come out of our reading of DFID's Departmental Report 2004. The purpose of this exercise is to make DFID more accountable to Parliament and other stakeholders, and to encourage DFID to reflect on how it manages and spends the increasing UK aid budget, so as to help DFID to make a more effective contribution towards meeting the Millennium Development Goals (MDGs). We comment on the UK's development effort over the past year, as well as highlighting several areas where DFID could improve its performance.

We welcome the Government's announcement of further large increases in aid. If the rate of growth to be achieved by 2007–08 is maintained, the target of providing 0.7 per cent of Gross National Income in aid will be met by 2013. Meeting the target earlier would be better still. We welcome too the Government's announcement on deepening and widening multilateral debt relief, and the progress being made with increasing the poverty focus of the UK's bilateral aid budget.

Our recommendations include, that:

- The Departmental Report provide more information about the poverty focus of the multilateral organisations—such as the EU—through which 43 per cent of UK aid is channelled.
- DFID and others with a commitment to international development remain vigilant, to ensure that DFID's funds are spent on things which will have the maximum impact on poverty reduction. In cases where there are competing priorities—as was the case with the diversion of funds to Iraq—DFID ought to encourage a wider open debate.
- The roll-out of Poverty Reduction Budget Support must be evidence-based. If it is not producing the results expected, then the delivery mechanism must be modified.
- DFID improve its useful “traffic light” system of showing progress on its Public Service Agreement targets, by explaining what will be done in cases where progress is unsatisfactory.

By accepting these recommendations and others, DFID could take another step towards being more transparent and more accountable, enabling it to learn more and become a still more effective player in the fight against global poverty.



# 1 Introduction

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1. The Department for International Development (DFID) leads the UK Government's contribution to the international effort to reduce poverty and to meet the internationally-agreed Millennium Development Goals (MDGs).<sup>1</sup> DFID's Public Service Agreement (PSA) enables DFID, the Treasury, and others to assess DFID's performance in pursuit of the MDGs.<sup>2</sup> DFID's Departmental Report 2004 describes and explains what DFID has achieved in the year April 2003 to March 2004.<sup>3</sup> This year, in line with a recommendation which we made in each of the last two years, the Departmental Report is structured around DFID's PSA, making it easier for the reader to see how DFID is doing in terms of its own targets.<sup>4</sup>

2. Each year, the International Development Committee holds a short inquiry into DFID's Departmental Report. This gives us the opportunity both to assess whether the Departmental Report paints an informative picture of DFID's work, and to examine particular aspects of DFID's work in some detail. This report aims to make DFID more accountable to Parliament and to other stakeholders, and to encourage DFID to reflect on how it manages and spends UK aid. The overall purpose of this exercise is to help DFID to perform more effectively, and to hasten progress towards the MDGs.

3. Following the publication of DFID's Departmental Report 2004 on 29 April, we invited organisations with relevant experience and expertise to provide us with written evidence relating to the Report. Five written submissions were received, from DFID, from a group of small UK-based international NGOs, and from individual NGOs (Christian Aid, Marie Stopes International with Interact Worldwide and One World Action).<sup>5</sup> Background papers were also received from DFID, Interact Worldwide and One World Action. On 22 June we took evidence from DFID officials. In a welcome innovation, intended to increase accountability and deepen the dialogue<sup>6</sup>, all four members of DFID's Management Board gave evidence: Suma Chakrabarti, DFID's Permanent Secretary; Masood Ahmed, the Director General for Policy and International; Mark Lowcock, the Director General for Corporate Performance and Knowledge Sharing; and Dr Nicola Brewer CMG, the Director General for Regional Programmes. In addition to this formal evidence session, we also had two informal briefing meetings. One concerned the predictability of aid flows. Another concerned the use of Poverty Reduction Budget Support (PRBS—also called Direct Budget Support) as a way of delivering aid. We are very grateful to all those who provided us with information, formally or informally, to assist us with our inquiry.

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1 For further information about the Millennium Development Goals see <http://www.developmentgoals.com>

2 For further information about DFID's Public Service Agreement see <http://www.dfid.gov.uk/pubs/files/psa/index.asp>

3 Department for International Development, *Departmental Report 2004*, Cm 6214. Available at <http://www.dfid.gov.uk/pubs/files/departreport04chap1.pdf> (subsequent chapters end "chap2.pdf" etc.)

4 International Development Committee, Sixth report of Session 2001-02, *Department for International Development Departmental Report 2002*, HC 964, paragraph 18—available at <http://www.publications.parliament.uk/pa/cm200102/cmselect/cmintdev/964/964.pdf>; International Development Committee, Eighth report of Session 2002-03, *Department for International Development Departmental Report 2003*, HC 825, paragraph 10—available at <http://www.publications.parliament.uk/pa/cm200203/cmselect/cmintdev/825/825.pdf>

5 Ev 68-72

6 Q 1 [Mr. Suma Chakrabarti, Permanent Secretary, DFID]

4. Our report has six chapters. Following this introduction, in chapter two we comment on the volume of UK aid. In chapter three we examine the poverty focus of UK aid. Chapter four explores some issues relating to Poverty Reduction Budget Support as a way of delivering UK aid. In chapter five we make some comments on the monitoring of the impact of UK aid. Finally in chapter six, we emphasise that if DFID is to become a more effective player in the fight against global poverty, it must continue to learn from its successes and failures.

## 2 How much? The volume of UK aid

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### Partnerships for poverty reduction

5. The Monterrey Consensus, agreed at the United Nations' Conference on Financing for Development in 2002, set out the terms of a new global partnership for international development and meeting the MDGs<sup>7</sup>: developing countries must improve their governance; and, developed countries must, for their part, increase the flow of resources to developing countries.

6. The first seven MDGs focus on poverty and hunger, education, gender equality, child mortality, maternal health, HIV/AIDS and environmental sustainability. MDG8—"develop a global partnership for development"—includes targets relating to the international trading system, international debt, access to medicines, the special needs of the poorest and most vulnerable countries, and the volumes and allocation of official development assistance (aid). The first seven MDGs will not be met unless there is also significant progress on MDG8, including on increasing the volume of aid.

7. As part of the preparations for the Monterrey Summit, a High-Level Panel on Financing for Development estimated that \$100 billion per year of aid would be needed to meet the MDGs. At the time, this amounted to a doubling of global aid flows. At Monterrey itself, both the EU and the USA announced massive increases in aid, increases which have now begun to come on stream. Global aid flows in 2003 amounted to \$68.5 billion. There remains a long way to go.

### Meeting our side of the bargain

8. The UK Government prides itself on being a leading player in international development. If this claim is to be justified, then the UK must meet its commitments, particularly on MDG8 and on providing more resources for development. Since Monterrey, the Government, with the Chancellor of the Exchequer, The Rt Hon. Gordon Brown, MP leading the way, has been very active in exploring ways of delivering the increased resources which are needed if the MDGs are to be met. The laudable aim has been to ensure that no country which is genuinely committed to good governance, economic development and poverty reduction should be denied the chance to achieve the MDGs because of a lack of resources.

9. In recent years, the UK has been increasing rapidly the volume of aid it gives, and, recognising the need to deliver an immediate step-change in resources, has proposed the establishment of an International Finance Facility (IFF).<sup>8</sup> Such a facility would front-load donors' aid, and use this aid to lever more resources from the international financial markets. Whilst we recognise that this proposal is not cost-free—the money levered from the markets would need repaying out of future aid flows—we strongly support the proposal

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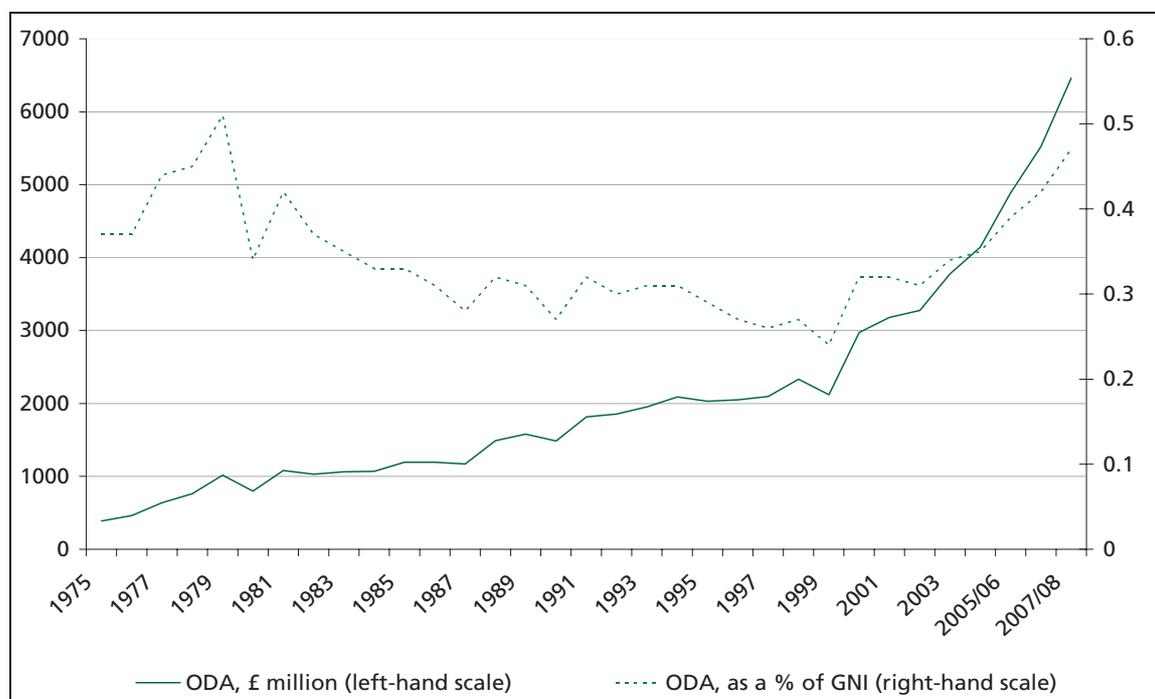
7 International Development Committee, Fifth report of Session 2001-02, *Financing for development: Finding the money to eliminate world poverty*, HC 785-I. See <http://www.publications.parliament.uk/pa/cm200102/cmselect/cmintdev/785/785.pdf>

8 For further information about the proposed International Finance Facility available at [http://www.hm-treasury.gov.uk/documents/international\\_issues/int\\_gnd\\_intfinance.cfm](http://www.hm-treasury.gov.uk/documents/international_issues/int_gnd_intfinance.cfm)

for an IFF. More than 35 countries—mainly developing and emerging market countries—have endorsed the proposal, urging donors to implement it. Additional broad support has been given to the proposal by NGOs, the International Financial Institutions, faith leaders, and such international figures as Nelson Mandela and Kofi Annan.<sup>9</sup>

10. Debates about the merits of the IFF have become intertwined with debates about the UK's progress towards meeting its shared 36-year old commitment to provide 0.7 per cent of national income as aid. To some European countries, the UK's advocacy for an IFF has been a distraction from the fact that the UK is nowhere near meeting its commitment to 0.7 per cent.<sup>10</sup> The Government has been at pains to stress that it was never a question of either 0.7 per cent or the IFF, but there is no doubt that UK reluctance to set a timetable to meet the target, and UK aid levels which fall far short of 0.7 per cent, have made the UK's position on aid subject to criticism. Put simply, the UK has been accused of talking a good game, but failing to stump up the necessary resources.

**Figure 1: UK aid flows (ODA), 1975–2008—absolute volumes and as a per cent of Gross National Income (GNI)**



Data source: House of Commons Library, Standard Note 01769, "Overseas aid expenditure and the 0.7 per cent target"

11. In July 2004 all this changed. In announcing the results of the Spending Review, Gordon Brown, MP—responding in part to a well-organised and concerted campaign by NGOs, faith-based organisations, trade unions and others—announced massive increases in UK aid. By 2007–08, UK aid will amount to nearly £6.5 billion per year, or 0.47 per cent of Gross National Income. This is a real terms increase of 140 per cent since 1997 and, for the three years covered by the latest Spending Review, will be delivered by average annual real-terms increases of 9.2 per cent. In particular, more resources will be provided to tackle

9 Communication from the International Finance Facility team at HM Treasury, to the International Development Committee.

10 Q 7 [Suma Chakrabarti, DFID]

poverty in Africa, and to fight HIV/AIDS. At the rate of progress to be reached by 2007–08, the UK would meet its 0.7 per cent target by 2013. The announcement of massive increases in aid, and a date by which the target of 0.7 per cent will be met, shows that the Government is serious about playing its part in building a global partnership to tackle poverty and to meet the MDGs. By announcing a substantial increase in UK aid, and outlining a timetable to reach 0.7 per cent, the UK is in a stronger position to persuade its European neighbours, and others, to support the IFF. As the Chancellor noted in his Spending Review announcement, if the International Finance Facility were established, the UK could reach the 0.7 per cent target by 2007–08.

12. But increases in aid and the IFF are part of a wider picture; the resources which developing countries need if they are to have any chance of meeting the MDGs. Debt relief too is part of this picture. Prior to the G8 Summit at Sea Island in the USA in June 2004, stories in the press suggested that significant improvements to the HIPC [Heavily Indebted Poor Countries] debt relief initiative might be imminent. Regrettably, such progress did not materialise.<sup>11</sup> At Sea Island, the leaders of the G8 reaffirmed their support for the HIPC process, agreed to provide some additional resources for topping-up the initiative, and extended the initiative by 2 years. More progressively, G8 leaders agreed to explore ways of dealing with unsustainable debt, a situation which many countries—including many of those which have gone through the HIPC debt relief process—face. One possible approach is to provide more grant-financing for developing countries, but as DFID's Masood Ahmed explained to us this would leave countries vulnerable to economic shocks for perhaps 12 or 15 years. We were interested therefore to hear that DFID—along, we assume, with the Treasury—is examining ways in which countries' unsustainable debts might be dealt with more quickly, and developing countries' economies made more robust and resilient to shocks.<sup>12</sup>

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

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11 "G8 tensions underlie Iraq debt reduction", *The Financial Times*, 9 June 2004, p.9; "Blair: Let's wipe billions from third world debt", *The Independent*, 8 June 2004, p.38.

12 Q 11 [Masood Ahmed, Director General for Policy and International, DFID]



## 3 Where to and why? Poverty, politics and aid

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### The poverty-focus of aid and the multilaterals

14. The UK can achieve the best poverty reduction returns on its aid investments, by focussing its aid on the poorest countries, and particularly those which are serious about poverty reduction. DFID aims to spend 90 per cent of its bilateral budget—excluding that spent on humanitarian assistance in low-income countries. The Chancellor reiterated this commitment in announcing the Spending Review's aid increases. DFID expects to meet this target in 2005–06. This is excellent news. But as 43 per cent of UK aid is spent through multilateral agencies—primarily the European Union, the International Financial Institutions and the United Nations—meeting a poverty-focus target for bilateral aid is not sufficient to ensure that UK aid overall is as effective as possible.

15. The Departmental Report 2004 shows a planned increase in “International Programmes” or multilateral aid from £1.496 billion in 2004–05 to £1.896 billion in 2005–06.<sup>13</sup> The bulk of this increase—£250 million—is to finance the replenishment of the World Bank's International Development Association (IDA) resources. We understand that the IDA has a good poverty-focus, but the Departmental Report should provide information about the poverty-focus of the multilaterals through which UK aid is channelled. In the absence of such information, it is impossible for the reader to tell whether the poverty-focus of UK bilateral aid is diluted by the 43 per cent of DFID's budget which flows through the multilaterals.

16. The European Union has been a particular cause for concern as regards the poverty focus of its aid. Objective 4 of DFID's 2003–06 PSA includes a target of “working for agreement to increase the proportion of EC overseas development assistance to low income countries from 38 per cent to 70 per cent”.<sup>14</sup> The Departmental Report suggests that it is too early to say whether progress is being made towards this target, but notes that slippage is likely.<sup>15</sup> In 2002, 42 per cent of EC aid was spent in low-income countries. The Departmental Report shows a sizeable increase in the UK contribution to the European Development Fund (EDF), from an estimated outturn of £211 million in 2003–04 to a planned £260 million in 2005–06.<sup>16</sup> At first glance this seems odd: why channel more funds through an organisation which is failing to focus its aid on the poorest countries? This apparent anomaly is explained firstly by the fact that the EDF—in contrast to budgetised EC aid—is well-focussed on low-income countries, and secondly because the European Commission's performance in spending EDF resources improved during 2003, with commitments and payments exceeding projections.<sup>17</sup> **There is no room for**

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13 Department for International Development, *Departmental Report 2004*, Cm 6214, Annex 1, table 4—see footnote 3 for web-site.

14 For further information about DFID's Public Service Agreement see <http://www.dfid.gov.uk/pubs/files/psa/index.asp>

15 Department for International Development, *Departmental Report 2004*, Cm 6214, Annex 3—see footnote 3 for web-site.

16 *Ibid.*, Annex 1, Table 4.

17 Ev 29

**complacency—European aid remains insufficiently poverty-focused—but the Commission deserves credit for the improvements which have been made to the disbursement of EDF funds, as does the UK Government and others who have pushed the Commission to do better.**

17. The problems with EU aid relate primarily to budgetised spending. As we, and others, have repeatedly complained, the allocation of these funds is not sufficiently-driven by poverty-reduction goals.<sup>18</sup> Instead, allocations are determined—particularly now that there is no Council of Development Ministers—by Foreign Ministers,<sup>19</sup> whose priorities are foreign policy, security and the “near-abroad”. Enlargement is unlikely to make development more of a priority; it may well add to the pressure to focus on the “near-abroad”. **Progress has been made with making EU development policy more poverty-focused, but, particularly in terms of spending, much more needs to be done. The UK Government has to strike a difficult balance in its relations with the EU, just as in its relations with developing countries. Financial support can, through policy dialogue, encourage reform. But in the absence of reform, financial support is money wasted. We will be keeping a close eye on the poverty focus of EC aid, and the UK’s contribution to the EU’s aid effort.**

18. The UK taxpayer rightly expects that aid is spent effectively on poverty reduction. To be most effective, aid must be well-targeted. UK bilateral aid is well-targeted, and increasingly so. Other than making the UK’s bilateral aid more effective than it currently is, logically there are three (not mutually-exclusive) ways of increasing the effectiveness of UK aid overall:

- by spending a greater proportion of UK aid bilaterally;
- by improving the poverty focus of those multilaterals through which UK aid is channelled; or,
- by channelling multilateral funds through poverty-focused organisations.

**If stakeholders, including Parliament, are to be able to assess whether sensible decisions are being made about channelling aid through multilaterals, then the Departmental Report must show clearly the poverty focus of the multilaterals through which UK aid is channelled. The Departmental Report for 2004 fails to do this; such a lack of transparency unhelpfully limits DFID’s accountability.** Figures on the poverty focus of the multilateral agencies which DFID contributes to are available in DFID’s “Statistics on international development” publication,<sup>20</sup> but given the importance which DFID attaches to its poverty focus, and the proportion of funds channelled through multilateral agencies, the Departmental Report itself should include such information.

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18 International Development Committee, Second Report of Session 2001-02, *The Effectiveness of the Reforms of European Development Assistance*, HC 417-I—available at <http://www.publications.parliament.uk/pa/cm200102/cmselect/cmintdev/417/417.pdf>; see also House of Lords European Union Committee, Twelfth Report of Session 2003-04, *EU Development Aid in Transition*, HL Paper 75 - available at <http://www.publications.parliament.uk/pa/ld200304/ldselect/lducom/75/75.pdf>

19 Q 90 [Suma Chakrabarti, DFID]

20 Ev 38; DFID, *Statistics on International Development, 1998/99-2002/03*, pp.191-192. Available at <http://www.dfid.gov.uk/pubs/files/statisticsondevelopment03.pdf>

## Iraq: Aid diversion, spending and achievements

19. The overall financing needs of post-war Iraq were calculated by the United Nations and the World Bank. At the Madrid Donors' Conference in October 2003, the Government announced a total UK pledge of £544 million towards the reconstruction of Iraq up to March 2006.<sup>21</sup> This sum is split between DFID, the Foreign and Commonwealth Office and the Ministry of Defence, with—in the period up to March 2004—DFID committing £278 million for humanitarian assistance and reconstruction in Iraq.<sup>22</sup> Inter-departmental allocations were determined, it would seem, by already-existing patterns of Departmental spending in Iraq.<sup>23</sup>

20. In November 2003 DFID announced that it was reducing its spending in several middle-income countries (MICs) in order to provide funds for the reconstruction of Iraq following the ousting of Saddam Hussein.<sup>24</sup> Once the Government had decided how much to spend in Iraq, and how much of this spend would be allocated to DFID, funds had to be found. In the absence of sufficient reserves for contingencies of this scale, with a firm commitment to provide 90 per cent of its bilateral aid—excluding humanitarian assistance—to low-income countries by 2005–06 (the so-called 90/10 target), and with Iraq classified as an MIC by the OECD, it was necessary to divert funds to Iraq from MICs. As a result, DFID plans to reduce its spending in MICs in 2004–05 and 2005–06 by a total of around £100 million.<sup>25</sup> This is to be achieved by withdrawing from a number of MICs in Latin America sooner than expected, and reducing spending in other MICs such as China.

21. Christian Aid has been very critical of the diversion of DFID's funds from planned and agreed programmes in MICs to meet foreign policy objectives in Iraq.<sup>26</sup> They criticise the decision to unexpectedly close DFID offices in Peru and Honduras; offices which were performing key roles in the countries' development. The DFID-Honduras office, opened by Patricia Hewitt, MP in September 2003, was for instance facilitating civil society participation in the country's Poverty Reduction Strategy Paper (PRSP), work which DFID's Departmental Report itself hails as a success.<sup>27</sup> DFID-Peru had committed to funding, through Oxfam, a small projects fund for grassroots organisations in the rural Andes. This fund was to focus on building awareness about rights, and capacity-building for local communities. In the context of Peru's new policy of decentralisation, work of this nature tackling the root causes of marginalisation and disempowerment of rural communities, and encouraging participation and engagement with local government, is crucial. Regrettably, this programme will now be terminated just two and a half years after its inception.

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21 Q 27 [Suma Chakrabarti, DFID]

22 Department for International Development, *Departmental Report 2004*, Cm 6214, p.80—see footnote 3 for web-site.

23 Q 27-29 [Suma Chakrabarti, DFID]

24 Written Ministerial Statement, Hilary Benn, HC Deb, 6 Nov 2003, Col 39 WS

25 Department for International Development, *Departmental Report 2004*, Cm 6214, Box 7k—see footnote 3 for web-site

26 Christian Aid—*The Politics of Poverty: Aid in the new Cold War*, May 2004—available at <http://www.christian-aid.org.uk/indepth/404caweek/cawreport.pdf>; see also Christian Aid memorandum at Ev 68.

27 Department for International Development, *Departmental Report 2004*, Cm 6214, paragraph 4.20—see footnote 3 for web-site

22. In his evidence to the Committee in 2002, Suma Chakrabarti—acknowledging that there were differences of view within DFID about its involvement in Latin America—put the case for continued engagement:

- there are seventy-seven million poor people in Latin America and the Caribbean;
- six out of the ten most unequal countries in the world are in Latin America;
- by being involved in the region DFID can help governments to see how to successfully redistribute their resources; and,
- by being involved in the region DFID can engage with other donors such as the Inter-American Development Bank to get them to be more effective and focussed on poverty reduction.<sup>28</sup>

23. The diversion of funds to Iraq involved difficult decisions. Suma Chakrabarti explained these decisions in terms of: firstly, the pressing need to provide funds for reconstruction in Iraq; and secondly, in terms of the Government's evidence-based commitment to the 90/10 target.<sup>29</sup> As the Permanent Secretary put it, when the Government “decided that Iraq was going to be a development programme” [our emphasis], it had to find the funds from planned spending in other MICs. The arguments in support of DFID involvement in Latin America would seem now to have been outweighed by the pressing needs of Iraq. It is for the Government to balance competing interests, but the diversion of development funds to Iraq raises important questions about the nature of development, the purpose of development spending, and the relationship between development, security and military objectives.

24. The Departmental Report provides some information about DFID's financial commitments to humanitarian and reconstruction assistance to Iraq in 2003–04. A table on page eighty-two of the Report shows which organisations DFID contributed to. For instance £70 million was allocated to the International Reconstruction Fund for Iraq and another £59 million to “other reconstruction work”.<sup>30</sup> But the reader is not told what these funds were spent on. On page eighty-three, a facing page, is a box outlining achievements in Iraq 2003–04. Suma Chakrabarti explained that this box gives the reader some examples of outcomes that have been achieved. This is potentially misleading. The first box outlines DFID's contributions, the second outlines achievements in Iraq. Valuable as DFID's contribution in Iraq is, it must be made crystal clear that “achievements in Iraq” are outcomes arrived at through the collective efforts of many agencies, and, of course, the people of Iraq.<sup>31</sup> Just as the report must avoid inadvertently attributing collectively-achieved outcomes to DFID, so too must the impacts of DFID's contributions be made as clear as possible. The difficulty of attribution—saying whose actions led to a particular outcome—does not justify the loose and potentially misleading presentation of

28 Q 9 of evidence to the International Development Committee, pursuant to its Sixth report of Session 2001-02, *Department for International Development Departmental Report 2002*, HC 964. Available at <http://www.publications.parliament.uk/pa/cm200102/cmselect/cmintdev/964/2061805.htm>

29 Q 37 and Q 43 [Suma Chakrabarti, DFID]

30 Department for International Development, *Departmental Report 2004*, Cm 6214, Box 4e—see footnote 3 for website.

31 Q 30-32 [Suma Chakrabarti, DFID]

information on contributions and outcomes. DFID must present information on spending and outcomes in its Departmental Reports in such a way as to ensure that the potential for confusion is avoided, a point which the Permanent Secretary accepted.<sup>32</sup>

25. Reconstructing Iraq will be a long, difficult and expensive task. The UK must honour its commitments to help the country and its people to recover from the war, and from the legacy of Saddam Hussein. **In order to demonstrate that UK development funds are being spent wisely and are leading to desirable development outcomes in Iraq, DFID must—either in its Departmental Report, or by indicating where such information can be found—make as clear as possible how much of its money is being spent on what, and with what effect.** We are examining UK development assistance in Iraq in more detail in an ongoing inquiry.

### Iraq and Afghanistan: The security/development nexus

26. About five per cent of DFID's spending in Iraq is spent on providing security for DFID's staff and contractors.<sup>33</sup> The security situation in Iraq is exceptionally poor, but there has in recent years been a change in the environment for development workers such that they are now considered by some as legitimate targets to attack. As DFID's Mark Lowcock put it: "what used to be unthinkable is now a real problem we have to deal with all the time."<sup>34</sup>

27. In addition to the bombing of the United Nations and the Red Cross in Iraq, many aid workers have been murdered in Afghanistan<sup>35</sup>. In July 2004, Médecins Sans Frontières announced its withdrawal from Afghanistan because of security concerns. More generally, NGOs, and the United Nations, have voiced concerns about the blurring of humanitarian/development assistance and security/military operations, for instance in relation to the role of Provisional Reconstruction Teams. DFID's Nicola Brewer told us that she had visited Afghanistan in December 2003 along with DFID's Parliamentary Under-Secretary of State, Gareth Thomas, MP with an eye on this issue, and was reassured by what they learnt.<sup>36</sup> **Nevertheless it is of the utmost importance that the distinction between humanitarian/development work, and security/military work is maintained, in Afghanistan and elsewhere. Security is a pre-requisite for development. Unless development workers and DFID staff can travel around the country, beyond the capital or controlled zones, they cannot obtain a full picture of the country's needs.<sup>37</sup> Unless women feel safe walking down the street, they will not be able to play a full role in society.<sup>38</sup> But security is not the same as development. And military objectives must never encroach on humanitarian objectives. We understand that DFID is doing some work on the security/development nexus, and look forward to seeing the results.**

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32 Q 34 [Suma Chakrabarti, DFID]

33 Q 48 [Suma Chakrabarti, DFID]

34 Q 49 [Mr Mark Lowcock, Director General for Corporate Performance and Knowledge Sharing, DFID]

35 Just as this report was being finalised we heard the tragic news that Mrs. Margaret Hassan, the Head of CARE International's operations in Iraq and a woman who had dedicated her life to helping the people of Iraq, had been murdered in Iraq having been kidnapped and held for several weeks.

36 Q 62 [Dr Nicola Brewer, Director General for Regional Programmes, DFID]

37 Q 61 [Nicola Brewer, DFID]

38 Q 64 [Nicola Brewer, DFID]

## Zimbabwe and Sudan: Responding to humanitarian needs and resolving conflict

28. DFID's spending on humanitarian crises varies from year to year, depending on what emergencies occur.<sup>39</sup> Following two internal reviews, DFID has changed the way it allocates funds for responding to humanitarian emergencies. Rather than starting with a modest allocation and then calling on the contingency reserve, DFID will now—beginning with the year 2004–05—allocate more money to humanitarian response at the start of the year. **We would appreciate further explanation of the changes made to the way that DFID allocates funds for humanitarian emergencies, and would like to be kept informed as to their impact.**

29. There is a continuing crisis in Zimbabwe; a humanitarian crisis caused in large part by the policies of President Robert Mugabe. As Suma Chakrabarti told us in 2003, in a failed state like Zimbabwe it is very difficult to carry out development work.<sup>40</sup> Information provided by DFID shows that nearly 75 per cent of expenditure for 2003/04 was allocated to humanitarian assistance programmes with the balance of expenditure almost entirely allocated to HIV/AIDS programmes.<sup>41</sup> The Department notes that it “is not providing funds for longer-term development programmes at this time”.<sup>42</sup> As such, we were keen to understand why the planned allocation to Zimbabwe for 2004–05 and 2005–06 has increased considerably from that set out in last year's Departmental Report—£12 million in each year<sup>43</sup>—to the £27 million per year set out in this year's Departmental Report.<sup>44</sup>

30. DFID explained that Zimbabwe has experienced a humanitarian crisis since 2001 due to the combined effect of weather, poorly-managed land reform, economic mismanagement and HIV/AIDS. Food insecurity, hunger and vulnerability remain widespread in large part because of continuing political and economic turmoil. It is in response to these desperate realities that DFID plans to spend more on responding to the humanitarian needs of Zimbabweans. If positive political change came about, the UK would be keen to provide more resources for development.<sup>45</sup> **The UK and other donors face a dilemma. Providing humanitarian assistance to countries such as Zimbabwe may serve to prop-up the regimes whose own policies are causing the humanitarian crisis. In this case we believe that the UK is right to provide humanitarian assistance to prevent more deaths.**<sup>46</sup>

31. The crisis in the Darfur region of Sudan has built up gradually, with the international community paying progressively more attention. Visits by the UK's Secretary of State for International Development and Foreign Secretary, by Kofi Annan and by the USA's

39 Ev 29

40 Q 16 of evidence to the International Development Committee, pursuant to its Eighth report of Session 2002-03, *Department for International Development Departmental Report 2003*, HC 825-I. Available at <http://www.publications.parliament.uk/pa/cm200203/cmselect/cmintdev/825/3061702.htm>

41 Ev 30

42 *Ibid.*

43 Department for International Development, *Departmental Report 2003*, Cm 5914, Annex 1, table 4—see footnote 4.

44 Department for International Development, *Departmental Report 2004*, Cm 6214, Annex 1, table 4—see footnote 3.

45 Ev 30

46 Q 66-67 [Suma Chakrabarti, DFID]

Secretary of State for Defence Colin Powell from May to August 2004 have played an important role in focussing some attention on the crisis.<sup>47</sup> Whilst the Darfur crisis raises big issues about the timeliness and effectiveness of the international community's response to the threat of genocide we applaud the role played by the UK Government, and particularly Hilary Benn MP, Jack Straw MP and the Prime Minister, in this regard.

32. There has been some suggestion that the international community was slow to respond to the crisis in Darfur because it had its eye off the ball, looking to a successful resolution of the long-running North/South conflict in Sudan and missing what was happening in Darfur.<sup>48</sup> DFID's Permanent Secretary did not accept this.<sup>49</sup> This begs the question as to why then the international community's response to the crisis in Darfur has been so slow, a question we are addressing in our ongoing inquiry into "Darfur, Sudan: Crisis, Response and Lessons".

### **Uganda, Rwanda, Kenya and Ethiopia: Picking winners or backing the wrong horse?**

33. In several countries—including Rwanda, Uganda, Kenya and more recently Ethiopia—DFID's approach has been to ally itself strongly with particular governments which it believes are seriously committed to making the reforms necessary to achieve poverty reduction. As a result of this strategy, DFID puts itself and the UK Government in the firing-line if the government and leadership of the country in question veers off the course which DFID had expected them to take, violating human rights, engaging in corrupt practices, interfering in neighbouring countries, and spending excessively on the military. Such allegations have been seen most clearly in relation to President Kagame of Rwanda, President Kibaki of Kenya and President Museveni of Uganda.

34. For DFID the key consideration is "whether the government in question is fundamentally committed to poverty reduction". Questions about a government's human rights record, and its efforts to improve human rights, are, we were effectively told, secondary; "there comes a point when, if a government's human rights record is so terrible and it is doing absolutely nothing about it, there will be an issue as to whether we have an aid programme there at all".<sup>50</sup> Whether or not this is a reasonable position to take depends, it seems to us, on exactly where the point or threshold is beyond which a country's record is simply unacceptable. Donors and recipients must be clear about this. In the absence of such clarity, a leadership which is so-inclined will seek to get away with whatever they can.

35. Poverty Reduction Budget Support (PRBS), argues DFID, provides the UK with better access for high-level policy dialogue about such issues. And, backed up by memoranda of understanding which specify the rights, responsibilities and obligations for each side in the aid relationship, it is through such dialogue that positive change is best-achieved. In the case of Uganda for instance, aid flows have been stopped by DFID on at least four occasions since 1999 because of concerns that too much was being spent on the military.<sup>51</sup>

47 Q 69 [Suma Chakrabarti, DFID]

48 International Crisis Group, *Sudan: Now or never in Darfur*, May 2004. Available at <http://www.icg.org>

49 Q 68 [Suma Chakrabarti, DFID]

50 Q 19 [Suma Chakrabarti, DFID]

51 Q 19 [Nicola Brewer, DFID]

It is too early to say whether policy dialogue, leveraged through PRBS, and buttressed by memoranda of understanding, has been effective in delivering pro-poor policy change. But it would be a big mistake to assume that aid relationships conducted in this way will make corruption, the abuse of human rights, and the curtailment of democratic processes disappear (see paragraphs 50–62 on Poverty Reduction Budget Support).

## DFID, poverty reduction and politics

36. DFID's activities over the past year—its withdrawal from Middle Income Countries (MICs) in Latin America and elsewhere, its involvement in Iraq, and its various roles in Zimbabwe, Sudan, Rwanda, Ethiopia, Uganda and elsewhere—raise important issues and questions: what is DFID and the international community's strategy for poverty reduction in MICs; what activities are within and beyond the limits of poverty reduction as spelt out in the International Development Act 1998; and, is, or should DFID be, an autonomous poverty-reducing Department?

37. Globally, 43 per cent of bilateral development assistance is spent in MICs. But the aid flows which MICs receive are not achieving poverty reduction, and many MICs risk falling back into the low-income category. There is no international agreement on the purpose of aid in MICs, nor on the volume of assistance. DFID's own paper on "Achieving the Millennium Development Goals: the Middle-Income countries" states that "Poverty reduction is not the starting point either for many donors nor for many governments in MICs."<sup>52</sup> This raises the question of how DFID can ensure that in its relationships with MICs it does not simply become the default provider of poverty reduction programmes. DFID's strategy is to ensure that its programmes in MICs are part of a co-ordinated and focussed international effort, and to increase the effectiveness of the international system as a whole at dealing with the MICs. DFID's bilateral assistance to the MICs will be limited to countries and issues where it can add value: large, strategically important countries that affect the achievement of the MDGs regionally or globally; the poorest MICs; and those that are at risk of slipping back to low-income status.<sup>53</sup> **We applaud DFID for its efforts to develop a co-ordinated and poverty-focussed international approach to meeting the MDGs in MICs.**

38. A second issue concerns the nature of poverty reduction, and the limits set to DFID's work by the International Development Act in 1998. Even a cursory look at DFID's activities reveals that they span a very broad range of activities: raising awareness about rights in Honduras; empowering women in Afghanistan; improving policing in Iraq; peace-building in Sudan; feeding people in Zimbabwe, and so on. Poverty is multi-faceted, so it is not surprising that actions taken to tackle poverty take many forms. The question is, what limits does DFID's role as a poverty reduction agency set on what it can and should be doing? The answer is not clear. So for instance, in response to questioning about whether improving policing is part of poverty reduction, Suma Chakrabarti told us that the

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52 Department for International Development, *Achieving the Millennium Development Goals: The Middle-Income Countries*, August 2004. Available at <http://www.dfid.gov.uk/pubs/files/achievingmdgmincome.pdf>

poor tend to suffer most from insecurity, and that therefore, in some contexts, improving policing is fundamental to poverty reduction.<sup>54</sup> We do not disagree.

39. The Permanent Secretary explained that he would not draw the line defining what are and are not poverty-reducing activities so as to exclude improving policing, and that anything that DFID does has to pass the test set by the International Development Act.<sup>55</sup> The Act itself states that “The Secretary of State may provide any person or body with development assistance if he is satisfied that the provision of the assistance is likely to contribute to a reduction in poverty.”<sup>56</sup> Our understanding is that the Act was designed to prevent a repeat of egregious misuses and abuses of aid to promote trade and political objectives, such as the Pergau dam in the 1990s. If the Act is to have any meaning, there must be limits to what DFID can do. **Those with a commitment to international development and poverty reduction—including ourselves, and DFID—should remain vigilant to ensure that DFID’s funds are spent on things which will contribute to poverty reduction, and, in cases where there is disagreement, should encourage a wider open debate.**

40. A third and related issue concerns the autonomy of DFID as a Government Department focussed on poverty reduction and meeting the MDGs. The decisions made about funding reconstruction in Iraq, and diverting aid from MICs, showed clearly that DFID is subject to external political influences. The decision to contribute £544 million of UK funds to reconstructing Iraq, and—it seems—the decision that a large chunk of this was to come out of DFID’s development spending, was not made by DFID. It was only once this decision had been made that DFID was involved, giving advice about where funds might be found. As the Permanent Secretary put it:

“At the end of the day, Ministers take all of the decisions on the allocations. What Ministers decided on—you are absolutely right—is they wanted to make a particular contribution to Iraq, and that was based, as I said, partly on UN and World Bank assessment of needs in Iraq and partly on wishing to galvanise the international system generally. That is absolutely correct. Then we had to find the money, and we were asked, as officials, quite rightly, for advice on where the money should come from, given that Ministers wished to stick to the 90–10 target, which they believed in.”<sup>57</sup>

Responding to questioning, the Permanent Secretary refused to accept the implication that DFID is not objectively and single-mindedly focussed on poverty-reduction.<sup>58</sup>

41. Poverty reduction and development comes about as a result of a range of processes—economic growth, social and cultural change, and political development. Therefore, DFID is right to argue that a wide variety of activities are intended to lead to poverty reduction. And DFID itself is part of the Government as a whole. One would not expect or want

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54 Q 35 [Suma Chakrabarti, DFID]

55 Q 34 [Suma Chakrabarti, DFID]

56 International Development Act 2002.

57 Q 43 [Suma Chakrabarti, DFID]

58 Q 46 [Suma Chakrabarti, DFID]

DFID to operate independently from the rest of Government,<sup>59</sup> particularly given the importance of development goals being supported by policies which are the responsibility of other departments (so-called “policy coherence for development”). **The Permanent Secretary is right to defend DFID’s role as an agency focussed on poverty-reduction. But DFID’s role and relative autonomy is proscribed in part by the Government of which it is part. Operating as part of the Government which determines its role, DFID needs to strike a careful balance between protecting its autonomy as a poverty-reduction agency, and promoting development issues and policy coherence for development across Government.**

## HIV/AIDS and sexual and reproductive health

42. Fifteen years ago tackling HIV/AIDS would not have been seen as central to poverty reduction; today, it is. This shows that understandings about which activities are about poverty reduction changes, as understandings of poverty, its causes and ways of tackling it, change too.<sup>60</sup> As the recent National Audit Office (NAO) report acknowledges, DFID is at the forefront of responding to the HIV/AIDS epidemic which threatens to derail the development effort in many developing countries.<sup>61</sup> Nevertheless, the NAO’s report does raise some issues for DFID and those concerned with DFID’s performance to consider.

43. A first point concerns DFID’s spending on HIV/AIDS and the transparency of DFID’s reporting in this area. The NAO makes the point that it is hard to tell exactly how much money DFID is spending on HIV/AIDS. This seems to be true, but for good reason. Some spending is clearly, and solely, for HIV/AIDS, but other spending—on sexual and reproductive health—is intended to secure multiple objectives, both as regards sexual and reproductive health and as regards HIV/AIDS.<sup>62</sup> For purposes of audit it might be desirable to state precisely what funds are spent in pursuit of what objective, but in some areas this is not realistic. This is one such area. **Transparency and accountability are important, not least because they can lead to improved performance, but the organisation of efforts to tackle HIV/AIDS and sexual and reproductive health must be driven by realities on the ground rather than by a desire for a clear audit trail. Targets, transparency and accountability matter; results matter more.**

44. A second point raised by the NAO report concerns the extent to which DFID’s 2001 HIV/AIDS strategy actually informs the work of country offices. Suma Chakrabarti acknowledged that the strategy had perhaps not been closely followed by country offices,

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59 International Development Committee, Sixth report of Session 2003-04, *Migration and Development: How to make migration work for poverty reduction*, HC 79-I, paras 151-155.  
<http://www.publications.parliament.uk/pa/cm200304/cmselect/cmintdev/79/79.pdf>

60 In the same vein, Tearfund have expressed their concern that the UK Government and DFID do not—despite the commitment made in the 1997 White Paper to make disaster preparedness and prevention an integral part of its development co-operation programme—give a high enough priority to reducing disaster risks. This point is given additional weight by the Report by the National Audit Office report on *Department for International Development, Responding to humanitarian emergencies*, HC 1227, Session 2002-03—available at [http://www.nao.org.uk/publications/nao\\_reports/02-03/02031227.pdf](http://www.nao.org.uk/publications/nao_reports/02-03/02031227.pdf)

61 Q 79 [Suma Chakrabarti, DFID]; National Audit Office, *Department for International Development: Responding to HIV/AIDS* HC 664 Session 2003-04. Available at [http://www.nao.org.uk/publications/nao\\_reports/03-04/0304664.pdf](http://www.nao.org.uk/publications/nao_reports/03-04/0304664.pdf)

62 Q 80 [Mark Lowcock, DFID]

but that a new strategy, to be published in July 2004, would address this issue as well as seeking to get the balance right between prevention and treatment.<sup>63</sup>

45. A third issue raised by the NAO concerns DFID's work on HIV/AIDS with both the USA, and with multilaterals including the Global Fund. There are real concerns here, with the USA adopting an ABC approach to tackling HIV/AIDS—Abstinence, Being faithful, and, in the last resort, using Condoms—and both the USA and the Global Fund providing huge injections of resources which risk swamping existing in-country programmes. DFID sought to reassure us. We were told that the work of DFID's country teams is informing the work of the Global Fund, and that following some early problems the Fund is now operating better and moving in the right direction.<sup>64</sup> As regards the USA, country teams are working well together on the ground, finding practical ways to collaborate and coordinate their efforts despite the different approaches to tackling HIV/AIDS.<sup>65</sup> **It would be better if the USA's Emergency Plan on HIV/AIDS did not create rigidities and obstacles to be worked around at country-level, but given that it does, we were pleased to hear that at country-level, a pragmatic response is beginning to produce results.**

46. There are of course other issues around HIV/AIDS which were not the focus of the NAO report. One concerns DFID's approach to tackling the epidemic in middle-income countries. There is a potential problem here; HIV/AIDS is a growing problem in many middle-income countries<sup>66</sup>, but DFID is committed to spending no more than 10 per cent of its bilateral funds in such countries. DFID acknowledges this dilemma but suggests that in many MICs what is needed is not a transfer of resources, but support for innovative ideas.<sup>67</sup> In South Africa, and in southern Africa more widely, DFID is supporting valuable education and awareness-raising projects such as the TV programme Soul City. In Russia, DFID has encouraged the government to adopt a government-wide approach to HIV/AIDS, as well as supporting south-south cooperation for instance between Russia and Brazil to encourage the sharing of best practice. And DFID supports MICs' efforts to tackle HIV/AIDS through its contribution to the multilateral agencies.<sup>68</sup>

47. Expenditure by the department on Sexual and Reproductive Health and Rights (SRHR) programmes including HIV/AIDS was £270 million in the year 2003–04.<sup>69</sup> In their memorandum Marie Stopes International criticised the increasing focus on HIV/AIDS rather than broad SRHR programming on the basis that this will result in an emphasis on treatment to the exclusion of prevention which is best addressed as part of a broader SRHR strategy. As girls between the ages of 15 and 24 represent the largest group currently at risk of infection, both Marie Stopes International and Interact favour the promotion of condoms as preventing both infection and unwanted pregnancy.<sup>70</sup> The Departmental

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63 Department for International Development, *Taking Action: The UK's strategy for tackling HIV and AIDS in the developing world*, July 2004. Available at <http://www.dfid.gov.uk/pubs/files/hivaidstakingaction.pdf>

64 Q 82 [Suma Chakrabarti, DFID]

65 Q 82 [Masood Ahmed, DFID]

66 Department for International Development *Departmental Report 2004*, Cm 6214, paragraph 4.8—see footnote 3 for web-site; *UK's Call for Action on HIV/AIDS*, paragraph 14. Available at <http://www.ukun.org/callforact.pdf>

67 Q 78 [Suma Chakrabarti, DFID]

68 Q 78 [Nicola Brewer, DFID]

69 Department for International Development *Departmental Report 2004*, Cm 6214, paragraph 6.27—see footnote 3.

70 Ev 70

Report mentions technical assistance to provide access to a range of contraceptive methods, however is not clear if such technical assistance also covers the much needed capacity building to improve the logistics of providing SRH supplies, particularly condoms, as well as the forecasting and estimation of needs in these supplies. In addition, the report does not specify if technical assistance includes local production and strengthening of local manufacture of high quality commodities.

