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International Development Committee

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Ed Beale, Statistician/Economist, Scrutiny Unit and Ian Townsend, Senior Library Clerk, Economic Policy and Statistics Section of the House of Commons Library assisted the Committee throughout the inquiry.

Contacts

All correspondence should be addressed to the Clerk of the International Development Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 1223; the Committee's email address is indcom@parliament.uk

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The proposals in the Department for International Development's (DFID's) White Paper published in July 2009 change the emphasis of the Department's activities. It will focus more of its work in fragile states. This is a necessary step if global poverty reduction goals are to be met. Some of the poorest people in the world live in conflict-affected countries and those where governments are unable or unwilling to deliver basic services.

DFID's commitment to assist these countries is therefore welcome. However, the 2008-09 Annual Report and Resource Accounts reveal a number of performance issues for the Department. It needs to address these if it is to meet its own objectives for efficient and effective operations in the face of the additional demands on resources which operating in insecure environments imposes.

We are unsure whether DFID will have sufficient trained and experienced staff willing and available to work in more fragile regions, given the requirement to make further efficiency savings in its administrative budget, including reducing the number of staff employed.

Other concerns include DFID's capacity to identify and tackle fraud and the robustness of its procurement processes. More evidence is needed that the necessary steps are being taken to strengthen monitoring and implementation mechanisms in both these areas.

The White Paper makes clear that DFID intends to work more closely with multilateral bodies such as the UN, the European Commission and the World Bank, through which it already channels 41% of its funds. This offers the prospect of better coordinated aid delivery, but DFID's own assessments show that the effectiveness of these agencies is patchy. More DFID funding for these organisations must be accompanied by reform of their governance structures, particularly the World Bank and the IMF. DFID has started linking the allocation of funds to better performance, particularly in the case of UN agencies, and this strategy should be rigorously pursued.

The international community, including the UK, acted quickly to provide a safety net for developing countries hit by the economic recession. This additional support will need to be sustained over many years to come if more people are not to suffer the impact of increased poverty. Alert systems to monitor the specific effects of the recession on different countries have been put in place. The responsibility now lies with donors to ensure that identified needs are met. The World Bank has a key role to play here and DFID should continue to press for its response to be swifter and appropriately tailored to developing country needs.

The greatest challenge the world faces, along with tackling poverty, is dealing with the impact of climate change. The Copenhagen Climate Change Conference represented a collective failure by the international community to address emissions reductions and the need for increased climate change funding in a meaningful way. Climate change will hit poor countries first and hardest. DFID's White Paper gives a clear commitment to support vulnerable countries to adapt to and mitigate its impact. We strongly believe that funding for climate change must be additional to development funding. The UK must continue to show leadership on this issue, including exploring the potential of a global tax on financial transactions to raise additional funding for climate change measures.

1 Introduction

1. This report is the result of our regular yearly scrutiny of the Department for International Development's (DFID) Annual Report. This year DFID, in line with other government departments, published its Resource Accounts at the same time as the Annual Report.[1] This meant that the document was published later in the year than previously (in July rather than May) which altered our own schedule for examining the Annual Report.

2. More significantly, in the same month DFID also published a new White Paper.[2] This document sets out new priorities for the Department. It seemed to us appropriate to examine the Annual Report and the White Paper as part of the same exercise to enable us to assess the extent to which DFID's recent past performance gave confidence that it could achieve its new objectives.

3. We took evidence from the Secretary of State for International Development, the DFID Permanent Secretary and other senior DFID directors, in November 2009. We also received written evidence from 20 organisations. We are grateful to all those who contributed to our inquiry. In a new departure, the National Audit Office (NAO) produced a performance brief on DFID to assist our inquiry and provided us with an informal briefing in advance of our oral evidence sessions.[3] We have greatly valued this additional support for our scrutiny of the Department.

4. Our Report begins with our usual examination of whether DFID is using its increasing resources efficiently and effectively. We then move on to examine the policy areas to which DFID aims to give increased focus: climate change (Chapter 3), fragile states (Chapter 4), and working through multilateral bodies (Chapter 5). We then examine an issue on which we have previously reported: the level of assistance the international community is providing to developing countries to cope with the economic downturn (Chapter 6).[4]

1 DFID, *Better results for poor people: Annual Report and Resource Accounts 2008-09*, Volumes 1 and 2, HC 867-I and –II, July 2009

2 DFID, *Eliminating World Poverty; Building our Common Future*, Cm 7656, July 2009

3 NAO, *Performance of the Department for International Development 2008-09*: *Briefing for the House of Commons International Development Committee*, November 2009

4 See Fourth Report of Session 2008-09, *Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn*, HC 179-I

2 Efficient use of DFID resources

Measuring effectiveness

5. DFID's Departmental Strategic Objective (DSO) 6 is to *Deliver high quality and effective bilateral development assistance*. This is assessed in both its 2009 Annual Report and 2009 Autumn Performance Report as "green'" on the traffic-light assessment system, indicating "strong progress". In our report last year, we emphasised that, as part of the process of evaluating effectiveness, DFID must ensure that lessons on what works and what does not are learned and that programmes and spending are modified accordingly to ensure cost-effectiveness.[5] Progress in this area is discussed below, together with other aspects of effectiveness.

