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DFID Annual Report 2008

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International Development Committee

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Summary

The Department for International Development's objectives continue to focus on achievement of the internationally agreed Millennium Development Goals with the overarching aim of poverty reduction. This focus remains valid. However, on current trends most of the Goals will not be met by the 2015 deadline. The global economic downturn may exacerbate the risk of failure if development assistance levels are not maintained and donor commitments on aid are allowed to lapse.

The UK Government's efforts to reinvigorate momentum towards achievement of the Goals are welcome. Some of the outcomes of the UN High Level Event last September were promising, particularly the Global Malaria Action Plan.

The prospects for achieving Millennium Development Goal 2 on universal primary education by 2015 cause us concern. To meet the target of all children *completing* primary education by 2015, universal access to schooling will need to be in place by 2010. The necessary schools will therefore have to be built and teachers trained in less than two years. Targets tightly linked to timescales need to be put in place for there to be any hope of the target being met. Moreover, none of the MDGs, including the education target, will be achieved unless the barriers to gender equality are tackled with greater vigour and political will.

The UK Government has reiterated its commitment to increasing financial support for development, which we welcome. However, in straitened economic circumstances it is vital that every pound spent achieves the maximum impact, not least so that public support for aid expenditure can be maintained. We are not convinced that DFID's evaluation processes allow it to make an accurate assessment of what its funding is achieving. The Independent Advisory Committee on Development Impact has begun to improve evaluation within DFID. This process must continue with the full engagement of the Department.

DFID's ability to deliver its objectives is beginning to be constrained, despite its rising budget, by the Government-wide requirement to reduce its administrative budget and therefore the number of staff it employs. The Government should urgently reassess whether DFID has sufficient staff in place effectively to deliver the objectives which it has assigned to the Department under its Public Service Agreements.

We continue to support DFID's policy of spending 90% of its bilateral funding in low-income countries and only 10% in middle-income countries (MICs). However, MICs are critical to the achievement of the Millennium Development Goals and the 10% must be used to maximum effect. DFID has not yet published a strategy for its future engagement with middle-income countries to replace the one which expired in 2008. This shows a lack of clarity in its approach which needs to be addressed quickly.

1 Introduction

1. It is our practice each year to conduct an inquiry into the Annual Report published by the Department for International Development (DFID). This provides an opportunity for us to take an overview of DFID's work during the year, focusing on efficiency and effectiveness. It also enables us to assess major developments affecting DFID's operations across the board and to examine specific areas of concern. The DFID Annual Report 2008, *Development: Making it Happen*, was published in May.[1] The Department's Autumn Performance Report, published in December, updated some of the information presented in the Annual Report.[2]

2. Our previous work on departmental annual reports has highlighted that DFID's Public Service Agreements (PSAs), and therefore the targets against which it measures its performance, are directly linked to the internationally agreed Millennium Development Goals (MDGs).[3] A wide range of donors, and of course developing countries themselves, contribute to the overall effort towards achievement of the MDGs. Although we have pointed to serious challenges which are presented by the need to attribute particular outcomes and impacts to DFID's specific inputs, we accept that DFID's objectives will continue to be focused on achievement of the MDGs. DFID's commitment to promoting the MDGs and its desire to mobilise others to do the same is clear. It continues to be valid.

3. In order to reflect fully the centrality of the MDGs to DFID's work, we decided in this year's inquiry to include an evidence session with Rt Hon Douglas Alexander MP, Secretary of State for International Development, on the outcomes of the UN High Level Event on the Millennium Development Goals. This meeting was part of the "Call to Action" on the MDGs, promoted jointly by the British Prime Minister and the UN Secretary-General, and took place in New York on 25 September 2008. Its aim was to address the worrying lack of progress on many of the MDGs and to reinvigorate efforts to achieve the Goals by the target date of 2015. Chapter 2 assesses the outcomes of the Event and the new commitments that DFID has made in support of them. Chapter 3 examines how these commitments are likely to affect progress on some of the off-track Goals.

4. Chapter 4 analyses DFID's expenditure and in particular its progress towards the target of allocating 0.7% of Gross National Income to official development assistance by 2013. In Chapter 5 we examine what DFID's expenditure is achieving and the challenges faced in evaluating the impact of aid expenditure and assess how these might be overcome. In Chapters 6 and 7 we have followed our usual practice of using this inquiry to address specific areas of concern. This year we have examined DFID's approach to middle-income countries and to governance.

5. In a new departure, we took oral evidence from the Chair and two members of the Independent Advisory Committee on Development Impact, a body established by DFID to

1 Department for International Development Annual Report 2008, *Development: Making it Happen,* May 2008, HC 492

2 DFID, 2008 *Autumn Performance Report: An outline of progress against the 2008-11 PSA 29 and DFID Departmental Strategic Objectives*, December 2008, Cm 7515

3 See for example First Report from the Committee, Session 2007-08, DFID Departmental Report 2007, Chapter 2

improve the effectiveness of its aid evaluation. We also submitted a number of questions to DFID for written reply which are published with the written evidence we received from 12 organisations. We are grateful to all those who have contributed to this inquiry.

2 Prospects for achieving the Millennium Development Goals

The Millennium Development Goals

6. The Millennium Development Goals (MDGs) were agreed as a series of international targets for human development at the Millennium Summit in 2000. The eight Goals include halving the number of people living on a dollar a day, achieving universal primary education, reducing child mortality by two-thirds and cutting the number of women dying in childbirth by three-quarters. The full list of MDGs with their targets is set out as an Annex to this report. On current trends, most of the MDGs will not be met by their 2015 deadline. Whilst there has been limited progress on a few targets, most are seriously off-track: for example, as we highlighted in our 2008 report on Maternal Health, the reduction in maternal mortality achieved to date is only one-fifth of what is needed to meet the target.[4] Sub-Saharan Africa will not meet any of the Goals on current trends.

The Call to Action and the MDGs summit

7. The "Call to Action" on the MDGs was launched by the British Prime Minister and the UN Secretary-General in July 2007. Its aims were to:

- Mobilise the private sector, non-governmental organisations (NGOs), civil society, faith groups, cities and governments to do more to deliver the MDGs
- Obtain support for and commitment to a collaborative action plan which scaled up successes and addressed gaps in current efforts
- Push forward the need for accelerated action at every opportunity in 2008, including through the G8 and EU
- Set milestones and steps towards the MDGs, so that progress could be measured, lessons learned, and gaps identified.[5]

The High Level Event on the MDGs

8. On 25 September 2008, following pressure from the UK, amongst other countries, the UN held a session in New York to assess progress and identify priority actions midway to the 2015 MDG deadline. The Event was attended by more than 100 heads of government. Around US$16 billion in aid pledges was announced. Over 40 "partnership" events took place, alongside the main sessions, which brought together civil society, the private sector and policymakers.[6]

4 International Development Committee, Fifth Report of Session 2007-08, *Maternal Health*, HC 66-I, para 8

5 Gordon Brown, speech to the UN, 31 July 2007 http://www.number10.gov.uk/Page12755

6 Ev 59

9. The Secretary of State told us that "undoubtedly the outcome of the event surpassed even our expectations—and we had high expectations."[7] Key outcomes from the summit included:

- **Class of 2015: Education for All**—seeks to achieve universal primary education by 2015 supported by new funding commitments totalling $4.5 billion.
- **Taskforce on Innovative Financing for Health Systems**—aimed at mobilising money to strengthen health systems. This taskforce was announced by the Prime Minister, who will co-chair the initiative with the World Bank President Robert Zoellick. It will report to the 2009 G8 summit in Italy with proposals on new funding mechanisms for the health sector.
- **Global Malaria Action Plan**—aims to end preventable deaths from malaria by 2015. The initiative focuses on relatively simple prevention efforts such as insecticide-treated bed nets and boosting vaccine research. $3.2 billion in funding was pledged.
- **Purchase for Progress**—a World Food Programme initiative which will buy surplus crops directly from poor farmers in Africa and Central America. $1.6 billion was pledged to bolster food security.

10. DFID has set out its three main objectives for following up the UN High Level Event as follows:

- Tracking implementation of the actions announced at the event
- Encouraging the UN to produce better analysis of off-track MDGs
- Maintaining a high-level, political focus on accelerating progress on the MDGs.

DFID will work with the UN to support a session at the Economic and Social Council (ECOSOC) to look at "rigorous monitoring of the commitments". It identified the next step in this process as the Financing for Development Conference held in Doha at the beginning of December 2008, which it said "must reinforce promises and explore the impact of emerging development issues such as food security."[8] We took evidence on the outcomes of the Doha Conference on 21 January 2009 as part of our inquiry into Aid Under Pressure.[9] DFID also noted that the UN Secretary-General and the President of the General Assembly have proposed a General Assembly resolution mandating an MDGs Review Summit in 2010.[10]

7 Q 109

8 Ev 60

9 Oral evidence taken before the International Development Committee in the inquiry into Aid Under Pressure, 21 January 2009, HC 179-i

10 Ev 60

The MDGs and the economic downturn

11. The passing of the mid-point to the MDGs and the onset of the global financial crisis have triggered debate over the Goals' continued relevance and usefulness. Some commentators take the view that the MDGs exist more as political tools than as a means to formulate policy. Others argue that the targets—set by "northern" policymakers and imposed on "southern" governments—were unrealistic from the outset. Because sub-Saharan Africa will miss so many of the targets, it has been suggested that the MDGs risk further entrenching African poverty rather than spurring governments into action. For example, Michael Clemens of the US-based think-tank the Center for Global Development has said, "As a statement of common values [the MDGs] may have been a great idea. But as they were quantitively realised, they are insulting and destructive."[11]

12. In contrast, Robert Zoellick, President of the World Bank, pointed to the continued urgency of achieving the MDGs at the World Bank's Autumn Meetings on 12 October 2008:

> The poorest and most vulnerable groups risk the most serious and in some cases, permanent damage [from the financial crisis] [...] We must […] ensure that as governments and publics turn their attention close to home, they do not step back from their commitments to boost overseas assistance to meet the Millennium Development Goals. Aid flows must be maintained.[12]

The Prime Minister told the High Level Event that adhering to global development assistance commitments was vital despite the financial downturn. He said:

> Some say a time of financial turbulence is the time to put our ambitions on hold, to cut back or postpone the dream of achieving the Millennium Development Goals, but this would be the worst time to turn back. Every global problem we have requires global solutions, involving all the continents of the world. […] Africa and developing countries are not the problem—they are part of the very solution to today's problem.[13]

13. The Secretary of State told us on 21 January that the Department's latest estimate was that 140 million people would fall back into poverty as a result of food price rises in 2008 and the global financial crisis.[14] The Department's 2008 Autumn Performance Report highlighted the impact which global economic conditions were already having on economic growth in African countries: the GDP per capita growth rate fell from 4.4% in 2007 to a forecast rate of 3.1% for 2008.[15] The necessity for the international community therefore to fulfil its development funding pledges was reinforced by Martin Dinham, DFID's Director General International:

11 See 'Africa is given raw deal again', *Financial Times,* 25 September 2008

12 World Bank press release, 'World Bank Group President Robert B Zoellick remarks at the Development Committee Press Conference' (12 October 2008)

13 Speech on the UN High Level Event on the Millennium Development Goals, New York, 25 September 2008

14 Oral evidence taken in the Aid Under Pressure inquiry, 21 January 2009, HC 179-I, Q 13

15 *2008 Autumn Performance Report*, Cm 7515, p 17

> […] reducing aid at a time when domestic revenues are already reducing would be a kind of double blow for developing countries, compounding their difficulties. The G20 really must reassert donor commitments to maintaining aid flows as well as open markets. It is worth harking back to the recession of the early 1990s, when many donor governments let aid efforts decline, which impacted on agriculture production, on infrastructure and social welfare as well as political stability and it took 13 years to recover to 1992 levels, so the important thing will be not to let those kinds of mistakes happen again.[16]

14. **We welcome the strong support from the Prime Minister and the Department for International Development for maintaining the momentum on development and continuing to work towards achievement of the Millennium Development Goals by 2015. We agree that in times of financial turbulence low-income countries need more rather than less support from the developed world.** We are examining the effects of the global economic downturn on development expenditure in our current inquiry into Aid Under Pressure. The UK's progress towards its commitments on development expenditure is examined in more detail in Chapter 4.