48. DFID acknowledged that the Departmental Report probably could be more explicit and direct, and say more about what progress is being made with ensuring the security of the sexual and reproductive health commodity supply chain to countries.<sup>71</sup> There are, as we were told, three ways in which DFID works towards this end. First, through the bilateral provision of commodities, including 490 million condoms. Second, by trying to ensure that condoms and other sexual and reproductive health commodities are prioritised by governments in developing countries. And third, by working with multilaterals such as the United Nations Population Fund (UNFPA) and the Global Fund, particularly given the lack of support for aspects of these agencies' work by the USA.<sup>72</sup>

49. As Masood Ahmed explained, **DFID's work on HIV/AIDS and on sexual and reproductive health is about introducing the linkages between sexual and reproductive health and HIV/AIDS on the one hand, but also recognising that there is a distinct agenda on sexual and reproductive health which is not subsumed within the HIV/AIDS agenda. There are two connected but separate agendas. We support, and encourage DFID to maintain this approach,**<sup>73</sup> an approach which is spelt out further in DFID's recent position paper on sexual and reproductive health.<sup>74</sup>

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71 Q 83 [Masood Ahmed, DFID]

72 *Ibid.*

73 *Ibid.*

74 Department for International Development, *Sexual and reproductive health and rights—A position paper*, July 2004. Available at <http://www.dfid.gov.uk/pubs/files/sexualreprohealthrights.pdf>

## 4 How? Poverty Reduction Budget Support

### What is Poverty Reduction Budget Support?

50. Donors provide aid to developing countries in many forms including small-scale projects, large-scale programmes, technical assistance and Direct Budget Support (DBS). DBS injects financial resources into a government's budget. Poverty Reduction Budget Support (PRBS) refers to funds provided to a Government's Budget, to support its efforts to reduce poverty. PRBS has the potential to provide predictable funding which—by providing funds which can be spent according to locally-determined priorities, rather than supporting specific projects and programmes—can strengthen local ownership and government accountability while reducing transaction costs. The expected benefits are not automatic however, and may only come about in the medium or longer term. And, PRBS is not without risks. Donors face fiduciary risk, that funds may not be spent as intended, and, if aid flows prove to be volatile, recipients face the risk of economic destabilisation.<sup>75</sup>

51. In contrast to other ways of providing aid, PRBS requires that the developing country take responsibility for ensuring that the funds provided are managed well. The donor surrenders control over the money, in the expectation that PRBS will lead to improvements in the partner government's budgeting and financial management systems, and that local control and ownership of the financing of poverty reduction strategies will make them more successful, in part by strengthening accountability.

52. Donors' approaches to the provision of aid change over time as the development community's understanding of how development works, and of how aid can best foster development, changes. Donors' approaches to the provision of aid also vary depending on the developing country in question; in the case of PRBS, some countries will be equipped to make good use of such assistance, whilst others will not. The question for donors such as DFID is whether they are making the right decisions about whether or not to provide a country with PRBS. Or, to put it differently, is PRBS leading to the benefits expected? Whilst the theory of PRBS might be sound, the answer to this question must—as DFID clearly recognises—be evidence-based.

### DFID's cautious enthusiasm for Poverty Reduction Budget Support

53. In recent years, DFID—whilst emphasising the care it takes when deciding whether to provide a country with aid in the form of PRBS<sup>76</sup>—has moved in the direction of providing more of its aid in the form of PRBS.<sup>77</sup> The Departmental Report notes that “over the past three years, up to 2002/03, budget support and other forms of programme aid have accounted for about 15 per cent of DFID's bilateral aid programme—approximately £15 million a year on average”.<sup>78</sup> It also notes that budget support currently accounts for

75 DFID, *Poverty Reduction Budget Support: A DFID policy paper*, 2004. See <http://www2.dfid.gov.uk/pubs/files/prbspaper.pdf>

76 Ev 35

77 Her Majesty's Government (HMG), White Paper on International Development, *Eliminating World Poverty: Making globalisation work for the poor*, 2000, paragraph 287—see <http://www.dfid.gov.uk/pubs/files/whitepaper2000.pdf>

78 Department for International Development, *Departmental Report 2004*, Cm 6214, paragraph 6.7—see footnote 3 for web-site.

around half of DFID funding to Ethiopia, Ghana, Malawi, Mozambique, Rwanda, Sierra Leone, Tanzania and Uganda and that by 2005/06, DFID aim to raise this to two-thirds of funding provided. So, in selected countries, PRBS will be extremely important. As a Committee we are supportive of the careful use of PRBS, but—as our repeated investigations into the issue attest—remain keen to ensure that DFID keeps a close eye on how this way of delivering aid is working in practice.<sup>79</sup>

54. Despite the significant sums of money involved, detailed figures on PRBS are not provided in the Departmental Report, making it difficult for the reader to assess the potential risks the Department may be taking and how these could be best addressed. In our report on DFID's Departmental Report for 2002, we noted that: “we would like to see more information on the use of budgetary support contained within the annual Departmental Report and suggest that next year's Departmental Report provides a breakdown in the bilateral allocations between money given through direct budget support and allocations for programmes and projects.”<sup>80</sup> DFID has provided us with helpful data on the planned provision of PRBS over the next two years, but this is in aggregate form, for “Africa”, “Asia” and the “Rest of the World”.<sup>81</sup> Given the increasing importance of PRBS, and the risks associated with it, we continue to believe that such information would be worth including in subsequent reports. **In future Departmental Reports, DFID should provide a list of the countries receiving PRBS, the amounts of aid they receive and the proportion received as PRBS, and the levels of commitment for future years.**

### Poverty Reduction Budget Support and the problem of fiduciary risk

55. When development funds are given through PRBS, DFID faces the risk that such money may not be properly accounted for by the recipient country; may not be used for its intended purpose; and may not represent value for money. This is referred to as fiduciary risk. Fiduciary risk may occur for a variety of reasons, as a result of deliberate decisions on the part of the government or by default, as a result of expenditure management systems which are too weak for adequate control and monitoring to take place. The Department is conscious of the issue of fiduciary risk but examples have been reported of cases where risk considerations have been overridden by a headquarters-driven desire to move towards PRBS as quickly as possible.

56. Ghana provides a case in point where, at least in the view of some commentators, DFID has decided to provide more aid in the form of PRBS despite the fact that the government's systems for managing public expenditure are not very well developed. DFID has been supporting Ghana's efforts to improve its systems, but such efforts have had little success in part because they have been undermined by the much larger problem of the poor pay and conditions of civil servants and their resulting generally low quality and morale. Successive governments have been reluctant to address this systemic problem. Budgetary monitoring and control systems are very weak and there is some evidence of alarming “leakages” of

79 International Development Committee, Sixth report of Session 2001-02, *Department for International Development Departmental Report 2002*, HC 964, paragraphs 46-60—see footnote 4 for web-site; International Development Committee, Eighth report of Session 2002-03, *Department for International Development Departmental Report 2003*, HC 825, paragraphs 29-33—see footnote 4 for web-site.

80 International Development Committee, Sixth report of Session 2001-02, *Department for International Development Departmental Report 2002*, HC 964, paragraph 58—see footnote 4 for web-site.

funds intended for schools and clinics. Nevertheless, DFID has been moving towards PRBS and urging the same on other donors. DFID's justification for its shift to PRBS in Ghana is that Ghana is heading in the right direction, improving its public expenditure management.<sup>82</sup> DFID is rightly keen on rewarding countries for heading in the right direction. Nevertheless, a country's existing systems for managing public expenditure, as well as the progress being made towards having effective systems, must be part of any assessment of a country's suitability for PRBS.

57. Fiduciary risk is an inevitable component of PRBS which must be balanced against the potential developmental benefits. When deciding on the appropriateness of PRBS, DFID must be able to identify the risks arising from a country's public financial management and accountability systems and practices, decide whether the level of risk is appropriate and be able to effectively monitor and mitigate the risks. **While we understand the Department's enthusiasm for PRBS, it must be applied using appropriate risk considerations to determine whether it is the most suitable way of delivering aid, and whether the potential development benefits outweigh the risks that are being taken. Most importantly, future decisions about PRBS must be based on evidence of whether or not PRBS has produced the developmental benefits expected of it. Any future roll-out of PRBS must be evidence-based.**

### Donor harmonisation, volatility and DFID's skills-mix

58. The shift to PRBS raises a range of other issues which donors must pay attention to: the need for donors to harmonise their aid efforts; the risk of heightened volatility of aid flows; and, the need for DFID to ensure that its country offices have the appropriate skills-mix.

59. Movement towards greater use of PRBS is intended both to increase donor influence on a government's policies and to reduce the government's transaction costs in accessing aid. If PRBS is to deliver the benefits which donors such as DFID expect, further progress on the agenda of donor harmonisation is vital. That is, if different donors provide their aid in different ways, and impose different reporting requirements, then recipient countries will find themselves spending too much time and too many resources on reporting rather than doing. **We would welcome further information from DFID about how the donor harmonisation agenda is progressing, at the OECD level, and on the ground in particular countries.**

60. Variable and unpredictable flows of aid can create problems for recipient countries, making fiscal planning impossible. Given the potentially large size of PRBS flows—and the fact that PRBS might be withdrawn if certain policy conditions are not met and maintained—such volatility could result in serious macroeconomic and fiscal destabilisation. A further shift to PRBS could increase the volatility and unpredictability of aid flows, making planning and budgeting more difficult for developing countries. **We welcome the fact that DFID is paying close attention to the risk that PRBS might lead to more volatile and unpredictable aid flows.**

61. The use of PRBS as a means of providing aid demands certain skills and experience of DFID staff. In previous years, the Department has explained to us that whilst a shift to this

mode of aid delivery does entail a shift in its skills mix towards people with audit skills, staff with policy-dialogue skills are also necessary. Suma Chakrabarti told the Committee that while professional knowledge, for example health and economic specialisms, was one of DFID's traditional strengths, new skills were needed to be able to influence governments at the macro level. He told us, "that requires training, it requires a different mindset sometimes within our own staff and, of course, learning on the job as well."<sup>83</sup> **New skills are needed to support the increased use of PRBS. The Department must ensure that it has staff with the necessary skills and experience to support the shift towards PRBS.**

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

## 5 With what results? Monitoring the impact of UK aid

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### Targets, progress, corrective action and attribution

63. DFID's Public Service Agreement, the latest for 2005–08, sets clear objectives to be met, based on the internationally agreed Millennium Development Goals (MDGs).<sup>84</sup> Progress against the MDGs has been patchy. Some targets may be reached in aggregate, thanks to progress in India and China, but missed in most countries, especially in Africa. While some targets are on course to be achieved, progress against others has been slow, requiring concerted action if they are to have any chance of being met by 2015.<sup>85</sup>

64. The Departmental Report for 2004 provides information on the progress against the targets set out in DFID's 2003–2006 Public Service Agreement. While the Department is on course to meet several important targets, including reducing the number of people living in poverty in South Asia, achieving a tuberculosis cure treatment rate greater than 85 per cent in Asia, and increasing the proportion of DFID's bilateral programme which goes to low-income countries, progress has slipped in some key areas and is judged "too early to say" in others. The Departmental Report identifies areas where considerable progress is needed but does not provide adequate information on how underperformance is being addressed. This makes it difficult to assess whether the right steps are being taken to improve performance and whether the lack of progress can be reversed.

65. Maternal mortality is one area where significant progress is needed for the target to be met. Progress in the 16 key countries in Africa has slipped and patchy data for the target in Asia make it difficult to assess any improvements. While the Department acknowledges that "considerable progress is still needed in all PSA countries",<sup>86</sup> further information on the steps DFID could take to increase the likelihood of meeting the target are not detailed. This makes it difficult for the Committee to assess whether an improvement is likely to be made. Lack of progress against the target in Africa is attributed to the poor functioning of health systems and the lack of appropriately skilled staff. While these issues are not wholly within DFID's control, they will be central to the achievement of several of DFID's targets. It would, therefore, be helpful to have details on how the situation can be addressed.

66. DFID's target to reduce under-five mortality rates for girls and boys in the 16 key countries in Africa has slipped and is now at approximately the same level it was in 1990. While we appreciate the caveat that these figures need to be interpreted within the context of HIV/AIDS, the lack of progress is worrying. The Department acknowledges that "a step-change will be needed if the target is to be met" but again, few details are provided on what such a step change may entail. In written correspondence with the Department, the Committee enquired whether the Department has an early warning system to identify cases where progress towards targets is slipping. We were told that "twice-yearly

84 For further information about DFID's Public Service Agreement see <http://www.dfid.gov.uk/pubs/files/psa/index.asp>; for further information on the Millennium Development Goals see <http://www.developmentgoals.com>

85 Information about progress towards meeting the MDGs is available at <http://www.undp.org/mdg/>

86 Department for International Development, *Departmental Report 2004*, Cm 6214, page 186—see footnote 3 for web-site.

performance assessments using international data sources, divisional-level reporting and in-country programme monitoring together form an effective early-warning system for identifying actual or potential slippage against Public Service Agreement Targets 1 and 2”.<sup>87</sup> While it is encouraging that an early-warning system exists, it is not clear how this is translated into actions designed to address a lack of, or slippage in, progress. **Where DFID is failing to meet its PSA targets, or where future slippage is anticipated, the Departmental Report should specify what actions are being taken—by DFID, and by others—to attempt to get progress back on track.**

67. DFID's ability to make progress towards the MDGs is often limited by circumstances that are outside of its control. For example, the target for “improved effectiveness of the UK contribution to conflict prevention and management as demonstrated by a reduction in the number of people whose lives are affected by violent conflict and a reduction in potential sources of future conflict where the UK can make a significant contribution”,<sup>88</sup> will be affected by a wide range of factors that are not within DFID's remit. There is no easy answer to this problem of attribution, but as we and others have previously noted, this raises the question about the nature of DFID's targets and whether they should refer to outcomes over which DFID has more control.<sup>89</sup> At the very least, DFID must ensure that every effort is made to be clear about what DFID has done, and what outcomes DFID's work has led to.

## Data and performance management

68. Patchy data, in terms of both quantity and quality, hampers the measurement of progress against several targets. For example, the target to reduce the prevalence rates of HIV infection in vulnerable groups in Asia below 5 per cent cannot be assessed because “there are currently no reliable data on national rates for vulnerable groups in the PSA countries to adequately assess progress towards this target”.<sup>90</sup> Progress against other targets is having to be reassessed in the light of improvements in data. The target to achieve “an increase in gross primary school enrolment from 95 per cent to 100 per cent” in Asia slipped from being “on course” in the 2003 Autumn Performance Report to being “too early to say” in the Departmental Report 2004. The Department told us that “improvements in the quality of data have required a re-evaluation of progress towards this target”.<sup>91</sup> There is a risk that poor data and the inability to measure performance could invalidate some targets. DFID acknowledges the difficulties this causes for the setting and monitoring of targets but does not believe that this invalidates the targets themselves.<sup>92</sup> The Department believes that “despite the problems, we should be able to detect whether we are

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87 Ev 26

88 Department for International Development, *Departmental Report 2004*, Cm 6214, page 184—see footnote 3 for web-site.

89 International Development Committee, Sixth report of Session 2001-02, *Department for International Development Departmental Report 2002*, HC 964, see footnote 4 for web-site; National Audit Office, *Department for International Development: Performance Management—helping to reduce poverty*, HC 739. Available at [http://www.nao.org.uk/publications/nao\\_reports/01-02/0102739.pdf](http://www.nao.org.uk/publications/nao_reports/01-02/0102739.pdf)

90 Department for International Development, *Departmental Report 2004*, Cm 6214, page 186—see footnote 3 for web-site.

91 Ev 28

92 *Ibid.*

achieving the large-scale shifts in the various measures of poverty required to achieve the 2015 goals".<sup>93</sup>

69. DFID has worked with a range of international bodies, including the UN, International Financial Institutions and the OECD, to improve international statistics and support the development of statistics worldwide. It has also worked bilaterally with a number of developing and transition governments to support the development of statistical systems. **We appreciate the difficulties involved in developing country data and welcome DFID's work to improve statistics in this area. This work is very important and must remain a focus of DFID's attention. Reliable data is essential if realistic and meaningful targets are going to be set and progress is to be monitored.**

70. The Departmental Report uses a "traffic light" system to assess the progress made against individual targets. A green mark indicates that the Department is on course to meet the target; amber indicates that progress can't be judged; and red signifies slippage in progress towards a target. A grey mark is used for targets where progress cannot be measured due to unavailable data. This provides a useful visual assessment of DFID's performance, but it can be difficult to judge whether DFID's assessment is right. Little information is provided about the data which inform such assessments, or about whether such assessments are externally-validated.

71. For example, the target to increase the ratio of girls to boys enrolled in primary school in 4 key countries in Asia has an amber mark, indicating that the Department cannot make a judgement on progress either because performance has not changed in either direction or because progress may have been made in some countries and not others. However, the likely, or anticipated, progress against the target is judged as being "on course". It is not clear from the commentary accompanying the target, how this conclusion has been reached. **While we welcome the use of the traffic light system, its usefulness could be improved by providing more information on how progress, particularly likely or anticipated, has been assessed. More information should also be provided on the action DFID is taking to address targets where progress has slipped, along with an indication of how long it might take to get progress back on track.**



## 6 Learning to be more effective

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72. The MDGs will not be met unless there is more international aid, and it is used more effectively. The recipients of aid need to do better in terms of pursuing sound strategies for poverty reduction, and the donors of aid—including DFID—need to improve their performance too. The way to improve future performance is to learn from past performance, both successes and failures, in order to better understand how aid can be most effective. Learning, and the institutional innovations which such learning can foster, is best achieved when development actors are held accountable for their actions. Transparency, about what actions have been taken, and what results they have led to, is the foundation for accountability. DFID's Departmental Report for 2004 plays an important role in making DFID accountable, and, we trust, in helping the Department to reflect on its performance and improve.

73. In this report, we have highlighted several areas where DFID could do better, and where DFID could—by providing more and better information—make itself more accountable. More information should be provided about the poverty focus of the multilateral agencies through which much of UK aid is channelled (see paragraphs 14–18). Clarity as regards the UK development effort in Iraq, and its results, could be improved (see paragraphs 24–25). DFID could and should, in defending its role as a department focussed on poverty reduction and ensuring that its funds are used for this purpose, make the case as to how its various activities contribute to poverty reduction (see paragraphs 38–41). DFID should also ensure that its enthusiasm for Poverty Reduction Budget Support is informed by clear evidence about its effectiveness or otherwise, and that this evidence is made available to stakeholders (see paragraphs 50–62). And, DFID could improve its useful “traffic light” system of showing progress on its PSA targets, by explaining what will be done in cases where there is little progress (see paragraphs 63–71).

74. In addition to these issues, there are other areas of concern. The Departmental Report shows that net administration costs have increased by 120 per cent on 2002–03.<sup>94</sup> DFID notes that this is largely explained by the adoption of a new definition of administration costs.<sup>95</sup> Regrettably, the Departmental Report does not tell the reader how much of this increase is a result of this change in definition, making it impossible for the reader to assess how DFID is doing in terms of keeping its administration costs down. Suma Chakrabarti told us that perhaps 14 per cent of the increase is a real increase rather than a result of re-labelling.<sup>96</sup> This is somewhat reassuring, but there remains a point about transparency; **the information provided in the Departmental Report for 2004 on administration costs is of little or no use to the reader. Subsequent Departmental Reports must present such information more transparently.**

75. Two other issues are, first, the reorganisation of DFID's policy division, and second, progress being made with the mainstreaming of gender into the Department's work. We do not wish to trawl through DFID's experiences with reorganising its policy division here,

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94 Department for International Development, *Departmental Report 2004*, Cm6214, Annex 1, table 6—see footnote 3 for web-site.

95 *Ibid.*

96 Q 85 [Suma Chakrabarti]

but do hope that the lessons of what by all accounts was a rather messy process of organisational development have been learned.<sup>97</sup> As regards DFID's approach to gender, concerns have been raised that DFID's twin-track strategy of mainstreaming gender, and also engaging in work which focuses on the needs of women and girls, does not translate well from theory to practice, with "mainstreaming" actually resulting in marginalisation.<sup>98</sup> Whilst emphasising that there is a wide range of initiatives at all levels of the organisation, and many examples of innovative and effective work on gender, DFID acknowledges that more work is needed to ensure that the momentum on gender mainstreaming is maintained across the board. DFID is in the process of developing a new strategy on gender; we look forward to its publication and its translation into effective practice on the ground.<sup>99</sup>

76. Despite patchy progress towards meeting the MDGs, DFID's Permanent Secretary agreed that the appropriate response to this is to try harder, rather than to move the goalposts and allow the MDGs to become aspirations.<sup>100</sup> The international community must work harder to meet the MDGs, with Governments such as ours responding to, and amplifying, the political will to get things done. And, as well as working harder, and providing more development assistance, DFID, along with other players in the emerging global partnership for development, must work better and smarter. We hope that this report will contribute in some small way to improving the UK's aid effort and speeding progress towards the MDGs.

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97 Q 75 [Suma Chakrabarti]

98 Ev 72

99 Ev 44

100 Q 1 [Suma Chakrabarti]

# Conclusions and recommendations

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## How much? The volume of UK aid

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

## Where to and why? Poverty, politics and aid

### *The poverty focus of aid and the multilaterals*

2. There is no room for complacency—European aid remains insufficiently poverty-focussed—but the Commission deserves credit for the improvements which have been made to the disbursement of EDF funds, as does the UK Government and others who have pushed the Commission to do better. (Paragraph 16)
3. Progress has been made with making EU development policy more poverty-focussed, but, particularly in terms of spending, much more needs to be done. The UK Government has to strike a difficult balance in its relations with the EU, just as in its relations with developing countries. Financial support can, through policy dialogue, encourage reform. But in the absence of reform, financial support is money wasted. We will be keeping a close eye on the poverty focus of EC aid, and the UK's contribution to the EU's aid effort. (Paragraph 17)
4. If stakeholders, including Parliament, are to be able to assess whether sensible decisions are being made about channelling aid through multilaterals, then the Departmental Report must show clearly the poverty focus of the multilaterals through which UK aid is channelled. The Departmental Report for 2004 fails to do this; such a lack of transparency unhelpfully limits DFID's accountability. (Paragraph 18)

### *Iraq: Aid diversion, spending and achievements*

5. In order to demonstrate that UK development funds are being spent wisely and are leading to desirable development outcomes in Iraq, DFID must—either in its Departmental Report, or by indicating where such information can be found—make

as clear as possible how much of its money is being spent on what, and with what effect. (Paragraph 25)

#### ***Iraq and Afghanistan: The security/development nexus***

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

#### ***Zimbabwe and Sudan: Responding to humanitarian needs and resolving conflict***

7. We would appreciate further explanation of the changes made to the way that DFID allocates funds for humanitarian emergencies, and would like to be kept informed as to its impact. (Paragraph 28)
8. The UK and other donors face a dilemma. Providing humanitarian assistance to countries such as Zimbabwe may serve to prop-up the regimes whose own policies are causing the humanitarian crisis. In this case we believe that the UK is right to provide humanitarian assistance to prevent more deaths. (Paragraph 30)

#### ***DFID, poverty reduction and politics***

9. We applaud DFID for its efforts to develop a co-ordinated and poverty-focussed international approach to meeting the MDGs in MICs. (Paragraph 37)
10. Those with a commitment to international development and poverty reduction—including ourselves, and DFID—should remain vigilant to ensure that DFID's funds are spent on things which will contribute to poverty reduction, and, in cases where there is disagreement, should encourage a wider open debate. (Paragraph 39)
11. The Permanent Secretary was, in giving evidence to us, right to defend DFID's role as an agency focussed on poverty-reduction. But DFID's role and relative autonomy is proscribed in part by the Government of which it is part. Operating as part of the Government which determines its role, DFID needs to strike a careful balance between protecting its autonomy as a poverty-reduction agency, and promoting development issues and policy coherence for development across Government. (Paragraph 41)

#### ***HIV/AIDS and sexual and reproductive health***

12. Transparency and accountability are important, not least because they can lead to improved performance, but the organisation of efforts to tackle HIV/AIDS and

sexual and reproductive health must be driven by realities on the ground rather than by a desire for a clear audit trail. Targets, transparency and accountability matter; results matter more. (Paragraph 43)

13. It would be better if the USA's Emergency Plan on HIV/AIDS did not create rigidities and obstacles to be worked around at country-level, but given that it does, we were pleased to hear that at country-level, a pragmatic response is beginning to produce results. (Paragraph 45)
14. DFID's work on HIV/AIDS and on sexual and reproductive health is about introducing the linkages between sexual and reproductive health and HIV/AIDS on the one hand, but also recognising that there is a distinct agenda on sexual and reproductive health which is not subsumed within the HIV/AIDS agenda. There are two connected but separate agendas. We support and encourage DFID to maintain this approach, (Paragraph 49)

### How? Poverty Reduction Budget Support

15. In future Departmental Reports, DFID should provide a list of the countries receiving PRBS, the amounts of aid they receive and the proportion received as PRBS, and the levels of commitment for future years. (Paragraph 54)
16. While we understand the Department's enthusiasm for PRBS, it must be applied using appropriate risk considerations to determine whether it is the most suitable way of delivering aid, and whether the potential development benefits outweigh the risks that are being taken. Most importantly, future decisions about PRBS must be based on evidence of whether or not PRBS has produced the developmental benefits expected of it. Any future roll-out of PRBS must be evidence-based. (Paragraph 57)
17. We would welcome further information from DFID about how the donor harmonisation agenda is progressing, at the OECD level, and on the ground in particular countries. (Paragraph 59)
18. We welcome the fact that DFID is paying close attention to the risk that PRBS might lead to more volatile and unpredictable aid flows. (Paragraph 60)
19. New skills are needed to support the increased use of PRBS. The Department must ensure that it has staff with the necessary skills and experience to support the shift towards PRBS. (Paragraph 61)
20. We hope that a shift to PRBS will enhance the effectiveness of DFID's aid to developing countries, and we broadly support DFID's policy in this area. We are concerned however, first to ensure that the effectiveness of PRBS is assessed and such assessments inform policy, second to ensure that DFID and its partner governments are supporting the complementary measures which are needed alongside PRBS, and third to ensure that DFID is paying close attention to the implications and risks of increased use of PRBS. (Paragraph 62)

### **With what results? Monitoring the impact of UK aid**

21. Where DFID is failing to meet its PSA targets, or where future slippage is anticipated, the Departmental Report should specify what actions are being taken—by DFID, and by others—to attempt to get progress back on track. (Paragraph 66)
22. We appreciate the difficulties involved in developing country data and welcome DFID's work to improve statistics in this area. This work is very important and must remain a focus of DFID's attention. Reliable data is essential if realistic and meaningful targets are going to be set and progress is to be monitored. (Paragraph 69)
23. While we welcome the use of the traffic light system, its usefulness could be improved by providing more information on how progress, particularly likely or anticipated, has been assessed. More information should also be provided on the action DFID is taking to address targets where progress has slipped, along with an indication of how long it might take to get progress back on track. (Paragraph 71)

### **Conclusions: Learning to be more effective**

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

## List of acronyms

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DBS	Direct Budget Support
DFID	Department for International Development
EDF	European Development Fund
HIPC	Heavily Indebted Poor Countries (debt relief initiative)
IDA	International Development Association
IFF	International Finance Facility
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MICs	Middle Income Countries
NAO	National Audit Office
OECD	Organisation for Economic Co-operation and Development
PRBS	Poverty Reduction Budget Support
PRSP	Poverty Reduction Strategy Paper
PSA	Public Service Agreement
SRH	Sexual and Reproductive Health
SRHR	Sexual and Reproductive Health and Rights

# Formal minutes

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**Tuesday 16 November 2004**

Members present:

Tony Baldry, in the Chair

John Barrett  
Mr John Battle  
Mr John Bercow

Mr Tony Colman  
Mr Quentin Davies  
Tony Worthington

The Committee deliberated.

Draft Report, (DFID's Departmental Report 2004), proposed by the Chairman, brought up and read.

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

Paragraphs entitled 'Summary' read and postponed

Paragraphs 1 to 76 read and agreed to.

Postponed paragraphs entitled 'Summary' read again and agreed to.

*Resolved*, That the Report be the Eighth Report of the Committee to the House.

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

*Ordered*, That the provisions of Standing Order 134 (Select committees (reports)) be applied to the report.

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

Several papers were ordered to be reported to the House.

[Adjourned till Monday 29 November at 2.15pm]

## Witnesses

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**Tuesday 22 June 2004**

Page

**Mr Suma Chakrabarti**, Permanent Secretary, **Mr Masood Ahmed**, Director General-Policy and International, **Mr Mark Lowcock**, Director General-Corporate Performance and Knowledge Sharing and **Dr Nicola Brewer CMG**, Director General-Regional Programmes, Department for International Development (DFID)

Ev 1

## List of written evidence

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1	Department for International Development	Ev 23; Ev 24; Ev 25; Ev 26; Ev 32; Ev 56
2	Small International NGOs Group	Ev 49; Ev 61; Ev 62
3	Christian Aid	Ev 68
4	Marie Stopes International and Interact Worldwide	Ev 70
5	One World Action	Ev 72

## List of unprinted written evidence

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Additional papers have been received from the following and have been reported to the House but to save printing costs they have not been printed and copies have been placed in the House of Commons Library where they may be inspected by Members. Other copies are in the Record Office, House of Lords and are available to the public for inspection. Requests for inspection should be addressed to the Record Office, House of Lords, London SW1 (Tel 020 7219 3074). Hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

Annexes to memoranda submitted by the Department for International Development:

Table showing the structure of the Policy Division from 17 May 2004

Achievements noted by the PD Evaluation

Consultation on Country Assistance Plan of DFID (India)—Report of Consultation with Civil Society and Elected Representatives from Institutions of Local Self Governance, 23<sup>rd</sup> June 2003 at SSK, Lucknow

Background paper submitted by the Department for International Development:

The Evaluation Trust Report, *Process of the Reorganisation of DFID Policy Division*, December 2003

Background paper submitted by Interact Worldwide: *Report on the Department for International Development's Policy and Support for Reproductive Health Supplies*, June 2004

# Reports from the International Development Committee since 2001

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

## Session 2003-04

First Report	Trade and Development at the WTO: Learning the lessons of Cancún to revive a genuine development round	HC 92-I and II (HC 452)
Second Report	Development Assistance and the Occupied Palestinian Territories	HC 230-I and II (HC 487)
Third Report	International Development Committee: Annual Report 2003	HC 312
Fourth Report	Kenya: DFID's Country Assistance Plan 2004-07 and Progress Towards the Millennium Development Goals	HC 494 (HC 857)
Fifth Report (First Joint Report)	Strategic Export Controls Annual Report for 2002, Licensing Policy and Parliamentary Scrutiny	HC 390-I and II (Cm 6359)
Sixth Report	Migration and Development: How to make migration work for poverty reduction	HC 79-I and II
Seventh Report	DFID's Agriculture Policy	HC 602 (HC 1273)

## Session 2002-03

First Report	Afghanistan: the transition from humanitarian relief to reconstruction and development assistance	HC 84 (HC 621)
Second Report	International Development Committee: Annual Report 2002	HC 331
Third Report	The humanitarian crisis in southern Africa	HC 116-I and -II (HC 690)
Fourth Report	Preparing for the humanitarian consequences of possible military action against Iraq	HC 444-I and -II (HC 561)
Fifth Report (First Joint Report)	The Government's proposals for secondary legislation under the Export Control Act	HC 620 (Cm 5988)
Sixth Report (Second Joint Report)	Strategic Export Controls Annual Report for 2001, Licensing Policy and Parliamentary Scrutiny	HC 474 (Cm 5943)
Seventh Report	Trade and Development at the WTO: Issues for Cancún	HC 400-I and II (HC 1093)
Eighth Report	DFID Departmental Report 2003	HC 825 (HC 231, Session 2003-04)

## Session 2001-02

First Report	The humanitarian crisis in Afghanistan and the Surrounding Region	HC 300-I and -II (HC 633)
Second Report	The Effectiveness of the Reforms of European Development Assistance	HC 417-I and -II (HC 1027)

Third Report	Global Climate Change and Sustainable Development	HC 519-I and -II (HC 1270)
Fourth Report (First Joint Report)	Strategic Export Controls: Annual Report for 2000, Licensing Policy and Prior Parliamentary Scrutiny	HC 718 (CM 5629)
Fifth Report	Financing for Development: Finding the Money to Eliminate World Poverty	HC 785-I and -II (HC 1269)
Sixth Report	DFID: Departmental Report 2002	HC 964 (HC 357, Session 2002-03)



# Oral evidence

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## Taken before the International Development Committee

on Tuesday 22 June 2004

Members present:

Tony Baldry, in the Chair

Hugh Bayley  
Ann Clwyd  
Mr Tony Colman

Mr Quentin Davies  
Mr Andrew Robathan  
Tony Worthington

*Witnesses: Mr Suma Chakrabarti*, Permanent Secretary, *Mr Masood Ahmed*, Director General—Policy and International, *Mr Mark Lowcock*, Director General—Corporate Performance and Knowledge Sharing, and *Dr Nicola Brewer CMG*, Director General—Regional Programmes, Department for International Development (DFID), examined.

**Q1 Chairman:** Permanent Secretary, I understand that you wanted to say something so, please, go ahead.

**Mr Chakrabarti:** I will try and be very brief. I will just introduce my colleagues, on my right is Mark Lowcock, Director General, Corporate Performance and Knowledge Sharing, who I think is well known to the Committee. On my immediate left is Nicola Brewer, Director General, Regional Programmes and Masood Ahmed on my far left, Director General, Policy and International. Just a brief word really to explain why we have turned up mob-handed, as it might appear. You have got in front of you the four most senior officials from DFID, we comprise the executive members of the Management Board. We are here really for two reasons as a group. One is to improve the accountability, frankly, to Parliament through this Committee for our Public Service Agreement, and also I think to have a deeper dialogue than we have managed perhaps in previous years around the programmes. On the accountability point, Ministers and the Management Board are jointly responsible for the Public Service Agreement, and this is the first year when we have written the Departmental Report<sup>1</sup> in a way that actually reflects the PSA as such, and so we thought it only right that since we are jointly responsible we should come forward together and share responsibility for that accountability to you. This is a first, as I understand it, in terms of a departmental management board appearing together in front of a Parliamentary Committee, which is why I wrote to you, Chairman; it may be of interest to other committees, in particular the Public Administration Select Committee and the Public Accounts Committee. On the question of deeper dialogue, I should be clear that I remain the accounting officer so, in a sense, any of the issues that anyone wishes to raise I will obviously make an attempt to answer, but what I want also to do is really get a richer dialogue going

with the Committee by allowing my colleagues to come up with examples from their own areas of responsibility and not pretend that the Permanent Secretary is omniscient in any way. Hopefully, that should lead to a better dialogue with the Committee. We might want to reflect afterwards whether this has worked for both parties.

**Q2 Chairman:** From our point of view I am sure DFID works as much as—perhaps more than—most departments in a collegiate kind of way because you have a large number of very specialist fields to which people have to contribute, so we are delighted to see the whole team here. It always does strike me as daft to see the Permanent Secretary up for a couple of hours batting solidly, because it gets him into defensive cricket rather than collaborative dialogue. I think the rules are fairly clear where the lines are and where you can say what the Minister might say, but we are not in the business of trying to trap you into saying things that Ministers are not wanting to say. You have obviously got copies of the report in front of you; when one looks at the report on page 11, I suspect that DFID probably has the most straightforward mission statement of any Whitehall department. You could chisel it on the wall: “DFID aims to eliminate poverty in poorer countries, in particular through achievement by 2015 of the Millennium Development Goals.” Then you say: “Our Public Service Agreement contains objectives and targets by which we measure our progress.” Then one goes to page 21, and there you have the objectives set out, and I just take one of those which is to reduce poverty in sub-Saharan Africa. I then go to page 25 which is headed “Poverty Reduction in Africa”. We all come to this meeting with a different brief, and when I was reading this I was thinking if I was Chief Secretary to the Treasury—who, to be honest, we see as the main enemy in life—how would I read this? Or if I was reading this with a view to briefing the Prime Minister, how would I read this? It struck me that the difficulty with having poverty reduction in Africa as a Public Service Agreement objective is that it is far too easy for officials to say—I am not being

<sup>1</sup> *DFID: Departmental Report 2004* (CM 6214), April 2004, available at <http://www.dfid.gov.uk>. This report—and its page numbers—is referred to throughout this oral evidence session.

pejorative, just factual—"We have not met this because of circumstances beyond our control." Tony in a minute is going to talk about HIV/AIDS; I am not sure what prompted the NAO to start that inquiry<sup>2</sup>, whether it was some people who produce anti-retroviral drugs who said that you were not doing enough on that, I do not know what it was, but actually if one looks at page 28 you have got an amber light against that one, "Too early to say" and "UNAIDS will publish global HIV/AIDS figures in July 2004". On the opposite page under "Maternal Mortality": "The main constraints are weak and under-resourced health systems; ie lack of money and lack of staff. The latter is exacerbated by economic migration and HIV/AIDS related deaths." On page 31 "Conflict: Only two on-going conflicts in Africa do not have a peace agreement (Somalia, northern Uganda), down from 19 in 2000." Of course, a certain amount of intervention by DFID in Sierra Leone led to that, but not entirely, and I think the point I am really making is this, it is quite difficult with a PSA like that, with so many conditions, to be able to put one's hand on heart and say here at one end of the process is a chunk of money that we can put in through DFID, and here at the other end are some outcomes; how will we relate the money which has gone in at this end to those outcomes, with all these other factors in the middle over which DFID has absolutely no control whatsoever? I just wonder whether these are such huge targets on poverty reduction in Africa that, in a sense, whether you succeed or fail is beyond you, so you are setting yourselves up to fail and whether some other PSA targets, wholly coherent targets, might not be more helpful both for you and for others.

**Mr Chakrabarti:** I think this goes back to something we discussed before about attribution, to a large extent, whether we can attribute outcomes to our actions. I would not say there was a one-for-one match between what we put in and what comes out at the other end. We operate by collective effort, and what we are trying to do with the Public Service Agreement here is describe the collective effort and then, after the Public Service Agreement, through our delivery plans drive down into actions which are more concrete, more discrete actions, if you like, at direct country level. It is that sort of process that really needs looking at as a whole, as opposed to the overall Public Service Agreement on its own. I do not think DFID would claim that the fact that the number of conflicts has reduced from 19 to two or four (depending on one's definitions) is all due to DFID, but I think one could claim that DFID has played a part through energising the international system and engaging with the UN, in particular, to try and do something about reducing those conflicts, but I would not claim that it is a one-for-one reduction, certainly not. What this system does very much throw up, with red lights, amber lights, green lights is where we need to put our efforts, so the fact that some of these have red lights means that we can

immediately say to our relevant director, the African director, "What are we doing in those red light areas in terms of our own actions and our own programme, but also to galvanise the international system to do better on those two areas?" That is what we are trying to do with this system, I do not think we are trying to pretend that all of Africa's progress is down to DFID, of course not. So I think it is a more nuanced description than the more traditional Public Service Agreement that we might see for the health service, which could ascribe most of the health outcomes in the UK to the health service.

**Q3 Chairman:** There are two things there, are there not? There is what DFID may need to be doing more on in terms of galvanising the international community, I can see that the red lights, green lights, amber lights will help with that, but there is a bit about whether one can demonstrate that DFID spending has made a difference.

**Mr Chakrabarti:** Sure.

**Q4 Chairman:** The truth of the matter is I suspect that if the NAO had put themselves in most policy areas they could for some of them say you can go and talk to DFID officials in the field, you are going to get DFID officials because they are by nature rather more open and discursive than most other officials in other departments, most of them are—

**Mr Chakrabarti:** You know us well!

**Q5 Chairman:** So they are going to have lots of views because you are a rather different department to the other departments. One could have written that NAO report on any topic of DFID's work, I suspect, and my concern is that in not explaining more clearly the money that DFID has put into each of these headings, you are setting yourselves up for failure in that everyone will come and say you are not actually sorting this out, whereas in fact you are doing a lot. You go on, from page 35 onwards, to specific countries. We know, because we have visited them, that DFID has done a fantastic amount in each of these countries, whether it be Malawi, where I think one of the other Select Committees was quite critical to some extent on this, or Sierra Leone or whatever. If we take Sierra Leone, £120 million in three years, a phenomenal amount. I am just wondering whether DFID should not be trying to claim greater credit for the money that you are putting in, where it goes and its outputs and making clear what DFID is doing or HMG is doing with that, and in other parts what we are hoping the international community as a whole is doing.

**Mr Chakrabarti:** I think that is quite a good piece of advice. I thought that was what we were trying to do, but clearly we have not succeeded. In the description of our country programmes, what we are trying to do there is show more discrete benefits against the more macro targets that are set out in the PSA. We have got a whole host of examples that we can discuss where, without DFID at the country level, certain things would not necessarily have happened, whether it is government policy or whether it is

<sup>2</sup> The National Audit Office published a report, *Department for International Development: Responding to HIV/AIDS*, on 18 June 2004, HC 664.

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actually a concrete outcome such as the primary enrolment or whatever. Perhaps we have not got the balance right, and we will look at that for next year.

**Q6 Chairman:** Hugh Bayley's committee<sup>3</sup> has just done a brilliant report on HIV and its impacts, and I have not dissected, as I am sure you have not yet had the opportunity to dissect, paragraph by paragraph the NAO report, but it seemed to me that they were making some not entirely fair criticisms all the way through, but with the way in which DFID is set up it seems there is a danger that one could almost take any DFID policy and just change some of the words and it would be liable to the same sort of criticism.

