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Committee of Public Accounts

**Department for
International
Development:
Providing budget
support for developing
countries**

**Twenty-seventh Report of
Session 2007–08**

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written evidence*

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Summary

Budget support is aid provided directly to a partner government's central budget and spent using the partner government's financial systems. It aims to reduce poverty by helping to fund the poverty reduction strategy of the recipient country. The Department for International Development's (DFID) use of budget support is part of a broader move by donors away from traditional project-based aid. DFID and many other donors consider that budget support can help to strengthen government capacity in developing countries, increase harmonisation between donors, expand service delivery and ultimately assist in poverty reduction. At the same time, it also carries the risk that the aid will not be used effectively because, to deliver results, DFID relies on developing country systems, which are often weak.

In 2006–07, DFID spent £461 million on budget support to 13 countries. This sum represents nearly 20% of its bilateral expenditure. DFID has been a key player in developing and using budget support, which is now the Department's preferred method of delivering financial aid where country circumstances are suitable. DFID expects to increase its use of budget support further in the future.

Budget support has been designed to improve aid effectiveness by reinforcing developing country policies and systems, and reducing transaction costs. Despite having provided budget support in some countries for many years, however, the Department has not established whether it is in practice cost-effective.

DFID's main criterion for providing budget support is that benefits must outweigh the risks, a judgement which is assessed subjectively by country teams. DFID assesses weaknesses in financial systems but rarely estimates the associated risks of corruption or waste of UK funds. DFID's monitoring has basic weaknesses in specifying suitable indicators and tracking progress against objectives.

Bodies such as Parliaments, State Audit Offices and civil society organisations can provide effective challenge to governments and ensure that the poor benefit from budget support funding. DFID has not historically paid sufficient attention to strengthening domestic accountability. DFID also has a responsibility to UK stakeholders to demonstrate that funds have been spent effectively.

On the basis of a report by the Comptroller and Auditor General,¹ we examined what budget support has achieved to date and how well DFID manages its budget support programmes.

1 C&AG's Report, *Providing budget support to developing countries*, HC (Session 2007–2008) 6

Conclusions and recommendations

1. **Budget support has delivered some direct benefits over the 10 years that DFID has provided it, particularly in increasing service delivery, but these benefits have not been quantified.** DFID should work with other donors and recipient governments to:
 - collect systematic data on the financial inputs to developing country budgets, and make sure that definitions of sectors, regions and activities are applied consistently;
 - improve the scope, frequency and reliability of data available on developing government activity, outputs and outcomes; and
 - commission evaluations of the impact of budget support on growth and on reducing poverty.
2. **Performance in building the capacity of developing country governments has been mixed.** While there is evidence of better policy-making and planning, there is very little evidence of improved performance in key areas such as financial management. DFID should develop more precise measures of capacity to enable it to track progress more reliably, with a greater focus on better management performance, as opposed to new legislation or better central guidance on management practices.
3. **DFID has not established the effectiveness of budget support relative to other types of aid, or been able to conclude whether, as currently implemented, it represents value for money.** DFID should test the cost-effectiveness of budget support proposals against credible options. DFID's new Investment Committee should establish the standards of analysis required before programmes can be proposed, and police those standards. DFID should also make sure that programme evaluations address budget support cost-effectiveness.
4. **The decision process governing which countries receive budget support is opaque.** DFID have stated principles which must be met before working with government partners, and have developed useful tools to help appraise prospects for budget support and assess risks. Most budget support proposals, however, do not clearly weigh up the risks and benefits. In addition, the pattern of budget support that has arisen appears arbitrary. DFID should state the criteria that should determine a decision (including aspects such as benefits and risks), make sure there are precise assessments recorded against each criterion, and review their portfolio of budget support programmes to make sure there is some consistency of judgement.
5. **DFID's budget support objectives and monitoring have significant weaknesses.** DFID follows defined processes to set programme objectives and monitor progress. However, the approval of vague objectives, weaknesses in associated indicator sets and the potential for confusion between a variety of monitoring requirements militate against economic and effective programme management DFID should:

- make sure that the formal objectives for all budget support programmes reflect all the key benefits expected, are precisely stated, and are associated with clear baselines and success measures;
 - systematically monitor progress against each of the objectives set out in a budget support programme, as well as progress in mitigating any associated key risks or partnership commitments; and
 - streamline the indicators used for such monitoring, to maximise use of agreed, joint monitoring frameworks. Where necessary, DFID should institute arrangements to amend previously approved indicators as better sources emerge.
6. **DFID assesses developing country systems but rarely attempts to quantify the impact of weaknesses in systems for risks to DFID's funds.** DFID should use all available sources, including audit reports and other surveys, to estimate the likely impact of risks arising from weak financial systems.
 7. **DFID provides budget support expenditure in countries where expenditure and output data are so weak that it cannot monitor progress effectively.** DFID provides more assistance than other bilateral donors to improve developing country's national statistics. But it remains DFID's responsibility to ensure that it can obtain sufficient monitoring information to satisfy Parliament that funds have been spent for the purposes authorised, and that such expenditure represents value for money. DFID should make an explicit assessment of the quality of the available monitoring information when proposing or extending a budget support programme, with clear identification of how and when any gaps can be closed.
 8. **Domestic institutions in developing countries are often weak and have been underfunded by donors.** Collaborating with other donors as appropriate, DFID should ensure that bodies such as Parliaments and audit institutions receive sufficient support to help them in such tasks as mounting an effective challenge to the ruling party and securing accountability for the use of public resources, including in countries such as Nigeria to which DFID plans to extend budget support.
 9. **DFID claims that budget support allows it to shape national policy but at other times claims that using leverage rarely works.** DFID should assess how effective budget support really is in encouraging developing country governments to prioritise policies aimed at reducing poverty and use such assessments to reach a firm and evidenced position.
 10. **The financial risks of putting UK funds through weak national systems are often high.** Estimates of leakage and corruption in the use of developing nations' budgets are many times higher than would be acceptable in UK domestic expenditure. Despite this, there is insufficient evidence in the public domain for Parliament to come to an informed view of the balance between risk and reward. Where it assesses financial risks to be high, DFID should disclose the scale and nature of these risks, and offer its best estimate of the levels of corruption, waste and inefficiency that may result. It should also set out its risk management plans. Such information should be available when requesting funds from the UK Parliament and when accounting for their use.

1 The results of budget support and its cost-effectiveness

1. The Department for International Development (DFID) is moving away from delivering aid through discrete projects towards channelling support through national government budgets. This move is largely supported by many of the larger UK aid agencies and by developing country governments.² In 200–07 it provided £461 million in budget support to 13 countries (**Figure 1**). DFID has set out a range of benefits it seeks from budget support, including improvements in service delivery leading to reduced poverty and strengthened government systems within developing countries.³

Figure 1: Countries where DFID provided budget support in 2006-07

COUNTRY	£m	COUNTRY	£m
Tanzania	90.0	Malawi	33.3
Ethiopia	69.9	Zambia	23.3
Pakistan	52.5	India	16.0
Ghana	45.8	Sierra Leone	12.5
Uganda	40.0	Nepal	5.4
Mozambique	36.8	Nicaragua	1.0
Vietnam	34.5	Rwanda	0.0 ¹

Note 1: Rwanda normally receives general budget support but recorded no expenditure for 2006–07 as a disbursement was brought forward into financial year 2005-06.

2. Budget support has led to increased expenditure on services to benefit the poor in six out of nine countries where budget support programmes have been evaluated.⁴ It often supports developing countries in making education and health services free to allow better access for the poor.⁵ There have been clear increases in the quantity of services delivered in many countries receiving budget support. For example, in Rwanda, between 2000 and 2007 the percentage of children enrolling in school increased from 72% to 95%.⁶ In Ethiopia, the number of children at school doubled between 2000 and 2006.⁷

3. However, such improvements cannot be attributed solely to budget support, but also reflect the efforts of the governments of the developing countries, other donor projects and prevailing economic conditions and growth rates. Many countries receiving budget support have increased their primary enrolment rates significantly (**Figure 2**), but so have some countries which have had no budget support. In addition, the modest increase in Ghana's enrolment rates and the decrease in the rate in Vietnam show that the pattern of benefits from budget support is by no means simple.

2 Qq 60, 71

3 Q 16

4 Qq 33–35

5 Q 32

6 Q 7

7 Q 29

Figure 2: Progress in primary school enrolment rates in countries where DFID has a significant bilateral programme

COUNTRY	AVERAGE PERCENTAGE OF DFID AID GIVEN AS GENERAL BUDGET SUPPORT 2001–2006	PRIMARY SCHOOL ENROLMENT RATES		
		2000	2005	Increase 2000–2005
Tanzania	64	51.4	91.5	40.1
Mozambique	48	55.6	77.2	21.6
Ghana	42	61.4	65.9	4.5
Vietnam	25	95.4	87.8	-7.6
Ethiopia	17	36.9	63.0	26.1
Cambodia	0	91.1	98.9	7.8
Kenya	0	67.4	79.3	11.9
Lesotho	0	81.8	87.1	5.3
Nigeria	0	64.5	69.6	5.1
India	0	87.5	94.7	7.2

Note: Insufficient data was available for other countries

Source: United Nations Millennium Development Goals database and C&AG's Report

4. Donors have often focused attention on increasing the quantity of service delivery in line with the Millennium Development Goals. These Goals measure, amongst other things, progress in education through enrolment rates rather than educational attainment. As services have expanded to reach more people, the quality has often declined. For example, in Rwanda, the teacher/pupil ratio has increased from 54:1 in 2000 to 70:1 in 2006, and shortages of textbooks and reduced school hours are common as a result of the increased demand.⁸ DFID has tried to address quality issues through targeted support. For example, it is working in the education sector in Zambia and Rwanda to address rising class sizes through recruitment of more teachers.

5. Budget support aims to improve the financial management systems of developing countries so that they can spend their government budgets more efficiently and effectively. Making such changes to government systems takes time. DFID's assessments of financial systems tend to show positive improvements, for example, in adopting reform measures.⁹ DFID drew attention to specific cases of reforms of financial management such as improving tax collection and increasing competition in procurement. For example, Mozambique has introduced a new procurement law and has carried out an independent census of public sector payroll.¹⁰ However, although the overall scope and number of reforms has often been good, implementation has been slow and the reforms have often had limited impact. In Ghana, for instance, serious weaknesses such as poor budget control had persisted despite reform measures.¹¹ DFID reported that it had delayed budget support

8 Qq 7, 29, 68

9 Q 42

10 Q 107

11 C&AG's Report, Figure 12

payments in a minority of countries, including Uganda, Ghana and Sierra Leone, where it had not been satisfied with progress in financial management reforms.¹²

6. So far budget support has limited impact on the actual performance of financial management systems. Donor support has made little difference to the sustainable capacity of those bodies delivering services. Broad based indicators, capturing the main aspects of financial management, show that public financial outcomes have not demonstrably improved between 2000 and 2005 in countries where DFID has a country programme.¹³ The lack of improvement was evident whether or not DFID provided budget support during this period. In Uganda the number of indicators where benchmarks were met actually decreased between 2001 and 2004.¹⁴ Overall those countries which received budget support were performing at the same level as those which did not.¹⁵

7. Reducing transaction costs was one of DFID's stated aims when providing budget support, but the effect on such costs has been under-researched. DFID's administration costs have generally declined relative to the amount of aid provided, although in half of countries costs in absolute terms rose over the period.¹⁶ DFID and other donors have not yet collected information on the transaction costs incurred by developing country governments. DFID reported that setting up budget support has been more costly than expected due to the need to agree priorities and monitoring with all donors, but it expected costs to decline over the medium term. It agreed to monitor the impact of budget support on recipients' costs in the future although it noted that attribution of costs to budget support is hard since much aid is still provided through projects and other channels.¹⁷

8. DFID recognises that economic growth is key to achieving its overall aim of reducing poverty. It believes that budget support can assist the developing country economy to maximise the potential for growth, for example, by promoting good macroeconomic management and encouraging increased productivity.¹⁸ In Malawi, however, an independent evaluation found that the government had a poor grip of the macro-economic situation and that budget support actually worsened both macroeconomic performance and the steady flow of aid funds.¹⁹ Although budget support has been provided by DFID for ten years in some countries, direct links between the support, economic growth and poverty reduction are hard to detect. Many studies on links between growth and aid in general have been inconclusive or contested.²⁰

9. Budget support is DFID's preferred way of giving aid.²¹ DFID can point to areas where benefits have arisen, but not the scale of benefit attributable to budget support. It also has

12 Q 12

13 Qq 42, 106

14 Q 12

15 C&AG's Report, para 3.5

16 Q 17

17 Qq 121–123

18 Q 69

19 Qq 10–11

20 C&AG's Report, Appendix 6, page 61

21 Q69; C&AG's Report, Executive Summary, paras 1, 2.10

not established a way of assuring itself that more could not have been achieved through other types of aid.²² Without such assurance DFID cannot provide evidence of its cost-effectiveness. This lack of evidence raises doubts over the validity of DFID's claim that budget support is the most powerful instrument for achieving broad development outcomes.²³

10. DFID has not focused sufficiently on analysing and comparing costs to ensure that it gets maximum impact from its funding.²⁴ After up to ten years experience of budget support in thirteen countries, DFID offered just one example indicating that budget support might be cost-effective. This was that the unit construction costs of government-built schools in Mozambique were only half of those built by donors. DFID has no broad base of such information. For example, the National Audit Office found that the DFID offices visited did not capture information routinely on measures of efficiency such as the unit costs of delivering services through different providers.²⁵ In February 2008, DFID established an Investment Committee to improve its approach to identifying the cost-effectiveness of its choices. That Committee plans to develop clear benchmarks for unit costs, average costs and rates of return and to ask DFID country offices to assess their plans against these benchmarks.²⁶