16 Evidence taken on 12 November 2008 on the Autumn Meetings of the World Bank and IMF, HC 1195, Q 46. The G20 is a group countries which make up the world's largest economies. It includes both major industrial powers such as the US and Germany, and emerging market countries like Brazil and China.

3 Progress on specific Millennium Development Goals

Malaria

15. Malaria is the leading cause of death for children around the world; 500 million people suffer acutely from malaria each year; and around one million die annually.[17] As we made clear in our recent Report on HIV/AIDS, the interaction between malaria and HIV poses serious public health challenges in developing countries and we believed DFID's updated HIV/AIDS Strategy did not sufficiently address this.[18]

16. A Global Malaria Action Plan was announced at the High Level Event. The Plan aims to achieve "near zero preventable deaths" by 2015, with the ultimate aim of eradicating the disease. The initiative focuses on relatively simple prevention efforts such as insecticide-treated bed nets and boosting vaccine research. A vaccine is currently entering the final stage of trials. Although it is likely to be only partially effective, it is expected to save thousands of lives.[19]

17. DFID officials explained to us that it had been calculated that it costs $17 to "restore a lost year of life" from disease or death caused by malaria—a standard calculation used for health expenditure known as a disability adjusted life year (DALY). Andrew Steer, DFID's Director General Policy and Research, stated that a DALY of "anything under $1000 is traditionally regarded as a pretty good investment."[20]

18. Funding pledges of £1.6 billion ($3.2 billion) were made at the High Level Event—one of the largest ever commitments to the disease. Around one-third of the new funding will go towards a World Bank campaign in Nigeria and the Democratic Republic of Congo, which account for at least 30% of all malaria deaths. The largest pledges were made by the Global Fund to Fight AIDS, Tuberculosis and Malaria ($1.6 billion) and the World Bank ($1.1 billion). The campaign's organisers said additional investments of at least $1 billion a year would be needed to reduce the number of deaths to zero over the next seven years.[21]

19. The UK pledged:

- £40 million in support of the Affordable Medicines Facility for Malaria
- to increase funding for malaria vaccine research to up to £5 million per year by 2010

17 Q 110

18 Twelfth Report of Session 2007-08, *HIV/AIDS: DFID's New Strategy*, HC 1068-I, paras 44-47

19 '$3bn ploughed into fight against malaria', *The Guardian*, 26 September 2008

20 Q 128

21 'Leaders see world closing in on malaria', *The Los Angeles Times*, 28 September 2008

- to provide 20 million of the 125 million bed nets that are needed to close the global shortfall in bed nets by 2010.[22]

DFID officials told us how they had approached the Event in terms of deciding in advance what outcomes were required on malaria and working back from that point to establish an effective strategy for achieving this. Andrew Steer, DFID's Director General Policy and Research, told us that, although the amount of money pledged was "absolutely essential", the focus had been on desired outcomes and "delivery on the ground".[23] The Secretary of State was clear that "the very specificity" of the Plan and the engagement of the private sector were what made him optimistic that it would be effective.[24] In our recent report on DFID's new HIV/AIDS Strategy, we contrasted DFID's admirable focus on outcomes in its approach to tackling malaria with the one it had adopted in the Strategy, which instead emphasised the amount of money to be spent.[25]

20. **We welcome the pledges DFID has made to support the Global Action Plan on Malaria. We agree with DFID that this is a "wonderful investment" which will make a real difference to people's lives by using simple techniques such as bed nets and spraying to prevent unnecessary loss of life. We request regular updates from DFID on the impact of the Plan as it is implemented. We recommend that the outcome-focused approach adopted in relation to the Malaria Action Plan be followed in other DFID initiatives of this kind.**

Maternal health

21. Millennium Development Goal 5 seeks to reduce maternal mortality by three-quarters and to achieve universal access to reproductive health services by 2015. In our Report on Maternal Health in February 2008, we highlighted that at least 536,000, but possibly as many as 872,000 women, were dying each year due to the failure to make progress on this MDG. We concluded that, without urgent action, reaching the Goal by 2015 would become impossible.[26] Under its Public Service Agreement 29, DFID measures the progress of 22 countries towards the MDGs. DFID's 2008 Autumn Performance Report shows that only one of these 22 countries is on track to meet MDG 5.[27]

22. At the High Level Event, the Prime Minister announced a new Taskforce on Innovative Financing for Health Systems, which he will co-chair with World Bank President Robert Zoellick. The Taskforce will seek to mobilise money and develop new sources of funding in order to strengthen health systems. The Taskforce is intended to be a complementary mechanism to the International Health Partnership (IHP), which has no funding capability but seeks to promote co-ordination.[28] It will have a particular focus on

22 DFID Press Release, 25 September 2008. 'World leaders commit record billions to tackle malaria'

23 Q 110

24 Q 128

25 Twelfth Report of Session 2007-09, HC 1068-I, paras 113-114

26 Fifth Report of Session 2007-08, *Maternal Health*, HC 66-I, Summary and Conclusion

27 *2008 Autumn Performance Report*, Cm 7515, pp 56, 58-59

28 The International Health Partnership was launched on 5 September 2007 as a way to help aid agencies work together more effectively on the three health MDGs, thereby reducing duplication and the time needed at country level to process individual donor demands and meet reporting requirements.

meeting the maternal and child mortality MDGs, both of which desperately require increased numbers of health workers and stronger health systems to see progress.

23. The Taskforce comprises a "small number of leading figures in the international community selected on the basis of the perspectives they can offer on innovative financing, health systems or political feasibility."[29] Its inaugural meeting took place at the Doha Financing for Development Conference at the beginning of December 2008 and it will make its final recommendations to the G8 summit in Italy in July 2009.[30]

24. The Prime Minister said that he hoped that the Taskforce could help to save 10 million mothers and newborns by providing over a million new health workers. He pledged to spend almost £450 million over three years to support national health plans in eight IHP countries.[31] Both this £450 million pledge and the £40 million announced by DFID for the Global Fund to Fight AIDS, TB and Malaria form part of the £6 billion announced for health systems by the UK in June 2008 as part of its new HIV/AIDS strategy on which we reported in November.[32]

25. We asked the Secretary of State why the Taskforce planned to spend its first year exploring new funding mechanisms when the needs it is trying to address are so urgent. He told us that, from the UK perspective, it was not "a choice between [...] exploring the issue of innovative financing mechanisms in terms of health systems and getting on with the job". He believed that the involvement of leading figures, including the head of the World Health Organisation, and, crucially, the President of the World Bank, would give the Taskforce "clout and authority".[33]

26. **We have highlighted before our concerns about the lack of progress on maternal health. The Taskforce on Innovative Financing for Health Systems seems to offer a new opportunity for making progress on all the health Millennium Development Goals. It would be regrettable if time was wasted in negotiations about funding mechanisms rather than ensuring that money started reaching health systems in developing countries and producing the change which is needed. The Prime Minister is the co-chair of the Taskforce which gives the UK significant leverage to secure rapid progress. We recommend that the UK use the full weight of this influence to ensure the Taskforce starts to have a tangible impact early in 2009.**

Education

27. 75 million children are currently not in school and trends indicate that this figure will only be halved by 2015.[34] DFID reports that seven of the 22 countries it monitors are off-

29 For details of the Taskforce's membership and background information see DFID Press Release, 1 December 2008 "International leaders call for more investment in global health"

30 ibid

31 DFID Press Release, 25 September 2008, "Aid pledges will save lives of 10 million mothers and babies". The countries are: Burundi, Cambodia , Ethiopia, Kenya, Mozambique, Nepal, Nigeria and Zambia—see "Committing to action: achieving the MDGs–Compilation of Partnership Events and Commitments'", UN, 25 September 2008

32 Ev 59; see also Twelfth Report of Session 2007-08, *HIV/AIDS: DFID's New Strategy*, HC 1068-I

33 Qq 129-130

34 'Global poverty: Brown flies to UN to launch drive for 1m health workers', The Guardian, 25 September 2008

track to meet MDG 2 which aims to achieve universal primary education by 2015; five of these are severely off track.[35] A new partnership of governments, companies and NGOs called the "Class of 2015: Education for All" was launched at the Summit. It aims to build political will to achieve MDG 2. The partnership has set an interim deadline to get 24 million children into school by 2010 as a milestone towards education for all by 2015. Pledges of $4.5 billion over three years towards the achievement of education for all were announced. These included £50 million from the UK towards the Education For All Fast-Track Initiative, funded from the £8.5 billion pledged by the UK in April 2006 for education over the next 10 years.[36]

28. It is estimated that 18 million new teachers are needed between now and 2015 if each classroom is to have a qualified teacher.[37] Kevin Watkins of UNESCO highlighted in a press article that the window of opportunity for meeting MDG 2 is closing, because achieving the target of all children completing primary education by 2015 means securing universal access to schooling by 2010. The necessary schools will therefore have to be built and teachers trained by 2010.[38]

29. The Secretary of State told us that it was important to identify the particular obstacles to children being in school in particular locations: whether this was a lack of school buildings; the absence of adequate sanitation; insufficient numbers of trained teachers; or unaffordable user fees. Offering feeding programmes as an incentive for school attendance was also sometimes key.[39]

30. One in five girls of primary school age are not in school. The MDG 3 target seeking gender parity in access to primary schooling by 2005 was comprehensively missed. This failure has a knock-on effect on the chances of achieving the other MDGs: girls who have been to primary school are healthier (for instance, they are 50% less likely to be infected with HIV) and wealthier (each year of schooling increases girls' future earning power by 10-20%).[40] Factors that perpetuate the gender inequalities that keep girls out of school are wide-ranging but it has been proved that steps such as dropping school fees and ensuring that schools are safe and have adequate water and sanitation can boost girls' enrolment.

31. The Secretary of State acknowledged that "it is impossible to build credible strategies for getting those 75 million kids into school unless you recognise the centrality" of gender. He pointed out that the ratio of girls to boys in school had improved from 94:100 in 1999 to 97:100 by 2006 but that he was "far from complacent" and the Fast-Track Initiative therefore paid special attention to gender.[41] He accepted that the 2005 gender target had been missed in 94 countries and that understanding why that had happened was key to finding solutions. He identified the issues as being: lack of international political

35 2008 Autumn Performance Report, Cm 7515, pp 56, 58-9; 12 countries are reported as being on-track; insufficient data was available for 3 countries.

36 Q 134

37 DFID/Global Campaign for Education Press Release, 'World leaders, FIFA, corporations, faith leaders and advocates join together to launch "Class of 2015."