**Mr Chakrabarti:** Possibly. I read the draft of the NAO report and I think some of the criticisms are fair. I think there is a lack of connection at times between our strategies and our country programmes, and as a general point the criticisms are fair, although I personally think that the criticism of the 2001 strategy was a bit strong in the report. As a general point I think there has been a problem sometimes in translating those strategies, so we need to do better in that area.

**Q7 Chairman:** The next bit is almost shorthand, the 0.7% and the IFF, but if you go to paragraph 2.4 on page 26 you say "... in real terms aid *per capita* to Africa has fallen over the last decade ... aid flows must increase significantly." There is no actual mention there of the IFF, although later on there is a discrete item. We all know by heart, because both the Chancellor and the Secretary of State have reiterated on a number of occasions, the line to be taken on 0.7%, but what is DFID's line on the IFF? Is your view really that the only way we are going to get this up is by the IFF, in which case should we not make it clearer? Where are you expecting these extra resources to come from?

**Mr Chakrabarti:** We are hoping, obviously, the IFF will be one mechanism by which we leverage extra resources, which means private sector resources, for aid, but at the same time we have not given up on the idea that aid budgets generally should increase. It is quite clear that *oda* as measured by the OECD does need to increase and our own effort needs to keep moving upwards. There is an interesting issue as to whether some donors such as the Scandinavians and the Dutch, who all reach 0.7%, and those who are hoping to set timetables—the French, the Belgians, the Irish and the Spanish—whether some of them see the IFF as an alternative, and we worry about that and that, therefore, they would like double the commitment, both the IFF and 0.7%. They are quite important in gathering opinion in favour of the IFF, so there is an issue about whether we should endorse that as a timetable in order partly also to capture their support.

**Q8 Chairman:** Our specialist advisers who draft questions for us, in case we run out of bright ideas, have suggested as a question on this that given the at-best patchy progress towards meeting the MDGs, which of the following possible outcomes would the UK like to see and what is the Government doing to achieve them: the establishment of mechanisms to achieve policy coherence for development such that countries' policies on, for instance, trade, migration and military spending are made more coherent and supportive of development objectives; aid increases such that donors meet their commitments; a shifting of the MDG goalposts so that they are seen as aspirations rather than achievable targets? I think we all start off on the basis that the MDG targets must not become aspirations. I think we all agree on that one.

**Mr Chakrabarti:** Absolutely.

**Q9 Chairman:** I think everyone is agreed that we just need more money if we are going to meet those targets by 2015, because otherwise it is just not going to happen. I think my own observation therefore in relation to that is that if that is the case, then somewhere in this report there needs to be a much more coherent explanation of how HMG sees those funds coming forward, otherwise we need to be much clearer as to what we have been doing, both qualitatively and quantitatively, and what we are expecting others to do.

**Mr Chakrabarti:** That is a fair point. We will attend to that for next year.

**Q10 Chairman:** It is not a criticism, I am just trying to—

**Mr Chakrabarti:** No, it is helpful.

**Q11 Chairman:** The last G8 meeting I thought was pretty good news on debt relief, peace-keeping, AIDS and all the rest of it. On debt relief, what do you see HMG doing to ensure that the progress with debt relief for HIPC countries, which seemed to be the likely outcome of the Sea Island meeting is going to be achieved by the next G8 meeting at Gleneagles?

**Mr Chakrabarti:** Can I ask Masood both to answer the question about what is going to happen post Sea Island on debt relief but also to tell you some of the thinking that we have had internally about how to move this debate forward more radically.

**Mr Ahmed:** Thank you very much. If I can really say a word first on where I think we came out of Sea Island and how to take that forward, and then go into what the options might be, thinking a bit more radically. In terms of Sea Island, essentially what we have got out of there is a reaffirmation of a progressive version of the existing *status quo*. So we essentially got a two year extension of the HIPC initiative, we have got an agreement to do topping up where appropriate and we have got an agreement to finance the initiative. These are all useful things, but they are all restating what many people felt we had more or less got to, although some people were trying to stray away from it. So it was good to get that restatement and put it down so that it is now clear. We have also got though—and this I think is

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<sup>3</sup> Hugh Bayley MP chairs the Africa All-Party Parliamentary Group, who published a report, *Averting Catastrophe: AIDS in 21st Century Africa*, June 2004.

the bit that leads on to what might be done beyond—an agreement to explore ways to deal with unsustainable debt beyond the amount that is being dealt with through the HIPC initiative. In a sense that really boils down to two kinds of issues. One is that for a number of HIPC countries, which have actually gone through the initiative, the analysis now being done shows that they still have a debt level that is too high for them to carry, so the first question is we cannot let these countries carry on with unsustainable debts, having just taken them through a process which was supposed to deal with that problem. The solution that has been suggested so far, which is simply to let us move them completely onto grant financing, will do the job, but it will do the job on average in about 12 or 15 years, and 12 or 15 years is not a credible time span during which you leave countries vulnerable to debt shocks while you slowly deal with the problem through growth and grants. So what we are now doing some internal work on is what more can be done proactively to deal with this 10 or 12 year period in a way that makes these countries more robust to shocks and deals with their unsustainable debts faster. One way to do that, of course, would be to simply have another round of debt stock reduction, which could bring their debt levels down, another way to do that would be to provide them with some kind of option to do a debt servicing facility so at least during that period the extra costs of the unsustainable debt were being dealt with. But however we do it, the important issue that I think we have to deal with is that we do not put incentives into the system which penalise other countries that are equally poor but who do not have quite the same debt problem, although they may have an equally pressing need because of their HIV/AIDS spending or other kinds of spending. What we are trying to do is to shift the discussion away from saying how we will fill this particular kind of need for debt to say what is the total amount of financing countries need to meet the MDGs? Included in that financing is not only expenditure for new programmes but also debt service relief, which up to now has not been explicitly included in the calculation, and then to say if you need this total amount of financing, you mobilise as much of it as you possibly can, which comes back to an earlier point, and then you give countries a choice of whether they prefer to have some of that financing in the form of upfront debt reduction or they prefer to take it in the form of projects or in the form of budget support. By giving them that choice, some countries will prefer to go for debt reduction if they have got a particular problem in the next few years, others may actually say even though we have a relatively high debt, it does not become due for 15 or 20 years—because a lot of multilateral debt in fact has a maturity of between 30 and 40 years. So they might very well decide that it is better for them to use the money for more urgent programmes and move away from a uniform approach which says every country must have a certain amount of debt reduction, to say every country must have the financing it needs to meet the MDGs and then, if you have a choice, to get it in the form of debt reduction

or new money. We are exploring how to take that idea forward because it would mean introducing an element into the financing toolkit, debt relief, which up to now multilateral institutions have been quite reluctant to do, so we would have to take that forward with them as well. So it is fairly early days in terms of our thinking, but I think the idea then is basically to shift it back to focus on the MDGs and how we meet them.

**Q12 Chairman:** The last question before I pass over to Mr Robathan, some considered that Sea Island was the easy bit and you are going to have the harder bit at Gleneagles, are you not, and there are going to be quite a lot of expectations about Gleneagles, is that not fair?

**Mr Chakrabarti:** Yes.

**Chairman:** And joining together the Commission for Africa. The more debate that can be prompted on those sorts of issues, I think that somehow people feel debt is just very easy to tick a box, or write off the overdraft or do something like that, and it may be that we all need to ensure that there is a broader debate in the next few months on debt and some of these other issues. Andrew?

**Q13 Mr Robathan:** Thank you. Mr Chakrabarti, we previously had a discussion around the table about Direct Budget Support (DBS) and I remember—I am paraphrasing—that you said something to the effect that everybody agrees that Direct Budget Support is the way forward and nobody is really interested in project funding any more. That was the essence of what you were saying on that.

**Mr Chakrabarti:** I think that was quite a paraphrase if I may say so.

**Q14 Mr Robathan:** I and many others have quite a lot of concern about Direct Budget Support, although I do think these things come round in circles. People say Direct Budget Support is fantastic, we get our fingers burnt and we go round to project funding and we come back again ten years later to Direct Budget Support. You have probably got more experience of that than I have, to be honest. I note that you are giving Ethiopia, Ghana, Malawi, Mozambique, Rwanda, Sierra Leone, Tanzania and Uganda DBS at the moment and that that currently accounts for about half the DFID funding to those countries, with an aim to raise it by 2006 to two-thirds. My first question is what proportion of total UK aid is currently delivered through DBS, and what do you expect it to be in three years' time, if things go according to plan?

**Mr Chakrabarti:** I do not have the three year projection in front of me, but at the moment, if we take the average of the last three years—which is probably the best way to do it because it has gone up and down—it is about 15%. We expect the amount of budget support to rise in both Africa and Asia in the next three years, but I do not have the exact figures in front of me; I can send you a table on that<sup>4</sup>. A lot of that is of course in Asia, where the biggest

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rise is projected, and is dependent on what the new Indian government wants. The previous Indian government was quite keen on budget support, but we do not know for sure what the new government will want. Nicola has just recently been to India and at official levels there is some suggestion that they are less keen on Direct Budget Support within the states for various physical economy reasons, I suspect, so I would not put them as hard and fast numbers as yet.

**Q15 Mr Robathan:** A particular question that we want to get on the record is about the mix of skills you have in Ethiopia. We went to Ethiopia recently, as you may recall.

**Mr Chakrabarti:** Yes.

**Q16 Mr Robathan:** If we take that as an example, do you feel that the mix of skills you have got in an office such as Ethiopia is the right sort of mix if you are going to have a shift to DBS, and at what levels is the policy-dialogue expected to take place and what does it mean for staffing of DFID teams such as Ethiopia's?

**Mr Chakrabarti:** I think that is a really interesting question. One of our traditional strengths that becomes even more important actually than technical expertise is professional knowledge, whether that is health, economics or whatever it is. You cannot really have policy dialogue with government at a serious level unless you have that professional knowledge. So the premium on that knowledge becomes even higher it seems to me. There are a couple of new areas, it seems to me, which we need to introduce in Ethiopia as well as other places: one is the ability to influence governments at the macro level much more than perhaps we have done before, before we look at the project level if you like, and here we need as part of the Direct Budget Support process to talk to them about a wide set of policies at a much more macro level—about financial management systems, for example. That requires training, it requires a different mindset sometimes within our own staff and, of course, learning on the job as well. That is one new set of skills that we need.

**Q17 Mr Robathan:** Building capacity with ministries.

**Mr Chakrabarti:** Absolutely, and I would like to come back to that because that is quite a big issue at the moment. The second area, as you get into discussion of budgets, public systems, accountability—all those sorts of issues that underlie budget support—is actually understanding more about the physical economy in these countries. I think in the past aid donors have tended to shy away from getting too involved in understanding the business of development for fear of engaging in politics, and of course we should not do that, but at the same time we need to understand how the society works, what motivates people in their society to make the decisions they do? Who are the people in those societies who are going to try and change their societies for the better, what we call “drivers of change” in jargon. All of those things are new areas

of development for many of our country officers, and the skills vary, quite clearly, among the country officers and some of them will develop faster than others. That is the real staff development area, if you like. On the capacity issue, I think this is a really interesting question. When I go around Africa I do wonder in some African countries—say in Malawi where capacity building is uppermost—whether the balance between the skills on the donor side of the line and the lack of skills on the government side of the line should not make us pause about whether actually many more people working in the donor organisation should not actually be working in the governments, whether there is really a sensible dialogue otherwise. That varies from country to country, I would not say that about India or Vietnam necessarily, but in a place like Malawi it is very striking and that is something that we do need to think through; it is a current issue today.

**Q18 Mr Robathan:** Can I take you to some specific places? Rwanda and Uganda, you talk about drivers for change and I think it is fair to say that Presidents Kagame and Museveni were both depicted as drivers for change in the past and both of them I have a lot of time for, though I think you will agree that they did not have an entirely unblemished record in the recent past—indeed, there is talk of Rwandan troops going back to the Congo as it were.

**Mr Chakrabarti:** Yes.

**Q19 Mr Robathan:** We have just visited Ethiopia, where the Foreign Office says—and again I paraphrase—that there torture is common amongst detainees and there is a bit of democratic deficit and a serious question about the human rights record. I therefore have a problem with supporting regimes which may not be entirely democratic—indeed, are not entirely democratic—and with bad human rights records with British taxpayers' money. Through Direct Budget Support, and without getting involved in party politics, how do you see that we improve the governments in these countries?

**Mr Chakrabarti:** I will ask Nicola to talk a bit about country examples, but let me just give an umbrella approach. Generally what really should motivate and does motivate our Ministers and the organisation is whether the government in question is fundamentally committed to poverty reduction. That is the most important thing. Obviously, there comes a point when, if a government's human rights record is so terrible and it is doing absolutely nothing about it, there will be an issue as to whether we have an aid programme there at all, not whether it is budget support or project aid. In the case of Ethiopia I know that Prime Minister Meles Zenawi recognises that he has had a human rights problem, the question is whether he is doing enough about it, whether we are pursuing him about it. Hilary Benn was there of course as well, recently, and he discussed some of these issues with him. In the case of Uganda, another area where we have had concerns, as you know, about the defence spending, aid donors with the UK in the lead—and I think there is a good attribution here to UK efforts—have

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tried very hard to cap defence spending as a condition of the budget support being provided to Uganda. The advantage of budget support is that it has allowed us to get into some of those debates that, in fact, at project level would have been much more difficult to get into. Nicola?

**Dr Brewer:** On the three countries you mention, Rwanda, Uganda and Ethiopia, there are just two points that I would add. One is that for two of the countries, Rwanda and Ethiopia, you have also agreed with the government a long-term Memorandum of Understanding setting out the rights and responsibilities on both sides, and we have close dialogue with them about the obligations on both sides. So that framework which is for a long term, usually a 10 year period, allows us to have a much more intense dialogue about specific commitments that the government has made and they will cover both political and economic governance points. On Uganda, there is just one other aspect I would mention which is that there are circumstances in which we either need to delay or to withhold particular tranches of budget support for reasons that have been clearly set out, and that has happened, for example, with Uganda at least four times since 1999.

**Q20 Chairman:** Before we move on to ask Quentin to ask questions about multilateral aid and then Tony to ask questions about the WTO, just two quick questions about not just budget support, but general support. If we go back to Sierra Leone, “The Memorandum of Understanding contains commitments by Sierra Leone to reforms—in return for UK support. These include action on corruption, reform of central and local government, public expenditure management, media reforms, effective regulation of the diamond industry, security sector reform, sound macro-economic management and the development of a poverty reduction strategy.” When one goes to Freetown there are two people there, there is President Kabbah and Vice President Solomon Berewa, and that is it. Most government ministers are commuting between London and Freetown and the level of management at the top level of the civil service is tiny. I have two thoughts on that: one, could we not be doing more to help the lower policy-makers, the people who write the policies, work up the policies. In your department when you need someone to work up a policy you have huge numbers to fast track it through. Secondly—and you may tell me you already do this—when we go out there, there are a lot of general advisers and then specialist advisers. You and DFID must still have what we used to call G7s or Principals. To what extent do they get seconded in their career to the private offices or to ministries overseas to see it from that end of the capacity challenges of how you can actually implement, if you are Vice President of Sierra Leone, actually doing some of this stuff from that end. I have two questions really, what more can we do to encourage and build the capacity of receiving countries for policy formation and, secondly, what more can we do to

ensure that your people actually have an understanding of the policy difficulties of receiving countries?

**Mr Chakrabarti:** I fundamentally agree with you, I think we need to do more of this, not just DFID but departments generally need to provide more support for policy formulation in countries. That is what I was trying to get at in answer to the earlier question from Mr Robathan. We used, of course, to do a lot of that in the past. If you go back to the Sixties and Seventies, many of us began our careers actually—I did in Botswana with the Botswana Government.

**Mr Robathan:** A great success.

**Mr Chakrabarti:** Not due to me though, more due to the Botswana contingent. In the last 20 years, however, that all went away because of the feeling that those people were not necessarily driven by the incentives and the objectives of the governments they were working for, they were more driven by the donors. If we were to go back down that route in Malawi or Sierra Leone, we would have to devise a scheme with the relevant countries that they were much more in the driving seat and these people were not working for the donors. That is the thing we need to focus on. In terms of how many of our people, the youngsters coming through, have that sort of experience, ODI fellowships clearly help to do that and there are several other secondment schemes. Mark?

**Mr Lowcock:** I think you are exactly right and I am just going to give two examples of people who are now quite senior in the Department who have done exactly that. One of our directors for information came to us originally from the Treasury and spent two years working for the South African Ministry of Finance, doing exactly what you are talking about. One impact of that was to make him much more effective in working for us because he had a much better insight. The other example is in Uganda where somebody who is now the deputy director for us for Asia spent four or five years working with the Permanent Secretary as a behind the scenes adviser. The key thing about that is that he was not visible to anybody, he was behind the scenes, he was talking just to the Ugandan government, working just for them, and therefore he was dealing with the problems Suma was talking about, who are my loyalties to? We need to do more of that, both because it is good for them and because it is good for the countries which are having support.

**Mr Chakrabarti:** Can I just follow up on that to try and draw the two points together? What I would like to do in, say, a case like Malawi when we next provide budget support is think about whether some of that budget support should be reserved, essentially, for technical capacity building of this sort, where the Malawians would be quality controlling the people they get, the people who would be working for them, they would be paying their salaries and not us, but they could pay it out of the budget support we give them. That is something that donors are still grappling with.

**Q21 Mr Colman:** Can I say that I thought that the report was a bit light in terms of the emphasis on the importance of looking at trade and investment—we

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have pages 90 to 92 and we have paragraph 1.7 but it is a bit light given, if you like, the tremendous view which I support, that was made in terms of world poverty making globalisation work for the poor in terms of the White Paper when we set out on this road. Perhaps you could restate how you see the way forward, because I saw in Cancún where I was sent as part of the UK delegation, nominated by this Committee, a situation where still many of the developing countries who were full members of the WTO were getting their briefings very often from NGOs who were very anti the views expressed by DFID and, might I say, even the reports of this Committee. Do you see a situation where, frankly, DFID should be much more proactive in putting money into funds, not appointing I suggest the consultants, that should be done by the countries themselves, but who could perhaps provide a more balanced range of advice than perhaps some countries who had been given theirs by the NGOs who, frankly, were rejoicing in the breakdown of negotiations, and you felt in a sense that they were not necessarily feeling in any sense that globalisation could work for the poor. What lessons are we learning from Cancún that DFID should be more proactive in providing the resources for developing country members of the WTO to fight their corner—and they are now, thank God—but to do it if you like on the basis of knowledge, not on the basis of the almost overriding views of UK-based NGOs?

**Mr Chakrabarti:** I will let Masood give you a detailed answer; I think you are spot on myself. I do think we need to build up the capacity of developing countries to analyse this issue to work out their own positions for themselves and give them voice, if you like, in these negotiations in a way that is not happening at the moment, and the voice of many NGOs in receiving countries is much stronger than the voice of the poor countries involved. We have put quite a bit of money into capacity building ourselves and the full fruits of that have not yet come through in some of these countries, and it may be the case that we need more of it really. Masood, do you want to come back on some of this?

**Mr Ahmed:** If I can just amplify a bit what Suma said, my concerns at Cancún were that there was a good dimension to that and a negative one. The good dimension was that developing countries were much more vocal and organised in putting forward their perspective, and I think there was actually almost a step change in the way they participated compared to Doha, so in that sense that was a good outcome, and part of that was due to the fact that they felt more confident by getting this analysis or the support that they were getting from a whole range of people but mostly NGOs. The bad dimension is the one you have outlined which is that it is not clear that the analysis and advice they were getting was balanced and indeed in their own best interest, because some of the advice was essentially saying walk away from the thing rather than try to get a deal that works.

**Mr Colman:** That is right.

**Mr Ahmed:** In yesterday's *FT* you might have read—and other papers carried it—about a recent study which has just come out and in a sense also says it is

better to walk away than to try and agree a deal. I think there are always going to be people who will have had such a high demand for the kind of agreement that they think is acceptable, and whose views about the benefits of liberalisation are nuanced or negative, that they will be advising much more often that it is better to walk away than to conclude. What I think we do need to do much more now is to provide developing countries with access to a much broader range of views, but in a way that they drive the agenda. That is something that, as Suma says, we have stepped up on, the funding for capacity building, and it is one of the three areas of priority that we are attaching importance to.

**Q22 Mr Colman:** If the Chair will allow me two supplementaries, one is the General Agreement on Trade Services (GATS). We are inundated by the World Development Movement, a very good organisation, but in terms of saying that GATS is an appalling way forward for developing countries to see the delivery of a range of services, and I notice in your water and sanitation section you do not mention GATS at all. You will know that Baroness Symons has rebutted a number of the things that have been put forward by the World Development Movement; there you have an example of a situation where developing countries have two very different views put to them. You have not addressed this in your report; what advice do you have for us as a Committee in terms of dealing with the myths and the facts of the General Agreement on Trade and Services and do you believe on balance that you would in fact be supporting developing countries to use, in some circumstances, the General Agreement on Trade and Services—particularly water and sanitation?

**Mr Ahmed:** I think our advice to them would be that it is a useful balance for them to be moving towards organisation of services, but we need to make sure that in the discussions the services that are of interest to developing countries ought to feature in that debate. What I will say is that the second part of the priorities that we have set out is to try and pull together and disseminate more accurately some more evidence which can serve as a basis for the next round of negotiations. We have commissioned a fair amount of work which will try and pull together some of this evidence, and we will try putting it out in different ways. We also for the first time in December last year brought together quite a large number of people to have a trade and poverty conference here in London, which brought together the multilaterals, developing countries and a number of analysts. What was interesting for me there was that in some ways a number of the developing country people who were there were searching for ways forward, but a number of the so-called heirs apparent who were outside the framework were much more interested in still dissecting the past. A lot of developing country representatives, at least at that conference, were quite keen to say we have had this problem, we recognise it is a failure for all, but we now want to move forward and identify which are the red lines

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from our point of view that we do not want to cross, but where are the other areas where we can make constructive gains—

**Q23 Mr Colman:** Is GATS a red line, as the World Development Movement thinks it is?

**Mr Ahmed:** I do not think that it is for many, because I do not think many developing country people have focused enough on it, so part of it is lack of understanding. It is not a red line so much as a blurred line for them; I do not think they have yet fully figured out which side of the analysis to come out on, so it is a good reason to put out more evidence and analysis in that area.

**Mr Chakrabarti:** And a good reason also as many would see it to have capacity building, so to do that analysis as well. One other point on this, I do think we ought to look for supporting PRSPs to take account of trade much more than they have in the past. If you ask me, there has been a bit too much about the donor aid relationship with those countries and not enough about the wider policy environment.

**Q24 Mr Colman:** Can I then as my second supplementary ask you about what has happened to the TRIPS (Trade Related Intellectual Property Rights) agreement of 30 August last year, as it seems to have vanished into the undergrowth? We clearly could simply put down a whole series of questions saying when is the legislation coming forward? You are sitting in front of us, what on earth is happening? We are nearly up to the first anniversary, the world is waiting and the pharmaceutical companies tell me, “Well, you know, this is stuck somewhere in the parliamentary logjam.” Can you assure us that it is going to be fished out and will be before us before we break and we get to the anniversary date? It seems extraordinary that this was celebrated, yet the UK Parliament has not done a thing.

**Mr Ahmed:** My understanding of it is that the log jam that exists is actually not here but in Brussels, because we are waiting for the EC to issue Community-wide regulations, after which we can issue secondary legislation in the UK to implement it. We are quite advanced in the preparation of the secondary legislation to ensure that as soon as the Community-wide legislation is issued we can bring it forward without delay. We are now pushing quite hard, making exactly the point you have just made, in Brussels, that it is a bit embarrassing that a year after—

**Mr Colman:** Ten months on already.

**Mr Ahmed:** We do not yet have the Community-wide legislation. Canada at least has that—

**Mr Colman:** No, they have withdrawn it.

**Mr Ahmed:** You are better informed than I am then; I thought the Canadians already had that in place. We basically want to be in a position that as soon as the Community-wide legislation is there we are the first to put forward our secondary legislation, but we have to keep pushing in Brussels.

**Q25 Mr Davies:** Thank you. I wonder if I could ask you about Iraq, which is obviously the greatest variance in your expenditure and budgetary tables at page 170 and 171. I think at the Donors’ Conference last November we promised some £540 million if I recall.

**Mr Chakrabarti:** Yes.

**Q26 Mr Davies:** The bulk of which is under your budget and some of it FCO and MoD. My first question is can you tell us just how you reach that figure and, secondly, how you split it up with the FCO and the MoD?

**Mr Chakrabarti:** The overall total figure is in a sense derived from the UN and World Bank calculations on what the financing gap for Iraq was going to be over the next few years, and then various donors indicated what they were going to provide, with the UK, US and Japan obviously trying to galvanise other donors to provide quite a bit. In a sense the sum was partly to gain leverage with other donors, to call them in to do more than they were planning to do, being absolutely frank about it.

**Q27 Mr Davies:** But it was all top-down.

**Mr Chakrabarti:** It was very much top-down but it was of course related to the best analysis that people could do, given the situation in Iraq, of what the needs would be in Iraq over the next few years. So there is a sort of financing gap of the traditional sort we would see. Then as to how it is split up, trying to remember exactly, it is £544 million over three years from April 03 to March 06; most of that is from DFID, as you know, I think it is £30 million from the Global Conflict Pool, £30 million from MoD’s Quick Impact Projects, about £60 million from the FCO and the rest from DFID.

**Q28 Mr Davies:** What I am interested in is how you actually came to that position. Did you sit down with officials from the other departments and did you decide that some of those tasks more naturally fell under their budgets?

**Mr Chakrabarti:** Yes.

**Q29 Mr Davies:** Just take us through that process.

**Mr Chakrabarti:** Essentially we were already embarked on some spending under different sub-heads before last October and this is a figure that goes back to the previous March, the beginning of the financial year. MoD already had a budget, for example, for Quick Impact Projects, which they have started spending on already, so that budget was just scored as part of this, the FCO was doing work, for example, around communications and issues like that, setting up a TV channel and things like that in Iraq. That was also scored because that was already on-going, so the bulk of the new expenditure if you like is DFID, but some of the old expenditure, because we were going back to the previous April, was scored as well to get to the figure of £544 million.

**Q30 Mr Davies:** What were the main items of expenditure? It is not really broken down; you have got a page in here in section 4 (page 82) but it does

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not really tell us an enormous amount. The International Reconstruction Fund for Iraq, that is a large one, what sort of things does that do? To the UN consolidated appeal, £72 million, that is a large amount. The other reconstruction work £59 million. What sort of things does that include?

**Mr Chakrabarti:** The box on the next page actually gives you some examples, but we probably ought to attribute some of those things to each of these channels if you like. The International Reconstruction Fund for Iraq is a trust fund, essentially, which the World Bank and the UN manage, and it helps to finance the Iraqi budget as a whole. So it finances a wide set of outcomes, it is budget support essentially as we understand it elsewhere. So we have made an allocation of £70 million to that trust fund which will be allocated by the bank, the fund and the Iraqis to a variety of poverty-relieving programmes in Iraq.

**Q31 Mr Davies:** I read the table on the other side as achievements of the Iraqi administration, or achievements of the Coalition plus the Iraqi administration. Things like getting the oil flowing and the Central Bank of Iraq are nothing to do with DFID—as far as I know you were not involved with getting the oil flowing and so you are not taking credit for that, those are the figures in this other table.

**Mr Chakrabarti:** Yes. Some of our staff have obviously been involved in some of the discussions there, but we are not taking credit for all those. There are things here also in this table which DFID would take credit for, for example the Essential Infrastructure Project—the third bullet point down in Box 4f—that would not have happened without DFID.

**Q32 Mr Davies:** This conversation has revealed a possible confusion which could be in the mind of a reader of this annual report, because if in fact what you are saying is that if you want to understand Box 4e you have to do that by looking at Box 4f which supplies examples of what Box 4e has been spent on, then I think you are going to have to relate it to it directly because, as you have already pointed out, there are some things in Box 4f that do not relate to Box 4e at all. In fact, it is quite an ambiguous report because there are no explicit connections made and some people might draw an implicit connection which, as you say, would be right in certain cases but not in others, so there is an excellent chance for misunderstanding.

**Mr Chakrabarti:** I am sure we could do better with the presentation of things that DFID is directly providing and things that DFID is providing collectively, if we go back to the beginning of the conversation. In a number of these things, DFID has been involved—for example, the power sector reconstruction in the centre of Baghdad. Andy Bearpark, who is DFID's secondment into the CPA, has been fundamental to bringing that about.

**Q33 Mr Davies:** What about the police, for example? There are now more than 45,000 Iraqi police, do you contribute to that?

**Mr Chakrabarti:** We have been involved but so have many other countries; again, I would not take full credit for just that, I think a number of countries have been involved in police training, but the UK has been one of the organisations.

**Q34 Mr Davies:** It really raises two points. One is that insofar as you have not been involved in a substantial amount of that achievement, why use this annual report to list a lot of achievements in the administration of Iraq, which is not strictly relevant? The second thing is that insofar as you have been involved, that is spending on security and it is not spending on poverty reduction or anything to do with the DFID budget, is it, it is to do with other issues?

**Mr Chakrabarti:** I accept the first point, I think it is perfectly fair to say that this box describes a whole series of achievements, some of which DFID has been directly involved in and some of which it has not. But I think that where it has been directly involved and spending the DFID budget, clearly that has passed the test of the International Development Act and therefore has to be spent on things that are trying to alleviate poverty, such as the example I gave you, the Essential Infrastructure Project, trying to get these public utilities up and running. Clearly that is having an impact in Iraq.

**Q35 Mr Davies:** I suppose you can say that. I suppose you could stretch it to say that the Central Bank of Iraq now being independent and a new set of bank notes to replace the former Iraqi currency is something to do with reducing poverty, but I find it more difficult to relate your remit under the Act to the strengthening of the Iraqi police, and I was slightly concerned that you were creating a precedent there for spending DFID money in other projects, for instance on improving the policing in a country, which certainly is a very, very wide interpretation indeed of poverty reduction or achieving the Millennium Development Goals.

**Mr Chakrabarti:** We could have a discussion about policing. I think policing generally, in certain situations, is fairly fundamental to poverty reduction. The poor tend to suffer most from insecurity and having a decent police force, being defined in terms of good standards and not being arbitrary in meting out justice and so on, is quite fundamental to many poor countries. So I would not draw the line quite where you have drawn it.

**Q36 Mr Davies:** I am not drawing it, Mr Chakrabarti, I am just here as the voice of the public asking questions. This has been a fascinating dialogue because it is quite clear that poverty reduction has a vastly more elastic meaning than I think most of our constituents imagine, so I am not making any normative comment on what you have told me at all, I am simply establishing the very interesting revelation that has emerged this afternoon. Can I go to the other side for a moment,

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getting away from the spending side if you like to the income side, so looking to see how you raise this money for the reconstruction of Iraq, because there has been a substantial increase, as the Government made clear at the time, within the existing DFID budget and therefore it follows that there will be other budgets which will be cut correspondingly, and I think this has been mainly in Latin America, Peru, Honduras, China, middle-income countries. That is right, is it?

**Mr Chakrabarti:** That is right.

**Q37 Mr Davies:** So what has happened is that we have diverted the sources of aid from projects very directly related to alleviating poverty in Honduras, for example, where I think we were backing up Oxfam, so very directly related to poverty reduction, and putting it into Iraq where it was spent, among other things, on supervising the Central Bank and improving the policing. That is again a shift along the spectrum away from a purist, poverty reduction agenda, is it not, by quite a dramatic amount?

**Mr Chakrabarti:** I really do not think so. There are two questions there, let me try and take them in turn. One is why did the Government choose to reallocate money from other middle-income country projects to Iraq? The Government decided Iraq was a very high priority for it, both in development and reconstruction terms as well as in other fiscal terms. It has a target of spending 10% of its bilateral funds in middle-income countries; that target is not just plucked out of thin air, it is based on evidence, research evidence which shows aid is most effective in low-income countries. So when it decided that Iraq was going to be a development programme it had to finance it out of that 10%. It could have made another choice, it could have said we will renege on our 90–10 Public Service Agreement target (for which we are accountable to Parliament) and take it out of low-income countries. That would have flown in the face of evidence that aid in low-income countries actually has a higher return, and so it decided to make the choice it did, but it obviously was not an easy choice for the Government to reduce aid in many of those countries in Latin America, China and elsewhere. That is why it made those choices and it has had impacts, difficult impacts, which we can discuss if you wish. I do not think this concept of poverty reduction has suddenly been changed by Iraq. Many of the things that we are doing, whether in Iraq or elsewhere, would in our view fall perfectly well under the ambit of poverty reduction. To get public utilities up and running, to even get a central bank up and running, is fairly fundamental to getting most economies up and running, economies which hopefully will get a good economic policy which will help the poor, whether it is in Iraq or Uganda.

**Q38 Mr Davies:** In Peru, for example, you were committed to funding small projects through Oxfam Peru, a grassroots organisation in rural Andean parts. Those are very poor areas in the Andes, are they not? There are pockets of extreme poverty in middle-income countries, rather like you have spent

a lot of money on addressing pockets of extreme poverty in India which is a highly successful middle-income country. So you took money away from that to put it into Iraq, which is certainly a middle-income country, potentially a rich country, and where there was an immediate political imperative to make sure that the post-conflict period was as short as possible and that the reconstruction was as successful as possible. I think the importance of this conversation is this, there are some people who might imagine, reading perhaps rather superficially the 1998 Act and hearing some of the political rhetoric of the last few years about overseas aid, that your budget is now entirely autonomously directed to poverty alleviation, poverty reduction, and that is all; it cannot be diverted for political reasons at all into something that is not purely poverty reduction, and so you make an objective assessment of where there is poverty and how your budget can best be spent on alleviating that poverty. There are obviously arbitrages to be made in different countries, projects that call for Direct Budget Support or otherwise, but there is only one criterion. Then you find that because there is a political crisis and a major political imperative—I happen to support the Government on Iraq, I am not causing trouble for the Government on Iraq, I supported the military action last year and I am still happy to say that I did. I totally understand the political imperative and indeed share it, we have to make a success of military actions wherever they are and we have to raise money. The Government decided it was not going to make a further appropriation and therefore you were told “Find some money elsewhere and divert it in double-quick time to Iraq.” You did what you were told and I am sure in a very efficient fashion; nevertheless, that is not a pure poverty reduction agenda, it is not purely an autonomous ministry whose job is simply to spend some money which the taxpayer has given you for poverty alleviation purposes, it is a budget which can, where necessary, be diverted for higher political criteria elsewhere.

**Mr Chakrabarti:** I can only say that I think that would not stand up. If you look at the reasons why we have put money into Iraq and what we are putting it into, I would be perfectly happy to continue defending it as—

**Q39 Mr Davies:** But you would not have decided it yourself, Mr Chakrabarti, you have told me this was a top-down decision.

**Mr Chakrabarti:** Absolutely.

**Q40 Mr Davies:** And that you were instructed to find this money for Iraq, it was not even your decision how much money to appropriate for this purpose, you simply had to find what the Government decided to put into this particular pot from elsewhere in your budget. That is what you told us.

**Mr Chakrabarti:** Decisions about which countries we are involved in obviously do involve political input, they must do, otherwise why are we not in francophone countries: for historical reasons and

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also for political reasons, we do not know much about them. The reason we are obviously having this reconstruction of Iraq programme—

**Q41 Mr Davies:** If I may say so, not knowing something about it might be a functional reason why you might say I cannot spend money sufficiently in a place where we do not have a structure and we do not know much about it. That is another argument. You are in Zimbabwe because you said we have got to maintain some poverty reduction effort and there is a real poverty problem that needs some money, but in this particular case you did not decide that there was a greater need in Iraq than in Honduras or Peru or China or elsewhere. You did not decide that. You did not decide how much money could be better and more efficiently spent in Iraq than elsewhere, you were told to find the money for Iraq; that is the position, is it not?

**Mr Chakrabarti:** The Act does not determine which countries we are in, that is not what the Act does, the Act determines, when we are in a country, what we are using the money for. You use a number of countries there, and in Zimbabwe we actually do not have a development programme, we have a humanitarian assistance programme. India is not a middle-income country as you say, it is a low-income country actually. Pockets of India clearly are middle-income ones, but it is a low-income country overall which is why we have the size of programme we have in India. Those judgements are made and ministers did make those judgements, quite clearly, about getting involved in Iraq with the reconstruction and development programme.

**Q42 Mr Davies:** The point is, first of all, that the decision to reallocate substantial resources from middle-income countries—Honduras and Peru for example—to Iraq was not made by you and was not made on poverty criteria. That is correct, is it not?

**Mr Chakrabarti:** The decision was finally made by Ministers, of course, but they did take advice from us as officials that if we had to reallocate money within the middle-income country pot, where would we reallocate from.

**Q43 Mr Davies:** Exactly, so the decision had already been taken in Iraq, so there was no question at all of you having said you can spend a pound of British taxpayers' money more efficiently on poverty reduction in Iraq than in Honduras, let us switch from Honduras to Iraq. That was not the process at all; the decision was taken from on high, "top-down" to use the expression you have already agreed with, to spend a given amount of money on Iraq and, irrespective of other things, you were told that you had to find that money elsewhere and you found that money in other programmes for middle-income countries. You did not take any decisions about the target in Iraq; you took decisions just about where you would take this money from.

**Mr Chakrabarti:** At the end of the day, Ministers take all of the decisions on the allocations. What Ministers decided on—you are absolutely right—is they wanted to make a particular contribution to

Iraq, and that was based, as I said, partly on UN and World Bank assessment of needs in Iraq and partly on wishing to galvanise the international system generally. That is absolutely correct. Then we had to find the money, and we were asked, as officials, quite rightly, for advice on where the money should come from, given that Ministers wished to stick to the 90–10 target, which they believed in.

**Q44 Mr Davies:** I understand the point. This is not an autonomous, purely poverty reduction orientated process. It is a process which is open to political control, which is open to political decisions, top-down, to allocate money and then your job is merely to re-allocate. So it is not an autonomous poverty reduction process, is it?

**Mr Chakrabarti:** The decision about which countries the UK has an aid programme in is quite clearly a political decision, but it is also based, of course, on judgments about poverty . . .

**Q45 Mr Davies:** To some extent it may be, and other criteria.

**Mr Chakrabarti:** . . . where aid is effective, otherwise we would not have a 90–10 target. The reason we have a 90–10 target is because of research evidence, not DFID's evidence, suggesting . . .

**Mr Davies:** You did not disagree with me, but let me give you one final chance at this. This is not an autonomous, exclusively poverty reduction orientated process, is it?

**Q46 Chairman:** I think you have had your answer, Quentin.

**Mr Chakrabarti:** I disagree. That is all I can say.

**Q47 Hugh Bayley:** My question is about the IMF, which is there to create conditions for global macroeconomic stability, so, of course, it sets macroeconomic frameworks for countries where it is working. I am not arguing against there being frameworks, but I have concerns about what the rules are. I have come across two examples this week of rules which seem to work against development goals. In Brazil, the Brazilian government wants to borrow money to buy land from land owners to redistribute to landless peasants. The IMF says if it does so, that must be regarded as expenditure, even though it is a money in/money out process, and they have the collateral of the land which they have distributed to the peasants, which is there as government land, should the peasants default on paying their mortgages on the land. The second example came to the All-Party Africa Group when we were doing our work on AIDS. We were told by Dr Peter Piot of UNAIDS that the Ugandan government was not able to take up all the money that was made available by the Global Fund and others for prevention and treatment of AIDS, because it would have pushed up against their financial expenditure ceilings. Yesterday, at a meeting with Peter Heller, Deputy Director of the IMF's Fiscal Affairs Department, he may have disputed some of the individual examples but he accepted that at the extreme, macroeconomic

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pressures could limit expenditure on AIDS, because there could be untoward macroeconomic pressures creating inflation if health expenditure increased rapidly. Surely, from a development perspective, the answer must be to find ways of avoiding those macroeconomic pressures, for instance, by training large numbers of nurses or barefoot doctors so that you do not have inflationary pressures if you increase expenditure on the delivery of drugs. Today, Joseph Stiglitz came and talked to a small group of us, and when asked why the Fund has the rules that it does, he said that the US Treasury, at the end of the day, as the majority shareholder, sets the rules. So the way to unpick this process, if the UK Government thinks it does need changing, surely is through the G8. This is a difficult thing to change in the G8 because if you say to world leaders, "Let's talk about the IMF's accounting rules," their eyes will glaze over, but since you have the Africa Commission writing detailed papers for next year's G8, should there not be a detailed paper that looks at the development consequences of the IMF's current macroeconomic approach and to look for change? Then you could get the leaders to sign off the process and the Sherpa economists could continue the process of reform. I do not see how else you will get the IMF reform that you need. Can you reassure me that that process, the Africa Commission and the building of the agenda for the UK G8 will include a serious economic analysis of the work of these institutions?

**Mr Chakrabarti:** I will ask Masood to reply in a bit more detail, but I think, actually, there are two strands of work which are happening anyway which bring this issue out and will bring it out in glorious technicolor next year. One is the pressure generally coming from the UN Millennium project, the Sachs project, which looks much more at financing needs. In other words, when you do a PRSP, should you base the financing simply on the budget that is available and the likely flow of aid that is going to come in, or should you also have another scenario which says, if you want to make a dent and progress towards MDGs on schedule, how much would you really need and what are the consequences of that? We currently have two scenarios in PRSPs and that whole push is coming in from that piece of work. We are already engaged with the IMF and World Bank in talking about those things. The second area, it seems to me, where there is a push for this is the question of what you spend the money on does determine the sort of capacity—you mentioned trainers and so on. Is it imported? Is it domestic production? That will make a difference to the macroeconomic framework. I think that is another area we have engaged with the IMF on as well.

**Mr Ahmed:** Maybe I might start by declaring an interest, which is that I have been responsible for designing much of the macro framework for poor countries for the Fund for the last four years before I came to DFID. I would perhaps just say a couple of things on the substance and on the process. I think on the substance, the Fund's macro programming has now changed from saying that the objective of the programme was to ensure macroeconomic

stability to actually saying that the purpose of the programme is to help countries meet the MDGs, but they want to do it in a way that is macro-sustainable. That is actually quite a significant shift, because it is not macro-stability for its own sake; macro-instability is what you want to avoid. Everybody wants to avoid macro-instability because clearly it would derail the process of growth to get to the MDG. The second substantive shift is that the Fund has now moved to accepting the notion of having these two scenarios in their programmes, so you would actually have a scenario which was based on what the current availability of financing is but then a scenario which is based on what is the financing that would be needed. That is where the work that Jeff Sachs's project and the Fund itself with the World Bank are doing will have to look at that. Where they are still falling short—and this is the conversation that you had with Peter—is that the policy framework is there but if you look at individual country programmes, it is not yet being systematically applied. It depends a lot on the individuals who are working on those programmes. Where we are now actively engaged in a dialogue with the Fund is to say, "We don't want to spend more time refining your policy framework, but we want to make sure that what is now best practice becomes standard practice across the low-income countries in which you are working." That is where we are using our country offices, which are engaged with the foundations on the ground to feed back into our executive director's office in Washington, to make that move back to change Fund application of policy which I think will be the priority to get the thing changed. Personally, I do not think that this is a US Treasury issue and, certainly in the time that I was working for the Fund, I never had the US Treasury talk to me on this issue, although they certainly talked to me on many other issues. For that reason, I do not think this is a particular issue for the G8, but I do think that the Africa Commission can make a very important contribution by highlighting the nature of the problem that remains to be resolved. The final thing I would say is that in this area, the one issue is the one you have raised on macro, which is how much money you can spend without having macro problems, but there are much more complicated macro issues which the Fund has not yet begun to grapple with, such as how do you ask countries to take on commitments which are 20-year commitments? If you commit to provide treatment for HIV/AIDS, you are actually taking on a 10–20 year commitment, but donors are providing financing for a maximum of one to three years, and many finance ministers are legitimately concerned about taking on a commitment without long-term financing, and the Fund's programming framework is quite short-term. I think there is a set of issues about predictability, about the link between performance and stability, about how to deal with shocks, which the Fund needs to be more proactive in dealing with, and next week in fact, following on from the discussion you had yesterday, the Fund has organised a seminar in Washington on these macro issues to deal with HIV/AIDS, and I will pursue some of these points there.