22 Qq 72–73

23 Qq 3, 5, 75

24 Q 119

25 C&AG's Report, para 4.14

26 Q 128

2 How DFID appraises and manages budget support

11. Over the past five years, DFID has increased its use of budget support from £268 million to £461 million. It believes that budget support is particularly effective as it provides an opportunity to shape national policy and the overall allocation of the government's resources. It also allows DFID to be involved in much broader issues around public financial management and accountability.²⁷ Although the initial costs of providing budget support remain high due to the need to set up monitoring systems and to co-ordinate with others, budget support also allows DFID to increase the amount of its funding at little additional cost. Given the pressure on DFID to spend more funds on development without a corresponding increase in staff resources, budget support is an attractive option.²⁸

12. DFID has not set clear parameters for deciding which countries are suitable for budget support.²⁹ The underlying principle is simply whether the benefits outweigh the risks, and this principle allows a great deal of flexibility of approach by country teams. There is no maximum level of risk which DFID is prepared to take in providing budget support. Rather, DFID takes an overall assessment of the risks and benefits of providing aid in each circumstance.³⁰

13. DFID has bilateral programmes in 120 countries, although it spends nearly three quarters of its funds in 25 target countries.³¹ Some 14 of those 25 countries receive budget support. So DFID does not consider 90% of the countries in which it has bilateral programmes suitable for budget support. There are various reasons for this view. Some countries are middle income countries, so any contribution DFID made through budget support would not be significant enough to have real impact. In countries with political regimes such as Zimbabwe, supporting a government budget would not be appropriate. In some other countries, DFID's involvement is limited to humanitarian assistance. Finally, in some countries such as the Democratic Republic of the Congo, DFID has assessed the risks to be too high.³²

14. Decisions about which countries receive budget support sometimes appear arbitrary. For example, DFID provides budget support in countries such as India, Vietnam and Pakistan which are emerging countries with significant economic growth rates.³³ There are of course significant poverty challenges remaining in each of these countries but the reason why these particular countries should merit budget support more than some other countries is not clear. Similarly when considering whether the risks outweigh the benefits,

27 Q 16; C&AG's Report, para 1

28 Q 59; C&AG's Report, para 6.17

29 Qq 102, 105

30 Q 41

31 Qq 5, 75, 132

32 Q 132

33 Q 101

it is hard to understand why DFID denied budget support to Kenya because of high perceived levels of corruption, but gives budget support to Sierra Leone and Cambodia, which have higher perceived corruption levels. In the case of Sierra Leone, DFID explained that it hoped that budget support would prevent the government from failing, which in turn would hopefully prevent a re-emergence of conflict. DFID consider conflict prevention to be cost-effective.³⁴ Whether budget support could have prevented conflict in Kenya remains an open question.

15. When appraising prospects for budget support, DFID requires its country teams to make an assessment of the potential benefits and risks. However, only two appraisal documents pulled together these two elements to provide a clear and explicit overall assessment to senior staff and ministers. The absence of the assessment means that it has been difficult for DFID to control the quality of individual decisions.³⁵ DFID accepted that it needed to improve the quantification of the benefits and risks, and has recently revised its guidance on how to assess the expected benefits of budget support.³⁶

16. Corruption is a risk when providing any type of aid. There are particular risks arising from spending funding through national systems which are generally weak in key areas such as financial management and accountability. DFID stated that it manages the risks of funding not reaching its intended beneficiaries by establishing in advance clearly what results it wants the funding to achieve. It also carries out Fiduciary Risk Assessments to look at the overall financial capacity in these countries, including the budgeting, audit and accountability systems, procurement arrangements and financial reporting.³⁷ But such assessments generally focus on the strengths and weaknesses of these systems rather than the significance of any weaknesses for potential corruption or inefficiency.

17. By its nature, corruption is often hidden and hard to quantify, but DFID does not make full use of available information.³⁸ For example, it rarely makes any quantified estimates of the impact of weaknesses in systems on possible resources wasted or used for corrupt purposes. In some countries, DFID or others have commissioned Public Expenditure Tracking Surveys to track money through from centre to local level. Such surveys can identify some aspects of corruption or problems with poor financial reporting. Surveys conducted in some DFID target countries suggest that an average of approximately 7% of funds cannot be traced. Such surveys are not always carried out, however, or if they have been, are not always used by DFID in risk assessments.³⁹ DFID also only makes limited use of state audit reports, which also give an insight into weaknesses in record keeping, inefficiencies and corruption.⁴⁰

18. DFID has not estimated how much funding through developing governments is wasted or used for corrupt purposes, but the estimates of others are worrying. For example, in

34 Qq 14, 36–38

35 Qq 43–45

36 Q 45

37 Qq 18, 62

38 Q 21

39 Qq 21, 50–51; C&AG's Report, para 5.8, Figure 21

40 C&AG's Report, para 5.10

Tanzania and Uganda other bodies have estimated that 20% of procurement expenditure is lost through corruption.⁴¹ In 2006–07, DFID provided £90 million and £40 million respectively in budget support funding in these countries.⁴² More recently, an external audit of the Bank of Tanzania showed that US\$100 million had been misused,⁴³ and in February 2008, Tanzania’s prime minister and entire cabinet resigned after being implicated in corruption over an electricity contract.⁴⁴ DFID has not suspended budget support as a result of such incidents of corruption, only because of concerns about a lack of progress on key reforms.⁴⁵

19. In some cases additional safeguards have been introduced to ensure that funding reaches the most appropriate areas. For example, in Ethiopia funding to government included controls to make sure that aid was spent on poverty reduction. It did this by ensuring money would be disbursed to regional government for use in specified sectors, introducing checks on expenditure and processes at local level and by funding civil society organisations to increase scrutiny by Ethiopians of how the budget was spent.⁴⁶ DFID may ask for more scrutiny work if it has concerns in a particular area. For example, in Mozambique DFID agreed with the government that, while providing funding for the roads sector, there would be a procurement plan for roads and an ex-post audit every year.⁴⁷ Overall, however, country teams have not introduced sufficient safeguards to ensure that UK taxpayers’ money has been spent well.⁴⁸ DFID agreed that it needs to be more proactive in its safeguards and has recently issued new guidance.

20. DFID’s monitoring and management of its budget support programmes is limited by gaps in data on the services delivered, and on outputs such as the number of schools built or teachers trained. DFID has played a key role in trying to build statistical capacity in developing countries and encourage others to collect better data. It is active in 10 of the countries where it provides budget support to improve available data and monitoring. DFID believes that it is important to adopt a multilateral approach to improving statistics and has also worked with the World Bank to encourage developing countries to outline national strategies to improve their statistical systems, providing £40 million of funding.⁴⁹

21. In the meantime, however, DFID finds itself operating in countries without systems capable of providing a full view of progress. DFID does not insist on a minimum level of information on the use of government funds before providing budget support. In countries such as Rwanda and Zambia, systems for measuring expenditure were so weak that DFID could not be confident about whether expenditure trends were benefiting the poorest. The Zambian government was moving to a new system for tracking expenditure at the time.

41 Q 80

42 C&AG’s Report, Figure 3

43 Q 80

44 News articles February 2008, e.g. <http://news.bbc.co.uk/1/hi/world/africa/7232141.stm>

45 Qq 65–66

46 Qq 24, 27

47 Q 25

48 Q 109

49 Qq 9, 126

Many countries receiving budget support from DFID have poor audit trails, which make it difficult to gain assurance that funds have been used for the purposes intended.⁵⁰

22. Being able to measure the results of budget support is critical to making judgements about where, when and how to use it. DFID has not been systematic in its approach to monitoring budget support. It claims that this is not an issue of substance but of format, but accepts that improvements are required to make its budget support programmes comply with good practice.⁵¹ Despite this view, DFID's monitoring is often weak in key areas. For example, 15% of indicators had no time-bound targets and 22% had no baselines.⁵² DFID normally sets out what it wants its budget support programmes to achieve, but four out of six internal reviews of budget support programmes considered progress against only half or fewer of its objectives.⁵³ In India DFID did not have access to key financial management information collected by the World Bank, and did not carry out its own monitoring, although access to such information is now much better.⁵⁴ DFID expects to remedy soon the weaknesses in the design of monitoring frameworks and matching of objectives to indicators for new budget support programmes. It will take more time to improve existing programmes since such changes will need to be agreed with other donors and developing country governments.⁵⁵

23. Monitoring risks is also important. But only three quarters of the Annual Statements of Progress which seek to identify major changes in risk were completed as required.⁵⁶ Only a sample of such statements is reviewed by headquarters which does not encourage full compliance or encourage country teams to give them adequate emphasis.⁵⁷

50 Qq 8, 23, 50

51 Q 125

52 Q 127

53 Q 124

54 Q 115

55 Q 129

56 Qq 46–49

57 Q 46

3 Accountability to developing country and UK stakeholders

24. Strengthening domestic accountability through Parliaments, civil society groups and State Audit Institutions is important for ensuring that governments in developing countries use budget support to tackle poverty and account for their achievements. Although budget support aims to promote better domestic accountability by spending donor funds through government systems, the relative power of donors may distort accountability priorities.⁵⁸ A CARE International and ActionAid International report looking at Malawi, Tanzania and Uganda concluded that budget support had predominantly increased government accountability to donors.⁵⁹ DFID reported that it supports reforms which encourage developing country governments to become self-sustaining and promote domestic accountability in this way, giving the example of supporting tax reform and increased revenue collection.⁶⁰

25. Historically, DFID has not always paid sufficient attention to building accountability and challenge within developing countries before starting to use budget support. For example, DFID or other donors had provided assistance to Parliaments prior to using budget support in just 20% of cases, and 13% of cases for State Audit Institutions.⁶¹ DFID's 2006 White Paper emphasised the importance of strengthening domestic accountability. DFID or other donors now provide support to key domestic institutions in the majority of cases where budget support is used. For example, donors provide support to Parliaments in two-thirds of countries where DFID provides budget support, compared with 40% of countries where it does not.⁶² But there are still a minority of cases where no donor supports domestic institutions, and many domestic institutions are still under-funded and remain weak. Given DFID's plans to expand budget support to include countries such as Nigeria, it will be important to provide adequate support to their Parliaments, audit offices and civil society. UK bodies such as the National Audit Office and Parliament also have a role in helping to strengthen accountability through advice and technical assistance, sometimes funded through DFID.⁶³

26. Parliaments are vital for securing accountability for government expenditure but some opposition politicians are inexperienced and do not receive sufficient support to allow them to provide an effective challenge role.⁶⁴ DFID is not able to support political parties directly as such funding would not fit within its poverty reduction remit. Instead it builds the capacity of public institutions. For example, in Ghana and Zambia DFID has supported

58 Q 89

59 Q 56; C&AG's Report, para 3.18; *Where to now?: Implications of changing relations between DFID and recipient governments and NGOs in Malawi, Tanzania and Uganda*, CARE International and ActionAid International

60 Q 89

61 Qq 13, 55

62 C&AG's Report, Figure 16

63 Qq 100, 109

64 Q 90

the televising of Public Accounts Committee hearings in order to promote higher levels of awareness and better public scrutiny.⁶⁵ Overall, however, many Parliaments remain weak.

27. Budget support has wider potential impacts on the political situation in-country. Providing funding directly to government may lead some to believe that the UK is providing support to a political party which may give a ruling party an advantage even if free and fair elections are held. DFID is sensitive to this issue and monitors the government's actions. In 2005, in Uganda DFID withheld £20 million of its aid programme in response to its assessment that the Ugandan government was trying to disadvantage the opposition in the run-up to an election. DFID also took a similar line in Sierra Leone during municipal elections.⁶⁶

28. When providing funding through government systems there is also a risk that political elites retain control of funding, and the poorest or those with opposing political views may not benefit equally.⁶⁷ For example, in Mozambique the opposition Renamo party has complained that its supporters do not receive as much funding as those who traditionally support the governing party.⁶⁸ DFID accepted there are political implications of providing budget support. DFID promotes greater transparency as a safeguard against budget support being used to benefit political parties or elites. For example, the Kenyan government displayed each school's budget publicly so that the local community understood how much funding has been received and could monitor the results of the funding.⁶⁹

29. DFID works closely with the Foreign and Commonwealth Office on issues of political governance and human rights.⁷⁰ Given the political sensitivities of promoting better domestic accountability, however, DFID requires staff with astute political antennae. They also need to represent the UK well, have a good understanding of the political situation in a country and, in particular, understand the needs of those from poor backgrounds.⁷¹ DFID is committed to appointing the staff with the right skills, regardless of social, economic, gender and ethnic background, in order to deliver development assistance to those who need it most. It does not collect information on the social and educational backgrounds of its own staff. DFID reported that it is a very diverse organisation, performing well against diversity targets.⁷² **Figure 3** shows how it compares to civil service averages.