38 'Global poverty: Brown flies to UN to launch drive for 1m health workers', The Guardian, 25 September 2008

39 Q 134

40 All figures Global Campaign for Education.

41 Q 136

leadership; the global funding gap; the absence of planning and local capacity; and the fact that user fees meant that girls lost out when people could not afford to educate all their children.[42]

32. **We agree with the Secretary of State that identifying the specific barriers to universal primary education in different local areas is central to finding solutions and that the initiative must therefore be tailored to local needs. Rapid progress on the Class of 2015 initiative is, however, vital. Its aim is for all children to complete primary education by 2015 which means that they have to be in education by 2010. This leaves very little time for delivering on the pledges and ensuring swift implementation. We recommend that DFID work with its international partners to develop targets tightly linked to timescales so that progress can be measured towards the 2010 deadline.**

Women's rights and the MDGs

33. ActionAid argued in a recent report that, if progress towards the MDGs is to be catalysed, new targets on women and girls must be set within the existing framework to address the specific barriers preventing women and girls from escaping poverty. ActionAid asserted that the current MDG targets for tackling gender equality—MDGs 2 and 3 on education, political empowerment and employment and MDG 5 on maternal health—were too narrow, and omitted vital issues such as women's access to land and violence against women.[43] ActionAid identified four steps that they believed must be taken by the Prime Minister and other global leaders:

- Set more ambitious and specific targets on women and girls within the exiting framework
- Bolster the UN's capacity to tackle discrimination against women
- Monitor progress with better data
- Make aid a more effective tool in achieving equality and women's empowerment.[44]

34. In our reports last year on Maternal Health and on DFID's new HIV/AIDS Strategy, we highlighted that gender inequalities were preventing women accessing health services and therefore endangering their lives.[45] Our AIDS report also stressed the need for DFID to establish dedicated strategies to address gender-based violence.[46] When we challenged the Secretary of State about the failure properly to address gender in relation to the MDGs, he told us:

> I have taken on the responsibility of being the minister responsible for gender relations within the department because I wanted an unequivocal message sent out that at the

42 Q 135

43 ActionAid, 'Hit or miss? Women's rights and the Millennium Development Goals' (2008)

44 ActionAid, 'Hit or miss? Women's rights and the Millennium Development Goals' (2008), p 3

45 See Fifth Report of Session 2007-08, *Maternal Health*, HC 66-I, paras 22-29 ; and Twelfth Report of Session 2007-08, *HIV/AIDS: DFID's New Strategy,* HC 1068-I, chapter 5

46 Twelfth Report of Session 2007-08, *HIVAIDS: DFID's New Strategy,* HC 1068-I, paras 67-69

> highest level of the department we do and continue to take extremely seriously the gender dimension to the challenge of poverty reduction.[47]

35. **Progress on the Millennium Development Goals will not be made unless tackling gender inequality is given the necessary political priority and leadership. We welcome the Secretary of State's demonstration of his commitment to progress by taking on responsibility for gender equality within DFID. We recommend that the UK Government takes every opportunity to press international partners, including developing countries themselves, to put a high priority on tackling the barriers which prevent women achieving equality. This should include a particular focus on gender issues that are not represented by specific MDG targets, such as women's access to land and violence against women.**

Nutrition

36. In our report on the World Food Programme and Global Food Security, published in July 2008, we criticised DFID for not having a measurable target for malnutrition. DFID's progress on its objectives and targets is measured against its Public Service Agreements (PSAs) and monitored by HM Treasury. Neither the 2005–08 PSA nor the 2008–11 PSAs include an indicator on nutrition. DFID's PSAs are built around the MDG targets. MDG 1 has three targets: to reduce by half the number of people living on a dollar a day; to achieve full employment; and to reduce by half the proportion of people who suffer from hunger. Yet DFID chooses to measure the achievement of MDG 1 only by the first target, poverty reduction.[48] Nor do any of the other MDGs have a specific hunger or nutrition target (for instance, MDG 4 seeking to reduce child mortality). We said in our Report:

> The Department's decision to measure progress towards MDG 1 using a poverty indicator alone, rather than including indicators for hunger and nutrition, implies it believes that wider poverty reduction strategies are sufficient tools with which to combat hunger and nutrition. This is far from proven. We recommend that DFID add a new indicator under MDG 1 in the 2008-11 PSA to enable its work on nutrition and hunger to be properly targeted and measured.

The Government's Response to this recommendation was that:

> Progress towards the MDGs is monitored annually through the collaborative efforts of agencies and organisations within the UN system which track the progress of 48 specific indicators. These include 2 indicators of malnutrition—the prevalence of underweight children under five years of age and the proportion of population below minimum level of dietary energy consumption. We have selected eight of [the] 48 [MDG] indicators—one for each MDG—as a summary measure of progress against the PSA in 22 partner countries. We have selected a poverty measure—the proportion of population with income below $1 as our indicator of progress against MDG 1—to eradicate extreme poverty and hunger. We will, however, continue to monitor progress

47 Q 136

48 DFID, PSA Delivery Agreement 29, pp 5–6

against all MDG indicators, including those on malnutrition, throughout the PSA period.[49]

We found this response unsatisfactory and explored DFID's approach in more detail with the Secretary of State. He was frank in admitting that "nutrition had not been a central focus of my work in the first six to eight months in the department" but told us that, more recently, he had sought to address this with officials.[50] He accepted that the issue had grown in significance in recent months and he reiterated that DFID planned to have a nutrition strategy in place by the end of 2008.[51] This was not achieved. A draft strategy on nutrition and development was put out to consultation in November 2008. DFID now says it will present "recommendations and choices" to Parliament early in 2009.[52]

37. **We recommend that, as part of its renewed emphasis on nutrition, DFID re-examine our earlier proposal that it should include an indicator for hunger and nutrition in its monitoring of Millennium Development Goal 1 on poverty reduction. We welcome the Secretary of State's confirmation that DFID will produce a nutrition strategy in the coming months, which we will examine when it is published.**

49 Eighth Special Report of Session 2007-2008, *The World Food Programme and Global Food Security: Government Response to the Committee's Tenth Report of Session 2007-08*, HC 1066, pp 4-5, [response to recommendation in para 53]

50 Q 140

51 Q 140

52 See DFID website at http://www.dfid.gov.uk/consultations/#Nutrition

4 DFID's expenditure on development assistance

DFID's performance against commitments on Official Development Assistance expenditure

38. DFID's Annual Report 2008 indicated that UK Official Development Assistance (ODA) is projected to rise to £9.1 billion by 2010-11 which will represent 0.56% of Gross National Income (GNI). This is in line with the EU's commitment for member states' ODA collectively to reach 0.56% of GNI in 2010 and keeps the UK on track to reach its commitment of 0.7% GNI by 2013—two years ahead of the EU's collective commitment to 0.7% GNI by 2015.[53]

39. However, statistics published by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD DAC) in April 2008 showed that UK net ODA fell by 29.1% in 2007, due to decreased debt relief, from US$12,459 million in 2006, down to US$9,921 million in 2007. As a percentage of GNI, UK aid excluding debt relief also fell slightly. ODA including debt relief went down from 0.51% of GNI in 2006 to 0.36% in 2007. Excluding debt relief, the decrease was more marginal: 0.369% in 2006 down to 0.357% in 2007.[54]

40. In written questions to DFID we queried a discrepancy in the Annual Report in the figures for debt relief in 2006-07: one part of the report says it was £1.5 billion and elsewhere the figure is £2 billion.[55] DFID admits that the lower figure is a misprint but is confident that the correct figures were provided to the DAC. We explored the problem of conflicting statistics in more detail with the Permanent Secretary and were able to clarify how the confusion had arisen.[56]

41. **It is essential that DFID provides clear, up-to-date and unambiguous information about development expenditure in its Annual Reports. We accept the potential difficulty which can arise when other reporting bodies, notably the OECD Development Assistance Committee, work to calendar rather than financial years and thus new statistics become available shortly after DFID's Annual Report is published. However it is important for our scrutiny of DFID's expenditure that we are given robust information on which to base our evaluation.**

Progress towards the 0.7% target

42. In July, we asked the DFID Permanent Secretary, Nemat Shafik, how confident she was that DFID could maintain its progress towards the 0.7% target. She told us

53 DFID Annual Report 2008, para 1.28; see also DFID Press Release, 'UK keeps aid promises to the world's poor' 2 October 2008

54 OECD DAC Statistics on net ODA 2007 and press release 4 April 2008 "Debt relief is down: other ODA rises slightly"

55 Ev 49, response to Question 10

56 Qq 55-56

> I am very confident in the current CSR [Comprehensive Spending Review] period that we are on the right trajectory. I think the next CSR is too unknown to know […] we will not know what GDP is at that stage, but we also will not know what the state of the economy is at this stage […] for the next three years we are pretty confident that we are on track. Thereafter, I think we have to see.[57]

The EU reaffirmed its commitment that each member state will devote 0.7% of Gross National Income to Official Development Assistance by 2015 at the Doha Financing for Development Conference in December.[58] The Secretary of State was optimistic about the prospects of the UK fulfilling the 0.7% pledge by the earlier date of 2013:

> […] the Prime Minister himself stated on 17 October [2008]—this is, of course, after the immediate financial crisis. He stated: 'By 2013 the United Kingdom Government will reach our target of spending 0.7% of national income on aid. We have clearly laid out our plans to reach this goal and we are encouraging our partners to do likewise.' That is the clearest and most authoritative statement of British Government policy on this issue.[59]

We welcome confirmation from the Secretary of State, echoing the Prime Minister, that the UK will maintain its progress towards the goal of 0.7% of Gross National Income to be allocated to Official Development Assistance by 2013.

43. However, some other donors are failing to fulfil their commitments. Even before the deterioration in the world economic situation, it was clear that a number of G8 countries were not on track to meet the 0.7% target. The Africa Progress Panel, which was set up to monitor progress on the funding commitments made at the 2005 Gleneagles Summit, said in June 2008 that, without major changes in aid levels, most G8 countries would be "well below" the target of doubling aid to Africa between 2004 and 2010.[60] The OECD DAC concluded that commitments made at Gleneagles and subsequent summits indicated that overall aid levels would need to rise from $80 billion in 2004 to $130 billion in 2010 but for this to be realised, core development programmes would have to double over the next three years. In publishing its development expenditure statistics for 2007, the DAC said "Overall, most donors are not on track to meet their stated commitments to scale up aid and will need to make unprecedented increases to meet the targets they have set for 2010".[61] DFID's 2008 Autumn Performance Report reinforces this point: it quotes the DAC secretariat's recent conclusion that "non-debt ODA is currently not on track to achieve the $130 billion target, and […] the target may be missed by over $30 billion if the trend continues."[62]

44. The latest forecasts from the International Monetary Fund are that global growth will shrink by 0.5% in 2009 followed by a gradual recovery in 2010.[63] Shrinking economies in

57 Qq 52-53

58 See Doha Declaration at http://www.un.org/esa/ffd/doha/press/brockmannpressconf.pdf

59 Q 118

60 Africa Progress Panel 2008 Report, p 15

61 OECD DAC press release 4 April 2008

62 2008 DFID Autumn Performance Report, p 35

63 International Monetary Fund, World Economic Outlook Update, January 2009, see www.imf.org/external

donor countries, many of which are now in recession, will mean that the funding available for Official Development Assistance is also likely to reduce because the commitments were made as percentages of gross national income rather than in money terms. We will explore the implications of this for financing for development in our current inquiry into Aid Under Pressure.