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**Dr Brewer:** Can I just give two examples? Masood mentioned that we use our country offices whenever these sorts of problems arise. Two have come to me fairly recently where our country offices are talking to the IMF representative or visiting mission: Malawi, where there have been problems about meeting IMF targets, and Guyana as well, and that sort of flexibility driven by discussion at country level helps to supplement the Washington-based discussion.

**Chairman:** We are now going to move to look at some specific countries that are in the spotlight for various reasons. Ann is going to ask questions about Iraq and Afghanistan, Quentin about Zimbabwe and Andrew about Sudan.

**Q48 Ann Clwyd:** As you say in your report, the major challenge to reconstruction in Iraq is the continuing instability, and I know—I have been there several times myself—the difficulties for DFID staff working there. Have you been able to make any estimate of what proportion of your funds is having to be spent on protecting the staff in reconstruction work?

**Mr Chakrabarti:** It is about 5% of the total programme in the last year that has been spent on that, so it is quite sizeable compared with other places. You have seen it on the ground more often than any of us, and three of us have visited, and I am frankly quite gob-smacked with admiration for the staff who are out there, who simply cannot do their jobs unless they go out of the controlled zones. You cannot be a development person unless you go to ministries and talk to Iraqis and so on, and in that they need supporting.

**Q49 Ann Clwyd:** I have seen some of your projects in the Institute for War and Peace report, which I thought was excellent, and various other programmes I have been able to see for myself but I do see it as a major problem, because there are some things that I have been talking to your staff recently about looking at, because I think they are worth supporting, but I have not been able to go out to visit the project so I have asked the project people to come in and see them. It does make for major difficulties because it must be frustrating for the staff, who are used to going out to the field and seeing and evaluating for themselves, and it is not quite the same having them come and see you. Obviously, I have seen some of the security work that has been done. You have specific security people protecting DFID staff, and I wondered how those people are selected, because, as you know, recently there has been a spotlight turned on the work of the security forces themselves. Those are mainly private contractors. I wondered how you actually put your seal of approval or otherwise on those people.

**Mr Chakrabarti:** I will ask Mark to talk a bit more about this. Our general principle, of course, is to vet the standing of organisations that we contract rather than their own staff, and they are meant, obviously, to vouch for the *bona fides* of their staff. In the overall assessment, if we did learn of something,

issues around particular staff, we would take that up before awarding the contract. Those would be our general principles, and we apply those in Iraq too.

**Mr Lowcock:** Can I just make a general point about this, which is that the change in the security environment for people who work in development has been a very big change for lots of organisations, including ours. For 40 years it was politically incorrect for anybody to make targets of aid agencies, although there were one or two renegades who would kick up a Red Cross person or something—I know some of you have had direct experience of some specific incidents—but following on the bombing of the UN and the Red Cross and what has happened in Afghanistan, what used to be unthinkable is now a real problem we have to deal with all the time. That affects the security of our premises overseas, and our people in certain places. It affects the corporate governance of the organisation because we have to worry about how secure our staff are in places, and we have had to take a series of steps to deal with that. I think it is fair to say that during this process we have been learning as we have gone along. One of the things that is perhaps in the back of your minds is a contract we had with a particular company in Iraq for about nine months or so up to March this year, and the fact of the matter is that we let to a particular contractor, a company who was in there providing certain services, and we needed those services straight away because otherwise we could not put staff in to do the job that they had been asked to do. As it happens, we were satisfied with the performance on that contract. It came to an end not for reasons of performance of the contract, but because it became more rational for us to buy our security services in a more wholesale way, in other words using a fewer number of companies. It is the case that for the first contract we let to one particular company and, for reasons of time, we were not able to go through our normal procedures, but our standard practice is to do legal and financial checks, to run competitions, and to do what we consider to be an appropriate degree of due diligence.

**Q50 Ann Clwyd:** Looking at the assistance you have given, looking at the UN in particular, given that the UN has not actually been operating inside Iraq, does that mean you have reduced the money that you have given to them or have you increased it, or is it the same? Has that been taken into account?

**Mr Chakrabarti:** Yes, it is as set out in the paper we published earlier this year. One of the key things that will have to happen after 1 July is at the international level to try to get the UN and the IFIs more closely engaged in Iraq than they have been. Partly for security reasons, as you know, they have not been operating inside Iraq, but that has big consequences, because they do not therefore know enough about what is going on. The UN is in a better position because the UN has had lots of Iraqi staff, and therefore they have had systems on the ground which allow them to at least have some knowledge, but without their involvement and without the World Bank and IMF involvement, this is going to

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be a retarded process, and we do need those other players engaged. So after 1 July that is going to be a massive effort for us all.

**Q51 Ann Clwyd:** What about the Red Cross? You gave the Red Cross £32 million. What has the Red Cross been doing in Iraq?

**Mr Chakrabarti:** I do not have the detail with me. I am afraid I will have to send you a note.<sup>5</sup> It is the same problem. I think generally, the normal donors that you would expect in this situation have not been there, and that is a phased transition issue for us, I think.

**Q52 Ann Clwyd:** What impact do you expect the transfer of sovereignty to have on DFID's work?

**Mr Chakrabarti:** The basic strategy will not change, but some elements are going to change. One of the first things that we need to do at the international level is to try and get that trust fund which I mentioned before working. At the moment, my worry is that the money is going into the trust fund but, because the Bank and the UN have not been operating on the ground, we are not getting the development outcomes out of the trust fund, so getting it spent in Iraq is the first thing. Secondly, at national level, I see us—and we have been working towards this—pushing harder to get public administration working properly in Iraq, so working even more closely with some of the ministers and ministries, getting private offices working properly, getting policies written up. Basically, it is an Iraqi administration, not CPA-led as it has been up to now. That is at the national level. As you know, down in the south, where we have concentrated quite a lot of our effort, continuing with some of that, but not CPA south, of course; making the governments in the south stand up, getting public administration support to them, and making sure some of the huge US money that is still floating about the system, which could be used for ensuring public utilities stand up and become more effective, are put to work on that as well. So there is a shift in the engagement to a greater Iraqi-controlled process than there has been.

**Q53 Ann Clwyd:** What numbers of staff do you have presently in Iraq, and what will happen after the transfer of sovereignty?

**Mr Chakrabarti:** At the moment we have 35 people altogether in Iraq, four of whom are DFID staff and 31 contractors. That is a reduction from when you were there.

**Mr Lowcock:** We had about 90 six weeks ago. What is happening is that people who were working for the CPA are leaving, and we are gearing up our newer programmes to support the new Iraqi government, so we are in a transition phase. I think the numbers will come up again somewhat, subject to the security environment permitting it, as we move forward further post 30 June. But today, as Suma says, there are 35.

**Q54 Ann Clwyd:** When you say contractors, you mean people on contract for X amount of time?

**Mr Chakrabarti:** Yes, to whom we have a duty of care as well. For example, they might be working on public administration, consultants we have hired, and so on. They have to get out of the green zone to do their work, so we owe a duty of care to them. There are 31 of those, and then there are four direct DFID staff, two in Basra, two in Baghdad.

**Q55 Mr Robathan:** Who employs the security people? Do you employ the security people as well?

**Mr Lowcock:** Security staff are employees of the company with whom we have a contract. We and the Foreign Office have a joint contract now to provide most of the personnel security, and then we have another contract to provide some of the premises security. This is an area where we and the Foreign Office basically have a joint approach.

**Q56 Ann Clwyd:** Finally, working with women in Iraq. There seem to be a number of government departments which have been doing that. What kind of ideas have you for long-term involvement in encouraging women's progress?

**Mr Chakrabarti:** This is an area where we frankly need to take some of the lessons we have learned in places like Afghanistan and Pakistan, where we have made some progress, and fit them to Iraqi circumstances, but apply them to Iraq. We have not made as much progress as we would have liked. The new government in Iraq looks slightly better in terms of women's representation and so on, but whether that is going to filter through to the way the ministries work and so on, that will be something we will be quite concerned about, and we want to make sure they do take gender issues into consideration when they sign a policy, for example. That will be part of our public administration effort.

**Q57 Ann Clwyd:** Since there is some intention that 25% of the new Iraqi government when it is elected will be women, I would imagine quite a lot of work needs to be done.

**Mr Chakrabarti:** Yes. We have done similar sorts of work in Pakistan, where women's representation is part of the constitution there now, and that has made a massive change to the way women are regarded in the parliament. There are some lessons we can draw from elsewhere, from Afghanistan as well.

**Q58 Chairman:** Before we move on to Afghanistan, can I just make an observation? The last time we had an oral statement from the Secretary of State on Iraq was last November. We have had numerous statements from the Secretary of State for Defence. I know the Secretary of State has made a number of written statements. They just do not have the same effect. They are not capable of supplementaries or being probed or whatever. I would have thought that it is in everyone's interests, not least DFID's, some time after 1 July and before the rise of the House, for the Secretary of State to come and make a statement to the House as to what DFID is doing.

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You heard from Quentin's question, Iraq is absorbing more and more of DFID's resources; it is a high priority, and I am not sure DFID's work has had the profile that it perhaps merits. I just make that observation.

**Mr Chakrabarti:** I have discussed it with him and he and I agreed last week that we should try and get a statement around the changeover in early July. He is obviously going to try and agree that with the Prime Minister and the Foreign Secretary, to make sure we have time for that, but that is the intention.

**Q59 Ann Clwyd:** How much was spent on short-term humanitarian relief and how much was allocated to longer term developmental spending?

**Dr Brewer:** For 2003/04 about 10% of what we spent in Afghanistan, which was about £6–7 million, went on humanitarian work. On security, there are a couple of different component parts of this. You will know, I think, about the Provincial Reconstruction Teams. We have allocated about £5 million for that, but only a small proportion of it has been spent so far. We are leading one Provincial Reconstruction Team at the moment, but DFID also has staff in three others. There is also money on security coming from the Global Conflict Prevention Pool, I think about £16 million, and £12 million of that was spent in the last financial year on that element of security work. Then of course there is the money that the MoD allocated, which again in the same year, 2003/04, was £55 million. I do not know whether you are asking questions about provision of personnel security, which varies from year to year.

**Q60 Ann Clwyd:** It is the same situation in Afghanistan as well.

**Dr Brewer:** We spent in the previous year a certain amount on some of the necessary hardware support. We spent less last year for staff security, and we have in the pipeline some spending coming up in the next financial year. It will be a rolling contract which we will take forward to provide additional personnel security for our staff there, because, as Mark outlined, the security context in which our staff are operating in Afghanistan is also more difficult.

**Q61 Ann Clwyd:** How much are your staff able to travel outside Kabul?

**Dr Brewer:** It is difficult. We rely on a range of things to get a picture of life outside Kabul. We have a development adviser in the Provincial Reconstruction Team (PRT) up in Mazar-e-Sharif. We have, as I say, DFID staff in three others in the centre, in the south and in the south-east. We also rely on contacts with our implementing agencies and with relationships we have built up more informally with a range of organisations that operate throughout Afghanistan. But it is harder to travel outside Kabul.

**Q62 Ann Clwyd:** There have been a lot of recent examples of the murders of aid and construction workers in Afghanistan. A number of aid agencies

would blame this on the blurring of the distinction between development work and military security work. How would you respond to such criticisms?

**Dr Brewer:** When I went to Afghanistan with Gareth Thomas early last December, we went up to Mazar-e-Sharif to visit the PRT there, and that was one of the particular questions we had in mind that we wanted to explore a little bit. In particular, we had heard earlier some criticism coming from some of the UN agencies precisely on the point you raise, and we went to see some of them, and they said, "Having seen the way that the UK PRT is operating, we are now much more reassured that this is a sensible way forward, that you maintain the focus of the PRT on essentially helping to create a more secure environment, but do not blur the necessary distinction between that work and humanitarian work which needs to be kept separate." There was still some criticism coming from other aid agencies such as MSF, but the UN had changed its view having seen the way that the UK PRT was operating. It is an important distinction and one that we keep a very close watch on, but we were reassured by the actions of the UN and also by the way that the team in the UK PRT was operating.

**Q63 Ann Clwyd:** A major concern, of course, was the position of women in Afghanistan. I read bits and pieces and I do wonder whether things are improved sufficiently for women. I know they have been able to return to professions, but what about education and other opportunities for women?

**Dr Brewer:** In terms of getting girl children into school, very positive progress has been made there. In terms of representation at the Loya Jirga, that was also quite encouraging. There is a long way to go and I would not for a moment suggest it is anywhere near satisfactory, but there has been good progress there. On a purely anecdotal level—this is something I have talked about with two of our staff in the country, who happen to be women, working in the DFID office there, and their comments were extremely positive—only anecdotal, and you cannot put too much on that, but I think the trends in education of girl children and representation in the Loya Jirga were in the right direction.

**Q64 Ann Clwyd:** What about security for women walking around?

**Dr Brewer:** Again, it is something that I was looking at. I do not have any quantitative evidence there, but the women working in the DFID office said that this is not an easy environment to walk around in. It certainly was not for western women, any more than for western aid workers of either sex. It is still a concern. Perhaps going back to the earlier question about the links between development and security, that is why providing a secure environment and helping to create that is absolutely essential before you can get development off the ground.

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**Q65 Ann Clwyd:** On our last visit there, complaints were being made by the people responsible for offering alternatives to the farmers. There was criticism that not enough money had been made available. What is the progress on that?

**Dr Brewer:** We have been working very closely with the Foreign Office and with MoD and others. We have put a lot of effort into the alternative livelihoods component of our programme, and significantly increased resources to go to that, but we very much wanted to see it as part of the whole programme to help build an effective state, of which providing licit economic livelihoods is part. We have over the last 12 months significantly increased the proportion of spending on alternative livelihoods.

**Q66 Mr Davies:** If I can just say, before I ask a question about Zimbabwe, that I want to make it clear I am not against spending money on security, or indeed helping central banks or any of these other good causes. What I think has come out very clearly this afternoon is that, despite all the propaganda and rhetoric, the 1998 Act has not changed anything at all. Ministers can still decide, as they could before, to take money away from poverty reduction programmes and spend it on security or helping central banks. This is actually the issue we fought in 1998. This is a good expenditure of taxpayers' money—I am not against it—it was merely in the interests of transparency that I asked my question this afternoon. On Zimbabwe, Mr Chakrabarti, I think we are all conscious of the dilemma we face when we have a tyrannical regime, as we have here, and not merely a tyrannical regime but a regime that is pursuing economically suicidal policies. On the one hand, if you say if you put any money into that country at all, even under the rubric, as you are doing at the moment, of humanitarian aid and HIV/AIDS relief, which apparently has nothing to do with politics or the government, it actually provides some relief for the government, and the government will take whatever credit it can from the existence of these programmes. These programmes reduce some of the difficult internal pressure on them, and you may be putting off the day when that regime will be overthrown. It is, if you like, the mirror image of the dilemma we had over sanctions in South Africa. In the short term, if you impose economic sanctions, you might make the position of the poorest people even more uncomfortable, but it was felt by many people that it was worth doing that because it would in the long term be in their interests to get rid of the regime sooner rather than later. It is the same sort of difficult dilemma and difficult trade-off. Against that background, can I say to you that one thing struck me is that you came to the Committee last year—I was not on it—and I gather you said a number of things about Zimbabwe, which I quite agree with, about it being a failing state, with policies so bad it is very difficult to do decent development work, and so forth, and you had at that time an intention of spending £12 million this financial year and next financial year. We notice in the latest annual report that your projections for this year and next year have actually more than doubled to £27 million. That is

striking because surely there has not been any political improvement in Zimbabwe. The dilemma that I have just described is as acute as ever it was. I imagine your judgment is still valid, yet you have more than doubled the amount of money being spent in the country. Can you explain that?

**Mr Chakrabarti:** It is to prevent more deaths. This is all about humanitarian assistance.

**Q67 Mr Davies:** More than you anticipated last year?

**Mr Chakrabarti:** The humanitarian situation in Zimbabwe has worsened significantly over the last few years, hence the plans have been changed to spend more, but it is still a humanitarian assistance programme. You are right about the dilemmas we obviously face. The policies in Zimbabwe are no better in terms of running a development programme; it is not possible, but this is about feeding people, keeping people alive. DFID alone was feeding 1 million Zimbabweans each day during the worst periods. Without us doing this, these Zimbabweans would be dead. That is why we are doing it and that is why we have increased the allocation.

**Mr Davies:** At least your motives seem to be of the purest humanitarian kind, so I will leave that there.

**Q68 Mr Robathan:** It has been said, I think by Hilary Benn, that Darfur is the worst humanitarian crisis facing the world today. I applaud DFID being the second donor of humanitarian assistance in Darfur, but that does not mean it is going away. Alan Gouly, as I recall, used to report to DFID. He is the Government's Special Representative to Sudan, and was instrumental in the laudable attempts to achieve peace in the south, Machakos and Naivasha. We now have this peace agreement, but unfortunately—and it may be part of the peace agreement—there is now this ghastly crisis in Darfur, where you have rebel groups and you have the response of the government in exactly the same way, the authoritarian and devastating response of the government, in Darfur. Do you think in some way we had our eye off the ball in the west through Mr Gouly, and the conflict sprung up in the west of Sudan whilst we were looking at the conflict in the south? Do you think we should have appreciated that in any way?

**Mr Chakrabarti:** I do not think that would be fair. I think Alan Gouly and DFID and UK Government generally were pointing out the problem in Darfur before the peace agreement was agreed in Naivasha. This conflict has been going on since February 2003 in Darfur, with government-backed militia attacking the ethnic population, and we have highlighted it a number of times. The situation has now reached absolute crisis point, as you know, and that is why it has suddenly got a very high profile. It is not because it was being neglected while people were sitting in Naivasha discussing the south. Hilary Benn has described it, as you say, as the worst humanitarian disaster facing us. The UN projections for the number of deaths are that it could be up to a million who could die if we do not

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intervene. The Sudanese government are behaving quite badly it seems to me, in terms of letting aid through, in terms of giving visas for aid workers.

**Q69 Mr Robathan:** What is the current situation?

**Mr Chakrabarti:** That has improved in the last couple of weeks, I think, but it was really difficult and until the Secretary of State went to Darfur and pressed and pressed, and the UN also put pressure on Kofi Annan, making calls to Khartoum, things were not moving. The situation is not great. The UN has now got its act together but we also need other NGOs to really get involved in Darfur. It is quite an unusual humanitarian crisis. Not quite so many NGOs have got involved yet as you might have seen in some other places around the world, and we are trying to galvanise them to get involved.

**Q70 Mr Robathan:** You may have met last week, as I did, the foreign minister from Sudan when he was over, and indeed, one of the finance ministers, both of whom were not in any way telling the truth—whether they knew the truth I do not know but they were not telling the truth. With such a government, which has no legitimate presence, as far as I am concerned, and has an appalling track record since 1998, do you think we can achieve anything more? Do you think there is anything more we can do with it? Whilst we have been assisting—and I pay tribute to that—peace in the south, they are still doing exactly the same thing in the west and indeed in the upper Nile, and it seems to me they do not learn very much. Do you think there is anything more we can do? Should the African Union do more?

**Dr Brewer:** Picking up Suma's earlier point about access, one of the things we do have to continue to push on, and we can do more in quite a concrete way, is to get the full team of African Union observers in. There is an advance party but we need to build it up to the full strength of 120 people, and also the eight human rights observers, because I think access and transparency and improving that is going to be vital.

**Q71 Mr Robathan:** Is the Government of Sudan now showing signs of co-operating?

**Dr Brewer:** Yes. They are not in place yet, but they have agreed that these people must be given access. They are not yet on the ground, so it would be premature of me to say it is all OK now. It is not, and we have to go on pressing.

**Q72 Mr Robathan:** Do you think that there is sufficient aid promised and coming to stop the very large suggestion—I think some of these things get rather wild—of 300,000, perhaps a million people dying in the west?

**Dr Brewer:** There is not enough yet.

**Q73 Mr Robathan:** Is it coming?

**Dr Brewer:** We are lobbying hard and there are signs, I think, that there will be increased contributions, but it is not there yet, and Hilary Benn has been very active in speaking to people.

**Q74 Chairman:** Before I ask Tony to ask you about the reorganisation of DFID's policy division, can I ask a question: one of your PSA objectives, Objective 4, is working with key multilateral agencies in reducing poverty, but of course, one of the tasks you have is also working with other Whitehall departments on reducing poverty. There is quite a lot, whether it is Zimbabwe, Sudan, Afghanistan or Iraq, of conflict resolution and there is quite a lot of work on conflict resolution. We have across Whitehall these conflict resolution teams and there is fairly extensive mention of them on page 107, and this is a shared objective that you have with the FCO and the Ministry of Defence. One of the mysteries about Whitehall is the way in which the Cabinet Office is growing from being just a co-ordinator of Cabinet sub-committees to a major policy department. Whether it is Iraq, Zimbabwe, Sudan or Afghanistan, these are failing states, and this is an area where we all have an interest. There is no mention of failed or failing states in here, but the Cabinet Office I understand is doing quite a lot of work on failing states. One would never know it from here, and one is never quite sure who has ownership of this policy work in Whitehall, whether it is policy work that has just been worked up for the Prime Minister or whether it is worked up for your Secretary of State or where it is done, or whether this is going to be part of the work for the Commission for Africa. There are whole chunks of work being done now in Whitehall that seem almost to fall off the radar screen, and I would have thought that for DFID, the work on failed and failing states would be rather crucial to your work, particularly in relation to conflict resolution in other areas.

**Mr Chakrabarti:** As for the work that is being done by the Strategy Unit, as you have just mentioned, in the Cabinet Office, there are DFID secondees in that team, and we are in close touch with the team. There is also a team in Policy Division working on the same set of issues. It is more joined-up than it looks. That work in the Strategy Unit will be for the whole of government, in particular, obviously, for departments like ourselves, the Foreign Office, MoD, Treasury and so on, but it is meant to be useful for the whole of government, and it will feed into the Africa Commission as well.

**Q75 Tony Worthington:** Can I first of all talk about the reorganisation of your Department? You have had a year of it being reorganised, and there was a supplementary reorganisation in 2004. In retrospect, how do you think it went?

**Mr Chakrabarti:** There was an evaluation, as you know, of the organisation process, and in retrospect, quite clearly, we could have done some things better in the process of the reorganisation itself.

**Q76 Tony Worthington:** "There was a wide concern about failures in the reorganisation process used to achieve the changes." What does that mean?

**Mr Chakrabarti:** There is a perception on the part of some people that it was too long drawn out, and that it started off without being very clear about where we wanted to end up, and therefore a lot of staff felt that

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their views, even though they were being consulted, were not being taken into account. The evaluation says there was no blueprint that we were hiding. We obviously did not know and perhaps we could have managed that a lot better. There was an issue about the number of teams that we created, whether that really was refining the priorities down sufficiently. There was an issue about the balance between standing capacity and new policy capacity, and there was a further issue, which the latest reorganisation finally settled, on structures, whereby an office of chief advisers was floating freely, offering advice, but the teams were also there being managed by administrators and what was the relationship between the two. We reorganised the last bit of that to make it a more integrated approach. So there were a number of issues that came out of the reorganisation process. The evaluation also, to be fair, pointed out a number of benefits, which staff recognised, even if they did not think the process was brilliantly handled. The major benefit that came through, even as early as late summer/early autumn, was greater inter-disciplinarity—a terrible term, but what it means is basically people from different professions working together across professional boundaries. What we have in our country programmes, which works very well, are economists, sociologists, anthropologists working in teams together. In London we grouped them in silos and the whole purpose was to bring them together around issues of interest, like HIV/AIDS.

**Q77 Tony Worthington:** You had silos? Have you got them now?

**Mr Chakrabarti:** We have now reorganised them in various subject groups. You know about the HIV/AIDS team because that produced the *Call for Action*, and there is a strategy that works. That is a set of people who are not just health specialists, whereas in the past it was a health team, whereas we know HIV/AIDS is not just a health issue.

**Q78 Tony Worthington:** Can I turn to HIV/AIDS and reproductive health? How are you going to cope with an emerging problem, which is the high rates of incidence of HIV now in some middle-income countries? You have an overall target of reducing poverty and focusing your attention on the poorest people in the poorest countries, but in Europe and central Asia, unfortunately, it looks as if there is a growing epidemic, and there are other areas. How can you cope with that?

**Mr Chakrabarti:** I will ask Nicola to give you some country detail, but in those countries it is not really a transfer of resources that is the issue. I went to South Africa recently to discuss this with them. They are not looking for massive UK resources to deal with HIV/AIDS; they have resources to deal with it. It is much more an issue for them of supporting innovative new ideas. For example, in South Africa we have been working on education around HIV/AIDS. There is a programme called Soul City, which we have supported, essentially to educate the South African public through TV and other media about the dangers of AIDS and how to cope with as well,

the social consequences thereof. That is the sort of thing they have found very useful, and they have then been able to sell this programme to a number of other, much poorer countries, and it has proved very useful. In Russia, when I was there two years ago, the issue there was not, again, transfer of resources, but how you co-ordinate an AIDS effort across the whole of government. The Russian approach had been that it was a health problem, a young man's problem, a drug problem, "nothing to do with the rest of us, thank you very much," but really to be dealt with in various provinces by health teams, until we got the World Bank to do the analysis which showed that if the prevalence rates kept going the way they were, it would have a massive impact on the Russian economy, and perhaps have economic consequences for the Russian government. They then set up a government-wide advisory council. It is that sort of thing that we can do in middle-income countries to galvanise effort.

**Dr Brewer:** A couple of other examples. All of the teams working on middle-income countries are really conscious, because they know about the constraints on financing, that HIV and AIDS needs to be a focus of the programmes there, whether bilateral or regional ones or whether it is working through the multilaterals. It is something that they say to us quite a lot. Suma has already mentioned South Africa and the work through Soul City which we are supporting, but we also have a £30 million multi sectoral commitment on HIV and AIDS with South Africa. We do not have any bilateral programmes on HIV/AIDS with the other three middle-income countries in southern Africa—Botswana, Swaziland and Namibia—but we do support Soul City, which is operating there as well, and we also support SADC, the South Africa Development Cooperation Programme, which operates in those countries, and some others as well. So regionally and multilaterally, we are supporting HIV/AIDS in those middle-income countries in southern Africa, not bilaterally. In a number of other middle-income countries we are also designing some regional programmes that will impact on HIV and AIDS. Two examples are Serbia and Montenegro, where we are at the design phase for a £1.5 million programme, which will be regional, but will be focused on prevention in vulnerable populations, and we have some similar things in Latin and Central America as well. The last point I would mention is that we are also supporting some work which involves south-south cooperation, so some really interesting contacts between the Brazilians and the Russians, passing on best practice from Brazil that Russia is interested in applying. We have supported and facilitated some meetings between them.

**Q79 Tony Worthington:** At the weekend I became conscious of the news that the National Audit Office came out with this report about your AIDS work, and I have been trying to understand what they said. Can you tell me what what they said means? It is not

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very clearly expressed. How do you react to what was reported in a very simplistic way in the media? What do you think they were saying to you?

**Mr Chakrabarti:** I have read the draft, and the final report has arrived on my desk in time for me to appear before the Public Accounts Committee (PAC) next Monday. Basically, there are three strands or conclusions. They start off by saying that DFID has done very well in this area compared with other donors, but there are three criticisms or three areas to explore. One would be around how much have we spent on HIV/AIDS, and Mark can explain a bit more about our scoring system. We score HIV/AIDS as direct expenditure but also our sexual and reproductive health is part of this. We are transparent about that. We do not hide it. They say that if you take out sexual and reproductive health expenditure, you have obviously spent less on HIV/AIDS. That is one area to explore, how much you are spending on this problem. The second area is something I mentioned earlier on: to what extent is the strategy that we had in 2001 on HIV/AIDS helping to inform country programme managers on what they do and how they do it? The third area is in engaging with multilateral institutions: to what extent are our strategy papers pushing this big development challenge and getting these multilaterals to take it seriously?

**Q80 Tony Worthington:** There are a number of things there. The third point I can understand, because in Ethiopia I did not feel that the team was fully equipped with an understanding of the latest developments in AIDS policy and so on, and there could have been more from DFID, but on the second point you were talking about, which was where you could not say how much was being spent on AIDS because it was also covered by sexual and reproductive health expenditure, surely you would want to resist the National Audit Office on that, because you would be going back to your silos?

**Mr Chakrabarti:** Exactly so. That is going to be our answer.

**Mr Lowcock:** That is exactly right, Mr Worthington, and to give one example, we supplied the year before last 500 million condoms to developing countries. That contributes to an objective on HIV/AIDS but also contributes to our other key objective on sexual and reproductive health, and the point that we would like to make sure we communicate effectively is that some expenditure contributes to more than one objective. We try with our systems to present data in a way which is consistent with that.

**Q81 Tony Worthington:** I think there is another aspect to that as well, that they say you did not know how effective you were. That is how I interpreted some of it, but there are some bits which are very easy to measure, like, for example, what percentage of the population are on anti-retrovirals. Surely, the priority still has to be preventive work. How are you going to measure that, because of your activities, people did not become infected? You have to do that.

**Mr Chakrabarti:** Absolutely. It is very difficult. What they were saying in terms of us not measuring our effectiveness was not measuring the effectiveness of the 2001 strategy on our country teams as opposed to on HIV/AIDS sufferers. So, in terms of the new strategy, which will come out next month, we will be trying to get a good balance between prevention, which is key, as well as treatment. Treatment is also very important, because, going back to my Malawi example, if we do not treat many of those people in the 15–45 age category, those are the workers, and if we let them die very quickly, the economy will just collapse. It is already operating at way below potential. So the need to involve treatment as part of the plan is quite important.

**Q82 Tony Worthington:** Another thing you referred to was about working with other people, about working with multilateral agencies or other bilaterals. How are you finding that? My perception is that these people are not very malleable, and I am particularly talking about the United States, which you do not mention anywhere in the document. Everywhere I go this is the big issue in HIV/AIDS work: how can you work with this country in a co-operative way?

**Mr Chakrabarti:** I will ask Masood to say a bit about the United States, and I will talk about the Global Fund, which is our other big partner. On both, progress is being made. We had a very good meeting with the Americans in Johannesburg the other day, at a joint task force meeting on AIDS. Masood can tell you about that. On the Global Fund, I have become personally involved in this with Richard Feachem, in the sense that I now supply him with country teams' reaction to how the Global Fund is working on the ground. He then uses that evidence, because he does not have a big organisation, to go and try and change the way they operate in each of the countries. So we are almost acting for him as well as for ourselves in this. One of the problems we have had, as you know, with the Global Fund in the country was separate co-ordinating mechanisms, and procurement systems which looked very out of date in terms of how other organisations were operating. If anything, it had transaction costs early on. That was very early on in the Fund. In the last six to nine months a lot of change has taken place in the way the Fund is operating, which has made us happy in the sense that this organisation has moved on, and it is important that that organisation does have a bigger impact. So I think the trend with the Global Fund is actually in the right direction.

**Mr Ahmed:** Could I just say a word about the US/UK collaboration on this and also one point on treatment? I think on the US/UK collaboration on AIDS, we set up when President Bush was here last November a joint task force to try and see if we could find practical ways of moving forward, recognising that the US does work within a lot of self-imposed constraints. We decided to focus on five countries, and we decided that we would put the focus on the country teams to see if they could come up with ways to work together. We had the first meeting of that group of country teams in South Africa about three

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weeks ago. The upshot of it is that actually, the country teams, both on the US and the UK side, had been very creative in trying to find ways around the constraints, and come up with things that actually moved the agenda forward. Often field staff from the USA or from CDC that are in the field from the US side are proactive in coming up with those solutions. That said, it is the case that if you look at the legislation governing the US HIV funding under the Emergency Plan, it is extraordinarily prescriptive and detailed, and it does indeed introduce a whole degree of rigidity in the way in which countries and others have had to adapt around it. While people are finding creative solutions to it, it would be better if you did not have to find solutions in the first place. So I think it is a pragmatic response, and what I see is people attempting to make good progress and actually beginning to show some results on it.

**Q83 Tony Worthington:** One of the areas that just puzzled me is again, if you talk to UNFPA or locally to Marie Stopes, they are constantly talking about the shortfall in provision of, particularly, condoms, but HIV testing facilities, a whole set of problems. If you are going to tackle both reproductive health needs and HIV/AIDS needs, one of the things you can measure is whether you have adequate supplies. In your report all you say is “technical and financial assistance to provide access to a range of contraceptive methods.” This must be a very big problem, where you can measure progress towards solving that problem, and where you could be more frank in the report about what progress is being made. Again, the United States has withdrawn all assistance to UNFPA. What is happening?

**Mr Ahmed:** Two things. One is, I think you are right that we can probably be more explicit and direct and fuller in terms of actually saying where we are on ensuring security of the sexual and reproductive health commodity supply chain to countries. There are a number of things that we are doing in that regard, and I think it would be useful to add a box in there which actually details that. I can give you some examples, and I am happy to follow up with more specifics, but, for example, just to stay with the actual provision of projects for the supply chain, as we mentioned last year through the bilateral programmes we have had we have been supplying a total of 490 million condoms. That is one dimension of the problem. Secondly, in the dialogue that we have with countries, we are trying to ensure that these commodities in the supply chain for sexual and reproductive health are part of the government’s own priority list, so that they are not dealt with as something outside of the government system. That is a bit of an issue that I have about ring fencing, because I think ring fencing for funding for these may be appropriate in some cases, but you want to make sure that it does not lead to them being taken off the priority list of governments, because it needs to be part of their own priorities. The third thing is to then work with multilateral agencies, and in that we particularly look at UNFPA to be the front line in terms of identifying, doing the assessment, ensuring that there is procurement distribution and

monitoring network in place, and on our side there is no doubt in our minds that we are continuing to support them and recognising in particular that there are others who are pulling back, but also the Global Fund side, where a number of the programmes in the Global Fund on HIV/AIDS do have a dimension; I think about 80% of their programmes actually have, for example, a condom financing component. So it is about introducing the linkages between sexual and reproductive health and HIV/AIDS on the one hand, but also recognising that there is a distinct agenda on sexual and reproductive health which we need to pursue and not let the HIV agenda speak for it entirely. These two are connected but separate agendas which we have to push forward. Clearly, what we should do more of is to come forward with clarity on it. We are actually going to be putting out soon, next month, a strategy paper on sexual and reproductive health which will lay out in much more detail exactly what we are doing and planning to do.

**Q84 Tony Worthington:** In conclusion, could I say, having seen your Department at work recently in Montreux and in New York, I am delighted with the progress that is being made on the linkages between reproductive health and HIV/AIDS.

**Mr Chakrabarti:** Thank you very much, and I hope you let the PAC know that as well.

**Q85 Mr Davies:** I want to take up if I might, some of the administrative costs that you set out in your annual report and accounts. You were saying at the beginning, Mr Chakrabarti, that you were in the market for suggestions as to how you might present these accounts better. Let me come up with one. Let me tell you that if I sat on the board of a public company—actually, I do sit on the board of a public company—and I saw your table 6 on page 175 as part of the management accounts, I would send them right back. They fail to do the first thing which a table of costs should do, which should be to distinguish between that increase in costs which represents purchasing new inputs, and that increase in costs which represents paying more for existing inputs. Your note—not a very detailed note—suggests that it is just a new definition of administration costs which was introduced which largely accounts for the substantial increase. That implies that there has been no increase in costs at all. But in actual fact, if you look at table 7, you find that your total employees have gone up from 1,640 in 2002/03 to 1,925, which is an increase of nearly 20%. There must have been some real increase in costs. You leave the reader of these accounts, frankly, completely in the dark, not understanding at all how much of this increase in costs is really a re-categorisation of costs (where overheads were previously carried by projects they have now been separately itemised), and how much—because we need to know that—represents a genuine increase in costs. Perhaps you can now tell us what the real position is.

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**Mr Chakrabarti:** I will ask Mark to give you the detail. I take your point and I think we will try and do better on this next year. As I understand it, about 14% of the increase is an increase in administration costs. The rest is explained by the re-categorisation.

**Mr Lowcock:** That is right. The other point I would make is that these are not the accounts. The accounts are audited separately by the National Audit Office. For 2003/04 we have presented draft accounts to them which they are auditing at the moment. I will take your point and make sure that in the presentation we have given them we are making the right comparator for this bit of the accounts.

**Q86 Mr Davies:** Mr Lowcock, even Members of Parliament have limited amounts of time, but our constituents, who ultimately pay your bills, have even less time, and if they are asked to read a long document, nearly 200 pages, to understand what is going on in just one department of state, to be told, "If you can't understand that table, that is too bad because you should be looking at another document, and if you compare it with this document you might understand what is going on," surely that is not good enough in terms of accounting to the public. It is very important that when we read this document it is self-sufficient in its own terms, and that where it purports to state the administration costs, we can really understand what is going on in administration costs. I will not labour the point. Can I just ask one final question? Can you give us some idea of the likely impact on DFID of the Gershon and the Lyons studies of administration costs, as far as your department is concerned?

**Mr Chakrabarti:** We are obviously working through the implications right now. In line with all departments—I am taking the Gershon efficiency side first—we can expect our administration costs to be capped in cash terms at the 2005/06 level, and what we are going to have to do is make significant further reductions in our back office costs, in HR, finance and IT. We are already working on the HR side of that. On the Lyons front, as you know, we have our headquarters in Abercrombie House in Scotland and we will be moving a further 85 posts up there, a mixture of policy and back office up. Those are the two main impacts. There will be some impacts for some of our front line programmes as well. Some of the programmes in south Asia may also have to be reduced in terms of the numbers of people working on them, but we need to work that through once we have seen our Spending Review outcome.

**Q87 Mr Davies:** So the good news, good news for the taxpayer but good news from your point of view presumably, is that you feel that you are going to be able to increase your productivity sufficiently that you can cap your administration costs in cash terms so that they will fall in real terms as each year goes by, and you will be able to increase in real terms your total budget, the value of the services you deliver, while keeping your administration costs capped. So there will be a significant increase in productivity

which will be quite measurable on the basis which I have described, for the foreseeable future. Is that the position?

**Mr Chakrabarti:** That is right. We will need to come forward and show how those efficiencies have been achieved and where the efficiency improvements are, and we have discussed some of the ideas today. For example, if you move further down the budget support route, there should be some scope for some staff savings. If you harmonise with other donors more, there should be scope for some savings.

**Q88 Mr Davies:** So you are happy to deliver that programme of productivity improvements?

**Mr Chakrabarti:** I think it is very much in line with the way we are thinking about how we should run the programme anyway.

**Q89 Chairman:** I have a couple of final questions. We have not talked about the European Community. If one looks at page 98, about a quarter of DFID spending is spent through the EC programme, and then you say at paragraph 5.29: "In conjunction with HM Treasury, DFID continues to lobby the EC to promote the poverty focus of the 2004 budget so that more funds go to low-income countries." This is a refrain that we have all heard on many occasions. Then I look at page 196, which is an organogram of DFID staff, and the only person I can see who looks as though he is trying to sort out the European Union is Nick Dyer. There are thousands of people, in Tajikistan, every bit of the world has someone, and somewhere down there in International Division tucked away between Conflict and Humanitarian Affairs and International Finance—I am sure it is not like that but are you confident that enough resource is being spent on ensuring we get the best value out of the EC allocation?

**Mr Chakrabarti:** Nick Dyer is a wonderful person, worth his weight in gold, but he is not the only one working on this. That is absolutely right. We have people in Brussels as well, in the UK delegation there. Nick obviously has a team underneath him, working on this and above him are Peter Grant and Masood and myself. We all spend time on this because it is one of the biggest worry areas for us, frankly, in terms of the quality of the programme and so on. It is a wider set of people than just Nick.

**Q90 Chairman:** Do you see any prospect for the new Commission? There will be a Commission before the constitution, so there will presumably be an increase in commissioners—no, not this time. Do you see any prospect in the immediate future of making an improvement on this? It is very disappointing. We have made seemingly little progress collectively on this over the last few years.

**Mr Chakrabarti:** I think where we have made progress actually is more in making sure the EU has policies and so on which are more development-friendly. For example, if you believe in budget support, the European Community is actually doing rather well on that front. Where we worry is the allocation of aid, and it is not just about

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commissioners; it is about member states. The member states frankly are not going to see development as a high priority amongst their EU objectives; and at the moment they do not. That is one issue. The other issue, it seems to me, is who makes decisions about allocating EU aid. They are made essentially by foreign ministers, not by development ministers, and therefore the allocation of EU budgetised support in particular reflects those preferences, hence the allocation you have in front of you. Where development ministers have a big say is round the EDF, and that is allocated pretty largely to poor countries. There is a whole set of issues around the incentives in the system being geared away from poor countries at the moment. Masood, Nick and others have been devising a strategy and running with it to try and change the incentives, whether we can split the development budget from foreign policy concerns, for example, a bit like we have in the UK, those sorts of issues. Within the UK Government we have made quite a lot of headway and have reached agreement on that. It is a question really of persuading others now.

**Q91 Mr Davies:** Mr Chakrabarti, the European Union—I am not talking about the member states' individual aid programmes, but the European Union's own expenditure on this falls into two categories, does it not: the external relations part of the budget and the EDF part of the budget? So far as external relations is concerned, they are not committed to a pure poverty reduction programme. They are simply spending the money in accordance with the foreign policy objectives of the European Union. We have discovered this afternoon that that is what actually happens here in practice, and so what the European Union is doing is spending money on stability in the near abroad, the Balkans, north Africa, the former Soviet Union, spending money on things like security and all the rest of it, perhaps helping central banks. In terms of the EDF part, which is the majority of their spending, there is a rigorous poverty reduction agenda, is there not? It is directed at the signatories to the Cotonou Agreement, who are, I think, all poor countries, are they not? So there you have a degree of purity, and that is actually quite autonomous, to come back to a word I used in another context this afternoon. So far as the external relations part of the budget is concerned, what they are doing seems to be quite sensible in terms of the foreign policy objectives of the Union, just as I think that where we are spending money on foreign policy objectives, building stability in difficult parts of the world, that is also a reasonable expenditure of taxpayers' money.

**Mr Chakrabarti:** I of course disagree with your characterisation of what we are doing in the UK budget, but I agree with your characterisation of the way the EU budget is divided up. That is essentially what I was saying. I think member states have to decide that, if the budgetised programmes are really about foreign policy, then we should say so.

**Q92 Mr Davies:** I think you are saying about the European Union what I am saying about you. What do you think about the budgetisation controversy? Do you believe that the EDF part of the EU's spending should be budgetised?

**Mr Chakrabarti:** I would fear that if it were budgetised, it would go the same way as other budgetised programmes. Some of the things you mention on the benefits whereby the way it is allocated and run would go.

**Q93 Mr Davies:** What would happen if we withdrew from the European Union's overseas aid programme, either from the external relations part or from our contribution to the Cotonou Agreement and to the EDF?

**Mr Chakrabarti:** I do not think we have a choice over whether we can withdraw from the budgetised programmes, so far as I know. It is part of the Treaty obligations.

**Q94 Mr Davies:** If we withdrew from the EDF—that we can do, because it is inter-governmental and voluntary—what would be the consequence for, for example, the implementation of the Cotonou Agreement?

**Mr Chakrabarti:** There would clearly be a huge drop in whatever our share is of the EDF and the impact that we have on the policies of the EDF. EDF, as I say, has moved in the right direction on policy, largely, I would say, due to DFID pressure and help with some of the policy work, in country and in Brussels.