30. Accountability to UK taxpayers for what DFID achieves with budget support funding is also important. DFID is required to assure Parliament that its funding has been spent on reducing poverty, that it has addressed key risks to UK funds and that money has been spent efficiently and effectively. Such assurance is increasingly important for DFID as the UK is the third largest provider of budget support after the World Bank and the European

65 Q 58

66 Q 81

67 Q 83

68 Q 98

69 Q 90

70 Q 82

71 Q 91

72 Ev 18

Commission. DFID provides some 18% of its bilateral programme as budget support, more than three times that of any other bilateral donor.⁷³

Figure 3: DFID's diversity statistics compared with the Civil Service average

	DFID, DECEMBER 2007	CIVIL SERVICE AVERAGE, SEPTEMBER 2006	VARIANCE FROM AVERAGE
Ethnic minority as percentage of known ethnic origin	10%	8.4%	1.6%
Declared disabled employees as percentage of all employees	3%	4.4%	-1.1%
Percentage of females in senior civil service (SCS) grade	37%	29.8%	7.2%
Percentage of females in all grades	50%	52.9%	-2.9%

Source: DFID supplementary note to committee and Civil Service Statistics annual report 2006

31. When using budget support, DFID has no direct control over the budget priorities and allocations of the government in the developing country so it is even harder for DFID, than for domestic UK departments, to ensure that it gets good value for money.⁷⁴ DFID believes that setting clear targets gives it influence over the way in which budgets are spent. But evidence on the extent to which budget support facilitates donor influence over developing nation policies is limited. On occasions, DFID argues that providing budget support buys it influence to participate in negotiations over priorities and budget allocations.⁷⁵ Yet, at other times it argues that using leverage rarely works in influencing priorities of recipient governments.⁷⁶ Such confusion is seen elsewhere: an evaluation of budget support in Ghana reported that budget support had been influential in influencing expenditure decisions but also concluded that donors had overemphasised its use to gain policy leverage.⁷⁷

32. In some cases developing country expenditure decisions have given cause for concern. For example, in Rwanda in 2007, defence expenditure increased from 8.2% to 8.5% of the total budget, while health and education expenditure declined by 1.2%.⁷⁸ DFID explained that there was a specific threat of insecurity in that year which made such a rise in defence excusable.⁷⁹ In Zambia there was also an increase in defence expenditure. In 2001, the Tanzanian government purchased a controversial radar system costing \$40 million, despite UK government objections.⁸⁰ Such examples do not give the UK taxpayer assurance that its funds are helping poor people.

73 Qq 130–131

74 Qq 6, 63–64, 134

75 Q 86

76 Treasury Minute on First Report from the Committee of Public Accounts 2007–08, Cm 7323, para 17

77 Overseas Development Institute briefing paper: *Budget support to Ghana: A risk worth taking?*

78 Qq 33, 76–79

79 Q 79

80 Qq 86–88

33. DFID has a responsibility to UK taxpayers to ensure that funds are used as effectively as possible, for the purposes authorised by the UK parliament. Weaknesses in information and monitoring have prevented any direct assessment of cost-effectiveness. Identifying and quantifying the risks to UK funds when used for budget support is a fundamental part of any decision over whether or not such support is a suitable option. DFID has assessed financial risks as high in a significant proportion of its internal assessments of recipient countries. But currently there is no system whereby the UK Parliament and other stakeholders receive information routinely on the risks which DFID is choosing to take with such funds, the significance of those risks for levels of corruption waste or inefficiency, or the benefits it hopes to attain from taking these risks.

Formal Minutes

Monday 12 May 2008

Members present:

Mr Edward Leigh, in the Chair

Mr David Curry

Mr Don Touhig

Dr John Pugh

Draft Report (*Department for International Development: Providing budget support to developing countries*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 33 read and agreed to.

Resolved, That the Report be the Twenty-seventh Report of the Committee to the House.

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

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

[Adjourned till Wednesday 14 May at 3.30 pm.]

Witnesses

Monday 3 March 2008

Page

Dr Nemat (Minouche) Shafik, Permanent Secretary, **Mr Sam Sharpe**, Director, Finance and Corporate Performance and **Ms Rachel Turner**, Head of DFID Mozambique, Department for International Development

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Second Report	Department of Health: Prescribing costs in primary care	HC 173 (Cm 7323)
Third Report	Building for the future: Sustainable construction and refurbishment on the government estate	HC 174 (Cm 7323)
Fourth Report	Environment Agency: Building and maintaining river and coastal flood defences in England	HC 175 (Cm 7323)
Fifth Report	Evasion of Vehicle Excise Duty	HC 227
Sixth Report	Department of Health: Improving Services and Support for People with Dementia	HC 228 (Cm 7323)
Seventh Report	Excess Votes 2006–07	HC 299
Eighth Report	Tax Credits and PAYE	HC 300 (Cm 7365)
Ninth Report	Helping people from workless households into work	HC 301 (Cm 7364)
Tenth Report	Staying the course: the retention of students on higher education courses	HC 322 (Cm 7364)
Eleventh Report	The compensation scheme for former Icelandic water trawlermen	HC 71 (Cm 7364)
Twelfth Report	Coal Health Compensation Schemes	HC 305 (Cm 7364)
Thirteenth Report	Sustainable employment: supporting people to stay in work and advance	HC 131 (Cm 7364)
Fourteenth Report	The budget for the London 2012 Olympic and Paralympic Games	HC 85 (Cm 7365)
Fifteenth Report	The Pensions Regulator: Progress in establishing its new regulatory arrangements	HC 122 (Cm 7365)
Sixteenth Report	Government on the Internet: Progress in delivering information and services online	HC 143
Seventeenth Report	Foreign and Commonwealth Office: Managing Risk in the Overseas Territories	HC 176
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Twenty-third Report	Report on the NHS Summarised Accounts, 2006–07: Achieving financial balance	HC 267
Twenty-fourth Report	The privatisation of QinetiQ	HC 151
Twenty-fifth Report	The cancellation of Bicester Accommodation Centre	HC 316
Twenty-sixth Report	Caring for Vulnerable Babies: The reorganisation of neonatal services in England	HC 390
Twenty-seventh Report	DFID: Providing budget support to developing countries	HC 395
First Special Report	The BBC's management of risk	HC 518
Second Special Report	Evasion of Vehicle Excise Duty	HC 557

Oral evidence

Taken before the Committee of Public Accounts

on Monday 3 March 2008

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mr Ian Davidson
Mr Philip Dunne
Nigel Griffiths
Keith Hill

Mr Austin Mitchell
Geraldine Smith
Mr Don Touhig
Mr Alan Williams

Mr Tim Burr, Comptroller and Auditor General, and **Mr Nick Sloan**, Director, National Audit Office, were in attendance and gave oral evidence.

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

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

DEPARTMENT FOR INTERNATIONAL DEVELOPMENT:

PROVIDING BUDGET SUPPORT TO DEVELOPING COUNTRIES (HC6)

Witnesses: **Dr Nemat (Minouche) Shafik**, Permanent Secretary, **Mr Sam Sharpe**, Director, Finance and Corporate Performance and **Ms Rachel Turner**, Head of DFID Mozambique, Department for International Development, gave evidence.

Q1 Chairman: Good afternoon. Welcome to the Public Accounts Committee. Today we are considering the Comptroller and Auditor General's Report, *Providing budget support to developing countries*. I have great pleasure in welcoming the new Permanent Secretary, Dr Minouche Shafik; I think you were appointed today.

Dr Shafik: That is correct.

Q2 Chairman: You are very experienced in this field so I do not think you will have any difficulty in answering our questions. Obviously this is a very important and interesting subject. I think this country is by far the biggest bilateral donor in Africa, are we not?

Dr Shafik: We are just after the United States.

Q3 Chairman: Certainly much bigger than other European countries. Obviously this is very important to us. A third of all our aid to Africa goes through budget support, which is what we are talking about today. Does it worry you, with such large sums of money—£341 million of tax payers' money—there is no conclusive evidence, as we read in this Report, of its cost effectiveness?

Dr Shafik: Would you like me to introduce my colleagues first and then I will answer the question?

Q4 Chairman: Yes please.

Dr Shafik: This is Sam Sharpe, he is our Finance Director at DFID; this is Rachel Turner who is head of our office in Mozambique and can give you a sense of what it is like at the country level to manage budget support.

Q5 Chairman: So, there is no conclusive evidence of the cost effectiveness of £341 million of tax payers' money

Dr Shafik: I would like to give a little bit of evidence to the contrary. Just to give a sense of proportionality, DFID provides money in about 120 countries around the world; we have significant programmes in 64 countries; we provide budget support in just 15 so we are highly selective in where we use this instrument and we only use it where we think the benefits exceed the risks. In terms of evidence around benefits of the use of those funds, I think the NAO itself says that in seven of the eight countries in which we provide budget support there is clear evidence of an increase in the quantity of services that are provided by the government in terms of education and health services and I can cite several examples of that.

Q6 Chairman: I do not deny it. If you are providing this amount of money obviously you are achieving something—nobody denies that—but traceability is weak, is it not? I will ask you further questions in terms of support and the State Audit Institutions, but the actual traceability of the money is much weaker if you are giving it direct to the government than if, for instance, you are building a health centre directly when you would actually know the health centre is being built. As we read in this Report, when giving to the governments there are clear questions about how well we can trace the effectiveness of this money. I do not deny it has some effect, but whether it is cost effective is what this Committee is designed to look at.

 Department for International Development

Dr Shafik: The traceability is different and the nature of the benefits is different. Rather than having ten schools funded by the UK, the UK actually provides funding to transform the entire school system; it could be providing 5% or 10% on transforming the system. We think the additional benefits are worth it. We can show clear outcomes and benefits that result.

Q7 Chairman: You mentioned schools, let us look at one example. Please look at figure 9 which you can find on page 15, the pupil/teacher ratio in Rwanda. What worries me is that service quality is being compromised by service delivery. We can see that pupil/teacher ratio in Rwanda in 2000 was 54:1, it is now 70:1. I agree the net enrolment rate has gone up from 72 to 95 and that is very good, but they have an example there of service quality suffering at the expense of service delivery.

Dr Shafik: That is a very common phenomenon. In any country when you rapidly increase the quantity of public services you often see a deterioration in quality. In Ethiopia school enrolments went up from seven million children to 14 million children in just six years. That is doubling the number of children in the country's educational system in just six years. Having said that, we are very focussed on the issue of quality. In many countries when we see a deterioration in quality we are engaged in it. In Zambia, for example, we work on increasing the quantity and the number of children enrolled, but we also have specific targeted interventions to address quality. We are working with the Zambians specifically and narrowly in the education sector on increasing recruitment of teachers in order to address this issue.

Q8 Chairman: You mentioned Zambia, the Report at paragraph 2.4 says that the data in Zambia is so poor that you simply cannot monitor expenditure trends effectively. It says here, "They could not produce budget figures which were comparable from year to year as the Zambian Government was introducing new budget classifications". You simply did not know what was going on. That was a particular answer that you have just alluded to.

Dr Shafik: Yes, but in that case the Zambian Government was switching to a more appropriate and a better quality classification system so we could monitor what was happening under the old system but not under the new system. I can assure you that now the Zambian system is able to generate data in the appropriate IMF classifications.

Q9 Chairman: At paragraph 4.14 on data availability and quality the Report tells us that often national statistics are so weak that it is very difficult to monitor outputs.

Dr Shafik: Yes, although the NAO also does say that DFID provides more support to building high quality statistics in poor countries than any other donor. We do more than all other donors combined in Africa.¹ We think the solution here is not in DFID

itself building individual statistical capacity in countries, but in finding a multi-lateral solution. That is why we are working with the World Bank and are giving them £40 million to try to sort this because with data the key issue is comparability and consistency across countries. We are working on that in many countries.

Q10 Chairman: I am sure that is right, but if you look at appendix five at the back of the Report you see these interesting traffic lights which tell us what is going on. It says that in some cases budget support has actually worsened the general situation. Look at Malawi for instance, that has two red traffic lights; that is not very encouraging, is it?

Dr Shafik: There are also a very large number of green and yellow traffic lights.

Q11 Chairman: Yes but it worries us when it says on two occasions that it is actually making it worse.

Dr Shafik: I think in the case of Malawi the issues there are particularly around macro-economic stability and the fact that government did not have a grip of the macro-economic situation and had very high levels of domestic public debt. I think what budget support has done in Malawi is to provide stability on the macro-economic front and I think the Report itself acknowledges that Malawi was one case where budget support played a key role in macro-economic stability.

Q12 Chairman: You mentioned Malawi, but look at Uganda, figure 13, "Variable progress in public financial management benchmarks". The number of benchmarks not met in 2001 was six out of 15; the number of benchmarks not met in 2003–04 was seven out of 15.

Dr Shafik: That is correct. We actually held back some budget support in Uganda when we were concerned about slow progress on public financial management and the government had lost a grip on expenditures. When we are not satisfied with progress we take action. I can give several other examples such as Ghana and Sierra Leone where we have taken similar action when progress has been inadequate.

Q13 Chairman: I think that one should start with support of civic governance. At paragraph 3.15 it says that: "historically DFID has placed less emphasis on domestic accountability to parliaments and State Audit Institutions and so had supported parliaments in just 20% and State Audit Institutions in 13% of such cases". We are often joined in this Committee by PACs from Africa and we often find that there is a grave shortage of resources to State Audit Institutions and to committees like this. It worries me that you had only supported parliaments in just 20%; is this not a good place to start?

Dr Shafik: I think it is fair to say that in the past, when DFID started doing budget support it did not pay enough attention to building these institutions of accountability but I think in the recent period that has changed. If you actually look at the numbers provided in the NAO Report they show that we are

¹ *Note by witness:* Refers to Sub-Saharan Africa in 2005—see NAO Report paragraph 4.15

 Department for International Development

more likely to build accountability institutions in countries where we are doing budget support than where we are not. In fact, we are doing that in several cases. In Ghana and Zambia, for example, we have actually supported the televising of PACs to the public. I think the NAO itself saw that that resulted in much higher levels of public awareness of PACs.

Q14 Chairman: I have one last question and that is on corruption levels. You were obviously right not to provide assistance in Kenya given what is going on there, but if you see that on the estimate of corruption levels you have actually got Sierra Leone and Cambodia worse than Kenya and yet you go on giving them budget support. Is there any consistency in what you are doing?

Dr Shafik: The consistency is around assessing risks relative to benefits. We do not have a threshold of fiduciary standards at which we will not provide budget support. What we do is assess whether the benefits here are worth the risk. To give an example, Sierra Leone is a very high risk environment, a post-conflict country. We gave budget support and the question is why did we do that? We know from international experience that the cost of avoiding one conflict in economic costs exceeds the value of total aid in the world. To save 30 or 40 or 50 billion dollars of economic damages by avoiding a conflict is actually quite a good investment. In Sierra Leone we judged that giving budget support would stabilise the situation and give the government an ability to stabilise after the conflict. That investment was worth those benefits even when we were taking risks.