45. **The UK must continue to press its donor partners to maintain their commitment to reach 0.7% of gross national income to be devoted to development expenditure by 2015. The impact of the global economic downturn on developing countries will mean that they need more help more urgently than was previously the case. We believe that the UK should continue to lead by example and that the opportunity should be taken at every international meeting on development to seek renewed pledges which are backed up by action.**

5 What is DFID's expenditure achieving?

Evaluating aid impact

46. In our Report on the 2007 DFID Annual Report we said:

> We are concerned that DFID continues to emphasise inputs rather than outcomes—it focuses too much on how much it spends on aid rather than measuring the effects of its aid spending on poverty.[64]

We quoted the Cabinet Office's Capability Review of the Department which found that: "Evaluation of DFID's outcomes is not sufficiently independent. Evaluation of impacts and outcomes needs to be strengthened further to inform future policy making."[65] DFID acknowledges that there are problems in conducting effective evaluation. In response to our 2008 report on aid effectiveness, the Department said that it was:

> […] working to ensure a stronger focus on rigorous evidence of impact […] We recognise that there is an international 'evaluation gap' ie insufficient high quality, rigorous and policy-relevant impact evaluations funded by the international development agencies as a whole. DFID is playing a key role internationally to fill that gap, through a number of complementary activities.[66]

47. The aim of DFID's internal Evaluation Department (EVD) is "to determine relevance and fulfilment of objectives and assess developmental efficiency, effectiveness, impact and sustainability" by carrying out:

- formative studies addressing new aid instruments and emerging themes
- ex-post evaluations
- policy-oriented studies
- country programme level studies and examination of themes (eg gender)
- studies of sectors (eg basic education) and
- performance management quality assurance reviews.[67]

48. DFID's key initiative to improve the quality of its evaluation is the Independent Advisory Committee on Development Impact (IACDI). We took evidence from the Chair of IACDI and two of its members in July 2008. Below we explore its plans for tackling the

64 First Report of Session 2007-08, *Department for International Development Annual Report 2007*, HC 64-I, paragraph 11

65 Civil Service Capability Review of the Department for International Development, March 2007, p 20

66 Seventh Special Report of Session 2007-08, *Working Together to Make Aid More Effective: Government Response to the Committee's Ninth Report of Session 2007-08,* HC 1065, p 15 [Response to recommendation in para 73]

67 See DFID website at http://www.dfid.gov.uk/aboutdfid/evaluation.asp

main challenges to effective evaluation of the Department's work which include changes to the way the Evaluation Department operates.

Independent Advisory Committee on Development Impact

49. In announcing the establishment of IACDI, Hilary Benn, the then Secretary of State said:

> The Government is committed to ensuring that the UK's aid budget is used effectively to make a difference to the lives of the world's poorest people and that it represents value for money. As we increase levels of overseas aid, we must be rigorous in assessing the impact of that aid in helping to reduce poverty and change the lives of poor people for the better. [68]

IACDI's terms of reference specify that it has been established to: "Assure the independence of the evaluation function in DFID and the use of evaluation results to enhance the delivery and impact of UK development assistance." IACDI does not commission or engage directly in individual evaluation reports. It is not permitted to become involved in DFID's operational decisions. Its work is intended to complement that of the National Audit Office. The Chair determines the work programme and is responsible for the appointment of members and the organisation of meetings.[69] IACDI is now responsible for agreeing the workplan of DFID's Evaluation Department and the Department's overall evaluation priorities. From this year, IACDI will agree a three-year rolling work-plan for the Evaluation Department. A draft Evaluation Policy was put out to public consultation in December 2008.

50. The Chair of IACDI reports to the Secretary of State annually in writing giving an overview of evaluation work and making recommendations. The terms of reference specify that this letter will be copied to the International Development Committee and will be published. The advice and recommendations are not binding on the Secretary of State but he is required to respond to them. We received the first of these letters on 1 December 2008 and a copy of the Secretary of State's reply on 11 December.[70]

IACDI's plans for improving DFID's evaluation work

51. In his first annual letter to the Secretary of State, the Chair of IACDI highlighted the importance of proper evaluation of DFID's work:

> We are conscious that high quality, independent evaluation is particularly important for the management and accountability of spending programmes like DFID's that are expanding rapidly and where the links between departmental policies and expenditures and their impact—notably on poverty and achievement of the Millennium Development Goals—are usually indirect and complex. High quality evaluation is

68 DFID Press Release, 9 May 2007

69 See IACDI terms of reference available on its website at http://iacdi.independent.gov.uk

70 Ev 88

> needed both to provide assurance that DFID's money is being well spent and so that lessons from experience are learned and applied in future.[71]

The letter goes on to say that IACDI's assessment was that the quality and independence of the work carried out by DFID's Evaluation Department were comparable with other bilateral aid agencies but that it believed "DFID can and should aim for a higher standard".[72] The letter sets out the steps which are already being implemented to address the identified weaknesses, those which will be implemented in the immediate future, and those planned for the next two to three years.

Resources available for evaluation

52. The Chair of IACDI told us in oral evidence that "there is not a very strong culture of self-evaluation in DFID".[73] His colleague Tony Killick reinforced this: "DFID as an institution is not collecting the information and does not have the systems in place to enable it to reach firm judgements about cost-effectiveness".[74]

53. A comparative study of evaluation policies and practices in a range of development organisations, including DFID, was published in December 2007 by researchers from the Overseas Development Institute.[75] It found that, although impact evaluation was an area of increasing interest for development agencies, there were a number of challenges to carrying it out effectively. It identified a disconnect "between the rhetoric on the strategic and growing importance of development evaluation, and evaluation practice in development agencies." It said that more investment was needed for evaluation, both financial, and more importantly, in human resources and capacity. There were too few staff involved in evaluation; they sometimes had no evaluation experience; and attracting high calibre staff and limiting turnover presented a challenge.[76] IACDI witnesses told us that less than 0.1% of DFID's total programme budget, or 2% of the administrative budget, was spent on evaluation.[77]

54. In the Chair's annual letter, IACDI differentiated between the work being carried out within DFID's Evaluation Department (EVD) and that undertaken across the organisation as a whole. It stated that work carried out outside the EVD needed to be strengthened. It believed that the EVD should take responsibility for oversight, quality assurance and guidance on all evaluation work, for which it will require greater resources.[78] The Chair's letter highlighted a concern to ensure that the "level of administrative resources for evaluation in DFID both inside and outside EVD is adequate for the task" and proposed that IACDI should have a central role in deciding the future budget of the Evaluation

71 Ev 88

72 Ev 90

73 Q 4

74 Q 10

75 *A Comparative Study of Evaluation Policies and Practices in Development Agencies, December 2007.* The Report author was Mara Foresti, Research Fellow, Poverty and Public Policy Group, ODI. The organisations studied were: DFID, SIDA, KfW, Danida, the EU, the World Bank, IMF, the African Development Bank and Oxfam.

76 *Comparative Study of Evaluation*, Executive Summary, pp 9-10

77 Qq 19 and 27

78 Ev 90

Department. It also proposed that more staff should be recruited from outside DFID and that the balance should change so that external consultants played less of a role in evaluation work.[79] The Secretary of State's response points out that the Evaluation Department's funding has increased from £3.6 million in 2007-08 to £5.1 million for 2009-10 and that the number of staff has "nearly doubled since 2004".[80]

55. **We agree with the Independent Advisory Committee on Development Impact that, if evaluation is to be carried out effectively within DFID, sufficient administrative and financial resources need to be allocated to this function. We accept that increases have been made in the financial and staffing resources available for evaluation but these remain tiny as a proportion of DFID's overall and increasing budget. We believe that an objective and independent assessment is required to determine the appropriate level of resources. We therefore recommend that IACDI's future role should include advising on the budget and staffing requirements of DFID's Evaluation Department.**

Independence of evaluations

56. The Comparative Evaluation Study found that "independence is one of the cornerstones of the evaluation function in aid and development agencies" and it broke this down into three components: organisational independence; behavioural independence; and protection from external influence.[81] It noted in relation to the first component that in DFID, the Evaluation Department "sits within the line management structure" of the Department: it is an integral part of the departmental structure, rather than being at arm's length and its Head reports to the DFID management. Other agencies have increased the organisational independence of their evaluation functions by setting them up as external and separate organisations (for example, Sweden) or by them reporting to a separate board, or directly to ministers.

57. One of IACDI's initial focus points has been strengthening the independence of evaluation, although it cautions that this "should not mean isolation from decision makers and there needs to be a balance between independence and engagement".[82] A change to be implemented in the immediate future is that IACDI will have a formal role in agreeing the job description, protocols and performance review arrangements for the Head of the Evaluation Department. Proposals for the longer term include a more senior grade for the post to improve its visibility and "clout"; and that the reporting line should be direct to the Permanent Secretary.[83]

58. As a step towards this, DFID has already made the post accountable to the Director General of Corporate Performance.[84] We also discussed with IACDI in oral evidence making the Head of the Evaluation Department an "end of career post" which may allow the incumbent greater freedom to be critical of the organisation, or appointing an

79 Ev 89-90

80 Ev 91

81 *A Comparative Study of Evaluation Policies and Practices in Development Agencies, December 2007, p 18*

82 Ev 89

83 Ev 90

84 Ev 90

individual from outside DFID to the post.[85] One of IACDI's longer term proposals is that future heads of evaluation should be appointed "on an understanding precluding employment elsewhere in DFID, and the contract should be for a fixed term".[86]

Consultants

59. In common with most development agencies, many of DFID's evaluations are carried out by consultants. The Comparative Evaluation Study pointed out that this does not ensure independence as "consultants who rely on regular commissions from a particular agency can be under considerable pressure not to be too critical in their analysis" and that, in order to secure contracts, consultants "are not always incentivised to provide objective and critical views of agency actions".[87]

60. We explored the role of consultants in evaluation in our oral evidence session with the IACDI representatives. They agreed that using consultants in no way guaranteed independence and that the quality of the work produced was also an issue. The Chair advocated at that time bringing more DFID evaluation work in-house and using consultants less.[88] This recommendation was included as one of the longer term proposals in the Chair's letter to the Secretary of State.[89]

Implementation of lessons learned

61. In oral evidence, Robert Picciotto, one of the IACDI members, told us that an effective evaluation department ought to be about "learning what works and what does not work".[90] The Chair emphasised that although part of the function of evaluation was to assess whether work had been carried out effectively, the equally important second half was ensuring lessons were learned and recommendations were followed up and that this had been one of the motivations for the establishment of IACDI.[91]

62. The Comparative Evaluation Study noted that communicating, disseminating and following-up evaluations were key functions but ones which were not always carried out effectively. A tension was identified between the need for proper independence of evaluation and the desirability of its integration with the rest of an organisation's activities so that findings can be properly used. In DFID's case it suggested that there was a danger of the Evaluation Department being isolated from the other parts of the Department.[92] It found that DFID performed well in relation to publishing evaluations and using seminars and other methods to ensure evaluation findings were made available to a wider audience. What was less clear was the extent to which the findings from evaluations were

85 Qq 32-33

86 Ev 90

87 Comparative Evaluation Study, p 19

88 Q 39

89 Ev 90

90 Q 6

91 Q 17

92 Comparative Evaluation Study, pp 18-19

implemented and whether evaluation findings led to practices and policies being changed.[93]

63. In an attempt to address deficiencies in ensuring that lessons are learned from evaluations, a number of IACDI's recommendations were implemented immediately. DFID has agreed that a departmental director should now be made responsible for following up each evaluation report,[94] and DFID released a note on follow-up action taken as a result of the evaluations carried out in 2006-07 to coincide with publication of the letter from the IACDI Chair to the Secretary of State.[95] The Head of the Evaluation Department also published the first of his new annual reports drawing lessons and commons themes from EVD reports completed during the year.[96]

64. **Lesson-learning is an essential function of evaluation. We welcome the publication of new annual reports to show the extent to which DFID has implemented evaluation findings from previous years and that DFID has agreed to make departmental directors responsible for following up evaluation reports. At a time when DFID's budget is increasing, it is important that spending decisions are taken on the basis of evidence of what works, so that money is used cost-effectively. We expect DFID to continue to build on the progress it has made in implementing these initial recommendations from the Independent Advisory Committee on Development Impact.**

Evaluation of the impact of budget support

65. A substantial amount of DFID's funding is now provided direct to partner governments and spent by those governments according to priorities which it agrees with DFID. This form of providing development assistance is known as budget support. In 2006-07 DFID provided £461 million in budget support to 13 countries which represented nearly 20% of bilateral expenditure.[97] Our colleagues on the Public Accounts Committee (PAC) have highlighted the problems associated with assessing the impact of DFID funding provided through budget support to partner governments. Their Report points to some of the benefits of budget support: increased services to benefit the poor in six out of nine countries assessed; increases in the quantity of services delivered; and supporting partner countries to make education and health services free. However, the PAC found that countries which did not receive budget support had seen similar achievements. Moreover, despite using budget support for a number of years, DFID has not yet established whether it is a cost-effective mechanism.[98]

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93 Comparative Evaluation Study, p 26

94 Ev 90; see also Q 44

95 Letter from the Head, Corporate Performance and Planning Group DFID to the Chair of IACDI, 18 June 2008 available on IACDI website at http://iacdi.independent.gov.uk

96 *Independent Evaluation in DFID Annual Report 2007/08*, Head of Evaluation, DFID, November 2008

97 Public Accounts Committee, Twenty-seventh Report of Session 2007-08, *DFID: Providing Budget Support for Developing Countries*, HC 395, Summary, and paragraph 1. The 13 countries, in descending order of amount received are: Tanzania, Ethiopia, Pakistan, Ghana, Uganda, Mozambique, Vietnam, Malawi, Zambia, India, Sierra Leone, Nepal and Nicaragua. The amounts vary from £90 million down to £1 million.