**Chairman:** I think we should leave it there. Thank you very much. I thought it was a very good exercise having everyone present this afternoon. Thank you very much for taking part. I hope you all felt it was helpful. The Clerk wants to know in response to your reductions of administrative costs whether you are going to be reducing back office jobs in India, as we have a Select Committee visit to India. I would also like to say thank you very much to all your team for looking after the Select Committee on various of our visits around the world. We are grateful to them for doing that, and we have always been looked after very well wherever we have gone. That is genuinely much appreciated, because I think having a Select Committee turn up mob-handed cannot be the easiest of things, so we are grateful for that. We are also grateful for the cooperation of officials who give us reports and briefings and so forth.

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# Written evidence

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## Memorandum submitted by the Department for International Development, replying to questions raised by the Committee on the 2003–04 DFID Winter Supplementary Estimate and Resource Accounts 2002–03

### IRAQ RECONSTRUCTION

*The Department's Autumn Performance Report shows significant slippage on targets relating to reproductive health and child mortality in Africa. Can further details be provided as to how such targets will be affected by the funding of Iraq's reconstruction?*

DFID funding for the reconstruction of Iraq will not affect its programmes to improve reproductive health and child mortality in Africa. The Department is committed to meeting its target of increasing the proportion of its direct assistance to low-income countries to 90% and spending a total of £1 billion to reduce poverty in Africa in 2005–06.

*Secondly, we are concerned that the Department should not use temporary shift in Iraq's classification to claim success in meeting its commitment on increasing bilateral funding of low-income countries to 90% by 2005–06.*

DFID is planning to meet its commitment to increase the proportion of its direct assistance to low-income countries to 90% by 2005–06 on the basis that Iraq will be classified as a middle-income country.

*Thirdly, given that 85% of the Department's £100 million contingency fund has been drawn down under RfR:1 C, how will the Department retain the flexibility to respond to any further emergency situations which develop during the remaining 4 months of the year?*

DFID has retained £12 million in its contingency reserve for the final quarter of the financial year and will draw that unallocated provision down in its Spring Supplementary Estimate. Should an emergency situation arise, DFID would look first to its remaining contingency reserve and then examine options for reallocating part of its planned expenditure to provide the emergency assistance needed. To the extent that this is not possible, DFID would need to seek funding from HM Treasury's Central Reserve.

### WINTER SUPPLEMENTARY ESTIMATE

*The provisional outturn shows the amount of capital EYF carried forward has increased by 700% from £4,370,000 in 2002–03 to £31,004,000 in 2003–04. In the Winter SE only £500,000 of this capital has been drawn down. Can details be provided as to how the Department is intending to spend this capital and when?*

Capital EYF for 2003–04 was based on provisional 2002–03 outturn figures that indicated a negative capital outturn. The difference between a positive capital DEL and a negative capital outturn resulted in a large projected capital EYF for 2003–04.

However, there were substantial changes to the final outturn position due to increases in net capital expenditure. These were corrected in a revised calculation of EYF (incorporating the final 2002–03 outturn position) which was sent to the Treasury. The current position is that we have a 2001–02 EYF of £8,621,000 and £0 from 2002–03.

The £500,000 increase in the Capital DEL at Winter Supplementary Estimate was not a call upon EYF but a transfer from the Central Reserve to help fund humanitarian and reconstruction needs in Iraq. This was additional money and part of a total £120,000,000 Reserve Claim agreed by the Treasury.

We plan to call down the whole of the 2001–02 Capital EYF at the 2003–04 Spring Supplementary Estimate to provide cover for capital spending plans in this financial year.

*Changes in new provisions and adjustments to previous provisions of £441 million bring the revised total to nil. Changes in the use of provisions by £461 million (94%) bring these to just £27.6 million. Can further explanation be given of the substantial changes to new provisions and to the use of provisions detailed in the WSE.*

The new provisions and adjustments to previous provisions in the Main Estimate represent new promissory notes for contributions to IDA and similar bodies and cash drawn down from previously deposited promissory notes. The WSE changes do not reflect a change in the amount that the Department is contributing by way of promissory notes, but rather brings the presentation of promissory notes and cash adjustments into line with their treatment in the Departmental Resource Account for 2003–04. Accordingly, un-drawn promissory notes and cash adjustments are shown under creditors rather than provisions.

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RESOURCE ACCOUNTS 2002–03

*The Resource Accounts show that staff numbers have risen from an average of 2,530 in 2001–02 to 2,807 in 2002–03 (an 11% increase in numbers). At the same time staff costs have risen by 39% (£15,886,000). Can details be provided of the reasons for the significant increase in staff costs which have occurred and how the costs relate to the numbers of staff employed?*

The figure for staff costs has been taken from Note 2.1 to the Resource Accounts. However, Note 2.1 goes on to explain that the total for 2002–03 includes staff costs charged to Programme or Capital whereas the figure for 2001–02 does not. These were included in the total for 2002–03 to give greater transparency to total staff costs. Staff costs for 2002–03, exclusive of programme and capital elements, is £43,621,000. Therefore, when comparing the figures for 2001–02 and 2002–03 on the same basis, the increase in Staff Administration costs is 6% (£2,553,000) and not the 39% suggested.

The increase in staff numbers from 2001–02 to 2002–03, as set out in Note 2.2 to the Resource Accounts, reflects the increased complexity of the international development agenda; the need to engage more strategically with development partners; and to meet the staffing requirements of the increased number of DFID overseas offices worldwide.

*During 2002–03 a significant new provision of £37.8 million has been created to meet the shortfall of rents receivable against rents payable until 2014, on a property previously occupied by a former executive agency of the Department and now occupied by the University of Greenwich. We are aware that the change of occupancy was due to the work of the Agency being taken over by the University. We are also aware that the shortfall is due to the lower rents payable by the University in relation to payments made by the Department under the main lease. However we would like to know more about the historical context of this provision, how and over what period the shortfall was allowed to arise and what steps the Department took to minimise it.*

The provision relates to a sub-lease to the University of Greenwich agreed when the University took over the work of the Natural Resources Institute in 1996. At the time, the market rent obtainable was significantly lower than the cost of the lease finalised in 1991. Up to 2001–02, the difference between receipts and payments was treated as a current expense. In 2002–03 we concluded that the shortfall should be accounted for under Financial Reporting Standard 12 and full provision was made for the forecast difference for the remaining term of the lease. The resource expense of creating this provision was fully covered by additional provision in the Spring Supplementary Estimate for 2002–03. The Department negotiated the sub-lease with the advice and support of professional property advisors with the aim of minimising any difference between the sub-lease and rents payable by the Department. The rents under the sub-lease increase by 3% a year and are subject to five-yearly rent reviews linked to movement in open market rents.

January 2004

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**Memorandum submitted by the Department for International Development, replying to questions raised by the Committee on the 2003–04 DFID Spring Supplementary Estimate**

CENTRAL RESERVE

*We understand that the Department is seeking two further transfers from the central reserve: £25,269,000 towards the Heavily Indebted Poor Countries (HIPC) programme and £6,500,000 towards Iraq Reconstruction. In addition to the £120,000,000 central reserve transfer in the Winter Estimate. Would you please confirm the basis upon which these central reserve resources have been transferred. Specifically, will DFID have to repay any of these amounts and will any offset against future resource allocations be required or is all this funding to be treated as additional to the original estimate for 2003–04?*

The £25,269 million HIPC 100% call on the Central Reserve resulted from the financing arrangements for this initiative as set out in the Spending Review 2002 Settlement Letter. Under these arrangements, any spending in excess of £6.5 million per year in 2002–03 and 2003–04 was to be financed from the Reserve. The £25,269 million represented our best estimate of expenditure (in excess of the £6.5 million) for 2003–04. It was wholly additional to the original Estimate.

Under the Settlement arrangements, any unspent balance from this Supplementary will return to the Central Reserve. Treasury have however agreed in principle that if an under-spend is forthcoming a new Reserve claim may be submitted to the Chief Secretary to the Treasury for the remainder of the funds in 2004–05.

The call on the reserve for the £120 million in the Winter Supplementary and the £6.5 million in the Spring Supplementary were both to finance humanitarian and reconstruction needs of Iraq. These allocations are additional to the original Estimate and will not be affected by any underspend on other allocations. We are confident that full disbursement of these funds will have occurred in 2003–04.

The Treasury have acknowledged that, as the £120 million Reserve claim was part of the £544 million UK commitment announced at Madrid, there is a strong case for DFID to carry over any unspent balances into 2004–05. Therefore, although we cannot roll any unspent funds forward, the Treasury have undertaken to consider whether, if there were an underspend, part or all of it could be returned to DFID by way of a separate Reserve claim in 2004–05.

## CAPITAL

*We also understand that capital receipts are likely to be £8,400,000 less than expected and there is an overall increase of 39% in the capital budget (to £67,600,000). To fund this increase all the End Year Flexibility from 2001–02 has been drawn-down, together with a number of transfers from programme resources elsewhere in the estimate. Can further information be provided regarding what projects the additional capital funding is needed for, whether programme cuts suffered elsewhere to fund this additional spend and details of what caused the £8,400,000 reduction in forecast capital receipts.*

The revised estimate of £67.6 million for Capital spending is made up of £33 million administration capital (an increase of £5 million from the £28 million set out in the SR2002 Settlement Letter), £19–£20 million of existing programme capital (consistent with previous estimates) and £15 million for a new capital item related to the European Development Fund (EDF). The EDF capital spend results from a technical adjustment whereby the part of our annual financing of the European Development Fund that is passed on to the European Investment Bank is now treated as Capital rather than Resource spend.

The forecast increase in Administration Capital expenditure was responding to the need for new offices to support expanding country programmes. In the event, there were slippages in capital expenditure and the latest figures for 2003–04 suggest that the final outturn for Administration Capital will be in the region of £29–£30 million.

The net transfer from Resource to Capital, excluding the £15 million related to EDF, is £3.9 million. This will be funded from anticipated resource under-spends and will not have an adverse affect upon individual programmes.

The 2003–04 Main Estimate figure for Appropriations-in-Aid of £37 million was based on the figure set out in the SR2002 Settlement Letter. Since that time we have revised downwards our forecasts of repayments of multilateral and bilateral loans. The £8.4 million reduction is primarily due to the application of HIPC terms to loans formerly held by CDC.

May 2004

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### **Memorandum submitted by the Department for International Development, on the reorganisation of the Policy Division**

1. The restructured Policy Division came into being on 1 April 2003. The 12 advisory departments were abolished and in their place about two dozen Teams were created, organised into five policy groups: Aid Effectiveness, Growth, Service Delivery, Working in Difficult Environments and Future Challenges. The new Teams were set up to be multi-disciplinary, in contrast to the old advisory departments, and worked under a new ethos of responsiveness to demand. It was envisaged that about 80% of the work of the Division would be dedicated to new policy work, in support of the Division's PSA objective "to develop evidence-based, innovative approaches to international development". Several central Teams were also established: Research; a Cabinet to cover human resources and budget matters; a Communications Unit to improve our interface with external contacts; a Programme Management Unit, to handle the majority of the Division's programme spend; and the Office of Chief Advisers, to provide specialist technical support both to PD Teams and to the rest of PD.

2. As with all change processes, refinements have had to be made during the course of the year. Two key areas in particular needed attention: the role of the Division and the management arrangements needed to make it work. It was recognised at an early stage that the proposal that the Division should devote 80% of its resources to new policy work was over-optimistic: there was simply too much servicing of existing policy areas needed to make this possible. The Management Board therefore agreed that the Division should have four workstreams, each with equal weight:

- New policy development.
- Maintaining core policy capacity.
- Providing advisory support.
- Knowledge sharing.

A new PSA objective for the Division was also agreed, to reflect the new balance of work: "to develop, support and promote policy that assists poverty reduction and the achievement of the MDGs". Within the four workstreams, the maintenance of core policy capacity was the area that had suffered most: not all areas that the Division needed to cover had dedicated teams and there were clear gaps that needed to be addressed.

3. The need to plug core policy gaps was also linked to the need to simplify the Division's management arrangements. Under the original vision, each Policy Group was headed by a Deputy Director, with responsibility for the delivery of new policy products, while the Chief Advisers led on substantive policy advice. This resulted in confused lines of accountability and meant that some core policy work slipped between the two management structures. Following an internal review, the Management Board concluded that a single management structure should be created, with all core policy work handled within the five Policy Groups. Each Policy Group Head will be supported by one or more senior Heads of Profession covering DFID's range of advisory skills. The content of the Policy Groups is also being adjusted, to ensure that all core policy areas are covered. This change has also provided the opportunity to strengthen the attention given to professional development, with Heads of Profession given administrative support within the Policy Groups. The new Divisional structure is shown at Annex A<sup>1</sup> and will formally come into effect on 17 May 2004.

4. Given the scale of the change process, an independent evaluation was commissioned at the end of 2003, to draw lessons for the future. This concluded that there were a number of failures in the reorganisation process used to achieve the changes and a number of issues and wider impacts across DFID that still needed to be fully resolved. These are being addressed by the changes that will be implemented from 17 May. However the evaluation also noted some significant achievements brought about by the change, both from the process itself and its outcome: the move to genuinely multi-disciplinary working has been a particular prize. These are summarised in Annex B<sup>2</sup>; the full report is provided separately. The evaluators also observed that the mood in Policy Division was changing even at the time that they produced their report,<sup>3</sup> as the benefits of the change were beginning to be seen more widely. This was picked up by the Investors in People assessors, who re-accredited DFID earlier this year. Their report is also provided.<sup>4</sup>

5. Despite the inevitable disruption to work caused by the change process, some significant policy achievements have been made over the past year. These include:

- a major new policy paper on HIV/AIDS;
- the development of a new approach to agriculture and poverty reduction;
- a new policy statement on water and sanitation;
- the development of a strong analytical base on migration and asylum issues;
- work with other parts of Whitehall on issues such as failing states, access to medicines and sustainable development;
- the establishment for the first time of a focal point for all DFID's aid effectiveness work and an integrated team structure to pursue this agenda.

6. The Division is now well positioned to take forward the policy work needed to support the UK's Presidencies of the EU and the G8 and the UN's stocktake of progress towards the Millennium Development Goals in 2005.

*April 2004*

DFID also submitted two annexes with this memorandum:

Annex A: a table showing the structure of the Policy Division from 17 May 2004, and Annex B: Achievements noted by the PD Evaluation. These have not been printed. Copies have been placed in the Library, as has a copy of the Evaluation Trust Report *Process of the Reorganisation of DFID Policy Division*, December 2003.

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**Memorandum submitted by the Department for International Development,  
replying to questions submitted by the Committee**

PERFORMANCE MANAGEMENT

1. *Do you have an early warning system to alert you to targets against which progress is slipping?*

Twice-yearly performance assessments using international data sources, Divisional-level reporting and in-country programme monitoring together form an effective early-warning system for identifying actual or potential slippage against Public Service Agreement Targets 1 and 2 (*Progress towards the MDGs in 16 key countries in Africa and Progress towards the MDGs in 4 key countries in Asia*). More frequent in-year monitoring is carried out at Divisional and country level and action taken where targets are found to be off-course.

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<sup>1</sup> Not printed. Copy placed in the Library.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

<sup>4</sup> Not printed.

DFID undertakes performance assessments twice yearly, using published international data: in the spring for the Departmental Report and in the autumn for the Autumn Performance Report. International data sources are supplemented by more up-to-date or accurate national data where this is available and statistically robust.

At Divisional level, a formal review of Directors' Delivery Plans is carried out annually with the Management Board. The first annual review cycle was completed in January 2004. Additionally, further reviews are completed two or three times annually within each Division, when Directors and their teams look at progress against Divisional targets, which link to the Public Service Agreement Targets. The review process varies between Divisions, with some having more formal processes than others. As an example, in Asia Division all Country Heads report twice-annually to their Director on progress. All Public Service Agreement focus countries in Asia are required to identify at least one Director's Delivery Plan indicator relating to those targets which are known to be off-track (eg TB detection and maternal mortality rates) and one indicator addressing the most serious risks to delivery (eg poor governance). While not mandatory for non-Public Service Agreement focus countries, they are encouraged to follow this practice.

Country Assistance Plans are subject to annual review, which feeds into the Directors' Delivery Plan review. Additionally, in-year reviews and assessment of progress against targets are undertaken by the country team, on at least a six-monthly basis, and often quarterly. Work is underway to align the project/programme portfolio behind the Public Service Agreement targets. Progress within a project is monitored regularly by the project team. It is compulsory for all projects over £1 million and over two years old to be scored according to their risk category and the likelihood of meeting outcomes. These scores are entered into a central Management Information System and form the basis for reporting against our Public Service Agreement Target (*Value for Money*) in the Departmental Report, Autumn Performance Report and Quarterly Management Reports.

In the case of Public Service Agreement Targets 3 and 4 (*Improved Effectiveness of the International System and Secure agreement by 2005 to a significant reduction in trade barriers leading to improved trading opportunities for developing countries*), which fall within the remit of DFID's International Division, similar formal public reporting combined with Divisional-level monitoring is used to identify slippage. International Division holds three meetings each year at which progress in implementing the Director's Delivery Plan is assessed. Annual indicators that can be monitored will be included in new Institutional Strategy Papers with the multilateral agencies.

2. *DFID's internal target on performance management is judged as being on course. How is this reconciled with the fact that several of the 2003–06 Public Service Agreements have slipped or are judged as being "too early to say"?*

The internal targets from the 2003–06 Service Delivery Agreement are targets linked to how we work. The internal target on performance measurement relates to the efficiency of the process of reporting on performance, as part of the overall management of the Public Service Agreement.

Progress against this target does not depend on successful performance against the individual targets of the 2003–06 Public Service Agreement. This target is judged to be on course because the reporting and reviewing mechanisms are all in place and fully implemented.

3. *The measurement of several targets (eg Target 2(vii) Prevalence rates of HIV infection in vulnerable groups being below 5% Target 2(vi) An increase in the proportion of births assisted by skilled birth attendants from 39% to 57%) is hampered by poor data. What is DFID doing to address this? Is there a risk that poor data and the inability to measure performance is invalidating some targets?*

#### SUPPORT TO INTERNATIONAL STATISTICAL INITIATIVES

Since 1997 DFID has been at the forefront of supporting international initiatives to improve the quality and availability of development statistics. Key international organisations, such as the UN, International Financial Institutions, OECD and regional bodies, are influential in providing and improving the statistical information basis needed for effective development and poverty reduction. They are responsible for compiling and disseminating international datasets, and are important sources of statistical assistance to developing countries. DFID works together with these international institutions to improve international statistics and support the development of statistics worldwide.

#### PROGRESS AND ACHIEVEMENTS

DFID has worked with the World Bank, UN and other interested agencies to draw up the Marrakech action plan that aims to substantially increase the resources devoted to improving statistical capacity in developing countries and internationally.

DFID funds statisticians in the UNDP, World Bank and the UNESCO Institute of Statistics both to build their capacity and to strengthen their ability to help build national capacity.

DFID has continued to provide financial support for the International Monetary Fund's General Data Dissemination System project that supports Anglophone African countries in drawing up and implementing plans for improving statistical systems.

DFID also continues to provide technical and financial support to the multilateral PARIS21 initiative (Partnership In Statistics for Development in the 21st Century). PARIS21 is a network of people interested in statistics from development agencies, governments and civil society. It aims to promote evidence-based policymaking and improve support for statistical systems in developing countries.

DFID is providing £2 million towards the World Bank's new International Comparison of Prices programme that will underpin our ability to better measure progress towards the Millennium Development Goal target of halving the proportion of people in the world living on less than \$1 per day.

DFID will be providing £4 million over the next three years to the World Bank's Trust Fund for Statistical Capacity Building, which supports projects in countries across the world.

#### BILATERAL ACTIVITIES

DFID works in partnership with a number of developing and transition country governments to support the development of sustainable, nationally driven government statistical systems, and promote the value and use of statistics in national policymaking. When providing technical assistance, DFID often works closely with other UK Government Departments to make use of the range of statistical knowledge and expertise across the Government Statistical Service.

#### PROGRESS AND ACHIEVEMENTS

DFID now has 11 statistical advisers providing support to a range of countries within North and West Africa, Asia, Europe, Middle East and the Americas. A priority of DFID's statistical support is low-income countries. A focus of this work is support to governments to develop better statistical systems in support of locally owned development strategies, including frameworks to establish Poverty Reduction Strategy Monitoring Systems. DFID is working actively in this field in Bangladesh, Ghana, Malawi, Nepal, Pakistan, Rwanda, Tanzania and Zambia amongst others.

DFID also works in middle-income countries. For example, within Eastern Europe and Central Asia, DFID is working with National Statistics Offices to make social and economic statistics more representative, of higher quality and better able to meet the needs of users as a foundation for better understanding of the dimensions of poverty and social factors in the region.

Poor data do make it more difficult to accurately monitor progress towards the targets, although this does not invalidate the targets themselves. We can measure long-term trends, albeit imperfectly, and care should be taken in interpreting the results. Despite the problems we should be able to detect whether we are achieving the large-scale shifts in the various measures of poverty required to achieve the 2015 goals, and, just as importantly, areas where we are not making progress and further effort is needed. We are not complacent about the problems and, as already indicated, we are actively working with partner governments to tackle the data problems.

4. *Target 2 (iii). An increase in gross primary school enrolment from 95% to 100% has slipped from being "on course" in the 2003 Autumn Performance Report to being 'too early to say' in the Departmental Report 2004. What has caused this?*

Improvements in the quality of data have required a re-evaluation of progress towards this target in Asia. Gross enrolment rates (which included over age children and grade repeaters) are now being supplemented by net enrolment rates, which present a more realistic picture of progress towards the target of universal primary school enrolment by 2015.

In Bangladesh, China and India, gross enrolment rates of over 100% are falling as the absorptive capacity of their education systems catches up with demand for enrolment. In Pakistan, progress is almost static and achievement of the target in Asia is reliant on progress there.

If the universal primary school enrolment target is to be achieved the rate of progress now needed is greater than that achieved since 1990. Education, therefore, remains a considerable challenge in Asia.

5. *In response to the Committee's report on the Departmental Report 2003, the Department told us that they were "looking into the feasibility of generating information on financial data on Sexual and Reproductive Health through new project reporting systems". What progress has been made in this area?*

New reporting systems have been introduced which ask for more detailed information on projects. 2003-04 is the first full year of such information and we are planning to analyse the new data to evaluate the take up and effectiveness of the new systems. The results of this review will be available later in the year.

## IRAQ

6. *Did use of the contingency reserve for Iraq impact on any other projects?*

In 2003–04 DFID spent an estimated £207 million on humanitarian assistance and reconstruction for Iraq. This came from a number of sources, including: £75 million from the contingency reserve; an additional £126 million provided by HM Treasury from the central reserve, and funds already allocated for Iraq.

The use of the contingency reserve to provide funding for Iraq in 2003–04 had no impact upon DFID's existing spending plans, nor did it preclude other emergency funding. We provided £6.5 million to support the continuing post volcano clear-up work and other contingencies in Montserrat; other pressures were able to be met from existing budgets.

The contingency reserve falls outside the planned expenditure for the Department and allows us to respond quickly to unforeseen needs that might arise. The situation in Iraq, where there is an urgent requirement for humanitarian and reconstruction assistance, is a good example of the type of contingency the reserve is set up to support.

## EUROPEAN UNION

7. *Annexe 1 shows that there is a trend for an increasing allocation to the European Development Fund with planned expenditure for 2005–06 up 23% on the estimated outturn for 2002–03. How is this reconciled with the likely/anticipated slippage against target 3(i), A greater impact of EC external programmes on poverty reduction, including through working for agreement to increase the proportion of EC oda to low-income countries from 38% to 70%?*

Annexe 3 of the Departmental Report concludes that it is “Too early to say” what progress has and will be made on the proportion of EC oda going to low-income countries by 2006, partly because of the difficulty in forecasting Commission future spend. Most recipients of European Development Fund spending fall into the low-income country category so some improvement in poverty focus could be anticipated. Therefore at this stage DFID is not envisaging a “likely/anticipated slippage against target 3(i)”

8. *The estimated outturn for 2003–04 and plans for 2004–05 and 2005–06 for the European Development Fund, show a marked increase on the plans for the same periods as set out in the Departmental Report 2003. How is this increase explained?*

The increases in the estimated outturn for the European Development Fund reflect updated figures from the Commission. The Commission's performance in implementing European Development Fund programmes improved during 2003 with commitments and payments exceeding projections. This is expected to continue in 2004 and 2005. Increases in commitments and expenditure were envisaged in these years as they represent the high point of the EDF9 programming cycle.

## CONFLICT PREVENTION AND HUMANITARIAN RESPONSE

9. *The allocation to humanitarian response programmes fluctuates significantly between 2002–03 and 2004–05. Can you explain why this is the case?*

There are two sources of funding for humanitarian response in DFID—regional programme budgets and this central line. This central line covers (a) major crises that arise in regions where DFID does not have a significant programme and (b) rapid onset disasters. The fluctuation between 2002–03 and 2003–04 reflects the fact that there were significantly more emergencies of these two types that DFID judged it appropriate to respond to in the former year than the latter. The extent of major emergencies in regions where DFID does not have a significant country programme will vary from year to year.

The reason why the allocation for 2004–05 is higher than the outturn for 2003–04 reflects two factors. Firstly DFID has decided to allocate more money to this line at the start of the year, whereas previous practice has been to start with a modest allocation and draw additional resources from DFID's contingency reserve during the year as crises have arisen. This change reflects the recommendations of two internal reviews. The second factor is that as a result of rationalisation of budget lines, DFID has transferred into this budget line its core contributions to the World Food Programme and the UN Office for the Coordination of Humanitarian Affairs, which were previously allocated to a different budget line.

10. *The Departmental Report 2003 showed planned expenditure of £8.9 million on humanitarian and refugee policy, yet the estimated outturn for 2003–04 as shown in the 2004 Departmental Report is only £3 million. What explains such a difference?*

This line includes within it a variety of disaster preparedness, humanitarian policy, and refugee and migration projects. During the course of the year, we decided to transfer funds originally allocated to this line to other lines where we judged there were greater or more pressing needs. We spent less on this line because our initial estimate proved over-optimistic—we encountered fewer interventions that we judged worthy of support in these subject areas than we had anticipated. In some cases, projects took longer than expected to incur significant spend, or requests for payment came later than expected and fell into the subsequent year.

11. *Planned spending for 2003–04 for Humanitarian and Refugee Policy and Humanitarian response, as shown in the Departmental Report 2003, was £8.9 million and £27 million respectively. The estimated outturn figures in the Departmental Report 2004 show that both figures were substantially lower at £3 million and £19.5 million respectively. What explains this?*

The answer to the first part of this question is to be found in the answer to Question 10 above. The lower spend on the humanitarian response line reflects three factors. Firstly, there were relatively few emergencies of the type funded by this line in this year (see Question 9 above). Secondly, some funding to cover the costs of DFID's Conflict and Humanitarian Affairs Department's Operations Team was transferred from the programme budget to DFID's administration costs budget during the year to reflect evolving practice in terms of programme/administration definitions. Thirdly, some contributions to UN mine action partners were delayed till the following financial year owing to late submission of invoices.

#### ZIMBABWE

12. *The Departmental Report 2003 showed planned expenditure in Zimbabwe in 2003–04 as £25 million, 2004–05 as £12 million and 2005–06 as £12 million. This year's Departmental Report shows the estimated outturn for 2003–04 as £34 million, and plans for 2004–05 as £27 million and 2005–06 as £27 million. What explains such increases in spending? How much of the £34 million estimated outturn for 2003–04 is allocated to short-term humanitarian spending and how much is allocated to longer-term development goals?*

Since 2001, Zimbabwe has experienced a humanitarian crisis, due to the combined effect of climate, poorly managed land reform, economic mismanagement and HIV/AIDS. Unlike in neighbouring countries, which also faced drought in 2002–03, food security in Zimbabwe did not recover in the following season with improved rainfall. Continuing political and economic turmoil within the country is the main cause of ongoing, widespread hunger and vulnerability. In response, DFID increased its humanitarian spend in Zimbabwe, which accounts for the increased outturn (£34 million) in 2003–04 compared with the planned expenditure (£25 million).

Our spending plans for Zimbabwe are affected by uncertainties over humanitarian and political conditions. Humanitarian conditions are difficult to forecast both because of Zimbabwean policy towards international assistance and because of the evolving economic conditions. On the political side, there is a possibility of a transition, although this seems less likely now than six months ago. In the event of positive change, the UK would be a leading donor and would want to provide significant resources. If there is no transition and present policies remain in place then there will continue to be significant humanitarian needs.

Approximately £26 million (74%) of expenditure for 2003–04 was allocated to humanitarian assistance programmes (see table below). The balance of expenditure was almost entirely allocated to HIV/AIDS programmes. Like most other donors, DFID is not providing funds for longer-term development programmes at this time.

<i>Breakdown of Expenditure by Category</i>	<i>£ 000</i>	<i>%</i>
Humanitarian assistance		
Food aid	18,446	
Agricultural Inputs (seeds, fertiliser)	3,988	
Vaccines	1,886	
Other humanitarian assistance	1,549	
Sub-total (humanitarian assistance):	25,869	74.8
HIV/AIDS	8,032	23.2
Other	670	1.9
<b>TOTAL</b>	<b>34,572</b>	<b>100.0</b>

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**CHINA**

13. *The planned allocation for China in 2003–04 as shown in last year's Departmental Report was £38 million yet the estimated outturn for the same period as shown in this year's Departmental Report is £26 million. What explains this difference?*

A new devolved country office was established in Beijing in July 2003. Following a thorough review of spending proposals, which the new office inherited, it became apparent in the summer that we would not spend our original programme allocation of £38 million in 2003–04. The main reasons for this were: the disruption caused by the impact of SARS, which meant that neither DFID staff nor project partners could travel for the best part of four months; staff turnover; and improvements to financial management and long-term planning following the establishment of the devolved office. In the end we spent £28 million, an under spend on the original allocation of around 26%.

*June 2004*

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## POVERTY REDUCTION BUDGET SUPPORT

## SUMMARY DATA ON POVERTY REDUCTION BUDGET SUPPORT (PRBS) (£m) (includes general and sector budget support)

Predictions for individual countries are too tentative to be included at this stage

## KEY TRENDS:

1. PRBS has averaged around 15% of bilateral aid between 2000–01 and 2002–03, or around 10% of total aid
2. PRBS is currently projected to rise to around 24% of bilateral aid by 2005–06, or around 15% of total aid (but these are very preliminary projections)
3. The shares of PRBS in country programmes for both Africa and Asia should increase significantly over the next 3 years

Region	2000–01**		2001–02**		2002–03**		2003–04**		2004–05***		2005–06***							
	Outturn PRBS	PRBS as % of Country AF*	Outturn PRBS	PRBS as % of Country AF*	Outturn PRBS	PRBS as % of Country AF*	Est. Outturn PRBS	PRBS as % of Country AF*	Planned PRBS	PRBS as % of Country AF*	Planned PRBS	PRBS as % of Country AF*						
Africa (excl. Africa Perf. Fund)	240.0	583.7	41%	155.5	496.9	31%	134.5	663.2	20%	188.8	647.0	29%	268.0	864.0	33%	306.0	1,100.0	33%
Asia (excl. Asia Perf. Fund)	0.0	291.4	0%	92.0	397.4	23%	82.6	450.7	18%	129.0	510.0	25%	285.3	683.9	42%	333.7	733.1	46%
Rest of world (incl. Iraq)	15.0	220.8	7%	25.4	247.0	10%	18.4	226.8	8%	20.9	416.3	5%	15.9	271.0	6%	14.1	236.5	6%
<b>Total (country/regional)</b>	<b>255.0</b>	<b>1,095.9</b>	<b>23%</b>	<b>272.9</b>	<b>1,141.3</b>	<b>24%</b>	<b>235.5</b>	<b>1,340.7</b>	<b>18%</b>	<b>338.7</b>	<b>1,573.3</b>	<b>22%</b>	<b>569.2</b>	<b>1,818.9</b>	<b>32%</b>	<b>653.8</b>	<b>2,069.6</b>	<b>34%</b>
<b>PRBS as % of total DFID bilateral aid****</b>	<b>1,558.5</b>	<b>16%</b>	<b>1,639.5</b>	<b>17%</b>	<b>1,967.6</b>	<b>12%</b>	<b>2,049.0</b>	<b>17%</b>	<b>2,370.0</b>	<b>24%</b>	<b>2,688.2</b>	<b>24%</b>	<b>3,708.5</b>	<b>15%</b>	<b>4,416.7</b>	<b>15%</b>		
<b>PRBS as % of total DFID aid</b>	<b>2,660.0</b>	<b>10%</b>	<b>2,817.5</b>	<b>10%</b>	<b>3,317.1</b>	<b>7%</b>	<b>3,490.0</b>	<b>10%</b>	<b>3,708.5</b>	<b>15%</b>	<b>4,416.7</b>	<b>15%</b>						

## Sources

\*Country Aid Framework (AF) details from Departmental Report (DR) 2004, and Statistics in Development (SID)

\*\*PRBS details up to 2003–04 from SID data on “programme aid”, plus recent updates from PED; SID data could exclude some sector budget support &amp;/or include other types of “budgetary aid” (variations in categories of PRBS between Asia and Africa can also limit comparability of the data)

\*\*\*PRBS projections from 2004–05 are preliminary indications only (from PED, plus Africa and Asia Policy Divisions) and will depend on negotiation of country programmes in several cases

\*\*\*\*Bilateral aid figures derived from DR 2004 data (total aid, less aid for EU, IFIs and UN)

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 INTERNATIONAL RED CROSS AND RED CRESCENT MOVEMENT IN IRAQ

In early 2003, DFID allocated **£32 million** to the Red Cross and Red Crescent movements for immediate humanitarian assistance. To date, we have disbursed £16.5 million to the International Committee of the Red Cross (ICRC) and £1.5 million to the International Federation of the Red Cross and Red Crescent Societies (IFRCS)

*International Committee of the Red Cross (ICRC)*

DFID agreed a contribution of **£16.5 million** towards the preparedness and continuing humanitarian response work of the ICRC (the total ICRC appeal for 2003 amounted to £50 million). £8 million of this contribution has now been carried forward into 2004. This has supported the following key actions:

- The ICRC has maintained a permanent operational presence in Iraq prior to, during and since the conflict.
- Substantial medical, water and other essential supplies have been provided to more than 65 key urban hospitals caring for thousands of war casualties and chronically ill patients; undertaking emergency repair work on water, sanitation and power systems in hospitals and maternity and paediatric centres throughout Iraq.
- ICRC engineers have carried out emergency repair work on more than 50 water, sewage and power stations serving millions of people throughout the country.
- Mobile water distribution units have been set up in urban areas suffering from acute shortages and ICRC water-tankers make regular deliveries to regions with no alternative source of supply.
- Food, water and shelter have been provided to internally displaced persons and to homes for the elderly, orphanages and other social institutions.
- More than 11,000 prisoners of war and civilian internees have been visited to monitor their treatment and conditions of internment and to enable them to restore contact with their families. Between January and May 2004, the ICRC has made 58 visits to 27 places of detention in central, southern and northern Iraq.
- ICRC tracing and communications services have restored contact between thousands of family members cut off from one another by the conflict.

The ICRC remains the only international humanitarian organisation to remain operational in central, southern and northern regions of Iraq. Over 400 national staff are currently operational and are backed up by a team of expatriate colleagues operating from permanent bases in Northern Iraq as well as through regular visits to Baghdad and Basra.

Despite security constraints, the ICRC has been able to respond to many critical emergency situations. In Erbil this February, medical aid was provided to two hospitals following bomb attacks that killed up to 100 people and injured hundreds more. That same month, emergency surgical aid was dispatched to Baghdad hospitals treating the wounded after bomb explosions that killed well over 100 people and wounded many others, and in April, emergency medical supplies were delivered to Abu Ghraib hospital after a bomb attack on the local prison that reportedly killed 22 detainees and wounded nearly 100 others. Also in April, at the height of the Falluja crisis more than 18 tonnes of emergency supplies were shipped into Iraq and hospitals in the besieged city were supplied with urgently needed medical aid to treat hundreds of wounded. The same month, in Basra, 1.5 tonnes of medical and surgical supplies and equipment, were distributed to four hospitals following three car-bomb explosions that caused many deaths and injuries. Extensive emergency rehabilitation and repair work has been carried out at vital health, water and sanitation facilities serving millions of people throughout the country.

Water deliveries have continued to city areas by ICRC tanker fleets where there have been limited or no alternative supply sources. Regular supplies have also been delivered to hospitals in Baghdad, Basra and Mosul. In Baghdad's densely populated Sadr City neighbourhood an average of 490,000 litres of water have been delivered daily to supply local distribution outlets.

*International Federation of the Red Cross and Red Crescent Societies (IFRCS)*

DFID agreed a contribution of £15.5 million towards preparedness and humanitarian response work of the IFRCS in the region (the IFRCS appeal for 2003 also amounted to £50 million). This included the pre-positioning of relief supplies to meet the needs of possible refugees leaving Iraq. Such supplies were pre-positioned for up to 300,000 potential refugees in the region and were predominantly used to meet the needs of third-country nationals leaving Iraq through Syria and Jordan. As the conflict did not produce significant population movements, the IFRCS contingency plans, on which their appeal was based, did not need to be implemented and they therefore did not need to draw down funds beyond £1.5 million. We are considering with the British Red Cross Society and the IFRCS to what extent further support may be needed.

#### WRITTEN FOLLOW-UP QUESTIONS

1. *Would the UK be in a much better position to persuade its partners of the merits of front-loading and delivering predictable increases in aid volumes through an International Finance Facility, if the UK had a timetable to meet its 0.7% commitment?*

This Government has already increased the oda/GNI ratio from 0.26% in 1997 to 0.34% in 2003, reversing the previous decline. As part of the 2004 Spending Review, the Chancellor announced that UK official development assistance (oda) would reach nearly £6.5 billion a year by 2007–08. Total UK oda as a proportion of Gross National Income (GNI) will rise from 0.34% in 2003–04 to 0.47% in 2007–08. The Government wishes to maintain those rates of growth in the overseas aid ratio, which on this timetable would rise beyond 0.5% after 2008 and reach 0.7% by 2013.

The International Finance Facility (IFF) would provide a unique opportunity to front-load development investment in the run-up to 2015. If the IFF succeeds, total UK aid flows based on estimated disbursements from the IFF, excluding the debt service elements, could achieve the equivalent of 0.7% oda/GNI as early as 2008–09.

The forthcoming G8 and EU Presidencies in 2005 will provide the UK with the opportunity to provide further leadership on these issues.

#### DIRECT BUDGET SUPPORT

2. *Did DFID's enthusiasm for Direct Budget Support stem from past poor evaluations of project aid?*

Yes, to some extent. When using projects, donors tend to be concerned with how their money is used and managed. If they use Poverty Reduction Budget Support (PRBS) they will be concerned with and try to improve the effectiveness of the implementation of the whole of the government's budget.

By supporting a country's poverty reduction strategy with budget support, donors can:

- (a) strengthen local ownership of the planning process; there is less risk that local priorities are undermined by excessive influence of donors in identifying and choosing projects;
- (b) reduce the proliferation of donor conditionality and enable donors to harmonise and align their support around the government's implementation of its Poverty Reduction Strategy (PRS);
- (c) avoid the potential distortions created by "project implementation units", which often take the best local staff (paying them higher salaries) and establish parallel systems, thereby undermining national systems and causing resentment among the remaining civil servants;
- (d) make line ministries more accountable to ministries of finance, rather than to donors; and, by creating conditions for increased transparency, make governments more accountable to their people; and
- (e) provide greater incentives for both donors and recipient governments to strengthen the effectiveness of government systems.

*What conclusions did DFID draw from evaluations of project aid?*

Projects have, in the past, sometimes weakened the recipients.<sup>5</sup> In particular, the behaviour of donors can:

- (a) impose transactions costs on the recipients, tying up scarce resources in negotiating with donors and implementing and monitoring conditions;
- (b) marginalise and undermine government systems (for example, budget planning, accounting, procurement, personnel management); this undermines the incentive to reform and improve systems which are vital for the delivery of government services as a whole;
- (c) create uncertainty, particularly in financial planning, which makes planning and long term investment impossible; the unwillingness of donors to make longer term commitments is inconsistent with the importance they attach to medium term planning;
- (d) impose tied aid conditions which make aid less effective, add to transactions costs, and create a multiplicity of systems and standards in public services;
- (e) make competing demands on government, through uncoordinated and inconsistent donor priorities and conditionality;
- (f) divert attention to activities which are transactional rather than transformational.

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<sup>5</sup> See John Erikssojn's (1999:15) *The Drive to Partnership. Aid Coordination and the World Bank*, for examples of how aid practices cause distortions.

*Does DFID remain convinced that the right conclusions were drawn and that DBS is the best way of addressing them?*

It is still too early to assess properly the medium term impact of PRBS. Nevertheless, in a few countries (such as Uganda) real gains have been made—scaling up the delivery of basic health and education services, increasing the focus on the budget, and giving people confidence to claim their rights.

Such benefits have not yet been realised in all countries, and we are still learning about the ways in which implementation of PRBS can be improved. DFID’s experience to date indicates that:

- The transfer of financial resources alone does not automatically generate policy, institutional and governance improvements: appropriate technical assistance and policy dialogue are also needed. There is limited evidence yet of reduced transaction costs, and nor would we expect this in the short term.
- Donors are pursuing a wide variety of objectives through budget support. If greater consistency could be established over objectives, and hence over management mechanisms, then it seems likely that the impact would be greater.

The shift towards PRBS involves a significant change in the way donors work with governments. This should be recognised as a major change process that will only happen over a period of time. Donors have a responsibility to align their procedures in order to take full advantage of the potential to reduce transaction costs for countries. Donors should provide predictable support within an agreed time frame, minimising and making clear any conditions under which their support might be modified or withdrawn.

DFID will continue to work with its development partners—both developing countries and other OECD DAC donors—to assess the effectiveness of this instrument and to review our own practices in the light of what we learn.

*3. The DFID Departmental Report states, perfectly reasonably, that “Where the development arguments in favour of DBS are strong a higher level of fiduciary risk may be justifiable” (para 6.11). But development arguments can be made to support various decisions. Decisions about whether/how much aid to provide are not the same as decisions about how to provide aid but we heard different development arguments in East Africa: in Ethiopia, the development argument we heard for DFID support was based on the large number of poor people in Ethiopia; in Kenya, the development argument we heard was about Kenya’s role as the regional economic powerhouse. How does DFID assess the strength of different development arguments?*

DFID will use PRBS, and will encourage other donors also to use budget support, when circumstances are appropriate. To assess whether the circumstances are appropriate, we have to consider whether:

- (a) the partner government’s planned budget priorities support poverty reduction;
- (b) there is commitment to making the administrative, technical and financial systems robust and reliable, so that funds help to reduce poverty effectively; and
- (c) provision of DBS will produce significant benefits relative to other forms of aid delivery (such as better coordination of support to a more coherent policy and expenditure programme, and lower aid management costs).

In most countries DFID uses a mix of aid instruments. Judgements in each country have to be made on the appropriate mix to ensure that the instruments work in a complementary manner. As well as consideration of the areas outlined above, this depends on what other donors are doing, where the gaps are, the government’s policy preferences and capacity to provide what is needed. The country programme documents should make explicit the reasoning and analysis underlying the choice of aid instruments.

*How does DFID ensure that the issue of fiduciary risk is given sufficient weight in deciding about whether to pursue DBS?*

DFID has developed a comprehensive approach to assessing and managing the fiduciary risks associated with direct budget support, which has been agreed with the National Audit Office.