Q15 Chairman: So your lack of budget support to Kenya has stabilised that country, has it?

Dr Shafik: No. We do not need budget support in Kenya to keep Kenya stable; it is not the same sort of conflict that we faced in Sierra Leone or Rwanda.

Q16 Mr Touhig: Dr Shafik, your Department has moved away from delivering aid to project based schemes to channelling support through national governments. Why is that more effective?

Dr Shafik: We think it is more effective for several reasons. First, when you provide support at the national level you have the opportunity to shape national policy and the overall allocation of the government's resources and not just the individual projects that we fund. Secondly, it gives us an entrée into engaging in much broader issues around public financial management, accountability, audit, the role of the PACs. When we are doing our own projects we do not have a mechanism to improve the quality of government systems. Lastly, we think that working through government systems is actually more cost effective. I will give you an example from Mozambique. In Mozambique the average government school costs 12,000 dollars to build; a donor school on average costs 23,000 dollars to build, so twice as much because you are having to spend time on foreign consultants and all sorts of overheads that donors require. We think there is a strong cost effectiveness element there.

Q17 Mr Touhig: What admin costs did you incur under the old system that you do not incur under this system?

Dr Shafik: The NAO Report does actually show the trend in admin costs for DFID as a result of moving to budget support and it shows clearly that while the initial set up costs of budget support are high, they diminish very rapidly over time.

Q18 Mr Touhig: Many of the countries, as the Chairman has alluded to, have pretty weak systems of financial management and accountability. How are you ensuring that the funding is going to where it is intended? There is some doubt cast on that in the Report.

Dr Shafik: We have a variety of mechanisms and I may turn to our Finance Director to provide you with more detail on that. We do look at a variety of mechanisms. We have results frameworks for everything we do to make sure that there are clear results to be delivered. We do fiduciary risk assessments which assess on about 15 different indicators of fiduciary risks how well that country is doing. Appendix seven lists the things that we assess in terms of how well the government is using the money and you will see that for 15 indicators in nine countries only one has actually deteriorated. On 134 indicators the levels of fiduciary risk and the government's use of money is either stable or improving in terms of the trend. Sam, do you want to say anything more on the methods we use?

Mr Sharpe: Maybe just to highlight what is covered by fiduciary risk assessments. They look at how the planning and budgeting system goes in the country, whether the budget is comprehensive for all government expenditures, how it is reported and recorded through the system, how procurement goes, how accounting goes and how audit goes. It is a pretty thorough assessment of the level of financial capacity in these countries.

Q19 Mr Touhig: It all seems rather mechanistic and I cannot quite see that you can check that there is actually a school there at the end of the day? How much of this money ends up in the pockets of corrupt officials?

Dr Shafik: We have a variety of ways of checking that there is a school there at the end of the day.

Q20 Mr Touhig: You must have an idea of how much of your budget never gets to where it is intended and is siphoned off.

Dr Shafik: We do in some cases use something called Public Expenditure Tracking Systems where we actually track the money from the centre to the local level. We have been able to show in some countries how that has improved dramatically. In Sierra Leone, for example, when we started in the health sector only 5% of the money—

Q21 Mr Touhig: I appreciate that, but how much of your budget do you reckon does not get to where you intend? How much is siphoned off as a result of corrupt acts?

 Department for International Development

Dr Shafik: I think as the NAO Report itself says, it is very difficult to measure because corruption by definition is hidden. We do try to get a sense of leakage of funds.

Q22 Mr Touhig: That is what you call it, is it? Leakage of funds, corruption.

Dr Shafik: It would be wrong to confuse leakage and corruption; they are quite different things. Leakage includes things like, for example, in Rwanda they did not have initial balances after the genocide so we did not have initial data to work with. Leakage can also include things like the fact that governments have poor record keeping.

Q23 Mr Touhig: Many of these countries have poor audit trails; do you recognise that?

Dr Shafik: Yes.

Q24 Mr Touhig: Coming back to the point, how are you sure that it is getting to where it is intended and it is not going into the pockets of corrupt officials? You only have a notional idea of how much is being siphoned off. Was it in the case of Ethiopia where you had to introduce safeguards because the government was using the budget provision you had given them for other things in their own programmes? That is what the Report tells us, that in Ethiopia initial safeguards were needed because DFID money was being spent on broader budgetary programmes other than the ones you intended.

Dr Shafik: We have used safeguards. When we have doubts and concerns we have a variety of things we can do to get further assurance. These Public Expenditure Tracking Surveys are one example of what we can do but we can ask for more. In Ghana and in Mozambique for example we were concerned about particular sectors where we were concerned the money was not getting through and so we asked—at the suggestion of the NAO—for their own national audit offices to do additional work. In Ghana we asked for additional audit work on the agriculture sector, on local government.

Q25 Mr Touhig: What did it tell you?

Dr Shafik: Let me turn to Rachel who might give a sense of the Mozambique audit where we asked for additional work in health and on roads.

Ms Turner: We have agreed to add safeguards to the road sector in that there will be a procurement plan in roads and every year we will have an ex-post procurement audit. The road sector has actually been audited for the last three years and has had totally clean audits. We have also had value for money audits in the road sector.

Q26 Mr Touhig: That is in Mozambique.

Ms Turner: Yes.

Q27 Mr Touhig: What about in Ethiopia where the regime became more oppressive and it was using money you intended for aid projects for their own programmes? What steps did you take? We are told that you put steps in place to put an end to this, what did you actually do?

Dr Shafik: We actually cancelled budget support in Ethiopia and we developed a completely new instrument which had three different kinds of safeguards. It only allowed us to disburse money against pre-agreed expenditure, so there were certain categories of eligible expenditures like teachers' salaries or road maintenance that would qualify for the use of our funds. The second thing we did was to introduce random checks at the local level to make sure that the funds were actually arriving at the district level. The third thing we did was to fund civil society in Ethiopia to make sure that the government was not using the funds for party political purposes and to discriminate against local communities that had voted for the opposition. Those were the safeguards we put into place.

Q28 Mr Touhig: It does seem to me that when you are funding a particular project you can see an outcome. In response to questions from the Chairman you talked about helping these countries develop offices and accounting and so forth, but you do not seem to be following through. You are saying you are helping the whole of the Ugandan education system but what is the actual outcome? Are there more schools? More books? More children being educated and so on? How are you measuring that?

Dr Shafik: We measure that very clearly through the use of national statistics. Uganda is a good example. It is the first country in which we provided budget support and over the last ten years they have doubled enrolments; they have doubled the number of children who are immunised for deadly diseases. Those are pretty tangible outcomes to be honest, and I think it might have been simpler for us if we had financed a few schools and a couple of health clinics, but being able to have that kind of systemic impact on Uganda is far more powerful than individual projects.

Q29 Mr Touhig: There are cases we are shown in paragraphs 2.6 and 2.7 in which there has been a reduction in the quality of services to health and education in some of the projects you have supported. That is not a desirable outcome, is it?

Dr Shafik: Let us take the case of education as a good example. In Ethiopia we have doubled education levels in just six years.

Q30 Mr Touhig: Who is the “we”? Britain? You mentioned it had gone up from seven to 14 million children; that is entirely down to DFID is it?

Dr Shafik: No, absolutely not.

Q31 Mr Touhig: So who is the “we”?

Dr Shafik: The “we” is the Ethiopian Government with the support of its donors. There is a huge amount of international evidence that just going to school has huge social benefits, particularly for girls, both in terms of reducing future fertility, increasing the likelihood that they will go into the workforce. Even if they are in large class sizes there is considerable evidence that there are huge social benefits—

 Department for International Development

Q32 Mr Touhig: You do not have to convince a working class boy from Abersychan on the benefits of education, I can tell you. The Prime Minister gave a very good lecture at the catholic cathedral in Edinburgh a couple of years ago when he said that really what we have to do is to make education free in a lot of the developing countries because the huge barrier was where children had to pay. Do you take that into account? Do you actually aim to try to say to countries that you will give them aid provided they make education free?

Dr Shafik: Absolutely, and we have done that both in the education sector and the health sector in Zambia. We have actually said that our budget support is provided with the proviso that you will provide free primary education and also free basic health care services. That is a hugely powerful factor. In Zambia attendance at health clinics went up by 30% with the abolition of fees. In country after country—Uganda is a good example, as is Burundi—the abolition of fees for primary education often results in a massive increase in enrolments.

Q33 Mr Touhig: The Chairman mentioned Rwanda where the teacher/pupil ratio had actually worsened and we also see that there are insufficient textbooks being delivered and indeed educational spending has decreased in Rwanda and defence spending has increased. How are you sure that the pot you are putting in is not going to military needs rather than educational needs?

Dr Shafik: We monitor total expenditure and the entire budget. We will look both at the defence budget and what is happening with that as well as the education and health budgets. As the NAO Report says, in virtually all the countries where we provided budget support we can show that the spend on education and health has gone up both in absolute and, almost always, in relative terms as well.

Q34 Mr Touhig: Is that a view shared by the NAO?

Mr Sloan: I think in seven out of eight countries the work that has been done shows an increase. The issue in part is whether that is proportionate to the input. The further issue you were discussing is how much of these increases in service delivery are down to the budget or down to general growth, the raising of revenue in the country. It is that question which we have been wrestling with.²

Q35 Mr Touhig: Are you in constant dialogue with the Department about them funding these projects in a different way to make sure that they are working

closely with the governments in these countries to ensure that the kinds of outcome that we want are actually being achieved.

Mr Sloan: Yes, we have had long and intensive discussions on this Report, but generally it is part of our monitoring of DFID's financial assistance.

Mr Burr: Yes, it is a feature of our audited DFID accounts to satisfy ourselves that this money has not gone astray and has been practically used.

Dr Shafik: It may also be worth mentioning that at least up until now—touch wood—the NAO has never qualified our accounts and it does check regularly whether we are using funds appropriately.

Mr Touhig: As it is your first day you had better keep hoping they do that.

Q36 Mr Bacon: Dr Shafik, you said in answer to an earlier question from the Chairman that you did not have a maximum level of risk so much as look at risks compared with the benefits. You used the example of Sierra Leone and you said something about conflict avoidance and that this had a particular cost attached to it that was greater than all the aid in the world. Are you saying that the cost of avoiding the conflict in Sierra Leone was greater than all the aid in the world?

Dr Shafik: No, I was saying that the economic cost of the average conflict is equivalent to all global aid in a particular year.

Q37 Mr Bacon: How is the figure for the average conflict worked out? Do you take the number of conflicts and divide them by the total costs of all of them?

Dr Shafik: There is economic literature on conflict now.

Q38 Mr Bacon: Presumably the cost of the small, local conflict in West Africa is rather different from the cost of something like the Iraq war where the US were spending four billion dollars a month five or six years ago. How does that help? I would have thought that the case that you cited, Sierra Leone, insofar as these things are cost effective I would have thought it was a rather cost effective conflict, was it not, in terms of getting rid of the bad guys and restoring some sanity?

Dr Shafik: Absolutely. The comparator is: how much was the economic cost of the conflict in Sierra Leone? It cost billions in terms of infrastructural damage, lives lost and that kind of thing. The question is whether our budget support, which was a fairly modest £20 to £30 million, depending on the year—

Q39 Mr Bacon: What I do not understand is why is it that budget support is being contrasted with conflict avoidance when there are many other kinds of aid that could also contribute to avoiding conflict?

Dr Shafik: That is true, but in the case of Sierra Leone the government would not have been able to run without budget support; it could not have met its basic functions of providing security and paying a minimum amount of payroll. In that case what we were trying to do—

² Note from National Audit Office: The NAO Report (paragraph 2.3) indicates that budget support has led to absolute growth of “pro-poor” expenditure on services including health and education in six out of the nine countries where independent evaluations were commissioned by donors. (In the three other countries there was insufficient evidence to conclude.) Of those six countries four had also increased “pro-poor” expenditure relative to other spending. In seven out of eight countries budget support has increased the quantity of service delivery, usually in basic health or education (NAO Report, paragraph 2.5). In the ninth it was too soon to tell.

 Department for International Development

Q40 Mr Bacon: You were trying to prevent there being a failed state by paying for the state.

Dr Shafik: For a brief period, that is correct.

Q41 Mr Bacon: Basically what you are saying is that you look at the benefits in the round compared with the costs and see whether the risk is worth taking.

Dr Shafik: That is absolutely right.

Q42 Mr Bacon: Can we go back to the traffic lights that were mentioned earlier. You are quite right to say that there are quite a lot of yellow and green as well as the one or two reds, but if you look at page 56 you will see under the heading: “Strengthening national systems” that there are 30 traffic lights there. Two of them are bright green which means that budget support has made a definite and very significant difference; nine of them are pale green which means that budget support has made a moderate difference; the other 19 are pale yellow or bright yellow—most of them are pale yellow—meaning that budget support has only made a small difference or that it has made no difference at all. On your own criteria, that is to say benefits, that chart would suggest that budget support is failing to deliver these outstanding benefits that would make it worthwhile going down that route. This is under the heading: “Strengthening national systems” which, so far as I understand this thing, is what it is supposed to be all about.

Dr Shafik: Yes. We do have evidence that public financial management and systems have improved in many countries. There have been independent evaluations done in Ghana, Rwanda, Mozambique, Tanzania, Uganda and Vietnam which show that systems have improved. The NAO Report itself gives several examples but it does take time. I believe this Committee has existed for 147 years and it has taken a long time to develop the levels of public accountability that we are accustomed to. The question is: are the trajectories positive? I think the next appendix, which is appendix seven, is the one which shows what the trajectories are. We are starting with countries which start from a very, very low base. Those trajectories show that most systems are either stable or improving by and large. I think that is an important factor to take into account.