98 HC 395, Session 2007-08, paras 2-3

66. The PAC Report pointed to lack of data and technical capacity in developing countries as key factors hindering effective evaluation of budget support. The Comparative Evaluation Study also highlighted that capacity of partner governments was a limiting factor in effective evaluation of impact.[99]

67. When we questioned IACDI about effective evaluation of budget support the Chair told us that this had not formed part of IACDI's initial work programme but that evaluation of budget support would be included in the consultation on the future work plan of the Evaluation Department.[100] **We are very pleased to see that budget support has been included on the shortlist of possible topics for evaluation as part of DFID's current consultation on its evaluation policy.[101] We recommend that evaluation of the impact of budget support be given a high priority and be undertaken as early as possible in the new three-year evaluation period which begins in 2009–10.**

DFID's analysis of its impact on poverty reduction

68. DFID's Annual Report claims that the Department helps 'to lift at least three million people permanently out of poverty every year'.[102] The Report gives the source of this observation as 'the Collier-Dollar Model of Impact Aid'. This is a model used to calculate the impact of aid levels on poverty reduction in developing countries. The original research was undertaken for the World Bank in 1999,[103] and the DFID-established Economics & Statistics Analysis Unit reviewed and updated that work in 2003.[104]

69. The 1999 World Bank research examined the correlation between aid levels and economic growth, and between economic growth and poverty reduction. In doing so it factored in a number of variables including the aid-recipient country's starting level of income, its distribution of incomes and its policy environment (which makes aid effective in-country). It found that at the levels and distributions of aid at that time, the average cost globally of permanently lifting a person out of poverty was $1,205, but that if aid were optimally allocated between recipient countries the cost could have been only $445. The focus of the analysis, however, was on the marginal effectiveness of aid, which was $1,502 per person lifted out of poverty (marginal costs are higher than average costs because of diminishing returns as aid levels increase), because the purpose of the model was to guide how donors might best allocate additional aid spending.

70. The 2003 analysis by the Economics & Statistics Analysis Unit updated the earlier research and also considered how performance varied between recipient countries and between aid donors. Globally, the 'marginal effectiveness' of aid had nearly tripled between 1990 and 1998 (from 105 people lifted out of poverty per $1 million to 284 people.) However, the research found that that increase in marginal aid effectiveness had been the

99 Comparative Evaluation Study, p 24

100 Q 11

101 Available on DFID website at http://www.dfid.gov.uk/consultations/topics-evaluation.pdf

102 DFID Annual Report 2008, HC 492, para 5.1

103 *Aid allocation and poverty reduction*, World Bank, Policy Research Working Paper 2041, Collier & Dollar, January 1999, available on World Bank website at http://econ.worldbank.org/external/

104 *Poverty Efficient Aid Allocations – Collier/Dollar Revisited*, Jonathan Beynon, Economic & Statistics Analysis Unit, November 2003. Available on the ODI website at http://www.odi.org.uk/spiru/publications/

result of reduced aid volumes during the 1990s decreasing the effect of diminishing returns and a change in the way the local policy environment was scored, rather than as a result of better aid allocations between recipient countries. The UK's marginal effectiveness rate—387 people per $1 million in 1999—was the highest amongst the major bilateral donors. It was also higher than DAC donors overall (275 people per $1 million) and multilateral donors taken together (311 people) (but not as high as some individual multilateral donors—for example the UN Development Programme (443 people)). However, once adjusted for aid volume and policy scoring changes, the UK's marginal effectiveness rate was no higher in 1999 than in 1990 (see Figure 1): 97 people per $1 million in 1990, compared with 84 people in 1999 once adjusted for the reduced volume of aid and changes in policy scores.[105]

71. Such figures are of course a decade old. On the basis of the Government's planned ODA expenditure, a rough calculation suggests that, at the UK's 1999 aid effectiveness rate, it could be lifting 3.6 million people out of poverty in 2008-09.[106] But such a calculation takes no account of: any improvements in the allocative efficiency of UK aid; the effectiveness of its aid projects over the last decade; the likelihood that the average effectiveness is higher than the marginal effectiveness used in such a calculation (factors which would produce a higher figure); nor the greatly increased volume of ODA expenditure (which would tend to reduce the effectiveness figure through the effect of diminishing marginal returns).

72. We therefore asked the Department to provide us with its detailed calculations for the figure of three million people lifted out of poverty, cited in the Annual Report. The Department told us that they used the original Collier-Dollar model to provide more up to date marginal and average effectiveness figures, summing the numbers lifted out of poverty in each recipient country covered by its bilateral and multilateral programmes. It gave us figures for the range of effectiveness levels across recipient countries, but it did not give us the "detailed calculations" we had sought.[107] Instead, DFID told us that the three million people statistic was generated in 2006, based on estimates made then of bilateral and multilateral aid allocations for 2007-08. The model suggested, we were told, that the Department's allocations in that year would help to lift 3.45 million people out of poverty—a figure conservatively rounded down to 3 million for the Annual Report.[108] The Department explained that there would be margins of error in using the model to infer the actual impact of aid on individual countries.[109] The Permanent Secretary told us that, while the Collier-Dollar model was "a well respected piece of research", her "confidence in the estimate gets less the more disaggregated it becomes" [110.]

105 Similarly, 117 people per $1 million compared with 95 people for DAC donors overall, and 137 people compared with 103 for multilateral donors overall.

106 DFID's CSR settlement envisages £6,392m of ODA in 2008-09 (*2007 Pre-Budget Report and CSR, Treasury*, October 2007, Cm 7227, p 240). Assuming £1=$1.45, this suggests 3.6 million people lifted out of poverty [(£6,392 million x 1.45) x 387 = 3.6 million people].

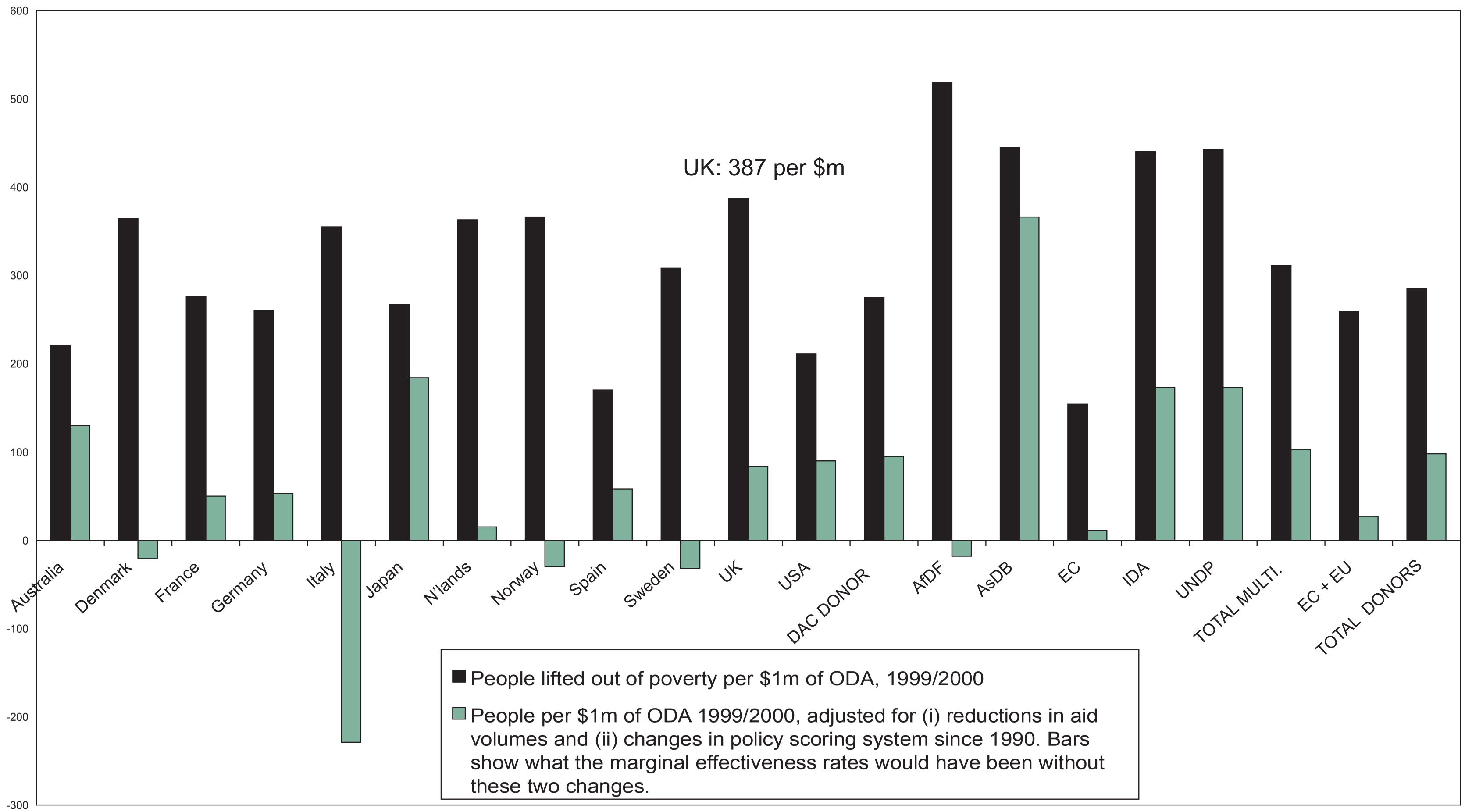
107 Ev 46

108 Ev 57

109 Ev 57

110 Q 76

Figure 1: Marginal effectiveness of aid (people lifted out of poverty per $1m) by donor 1999-2000



Source: Poverty Efficient Aid Allocations—Collier/Dollar Revisited, Jonathan Beynon, Economic & Statistics Analysis Unit, November 2003, Figures 4.2, A4.4

Note: The Economic & Statistics Analysis Unit paper attributes negative marginal effectiveness levels to the high levels of aid given by some donors to particular countries with low policy scores.

73. In the absence of the Department's detailed calculations, we are left with a reasonably recent but aggregate figure on the one hand, and the original detailed data on the other, which is now a decade old. It is important that the Department has the capacity to make an accurate assessment of the impact of its work and of the UK's ODA expenditure. The Department will need to maintain pressure on the Treasury in the next Spending Review to ensure that it secures a budget that will allow it to deliver its MDG commitments; being clear about what that expenditure produces should be an important lever in those negotiations. Indeed, the Department told us that it produced its assessment of three million people lifted out of poverty for its Comprehensive Spending Review bid. In making that assessment, the Department used the original Collier-Dollar methodology. For future exercises, it said it might produce new estimates using more recent global aid data, and updated poverty and GNI per capita data and that the Chief Economist was preparing a review of research on alternatives to the Collier-Dollar allocation model.[111]

74. Any such new assessment needs to address the likely impact of the current financial crisis and the low value of the pound, both for the Department and for partner countries. The Secretary of State recently described to us in oral evidence how the financial crisis is adversely affecting the economies of recipient countries, which means more development funding will be needed to achieve the same poverty reduction outcomes. He also acknowledged that the purchasing power of DFID's sterling-based budget is being diminished while the value of the pound remains low because aid expenditure is incurred in local currencies, and DFID's commitments to the European Commission's programmes are set in euros.[112] These factors mean that DFID's budget will need to be properly supported, to ensure that the number of people lifted out of poverty does not start to fall. We are examining these issues in greater detail in our current inquiry into Aid Under Pressure.