The Paris Declaration

6. The Paris Declaration is seen as an important measure of aid effectiveness.[6] It is an international agreement, facilitated by the Organisation for Economic Cooperation and Development (OECD), which was signed by over 100 Ministers and Heads of Agencies in 2005. It commits signatories to achieve better development outcomes from aid, based on five principles:

- Ownership: partner countries exercise effective leadership over their development policies and strategies, and coordinate development actions;
- Alignment: donors base their overall support on partner countries' national development strategies, institutions and procedures;
- Harmonisation: donors' actions are more harmonised, transparent and collectively effective;
- Managing for results: managing resources and improving decision-making for results;
- Mutual accountability: donors and partners are accountable for development results.

We explored the extent to which donors co-ordinate their aid delivery effectively in support of the Paris principles in our 2008 Report on *Working Together to Make Aid More Effective*.[7]

7. DFID's Annual Report states that it is on target to meet the Paris Declaration targets on aid effectiveness (although many other donor countries and multilaterals are not). Results from the 2008 Paris Monitoring Survey show that seven of the 10 targets that apply to

5 Second Report of Session 2008-09, *DFID Annual Report 2008*, HC 220-I, chapter five

6 DFID defines aid effectiveness in its 2007 Annual Report as "a measure of the quality of aid delivery and maximising the impact of aid on poverty reduction and development".

7 Ninth Report of Session 2007-08, *Working Together to Make Aid More Effective*, HC 520-I. The Paris principles are set out in para 7

donors have been met by DFID, while the remaining three are "on track".[8] In response to our written questions on the Annual Report, DFID stated:

> Our recently published action plan "Beyond Accra: What action should DFID take to meet our Paris and Accra commitments on aid effectiveness by 2010?" identified three priorities for action to ensure DFID meets all the targets. These are improving the predictability of DFID aid; improving transparency of aid, including getting more aid on budget; and increased use of mutual accountability mechanisms at country level.[9]

However, the UK Aid Network questioned the timeliness of data for reporting DFID's progress against DSO 6 and the Paris targets:

> […] given that the results of the 2008 Paris survey covers DFID performance up to March 2008 and the Annual Report did not present much more additional data than the Paris survey, there is limited data presented on DFID performance on many areas of aid effectiveness (eg use of programs, aid on budget, use of country systems, joint work with donors etc; with predictability the major exception) for the last year. This includes a lack of reporting on DFID's performance in meeting commitments made in the Accra Agenda for Action in 2008. It is clear that DFID's own internal performance reporting on aid effectiveness needs to be supplemented in the future.[10]

8. DFID's Autumn Performance Report stated that, as the next Paris Declaration Survey will not report until the third quarter of 2011, DFID is planning to produce its own aid effectiveness reports for its programmes in "early 2010".[11] **It is important that DFID's aid effectiveness reports, due to be published shortly, include suitable quantitative data to ensure that the Department is able to monitor and report on its own progress against the effectiveness indicators associated with its departmental objectives in advance of the final Paris Declaration Survey in 2011.**

9. Witnesses also expressed concern that the White Paper contained insufficient detail on what would happen on aid effectiveness post-2010. BOND told us:

> […] with the Paris Declaration reaching its target year and expiring in 2010 and signatories way behind in delivering on their promises around ownership, harmonisation and other areas, it was hoped that the White Paper would focus more on how the Paris targets are to be achieved and the principles that should be at the heart of a post-2010 agenda.[12]

The Permanent Secretary's view was that there would have to be "an assessment of performance in 2010" and that "the international system will have to come together and

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8 DFID, Annual Report and Resource Accounts 2008-09, HC867, Volume II, p 127

9 Ev 75-76

10 Ev 116

11 DFID, 2009 Autumn Performance Report, Cm 7768, p 39

12 Ev 49

agree on what to do next. At the moment, there has been no agreement yet as to what targets will prevail after 2010".[13]

10. **The Paris Declaration targets are due to be met this year. We are concerned that nothing has yet been agreed between donors on future targets for aid effectiveness. We therefore urge DFID to be at the forefront of efforts to create a new internationally recognised set of targets to ensure that the effectiveness of aid disbursals by all donor countries and multilateral bodies continues to be monitored.**