Firstly, a thorough evaluation of the recipient government’s public financial management and accountability procedures, systems, practices and associated risks must be carried out. We have set out eight good practice principles and 15 related benchmarks, which provide a framework both to ensure that adequate and sufficient information is obtained and that a broad assessment can be undertaken. Secondly, the recipient government must have a credible programme to improve public financial management and if necessary to incorporate temporary safeguards to mitigate identified risks. The decision to provide direct budget support is made where the potential development benefits justify the risk involved.

DFID’s policy in this area is clearly identified in the published document *Managing Fiduciary Risk When Providing Budget Support*.

DFID is working with other development agencies and international financial institutions to harmonise approaches to fiduciary risk management, thereby limiting the burden placed on governments to meet the requirements of different donors and lenders. This includes harmonisation of donor assessment procedures.

*Is DFID satisfied that public expenditure management systems in Ghana are good enough to allow for a shift towards DBS?*

DFID is satisfied with current progress on public expenditure management in Ghana. Within the nine-donor multi-donor budget support (MDBS) arrangement, DFID has committed £110 million and since approval in 2003, has disbursed £40 million, as direct budgetary support to the Government of Ghana. DFID Ghana has assessed the government's position on public financial management against DFID's corporate fiduciary risk framework criteria. Although the level of fiduciary risk remains relatively high, particularly due to weaknesses in comprehensiveness and credibility of the government budget, the government has developed an action plan to implement systemic and institutional reforms, which directly address the weaknesses identified by the development partners.

Public expenditure management (PEM) reform is a dynamic situation. Progress against the government's programme of PEM and public sector reform is at the heart of the review process for MDBS and the Poverty Reduction Support Credit of the World Bank. Progress on reforms is monitored jointly through the MDBS policy matrix by development partners and the World Bank, and is linked to IMF, and Heavily Indebted Poor Countries (HIPC) initiative conditions. Decisions on release of budget support financing are therefore taken jointly upon assessment of progress.

The recent HIPC Africa Action Plan assessment, carried out jointly by the IMF and World Bank, moved Ghana from 1/15 to 7/16 benchmarks between 2001 and 2004, confirming the government's progress in this area. The Government of Ghana is committed to addressing the remaining shortcomings within the agreed action plan. DFID's remaining disbursement on PRBS will depend on further progress in the area of PEM, namely in establishing key procurement bodies to implement the new law and finalising the audit of the 2002 consolidated account.

*4. Does DFID consider that the benefits of DBS will only be achieved if enough bilateral and multilateral donors operate in the same manner, thus easing the burdens placed on aid recipients to meet various conditions and reporting requirements?*

Preliminary studies indicate that the contribution made by Poverty Reduction Budget Support to donor harmonisation (especially in respect of consistency in setting benchmarks, reporting requirements and synchronising missions) has been most significant where it has been the preferred mode of resource transfer of either governments or donors.

However, even in countries where only one or two agencies provide budget support, other benefits of budget support could still be achieved, especially where budget support accounts for a large share of total aid to the country. For example, budget support encourages increased ownership and empowerment by increasing the proportion of funds that are subject to the national budget process. There is also more flexibility in the use of aid, so that governments have more room for manoeuvre in implementing policy reforms. These are key factors for improvements in service delivery and development outcomes.

It should be noted that there is still a role for donors to deliver projects in a budget support environment. For example, projects can perform a number of important functions beyond the reach of budget support: they can act as policy experiments; they can demonstrate alternatives; they can assist the non-state sector; and they can transfer skills.

*Does DFID—when considering whether to move to DBS in a country—take account of the likelihood of other in-country donors following suit?*

DFID does take account of the likelihood of other in-country donors following suit when moving towards budget support. DFID always tries to work with other donors when using PRBS. However, in some countries it may only be one other donor—eg in India (Andhra Pradesh), DFID and the World Bank provide budget support.

DFID believes that, when circumstances are appropriate, budget support is the aid instrument most likely to support a relationship between donor and developing country partners which will help to build the accountability and capability of the state. So DFID encourages other donors to move towards budget support and often plays a key role in facilitating and developing the multi-donor budget support groups in country.

*5. To what extent do different donors' different conditionalities constitute an obstacle to greater donor harmonisation?*

DFID is committed to harmonisation of aid at the country level. We favour a common financing and review framework with development partners, including the International Financial Institutions (IFIs), in order to reduce transaction costs, reduce inconsistency and reduce the burdens of multiple conditionality agenda.

There are no blueprints for harmonisation—we need to respond to different country circumstances. DFID believes that conditionality should ideally be drawn from the country-led Poverty Reduction Strategy Paper (PRSP) (or similar) framework, so as to align closely external support with national priorities, processes and systems.

Where PRSP processes require improvement or lack operational content, DFID will continue to promote common review systems, agreed between donors and partner governments, such as Performance Assessment Frameworks (PAFs). Recent examples of such PAFs, based on national PRSPs, include Ghana, Mozambique, Tanzania and Uganda. Where appropriate, World Bank Poverty Reduction Support Credit (PRSC) arrangements may also provide the basis for such common frameworks.

It is important that PAFs serve to strengthen the PRS process rather than establish parallel processes for monitoring donor conditionality. Over time, the PRS itself should become the basis of assessment by donors. It is also important that new instruments (such as PAFs) do not add to the weight of conditionality in IFI programmes, or magnify the impact of conditionality on the recipient government. As far as possible, cross conditionality should be avoided, so that responses of different donors to different concerns are graduated and proportionate. DFID will encourage the inclusion of mechanisms in PAFs that discourage “herd behaviour” amongst donors in order to avoid the risk of a sudden, precipitous decline in aid flows.

*Are multilateral bodies such as the IMF, World Bank and African Development Bank supportive of DBS, and are they harmonising their own programmes accordingly?*

The IMF is very supportive and is moving towards aligning Poverty Reduction and Growth Facility (PRGF) programmes with Poverty Reduction Strategy Papers and other donors support for budget support.

The World Bank is also very supportive. Their own form of PRBS is a Poverty Reduction Support Credit (PRSC). DFID and the World Bank have PRBS and PRSC programmes alongside each other in Uganda, Tanzania, Mozambique, Ghana, Sierra Leone, Ethiopia, Rwanda, Malawi, Vietnam, Pakistan. In Afghanistan we work through a World Bank trust fund.

The Africa Development Bank uses a form of PRBS called Development Budget Support Lending (DBSL). This is being used in Benin, Uganda, Sierra Leone and Ghana and they are moving towards implementation in Tanzania and Rwanda.

The Asia Development Bank has a policy-based lending instrument and is moving towards alignment, for example, aligning with multi-donor budget support group in Vietnam.

The European Commission also uses PRBS. They are closely aligned with us in Mozambique, Tanzania, Ghana, Rwanda, Uganda, Malawi and Sierra Leone.

*Are the policy conditionalities imposed by other donors—including the IMF—sufficiently supportive of DFID’s poverty reduction objective?*

Evidence suggests that without “ownership” of the reform agenda, conditionality backed reforms are unlikely to be implemented, or, if implemented, they are unlikely to be sustained.

There is increasing interest by donors, and IFIs, to use common review frameworks (such as Performance Assessment Frameworks) based on nationally owned Poverty Reduction Strategies. This signifies a move away from externally imposed “conditions” and a move towards the strengthening of development “partnerships”, where the conditions are agreed by and with the recipient rather than imposed upon them.

DFID strongly supports such initiatives and seeks to improve the alignment of donor and IFI conditionality with national Poverty Reduction Strategies. The speed and comprehensiveness of alignment will partly depend on the robustness of government and PRS processes in partner countries. Where PRS policy-actions and indicators are not well specified, and their linkage to budget processes remains unclear, the IMF (and the World Bank) will have greater scope in setting a parallel framework of conditions. Where there is such scope, DFID believes the use of policy conditionality should be circumspect, justified and supported by prior analysis and the use of locally specific evidence, and the link to PRS-implementation is made clear.

The IMF issued new guidelines in 2002 and elaborated key principles for designing and using conditionality. These were issued after a comprehensive review by the World Bank and IMF whose objective was to streamline the application of conditionality between the two organisations. The guidelines stressed the centrality of:

- national ownership of reform programmes
- parsimony in programme conditions
- tailoring of programmes to a member’s circumstances
- effective co-ordination with other multilateral institutions

These principles go some way towards meeting HMG's key requirements, and since publication of the guidelines, the IMF has limited conditionality to its core areas of competency, and has reduced the extent of overlapping and cross-conditionality with the World Bank.

## MULTILATERALS

6. For those multilateral donors which DFID supports, what proportion of the funds they manage go to Low Income Countries?

Net Official Development Assistance by Income Group 2001<sup>1</sup>

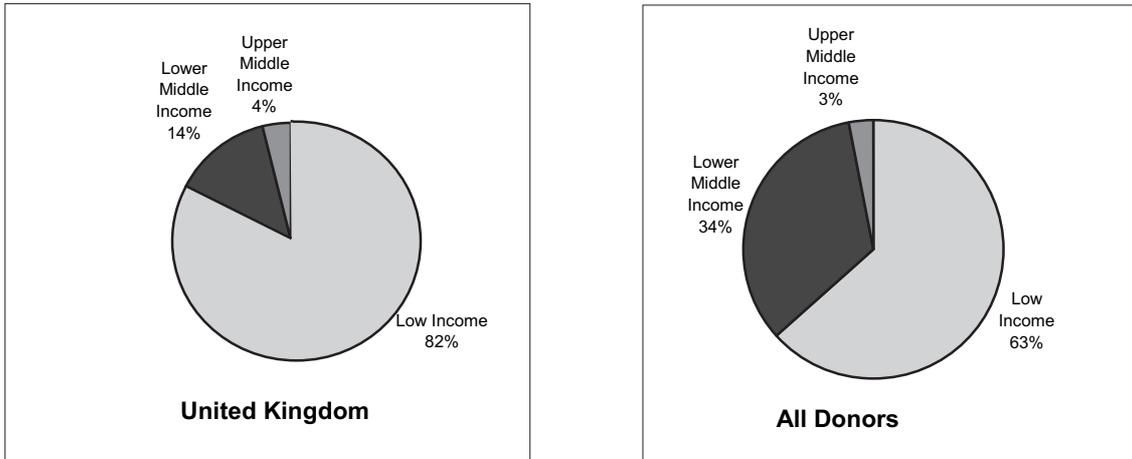
	% of Total allocable by Income Group <sup>1,3</sup>					£ million		
	Low Income	Lower Middle Income	Upper Middle Income	Higher Income	% of total allocable to LDCs <sup>2</sup>	Total allocable by Income Group	Unallocable	Total
<b>Multilateral Donors</b>								
African Dev. Fund	95.5	5.1	-0.6	0.0	76.1	280	10	291
Arab Agencies	96.8	6.8	-3.6	0.0	74.1	96	5	101
Asian Dev. Fund.	86.6	13.4	0.0	0.0	33.5	564	—	564
Caribbean Dev. Bank	0.0	70.9	29.1	0.0	0.0	21	1	22
EBRD	26.2	65.6	5.5	2.7	0.0	12	—	12
EC	43.3	44.8	9.2	2.7	31.4	3,253	578	3,831
GEF	54.1	25.5	20.4	0.0	20.0	56	14	70
IBRD	100.0	0.0	0.0	0.0	0.0	33	—	33
IDA	94.2	5.9	-0.1	0.0	48.7	3,414	—	3,414
IDB SPECIAL OPER. FUND	85.0	23.3	-8.3	0.0	0.1	166	25	191
IFAD	88.1	11.9	0.0	0.0	53.4	115	—	115
Montreal Protocol	87.9	4.6	7.5	0.0	0.0	50	—	50
NORDIC DEVELOPMENT FUND	74.1	26.2	-0.3	0.0	74.3	22	0	22
SAF & ESAF	141.4	-41.4	0.0	0.0	67.8	75	—	75
UNDP	84.6	12.4	3.0	0.0	56.1	193	3	196
UNFPA	76.1	19.8	4.0	0.0	48.2	128	88	216
UNHCR	63.0	30.3	6.5	0.2	44.3	302	76	378
UNICEF	84.0	12.5	3.5	0.0	51.7	245	172	417
UNRWA	0.0	87.0	13.0	0.0	0.0	250	—	250
UNTA	59.7	29.6	10.4	0.3	37.1	152	133	285
OTHER UN	48.0	7.3	44.7	0.0	27.0	225	173	399
<b>TOTAL MULTILATERAL</b>	<b>70.6</b>	<b>23.5</b>	<b>5.0</b>	<b>0.9</b>	<b>39.8</b>	<b>9,652</b>	<b>1,278</b>	<b>10,930</b>
Other Donors	37.2	46.6	16.3	-0.1	21.1	802	-171	631
EC + EU Members	59.6	33.9	5.8	0.8	36.9	11,460	3,310	14,771
<b>TOTAL ALL DONORS</b>	<b>65.0</b>	<b>30.6</b>	<b>4.1</b>	<b>0.3</b>	<b>33.0</b>	<b>28,150</b>	<b>7,732</b>	<b>35,882</b>

1. Income Groups are classified using 1998 GNI per capita thresholds.

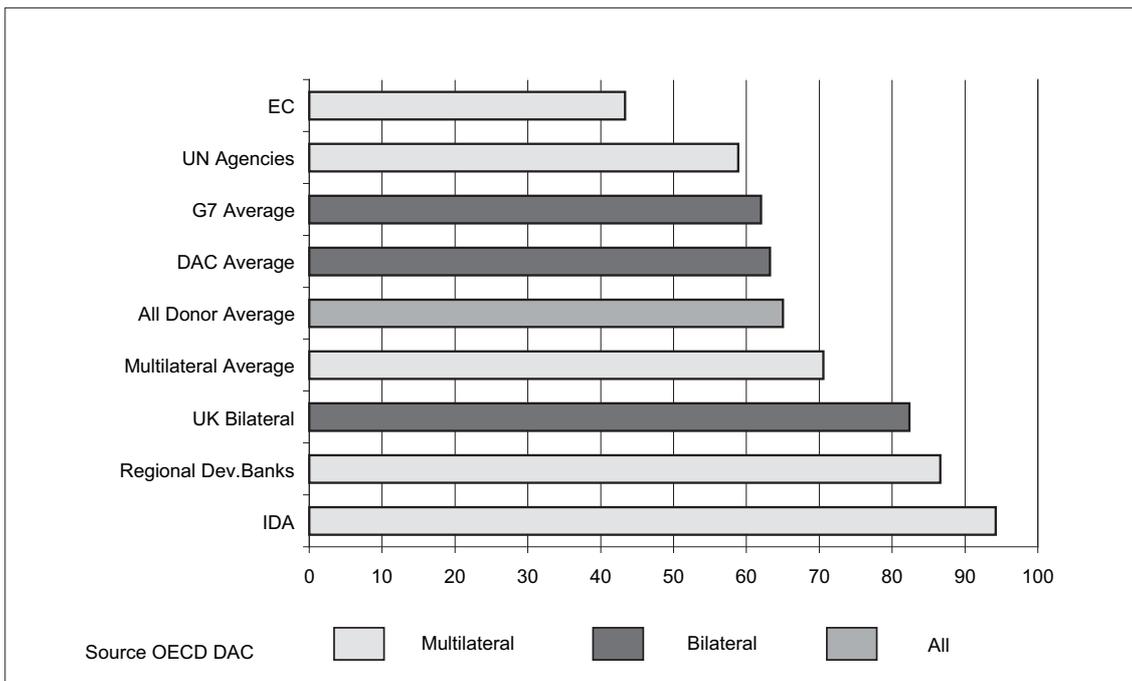
2. LDCs are mainly low income countries.

3. Percentages are not appropriate for negative flows, as a result totals may not sum to 100%.

**Total net oda allocable by income group**



**Net oda to Low Income Countries as a percentage**



7. After several years of stand-still in the budget for international programmes, there is a planned increase of some £400 million in 2005–06. How does DFID use the evidence on the poverty focus of multilateral agencies—the proportion of funds going to Low Income countries—in determining whether to maintain, increase or reduce its contributions to them?

The £400 million increase in our international programmes budget is largely due to IDA 13 replenishment. Poverty focus is a key aspect in the allocation of our aid. All our support for concessional arms of Multilateral Development Banks goes to low income countries (LICs) and in 2005–06 this totalled £584,000 million. For the larger programme spending UN agencies we are also concerned to show a focus on LICs: for UNDP we require 80% of core funds to LICs and for UNICEF 60%.

8. DFID is seeking to improve the poverty focus of multilateral agencies, as expressed in PSA objective 4 and target 3. The Departmental Report provides an analysis of EU spend by region, but there is no analysis on the basis of poverty levels. Could the Department supply statistics on the distribution of multilateral spend by region and country income levels?

<i>\$m 2001</i>	<i>Multilateral Total</i>	<i>AfDF</i>	<i>AsDF</i>	<i>CarDB</i>	<i>EC</i>	<i>IDA</i>	<i>IDB Sp.Fund</i>	<i>IMF</i>	<i>UNDP</i>	<i>UNICEF</i>	<i>UNHCR</i>	<i>WFP</i>	<i>UNFPA</i>	<i>Other UN</i>	<i>Other Multilateral</i>
<i>Africa, of which:</i>	6,194	419	—	—	2,169	2,329	—	−125	131	189	237	222	82	351	2,842
<i>South of Sahara</i>	5,510	384	—	—	1,679	2,330	—	−69	127	182	228	216	73	309	2,844
<i>America</i>	1,508	—	—	31	582	274	277	−18	14	25	15	29	22	294	655
<i>Asia, of which:</i>	5,473	—	799	—	856	2,240	—	172	124	139	102	120	90	718	2,811
<i>Middle East</i>	905	—	—	—	221	56	—	144	12	13	23	15	12	614	387
<i>Pacific</i>	82	—	13	—	54	0	—	—	2	3	0	—	3	244	324
<i>Europe</i>	1,571	—	—	—	1,263	119	—	20	7	3	95	2	4	263	457

## PSAs AND EXPENDITURE PLANS

9. *The reported cash expenditure figures for 2001–02 as reported in the Departmental Report for 2003 differ from the figures for that year appearing in the Departmental Report for 2004. There is a net reduction of some £56 million in reported expenditure. £30 million of this is due to a restatement of EU attributed expenditure, £10 million is due to the removal of an item of IMF funding, and £15 million appears to be due to an error in the total for UN and Commonwealth expenditure. Would the Department please provide additional explanation of these changes?*

The total reported outturn in the 2004 Departmental Report should have read £2,835 million. This equates to a net reduction of £37.5 million from the figure reported in the 2003 Report. This discrepancy is due to a number of reasons.

Each year we agree with the Treasury an EC Attribution figure for the coming financial year based on the best estimates of DFID and the Treasury. This is a planning figure and is built into our financial calculations. This figure remains constant until the final outturn for the year in question is known, two years after the close of the financial year it relates to. The final 2001–02 outturn is therefore published in 2003–04.

The provisional figure for EC Attribution agreed with the Treasury for 2001–02 was £670 million. This was the figure that appeared in the 2003 Report. We received notification of the agreed final outturn of £633 million for 2001–02 in June 2003, too late for inclusion in the 2003 Departmental Report. It was reported in the 2004 Report to reflect agreed outturn.

In addition, there was an arithmetical error in the European Union section of Table 4. The total reported in the 2004 Report overstated the true outturn by £7 million.

Due to a mapping error in our financial reporting system, the entry for IMF Funds for 2001–02 was unintentionally removed from the 2004 Report. The correct figure should have been £10.5 million. This is the figure that was reported in the 2003 Departmental Report.

There was also an arithmetical error in the UN and Commonwealth section of Table 4, which understated the true 2001–02 outturn by £15 million. In addition, there were some minor revisions and corrections to the individual programme figures published in the 2003 Report.

10. *PSA target 5 commits DFID, by 2005–06, to focus 90% of country and regional programme spending on Low Income Countries (LICs). For 2002–03, page 150 tells us that 80% of the bilateral budget went to LICs. Table 4 (page 171) tells us that the total country/regional programme spend for 2003–03 stood at £1,341 million. This implies that LICs received £1,073 million. By 2005–06 projected country/regional spend will be £2,121 million, and 90% going to LICs will be worth £1,909 million. Looked at another way, the 2002–03 spend on Middle- and High Income Countries was £268 million, and this will fall to £212 million by 2005–06, a reduction of £56 million. But Box 7k on page 155 refers to a reduction in aid to Middle Income Countries of some £100 million by 2005–06. Do these figures suggest that the Department plan to reduce spending in Middle Income Countries by some £50 million more than implied by the PSA target?*

Box 7k on page 155 of the Departmental Report refers to the impact on other middle-income countries of the increased funding for Iraq's reconstruction. This does not affect the total funding for middle-income countries, which will be determined by DFID's commitment to increase the proportion of its bilateral programme going to low-income countries to 90% by 2005–06. Funding for the reconstruction of Iraq did not impact on programmes for middle-income countries in 2003–04. However, in the light of the needs in Iraq and DFID's commitment to increase the proportion of direct assistance to low-income countries to 90% by 2005–06 it will make further reductions of around £100 million to other middle-income country programmes over the next two years, particularly in 2005–06.

Over the next two years, funding for the reconstruction of Iraq includes £50 million reallocated from planned middle-income programmes, together with DFID contingency funding of £115 million and contributions from other Departments. As a consequence of the temporary increase in funding for Iraq, which OECD classifies as a middle-income country, DFID will need to move a further estimated £50 million from middle-income country programmes to low-income country programmes in line with its commitment to the 90% target. The reallocations of planned expenditure should be viewed in the context of a development assistance budget that will increase by £900 million over the current Spending Review Period 2003–06.

11. *Planned spending on China for 2004–05 (£45.2 million) and 2005–06 (£35.2 million)<sup>6</sup> has fallen from the figures shown in last year’s Departmental Report (£60 million and £55 million respectively).<sup>7</sup> How is the reduction in DFID’s planned spending in China justified given that China is judged to be unlikely to meet MDGs 4 and 7 and very unlikely to meet MDGs 5 and 6? Why is aid to India increasing whilst aid to China is decreasing?*

China is a lower middle-income country. Its per capita income was \$960 in 2002. India is a low-income country and critical to the global achievement of the MDGs. DFID’s Public Service Agreement requires that 90% of the bilateral programme should be spent in low-income countries by 2005–06.

The originally published allocation for China in 2004–05 and 2005–06 was reduced to accommodate the PSA target and the reconstruction needs of Iraq. The allocations for China post 2005–06 depend on the outcome of the Spending Review. There have been discussions for some time at senior management level within DFID on the volume and focus of our programme in China. Ministers will consider recommendations in July.

China’s programme currently focuses on the off-track MDGs, in particular basic education, controlling HIV/AIDS and TB, and increasing the coverage of water and sanitation to poor people. Subject to the outcome of the review of the programme, we would like to work more closely with the large Chinese domestic programmes that target these MDGs. We will also work more closely with China in its role as a player on global development issues, such as trade, climate change, UN reform, Africa, aid effectiveness and disseminating the lessons of the Chinese success in reducing poverty.

India is home to more than a quarter of the world’s poorest people (ie under a \$1 a day). It has a quarter of the world’s out-of-school children. One-in-five maternal deaths globally and one-in-four infant deaths are in India. Child mortality hardly improved in the 1990s, and is now 2.5 times higher in India than China. We look forward to working with the new Government on its approach to poverty reduction. For these reasons India remains DFID’s largest bilateral programme.

12. *DFID’s commitments are covered by Table 8, page 176. The commitments listed relate to multilateral aid and do not cover bilateral aid. The lack of information on aid commitments (other than for multilaterals) hampers the Committee in assessing the degree of flexibility that DFID have in the management of the aid budget. Therefore, the Committee would find it helpful to have the Department’s estimate of how much of the budget for 2004–05 and 2005–06 is already committed, and how much is available to meet new initiatives.*

When calculating committed expenditure, DFID includes both binding and non-binding commitments. Binding commitments not only refer to DFID liabilities (often formal debt instruments) but also commitments that are approved and for which we have signed a Memorandum of Understanding or other agreements. Non-binding commitments are proposals that we have agreed in principle and are under final appraisal, but that have not yet been approved and signed. DFID’s 2004–05 resource DEL is £3,780k. Approximately 85% was reported as binding or non-binding commitments and 15% as being available for new initiatives.

DFID’s 2005–06 resource DEL is £4,536k. Approximately 84% was reported as binding or non-binding commitments and 14% as being available for new initiatives. The percentages are based on data available at the beginning of the 2004–05 financial year. However, the balance will change as new commitments are entered into and the figures should therefore be treated as indicative only. Based on these figures about £550 million in 2004–05 and £700 million in 2005–06 will be available for new commitments (both figures have been rounded).

13. *One of the lessons which DFID has learnt from conflict situations is that “more resources need to be provided in the first few years to reduce the risk of conflict resurfacing” (Iraq: Interim Country Assistance Plan, paragraph 26). Given this, how do you explain the planned decrease in allocation to Iraq—from £207 million in 2003–04 to £91 million in 2004–05? Does DFID expect to have to draw on the central reserve again to finance spending in Iraq?*

£91 million in 2004–05 and £86 million in 2005–06 are still very large allocations for a country of Iraq’s size and wealth, and reflect very clearly the need to provide significant assistance in the early years of post-conflict situations. We expect Iraq’s requirements for external assistance to decrease considerably after this period. The even higher figure for 2003–04 was in response to Iraq’s immediate conflict-related humanitarian needs as well as the beginning of the reconstruction phase. We do not expect to have to draw on the central reserve again to finance spending in Iraq.

<sup>6</sup> DFID Departmental Report 2004, Annex 1—table 4.

<sup>7</sup> DFID Departmental Report 2003, Annex 1—table 4.

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MIDDLE INCOME COUNTRIES

14. *How can DFID ensure that in its relationships with Middle Income Countries (MICs) it does not simply become the default provider of poverty reduction programmes?*

Aid and official flows to MICs are not as effective as they could be. Overall, MICs receive \$17 billion of net global concessional development assistance (including 43% of bilateral oda). But this assistance is not achieving poverty reduction, and many MICs risk falling back into low-income country (LIC) status.

DFID is producing a new strategy for engagement in middle-income countries that focuses on increasing the effectiveness of the international system at achieving the MDGs in MICs. This will ensure that DFID's programmes in MICs are part of a co-ordinated and poverty focused international effort. Our strategy recognises the importance of achieving the MDGs in MICs as well as LICs. Nearly a third of those living on less than US\$1 a day live in MICs, and not all MICs are on target to meet the MDGs.

Our aim is to secure an international consensus on the role of aid in MICs, built on partnership between MICs and donors. We will work with our international partners to improve their ability to target poverty in MICs, and support reforms in international trade and other global policies. We will use our influence and role as shareholders in the International Financial Institutions to improve the poverty focus and allocation of their resources to MICs.

We will focus our limited bilateral assistance for MICs on countries and issues where we can add value to the wider international effort. This will include large, strategically important countries that affect the achievement of the MDGs regionally or globally; the poorest MICs; and MICs that are vulnerable to falling back into LIC status.

*What, if any, international consensus exists on the purpose and functioning of aid in Middle Income Countries? Should the PRSP framework or some basic set of rules be extended to MICs?*

DFID will help to achieve the MDGs in middle-income countries (MICs) by focusing on improving the effectiveness of the international system in MICs. Our aim is to secure an international consensus on the role of aid in MICs, built on partnership between MICs and donors. We will work with our international partners to improve their ability to target poverty in MICs, and support reforms in international trade and other global policies necessary to achieve MDG8.

## SEXUAL AND REPRODUCTIVE HEALTH

15. *How does DFID's Access to Medicines Team plan to address the shortfall in the availability of condoms and other Sexual and Reproductive Health (SRH) commodities?*

The UK Government accords high priority to the drive to increase access to essential medicines by the poor in developing countries—including other commodities for sexual and reproductive health (SRH). The DFID ATM team works closely with other DFID policy teams who have an interest in medicines and other health commodities. This includes teams working on SRH, maternal mortality, HIV and AIDS, and research. Issues relating to commodity security for SRH are addressed through the work of these teams and through DFID support to developing countries and international agencies. Support to countries includes improving family planning choice, strengthening access to health services including SRH, and ensuring contraceptive supply—including social marketing to improve the affordability and availability of key commodities.

The work of the ATM team is focused on generic issues related to the availability and affordability of essential drugs and medicines. But we recognise that there are particular challenges related to ensuring the availability of reproductive health commodities including condoms. It is clear that supplies are not always adequately funded through country level action. This is why we aim to respond flexibly to country-specific situations. DFID is one of the leading bilateral providers of condoms and other reproductive health commodities to developing countries. As highlighted in our recent position paper on sexual and reproductive health and rights, we will continue to give priority to this issue. We fund in several ways: through budget support to country strategies that include reproductive health, support for specific reproductive health programmes and for social marketing programmes that distribute contraceptives and condoms for HIV prevention. We also support international agencies active in commodity procurement and distribution. Adequate supply and distribution of reproductive health commodities is essential to all this. But not enough on their own—access to information and integrated services are essential. We focus in our bilateral programmes on strengthening the capacity of health systems to deliver effective services and supplies, and fund organisations such as UNFPA and instruments such as the Global Fund in order that they can help meet commodity needs.

16. *Our recommendations on last year's Departmental Report included a request for "information detailing how, since its restructuring, DFID has continued to prioritise the full range of SRH issues (including gender-based violence, unsafe abortion and young people)".<sup>8</sup> While this year's report notes that you continue to "address controversial issues, such as unsafe abortion and gender-based violence",<sup>9</sup> further information is not provided. Why is this? Can you provide further information on how these issues are being addressed?*

In the Sexual and Reproductive Health and Rights Position Paper DFID commits to work in four different spheres in order to accelerate progress towards the ICPD goals as follows:

- (i) advocacy and partnership;
- (ii) support to strengthen sexual and reproductive health services;
- (iii) support to address social, cultural and economic barriers to access; and
- (iv) generation and application of knowledge. Each country office will work within these spheres on a range of issues relevant to their country. Gender based violence; unsafe abortion and young people are issues that are central to sexual and reproductive health and rights in many of the countries where DFID works. In these countries DFID will encourage country governments to include the issues in poverty reduction strategies and sector planning. In many sexual and reproductive health programmes DFID supports the provision of sexual and reproductive services that aim to provide:
  - Comprehensive care for women who seek abortions; safe abortion services where legal, and post-abortion care everywhere, including counselling on family planning to help avoid repeat abortion.
  - Care and counselling for women and others who have suffered violence that threatens their sexual and reproductive health, and generating community and political recognition and support to address the causes of violence.
  - Adolescent friendly services that provide an approachable, responsive environment and offer young people the information, skills and means to make safe choices.

## GENDER

17. *DFID's response to the Committee's report on the DFID 2003 Departmental Report stated that there had been a review of DFID's gender work and that a Senior Gender and Rights Adviser would take up post in January 2004. One World Action (Memorandum, Ev 72) claims that there is a gap between policy and practice on gender which hampers the Government's efforts to promote gender equality in development co-operation, and that DFID's strong policies and commitments on gender mainstreaming have not been put into practice. How would you respond to such criticisms? Do they have a point when they state that "Within the context of extreme poverty and gender inequality, specific-measure action is appropriate and an effective strategy for poverty elimination."<sup>10</sup> (That is, mainstreaming, whilst important, is not enough)*

DFID's policy of gender mainstreaming, set out in the 2000 Target Strategy paper *Poverty Elimination and the Empowerment of Women*, is aimed at ensuring that the needs and rights of women are properly addressed in all our development activities. Eliminating gender inequality and promoting women's empowerment are essential if we are to reduce poverty and achieve the Millennium Development Goals. DFID's "twin track" approach to gender also supports gender specific activities to promote the rights of women and girls and complement gender mainstreaming. In some circumstances these activities will focus on the rights of men and boys, for example, where boys' literacy and education indicators are falling behind those of girls.

A recent internal stock take of DFID's work on gender concluded that there is a wide range of initiatives at all levels of the organisation and many examples of innovative and effective work. For instance, a number of country programmes have developed gender strategies that examine the issues underlying gender inequality and poverty. The Bangladesh Country Assistance Plan, which puts "Women and Girls First", is a good example.

However, the stock take also concluded that more work is needed to ensure we do not lose momentum on gender mainstreaming and that there is a need for greater consistency across the office. We also recognise that the shift in focus, away from projects to greater donor harmonisation and country owned Poverty Reduction Strategies, has increased concerns about the potential for gender policy evaporation and about the complexity of measuring the gender impact of development assistance.

These issues are being examined through the development of a new gender equality strategy for DFID. The strategy, which is being led by the Senior Gender and Rights Adviser, will reaffirm DFID's commitment to mainstreaming gender across all its activities and provide assistance on implementation of the policy. A major evaluation of DFID's work on gender currently under way, will feed into the strategy. It is planned that a first draft of the strategy will be ready for presentation to DFID's internal Development Committee

<sup>8</sup> Para 49 of IDC report on *Department for International Development: Departmental Report 2003*.

<sup>9</sup> DFID Departmental Report 2004, paragraph 6.35.

<sup>10</sup> One World Action memorandum, paragraph 10, (Ev 73).

by the autumn. During the development of that strategy we will exchange experiences on gender mainstreaming with international development partners, country governments and UK NGOs such as One World Action, since we all face this common challenge.

We will also continue our work with the donor community, partner governments and civil society to support programmes and projects aimed specifically at helping women. This includes placing particular emphasis on the Poverty Reduction Strategy Papers (PRSPs), which provide the opportunity for gendered analysis of poverty and increasing commitment by governments to work on gender equality. For example, in Uganda DFID has been working closely with the government and the World Bank to ensure that gender is addressed in the revision of the Poverty Eradication Action Plan (Uganda's PRSP). We are also actively involved in the OECD Development Assistance Committee Gender Network, which aims to ensure consistency on gender policies across the work of the donor community and mainstream gender in PRSPs.

One example of a DFID supported country programme specifically for women and girls is a multi-donor initiative in Pakistan to support women standing for local government, which resulted in 37,000 women being elected to local councils in a conservative social context. In addition, DFID works to support global programmes and advocacy on women's rights. We are, for example, lead donor to the United Nations Development Fund for Women (UNIFEM), supporting its work on women, peace and security, and violence against women.

*What difference is the post of a Senior Gender and Rights Adviser expected to make?*

Addressing gender inequality and promoting women's empowerment are essential if we are to achieve the Millennium Development Goals. DFID has had a policy of mainstreaming gender across all its development activities for several years, as set out in the 2000 Target Strategy Paper *Poverty Elimination and the Empowerment of Women*—still widely used as a statement of DFID's policy on gender.

The policy is supported by DFID's network of 65+ Social Development Advisers, who provide advice and expertise on gender and other social issues across policy areas and country and regional programmes. The Senior Gender and Rights Adviser was appointed in January 2004 to give new impetus and strategic direction to DFID's work on gender, act as a central focal point and promote greater coherence across the office.

The Adviser is leading on the development of an office wide gender equality strategy. The strategy will reaffirm DFID's commitment to mainstreaming gender across all its activities and provide assistance to people implementing this. The Adviser will ensure that findings of the DFID Gender Evaluation (being led by Evaluation Department) are fully taken into account in developing the gender equality strategy. The Adviser will also help make sure gender issues are properly addressed in key business planning documentation such as Directors' Delivery Plans (DDPs) and Country Assistance Plans (CAPs).

2005 marks the 10th anniversary of the Beijing Platform for Action—working closely with other Whitehall departments the Adviser will help develop a strong UK input into the review. The Adviser will also ensure gender is integrated into DFID preparations for the MDGs review. The Adviser is an active member of the OECD/Development Assistance Committee Working Party on Gender Equality, which aims to ensure consistency on gender policies across the work of the donor community.

The NGO community has welcomed the appointment of a central point of contact for gender and rights within the department.

## RISK MANAGEMENT

18. *In the Departmental Report, DFID identifies three areas where risk management might be strengthened: country planning and management; divisional planning and management; and corporate planning and management.*<sup>11</sup> *The National Audit Office (NAO) in its report on DFID's response to emergencies also noted that "there remains scope for improvement in the quality of risk assessment".*<sup>12</sup> *What steps are DFID taking to improve risk management in the areas identified by the NAO and by DFID?*

DFID is implementing all the recommendations of the Strategy Unit Report, by strengthening assessment of risk at all levels, reinforcing the management procedures of risk and identifying responsibilities of risk owners. We scored highest across Whitehall in the Risk Management Assessment Framework benchmarking exercise that fed into the second report to the Prime Minister on progress across government against the Strategy Unit recommendations.

The Secretary of State takes decisions on DFID's overall policy. DFID Ministers have attended a number of Cabinet Office chaired meetings on improving risk management. The Management Board has overall responsibility for strategic level risks and is the owner of the corporate risk register that is assessed every quarter. Clear lines of delegation cover both policy and expenditure decisions and risk management

<sup>11</sup> DFID Departmental Report 2004, paragraph 7.28.

<sup>12</sup> *The Department for International Development: Responding to Humanitarian Emergencies*—National Audit Office, HC 1227, November 2003.

responsibilities for reaching the Public Service Agreement targets cascade down to division and country levels. Terms of Reference have been developed to explicitly define the role and responsibility of risk owners at different levels of the organisation. The Management Board undertakes an annual review of the Directors' Delivery Plans including risk management sections. Inconsistent approaches to risk assessment addressed through new guidance and risk moderation meetings chaired by Directors General.

The risk register is being embedded in the Balanced Scorecard approach to the Quarterly Management Report completed in early July. A horizon-scanning exercise to check that the risks on the risk register are the right ones is planned for the Management Board in September 2004. The Audit Committee is responsible for ensuring that DFID is financially sound and efficient and assesses progress on risk management at each meeting.

Aid instruments (Poverty Reduction Budget Support, emergency relief, projects and programmes) set out detailed operating instructions/procedures and guidance to identify, assess, manage and monitor risks in which the rules of UK Government accounting are rigorously applied.

We have formulated a Fiduciary Risk Policy, which has been commended by the NAO, for appraising and implementing budget support proposals. The risk of fraud is addressed each year as part of the Head of DFID's Internal Audit Department statement to the Accounting Officer. Comprehensive business continuity plans are in place for its main offices in London and East Kilbride and most of its overseas offices.

19. *In their 2003 report on data systems, the NAO identified that DFID had not carried out a risk assessment of data systems. Data seems to be a problem in assessing the progress made against several targets. Has a risk assessment of DFID's data systems now been completed? If so, what were its findings?*

The Autumn Performance Report published in November 2003 included a comprehensive data "health warning" which explained the potential problems with the data, the implications for measuring Public Service Agreement (PSA) progress, and DFID's response in improving data collection. It also set out a new approach to estimating trends over time which would provide more robust estimates. This approach has since been independently vetted by the Office for National Statistics and their Methodological Advisory Committee. The latter concluded that DFID's approach was sensible given the paucity of data and suggested some possible technical improvements which we are investigating. Finally the 2004–07 PSA has moved from setting absolute targets to monitoring relative improvements over time to minimise problems associated with data revisions affecting original baselines.

The World Bank and UN Agencies produce the international data used to monitor progress towards the PSA targets as a result of a collaborative effort. It is the most comprehensive and internationally comparable data set available and is used to assess global progress towards the MDGs. DFID uses more recent information from country level sources to inform discussion of progress when this is available on a consistent basis.

Improving data quality at country level continues to be a priority for DFID which we are addressing bilaterally and multilaterally as an integral component of wider programmes in support of poverty reduction.

#### COMPLAINTS PROCEDURE

20. *Occasionally the Committee receives correspondence from individuals who feel that they have a justified complaint against DFID in respect of for example failing to win contracts as consultants. There is a difficult line to tread between awarding contracts on the basis of a proven track record and what can become a "magic circle" of preferred consultants. How do you tread that line? Who decides on Expressions of Interest and Bids and what opportunity is there for an independent evaluation of complaints. If the Expressions of Interest are assessed by outside contractors themselves how do you guard against the possibility of favouritism?*

The National Audit Office is currently investigating our aid management and procurement processes and is expected to decide they find them to be free of malpractice and improved since our adoption in 2001 of the EU Public Procurement Directives, (although we have gone further by globally untying our business.)

The Directives are founded upon non-discrimination on grounds of nationality, and equal treatment of tenderers through fair and open processes. The Directives require member states to:

- Tender competitively and advertise in the Official Journal of the EU (OJEU) any requirements for goods or services above EU financial thresholds.
- Identify adjudication criteria and award the contract using published criteria.
- Identify contract procedure to be used. (Open, restricted, or negotiated.)
- Allow a specified number of days for receipt of expressions of interest and tenders.
- Publish an Award Notice in the OJEU within 48 days of the award decision.
- Provide feedback to unsuccessful tenderers within 14 days of receipt of a request.

Tenderers may sue HMG for infringements, through High Court of England and Wales, or the European Court of Justice. Within the EU procurement framework, member states are free to develop effective and efficient procurement procedures.

DFID let 768 contracts in 2003–04 centrally, and 1,850 low-value (<£100k) through programme management offices, mostly for services rather than goods or construction. DFID encourages interest from companies, small and medium sized enterprises, self-employed consultants, universities, joint ventures, consortia, etc. Terms of reference should ensure clarity of the required tasks, not slanted towards any particular supplier. All business above the EU Services Directive threshold (£99,000) is tendered competitively through public advertisement. We use the “Restricted EU Procedure”. This is a two-part process:

(i) Expressions of interest (EOI) stage

- Anybody may submit an EOI, which is a capability statement, describing their business, legal and financial status, sometimes with indicative CVs.
- Adjudication by panel of members of DFID programme funding the work, assessing various technical aspects, to ensure holistic and unbiased approach. Procurement Group (PrG) will identify any risks from examination of legal and financial status. (For example, parent company guarantees would be necessary before a wholly owned subsidiary were offered a large contract.)
- Decision rests with project officer from programme team. Normally, up to eight bidders are invited to submit formal Invitations to tender. Feedback is not normally provided to those unsuccessful at EOI stage, and is rarely sought, because the cost is low of submitting an EOI (but disproportionate effort would be required from PrG to attempt to provide feedback automatically; sometimes 50 EOIs are received.)

(ii) Invitation to tender (ITT) stage

- Formal tender instructions are sent to those that were successful at the EOI stage. These state evaluation criteria and weightings.
- Criteria will vary, depending on the context and relative priority in each situation. Proposed methodology, key personnel, and track record are most important. Tenders are required in separate technical and commercial volumes. Commercial considerations always form at least 20% of overall criteria.
- Sometimes, pre-bid meetings are held to enable potential bidders to visit project areas and meet key partners. These are closely facilitated to prevent any malpractice that might prejudice competition.
- Any communications between potential tenderers and DFID staff before the tender deadline are circulated to all competitors.
- Tenders received after the published deadline are returned unopened to the senders.
- Tenders are opened in the presence of at least two PrG staff, recorded, and circulated to the evaluation panel that oversaw the EOI stage. They assess and score the technical aspects according to the published methodology and criteria. Recipients are also often involved in evaluation. PrG simultaneously assess and score commercial proposals. The project officer aggregates scores and identifies the winning tender.
- Sometimes, the result is too close to call. Leading tenderers will be invited to make oral presentations to the team, focussed upon areas to be clarified to decide the outcome.
- PrG issues the contract and manages it with the successful tenderer. PrG provides feedback on request to unsuccessful tenderers, based on written and retained records of evaluation assessments and scores from evaluation panels.

DFID’s website identifies the route for those dissatisfied with outcomes or any aspect of procurement cycle:

- (a) Initial complaints are dealt with by the identified contract officer.
- (b) If this is not resolved to the tenderer’s satisfaction, contact the head of PrG, who investigates and makes a decision on merits of the case.
- (c) If his view is unacceptable to the complainant, s/he may contact an independent complaints officer, who is contracted by DFID to investigate unresolved cases. DFID is probably unique among HMG and donor community in providing this informal alternative dispute resolution.
- (d) Opportunities for redress are also available through arbitration and the courts.