Q43 Mr Bacon: In order to understand really what is happening on the ground obviously measuring it is pretty important. Paragraph 6.2 on page 34 says, “DFID requires country teams to make an explicit assessment that ‘potential development benefits justify the fiduciary risks’ of using budget support but only two of the appraisal documents we reviewed explicitly pulled together analysis of risks and benefits to evidence this assessment. In these circumstances we found it difficult to see how the risks had been factored in to an assessment of potential benefits to form an overall assessment.” If only two of the DFID teams out of ten that the NAO looked at there are providing an evidence assessment that the potential development benefits justify the fiduciary risks, how can you say that your methods of assessment are up to the mark?

Dr Shafik: I think part of the problem here was that some of this work was done but not necessarily in the documents that the NAO is referring to; it might have been done in other bits and pieces.

Q44 Mr Bacon: You mean documents that were not shown to the NAO.

Dr Shafik: It is not that they were not shown but they were not in a consolidated place and I think we completely accept that it all needs to be in the same place.

Q45 Mr Bacon: We are talking about DFID systems now; we are now talking about strengthening systems, that is right, is it not? I just want to be clear which systems we are talking about when you say: “we need to strengthen”. The “we” in that is DFID.

Dr Shafik: Yes. We need clearer and more systematic documentation. A lot of it is there and a lot of these judgments and analyses and trade offs have been made but they may appear in several documents and that actually makes it quite difficult to assess the audit trail. Having said that, we have also just issued new guidance to all of our teams specifically on benefits assessment because I think we need much more quantitative and consistent approaches to benefits assessment than we have had in the past. We have tried to respond to this NAO recommendation already.

Q46 Mr Bacon: May I draw your attention to paragraph 5.4 where it says, “Country offices must also produce an Annual Statement of Progress to demonstrate that there have been no major changes in risk”. It goes on, “Of the ten country offices we reviewed we found that three quarters of the expected update assessments were provided annually as required”, so a quarter were not. Could the reason for that be, as it says in the previous phrase, that “only a sample of these statements are reviewed by headquarters”? In other words, people in the country offices do not bother because they know it will not get looked at. Is that not right?

Dr Shafik: If I could I will ask Rachel Turner, who is head of our office in Mozambique, to give you a sense of the kind of accountability and scrutiny that is provided by headquarters.

Ms Turner: I hope I am one of the countries that did provide an assessment, but I think the key point is that this is what we are doing all the time. As a manager of an office that is very much what I am doing, I am taking a view on risks and benefits. In the case of Mozambique I submit to the Secretary of State twice a year, presenting information about what is happening in Mozambique, about performance in Mozambique and allow the secretary of state to take one decision early in the year about how much money he or she wants to commit for the next year and then before I actually sign the cheque—before the money moves, if you like, from the accounts—I write again to the Secretary of State with an update describing the latest events in Mozambique, what is happening, what performance has been achieved—

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Q47 Mr Bacon: So this Annual Statement of Progress is aside from all that and not relevant. Is that what you are saying?

Ms Turner: The Annual Statement of Progress is the formal part that goes with the submission.

Q48 Mr Bacon: So it is relevant.

Ms Turner: Yes, it is relevant.

Q49 Mr Bacon: But not everybody bothers to complete it. That is what this says. It says basically that only three quarters of the country offices bother to complete the Annual Statement of Progress. That is right, is it not? That is what it is saying.

Mr Sharpe: Some of them have been a bit late but all countries have done fiduciary risk assessments and subsequent reviews. Some of them were not done completely within a year but most of them have been done within 18 months. There were one or two specific circumstances in individual countries why they were not done, but they are looked at carefully by my team centrally.

Q50 Mr Bacon: Why do you not insist on a minimum level of information on the use of government funds before you start to provide budget support? If you look at paragraph 5.8 on page 29 it says that: "such assessments rarely include quantified estimates of the impact of weak systems in terms of possible wastage of resources". Why do you not insist on a minimum level of information?

Dr Shafik: Again this goes back to the issue of weighing risks versus benefits. The question is, do we have enough information and are the benefits worth the kinds of risks that we are talking about? Those are the judgments that our teams have to make. The other element of the judgment is, is this a government that is serious about improving its systems or not and do we actually expect a positive trajectory of change? Even if they are starting from a very low base like some of the countries we work in are, if they are serious about improving their systems we are willing to support them if they get a track record.

Q51 Mr Bacon: It says later on in this paragraph, "Six of eight DFID country offices providing budget support used Public Expenditure Tracking Surveys" (you mentioned public expenditure tracking earlier), why would they not all use it?

Dr Shafik: Public Expenditure Tracking Surveys are one very useful instrument for tracking very narrow bits of public expenditure as to whether it is going from the centre to the very local level, to where it is supposed to go. It is not really a panacea in the end because in the end the longer term solutions are around fixing national audit offices, fixing PACs and having the whole system work properly. They are an important check when we think that there is problem in a particular country which, for example, we did in Sierra Leone where we thought the health sector was a problem, drugs were not provided at clinics and we did one of these analyses which resulted in going

from 5% of drugs arriving at hospitals to 88%. It is more an additional tool rather than a longer term solution.

Q52 Mr Bacon: Could you repeat the sentence you said earlier about your accounts being qualified? What is the current position again?

Dr Shafik: They have never been qualified.

Q53 Mr Bacon: Have you read the document *The Responsibilities of an Accounting Officer*?

Dr Shafik: Yes, I have.

Q54 Mr Bacon: Was it given to you today or was it given to you before you became an Accounting Officer?

Dr Shafik: I read it before I applied for the job.

Q55 Chairman: You just said the absolute key was ensuring that they had adequate State Audit Institutions and PACs, but I refer you to my original question: why only 20% of countries where you give budget support do you give support to PACs and State Audit Institutions?

Dr Shafik: In every country where we provide budget support we do something on building local accountability either through supporting national audit offices, PACs and parliaments or through supporting civil society. What we actually do in each country, though, depends on the local circumstances. For example, in Malawi we provide general budget support to Malawi, we also do some very specific things in sectors like agriculture and education; we provide support to civil society in Malawi and we also provide support to Parliament. However, we do not provide support to the National Audit Office in Malawi because the Norwegians are doing that. We often have a division of labour among donors as to who is doing what, but in every country where we provide budget support we are doing something to build and strengthen local accountability.

Q56 Chairman: Why does this independent Report at paragraph 3.17 find that: "DFID had increased support for policy and advocacy work by civil society, but it questioned whether budget support really had increased recipient governments' accountability to their citizens"? If what you say is right, why does this independent Report say that?

Dr Shafik: That may be a point of view by some UK non-governmental organisations but I think quite a lot of them have become quite strong supporters of budget support.

Q57 Mr Mitchell: Budget support in this kind of way is going up; it has gone from £268 million to £461 million over a five year period, so you must like it. Why do you like it? Is it because it saves you staff and work?

Dr Shafik: No, it does not. Over the long run it might, but that is not why we like it. We like it because we think that the development benefits are greater, that we can have a systemic impact on the government's entire policy and public expenditure

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programme, because we think it gives us a lever to improve accountability institutions, public financial management, and we think it is a more cost effective way of delivering public services.

Q58 Mr Mitchell: That is in theory; you have not really done that because the accountability has not improved all that much and you have not made strenuous efforts to improve it.

Dr Shafik: I think there is evidence in the NAO Report about where we are putting pressure on governments to enhance accountability and there are many examples cited. In Zambia people actually watch the PAC on television and there is a high level of public interest in what the PAC does in Zambia. In Ethiopia we have been able to build civil society so that it is holding a very powerful and sometimes not very democratic government more to account. So we do have very clear examples.

Q59 Mr Mitchell: To go back to the original point, it is easier than sending stuff out, doing particular projects, channelling aid into a particular purpose or a particular social group or whatever. This is much easier, is it not?

Dr Shafik: Not really. In the beginning it actually costs us more. The initial set up costs in terms of the kind of analysis we have to do of government spending—the coordination that is required with donors, the agreement and the elaborate negotiations about what results we expect from budget support—are actually greater. Over time, once you have set up those systems and agreements, performance frameworks and monitoring systems with the government it does reduce our administrative costs, but that is not the reason why we do it.

Q60 Mr Mitchell: The evidence of improvement comes from the developing countries themselves. I see that the Report says that developing country officials expressed a preference for budget support, but I have to say that so would I. If I were bankrupt and the choice was between you building a hen hut in my garden so that I could sell the eggs and you making a direct contribution to my personal budget, I would prefer the money.

Dr Shafik: I think if I gave you that money with some pretty clear conditions about you spending it in a way that is going to put you on a self-sustaining, solvent footing in the future and I am going to monitor you every month with a whole set of 40 or so indicators on your performance and your behaviour, you might prefer the hen house.

Q61 Mr Mitchell: Yes, but what do we get out of it as a country? If it is tied to a specific project we could go round and say: “Look, we did this and we did that” but if it is just poured into a bottomless pit of a budget we get no credit and we have very little control over it.

Dr Shafik: I think saying that it goes into a bottomless pit of a budget, given the level of scrutiny that we impose on countries in order to get these resources, I do not think they would see it that way;

they would see it as quite a heavy burden that they carry in terms of being accountable for a broad array of expenditures, being forced to report on results on an annual basis, having to meet with donors and being held to account both in terms of basic audit reports but also additional safeguards we might ask for.

Q62 Mr Mitchell: Here you are giving aid in such a way that it allows some fairly irresponsible and some corrupt governments to detour public spending into other purposes, Rwanda into defence, Tanzania into paying off debts. You are just cushioning the situation for them.

Dr Shafik: I do not think so. There is no evidence that budget support is any more or less corrupt than projects. Those of us who have managed development projects around the world know that the risks of corruption around projects are really not that much different. I think the difference is that in budget support we have an instrument and a vehicle for discussing corruption and changing the systems that can reduce corruption across the country as a whole.

Q63 Mr Mitchell: Let us face it, you have as little control over it as we do as parliamentarians over the British budget.

Dr Shafik: British development projects?

Q64 Mr Mitchell: No. You have as little control over the budget priorities and allocations and the way you are using the money of these developing countries as we do as MPs over Alistair Darling’s budget.

Dr Shafik: I am not sure about that. We set very clear targets for countries. We expect the level of education spend to rise from X to Y; we expect the level of health expenditure to go from Y to Z. We set pretty clear targets for them about our expectations in terms of spend. We also set clear targets for them in terms of outcomes. We expect to see enrolments go up by X; we expect to see children immunised go up by Y.

Q65 Mr Mitchell: Have you ever found their use of our money so appalling and so wrong that you have stopped it?

Dr Shafik: Yes.

Q66 Mr Mitchell: Apart from Kenya which was a particular case because of the violence.

Dr Shafik: I can give you three cases. In Ghana, in Sierra Leone and in Uganda we withdrew some of the funds. We were not satisfied with their public financial management systems and we cut back some of the money.

Mr Sharpe: It was not because the money had been used in a different way, it was because benchmarks for improving public financial management were not met. It was about the pace of progress on public financial management and not so much the actual misuse of money. Table seven shows that defence spending in Rwanda is going down and spending on education and health is going up. I think that is the

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primary thing we would look at when we are asked if we are achieving; are we achieving a better balance between pro-poor expenditure and non-pro-poor expenditure on budgets? If spending as a proportion in absolute terms of the budget is not going up in pro-poor priorities that is the first thing we look at.

Q67 Mr Mitchell: You are dependent upon what they tell you—you do not have a chief of accountants in there—and you do not know how much will be allocated to defence if you were putting in this money for the people.

Dr Shafik: It is not just good will. These governments are reviewed by the International Monetary Fund, they have to produce credible data for a whole variety of international purposes and we draw very heavily—and I think the NAO acknowledges that—on these external, independent reviews of public expenditure to make our judgments.

Q68 Mr Mitchell: How do you answer the criticism at paragraphs 2.5 to 2.7 that there is no discernable improvement and the quality of delivery often suffers?

Dr Shafik: Let me just give you a few illustrations of the kinds of benefits that we have seen in terms of basic services. As I said, Uganda has doubled education and immunisation in less than a decade; in Tanzania they have three million more children into schools; in Nepal they have now managed to reduce the number of maternal deaths, that has been halved over a decade. Thousands and thousands of lives have been transformed as a result of the use of this aid instrument. We do have clear examples of improved quantities. On quality, as I have said, we are addressing quality in individual cases where we see quality slipping. Again those tables show that on average enrolments are increasing (figure nine); in Rwanda pupil/teacher ratios have risen but we are working with the Rwandans to increase the number of trained teachers and increase the number of classrooms in order to address that concern.

Q69 Mr Mitchell: There is a further criticism in paragraphs 2.8, 2.9 and 2.10 that there is no indication that it has reduced poverty. Indeed, in paragraph 2.9 there is an indication that poverty reduction really comes from economic growth because your programme has not been going long enough to have an effect on poverty, and yet this is claimed to be a result of the programme.

Dr Shafik: I quite agree that economic growth is the key to poverty reduction. In fact growth delivers about 80% of poverty reduction in the world. However, there is a fair amount of empirical evidence which shows that increasing aid in a form such as budget support increases growth. Recent research shows that a one dollar increase in aid results in a one dollar and 67 cent increase in growth in present value terms. These are fairly high rates of return that we are seeing in many countries from aid in the form of instruments like budget support.

Q70 Mr Mitchell: Claims about the reduction in poverty are a bit doubtful because, for example in Rwanda and Zambia, the data for measuring it is so weak. You do not have your own data, the claims are therefore spurious.