75. **We understand and support DFID's desire to publicise the many benefits which its assistance brings. It is essential that it can accurately assess the impact of its expenditure on poverty reduction, not least to enable it to support its bids to the Treasury for funding under the next Spending Review. It is particularly important during an economic downturn that DFID is able to demonstrate to taxpayers what is being achieved from UK expenditure on development assistance so that public support can be maintained**.

76. **Our inquiries have shown that the rather bald claim made in the Annual Report, that DFID lifts three million people out of poverty each year, can be substantiated but we would caution that statistics should be used accurately and with proper evidence. Our investigations have shown that this claim is possibly an under-estimate of the Department's true contribution to poverty reduction. We might have been assisted in coming to a judgement if we had been given the information we requested. In its response to this Report, we call again for the Department to provide the detailed calculation for its assessment of the number of people it lifts out of poverty each year. In addition, we intend to examine in detail the results of DFID's planned further research on its impact on poverty reduction.**

111 Ev 46

112 Oral evidence taken in the inquiry into Aid Under Pressure, 21 January 2008, HC 179-I, Qq 13-19

DFID staffing levels

77. In order to meet Government efficiency targets, the number of DFID home civil service posts has reduced from 1,907 in March 2004 to 1,612 in March 2008.[113] DFID is however unusual in that it has an increasing budget. It is therefore presented with the challenge of using rising levels of funding effectively when it has fewer people to deploy. In our report on the DFID Annual Report 2007, we said:

> We accept that DFID cannot be exempt from efficiency targets set for the whole of Government. The Department has made good progress in reducing administrative costs, albeit predominantly in the less tangible form of non-cashable rather than cashable savings. We are concerned, however, that the need to reduce headcount and to make administrative efficiencies, and under the Comprehensive Spending Review settlement to meet a significantly higher cash-releasing efficiency target, will act as a constraint on DFID working in the parts of the world where its assistance is most needed: the poorest countries, often fragile states, which have so far failed to benefit from the vast volumes of international aid. DFID therefore needs to make some very difficult choices about withdrawing from some countries, or some sectors, so that it can focus development assistance where it will have the greatest effect on poverty reduction.[114]

78. World Vision told us that it was "concerned about DFID headcount restrictions in UK and field offices, and its potential impact on programme quality." It believed that this had impaired DFID's capacity to engage in policy dialogue with recipient governments, civil society and other donors, particularly in conflict-affected and fragile states.[115] Similar points were made in our recent inquiry into DFID's new HIV/AIDS Strategy. Witnesses expressed concern that implementation of the Strategy might be hindered by DFID having insufficient staff to take on the necessary tasks and that this was a factor in DFID reducing its direct engagement with civil society organisations working on HIV/AIDS. It was also suggested that DFID staffing constraints affected its ability to collect the data required for evaluations.[116] Collection and evaluation of data is particularly important where DFID is providing direct budget support to partner governments.

79. We concluded in our AIDS Report that:

> […] in the specific context of the new HIV/AIDS Strategy, […] staff reductions at DFID may have reached the point where they risk adversely affecting the Department's ability to deliver its objectives in vital fields such as health and social care.[117]

In our Maternal Health report, we expressed concern that the capacity within DFID's human resources to drive the maternal health agenda was constrained, both in-country and within DFID headquarters. We reiterated, in this specific context, our earlier recommendation quoted above, that DFID needed to take some difficult decisions about

113 DFID Annual Report 2008, Table 10.1, p 193

114 First Report of Session 2007-08, *DFID Annual Report 2007*, HC 64-I, para 40

115 Ev 84

116 Twelfth Report of Session 2007-08, *HIV/AIDS: DFID's New Strategy,* HC 1068, para 106

117 Twelfth Report of Session 2007-08, *HIV/AIDS: DFID's New Strategy,* HC 1068, para 109

withdrawing from some countries or sectors if its funding was to achieve the impact on poverty reduction set out in the Department's objectives.[118]

80. When we explored staff constraints in oral evidence with the Permanent Secretary, she was frank in her response: "Our staff are very pressed, they are working very, very hard. [...] we are coping but we are struggling".[119]

81. **The impact of staff reductions on DFID's ability to deliver its objectives has been a recurrent theme in our reports. We have consistently praised DFID staff for the dedication and professionalism which they bring to their work and this has not changed. We are, however, alarmed that even the Permanent Secretary is now prepared to acknowledge that the Department is struggling to fulfil its commitments. It would be perverse if the administrative savings achieved by reducing staff numbers led to DFID's rising budget being spent less effectively and with less accountability. We have previously accepted that DFID cannot be exempt from Government efficiency targets but we believe the situation has changed. Our concern now is that DFID no longer has sufficient staff in place to ensure its increasing budget is used most effectively in support of poverty reduction and achieving the Millennium Development Goals. We recommend that the Government urgently reassess the staffing level DFID requires to deliver the objectives which it has assigned to the Department under its Public Service Agreements.**

118 Fifth Report of Session 2007-08, *Maternal Health*, HC 66-I, para 144

119 Qq 103-104

6 Middle-income countries

82. The World Bank classifies countries into income groups based on per capita Gross National Income (GNI). The latest classification is based on 2007 GNI figures and groups countries as follows:

- $935 or less: low-income
- $936 - $3,705: lower middle-income
- $3,706 - $11,455: upper middle-income
- $11,456 or more: high-income.[120]

DFID uses its own system of classification for low and middle-income countries, which it says is currently based on “2004 GNI per capita thresholds”.[121]

83. DFID has made a commitment to spend 90% of its bilateral aid in low-income countries and only 10% in middle-income countries (the 90:10 split).[122] However, nearly a third of those living on less than $1 a day are in middle-income countries. DFID acknowledges that middle-income countries (MICs) are critical to the achievement of the Millennium Development Goals both because of the levels of poverty which remain in some MICs and because of the influence MICs can have on global policies. DFID’s Middle-Income Countries Strategy 2005-2008 said that DFID would:

> […] focus our limited bilateral assistance for MICs on countries and issues where we can add value to the wider international effort. This will include large, strategically important countries that affect the achievement of the MDGs regionally or globally; the poorest MICs […] and MICS that are vulnerable to falling back to LIC [low-income country] status. [123]

84. The 90:10 split largely determines the distribution of DFID staff so that very few staff are based in MICs. For example, at the beginning of 2008, 29 DFID staff were based in Latin America: 12 in Managua (Nicaragua), nine in Brasilia and eight in La Paz. The office in La Paz closed in September 2008 and the one in Managua will close in April 2009. DFID will retain an office in Brazil with eight staff.[124] This means that, from April 2009, DFID will have a total of eight staff in the whole of Latin America. Nemat Shafik told us that the decision to withdraw staff from middle-income countries in Latin America was due to administrative budget constraints.[125]

120 See World Bank website at http://web.worldbank.org/

121 see *Statistics on International Development 2003/04-2007/08*, p 61, footnote 4.

122 The 90% target was set out in DFID’s Public Service Agreements for 2003-06 and 2005-08; in the 1999-2002 PSA the target was 75%. The 90% target is restated in the current PSA. See *Achieving the Millennium Development Goals: The* Middle-Income Countries: A Strategy for DFID 2005-08, para 4.11

123 *Achieving the Millennium Development Goals: The* Middle-Income Countries: A Strategy for DFID 2005-08, Summary

124 HC Deb 2 April 2008, col 1001w; see also Q 61

125 Q 61

85. Yet DFID acknowledges that inequality and exclusion continue to hinder long-term development in MICs and states that “Latin America is the most unequal region in the world”.[126] Moreover, DFID points out in its Strategy that, over the last 20 years, 38 countries have fallen back from middle-income to low-income status and says that “there is a danger that MICs may not be able to access finance and knowledge on the right terms to achieve the MDGs”.[127]

86. The Permanent Secretary told us that DFID was trying to take a much more “nuanced approach” to middle-income countries:

> […] the issue for us in middle-income countries is what the most effective intervention is because clearly they do not necessarily need our resources and so our focus in middle-income countries is increasingly about helping them use their own resources more effectively to reduce poverty rather than us transferring significant financial resources.[128]

In Latin America this meant that:

> […] we have basically shifted our focus away from working as a donor to Latin American governments to focusing on civil society in Latin America. So we have substantially expanded our civil society funding in Latin America with the view that in the end the real solution in Latin America is getting a fairer distribution of wealth and having political pressure on governments from development voices for a fair distribution of resources in those societies, and doing that through support of civil society is arguably a more effective vehicle in the long run than continuing to have a very, very small aid programme with a very, very small presence—with some impact, […] but, to be honest, not as much as we could have in other parts of the world.[129]

In subsequent written evidence DFID confirmed that its funding for UK civil society organisations working in Latin America will increase from £7 million to £13 million per year by 2010-11.[130]

87. DFID previously had a Strategy for assisting middle-income countries to achieve the Millennium Development Goals which ran from 2005-08. When we asked the Parliamentary Under-Secretary of State, Michael Foster MP, whether the Department planned to produce another middle-income strategy he was unable to tell us. Nor was he able to provide any details of the criteria DFID would use in determining its approach to MICs.[131] We have since received a half-page note which is published with this Report and which sets out in very general terms how DFID plans to engage with middle-income countries in the future.[132]

126 DFID Middle-Income Country Strategy 2005-08, Box 4

127 DFID Middle-Income Country Strategy 2005-08, Summary

128 Q 59

129 Q 61

130 Ev 55-56

131 Evidence taken in the inquiry into DFID and China, 22 January 2009, HC 180-i, Q 152

132 Ev 91-92

88. **DFID allocates only 10% of its bilateral funding to middle-income countries. We believe that this focus on low-income countries remains valid and that the 90:10 split should continue. However, 10% of bilateral funding is a substantial sum of money. It is as important that money spent in middle-income countries is used effectively in support of poverty reduction as funding allocated to poorer countries. We were disappointed that the DFID Minister was unable, in oral evidence, to provide any information on what would replace the now expired 2005-08 Middle-Income Country Strategy. The brief note we subsequently received setting out DFID's general approach to middle-income countries is no replacement for a properly articulated and publicly available strategy. We believe that this is evidence of a lack of clarity within the Department on how to take forward its engagement with middle-income countries. We recommend that DFID clarify and publish its policy for engagement with middle-income countries as a matter of urgency.**

India

89. India is the largest recipient of bilateral assistance from DFID.[133] It has recently moved from the low-income to the lower-middle income group in the World Bank's classification of countries based on 2007 per capita GNI.[134] This means that its per capita GNI has moved above $936. However, India still qualifies as eligible to receive funding from the World Bank International Development Association: its per capita income is therefore less than $1095.[135] So it is only just within the lower-middle income bracket. The Permanent Secretary told us that DFID expects India to reach middle-income status by 2013[136] reflecting its different approach to classifying countries into income-groups.

90. The Prime Minister announced in January 2008 that the UK would allocate £825 million to India over the next three years.[137] The programme allocation to India was £266 million in 2007-08 rising to an estimated £280 million by 2010-11.[138] India contains a sixth of the world's population. Its economy is now the tenth largest in the world but, despite sustained economic growth, India still has almost 400 million people living on less than $1 a day and another 500 million living on between $1 and $2 a day.[139] The Permanent Secretary emphasised the importance of understanding the scale of India: if Bihar province was a country, it would be the fourteenth largest and sixth poorest in the world.[140]

91. In June 2008, DFID published a new Country Plan for India which runs to 2015. Its focus continues to be reducing poverty in India's poorest regions. DFID says that the key areas which the plan will address are primary education, maternal health, child

133 Q 59; see also *Three Faces of India: DFID India Country Plan 2008-2015, Foreword;* and *Statistics on International Development 2003/04-2007/08*, p 61

134 See World Bank website at http://web.worldbank.org/

135 India is classified as a "blend" country by the World Bank. Blend countries are eligible for IDA loans because of their low per capita incomes but are also eligible for IBRD loans because they are financially creditworthy.