Accountability

11. The White Paper made new commitments on transparency, scrutiny and accountability, including an undertaking to provide a sum equivalent to 5% of budget support for building accountability of aid disbursals.[14] In oral evidence, the Permanent Secretary said that this commitment resulted from a multi-donor evaluation of budget support which had found that, "in some ways, by doing budget support, we had become too close to governments, that we […] had lost contact with the need to hold governments firmly to account".[15] She also provided additional details on how the 5% allocation would be spent, including to strengthen parliaments, civil society and the media, and other accountability institutions such as national audit offices.[16] The UK Aid Network welcomed the 5% commitment but emphasised that it "must be delivered strategically […] following in-depth analysis of the gaps in accountability in individual countries—especially through engagement with civil society—and by coordinating with other donors.[17]

12. **We welcome DFID's new commitment to allocate a sum equivalent to 5% of budget support towards strengthening accountability mechanisms for aid expenditure within developing countries. We have consistently argued for increased resources for institutions of accountability in developing countries, particularly parliaments, but also civil society and the media. We recommend that, in response to this Report, DFID provide us with further information on how this funding will be allocated.**

Evaluation and implementing lessons learned

13. We have often stressed that we are interested in "what works" in development assistance. In last year's inquiry into DFID's Annual Report, we held an evidence session with the Independent Advisory Committee on Development Impact (IACDI) to learn more about how this new body was assisting DFID to improve the evaluation of its work, draw lessons from the evaluations, and then implement them. Our Report said that: "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".[18]

13 Q 32

14 DFID, *Eliminating World Poverty: Building our Common Future*, July 2009, Cm 7656, p 126

15 Q 6

16 ibid

17 Ev 117

18 Second Report of Session 2008-09, *DFID Annual Report 2008*, HC 220-I, para 64

14. In his latest annual letter to the Secretary of State, the chair of IACDI, David Peretz, welcomed DFID's new Evaluation Policy published in June 2009 but noted some remaining concerns surrounding the management and resources of DFID's Evaluation Department. The letter went on to note that "Action on [the] two outstanding issues and implementation of the other proposals made last year as well as the recommendations of our quality review should lead to a major improvement in the quality and effectiveness of DFID's evaluation work and its use in improving DFID's development impact". [19]

15. We explored during oral evidence with the Permanent Secretary the extent to which DFID is capable of measuring the specific impacts of its country programmes.[20] Individual DFID programmes are internally assessed each year on a one to five scale (one indicating it is meeting all of its objectives and five none of its objectives). We were told that DFID has recently taken a "quite aggressive" stance towards poorly performing programmes:

> [If a] project is scoring four or five for six months you are basically sent off to restructure and do something about it. If, after six more months, you cannot restructure and start to deliver better results we have been quite actively managing those projects out of the portfolio and just saying: "Look, if it is not working we can use the resources somewhere else; let's call it a day and move on" [...].[21]

This approach of moving away from programmes which are failing to meet their objectives is illustrated by the fact there are currently 875 "major investments" that are reviewed each year compared with 1,030 four years ago.[22] Mark Lowcock, Director General, Country Programmes, acknowledged that:

> Probably, in the past, we were not fast enough on our feet to close things when they were not going well enough; there is obviously a balance to be struck because we are trying to do different things in difficult places and you will often struggle early on in a project, but we probably let things go on too long in some cases, and we have tried to get better at dealing with that. In almost all of our country programmes we have had cases where we started something and did not pursue it, or we dramatically redesigned it.[23]

16. However, Saferworld cautioned against pulling out of programmes too quickly:

> DFID should be prepared for occasional failures and flexible enough to respond to changing circumstances, if necessary by adapting programmes and their timeframes and by recognising that lasting impact can only be achieved and measured over the long-term. This approach may be at odds with increasing political pressure to show immediate and tangible results, but it is the only way such complex and sensitive work will be successful and, ultimately, represent true value for money.[24]

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19 Ev 127-129

20 Qs 41-44

21 Q 41

22 Q 42

23 ibid

24 Ev 112

This need for caution in the response to programmes which were apparently performing poorly was acknowledged by Andrew Steer, DFID's Director General of Policy and Research:

> We have to be very careful not to pull out of a sector. That is exactly what the development community did when it became too difficult in agriculture about 15 years ago, when rates of return in rural development projects were really not very good, and the share of donor money going to agriculture and rural development fell from 13% down to 1%, and we now have a big problem because of that. Much smarter would have been to say the problem is just as important as ever it was but we had better learn what we did wrong.[25]

Witnesses in other inquiries, particularly our current inquiry into DFID's Programme in Bangladesh, have highlighted the need for DFID to take the long view. For example, in relation to increasing the tax base, witnesses believed that such efforts should be seen as long-term investments over 10 to 25 years rather than something which could be achieved in three or four years and that donor support should reflect this.[26]