Dr Shafik: Again this data is reviewed by various exogenous groups like the IMF and the World Bank. The links between budget support and growth are there; it is not like growth just happens exogenously by itself. The nature of public expenditure affects that. Is the government investing in roads which make markets work? Is the government managing the economy and not allowing hyperinflation? Is the government changing the investment climate for business so that people can invest and build small businesses and grow? All of those things—the investment climate, macro-economic management and investments to enhance productivity—are things we support under budget support programmes.

Q71 Geraldine Smith: Can I ask the National Audit Office, did you consult with the aid agencies and did they have any views on budget support?

Mr Sloan: Yes, we had meetings both when we were out in country and back in the UK. The larger UK aid agencies are broadly in favour of budget support, at least to the extent that it is bound up with improvements also in domestic accountability which is usually their main concern about the balance. They view a strong state or a developing state as important and, apart from perhaps some smaller aid agencies that were formerly dependent on donor money, the larger ones—the Oxfams, the Cares—in policy terms are in support of budget support.

Q72 Geraldine Smith: Moving to the accountability, just because a country has a public accounts committee and people watch it on television does not mean that corruption does not exist. One of the problems we have is trying to establish what difference you are making to a country. Obviously if you are putting millions of pounds in you would expect to make that a considerable difference to people's lives and there seems no way of you actually measuring that or making sure that British tax payers are getting good value for the money that is being spent in those countries and that it is making a real difference to people's lives. I am still not convinced, listening today, that you do have those controls in place.

Dr Shafik: I think there are a couple of ways you can derive some comfort, I hope. First, if we were not achieving development outcomes I would be worried; if enrolments were not going up, if roads were not being built, if people were not getting connected to water supplies, if children were not being immunised I think that would be a big worry. We would be giving them aid and nothing would be happening.

Q73 Geraldine Smith: Is enough happening, that is the question?

Dr Shafik: Absolutely.

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Q74 Geraldine Smith: How much is being wasted?

Dr Shafik: I think we can demonstrate quite clearly that we are delivering outcomes and improving people's lives in dramatic ways. Is it enough? Are we getting enough value for money? Are we getting the most poverty reduction for every pound we are spending? I think the NAO Report has been quite useful for us in challenging us to try to measure that better. I think one of the things we are doing to try to improve our own performance on that is that we recently created an Investment Committee which actually met for the first time last week. The committee is trying to develop international benchmarks to say, for example, on average, for this amount of aid, we should be able to get X number of children into school in Africa. What are the average unit costs of a water connection globally or in this part of the world? Is DFID getting enough water connections per pound we are spending? I do think we need to do a better job over time of building up that knowledge of what are the benchmarks to ensure that everything we do gets maximum value for money. I do think that our track record so far is pretty good, but of course we could do better.

Q75 Geraldine Smith: You seem pretty convinced that budget support works and you seem to think it is the best way forward. Do you appraise other possible aid, or other ways of providing this aid?

Dr Shafik: Absolutely, and as I said we do not do budget support in many countries. We do it in 15 countries out of 120 countries where we provide some form of aid. We are very selective about where we think it has the most impact. Where we can do it we do think that it is the most powerful instrument we can provide for achieving broader development outcomes.

Q76 Geraldine Smith: If you are saying that you have been really selective, then how come there have been so many examples today and indeed within this Report of where corruption has existed? As has already been said, in Rwanda defence has gone up and health and education have gone down, even though you have provided funding.

Dr Shafik: I believe the Rwanda number is not correct actually because the defence numbers in Rwanda have actually declined over the period.

Q77 Geraldine Smith: Not according to the Report.

Dr Shafik: Box seven on page 13 shows that defence spending has declined in Rwanda.

Q78 Geraldine Smith: Since when? In 2006 it was 2.5%, in 2007 it was 2.9%.

Dr Shafik: Sorry, you are right; it did go up in one year.

Q79 Geraldine Smith: Whilst education and health spending has fallen, that has gone down. What are you doing about that?

Dr Shafik: In those cases we do have to look at the individual cases. In Rwanda in 2007 there were serious issues on the border with DRC and there was a serious risk of conflict. We have to look at that and

ask whether it makes sense. To give another example, in Zambia recently we saw an uptick in defence expenditure; we were very concerned about it and we raised it with the Zambian Government. Zambia has incredibly low defence expenditures by African standards; they were spending the money on improving housing for soldiers because most of the soldiers were living with their families in their barracks because the conditions were so cramped and they could not afford anything else. Thirdly, as they said to us, most of their troops are used for peace keeping across Africa, that is why they have military. In that case our judgment was that a very modest increase in defence spending was legitimate, given what else Zambia was doing to improve health and education spend. In other cases we have kicked up a fuss if we think it is illegitimate.

Q80 Geraldine Smith: What about Tanzania? Figure 23 indicates significant levels of corruption in Tanzania and Uganda so how do you know that UK funds are not being used to fund corruption?

Dr Shafik: In Tanzania the data presented here is a little bit old and also obviously is from one very narrow sector which is notoriously difficult. The construction sector in most countries has elements of corruption which is very problematic. More recently in Tanzania we have seen, for example, an external audit to the Bank of Tanzania which showed that a hundred million dollars had been misused and given to 22 companies from the Central Bank. As a result of that the head of the Central Bank in Tanzania was sacked. We are starting to see real concrete examples of governments actively pursuing corruption and taking action and holding people to account. That is an important complement to the more systemic work that we are doing on public financial management.

Q81 Geraldine Smith: If you are helping a government, even if there are free and fair elections, you are giving an unfair advantage to the incumbent if they are getting all sorts of aid. Do you accept that?

Dr Shafik: That is an interesting point. It becomes particularly sensitive around elections as you would expect and so in countries, particularly around elections, where we think governments are misusing public funds for electoral purposes, we have done something about it. Uganda is a good example where we felt that some of the actions taken by the Ugandan Government were clearly trying to disadvantage the opposition in the run up to the election and we cut £20 million off their aid programme and spent £15 million on humanitarian needs in the north. We have taken action where we think governments are behaving unfairly. We did the same in Sierra Leone where, during the municipal elections, we felt that the government was mishandling the municipal elections and was biasing towards its own favour. We took action and blocked budget support in the case of Sierra Leone.

Q82 Geraldine Smith: How do you draw the line between straying into Foreign Office issues and Foreign Office territory rather than just aid?

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Dr Shafik: For those types of issue we work hand in glove with the Foreign Office and consult very closely with them on issues of political governance and human rights.

Q83 Mr Davidson: Potentially there is a bottomless pit into which we could give money. What do I say to poor people in my constituency who are undoubtedly poorer than wealthy people in poor countries about the reasons why we are transferring money when clearly that country is not addressing the inequalities in their own state?

Dr Shafik: One of the things we do is to monitor very closely how much of the government's budget is being spent in what we call pro-poor ways. We are not interested in supporting governments that are using public funds to make income distribution worse; we are only interested in supporting governments that are willing to shift public resources in ways that benefit poor people in that country. The numbers you see in the Report for countries like Ethiopia and Rwanda show that there has been a clear shift from 40% of money in Ethiopia going to pro-poor spend.

Q84 Mr Davidson: So all the countries for whom we are providing budget support you will be able to demonstrate that there has been a pro-poor shift and a reduction in inequalities.

Dr Shafik: We consider it one of the three key partnership commitments that are pre-conditions for us doing budget support and they are a clear commitment to poverty reduction. That can best be tested by the way public resources are being spent.

Q85 Mr Davidson: Has that happened in all those cases up to now?

Dr Shafik: Yes.

Q86 Mr Davidson: Can I just follow up the question about your budget support because apart from the point about being seen to condone inequality, is there not a difficulty that you are bearing part of the burden and then allowing those countries to spend the money on other things? Tanzania is spending money on British radars and so on. You can see why people in my constituency would see that as being a complete waste of time. In Zambia the military expenditure has gone up, why should we be paying for that?

Dr Shafik: If we did not do budget support we would not have a seat at the table to kick up a fuss about those issues.

Q87 Mr Davidson: How effective was your seat at the table when the Tanzanians bought a British radar?

Dr Shafik: That has a long history.

Q88 Mr Davidson: I know that, but having a seat at the table did not do you any good, did it? I understand this argument about you having to be there to participate in the negotiations, it is a bit like the EU where you just surrender and it does not actually do you any good being there, does it?

Dr Shafik: We did our best in that case; you cannot win every argument.

Q89 Mr Davidson: Surely, if we keep asking you to hold these governments to account, there is a danger that they end up accountable to you rather than to their own citizens. How do you manage to overcome that?

Dr Shafik: In every country where we are doing budget support we now have important elements of support to build in domestic accountability. There is a risk, as you say, and I think some of the governments we support feel that. However, our main objective is for us to put ourselves out of business and for these governments to be self-sustaining, which is why we put a huge emphasis on supporting revenue collection in many of these countries and getting them to build up their own tax system so that they can generate their own revenues and be held to account by their own people.

Q90 Mr Davidson: Whilst travelling about bits of Africa I have met various civic organisations who are very often just self-proclaimed leaders and represent nobody but themselves. How do you overcome that? I remember when I was in Mozambique with a delegation we met the leaders of 38 opposition parties; I have never met so many presidents and general secretaries and so on in my life. Some of them are clearly parties of two men and a dog and the main demand they had was funding for opposition parties so that they could have an office and they wanted office equipment and they wanted a car so that they could go and visit their people. The focus on building up civic society quite clearly potentially falls into that trap of supporting the opposition in exile or the wanabees.

Dr Shafik: Absolutely, and I think our offices locally have to have very good political antennae and judgments. I think one of the most powerful things that we have found that is able to circumvent this problem is transparency. One of the most powerful things we can do is get information into the public domain, get budgets published and get local budgets published. In Kenya, where we were not comfortable using government systems, we made every school that we provided funding for textbooks for to put its budget on its door so that every parent in the local community could know how much money the school got from the central government and how it was being spent. Transparency is quite a powerful accountability tool that avoids some of the problems you identified.

Mr Davidson: You made an interesting point about the question of the political antennae and judgments of your staff. I have been abroad and met Foreign Office staff; they generally all tend to be public school toffs who went to Oxbridge. Are your staff very different and can you prove it? You have had all day to think about this.

Q91 Chairman: He wants to know if you are a public school toff.

Dr Shafik: I do not think I really look the part, do I?

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Q92 Mr Davidson: It is an important point because Britain's representatives abroad, in an area like this, ought to be representative of the country they are there to project and the Foreign Office staff is not. I do not trust their political antennae much and I am just wondering whether or not, since you placed an emphasis on the importance of your political antennae, are they any different? Do you have information on the social and educational backgrounds of your staff?³

Dr Shafik: I would say that DFID staff is probably the most diverse of any department in Whitehall.

Q93 Mr Davidson: Diverse in what way?

Dr Shafik: In terms of gender, racial mix, number of disabled staff, sexual orientation.

Q94 Mr Davidson: What about class?

Dr Shafik: It is hard to collect data on that.

Q95 Mr Davidson: Do you have a lower toff count than some of the other departments?

Dr Shafik: I cannot say we have scientific data based on a toff count.

Q96 Mr Davidson: Why not? If you measure gender, sexual orientation, race, everything else, why do you not measure something to do with social origin? Is it an assumption that that is not important? For a department that is meant to be dealing with the poor and those of modest backgrounds, to be blind to these factors surely is a tremendous disadvantage.

Dr Shafik: I think defining the category might be a little bit difficult.

Mr Bacon: Why would it be difficult? If you go to the World Bank people spend their whole lives defining socio-economic groups, they just happen to be on the basis of economics rather than on the basis of skin colour or race. Why is it difficult? It is not difficult at all. Economists do it all day. That is a rubbish answer.

Mr Davidson: My toff friend has come to my assistance.

Dr Shafik: It just shows you need a mix, toffs, non-toffs; diversity is important.

Q97 Mr Davidson: I want to check whether or not you have got that. If the armed forces can provide me with figures for substantial numbers of their staff I do not see why you cannot. Chairman, maybe we could have a paper on that demonstrating that you do actually recruit from a wide range of social backgrounds. Dr Shafik, following up the point that Geraldine Smith made about elections and being supportive of the government and so on, in Mozambique we had nothing but a litany of complaints from Renamo that basically the government had got everything and they got nothing. Considering their history I can understand that, but it did mean that aid and budget support was seen to be a live political issue. How do you cope with that without being seen to be partisan?

Ms Turner: One example in relation to Mozambique, as you know DFID does ten year development partnership agreements in several countries and we have actually decided not to do one. We were going to do one and we have decided not to do one this year because we are getting close to the election and we actually took the decision, particularly because of this point, that to be seen to do a ten year commitment now with the current ruling party might give the wrong political signals. I think generally civil society in Mozambique understands that the nature of the way we give aid is that we are giving aid to support the people of Mozambique and we are not giving aid to support one specific political party. I think generally if you were to talk to Mozambique civil society that is what they would say; we try to be savvy to these issues and we try to take those types of decisions like the one I have just said.

Q98 Mr Davidson: A final point I want to pick up is about the question of strengthening political institutions. It does strike me that that is an area to which you do not provide enough support. I think it was the Germans who funded the seminars for Namibians, for example, but it was pretty clear that some of these guys who were genuinely representative of their communities were way out of their depth in terms of being elected to positions. They did not have the education for it or the training and they were being given virtually no support. They were clearly there wanting to argue on behalf of their communities and they did not know how to access the machinery. It seems to me that the emphasis you place on non-governmental organisations misses that opportunity to strengthen those who are already within the system. Does budget support go with any sort of support to people who are involved in politics as distinct from bureaucrats?

Dr Shafik: It is very difficult for us to support political parties; we cannot support political parties with our aid programme because of course the primary purpose has to be poverty reduction. However, we can build the capacity of public institutions, so we can build the capacity of local government officials like we do in Ethiopia where we try, as you said, to help them build the capacity to tap into central government resources and local government officials. We can build the capacity of PACs; we can build the capacity of parliament as an institution but obviously we cannot earmark that to one party or another.