136 Q 59

137 DFID Press Release, 20 January 2008, "UK Prime Minister announces aid package for India".

138 DFID Annual Report 2008, Annex 2, Table 4, p 244

139 *Three Faces of India, DFID India country Plan 2008-2015*, DFID, June 2008

140 Q 59

malnutrition, inclusive growth and governance reform.[141] The new Country Plan also recognises that "India now has a massive contribution to make to the elimination of poverty worldwide".[142] A budget for DFID's programme in India has not been set beyond 2010-11 but DFID says that the overall aid allocation is expected to decline as India becomes a middle-income country.[143] The Permanent Secretary told us that "when India makes that transition it will pose a huge challenge for us. Our current thinking will be obviously that we will not turn the tap off in 2013; there will be a gradual transition as we have done with China."[144] We have conducted an inquiry into DFID's engagement with China whose transition to middle-income status presents challenges and opportunities for the UK. We will publish our findings shortly.

92. **We agree with the Permanent Secretary's assessment that determining the nature of DFID's relationship with India after 2010-11, as it moves towards middle-income status, will pose "a huge challenge" for the Department. We welcome the focus in the new India country programme on the key areas of health, education, nutrition and governance. However, it is vital that DFID is clear about the longer term objectives for its work in India and how these will contribute to the overriding aim of poverty reduction. We are not convinced that this clarity of purpose has yet been achieved. We expect DFID to provide us with more detail on the criteria it will use to determine its assistance programme in India after 2010–11 in response to this Report.**

141 DFID Press release, 11 June 2008, "UK backs India's plans to get all primary school children into school".

142 DFID India Country Plan 2008-2015, Foreword

143 HC Deb 24 June 2008, col 296w

144 Q 59

7 Governance and parliamentary strengthening

Governance and Transparency Fund

93. The Governance and Transparency Fund was launched in February 2007 with a budget of £100 million over five years to support "civil society, a free media, parliamentarians and trade unions" in developing countries through a variety of local partnerships and networks. Bids for funding were required to be submitted by the end of September 2007. DFID's plan was to allocate the full £100 million budget before the end of 2007 (although this was later adjusted to the end of January 2008).[145] 85% of the Fund was to be allocated to organisations in developing countries. DFID appointed KPMG as managing agents to assess funding bids against specified criteria and recommend projects for funding, which had to be between £750,000 and £5 million for periods between three and five years.

94. The Annual Report 2008 says that "Unprecedented interest and high quality applications from around the world has since led the Secretary of State to boost funding up to £130 million."[146] The Director of Corporate Performance, Sue Owen, reiterated this in oral evidence: "one issue here was the success […] in attracting applications. We had 272 individual proposals worth collectively £770 million." 38 projects have now been selected for funding over the next five years.[147]

95. Evidence from One World Action refers to delays in making decisions on disbursement of the Fund which "caused great uncertainty for civil society groups in the south and undermined DFID's reputation internationally".[148] Sue Owen explained the reasons for the delay in evidence to us in July 2008:

> We have actually worked quite hard […] with those who are successful in organising how they will account for the money and report back and that is one of the reasons why the funding is only just now ready to go. But we think that about two-thirds of the proposals are ready now and funding for them will come on stream in the next month or so. On the final third we are still working with them on their financial management capacity and how we can help them […][149]

DFID's website provides a list of projects approved under the Fund but this does not include details about the amount of funding which will be provided.[150] DFID officials assured us that there would be annual assessments to ensure that the money was being spent appropriately and to monitor its impact.[151]

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145 First Special Report of Session 2007-08, *DFID Annual Report 2007: Government Response to the Committee's First Report of 2007-08*, HC 329, p 8 [response to recommendation in para 62]

146 DFID Annual Report 2008, para 7.63

147 Q 80; see also DFID Annual Report 2008, para 7.63

148 Ev 72

149 Q 80

150 See DFID website at http://www.dfid.gov.uk/funding/gtf-proj-funding.xls

151 Qq 80-83

96. **It was unfortunate that DFID took longer than originally planned to implement the Governance and Transparency Fund. The important issue now is to ensure that the funding is used effectively and that the expenditure is rigorously audited. We intend to request an update on the operation of the Fund in our scrutiny of the DFID Annual Report 2009.**

Strengthening parliaments in developing countries

97. During our inquiry into the Departmental Report 2007, DFID cast doubt on its willingness to fulfil its commitment to parliamentary strengthening when it told us: "There is little to be gained […] from 'stand alone' programmes with parliaments" because "parliaments and parliamentarians are embedded in a political, social and cultural context".[152] We said in our 2007 report:

> We disagree with DFID's view that the impact of individual programmes of parliamentary strengthening is limited. Effective accountability and scrutiny and proper transparency of course require contributions from a number of different elements of society but parliaments and parliamentarians are uniquely placed to provide leadership in this area and amongst the various stakeholders in developing countries they are most likely to have the mechanisms and resources available to perform a scrutiny role at the highest levels. We believe that this should be reflected in DFID making an increased level of funding available for parliamentary strengthening.

In response DFID said:

> We strongly agree that parliaments play a critical role in promoting strong domestic accountability and better governance in developing countries. We will continue to support national parliaments through a range of programmes including building their capacity to organise themselves effectively, strengthening linkages with the executive, national audit bodies and civil society, and supporting MPs in performing their legislative, oversight and representation functions and to improve their accountability to their constituents.[153]

DFID cited the examples of a £10 million programme in Malawi "to develop a more accountable and responsive governance system which includes support to parliament, the electoral commission, the media and civil society" and the provision of £50 million for a multi-donor programme "to strengthen democracy and accountability in the Democratic Republic of Congo, which included a parliamentary strengthening component." Similar "deepening democracy" programmes were also planned for Tanzania and Uganda.[154] However, there is no reference to working with developing country parliaments in the 2008 Annual Report. The only mention of strengthening parliaments is in relation to the Governance and Transparency Fund from which £5 million has been allocated to the

152 See First Report of Session 2007-08, *DFID Annual Report 2007*, Evidence Volume HC 64-II, Ev 59

153 First Special Report of Session 2007-08, *DFID Annual Report 2007: Government Response to the Committee's First Report of Session 2007-08*, HC 329, pp 8-9 [response to recommendation in para 66]

154 First Special Report of Session 2007-08, *DFID Annual Report 2007: Government Response to the Committee's First Report of Session 2007-08*, HC 329, pp 8-9 [response to recommendation in para 66]

Westminster Foundation for Democracy to build the capacity of parliaments in developing countries.[155]

98. The Permanent Secretary told us that DFID funding for governance had increased from about £85 million in 1997 to over £322 million and that "we have 200 governance professionals in DFID—it has become the largest professional group in DFID because it permeates virtually everything we do in the education sector and the health sector and in public financial management."[156] In response to our 2007 report, DFID said that its bilateral expenditure on strengthening parliaments was on "an upward trend". However, the allocation was only £14 million out of the total governance budget of £322 million—which is 4.3%.

99. The Permanent Secretary accepted that it was a "fair criticism" that DFID had focused too much on governments in its past governance work but she believed that this was changing. She pointed out that DFID cannot be seen to be working with particular political parties in developing countries and we fully appreciate the sensitivities around this.[157] But we are sure that DFID staff are sufficiently resourceful to find mechanisms for building parliamentary capacity which are appropriate, impartial and include representatives of government and opposition parties. Sue Owens told us, for example, that she had taken the opportunity of a visit to Zambia to discuss financial management and tackling fraud with parliamentarians there and that DFID was encouraging more exchanges between UK senior civil servants and their counterparts in partner countries.[158]

100. We reiterate the point made in our 2007 report, that parliaments and parliamentarians are uniquely placed to provide leadership on accountability and transparency because, amongst the various stakeholders in developing countries, they are most likely to have the mechanisms and resources available to perform a scrutiny role at the highest levels. **We welcome DFID's acknowledgement that it has neglected parliamentary strengthening in the past and its plans for increasing its work on building parliamentary capacity. We recommend that this is accompanied by a significant increase in the proportion of governance funding which is allocated to parliamentary work. We request that, in response to this Report, DFID sets out its planned expenditure on parliamentary strengthening over the next three years with an indication of the proportion this represents of the total governance budget in each year.**

155 DFID Annual Report 2008, para 7.63; see also Q 84

156 Q 80

157 Q 84

158 Q 84

8 Conclusion

101. Support for development assistance, both in financial terms and in the attitudes of the general public, risks being weakened in the current financial downturn. We are keenly aware of the danger this might present to poverty reduction targets and this is reflected in our decision to undertake our current inquiry into Aid Under Pressure.

102. The UK Government has made clear its intention to fulfil the commitments that it has made on increasing funding for development assistance towards the target of 0.7% of GNI by 2013. We welcome this and agree that increasing the level of assistance to poor countries becomes more not less important in an economic downturn. However, the financial situation places an even greater responsibility on DFID to use its increasing budget effectively to maximise poverty reduction. It is equally important that DFID is able to demonstrate publicly that its expenditure and policies are effective. To do this, it needs to produce accurate statistics and to carry out effective evaluations from which appropriate lessons are learned and implemented. We hope that the recommendations we have made in this Report will contribute to improving DFID's ability to assess its own impact and to use this information to build and retain public support for its work.

Annex: The Millennium Development Goals and targets

MDG 1: Eradicate extreme poverty and hunger

Target 1a: Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day.

Target 1b: Achieve full and productive employment and decent work for all, including women and young people

Target 1c: Halve, between 1990 and 2015, the proportion of people who suffer from hunger

MDG 2: Achieve universal primary education

Target 2: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

MDG 3: Promote gender equality and empower women

Target 3: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015

MDG 4: Reduce child mortality

Target 4: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

MDG 5: Improve maternal health

Target 5a: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio

Target 5b: Achieve, by 2015, universal access to reproductive health

MDG 6: Combat HIV and AIDS, malaria and other diseases

Target 6a: Have halted by 2015 and begun to reverse the spread of HIV/AIDS

Target 6b: Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it

Target 6c: Halt and begin to reverse the incidence of malaria and other major diseases

MDG 7: Ensure environmental sustainability

Target 7a: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources

Target 7b Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss

Target 7c: Halve, by 2015, the proportion of the population without sustainable access to safe drinking water and basic sanitation

Target 7d: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers

MDG 8: Develop a global partnership for development

Target 8a: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system

Target 8b: Address the special needs of the least developed countries

Target 8c: Address the special needs of landlocked developing countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly)

Target 8d: Deal comprehensively with developing countries' debt through national and international measures in order to make debt sustainable in the long term

Target 8e: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries

Target 8f: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications

Source: UN Millennium Development Goals website at www.un.org/millenniumgoals/ and UNDP site at www.undp.org/mdg/

Conclusions and recommendations

Prospects for achieving the Millennium Development Goals

1. We welcome the strong support from the Prime Minister and the Department for International Development for maintaining the momentum on development and continuing to work towards achievement of the Millennium Development Goals by 2015. We agree that in times of financial turbulence, low-income countries need more rather than less support from the developed world. (Paragraph 14)

Progress on specific Millennium Development Goals

2. We welcome the pledges DFID has made to support the Global Action Plan on Malaria. We agree with DFID that this is a "wonderful investment" which will make a real difference to people's lives by using simple techniques such as bed nets and spraying to prevent unnecessary loss of life. We request regular updates from DFID on the impact of the Plan as it is implemented. We recommend that the outcome-focused approach adopted in relation to the Malaria Action Plan be followed in other DFID initiatives of this kind. (Paragraph 20)