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POLICY COHERENCE FOR DEVELOPMENT

21. *What does DFID make of the “Policy coherence for development” agenda, and in particular of the OECD DAC’s initiative on policy coherence?*

DFID recognises that policy coherence is of central importance to global development. Achieving the Millennium Development Goals depends less on international aid than on national policies on trade and agriculture, migration and employment, finance, environment, science and technology, security and defence.

- In 2002, official aid flows to developing countries (\$58.3 billion) were less than official remittance flows (\$88.1 billion) and net foreign direct investment (\$147.1 billion).
- Subsidies to farmers in high-income countries were \$250 billion in 2000 (over four times the level of aid).
- The 49 poorest countries together accounted for 0.4% world trade in 1999—half the level 20 years previously (0.8% in 1980).
- Global warming is making an enormous impact—the number of people affected by floods worldwide has risen from 7 million in the 1960s to 150 million today.
- Of the 40 poorest countries, 24 are in or emerging from war. In 2002 there were 10.4 million refugees world wide (4.1 million in Asia, and 3.3 million in Africa) and 20–25 million internally displaced people.
- Brain drain: Africa spends an estimated US\$4 billion annually on recruiting around 100,000 skilled expatriates to replace skilled people working outside the region. It is common to find that half of the medical graduates in countries such as Pakistan, South Africa and Ghana have emigrated to the West.

The OECD has comparative advantage among international agencies in taking forward policy coherence for development. Within the OECD, we would like to see the office of the Secretary-General taking the lead on policy coherence, since this issue involves many different policy communities, not just the development community.

DFID fully supports the OECD DAC’s initiative on policy coherence. We are contributing to the costs of a consultant, working with the DAC Secretariat and other OECD policy communities to improve policy coordination. The DAC held a successful international conference in May 2004 (organised by a DFID secondee), which brought different sectors together for first time to debate policy coherence for development. DFID is leading work in the DAC conflict network on Security Sector Reform, Small Arms Light Weapons and lesson learning in conflict mainstreaming.

*What mechanisms does the Government have in place to systematically ensure greater coherence between UK policies on various issues relating to development (migration, trade, arms exports, human rights, the environment for instance), and development policies themselves?*

DFID is working closely with other Whitehall departments to ensure development is taken into account:

- Since 2000, we have worked with FCO and MOD on a tri-partite conflict prevention policy implemented through the Africa Conflict Prevention Pool (£50 million pa) and the Global Conflict Prevention Pool (£74 million pa).
- A new policy team on Security is further developing DFID’s policy approach.
- We are working closely with HM Treasury on remittance issues, including meeting with UK financial sector later this year.
- We continue to work with DTI on trade, global health and extractive industries.
- DoH notifies DFID when recruiting NHS staff in developing countries (though this does not affect private sector recruitment of medical staff).

We co-ordinate with colleagues in other departments to ensure that our involvement in OECD committees is coherent.

At present the only country to have introduced a comprehensive and systematic mechanism for integrating national policies with global development goals is Sweden. We are interested in learning about the progress of this policy, as it is implemented.

22. *Which countries are in the lead on assessing, and moving towards greater, policy coherence for development? Will the UK follow Denmark and the Netherlands and publish an annual report on policy coherence for development, focussing on the UK's contribution to meeting MDG 8, but also outlining how the Government assesses and is moving towards greater policy coherence for development? (In addition to Denmark and the Netherlands, Belgium, Canada, Finland, Germany, Norway and Sweden are considering producing similar reports).*<sup>13</sup>

The UK is engaging in two on-going exercises which see donor countries reporting on their contributions to the achievement of the MDGs.

The first of these exercises is taking place in the context of the DAC; several countries have prepared, or are in the process of preparing, reports on their performance against MDG8 (Global Partnership for Development). Denmark, Sweden and the Netherlands have already published their MDG8 reports; others, including the UK, along with Canada, Norway and Germany, have expressed a commitment to produce an MDG8 report during 2004. We anticipate that the UK's MDG8 report will be published in the fourth quarter of this year.

The second of the MDG reporting exercises is an EU initiative; all Member States and the European Commission have agreed to produce a report on their contributions to all the MDGs, with a special focus on MDGs 7 and 8. Produced to a common format, these reports will address: aid effectiveness, policy coherence for development, each Member State's contributions to the achievement of MDGs 1-7, how they are meeting their commitments under MDGs 7 and 8; the reports also identify actions and priorities to accelerate progress towards the MDGs. Again the UK will produce its report in the last quarter 2004. The European Commission is co-ordinating this second exercise and will produce a synthesis report on overall EU performance in the spring of 2005.

DFID is leading for the UK on both the DAC/MDG8 and EU reports, but is working in close collaboration with other government departments, notably DEFRA and the DTI, in their drafting.

#### VIDEO CONFERENCING

23. *Box 7m (page 157) of the Departmental report refers to DFID's extensive video-conferencing facilities. What impact have these had on reducing staff travel costs and on decentralising staff out of London?*

It is not possible to assess reduced travel costs or staff decentralisation through the increased use of video conferencing. Whilst savings exist, it is not possible to disaggregate these from extra travel due to increased business needs.

Last year our system won an industry wide award for the best video conferencing project ahead of entries from numerous private sector multinationals.

July 2004

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### Memorandum submitted by Small International NGOs Group

#### 1. INTRODUCTION

Small International Non-Governmental Organisations (small international NGOs) seek to be judged on the quality of their work and not on the size of their organisations. Their aims are to work better and smarter, to increase the impact of their work and to be significant partners for development good. To those ends, they seek to have their work, values and roles acknowledged and to receive the support of the UK Government's Department for International Development (DFID).

This paper therefore looks at DFID and its relationship with small international NGOs from two perspectives:

- It makes the case for the continued involvement and relevance of small NGOs.
- It critically evaluates DFID's development policy and practice.

Small international NGOs appreciate the role played by DFID in highlighting global poverty and raising awareness of global inequalities and recognise the creation of DFID as a declaration of intent. It was seen as an indication that the current government was serious about international development as exemplified by:

- Its poverty focus.
  - The increased allocation of the State's budget towards international development.
  - Its commitment to the internationally endorsed 2015 Millennium Development Goals (MDGs).
  - The steps taken by DFID and the Treasury to address the debt issue.
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<sup>13</sup> IMF/World Bank, *Global Monitoring Report 2004*, p 14.

DFID's realisation that development takes place in a political context is encouraging and, by definition, is an acknowledgement of relations of power. All this was a challenge to existing unequal power relations between the North and South.

However, the current policy and practice by DFID are a matter for concern, not only to small international NGOs; but increasingly to the global poor to whom they listen and with whom they work in partnership, but do not claim to represent.

## 2. STATEMENT

DFID has achieved a great deal, but it fails to recognise the value of the contribution of small international NGOs to international development and their diversity of views and practices. This demonstrates DFID's reluctance to accept development alternatives that do not fit its predetermined model. There are also major inconsistencies between DFID's declared commitment to addressing global poverty, and its policy and practices.

## 3. THE CASE FOR SMALL INTERNATIONAL NGOS

Small International NGOs are often formed in response to specific issues and have developed not in size but in terms of their targeted impact. Their major advantage is that they can be more responsive and innovative in addressing people's specific needs.

### 3.1 *Diverse Approaches*

Similarities exist in the nature of poverty throughout the world. This masks the considerable differences in local contexts. Potential solutions will need to be different in their application. However, the nature of government is to seek simple, universally applicable, systematic models of development. Based on the experiences of small international NGOs, this runs contrary to what poor people need and want. Small international NGOs have the ability to bring a diverse range of methodologies, approaches and solutions to poverty.

#### **Case Study 1:**

Several of Action Village India's (AVI) partners have complained that they cannot rely on large western NGOs or governments to support work which meets local felt needs and which is proving to be effective. The main problem is the relatively rapid shift in large western NGOs' funding priorities, such as from women's projects, to HIV/AIDS, and now on to advocacy. Small agencies, like AVI, which work with NGOs they know well, are more committed to long-term support for the programmes they initiate.

### 3.2 *Empowerment of Marginalised Communities*

Smaller international NGOs play a positive role in the empowerment of grassroots communities. They facilitate local ownership, successful project implementation and sustainable improvements in the quality of people's lives.

#### **Case Study 2:**

In 2001, the African Refugee Community Health and Research Organisation (ARCHRO), in collaboration with the Catechist Centre in Gulu, northern Uganda, set up a project for women whose lives had been destroyed by 15 years of war. The women are former abductees, who spent most of their youth in captivity following abductions by the Lord's Resistance Army (LRA), a rebel group fighting the government of Uganda.

The two organisations worked together to set up income-generating tailoring and pottery projects for former female rebel soldiers. It started with 34 former abductees, now it has 98 women who were rescued/escaped from the LRA rebels. In 2002, the management of the project was handed over to the women who constituted themselves into a co-operative. Since then, the project has continued to expand without any further support from the two organisations, or any other organisations. The tailoring project is now the main supplier of cassocks to the Catholic Church in Uganda, following the Uganda government's ban on import of used clothing. Its annual turnover in the last financial year was Ushs 3.5 million (£1,166.60). The initial investment was under £10,000.

The primary benefits of the project are improved quality of life of former rebel abductees through skills training, project management and income that supports their basic necessities; in other words, self-reliance and independence of women.

### 3.3 *Specialist knowledge*

Small international NGOs have specialist knowledge and expertise, which can be used to influence governmental thinking and policy in a very direct way. Their expertise could be mobilised in country and when information is needed on the country in question. The example below is a case where DFID support enabled a small NGO to have a major impact.

#### **Case Study 3:**

The Britain Nepal Medical Trust (BNMT) is a small international NGO that has a long-standing agreement with the Government of Nepal to assist in health improvement of poor and disadvantaged people. It has an income of around £600,000 per year, of which 95% comes from funds tied to specific programmes from a small number of international and UK donors. DFID is one such donor.

With DFID support, BNMT has influenced local governmental health services to take on the major responsibility for TB control for a population of around 22 million. In 2002 BNMT applied for grants of £1 million under the Civil Society Challenge Fund to maintain capacity building of local health services, both governmental and non-governmental, to improve access for and responses to poor people, for infectious diseases, reproductive health, and essential drug supplies. A complementary application sought funds to assist community empowerment and local advocacy for improved access and innovations. The concept notes were accepted by DFID, but both full proposals were rejected in March 2003.

BNMT appealed to DFID in Nepal for support. Consequently, they were invited to submit proposals to support the National Tuberculosis Programme via WHO for three years. The submission was successful and a grant of around £800,000 has been awarded.

DFID in Nepal has sought also to support the ‘Peace Process’ between the Government and the Maoists through rehabilitating basic health services, facilities and drug supplies. Local recognition by DFID of BNMT’s capabilities has supported the Trust’s financial viability and continuity of strategic objectives.

### 3.4 *Innovation and Responsiveness*

In many cases, small international NGOs develop the type of relationship that contributes to effective longer-term development. Many small international NGOs are innovative and responsive and have a flexible and direct approach to development work.

The effective manner in which many small international NGOs pursue partnerships enables closer contact between partner organisations and the top management of small international NGOs.

#### **Case Study 4:**

KwaNgwanase Farmers Union—Established in 1994 to address the problems facing low resource farmers in the marginal farming conditions of Eastern Maputaland, KwaZulu-Natal, South Africa the KwaNgwanase Farmers Union (KFU) is a local grassroots organisation. The KFU serves as an implementer of an agricultural programme that offers a support service to farmers but also attempts to influence the nature of state agricultural support services from the perspective of farmers. In its efforts to “end poverty and fight the demotivation that perpetuates it”, the KFU is attempting to: raise awareness and stimulate the use of traditional seed; organise its membership so as to meet their needs; develop agriculture (crop and animal production) through the application of appropriate methods of farming; promote better community health through the consumption of traditional foodstuffs; market locally produced crops and conserve the natural resources of the area. The KFU manages a seedling nursery, employs local farmers as part-time agricultural facilitators and is engaged in a process of dialogue with the Ministry of Agriculture.

However, what the KFU is especially proud of is its diversified approach to solving farmers’ problems. In the words of its Chairman, Johannes Ngubane: “In the whole district under the Tembe Tribal Authority, we were the first to have a farmer’s co-operative and a seedling nursery. We were the first to tell people to return to their roots and remember their culture. We did research on collecting wild spinach and fruits and we collected and multiplied our seeds so new generations can have access to seeds and information. We are proud of ourselves as a committee which can manage all these activities and remain accountable to our members.”

Without the support of Find Your Feet, which has been funding the KFU directly since 1997 as its sole donor, this would not have been possible.

### 3.5 *Involvement of the UK Public*

Small international NGOs representing specific communities can link defined constituencies in the UK with grass-roots organisations in the developing world. Many small NGOs represent or seek to represent and involve certain constituencies in the UK in international development. They can work with these constituencies to educate them about international development issues. In a recent DFID survey it was

noted that only 5% of respondents had heard of the MDGs and only 1% could say what they were. In contrast to this, the same survey noted that 70% of people were concerned about poverty in developing countries. DFID's message is clearly not being heard. People will listen to an organisation they trust and with whom they have developed an affiliation in some way. This is the optimal way of encouraging knowledge of the issues involved in international development.

#### **Case Study 5:**

UK Jewish Aid & International Development (UKJAID) has an income of around £200,000 per annum. It seeks to mobilise Jewish resources for international development. It has a defined constituency.

One example of its work is the link it has forged between a synagogue class in Brighton and a small village school in Nepal. The children correspond and the synagogue has adopted the project.

UKJAID has accessed funding from the Development Awareness Fund and is working with other faith-based NGOs such as Muslim Aid, Islamic Relief and Christian Aid to get the message out to the respective constituencies.

Support for this sort of linking projects would allow the DFID message to become reality for many different constituencies. This is an example of a faith-based organisation, but there are many other types of organisations representing certain constituencies which, with specific access to project funding rather than just development awareness funding could bring home the DFID message to a greater proportion of the UK public.

### *3.6 Appropriate Advocacy*

Small international NGOs that focus on specific issues can often be more effective than larger organisations. Through concentrated efforts in partnership with local communities or tribal groups, small international NGOs can have a great impact on the development of policies that advocate for change, while respecting the rights of local communities.

#### **Case Study 6:**

In Andhra Pradesh, India, in partnership with a local NGO, the International Network for Development has helped initiate schooling in the local tribal language. Previously, education had taken place in the state language, meaning that often children had no help in developing a command of the official language, as teachers had no knowledge of the tribal mother tongue and the children were taught as first language speakers. There was a fatal mismatch.

Relationships have been developed with the linguistic departments at the universities in Hyderabad and with the Tribal Welfare and Education Departments of the State Government. The Indian Secretary for Education has agreed that this project should be implemented and all support from Government and universities should be given. This project is now in the initial stages of developing a multilingual education programme, which will have a great impact on education in India.

The DFID Social Challenge Fund decided that the project did not focus enough on empowerment of the poor and suggested it was more on the service provision side.

## **4. DFID POLICY AND PRACTICE**

### *4.1 The consultative capacity of small NGOs*

Small international NGOs have a wealth of knowledge that could support and strengthen DFID's strategic goals; but it is not being tapped presently. Consulting small international NGOs could provide DFID with a cost-effective forum for generating knowledge and could greatly complement the current knowledge generated by consultants and Universities contracted by DFID.

#### **Case Study 7:**

The Caledonia Centre for Social Development has much experience in management of land rights, social land, common property and land ownership information. They could be of great value to DFID, which currently prefers to use organisations such as the Natural Resources Institute, Oxfam and Wye College.

### *4.2 Lack of Consultation and Information*

It is acknowledged that requests for meetings with DFID advisers by small international NGOs, both in country and in the UK, are usually granted. Such consultation between DFID and individual NGOs on specific issues is usually satisfactory, but is restricted to dealing, for example, with a specific desk officer on a particular programme, and generally not on policy issues. In other words consultation, when it does occur,

is *ad hoc* and appears, when policy is involved, to be after the fact. In general, DFID fails systematically to include small international NGOs in consultation processes and therefore does not benefit from their knowledge, experience and enthusiasm.

Whilst it is recognised that small international NGOs are a large and diverse body and that it would be inefficient and unrealistic to expect consultation with individual organisations, DFID makes little effort to address this problem and does not consult systematically outside the five large NGOs. Small international NGOs could be organised to facilitate dialogue along thematic or sectoral lines and BOND might well prove to be an effective conduit for such dialogue.

There is also a marked lack of visibility and access to important information held by DFID that is of interest to small international NGOs—such as data on applications for grants, the results of the evaluation processes and the outcomes of supported programmes. Making such information available on the web site would be invaluable to small international NGOs, improve the standard of applications and inform consultation with DFID.

Nevertheless, there are good examples of collaboration, particularly where these are formed around the achievement of specific targets, including the MDGs. The following case study highlights one such collaboration.

#### **Case Study 8:**

In 2002, DFID set up a working group on gender and education that brought together DFID advisers and representatives of NGOs—both large players such as Oxfam, and smaller specialist organisations such as the Campaign for Female Education (CAMFED). Meeting bi-monthly, the group focused on joint approaches towards achieving the 2005 MDG of Gender Equity in Education. It provided a unique opportunity for DFID to consult with NGOs and learn from best practice on girls' education, a point made by the DFID representatives involved. From the perspective of smaller NGOs, it opened up important opportunities to contribute expertise to high-level debate and policy formulation. In the case of CAMFED, it led to its involvement in the United Nations Girls' Education Initiative (UNGEI), enabling it to bring a practical grassroots perspective to international level.

This working group provides a model for how DFID and smaller NGOs can successfully come together, and may be something that can be more widely replicated to achieve broad and valuable collaboration between DFID and civil society.

#### *4.3 The role of contractors*

There is an important role for the private sector in development. However, DFID's move towards privatisation has impacted adversely on small international NGOs in two specific ways. Firstly, the use of private sector contractors to vet proposals has led to growing dissatisfaction. These contractors often fail to understand the objectives of the sector and appear to lack the experience to comprehend the processual nature of the work. Secondly, the increasing conditionality of donor aid linked to privatisation has led to social outcomes that do not represent the interests of the poor, either in the scope of their activities or in the manner in which they are implemented.

#### **Case Study 9:**

The Development Alternatives—Pricewaterhouse Coopers Consortium (DA-PWC) has been contracted by UK DFID to manage and administer its Poorest Areas Civil Society Programme (PACS) in India. The selection criteria used for identifying organisations to receive funding are unsystematic and subjective, leading to some weak NGOs being selected. The large amount of funding available has attracted NGOs whose credibility and work is questionable. DA-PWC are behaving like a large international funder and are out of touch with the grassroots realities of the organisations and work that they are funding. There is a lack of understanding within DA-PWC of NGO culture and perspectives; most staff have an urban background and lack experience in grassroots field realities. To date DA-PWC has not consulted with the Indian Government or NGOs, although this is now starting to happen.

Programmes are being funded without a proper needs assessment being conducted; base-line surveys are poorly carried out. This has led to poor programmes and much duplication of work since other NGOs are already working in the areas being funded. Large funding has been provided to umbrella organisations; projects of organisations already known to them have been funded to the exclusion of many small organisations that have a greater need for the funds. These umbrella organisations appear to want control over the whole PACS programme.

#### 4.4 *Privatisation and Water Development*

Access to clean water was officially recognised as a human right by the United Nations Committee on Economic, Cultural and Social Rights on 4 December 2002, when it declared: “Water is fundamental for life and health. The human right to water is indispensable for leading a healthy life in human dignity. It is a pre-requisite to the realisation of all other human rights.” Also, the World Bank announced in January 2003, at a preparatory meeting in Tokyo for the Third World Forum taking place in Kyoto that it: “foresees a significant increase in the need for financing water resources infrastructure in the developing world”.

In much of Sub-Saharan Africa (SSA), the water sector is starved of investment from cash-strapped governments and is generally in a bad state of disrepair. Water privatisation is largely donor sponsored and the release of aid funds is often conditional on the privatisation of water. Water privatisation in SSA has always required a foreign investor, therefore the international dimension of privatisation requires extra vigilance, particularly since water provision is a “natural monopoly”.

Small international NGO’s would question the efficacy of the market for those who lack both endowments and entitlements. The emphasis on market provisioning is a bias against process-led development practices that empower the poor and runs contrary to rights-based development.

#### **Case Study 10:**

Since its formation in 1985, Christian Engineers in Development (CED) regularly received support from the ODA/DFID Joint Funding Scheme (JFS) for that part of its work involving the provision of water supplies, primarily to villages in Sub-Saharan Africa. However, since 2000–01, such support has been declined (quoting Para. 3.7 of the CSCF Guidelines for Applicants dated 6 May 2002) because such service provision is declared inconsistent with DFID’s human rights approach to development.

#### 4.5 *Rights-Based Development*

DFID has subscribed to a “rights-based approach” to addressing global poverty. The rights-based approach presupposes that development actors, including donors and borrowers, respect, protect and fulfil human rights through all their development practices. Small international NGOs support this commitment to human rights but have two concerns. Firstly, there is considerable evidence that DFID is inconsistent in its application of this approach. The rights-based objectives of the CSCF are not reflected in much of DFID’s work abroad. There is no consensus amongst DFID personnel on the precise nature of a rights-based approach in practice, and there are considerable differences in opinion and interpretation on its relevance amongst DFID country offices. DFID emphasises that principles contained in its public policy documents relating to human rights and indigenous people are not binding on its staff and have no operational status<sup>14</sup>. Instead, they are meant to publicise DFID’s overall approach to development and, as such, are aspirational strategic documents that shape overall priorities for UK official overseas development assistance. At the same time, the rights-based and sustainable livelihood guidelines are supposed to inform staff decisions and practice in project design and implementation. Secondly, DFID’s understanding of rights can be too narrow to meet the diverse needs of the poor.

Small international NGOs agree that a complete emphasis on service delivery is insufficient to address social injustice; poverty is multi-dimensional in nature and requires a multi-faceted solution: service delivery, capacity building, awareness raising and advocacy are all important—each has its time and place. There is, therefore, a growing realisation inside DFID that rights-based and livelihood approaches can complement each other. For example, “The CSCF above all else is for improving the lives of poor people” (Para. 3.11 of the CSCF Guidelines for Applicants dated 6 May 2002) while “initiatives which consist primarily of service delivery . . . will not be eligible” (Para. 3.7). Yet access to clean water and a sustainable livelihood are fundamental and indispensable human rights. Rights are indivisible—civil, economic, social, political and cultural rights in combination. For DFID truly to claim that it has adopted a rights-based approach to development, it should at least have a binding human rights policy with an accountability mechanism. For consistency, the UK Government should be advocating the rights based approach within international development fora, in its multilateral lending programmes and in the policies and programmes of multilateral institutions. DFID should adopt a binding policy on indigenous peoples.

#### **Case Study 11:**

The future of agricultural development in Andhra Pradesh, India is one of modernisation, hence Vision 2020: a world in which farmers become knowledge workers and information technology and biotechnology are the norm. Public infrastructure will be provided to attract private investment: growth rather than poverty alleviation becomes paramount. Supported by DFID grants to the State Government of Andhra Pradesh, the vision is one of the industrialisation of agriculture, now the lifeblood of the economy and characterised by small farms. Land consolidation will lead to landlessness and farmers will lose their

<sup>14</sup> For a fuller discussion of this issue see: Forest Peoples Programme Briefing Paper (April 2003), *A Failure of Accountability, Indigenous Peoples, Human Rights and Development Agency Standards: a reference tool and comparative review*.

livelihoods. Local knowledge will become obsolete and biotechnology in the form of genetically modified crops will displace the tremendous range of crops and varieties currently under cultivation. Cultural and biological diversity will be lost.

Small farmers, comprising 77% of the state's farmers who have landholdings of less than two hectares of land will become invisible, having been written out of the script.

#### 4.6 *Scale and Cost Efficiencies*

Development programmes are not necessarily better because they are larger; the quality of an initiative is much more important than its size. Smallness can be by choice because it can more easily be associated with flexibility and a lack of bureaucracy. Small international NGOs are therefore concerned that DFID has withdrawn from funding smaller stand-alone projects but acknowledge the need for linkages.

DFID's policy is to support civil society—trade unions, faith groups and community organisations. This is to be applauded but the allocation of funds should not be based on percentages and the type of organisations, but on the quality of the projects proposed.

#### **Case Study 12:**

Village Service Trust (VST) works with dalit women in south India for economic, social and political empowerment. It also has a health programme focusing on poverty related, communicable diseases, particularly HIV/AIDS and tuberculosis. Its main methodologies are to promote people's associations of, for example: poor, dalit women; sex workers; people living with HIV/AIDS and transsexuals and to work through local volunteers and peer educators. VST has worked in the same geographic area for over 20 years.

Village Service Trust has one UK member of staff and three in India (two local, one expatriate) and an annual turnover of £250k. Since its establishment in 1979, VST has made it a policy to remain small. By having responsibility for both fundraising and programmes, VST's UK staff member is extremely frugal with UK spending and excellently placed to undertake all kinds of fundraising. Communication with India is clear and efficient as UK information comes from one source. An uncomplicated decision-making procedure means VST can respond quickly to partners' needs, resulting in support that is more appropriate. This is feedback received from VST's partners in India, who have experience of a wide range of European funders.

#### 4.7 *Conclusions*

Although small international NGOs are part of the wider civil society, they differentiate themselves from other groups within civil society because they have:

- A proven track record in development.
- Specific and relevant skills.
- Long commitment to the Southern organisations with which we work.

The case studies above show some of the positive aspects of their diversity.

The challenge is seen to be to ensure that that diversity is harnessed to help work to relieve poverty wherever there is need. To that end, there is seen to be an opportunity for DFID to:

- Empower local people more effectively.
- Use more detailed, culturally specific knowledge to impact on local governments' policies.
- Improve innovation and a responsiveness to local issues.
- Involve the UK public more directly.
- Make a difference at a grass-roots level.

Small international NGOs believe that there is a consensus on the need for development intervention, but they perceive some disagreement on the modes of intervention. It is the view of the small international NGOs consulted in writing this paper that the role of civil society is increasingly one of disengagement from ordinary political processes into the extra-political as governments ignore their citizens.

## 5. RECOMMENDATIONS

The primary areas in need of improvement are those of visibility of DFID information and consultation between DFID and small international NGOs on matters relating to policy development. It is therefore recommended that:

- DFID be invited to release data of value to small international NGOs, probably via their web site.
- A reciprocal consultation mechanism be established between DFID and small international NGOs by which both sides can listen and learn, probably using BOND.

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- Recognition be given to the small international NGO sector for its past, present and future contribution to development.
  - DFID's vision be broadened to acknowledge that there are diverse paths to be followed in addressing global poverty and that, in the end, development is primarily about people, not policies.

In light of the conclusions and recommendations presented above we would like request that the International Development Committee undertake a formal review of DFID's policy and practice in relation to small NGOs.

*September 2003*

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**Letter to the Clerk of the Committee, and memorandum, submitted by the Department for International Development, in response to the submission by Small International NGOs Group to the International Development Committee**

1. Thank you for your letter of 12 September 2003 in which you described the meeting held by the International Development Committee on 9 September with a group of small international NGOs. I think it would be useful to start by setting out how DFID views its relationship with UK NGOs. We value the contribution of both large and small NGOs and recognise that they have a wealth of expertise in many important areas. In particular, we value the input of BOND in both the UK and European contexts, and that is why we continue to contribute large amounts of funding to BOND. Last year, DFID gave BOND over £300,000 in core funding—more than 40% of their income for the year.

2. I attach DFID's response to the paper submitted by the NGOs. We have tried to address each issue individually. It wasn't always clear to us what DFID funding scheme the Committee is referring to: unless otherwise stated, we have assumed it is the central UK funding scheme for Civil Society Organisations, the Civil Society Challenge Fund (CSCF). Although the paper was submitted by NGOs, we have used the term Civil Society Organisation (CSO) in our response, since so much of DFID's engagement nowadays is with a range of organisations extending beyond the NGO community and including faith groups, trade unions and membership organisations.

3. You also mentioned some of the main themes arising in discussion:

#### DIVERSITY AND DEVELOPMENT EDUCATION

4. We make no distinction about the size of a CSO when appraising the quality of project proposals, other than considering an organisation's financial capacity to handle DFID funding. CSCF decisions are based on the quality of the proposals as measured against Fund criteria, especially the projected benefit of the intervention to poor people. In practice though, we find we have a very good spread of support across a range of large, medium and small civil society organisations.

5. We do recognise that small CSOs can make a valid contribution to mobilising support for development in the UK. UK Black and Minority Ethnic (BME) organisations have a strong tradition of concern with development issues. Our Development Awareness Fund (DAF) is the means by which DFID supports development awareness and education in the UK. For BME organisations the DAF has always been important because it has been one of the few sources of funding which recognises their broader awareness raising work in the UK.

We have also recently agreed to fund "Connections for Development", a network group representing a range of medium and small UK organisations. One of the aims of the agreement is to build support for development in the ethnic minority and diaspora population in the UK.

#### LENGTH OF TIME TAKEN TO DEAL WITH GRANT APPLICATIONS. COMPETENCE OF ASSESSORS

6. This comment was a surprise because the Civil Society Challenge Fund grant timetable is well publicised on DFID's website and we don't often get complaints about it. Quite the reverse; we have received appreciative comments about turnover times both from individual applicants and through the BOND network. In particular, our funding cycle compares well with that of other donors such as the EC. Obviously it takes time to vet applications properly to ensure that we are spending taxpayers' money only on the best and most appropriate projects. The vetting process includes circulating proposals to expert assessors and DFID policy teams, as well as asking our overseas offices to check out the local CSO partner (which from comments elsewhere in the paper I think the UK CSOs would agree is an essential part of the process). Our external consultants are very experienced in the field of international development. In selecting the teams, we took care to make sure that all the assessors either originate from developing countries or have spent substantial periods living and working overseas.

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 DFID POLICY DIVISION REORGANISATION

7. This does present a challenge for small CSOs, and we have been considering what liaison arrangements we can put in place to assist this process. As the submission by the NGOs recognises, it would be unrealistic to expect consultation with individual organisations, but we are looking at manageable ways in which we can have a dialogue.

### Memorandum

*(Numbering refers to numbering in Small International NGOs Group's original submission)*

#### 3.1 A Broad Approach

DFID recognises the need for a broad approach to addressing poverty issues in different contexts and countries. DFID has two main routes for funding CSO development projects—either via country programmes run by our overseas offices, or through the Civil Society Challenge Fund, which is centrally managed in the UK.

In the majority of the countries in which DFID works there are nationally owned and administered plans to reduce poverty. These Poverty Reduction Strategy Processes (PRSPs) are developed in consultation with key stakeholders, including local civil society organisations. DFID's Country Assistance Plans are usually drawn up in consultation with national CSOs (an example of this sort of country-specific consultation is attached at Annex 1<sup>15</sup>). Country Assistance Plans set out in detail how DFID will work as part of the international development effort to support these strategies with the overarching aim of achieving the Millennium Development Goals. Using these parameters, country offices will develop their individual approaches to funding of CSOs. We recognise that where appropriate, this may include elements of service delivery. But our country offices will not support service delivery projects that replace or cut across the services that should be delivered by governments.

The Civil Society Challenge Fund fills a different niche, designed to complement the work of our overseas offices. The Challenge Fund is based particularly on the distinctive role UK civil society can play in helping build up the capacity of southern civil society. Successful initiatives empower poor people, strengthening their ability or opportunity to speak for themselves, do things for themselves and make demands of those in power. We primarily support projects that strengthen the capacity of poor people to understand and demand their rights—civil, political, economic and social—and to improve their economic and social well-being. But we are not dogmatic about this, recognising that some rights-based projects necessarily include an element of service delivery.

#### Case Study 1

The Millennium Development Goals include targets encompassing both women's rights and HIV/AIDS activities. The Civil Society Challenge Fund supports a large number of projects involving advocacy activities around both these priority areas. All the projects we support, however, work towards self-sustainability, not towards long-term reliance on a foreign partner.

#### 3.2 Supporting Marginalised Communities

Civil society that genuinely represents the poor in the South is vital for the development of pro-poor policy. UK CSOs can help poor people in the south to have a real voice. They can help build the capacity of southern organisations to demand changes in legislation.

#### 3.3 Specialist Knowledge

It is often the case that small international CSOs have specialist skills or knowledge that will attract support from one of DFID's country programmes, especially where it fulfils a requirement of the PRSP that is not already being addressed by other programmes. That doesn't necessarily mean that a particular project will be right for another country programme or for the Civil Society Challenge Fund.

#### 3.4 Innovation and responsiveness

The Civil Society Challenge Fund encourages project proposals that are innovative and responsive to problems articulated by poor people. A key aspect is the sharing of experience, which will contribute to better development practice in future. We are particularly interested in initiatives that demonstrate how the approaches could be adapted in similar situations by other development partners.

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<sup>15</sup> Not printed. Copy placed in the Library.

### 3.5 *Involvement of the UK public*

We agree that it can be helpful to link defined constituencies in the UK with the developing world. DFID has engaged with faith groups in various ways in delivery of its objectives over many years. For example, we collaborated with UK Sikh, Jewish and Muslim groups to produce the 2015 booklets, which were designed to help publicise the Millennium Development Goals in those communities. We have also now initiated a programme of work to develop greater clarity on how faith groups can in future contribute to development objectives.

DFID agrees that involvement in the activities of development CSOs can be a form of development education for the UK public, although such limited involvement can sometimes lead to a very narrow perspective on development. To get full value from development education, wider exposure to development issues needs to be offered, allowing participants to draw conclusions about development from a range of sources. DFID's development education strategy is focused on helping UK citizens achieve an understanding of the interconnectedness of the world and the need for international development. Our strategy on how we achieve this was developed by the Development Awareness Working Group, which was chaired by the department's PUSS and had a membership comprising representatives of many organisations concerned with development education, including CSOs. We would encourage any organisation involved with development education to work with us to ensure that we deliver high quality development education in a co-ordinated way to achieve maximum impact. We are currently developing a campaign to publicise the Millennium Development Goals.

### 3.6 *Appropriate Advocacy*

DFID recognises that issue-specific groups can often be effective advocates for change and we have supported a number of these through the Civil Society Challenge Fund.

### 4.1 and 4.2 *Consultation and Information*

Consultation with stakeholders is a very important part of DFID's policy formulation. Although in our view the most important stakeholders are the poor in developing countries, it is untrue to say that DFID fails systematically to include small UK NGOs in consultation processes. DFID has over the past few years tried hard to engage with NGOs through a number of fora. We consult with small UK CSOs for example through the Development Education Association (DEA) and BOND, who both receive DFID funding. In particular, we pay BOND about £150,000 a year to act as liaison point between DFID and UK development CSOs, with another £150,000 for their work around European issues.

There have also been a number of consultations around specific themes. The consultation documents can be found on our website. Recent examples include *Labour Standards and Poverty Reduction*, the draft Middle East and North Africa country assistance plan and *Better Government for Poverty Reduction*.

We recognise that relationships and networks have been affected by the reorganisation of our Policy Division, and are currently considering how our newly structured Division can consult effectively with UK civil society.

The remark about visibility of data is surprising. As well as publicising information about annual funding decisions on our website, DFID have for some years provided information about the CSCF to BOND whose members have always seemed appreciative of the information provided and the way in which it has been presented at annual workshops. We did think that BOND were an effective conduit for consultation and dissemination of information to small CSOs, but we will talk to BOND about the points raised in the submission from the "small" international CSOs.

### 4.3 *The role of contractors*

A number of DFID programmes use outside contractors to administer their funding arrangements. Contractors are carefully selected based on the background and experience of their staff, most of them having a wealth of experience in relevant sectors. We have the following comments about the comments on the PACS fund:

## Case Study 9

It is not surprising that some CSOs who are perceived as “weak” have been selected for funding, since one of the key aims of PACS is to provide capacity building for small Civil Society Organisations (CSOs).

The operational arrangements for the PACS programme have been contracted out to the very reputable NGO, Development Alternatives (DA). PricewaterhouseCoopers (PwC) is assisting DA in the implementation. DA has a long experience of working within the Indian NGO environment and therefore understands the context well, while PwC’s role is to use their Financial Management expertise to help maintain financial propriety.

Capacity building of the CSOs includes a number of aspects including regular training days, peer review workshops and other support workshops, all designed to enhance quality of project outcomes. Planning Grants can be provided (13 so far) to build the NGO’S capacity to develop concepts and file applications. Four state based resource organisations have been engaged to help the Civil Society Organisations to develop proposals.

An extensive outreach programme publicized PACS widely through newspapers, by holding outreach workshops and through distribution of brochures. This included information about the application and appraisal process. The PACS programme has clear and transparent operational guidelines. The appraisal process itself is structured and objective, proposals being scored against specified pre-agreed technical criteria and including a test of financial propriety and compliance with local laws. This is followed by field appraisal of short-listed organisations to judge the capacity and standing of the CSO. One restraining factor in selecting CSOs is that those not registered under FCRA (Foreign Contributions Regulation Act) are not permitted by law to access foreign funding. Smaller organizations therefore find it easier to participate by being a part of a larger network.

Final decisions are made by the Project Selection Committee, which comprises eminent Indian nationals from different fields as well as representation from DFID. There is an appeals procedure. Since early 2003, regular and structured interaction with government at the national, state and district level has been taking place. A breakdown of approved projects by size of CSO is given below:

<i>Projects Approved as at 31.07.2003</i>	<i>No. of Projects</i>
“A” Category (Large)	7
“B” Category (Medium)	22
“C” Category (Small)	20
“D” Category (very Small)	13

4.4 *Privatisation and Water Development*

DFID recognises the role for the private sector in the provision of safe water supplies and appropriate sanitation, since the private sector can provide additional resources and more efficient management practices. However, we are seeking to ensure that private sector participation is encouraged through partnership with government and civil society organisations.

DFID focuses on a number of multi-donor supported facilities to encourage private financing in the water sector. For example DFID is a key donor of The Business Partners for Development Water and Sanitation Cluster. This promotes partnership between the public sector private sector and civil society in the provision of water supply.

DFID also funds research projects that investigate how private service participation contracts can be structured to ensure they serve the needs of poor people. Research is carried out from the viewpoint of both the poor, ensuring their needs are met, and the private sector, examining the risks and how these can be reduced.

## Case Study 10

Through a Partnership Programme Agreement (PPA), we currently providing WaterAid, the leading UK based CSO working in the water sector, with a grant of £2.25m. We also have PPAs with OXFAM, Christian Aid, Save the Children Fund, CAFOD, WWF, Action Aid and CARE. They are all involved in the water sector to varying extent, though under the PPA mechanism our funding is not attributed on sector-by-sector basis. DFID also supports a number of water sector initiatives through our various country programmes and Knowledge and Research Fund in which UK CSOs are the implementing partners.

#### 4.5 Rights Based Development

DFID's approach to working with civil society has been set out in a number of published documents, but it might be helpful to go back to our strategy paper *Realising Human Rights for Poor People* which was published in October 2000 (available on our website). This outlines what DFID means by a rights based approach.

“The human rights approach to development means empowering people to take their own decisions, rather than being the passive objects of choices made on their behalf. A rights perspective means incorporating the empowerment of poor people into our approach to tackling poverty. It means ensuring that poor people's voices are heard when decisions which affect their lives are made. It means recognizing that equality matters. Addressing discrimination in legislation, policies and society contributes to an environment in which excluded people have more control over their lives. A rights approach also means making sure that citizens can hold governments to account for their human rights obligations”.

Many UK CSOs including the major development agencies such as Oxfam and Christian Aid share this right-based approach to development.

It is not possible to develop a universal blueprint for working with civil society, but DFID's general approach focuses on participation: enabling people to realise their rights to participate in, and access information relating to the decision-making processes which affect their lives. Different strategies and mechanisms will be developed for particular country contexts as discussed in paragraph 3.1 above.

#### 4.6 Scale and Cost efficiencies

Allocation of funds through the CSCF is based on quality of proposals. The table below shows the historical amounts allocated through our central funding mechanisms.

	2000–01	2001–02	2002–03
JFS*	£29.7 million	£7.4 million	£4.1 million
CSCF	£3.1 million	£7.1 million	£8.9 million
PPA	£28.6 million	£53.6 million	£57.2 million
<b>TOTAL</b>	<b>£61.4 million</b>	<b>£68.1 million</b>	<b>£70.2 million</b>

\* The Joint Funding Scheme (JFS) was the predecessor of the Civil Society Challenge Fund

This shows that we have not reduced the funds available through the CSCF but have additionally allocated (in the form of Partnership Programme Agreements) more strategic grants to tried and tested partners who have over the years proved the general quality and effectiveness of their interventions. These organisations are no longer eligible to compete for funding of individual projects under the CSCF, opening up more opportunities for those smaller and newer organisations that previously had some very experienced and well-known competitors for funding.

#### CONCLUSIONS

We hope this is helpful. We believe that the small international CSO sector already gets recognition for its contribution to development—the continued existence of the Civil Society Challenge Fund is testament to that. DFID agrees that there are diverse paths to poverty reduction. Our policies are developed with poor people in mind, and we intend to keep that broader vision in mind as we develop future programmes. We are also happy to reflect on the points raised and will look further at the following:

- We shall ask BOND what additional information—over and above that already available—might be of use to CSOs.
- A reciprocal consultation mechanism is already available through BOND. We shall consider what additional consultations with Policy Division might be possible.

DFID would be happy to participate in any formal review of our policy and practice in relation to small CSOs, or to provide any additional information the International Development Committee may require.

November 2003

DFID also submitted an annex: *Consultation on Country Assistance Plan of DFID (India), Report of Consultation with Civil Society and Elected Representatives from Institutions of Local Self Governance, 23rd June 2003 at SSK, Lucknow*. This has not been printed, but has been placed in the Library.

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## Supplementary memorandum submitted by Small International NGOs Group

### 1. INTRODUCTION

1.1 During the International Development Parliamentary Select Committee meeting with small NGOs an issue that stood out was the need for more information from DFID on certain issues. The committee has asked that a list and type of data which small NGOs would like but find it difficult to get be forwarded to them.

1.2 This paper therefore highlights the type of information some small NGOs have identified as necessary to facilitate their work, but have previously experienced difficulties in accessing from DFID.

### 2. THE AREAS OF DIFFICULTY IDENTIFIED BY SMALL NGOS IN ACCESSING INFORMATION

#### 2.1 Difficulty in navigating DFID:

- Lack of clarity around who is responsible for what, particularly cross-cutting issues such as gender following the restructure both local and international.
- Details including names, location and contact details of relevant staff.
- Departmental strategies within DFID in the UK and the South.
- Information to facilitate participation by small NGOs in country specific initiatives.

#### 2.2 Statistical and data type information

- Disaggregated data on the poor: in terms of various variables (ethnicity, age or disability).
- Information on DFID spending on gender equality.
- Lack of clarity on definitive DFID policy on key aspects of its work given that comparisons of published documents eg Target Strategy Papers, Country Strategy Papers, Public Service Agreements and Delivery Plans, may produce inconsistencies.
- Sex-disaggregated statistics in relation to both DFID's programmes and to its internal organisation.
- Statistical publication relating to aid expenditure to PIMS makers.

#### 2.3 Transparency in relation to funding priorities

- A list of all DFID-funded projects including information on NGOs in United Kingdom and the South receiving the funds.
- Clearer information about funding opportunities for UK-based NGOs.
- Clearer indication of what DFID will not fund in relation to project costs.
- Project areas DFID intends to support abroad.

### 3. SUGGESTION/RECOMMENDATION

- Clearer information on contact persons within the various DFID departments—regular updated organogram would be useful (list of DFID staff world-wide by department).
- Clear funding priorities and who to contact to discuss funding issues.
- Guidance notes on the role of technical advisors versus policy specialists and clear information on who to contact to discuss advocacy issues.
- Update guide to DFID funding opportunities and proposal submissions, including agreed budget and narrative templates.
- Information on DFID-funded NGOs in the South and information on project areas DFID intends to support abroad.
- Sex-disaggregated statistics in relation to both DFID's programmes and its internal organisation.
- Statistical publication relating to aid expenditure to PIMS markers.
- Information on DFID-funded projects published on the website.