Q99 Mr Davidson: When I did the seminar it was run by the upper house of the Namibian Parliament itself and it was all these people who were in the equivalent of the second chamber, across parties, and they did not seem to have much support at all. Do you pay for people, say, from the NAO to go across and help:

Dr Shafik: Definitely. We have an existing agreement with the NAO to help support us build the NAO equivalents in many countries in which we work and that is a very important resource for us.

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Chairman: Far be it from me to defend the toffs in the Foreign Office, Mr Davidson, but my Clerk, who is a former Foreign Office diplomat, reminds me that the aim of the Foreign Office is not to represent Britain, but the best of Britain.

Q100 Mr Dunne: Dr Shafik, you have identified the vast array of choices that you have in your Department of how to spend your limited resource and I would like to get into that a bit further. You have increased steadily the proportion of funding going into budget support and yet your decision making as to how you decide which countries benefit from that does not come out clearly in this Report as being something which is an established procedure. It appears to be somewhat haphazard, if I can put it like that. If you look at table three, if I have read this properly, it seems as though you are giving £16 million to India for budgetary support, a nation which undoubtedly has significant poverty problems but is also producing ten times as many chemistry PhDs as this country and it has an economy growing at three to four times the rate of this country each year. Likewise Pakistan is receiving £52 million; it is not as advanced economically but still in the emerging nations rather than the most poorly developed. Also Vietnam, a country whose economic growth rate is even higher than India's, is receiving £34 million in budget support. Why is it? On what criteria are you selecting those countries as opposed to many others that would be lower down the league table of established government procedures and so on?

Dr Shafik: Let me give a rationale for each of those countries and then make a more general point. In the case of India what we are doing is supporting selected national programmes which target some of the poorest communities in some of the poorest parts of India which have poverty levels which are African, to be frank. Pakistan is a very deceptive country because its per capita income is actually relatively high but its social indicators are often at levels which would be considered African. Only 52% of children in Pakistan are in primary school and that is a huge issue for us for many reasons, including concerns about terrorism. Vietnam is actually an incredibly poor country. It is growing fast but its poverty levels are very, very high. I think in each case we do have to look at the issue in the round and we also see budget support as one of many instruments that we look at. In a country like Pakistan or Vietnam we may be doing general budget support but we may also want to intervene at a sectoral level where we see that some social indicators are particularly problematic.

Q101 Mr Dunne: What criteria are you using? As you said earlier, you have 120 countries and only 15 are getting budget support. Where are the criteria? Why do we not have here in any of these appendices a clear set of parameters that you are using to judge whether to supply budget support or not?

Dr Shafik: The main criterion is whether we think

the potential benefits of using this instrument are worth the risks involved. That is the underpinning for all of these choices.

Q102 Mr Dunne: It is not to do with the power of advocacy of the individual country managers who are arguing their case more forcefully than others.

Dr Shafik: I do not think so, no.

Q103 Mr Dunne: So how would you decide, for example, that one country should have a ten year partnership? You have decided Mozambique should not get this for seemingly sensible reasons, but did you consider a 10 year agreement two years ago when the election was further away? How do you assess whether the neighbouring countries should get a long standing agreement or not? Again it appears from the Report that there is quite a lot of inertia. Once you have got a programme up and running then your prospects of getting it renewed are probably rather higher than another country which is not yet on the programme.

Dr Shafik: I can give you three or four countries where some of our country heads have argued that budget support would be useful as an instrument and we have said no. To give specific examples, Kenya, DRC, Nigeria are all countries where we judged that the risks were not worth the benefits and that we could use other aid instruments and achieve significant development outcomes and not have to take the risks that budget support would entail.

Q104 Mr Dunne: Do you accept the tenor of this line of questioning, that there is not a clearly articulated set of criteria for budget support and there should be within the Department.

Mr Sharpe: I would just like to clarify that we do take two decisions separately in sequence. One is allocations to countries where ministers will decide on the basis of an aid allocation model what they think is the right amount of aid to go to that country in terms of its poverty and in terms of its governance record and so on. Then there is a separate set of decisions which ministers take about the choice of instruments within that country. I thought it might be useful to clarify that that those are treated as separate decisions.

Q105 Mr Dunne: Can I move to one of the issues that Mr Davidson was raising which is to do with improving accountability within countries? If you look at page 17, paragraph 3.5, the NAO say that it is difficult to obtain evidence that the impact of strengthened systems on the quality of public finance outcomes and specifically they say there is no evidence between 2000 and 2005 that among your 25 priority countries those which received DFID's budget support had on average performed at the same levels as those which did not. There is little evidence that your work to improve public institutions and accountability within these countries is actually helping to reduce leakage (if that is the current buzz word for corruption).

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Dr Shafik: This data is very difficult and the trends are very difficult. If, for example, you took a different time period and looked at some of the World Bank governance indicators and corruption indicators and took a slightly longer time period you would find there are more cases that have improved than have not improved. The numbers move around depending on the indicators you use and a lot of these are aggregate indicators based on ten or 15 different indices. I think one could have a dispute about some of the specifics on the indicators. The NAO itself does say that there is independent evaluation evidence and boxes 11, 12 and 13 give examples across a wide range of countries, as does appendix seven which gives trajectories and shows that most of them are improving.

Q106 Mr Dunne: I think it is a fairly mixed picture coming out of this Report, to be honest.

Mr Sharpe: I wonder if I could just say that if you look at some of the things that are actually happening as part of public financial management reform—improving tax collection, making much more procurement open to competition, getting proper computerised payroll systems to get rid of ghost workers—it is quite hard to believe that that is not reducing the scope for the space for corruption in countries.

Dr Shafik: I could ask Rachel to give us some examples from Mozambique of these kinds of things. Corruption is a very big word but when you actually look at it, where does corruption come from? It is usually around procurement and misuse of the payroll. Rachel, maybe you could give some examples of those two places where things have improved in Mozambique.

Ms Turner: Mozambique is a good example because we have had two of these things that Sam described earlier, these assessments of public expenditure financial management quality which are very detailed scrutinies of the whole process and the whole system using international methodology to rank and score each part of the system, including the raising of tax which of course is important, as is public expenditure. In Mozambique we have just had an assessment which is showing a near 20% improvement over the last one two years ago in terms of the quality of public financial management systems. Mozambique has been through a very intensive process of public financial management reform with a new legal framework and introducing a new electronic management system. Payroll is also interesting. What they have done with the payroll—which is 30% of the budget—is that they have had an independent census of all the public sector. Everyone has been fingerprinted and you now have to prove every year that you are alive if you are a civil servant and that has to be notarised. You have to have notarised proof that you are alive because, as you know, in Africa there is often a problem with ghost workers. Payrolls will be on this electronic management system, they are going to be audited regularly and the system has become extremely tight; the payrolls have been collapsed into only 12 for the whole public sector. That is an example where it

takes time to do that kind of work, to do a census, and we have supported that ourselves, we have put a lot of support directly into that process. It takes time to build these things, but you can really start to narrow the space. Similarly in procurement we have had a new procurement law and introduced a new procurement process. Last year 85% of contracts were tendered competitively in the public sector. You can really see that the space begins to narrow.

Q107 Mr Dunne: The DWP might like to get a note from you on how to introduce such measures to reduce benefit fraud. In the case of Mozambique could you tell me whether you have secured an agreement from the public authorities to go in and inspect the use of funds post the event?

Ms Turner: We have an agreement that every year there will be a value for money audit in a different sector. The system in Mozambique is not very familiar to our kind of system here in the UK, it is done by something called the Internal Audit Authority that belongs to the Ministry of Finance. They do value for money audits and they do a different sector every year. We see that audit and we talk about the results. At the same time, in some sectors, we have also agreed that the External Audit Authority that is more like the NAO will do what is called audit work and we will agree the terms of reference of that. We have a lot of access to both design and type of audit, to see it early in the process and to talk about it.

Q108 Mr Dunne: Dr Shafik, one of the things that comes out of the Report at page 31 paragraph 5.14 is that again there is a very “mixed picture”—to use the NAO’s words—on how successful you are at securing agreement from donee governments for your Department to go in and check how the money has been spent and it would seem that that, particularly in the area of budget support, should be a principle which applies in every case. Can you explain why it does not apply in every case?

Dr Shafik: We have issued new guidance to our teams that they need to do a better job at getting value from these audits and be more proactive. I think the new guidance which we issued last month will hopefully respond to the NAO’s view that progress has been mixed.

Q109 Mr Dunne: You have not issued guidance—or perhaps you have done it last month since the Report was published—following the 2006 White Paper recommendations in paragraph 6.18, as to how your country teams should consider introducing budget support and the appraisal process. Is that what you are referring to? Have you now done that?

Dr Shafik: Yes, we have.

Q110 Mr Dunne: So the NAO Report was helpful in encouraging you to introduce some new systems.

Dr Shafik: Yes, very helpful, both on quantifying benefits, on fiduciary risk assessments and more broadly on budget support we have issued new

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policies on all three of those. The interaction with the NAO has been a tough process but I think it has been a very useful one for us.

Q111 Nigel Griffiths: What this Report summarises is that the budget support that you have given has enabled partner governments to increase expenditure on priority areas, it has resulted in them providing more services, particularly in education and in health; it has helped increase the capacity which is important to deliver the services; it has helped them strengthen their financial management systems and encouraged other donors to adopt that sort of policy. In summary it says that DFID has done a good job in moving public financial management up the development agenda, it has taken a lead role in developing and using tools to assess the quality of developing country systems and to assess the levels of fiduciary risks. How did we manage before DFID existed?

Dr Shafik: The truth is that we used to provide something called programme aid before we had budget support. To be honest, there were elements of it which were a legacy of the colonial relationships where we would provide direct support to their budget but we did not hold them to account in terms of outcomes, poverty reduction and benefits. One can think of budget support as an evolution from that origin of providing direct support to government budgets but with much more rigour around holding to account in terms of audit, accounting and so on but also in terms of results that we expect.

Q112 Nigel Griffiths: Do you get satisfaction out of the fact that DFID's aid is now divorced from arms sale and UK exports? How has that helped us and helped the developing countries?

Dr Shafik: I think it has been hugely important for the UK as a whole. To be frank, it has meant that the independent reviews of DFID that have been done globally have identified us as the most successful bilateral development agency in the world. I think the fact that it is de-linked from anything but the objective to reduce poverty in the world has been a key factor in our international reputation.

Q113 Nigel Griffiths: I visited India with your predecessor and saw the wonderful work that was being done in education so I am slightly concerned to read on page 52 that, perhaps understandably, you are going to have to scale back your contributions as the wealth of India grows. How are you managing that process with the Indian Government?

Dr Shafik: We have had some initial conversations with the Indian Government to look at our programme evolving to focus increasingly on two of the poorest states in India—UP and Bihar—over time and we will focus our efforts there in the medium term. We are also looking to work with the Indians more globally on international issues as they become a major international player, so we would talk with them about climate change, the

international trade round, their role as a regional player in South Asia. The nature of the relationship will change but I think the Indians welcome that.

Q114 Nigel Griffiths: The Report on the same page touches on the problems of DFID not having access to the World Bank's assessments in India and the Report says that you will now strengthen the financial management control by applying full risk assessment procedures *et cetera* for new programmes. Has that begun and how advanced is it?

Dr Shafik: That has begun; we have raised that issue with the highest levels of the World Bank. There was a change of personnel in India which has resulted in much higher levels of cooperation and we now have access to all the information we need.

Q115 Nigel Griffiths: I also visited Vietnam which I see appears in the appendix five examples and saw some of the education and other projects, including the ground breaking malaria one that Dr Jeremy Farrar and his colleagues have in Ho Chi Minh City. In fact I am meeting the Prime Minister of Vietnam on Wednesday. What message should I give him from DFID because that seems to be one of the most successful of our partner countries?

Dr Shafik: Vietnam has been the country that has been the most successful in the world at reducing poverty in terms of the pace of poverty reduction. They have been even more successful than China in terms of the number of people they are taking out of poverty every year. I think congratulations are in order.

Q116 Nigel Griffiths: How do you engage with the vile regimes like Mugabe's and Darfur? How do you reach civil society when they have driven out NGOs?

Dr Shafik: Zimbabwe is a very good example because it is the antithesis of budget support. It is a country where we do not put a penny through the government budget because we have no confidence in their systems nor in their commitment to reducing poverty. We have actually not cut our aid programme to Zimbabwe throughout this period because poverty levels have gone up, but we have put all of our money through either UN agencies or NGOs operating in Zimbabwe. Our judgment is that that is a much safer and better use of DFID funds to achieve poverty reduction because frankly we do not trust the government.

Q117 Nigel Griffiths: What aspects of this Report were you most concerned about and what are your priorities for addressing those concerns?

Dr Shafik: I think the main thing I was concerned about was the fact that there were weaknesses. We were often doing the work, doing the analyses and doing the assessments but we did not do them in a systematic way; they were not all in one place; the records were not particularly good. I think there is a consistency and clean up job that we need to do and I think the NAO has been very useful in terms of helping us on that. I am a bit of a numbers junkie and I think more effort on quantification, quantifying

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benefits, quantifying risks, quantifying costs and that sort of thing; that is something I hope to take forward in the years ahead.

Q118 Nigel Griffiths: There are 26 recommendations, which are going to be the most challenging ones to address?

Dr Shafik: We still need to go through these recommendations in detail and we are obviously looking forward to seeing the recommendations from the PAC so I probably will not respond on individual ones. I think broadly speaking DFID is a pretty disciplined organisation; our country offices are far away but they are pretty clear about what we expect from them. I am not so worried about getting our documentation sorted. I think quantification implies some culture change in the organisation, getting people much more used to thinking about quantification and thinking of themselves as investors in poverty reduction. We need to make sure that every pound we spend is getting maximum impact in terms of reducing poverty in the world and thinking about that in the way a banker would in maximising rates of return, these are just not financial rates of return. I think that will require some culture change in the organisation which will be challenging.