3. We have highlighted before our concerns about the lack of progress on maternal health. The Taskforce on Innovative Financing for Health Systems seems to offer a new opportunity for making progress on all the health Millennium Development Goals. It would be regrettable if time was wasted in negotiations about funding mechanisms rather than ensuring that money started reaching health systems in developing countries and producing the change which is needed. The Prime Minister is the co-chair of the Taskforce which gives the UK significant leverage to secure rapid progress. We recommend that the UK use the full weight of this influence to ensure the Taskforce starts to have a tangible impact early in 2009. (Paragraph 26)

4. We agree with the Secretary of State that identifying the specific barriers to universal primary education in different local areas is central to finding solutions and that the initiative must therefore be tailored to local needs. Rapid progress on the Class of 2015 initiative is, however, vital. Its aim is for all children to complete primary education by 2015 which means that they have to be in education by 2010. This leaves very little time for delivering on the pledges and ensuring swift implementation. We recommend that DFID work with its international partners to develop targets tightly linked to timescales so that progress can be measured towards the 2010 deadline. (Paragraph 32)

5. Progress on the Millennium Development Goals will not be made unless tackling gender inequality is given the necessary political priority and leadership. We welcome the Secretary of State's demonstration of his commitment to progress by taking on responsibility for gender equality within DFID. We recommend that the UK Government takes every opportunity to press international partners, including developing countries themselves, to put a high priority on tackling the barriers which prevent women achieving equality. This should include a particular focus on gender issues that are not represented by specific MDG targets, such as women's access to land and violence against women. (Paragraph 35)

6. We recommend that, as part of its renewed emphasis on nutrition, DFID re-examine our earlier proposal that it should include an indicator for hunger and nutrition in its monitoring of Millennium Development Goal 1 on poverty reduction. We welcome the Secretary of State's confirmation that DFID will produce a nutrition strategy in the coming months, which we will examine when it is published. (Paragraph 37)

DFID's expenditure on development assistance

7. It is essential that DFID provides clear, up-to-date and unambiguous information about development expenditure in its Annual Reports. We accept the potential difficulty which can arise when other reporting bodies, notably the OECD Development Assistance Committee, work to calendar rather than financial years and thus new statistics become available shortly after DFID's Annual Report is published. However it is important for our scrutiny of DFID's expenditure that we are given robust information on which to base our evaluation. (Paragraph 41)

8. We welcome confirmation from the Secretary of State, echoing the Prime Minister, that the UK will maintain its progress towards the goal of 0.7% of Gross National Income to be allocated to Official Development Assistance by 2013. (Paragraph 42)

9. The UK must continue to press its donor partners to maintain their commitment to reach 0.7% of gross national income to be devoted to development expenditure by 2015. The impact of the global economic downturn on developing countries will mean that they need more help more urgently than was previously the case. We believe that the UK should continue to lead by example and that the opportunity should be taken at every international meeting on development to seek renewed pledges which are backed up by action. (Paragraph 45)

Evaluating aid impact

10. We agree with the Independent Advisory Committee on Development Impact that, if evaluation is to be carried out effectively within DFID, sufficient administrative and financial resources need to be allocated to this function. We accept that increases have been made in the financial and staffing resources available for evaluation but these remain tiny as a proportion of DFID's overall and increasing budget. We believe that an objective and independent assessment is required to determine the appropriate level of resources. We therefore recommend that IACDI's future role should include advising on the budget and staffing requirements of DFID's Evaluation Department. (Paragraph 55)

11. Lesson-learning is an essential function of evaluation. We welcome the publication of new annual reports to show the extent to which DFID has implemented evaluation findings from previous years and that DFID has agreed to make departmental directors responsible for following up evaluation reports. At a time when DFID's budget is increasing, it is important that spending decisions are taken on the basis of evidence of what works, so that money is used cost-effectively. We

expect DFID to continue to build on the progress it has made in implementing these initial recommendations from the Independent Advisory Committee on Development Impact. (Paragraph 64)

12. We are very pleased to see that budget support has been included on the shortlist of possible topics for evaluation as part of DFID's current consultation on its evaluation policy. We recommend that evaluation of the impact of budget support be given a high priority and be undertaken as early as possible in the new three-year evaluation period which begins in 2009–10. (Paragraph 67)

DFID's analysis of its impact on poverty reduction

13. We understand and support DFID's desire to publicise the many benefits which its assistance brings. It is essential that it can accurately assess the impact of its expenditure on poverty reduction, not least to enable it to support its bids to the Treasury for funding under the next Spending Review. It is particularly important during an economic downturn that DFID is able to demonstrate to taxpayers what is being achieved from UK expenditure on development assistance so that public support can be maintained. (Paragraph 75)

14. Our inquiries have shown that the rather bald claim made in the Annual Report, that DFID lifts three million people out of poverty each year, can be substantiated but we would caution that statistics should be used accurately and with proper evidence. Our investigations have shown that this claim is possibly an under-estimate of the Department's true contribution to poverty reduction. We might have been assisted in coming to a judgement if we had been given the information we requested. In its response to this Report, we call again for the Department to provide the detailed calculation for its assessment of the number of people it lifts out of poverty each year. In addition, we intend to examine in detail the results of DFID's planned further research on its impact on poverty reduction. (Paragraph 76)

DFID staffing levels

15. The impact of staff reductions on DFID's ability to deliver its objectives has been a recurrent theme in our reports. We have consistently praised DFID staff for the dedication and professionalism which they bring to their work and this has not changed. We are, however, alarmed that even the Permanent Secretary is now prepared to acknowledge that the Department is struggling to fulfil its commitments. It would be perverse if the administrative savings achieved by reducing staff numbers led to DFID's rising budget being spent less effectively and with less accountability. We have previously accepted that DFID cannot be exempt from Government efficiency targets but we believe the situation has changed. Our concern now is that DFID no longer has sufficient staff in place to ensure its increasing budget is used most effectively in support of poverty reduction and achieving the Millennium Development Goals. We recommend that the Government urgently reassess the staffing level DFID requires to deliver the objectives which it has assigned to the Department under its Public Service Agreements. (Paragraph 81)

Middle-income countries

16. DFID allocates only 10% of its bilateral funding to middle-income countries. We believe that this focus on low-income countries remains valid and that the 90:10 split should continue. However, 10% of bilateral funding is a substantial sum of money. It is as important that money spent in middle-income countries is used effectively in support of poverty reduction as funding allocated to poorer countries. We were disappointed that the DFID Minister was unable, in oral evidence, to provide any information on what would replace the now expired 2005-08 Middle-Income Country Strategy. The brief note we subsequently received setting out DFID's general approach to middle-income countries is no replacement for a properly articulated and publicly available strategy. We believe that this is evidence of a lack of clarity within the Department on how to take forward its engagement with middle-income countries. We recommend that DFID clarify and publish its policy for engagement with middle-income countries as a matter of urgency. (Paragraph 88)

17. We agree with the Permanent Secretary's assessment that determining the nature of DFID's relationship with India after 2010-11, as it moves towards middle-income status, will pose "a huge challenge" for the Department. We welcome the focus in the new India country programme on the key areas of health, education, nutrition and governance. However, it is vital that DFID is clear about the longer term objectives for its work in India and how these will contribute to the overriding aim of poverty reduction. We are not convinced that this clarity of purpose has yet been achieved. We expect DFID to provide us with more detail on the criteria it will use to determine its assistance programme in India after 2010-11 in response to this Report. (Paragraph 92)

Governance and parliamentary strengthening

18. It was unfortunate that DFID took longer than originally planned to implement the Governance and Transparency Fund. The important issue now is to ensure that the funding is used effectively and that the expenditure is rigorously audited. We intend to request an update on the operation of the Fund in our scrutiny of the DFID Annual Report 2009. (Paragraph 96)

19. We welcome DFID's acknowledgement that it has neglected parliamentary strengthening in the past and its plans for increasing its work on building parliamentary capacity. We recommend that this is accompanied by a significant increase in the proportion of governance funding which is allocated to parliamentary work. We request that, in response to this Report, DFID sets out its planned expenditure on parliamentary strengthening over the next three years with an indication of the proportion this represents of the total governance budget in each year. (Paragraph 100)

Formal Minutes

Tuesday 10 February 2009

Members present:

Malcolm Bruce, in the Chair

John Bercow	Mr Marsha Singh
Richard Burden	Andrew Stunell

Draft Report (DFID Annual Report 2008), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 102 read and agreed to.

Annex and Summary agreed to.

Resolved, That the Report be the Second 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.

Written evidence was ordered to be reported to the House for printing with the Report, together with written evidence reported and ordered to be published on 8 July 2008.

[Adjourned till Wednesday 25 February at 9.30 am

Witnesses

List of written evidence

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2008-09

First Report	Work of the Committee in Session 2007-08	HC 138

Session 2007-08

First Report	DFID Departmental Report 2007	HC 64–I&II (HC 329)
Second Report	Development and Trade: Cross-departmental Working	HC 68 (HC 330)
Third Report	Work of the Committee 2007	HC 255
Fourth Report	Reconstructing Afghanistan	HC 65–I&II (HC 509)
Fifth Report	Maternal Health	HC 66–I&II (HC 592)
Sixth Report	DFID and the World Bank	HC 67–I&II (HC 548)
Seventh Report	DFID and the African Development Bank	HC 441–I&II (HC 988)
Eighth Report	Scrutiny of Arms Export Controls (2008): UK Strategic Export Controls Annual Report 2006, Quarterly Reports for 2007, licensing policy and review of export control legislation	HC 254 (Cm 7485)
Ninth Report	Working Together to Make Aid More Effective	HC 520–I&II (HC 1065)
Tenth Report	The World Food Programme and Global Food Security	HC 493–I&II (HC 1066)
Eleventh Report	The Humanitarian and Development Situation in the Occupied Palestinian Territories	HC 522–I&II (HC 1067)
Twelfth Report	HIV/AIDS: DIFID's New Strategy	HC 1068-1&II (HC 235)

Session 2006–07

First Report	DFID Departmental Report 2006	HC 71 (HC 328)
Second Report	HIV/AIDS: Marginalised groups and emerging epidemics	HC 46-I&II (HC 329)
Third Report	Work of the Committee in 2005–06	HC 228
Fourth Report	Development Assistance and the Occupied Palestinian Territories	HC 114-I&II (HC 430)
Fifth Report	EU Development and Trade Policies: An update	HC 271 (HC 622)

Sixth Report	Sanitation and Water	HC 126-I&II (HC 854)
Seventh report	Fair Trade and Development	HC 356-I&II (HC 1047)
Eighth report	DFID's Programme in Vietnam	HC 732 (HC 1062)
Ninth report	Prospects for sustainable peace in Uganda	HC 853 (HC 1063)
Tenth report	DFID Assistance to Burmese Internally Displaced People and Refugees on the Thai-Burma Border	HC 645-I&II (HC 1070)

Session 2005–06

First Report	Delivering the Goods: HIV/AIDS and the Provision of Anti-Retrovirals	HC 708–I&II (HC 922)
Second Report	Darfur: The killing continues	HC 657 (HC 1017)
Third Report	The WTO Hong Kong Ministerial and the Doha Development Agenda	HC 730–I&II (HC 1425)
Fourth Report	Private Sector Development	HC 921-I&II (HC 1629)
Fifth Report	Strategic Export Controls: Annual Report for 2004, Quarterly Reports for 2005, Licensing Policy and Parliamentary Scrutiny	HC 873 (Cm 6954)
Sixth Report	Conflict and Development: Peacebuilding and post-conflict reconstruction	HC 923 (HC 172)
Seventh Report	Humanitarian response to natural disasters	HC 1188 (HC 229)