### Further supplementary memorandum submitted by Small International NGOs Group

Thank you for the invitation to make a further submission to the International Development Committee (IDC). We hope that this will be the continuation of an ongoing dialogue with both the IDC and DFID.

We are encouraged by DFID's increased willingness to consult with civil society; this we feel is all the more reason to address those areas that can make a positive contribution to DFID's own objectives as well as our own. Our wish to engage DFID in a longer-term consultation process is a means to an end: better and more effective development. In the response to our initial report DFID stated that it was considering how Policy Division could consult effectively with UK civil society. As a diversified group of CSOs we believe that we have a committed group which can work with the Policy Division on this issue.

We have attempted in tabular form to contrast our submission with DFID's reply (Refer Appendix A). In doing so, we do not intend to repeat our earlier submission or the points in this table, but wish to emphasise the main areas where we think we can add value—areas in which SNGOs have special expertise enabling us to make a positive contribution to international development.

We have confined the points in this submission to those that relate to SNGOs, but would welcome the opportunity to explore some of the other issues raised at a later date.

#### STATEMENT

We have stated that DFID does not fully recognise our collective contribution (Serial 2.) to which the reply has been to state that the existence of CSCF bears testament to that recognition. The CSCF is a relatively small funding mechanism with a narrow remit. However, we feel that we can enhance the broader dialogue on development policy and practice. It is towards this end that we made the original submission. For example the DFID Departmental Report 2004 (page 105 5.53) quotes the Development Awareness work with faith groups and other organisations. This process could be enhanced to a real consultative partnership rather than a way to disseminate information on what DFID is doing.

#### DIVERSE APPROACHES

DFID may recognise the need for a broad approach (Serial 5) but this is not necessarily the same as a differentiated, contextualised approach to development practice. The DFID Departmental Report 2004 quotes (page 21 box 1c) the objective to develop evidence-based, innovative approaches to international development. We wish to stress the importance of enabling poor people to articulate their aspirations, and define the means for addressing them. We believe that we are ideally positioned to ensure that this process takes place and many SNGOs have examples of innovative approaches which DFID could use to enhance its own innovative approaches.

We note in the Departmental Report (page 159) the Diversity Action Plan. There are many small NGOs in the UK based on the work of people from many different countries and ethnic background. Their experience could be a factor of great benefit to DFID in its aim of diversity.

#### CONSULTATION

We have already acknowledged DFID's willingness to consult with civil society (Serial 7) and stated our wish to establish the due processes whereby consultation with civil society can be institutionalised. We would like to move forward towards greater regular consultation in future and believe that we could present a good model for consultation with DFID. It is important to note that BOND represents all NGOs (Serial 9), not just small NGOs, and therefore its actions are sector specific. We feel that the specific value we as small NGOs can add needs a separate mechanism affiliated to BOND but with direct links to DFID to maximise the benefit from the consultation.

#### RIGHTS-BASED DEVELOPMENT

We recognise the importance of a rights-based approach to development (Serial 15)—confined primarily to the CSCF—whereas we would like to see this applied globally throughout DFID's operations. At the same time, we are concerned that rights are interpreted very narrowly, which becomes very restrictive in practice. We have no argument with the definition given in DFID's response (Serial 17) and, indeed, would regard its implementation as best practice. Our contention is that this must be part of a development process rather than a new funding dictate, if it is to be community-based and community-owned.

#### RECOMMENDATIONS

We were not simply referring to the size of organisation (Serial 21) but to the quality of development work in general. Our point is that SNGOs do excellent work; this is not given sufficient recognition, because the tendency is for our work to focus on the local, rather than effecting change at the regional or even national levels. This is because we wish to work, at least initially, from the community-level upwards (and because levels of funding do not allow it). We were not wishing to confine this statement to CSCF-supported

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projects. One of our strengths is that our contacts could for example help DFID realise its objective, as stated in the Departmental Report (page 95 Box 5f) to involve civil society in participating in the monitoring and evaluation of PRSPs.

We do not feel that there is a reciprocal consultation mechanism (Serial 22). If one were in place we feel that we could add real value to DFID's efforts to encourage civil society involvement.

We do not dispute that DFID policies are developed with poor people in mind (Serial 23) but this is not synonymous with developing policies with, and for, poor people. This is by no means an easy task and a challenge for all organisations working with the poor. Our point is that we can make a contribution to getting this right.

We would be happy to participate in a formal review of DFID's policy and practice (Serial 24) and would consider that an exercise of this nature would be extremely beneficial.

We have been deliberately brief in this submission and would welcome the opportunity to discuss these points in greater detail. Most of them are substantive and fundamental issues which predicate good development policy and practice.

*June 2004*

## APPENDIX A

## COMPARISON BETWEEN STATEMENTS IN “SMALL NGOS PAPER (EV 49)” AND DFID’S RESPONSE (Ev 56)

<i>Serial</i>	<i>NGO Statement</i>	<i>DFID Response</i>
1.		SUBMISSION BY SMALL INTERNATIONAL NGOS 2. Although the paper was submitted by NGOs, we have used the term Civil Society Organisation (CSO) in our response, since so much of DFID’s engagement nowadays is with a range of organisations extending beyond the NGO community and including faith groups, trade unions and membership organisations.
2.	2. <i>Statement</i> DFID has achieved a great deal, but it fails to recognise the value of the contribution of small international NGOs to international development. 5. <i>Recommendations</i> Recognition be given to the small international NGO sector for its past, present and future contribution to development.	<i>Conclusions</i> We believe that the small international CSO sector already gets recognition for its contribution to development—the continued existence of the Civil Society Challenge Fund is testament to that.
3.	2. <i>Statement</i> DFID’s reluctance to accept development alternatives that do not fit its predetermined model.	
4.	2. <i>Statement</i> There are also major inconsistencies between DFID’s declared commitment to addressing global poverty, and its policy and practices.	
5.	3.1 <i>Diverse Approaches</i> The nature of government is to seek simple, universally applicable, systematic models of development. . . . this runs contrary to what poor people need and want.	3.1 <i>A Broad Approach</i> DFID recognises the need for a broad approach to addressing poverty issues in different contexts and countries.
6.	3.5 <i>Involvement of the UK Public</i> Small international NGOs representing specific communities can link defined constituencies in the UK with grass-roots organisations in the developing world.	DIVERSITY AND DEVELOPMENT EDUCATION 5. We do recognise that small CSOs can make a valid contribution to mobilising support for development in the UK. UK Black and Minority Ethnic (BME) organisations have a strong tradition of concern with development issues. 3.5 <i>Involvement of the UK public</i> We agree that it can be helpful to link defined constituencies in the UK with the developing world. DFID has engaged with faith groups in various ways in delivery of its objectives over many years.
7.	4.1 <i>The consultative capacity of small NGOs</i> Small international NGOs have a wealth of knowledge that could support and strengthen DFID’s strategic goals; but it is not being tapped presently.	3.6 <i>Appropriate Advocacy</i> DFID recognises that issue-specific groups can often be effective advocates for change and we have supported a number of these through the Civil Society Challenge Fund. 4.1 and 4.2 <i>Consultation and Information</i> Consultation with stakeholders is a very important part of DFID’s policy

Serial	NGO Statement	DFID Response
		<p>formulation. Although in our view the most important stakeholders are the poor in developing countries, it is untrue to say that DFID fails systematically to include small UK NGOs in consultation processes.</p>
8.	<p>4.2 <i>Lack of Consultation and Information</i>            Consultation, when it does occur, is <i>ad hoc</i> and appears, when policy is involved, to be after the fact.</p>	<p>DFID POLICY DIVISION REORGANISATION 7. This does present a challenge for small CSOs, and we have been considering what liaison arrangements we can put in place to assist this process.</p> <p>4.1 and 4.2 <i>Consultation and Information</i>            We recognise that relationships and networks have been affected by the reorganisation of our Policy Division, and are currently considering how our newly structured Division can consult effectively with UK civil society.</p>
9.	<p>4.2 <i>Lack of Consultation and Information</i>            DFID makes little effort to address this problem and does not consult systematically outside the five large NGOs.</p>	<p>DFID POLICY DIVISION REORGANISATION            As the submission by the NGOs recognises, it would be unrealistic to expect consultation with individual organisations, but we are looking at manageable ways in which we can have a dialogue.</p> <p>4.1 and 4.2 <i>Consultation and Information</i>            We consult with small UK CSOs for example through the Development Education Association (DEA) and BOND. We did think that BOND were an effective conduit for consultation and dissemination of information to small CSOs, but we will talk to BOND about the points raised in the submission from the “small” international CSOs.</p>
10.	<p>4.2 <i>Lack of Consultation and Information</i>            Small international NGOs could be organised to facilitate dialogue along thematic or sectoral lines and BOND might well prove to be an effective conduit for such dialogue.</p>	<p>4.1 and 4.2 <i>Consultation and Information</i>            There have also been a number of consultations around specific themes. The consultation documents can be found on our website.</p>
11.	<p>4.2 <i>Lack of Consultation and Information</i>            There is also a marked lack of visibility and access to important information held by DFID that is of interest to small international NGOs.</p>	<p>4.1 and 4.2 <i>Consultation and Information</i>            The remark about visibility of data is surprising. As well as publicising information about annual funding decisions on our website, DFID have for some years provided information about the CSCF to BOND whose members have always seemed appreciative of the information provided and the way in which it has been presented at annual workshops.</p>
12.	<p>4.3 <i>The Role of contractors</i>            The use of private sector contractors to vet proposals has led to growing dissatisfaction.</p>	<p>LENGTH OF TIME TAKEN TO DEAL WITH GRANT APPLICATIONS. COMPETENCE OF ASSESSORS            Our external consultants are very experienced in the field of international development. In selecting the teams, we took care to make sure that all the assessors either originate from developing countries or have spent substantial periods living and working overseas.</p>

Serial	NGO Statement	DFID Response
		<p>4.3 <i>The role of contractors</i></p> <p>A number of DFID programmes use outside contractors to administer their funding arrangements. Contractors are carefully selected based on the background and experience of their staff, most of them having a wealth of experience in relevant sectors.</p>
13.	<p>4.3 <i>The Role of contractors</i></p> <p>The increasing conditionality of donor aid linked to privatisation has led to social outcomes that do not represent the interests of the poor, either in the scope of their activities or in the manner in which they are implemented.</p>	<p>DIVERSITY AND DEVELOPMENT EDUCATION</p> <p>CSCF decisions are based on the quality of the proposals as measured against Fund criteria, especially the projected benefit of the intervention to poor people. In practice though, we find we have a very good spread of support across a range of large, medium and small civil society organisations.</p>
14.	<p>4.4 <i>Privatisation and Water Development</i></p> <p>Water privatisation is largely donor sponsored and the release of aid funds is often conditional on the privatisation of water. Water privatisation in SSA has always required a foreign investor, therefore the international dimension of privatisation requires extra vigilance, particularly since water provision is a “natural monopoly”.</p>	<p>4.4 <i>Privatisation and Water Development</i></p> <p>DFID recognises the role for the private sector in the provision of safe water supplies and appropriate sanitation, since the private sector can provide additional resources and more efficient management practices. However, we are seeking to ensure that private sector participation is encouraged through partnership with government and civil society organisations.</p>
15.	<p>4.5 <i>Rights-Based Development</i></p> <p>The rights-based objectives of the CSCF are not reflected in much of DFID’s work abroad.</p>	<p>3.1 <i>A Broad Approach</i></p> <p>We primarily support projects that strengthen the capacity of poor people to understand and demand their rights—civil, political, economic and social—and to improve their economic and social well-being. But we are not dogmatic about this, recognising that some rights-based projects necessarily include an element of service delivery.</p>
16.	<p>4.5 <i>Rights-Based Development</i></p> <p>DFID emphasises that principles contained in its public policy documents are not binding on its staff and have no operational status. Instead, they are meant to publicise DFID’s overall approach to development and, as such, are aspirational strategic documents that shape overall priorities for UK official overseas development assistance.</p>	<p>4.5 <i>Rights-Based Development</i></p> <p>DFID’s approach to working with civil society has been set out in a number of published documents, but it might be helpful to go back to our strategy paper <i>Realising Human Rights for Poor People</i> which was published in October 2000 (available on our website). This outlines what DFID means by a rights based approach.</p>
17.	<p>4.5 <i>Rights-Based Development</i></p> <p>DFID’s understanding of rights can be too narrow to meet the diverse needs of the poor.</p>	<p>4.5 <i>Rights-Based Development</i></p> <p>The human rights approach to development means empowering people to take their own decisions, rather than being the passive objects of choices made on their behalf. A rights perspective means incorporating the empowerment of poor people into our approach to tackling poverty. It means ensuring that poor people’s voices are heard when decisions which affect their lives are made.</p>

<i>Serial</i>	<i>NGO Statement</i>	<i>DFID Response</i>
18.	<p><i>4.5 Rights-Based Development</i></p> <p>“The CSCF above all else is for improving the lives of poor people” (Para 3.11 of the CSCF Guidelines for Applicants dated 6 May 2002) while “initiatives which consist primarily of service delivery . . . will not be eligible” (Para 3.7). Yet access to clean water and a sustainable livelihood are fundamental and indispensable human rights.</p>	<p><i>3.1 A Broad Approach</i></p> <p>Country offices will develop their individual approaches to funding of CSOs. We recognise that where appropriate, this may include elements of service delivery. But our country offices will not support service delivery projects that replace or cut across the services that should be delivered by governments.</p>
19.	<p><i>4.5 Rights-Based Development</i></p> <p>For consistency, the UK Government should be advocating the rights based approach within international development fora, in its multilateral lending programmes and in the policies and programmes of multilateral institutions. DFID should adopt a binding policy on indigenous peoples.</p>	<p><i>4.5 Rights-Based Development</i></p> <p>It is not possible to develop a universal blueprint for working with civil society, but DFID’s general approach focuses on participation: enabling people to realise their rights to participate in, and access information relating to the decision-making processes which affect their lives. Different strategies and mechanisms will be developed for particular country contexts.</p>
20.	<p><i>4.6 Scale and Cost Efficiencies</i></p> <p>DFID’s policy is to support civil society—trade unions, faith groups and community organisations. This is to be applauded but the allocation of funds should not be based on percentages and the type of organisations, but on the quality of the projects proposed.</p>	<p>DIVERSITY AND DEVELOPMENT EDUCATION</p> <p>4. We make no distinction about the size of a CSO when appraising the quality of project proposals, other than considering an organisation’s financial capacity to handle DFID funding.</p> <p><i>4.6 Scale and Cost efficiencies</i></p> <p>Allocation of funds through the CSCF is based on quality of proposals.</p>
21.	<p><i>5. Recommendations</i></p> <p>DFID be invited to release data of value to small international NGOs, probably via their web site.</p>	<p><i>Conclusions</i></p> <p>We shall ask BOND what additional information—over and above that already available—might be of use to CSOs.</p>
22.	<p><i>5. Recommendations</i></p> <p>A reciprocal consultation mechanism be established between DFID and small international NGOs by which both sides can listen and learn, probably using BOND.</p>	<p><i>Conclusions</i></p> <p>A reciprocal consultation mechanism is already available through BOND. We shall consider what additional consultations with Policy Division might be possible.</p>
23.	<p><i>5. Recommendations</i></p> <p>DFID’s vision be broadened to acknowledge that there are diverse paths to be followed in addressing global poverty and that, in the end, development is primarily about people, not policies.</p>	<p><i>Conclusions</i></p> <p>DFID agrees that there are diverse paths to poverty reduction. Our policies are developed with poor people in mind, and we intend to keep that broader vision in mind as we develop future programmes.</p>
24.	<p><i>5. Recommendations</i></p> <p>We would like to request that the IDC undertake a formal review of DFID’s policy and practice in relation to small NGOs.</p>	<p><i>Conclusions</i></p> <p>DFID would be happy to participate in any formal review of our policy and practice in relation to small CSOs, or to provide any additional information the International Development Committee may require.</p>

### Memorandum submitted by Christian Aid

Christian Aid is the official relief and development agency of 40 British and Irish churches, working where the need is greatest in 60 countries worldwide and helping communities of all religions and those with none. Christian Aid is also a key member of Action by Churches Together (ACT), a world alliance of church-based humanitarian agencies.

Christian Aid wishes to make the following submission to the Committee.

#### DIVERSION OF AID AND REDUCTION IN SUPPORT FOR MIDDLE INCOME COUNTRIES (MICS)

##### 1. DIVERSION OF AID

1.1 In a letter to the British Overseas Aid Group (BOAG) of 25 April 2003, concerning funding for reconstruction of Iraq, the Prime Minister stated that: “the Secretary of State for International Development has given public commitment that funds will not be redirected from other emergencies . . . nor from programmes supporting poor people elsewhere. I assure you, the programmes will continue.”

1.2 At the Iraq Donors’ meeting 24–25 October 2003, the UK pledged just over £400 million to aid Iraq’s reconstruction. At the same time it became clear that discussions were taking place on reducing or cutting aid programmes to middle-income countries (MICs) to find funds for Iraq.

1.3 On 6 November 2003 DFID announced changes in funding for low and middle-income countries for 2004–06. “Over the next two years, funding for the reconstruction of Iraq includes £50 million reallocated from planned programmes, together with DFID contingency funding of £115 million . . . Our Public Service Agreement includes the commitment to increase the share of our bilateral programme going to low-income countries to 90% by 2005–06. As a consequence of the temporary increase in funding for Iraq, which we expect to return to middle-income status soon, we will also need to move a further estimated £50 million from middle-income country programmes to low-income country programmes. This is in line with our commitment to the 90% target.”<sup>16</sup>

1.4 This has translated into a reduction in planned bilateral spending in MICs in 2004–05 and 2005–06 of around £100 million. (see DFID Departmental Report 2004, Box 7k, Reprioritisation of financial resources). Countries affected by the diversion of funds include South Africa, Jamaica, and Brazil<sup>17</sup>. This includes the closure of the programme in Honduras, where 44% of the population currently live on less than \$2 a day.

1.5 This is being explained by DFID as a simple reallocation of resources in line with a spending target. Christian Aid, however, has serious concerns about the way aid has effectively been diverted from already planned and agreed programmes in MICs to meet foreign policy objectives in Iraq. As outlined in our recent report *The Politics of Poverty: Aid in the new Cold War*, the tendency to divert aid to support security objectives is on the rise, and should be resisted, not encouraged, by the UK government. While we recognise that there are pressing humanitarian and development needs in Iraq, we believe funds for these ends should not be appropriated from MIC country budgets, which are already facing reductions.

##### 2. MIDDLE INCOME COUNTRIES

2.1 Middle-income countries (MICs) are defined by the World Bank as countries where the gross national income (GNI) *per capita* is between US \$746 and \$9,205. These are further subdivided into upper and lower middle-income countries depending on whether their GNI *per capita* is greater or less than \$2,976.

2.2 The middle-income classification, however, often masks deep inequalities and high levels of poverty. MICs account for a third of people living on less than \$1 a day. Latin America, in which the majority of MICs are located, is the most unequal region in the world.

2.3 Such high levels of inequality pose a barrier to the attainment of the Millennium Development Goals, which lie at the heart of DFID’s mission.

##### 3. IMPACT OF AID DIVERSION

3.1 Government delays in publishing details on which specific programmes will be cut prematurely means we continue to have limited information. The first draft of DFID’s Latin America Regional Assistance Plan for consultation, which details future funding for Latin America, but does not specify cuts, was released in May 2004. DFID has continued to say in meetings that the ending of certain country programmes will not preclude DFID from working in that country through a new regional strategy. However, despite the

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<sup>16</sup> Ministerial Statement by Secretary of State for International Development Hilary Benn 6 November 2003.

<sup>17</sup> Other countries affected include, China, Sri Lanka, Russia, Guyana, Bolivia, Serbia & Montenegro, Bosnia, Albania, Kosovo & the Caribbean. Programmes are expected to close in Macedonia, and Peru.

assurances made by the Prime Minister and the Secretary of State for International Development, the announcement of revised spending priorities on Nov 6th, shows that DFID is now renegeing on commitments for funding and support in Latin America. Christian Aid has discovered the following:

- That DFID offices doing crucial work in Peru and Honduras are unexpectedly to close, something that had not been planned prior to the decision to divert funds to Iraq. The Honduras office was officially opened by Patricia Hewitt, Minister for Trade and Industry, during her visit to the region just two months before the announcement, in September 2003 (although there has been a DFID presence since 2001). The DFID office has played a crucial role in facilitating civil society participation in the country's Poverty Reduction Strategy Policy (PRSP), work hailed as a success in the Departmental Report (4.20). This is a process by which grassroots organisations and NGOs can contribute towards pro-poor economic development policies. DFID's closure of their office has serious implications for this long-term work and for ensuring that DFID investment on this pays dividends.
- That in Peru, DFID had committed to funding a small projects fund through Oxfam Peru, for grassroots organisations in the rural Andean departments. DFID had planned to spend £6.5 million over five years through the fund, focusing on rights awareness-building and capacity-building for local communities. In the context of Peru's new policy of decentralisation, work of this nature tackling the root causes of marginalisation and disempowerment of rural communities, and encouraging participation and engagement with local government, is crucial. However, this programme will now be terminated just 2.5 years after its inception, with a budget spend of just £2.1 million.

3.2 Christian Aid is still awaiting clear information about which other planned activities will be affected by the diversion of aid.

#### 4. HIV IN MIDDLE-INCOME COUNTRIES

4.1 While the emphasis on assistance to the world's poorest countries is well-warranted, the HIV epidemic in many MICs is growing and in need of urgent attention.

4.2 Although public perceptions of HIV mark it out as an epidemic faced by low income countries, predominantly in Sub-Saharan Africa, it is not exclusively so. In Africa, four of the 10 highest HIV-prevalent countries in the world are middle income, with one of them, Namibia, also being the most unequal country in the world. The Caribbean is the region with the second highest HIV infection rate in the world. HIV prevalence rates vary widely among MICs, but a large number face high and growing levels of HIV.

4.3 Recent research commissioned by Christian Aid reveals not only clear evidence that HIV has a detrimental effect on growth and poverty-reduction, but that there is also a correlation between HIV spread and inequality.<sup>18</sup> Our research indicates, for instance, that the sex trade tends to grow in areas where large wealth disparities exist, with large numbers of sex workers drawn from the ranks of the poor. In addition, poverty tends to increase vulnerability to HIV. Alongside higher levels of migration and urbanisation, and lower level of social cohesion, these are some of the characteristics of HIV spread in MICs.

#### 5. AID AND HIV/AIDS IN MIDDLE-INCOME COUNTRIES

5.1 Governments, including those of MICs, often do not prioritise spending on HIV, for the following reasons:

- Owing to the ten-year time lag between infection and impact, HIV is initially a silent problem. It is always hard to prioritise spending on something with a future impact, particularly when there is little public pressure for action and many competing present demands.
- HIV is sexually transmitted and often initially affects groups of people who are stigmatised, such as sex workers or men who have sex with men, which means there is less political will to take action.

It is therefore crucial that earmarked donor funds should be available for HIV programmes for all developing countries.

#### 6. RECOMMENDATIONS:

1. The Prime Minister gave his assurance that activities and action in Iraq would not divert funds from other vital development work elsewhere. While we support DFID's aim to spend 90% of funds on low-income countries, this should not be achieved by diverting already planned expenditure to make up for a short-fall on Iraq commitments. The UK should reinstate the funds already diverted.

2. Information about where unplanned cuts will fall has been extremely limited, and Christian Aid has had to undertake its own research to find out what impact this will have. In the interests of transparency DFID should be obliged to make such information publicly available.

<sup>18</sup> *Downward Spiral* forthcoming, late 2004.

3. DFID should pledge not to divert aid from current plans or renege on commitments in the future, regardless of whether Iraq reconstruction requires more money. New sources of funding should be found for Iraq reconstruction. This is essential to ensure that development aid stays focused on poverty reduction and not on fulfilling foreign policy objectives. The UK International Development Act 2002 insists that development policy operates on the basis of its own principles, objectives, institutions and instruments and the UK's commitment to achieving the Millennium Development Goals (MDGs). Development cooperation and humanitarian aid must remain focused on the enormous task of reducing global poverty and injustice, and achieving—at a minimum—the internationally agreed MDGs.

4. DFID should make a public commitment to ongoing funding for MICs and acknowledge that the definition of “middle-income” hides large amounts of inequality, social exclusion and absolute poverty.

5. DFID should ensure that its decision to reduce funding to MICs doesn't undermine the fight against the HIV epidemic. Donors should earmark funding for HIV work as additional funding, and HIV funding decisions should not be based solely on country income classification.

6. DFID should fund civil society groups working on HIV in MICs, especially if they are advocating to reduce stigma for marginalized groups and to increase the political priority given to HIV.

*June 2004*

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### **Joint memorandum submitted by Marie Stopes International and Interact Worldwide**

#### INTRODUCTION

As leading NGOs in the field of international sexual and reproductive health and rights (SRHR), including HIV/AIDS, Marie Stopes International and Interact Worldwide (formerly Population Concern) commend the Department for having made significant progress against the public service agreement over the last year. In particular we welcome the continued commitment and leadership in the field of sexual and SRHR, including HIV/AIDS. We applaud the broad and integrated approach to these issues in accordance with the Cairo Programme of Action. DFID's championship of SRHR in the international donor community is critical in this area characterised by attempts to erode rights.

With this memorandum we would like to highlight central issues in the Departmental report pertaining to our work in SRHR for the Select Committee's consideration.

#### SEXUAL AND REPRODUCTIVE HEALTH AND RIGHTS

We wish to stress that SRHR is relevant not only to the Millennium Development Goals on maternal and infant mortality and HIV/AIDS but to all the MDGs and the overall goal of poverty reduction. MSI and Interact share DFID's concern at the poor progress towards the goals on maternal and infant mortality as indicated by DFID's example of the problems encountered in the African context.

We are very encouraged that DFID is taking a forthright stand on the issue of safe abortion- which remains controversial. We hope that DFID will sustain dialogue on this issue at the highest level. MSI has direct experience of the issues surrounding abortion in, for example Nepal where our partner offers safe abortion as part of its SRHR programme, whilst Interact is seeking to improve the policy environment in this respect.

MSI and Interact note that the expenditure by the department on SRHR programmes including HIV/AIDS was £270 million in the reporting period. We believe that a linked response to SRHR and HIV/AIDS should be promoted. We are however concerned that funding is increasingly focussed on HIV/AIDS rather than broad SRHR programming and that this will result in an emphasis on treatment to the exclusion of prevention which is best addressed as part of a broader SRHR strategy. MSI and Interact value DFID's traditional support of preventative approaches, as we are profoundly aware of this issue through partner programmes working in communities where girls between the ages of 15 and 24 represent the largest group currently at risk of infection. In this context both MSI and Interact favour the promotion of condoms as preventing both infection and unwanted pregnancy.

With 1.2 billion young people worldwide becoming sexually active, we feel this group warrants special attention, which the Departmental report does not reflect. Similarly the SRHR needs of conflict affected populations (refugees, internally displaced people, armed forces and combatants as well as peace keeping forces) are not explicitly referenced.

#### UNMET NEED FOR CONTRACEPTION

There is growing demand for sustained supply of SRHR commodities including contraceptives, condoms, HIV testing kits and equipment for emergency obstetric care. There is a well documented global shortfall in these supplies which are a part of WHO's essential drugs list. A number of factors contribute to shortages in the supply of contraceptives and other SRH commodities such as lack of donor support and poor

coordination among donors; inadequate budgeting by developing countries; problems in the supply chain itself and limitations in the manufacturing capacity of high quality SRH commodities. We would like to impress upon DFID's Access to Medicines Team the need to address the shortfall as a matter of urgency.

The Departmental report mentions technical assistance (TA) to provide access to a range of contraceptive methods, however is not clear if such TA also covers the much needed capacity building to improve the logistics of providing SRH supplies, particularly condoms, as well as the forecasting and estimation of needs in these supplies. In addition, the report does not specify if TA includes local production and strengthening of local manufacture of high quality commodities.

In the context of budget support DFID is encouraged to ring-fence funding for SRH supplies and ensure that national governments include a specific line in their annual budgets for SRH supplies and capacity strengthening in the areas mentioned above.

#### BUDGET SUPPORT, SWAPS AND IMPLICATIONS FOR SOUTHERN NGOS

MSI and Interact note that DFID is committed "when circumstances are appropriate" to move away from project support in favour of budget support. This instrument has irrefutable advantages in creating government ownership of poverty reduction strategies, however, there remain serious issues around governance and government capacity. We recognise DFID's efforts to build the capacity of government to address these, but solutions will be found only in the long term.

We welcome DFID's intention to classify budget support and that the 2004 edition of *Statistics on International Development* will give more detail on levels and destinations of budget support. We anticipate that this will facilitate more detailed information on support for the various components of SRHR, including HIV/AIDS, for example SRH supplies including those channelled through social marketing.

With respect to SWAPs, not given prominence in this report, failure to include all stakeholders in the planning and implementation of service provision has been shown in earlier DFID studies to result in serious lack of quality services, particularly for vulnerable groups. We urge, therefore, that the evidence base for budget support and for SWAPs be studied carefully in each recipient country.

NGOs have a crucial role to play in reaching underserved groups particularly in the case of the sensitive issues encompassed by sexual and reproductive health and HIV/AIDS. Service provision, advocacy, public awareness and policy development in these areas have been spear-headed by the NGO sector. South Africa is an example where NGOs and other civil society organisations (CSOs) have been the catalysts to the government's commitment to address the pandemic. The evidence based, innovative approaches sought by DFID are most often provided by NGOs. While admittedly NGOs cannot provide the same widespread impact as government-led national programmes could ideally achieve, there are specific culturally sensitive areas that governments are typically unwilling to address—the issue of unsafe abortion is a case in point.

Budget support in particular can result in funding difficulties for Southern NGOs engaged in this work. We seek commitment that the role of NGOs and other CSOs in the South is recognized and supported within SWAPs and PRSP frameworks. Flexible solutions to ensure the support of these SRHR programmes should be found.

#### DFID AND UK BASED NGOS AND INTERNATIONAL NGOS

The move away from project support in favour of SWAPs and Budget Support is also having serious impact on Northern and International NGOs engaged in SRHR. These are experiencing funding difficulties to the point that certain organisations are ceasing to operate. This poses a significant threat to progress towards the MDGs. While the report expresses DFID's intention to support more NGOs with PPAs, we note that there is no significant increase in projected budget provision to ensure this support.

We encourage DFID to recognize the importance of NGOs in delivering the Cairo Programme of Action, particularly in the sensitive areas of safe abortion and post abortion care which governments typically find difficult to address. Northern and International NGOs are playing an important role in raising awareness of issues like maternal mortality and its causes in global policy fora, with governments, donors and civil society in general. NGOs with partners working at the grass roots in the South channel invaluable experience to contribute to the evidence and knowledge base on all key SRHR issues. In many cases these NGOs are facilitating Southern access to SRH rights and supporting the delivery of a broad range of services in this sensitive area of human development. There is an urgent need for SRHR NGOs to be positively considered for negotiating PPAs with DFID.

We appreciate that DFID continues to consult NGOs and other CSOs on its policy development (RH and Rights Position Paper as well as the HIV/AIDS strategy and the HIV/AIDS Treatment and Care Policy consultation papers are recent examples). This is indicative of the importance DFID places on Northern NGOs as critical players in the development process. DFID is urged to continue its support for and dialogue with this sector.

#### DFID AND MULTILATERAL AGENCIES

MSI and Interact would like to commend DFID on continued efforts to influence EU development policy to give stronger emphasis to poverty reduction. In particular we welcome efforts to prevent the budgetisation of the European Development Fund (EDF). We urge DFID to galvanise the support of like minded governments to ensure that the EDF maintains a strong poverty focus.

In view of the new structure and membership of the EU and the forthcoming restructuring of the European Commission, we are confident that DFID will ensure that the UK government supports the nomination of a strong and independent Commissioner for development to uphold a poverty reduction focus in development policy.

We further anticipate that DFID's expressed commitment to the Cairo Programme of Action and, in particular the forthright position on safe abortion and post abortion care, will be reflected in the focus of its presidencies of the G8 and the EU in 2005, and similarly upheld within the World Bank.

#### REVIEW OF THE MILLENNIUM DEVELOPMENT GOALS AND POVERTY REDUCTION

The report clearly underscores DFID's commitment to achieving the MDGs. We would, however like to see SRHR clearly identified as a crucial element in achieving all of the goals. It is important that DFID use its influence within the World Bank to ensure that the Global Monitoring Review, identifies SRHR as an indicator. This is in line with the present emphasis given by the Millennium Development Project on monitoring progress towards these goals.

Similarly, DFID should encourage Southern governments to include specific reference to health / SRH and the role of private sector and NGOs and other CSOs in delivering SRHR information and services in formulating national poverty reduction strategies.

#### DFID STRUCTURE

We are aware that the structure of the Policy Division in the Department has undergone a further readjustment since publication of the 2004 report and are cautiously optimistic that recent changes underscore the importance of SRHR in tackling poverty and will ensure enhanced linkages between SRH and HIV/AIDs programmes. We would, however, exhort the Select Committee to monitor and review the effectiveness of the structure at a later stage.

MSI and Interact appreciate this opportunity to comment on the Departmental Report and look forward to the Hearing on 22 June 2004.

*June 2004*

Interact also submitted the following background paper: *Report on the Department for International Development's Policy and Support for Reproductive Health Supplies*, June 2004. This has not been printed. A copy has been placed in the Library.

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### **Memorandum submitted by One World Action**

#### PROMOTING GENDER EQUALITY AND EQUITY IN DEVELOPMENT CO-OPERATION

1. One World Action welcomes the Department for International Development's Annual Report 2004. One World Action wishes to concentrate this submission on the impact of the Department for International Development's work on promoting and advancing gender equality, equity and women's human rights in its development co-operation.

2. The 1997 White Paper on International Development *Eliminating World Poverty: A Challenge for the 21st Century*, states that the empowerment of women is a pre-requisite for achieving effective and people-centred development. The 2000 Target Strategy Paper on Poverty Eradication and the Empowerment of Women focuses on women's empowerment with the specific objective of achieving gender equality. In addition, the 2000 strategy paper *Realising Human Rights for Poor People* lists participation, inclusion and fulfilling obligations as three principles necessary for achieving human rights for all.

3. The UK government is committed to achieving the Millennium Development Goals. While it is agreed that all the goals have gender impact, goal three relates specifically to promoting gender equality and empowering women through education, waged employment and political representation. Goal eight raises a broader point about donor accountability and North-South resource flows through debt repayment and unfair trade rules.

4. The UK government has signed a number of international agreements including the Beijing Platform for Action, which is a comprehensive statement of women's human rights. At an international level, the UK through the Department for International Development has a leading role in promoting gender equality, equity and women's human rights within the European Union, OECD Development Assistance Committee, the United Nations and the Bretton Woods institutions.

5. According to the United Nations Development Programme poverty has a woman's face, as 70% of the world's poor are female.<sup>19</sup> Women are poor as members of the poorest social groups, but, also because they are women. They experience discrimination in every sphere of political, social and economic life, and at every age, on the grounds of gender. Women not only experience a disproportionate burden of poverty but also have to manage poverty by dealing with diminishing household resources, cuts in social spending and general lack of household income.

6. Tackling women's poverty and inequality requires a transformation in relations between women and men and a transformation in the way in which we define development. There can be no sustainable or equitable development, or poverty eradication, unless discrimination against women is eliminated and gender-based inequality and inequity removed. UNDP argues that progress towards greater gender equality depends on political will, rather than the income level of a society.

7. The Department for International Development's overall policy framework highlights gender inequality as a key factor in poverty and expresses commitment to reducing gender inequality as part of its overall strategy to eliminate poverty. However policy commitments in development co-operation have not been fully realised because they have not been implemented thoroughly or consistently resulting in a significant degree of policy evaporation.

8. One World Action believes that the gap between policy and practice hampers the UK Government's efforts to promote gender equality in development co-operation. DFID's strong policies and commitments on gender mainstreaming fail to be put into practice in ways which make a real difference to the lives of the poorest women and men. While a great deal of progress has been made as is evidenced in the 2004 Annual Report, One World Action believes there are three main areas that hamper effective policy implementation:

- Lack of effective gender mainstreaming within DFID.
- Lack of policy coherence.
- Insufficient commitment in political will, resources, and awareness raising and training for gender mainstreaming.

#### MAINSTREAMING AS A STRATEGY FOR ACHIEVING GENDER EQUALITY

9. In One World Action's evidence to the 1998 Inquiry and the 2002 Inquiry, we argued that women's rights and gender equality were not high priority outside of the Social Development Department within DFID. Today evidence of effective gender mainstreaming outside of the social development cluster remains disappointing. Research conducted by One World Action in South Africa, Nicaragua and Bangladesh<sup>20</sup> provide ample evidence that gender mainstreaming as a strategy for achieving equality between women and men, is poorly understood in country offices.

10. The Annual Report states that DFID works with partner countries and organisations to improve the lives of both women and men by adopting a twin-track approach: firstly, the impact of gender is considered throughout all programmes and secondly specific projects are run to address particular problems. One World Action's research shows that this strategy has not been well translated into practice as mainstreaming has been given priority over women-specific actions and the complementarity of the strategies has not been fully grasped. Our research showed a significant drop in support of projects that work on women's issues in Nicaragua and Bangladesh. Within the context of extreme poverty and gender inequality, specific-measure action is appropriate and an effective strategy for poverty elimination.

11. According to the Annual Report, DFID uses a range of funding mechanisms to promote poverty reduction. These include budget support, Sector Wide Approaches, projects and global funds. An increasing proportion of donor expenditure is being directed to macroeconomic or budgetary support in the form of sector-wide approaches or other forms of direct support connected to Poverty Reduction Strategies. Over the past three years, budget support and other forms of programme assistance have accounted for 15% of DFID's bilateral aid programme.

12. DFID intends shifting away from project financing towards direct assistance to partner governments with the aim of improving effectiveness and impact of public expenditure within sectors and towards poverty reduction goals overall. While this strategy is potentially positive as it offers the possibility of direct policy dialogue with national governments and fosters ownership, tracking aid effectiveness through direct budget and sector support is difficult. If aid efforts are to benefit poor women, gender needs to be mainstreamed consistently and thoroughly throughout budget and sector programme support. Our research in South

<sup>19</sup> *Human Development Report*, UNDP (1995).

<sup>20</sup> *Closing the Gap: Putting EU and UK Gender Policies into Practice*. One World Action (2003), [www.oneworldaction.org](http://www.oneworldaction.org).

Africa, Nicaragua and Bangladesh shows that gender often gets lost in huge sector programmes and it is very difficult to measure gender impact at sector level or aggregated budget support. Lack of effective gender mainstreaming in DFID practice at country level will hamper efforts to achieving gender equality goals.

#### POLICY COHERENCE IN DFID

13. As mentioned above, the UK development co-operation strategy involves a shift of focus from project support to macro-economic forms of assistance involving direct support to national governments particularly in the context of Poverty Reduction Strategies. In our 2002 submission to the Committee, we argued strongly that PRSPs cannot deliver intended benefits to women as they have a similar framework to Structural Adjustment Programmes that have been proven to negatively affect women. Research<sup>21</sup> on women's participation in PRSP processes shows that national governments and international financial institution (IFIs) have played a key role in determining PRSP content. Yet they have limited understanding of the scope of gender issues and the causes of women's poverty. National bodies representing women's interests often lack influence and the capacity to engage effectively in policy dialogue on Poverty Reduction Strategy processes. This lack of participation poses a challenge to DFID in its approach to macro-economic co-operation.

14. One World Action's research in South Africa, Nicaragua and Bangladesh shows evidence of a positive shift within DFID in the increasingly frequent linking of poverty with inequality and particularly gender inequality and in the growing adoption of rights-based approaches. However efficiency-based approaches still carry a good deal of weight with policy makers particularly in the economic field. Our research shows that in practice, aid management offices tend to pay more attention to "pro-poor" issues and neglect the intersections between gender equality goals and other development goals such as poverty reduction or cross cutting priorities such as HIV/AIDS. Theorising poverty in a vacuum ignores the structural issues such as gender, caste, class or race that compound poverty.

15. Such failure of policy coherence could be one clue to policy evaporation. Our research also shows that DFID country strategy papers are not coherent with their respective gender strategies, apart from recognition of the link between gender inequality and poverty. Moreover, while promoting gender equality in the context of PRSPs is tactically a useful way of putting gender issues on the agenda of dialogue with governments, it also skirts the issue of gender equality as a human right. To date all PRSPs are strongly economically driven and if they do consider gender issues, they adopt an efficiency approach. This approach makes gender equality an instrumental objective rather than a development goal in itself.

#### CAPACITY IN COUNTRY OFFICES

16. Our country studies provide evidence that while the policy statements of the Department have advanced in their analysis of gender inequality and poverty, practice still shows insufficient attention to gender equality or women's empowerment. This is most evident in the lack of capacity at field level to operationalise the existing policies and strategies meaningfully even where there is willingness to do so. This is a result of limited time, resources and training with project implementers experiencing problems incorporating gender in their work amidst an array of competing priorities. While resistance to gender equality is no longer an issue, a proactive institutional commitment backed by resources and informed practice, was hard to find.

#### RECOMMENDATIONS

17. Accountability and leadership is key to effective policy implementation:

- DFID must strengthen accountability systems, processes and procedures at head quarters and country office level. This could be achieved through clearly defining and expressing expectations of delivery in performance appraisals, work plans and reports, using clear guidelines on accountability to governance structures, annual reports, and reporting on progress.
- DFID must consider developing an accountability matrix similar to that prepared by the World Bank<sup>22</sup> to ensure that lines of responsibility are clearly defined.
- Senior level commitment, leadership and support—achieved through training, exposure sessions and information analysis—must be visible and unequivocal.
- In the context of increased decentralisation special attention should be given to strengthening mechanisms of accountability at country office level.
- DFID should consider developing country-specific gender action plans clarifying priorities and objectives and developing mechanisms for monitoring progress on gender equality.

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<sup>21</sup> *Failing women, sustaining poverty: Gender in Poverty Reduction Strategy Papers*. GAD Network and Christian Aid. (2003).

<sup>22</sup> *Integrating Gender into the World Bank's Work: A Strategy for Action*. World Bank (2002).

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18. Conceptual clarity:

- Gender equality goals should be made explicit and visible at policy, strategy and operational levels. In particular, each programme and intervention should have an explicit gender equality goal.
- There is a need to strengthen capacity to put gender policies into practice. Clarity should be developed on key gender concepts, gender equality as a goal, and on strategies to meet this goal, including gender mainstreaming. The twin-track approach should be reaffirmed in the light of a clear understanding of gender equality goals and strategies.

19. Financial resources:

- Policy commitments to promoting gender equality must be backed up with adequate budgetary provision to fund general and specific initiatives. Specific budgetary allocations for gender mainstreaming are essential to fund innovative catalytic work and gender mainstreaming initiatives, while support to women's organisations must continue.
- In the context of aid effectiveness DFID should apply a gender budget analysis to development assistance channelled through direct budgetary support to assess progress towards gender equality goals.

20. Policy coherence and linking cross cutting priorities:

- DFID should strive to maintain coherence between its policy objectives related to poverty reduction, trade and the promotion of economic growth in partner countries with gender equality goals expressed in its institutional gender equality policies and its policies on gender equality in development. This is particularly important in light of MDG8.
- DFID should emphasise the coexistence and interrelationship of cross-cutting policy priorities at institutional and country programme levels while at the same time promoting operational clarity regarding gender within specific interventions.

21. Staffing and capacity:

- DFID should appoint designated staff with appropriate gender skills and expertise at decision-making levels in its country offices.
- Staff with lead responsibility for gender should have adequate support including financial resources, continuous training and senior management support in country offices.
- DFID should aim for a better balance between policy ambitions and operational capacity.

22. International Development Committee follow-up inquiry:

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

*June 2004*

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