Q119 Nigel Griffiths: I am very impressed with you and your team and I look forward to great achievements from you.

Dr Shafik: Thank you very much.

Q120 Keith Hill: It seems to me that DFID and the budget support approach come out of the Report pretty well but being able to measure the results is obviously key to the judgments, so I will concentrate in my few questions on part four which deals with monitoring progress. However, let me just draw your attention to part three, paragraph 12, which says, "To date, DFID and others have not collected sufficient evidence to show that transaction costs are reducing". Given the fact that the reduction in transaction costs was absolutely essential to the move to the budget support approach, why have you not assessed why budget support has not reduced transaction costs both for donors and for recipients?

Dr Shafik: We do have evidence that transaction costs have come down for us. In fact table 15 in the Report shows that aid relative to our own administration costs has come down over time as a result of budget support, so we can show that for us. It has been harder for us to show it for the recipients and there are a couple of reasons. A bit of it is proving a negative and I will just give you a couple of examples. Vietnam is a good case in point; Vietnam received 791 visits from donors in one year. The average number of donors a government has to deal with in a poor country has gone up from about 12 in the 1960s to over 30 now on average. It has been very hard against those trends of growing numbers of donors for them to deal with and it is hard to be able to show declining transaction costs. The other problem is that the up-front costs of budget support are high. To get a dozen donors round the table to

all agree what the priorities are, to all agree on the indicators we are going to use to measure performance against, to all agree on the audit and accountability measures, so we have seen higher transaction costs in the beginning than we expected.

Q121 Keith Hill: Is this an area you intend to continue to monitor?

Dr Shafik: Yes.

Q122 Keith Hill: Both the donors and the recipients?

Dr Shafik: Yes.

Q123 Keith Hill: I think that is quite important because otherwise what is the justification for that approach. Paragraph 4.17, why did four of the six budget support programme reviews looked at by the NAO consider progress against only half or fewer of the programme objectives?

Dr Shafik: This is an area where a lot of the key outcomes that were measured were being monitored at a different level, not at the level of general budget support or sector budget support. The equivalent I can think of is the way we monitor public service agreements in this country where you have 31 cross cutting governmental PSAs but a lot of the key things we care about are monitored at the departmental level or at the sectoral level. Several of the cases here where the indicators were not monitored in the programme of formal documents were actually monitored somewhere else in the system.

Q124 Keith Hill: Why did you not tell that to the NAO?

Dr Shafik: We did, but they have a point, to be honest. If we agree on a set of indicators up front we need to be able to say that we are going to monitor them through some other mechanism. That is not really good enough and that is an example where we just need to clean up our systems and make sure we are doing it properly. It is not an issue of substance but of format.

Q125 Keith Hill: Maybe the next time round—because I am sure they will be looking at this again—that is something you could inject into the Report. Moving onto this issue of measuring results, let me draw your attention to paragraphs 4.9 to 4.16 of the Report which show that gaps in country data on the services delivered and outcomes obviously limit your monitoring and also your management of the partner governments. Should you not be doing something more to remedy these weaknesses?

Dr Shafik: Yes, and as I said we probably do more than any other donor in terms of trying to build statistical capacity and better data. We now have work with the World Bank where we have 20 countries which now have clear national strategies to improve their statistical systems and ten more countries developing them. We are working in ten of the 15 budget support countries to improve the data and monitoring that they are able to deliver.

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Q126 Keith Hill: We all agree that is terribly important. Paragraph 4.6 reveals that again of the programmes looked at by the NAO 15% of the indicators have no specific time-bound targets and baselines were missing in 22% of relevant cases. How on earth can you monitor progress effectively when such key indicators simply are not available?

Dr Shafik: In many countries we are again working from a very low base. Rwanda is a very good example; after the genocide we had no baselines on anything to work with. In many cases what we do is that we might approve a project but the first thing they have to do in terms of the budget support programme is establish a baseline. Sometimes it comes later if we do not have it on day one. Given the circumstances we think it is still worth starting the process rather than waiting for the baseline, but that is an example of where again we need to clean up our systems, make sure that we have much more quantitative rigour both at the beginning and throughout the process.

Q127 Keith Hill: Paragraph 4.14 on the issue of monitoring progress, without monitoring unit costs and other measures of efficiency how to you assess whether you are getting value for money?

Dr Shafik: We do monitor unit costs but we do not have clear benchmarks that we use globally in DFID and that is something I would like to develop in this new Investment Committee we established last week. We will actually be doing precisely that, introducing much more data on unit costs, average costs, typical costs, rates of return to different types of development investments and forcing our teams to measure their interventions against those sorts of benchmarks.

Q128 Keith Hill: Finally, paragraph 4.16 draws attention to weaknesses identified by the NAO in the design of monitoring frameworks and poor matching of objectives to indicators. How quickly do you think you are going to be in a position to remedy those weaknesses?

Dr Shafik: I think we can move very quickly on new projects. I think with some of the backlog it will take a bit more time, partly because those documents have to be negotiated with other donors and with governments, so a kind of retro-fitting of some of our performance frameworks will take some time. Certainly I think on everything going forward from now on we can expect much more rigour around quantification and monitoring frameworks.

Chairman: There are one or two supplementary questions before we finish, one from Mr Mitchell and one from Mr Bacon.

Q129 Mr Mitchell: Can you put in perspective for us, we are devoting an increasing proportion of our aid budget to budget support, what is the proportion of the aid budget of other countries that is devoted to budget support and what is the proportion of EU aid that is devoted to budget support?

Dr Shafik: The largest budget support donor in the

world is the World Bank followed by the EU. It is 10% of DFID total spend and 18% of our bilateral programme in DFID. I would prefer to give you a note on that to give you the precise figures.

Q130 Chairman: If you do not know the answer, give us a note, it does not matter.

Dr Shafik: In terms of ranking we come after the World Bank and the EC. We are probably the largest bilateral donor that uses budget support.

Q131 Mr Bacon: Dr Shafik, there is enough in this Report to find good news if you want it and to find plenty of evidence that things are looking pretty shaky in terms of measurement, assessment and analysis if that is what you want to find. The criteria that you employ for the 15 countries seem pretty broad; it is a wide range of different countries within those 15. However, it is only 15 out of 120, in other words nearly 90% of the countries to whom you give aid you do not give budget support is appropriate for presumably because the potential benefits are not worth the risks. For the vast majority of the countries to whom you give this type of support the benefits are not worth the risks, why not?

Dr Shafik: There are very different reasons depending on the country. For example, for middle income countries the amount of money we could give in budget support would be so small relative to the government's own resources that our judgment is that we will not have systemic impact. To be frank, a lot of middle income countries will not listen to us and on their entire budget we are giving them the equivalent of 0.05% of their budget. So that takes out all middle income countries. There is another whole group of countries where we are primarily providing humanitarian assistance and where it is not a situation in which supporting a government budget would be appropriate so that also knocks out a whole list of countries where we do not think it is the right instrument. Then there is a whole group of countries where we judge the fiduciary risk as just too high so countries like DRC or Kenya or Nigeria are ones where we do not feel comfortable taking the risk.

Q132 Mr Bacon: I thought you did support the Kenyan Ministry of Education. When I was in Kenya I was told that the Ministry of Education was supported by the DFID guys on the ground.

Dr Shafik: That is correct. It is technically not budget support though because the money is earmarked to specific expenditures in the education sector and we get independent audits to check that that money is being used for the correct purpose.

Q133 Mr Bacon: I have been sitting listening to DFID coming to this Committee for six or seven years; it is all good stuff and there is never quite as much measurement as you want, but you are asking us to believe something that is deeply counter-intuitive because we see things from all the domestic policy departments where the government struggles to get the kind of delivery and extract the value out of the system that it wants when it is here in this

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country and you would have thought it would have much more direct control over it. You are asking us to believe that this process is as likely or more likely to work when it is tens of thousands of miles away where you have very few people on the ground.

Dr Shafik: I think we are able to show delivery. The numbers I cited in terms of school enrolment, immunisation, roads built and that kind of thing is convincing on delivery. I think we have quite a good story to tell.

Q134 Mr Bacon: Why is that attributable to budget support? If you had just gone in and said, “We will build this road” or “We will enrol this number of pupils” you could have achieved the same effect directly through a project.

Dr Shafik: We could but it would have been a much narrower effect.

Q135 Mr Bacon: An organisation such as the Gates Foundation, which is a big donor, do they give budget support?

Dr Shafik: No.

Q136 Mr Bacon: Not at all.

Dr Shafik: No, they do not.

Q137 Mr Bacon: Why not, do you know?

Dr Shafik: Yes, because Gates have defined their strategy quite differently. Gates see themselves as the venture capitalists of the development business.

They are not funding core service delivery; that is not what they are about. They realise that even though they are big they are actually quite small compared to us and they cannot afford to fund service delivery. What they fund are the really innovative upstream inventions like new technologies for treating malaria or new technologies for new vaccines for HIV. They will invest in the R&D and the up-front invention and then people like DFID will then see the new malaria vaccine or new HIV vaccine and they will roll that out and deliver it in the countries and finance the massive service delivery. Their strategy is quite complementary to ours.

Chairman: Dr Shafik, thank you very much. That concludes our hearing. It has been a most interesting hearing on a very important subject on which we will obviously need to reflect very carefully on everything you have told us. Clearly there are advantages in giving money to governments to improve their civic governance and I have always been an enthusiast for this, but we are the Public Accounts Committee and we have to be clear that this money has been spent in accordance with what Parliament wants and it has achieved what it set out to do. We will reflect on what you have had to tell us this afternoon. Thank you very much.

 Supplementary memorandum submitted by Department for International Development

Question 92 (Mr Ian Davidson): *Social and educational backgrounds of DfID staff*

DFID does not have information on the social, economic and class background of its staff. The Department does not consider that there are any well defined measures of how to determine these specifically in terms of whether staff have a “privileged” background.

DFID does not store systematic data relating to the type of establishment from where qualifications were awarded or schools attended. Nor is this information considered as part of the selection process for new staff.

DFID is committed to appointing the staff with the right skills and competences mix, to ensure delivery of development assistance to those who need it most, regardless of the social, economic, gender, ethnic background etc of such staff. Recruitment procedures reflect this commitment and apply to both the UK Home Civil Service (HCS) and overseas Staff Appointed in Country (SAIC).

DFID considers recruitment of people with the correct mix of qualifications, competencies, skills, attitude and motivation, to be critical to successful delivery of its business. The advertising and application processes clearly set out the minimum requirements for each role and the initial sifting process ensures that all candidates meet at least these requirements. Where specific qualifications are required only those with these qualifications will be further considered for selection.

DFID has used assessment centres for recruitment since the early 1990s. Their use has extended in recent years to cover both professional and general administrative and executive appointments at all levels in the organisation. They are intended to ensure that a comprehensive assessment of any job related skills and competencies are made prior to employment. This includes an analysis of an individual’s focus on, and understanding of, development issues. Decisions are based upon all of the information gained and are assessed against transparent job related criteria.

The Department is a very diverse organisation, exceeding or performing well against Civil Service diversity targets and as measured against the diversity composition of the UK population as a whole. Diversity is valued for both HCS and SAIC staff. Diversity statistics for HCS staff are presented in the following table.

DIVERSITY STATISTICS

Ethnicity, Gender and Disability (of HCS headcount staff—as at end December 2007)

Grade	% Ethnic Minorities	% White	% Unknown	% Total	% Male	% Female	% Disabled	% Non Disabled
SCS*	11.7%	70.5%	18.8%	100%	63%	37%	2%	98%
Band A	8%	71%	21%	100%	54%	46%	2%	98%
Band B	12%	71%	17%	100%	47%	53%	4%	96%
Band C	14%	68%	18%	100%	35%	65%	8%	92%
Total	10%	71%	19%	100%	50%	50%	3%	97%

* For the purposes of Diversity, SCS numbers are measured using the Office for National Statistics/Cabinet Office definitions.

Question 129 (Mr Austin Mitchell): *Proportion of the aid budget of other countries that is devoted to budget support and what is the proportion of EU aid that is devoted to budget support*

The Paris Declaration Monitoring Survey provides useful information about the volume of budget support provided by different donors. This is the source of data referred to in the NAO report, paragraph 1.10.

The Survey includes information from 34 aid recipient countries including 15 of DFID's PSA countries, and 11 of the countries where DFID delivers budget support.¹ It provides information about amount of general budget support delivered in the recipient government financial year ending in 2005.

Budget support as a % of total aid is calculated using information collected in the same survey about "total aid disbursed". This refers to total aid disbursed in those 34 countries, rather than total aid disbursed by each agency across their whole portfolio.

Organisation	Budget Support (US\$ millions)	Total aid disbursed (US\$ millions)	Budget support as % total aid disbursed
European Commission	702	2,577	27%
EU Member States			
Belgium	16	192	8%
Denmark	101	617	16%
France	85	490	17%
Germany	62	1,082	6%
Ireland	79	176	45%
Italy	8	155	5%
Netherlands	194	733	27%
Spain	20	287	7%
Sweden	140	605	23%
UK	617	1,512	41%
Other			
African Development Bank	214	638	34%
Andean Development Bank	28	198	14%
Asian Development Bank	141	693	20%
Canada	111	495	20%
Global Fund	0	441	0
IDB	24	323	7%
India	0	198	0
Japan	88	1,612	5%
Norway	73	409	18%
Switzerland	37	220	17%
United Nations	14	1,620	1%
United States	110	2,835	4%
World Bank	1,810	5,228	35%
Other donors	39	722	5%
Total	4,714	24,057	

¹ Countries where DFID delivers budget support that are not included in the survey are India, Nepal, Pakistan and Sierra Leone.