17. **We fully accept that DFID should close programmes which are clearly not fulfilling their objectives. On the other hand, it must be careful not to pull out of work which is meeting obvious development needs but where, for legitimate reasons, the impact is not immediate. Work which DFID is undertaking in areas such as governance, security and tackling corruption has to be seen as long-term projects which may not show an immediate return. A balance therefore needs to be struck between identifying programmes which are clearly not meeting their objectives and those which have to be allowed a five or even ten-year period in which to show results.**

Efficiency and spending targets

18. As part of the Comprehensive Spending Review (CSR) 2007, DFID identified scope to generate Value for Money (VfM) gains of £492 million by 2010-11. The 2008 Pre-Budget Report announced a £5 billion increase in the Government's overall VfM target for 2010-11, with DFID's contribution being an additional £155 million, taking the DFID target to £647 million.[27] The Annual Report detailed £168 million of VfM savings in 2008-09, up from £159 million the previous year. It also stated that "We are on track to achieve our overall CSR VfM target [...] by the end of 2010-11".[28] The Autumn Performance Report notes that in 2009-10 DFID is on track to deliver cumulative savings of £446 million against a target of £323 million.[29] Despite these required efficiency savings, analysis by the Institute for Fiscal Studies at the time of the 2009 Budget indicated that (assuming future spending reductions were spread evenly between departments) only DFID would see its

25 Q 43

26 See Third Report of Session 2009-10, *DFID's Programme in Bangladesh*, HC 95-II, Q 115

27 A breakdown of some of DFID's savings are provided in HM Treasury, *2009 Budget Report*, April 2009, table 6.1, p 131; DFID broke down the additional £155 million of efficiency savings in: "Addendum to DFID's Value for Money (VfM) Delivery Agreement", DFID news release, 22 April 2009

28 DFID, Annual Report and Resource Accounts 2008-09, HC 867, Volume I, para 4.5, p 52

29 DFID, 2009 Autumn Performance Report, Cm 7768, p 45

budget increasing in real terms in coming years, with all other departments facing real reductions in their expenditure.[30]

19. NGOs have in the past welcomed DFID's continued commitment to targets, although Oxfam has raised concerns that DFID's efficiency savings "should not become aid cuts under another name".[31] However, DFID has stated that the efficiency drive "will not affect major UK aid commitments or the aid going to the poorest", and that it "will not jeopardise front line projects". [32]

20. The 2009 Budget Report indicated that £110 million of DFID's savings over the CSR period would be made by "shifting more resources to countries where UK aid will have the greatest impact, helping to lift an estimated additional 100,000 people out of poverty".[33] We were concerned that savings generated in this way might result in allocations favouring countries with good governance while neglecting those countries that may be in the greatest need.[34] However, DFID assured us that their efficiency calculations indicated that the marginal impact of aid was far greater in fragile states, which justified increased activity in these areas.[35] We discuss DFID's increased focus on working in fragile states in Chapter 4 below.

Tackling fraud

21. The NAO pointed out that DFID is exposed to a significant degree of risk because of the nature of its operations. One key risk is the potential for fraud and corruption in the countries in which it, or its delivery partners, operate.[36] The 2008 NAO report *Operating in Insecure Environments* noted the increased risks when "aid workers are not able to monitor programmes closely" and where DFID is slow to identify corruption due to "limited project monitoring".[37] It said that these challenges will become more critical as DFID increases its use of partners to deliver projects in fragile states. The 2009 Cabinet Office Capability Review of DFID found that "financial and risk management is improving" but identified that "away from the centre, in country offices it was not consistent enough".[38]

22. DFID's Internal Audit section provides a biannual fraud report to its Departmental Audit Committee. In 2008-09, while a number of frauds were investigated, there were no

30 Post-Budget 2009 presentation by Gemma Tetlow (IFS) on Public expenditure, slide 12 (prospects for 2010 Spending Review)

31 "Oxfam reaction to Budget on climate change, overseas aid and UK poverty", Oxfam news release, 22 April 2009; see also "Brown and Darling refuse to cut £9.1bn pledged for overseas aid", Guardian Unlimited, 23 April 2009

32 DFID news releases, 22 April 2009: "Addendum to DFID's Value for Money (VfM) Delivery Agreement"; and "Budget 2009 - keeping our promises to the world's poorest people"

33 HM Treasury, *2009 Budget Report*, April 2009, table 6.1, p 131

34 Q 48

35 Q 49

36 NAO, *Performance of the Department for International Development 2008-09*, paras 1.19-1.22

37 NAO, *Department for International Development: Operating in Insecure Environments*, 2008, pp 5, 8

38 Cabinet Office Capability Review, Department for International Development: Progress and next steps, 2009, p 11

cases reported where an individual loss exceeded £250,000.[39] DFID told us that, to date, there was nothing "that has caused us to consider any big systemic risks on fraud".[40]

23. We questioned officials about whether DFID adopted a consistent approach to tackling risk and fraud across the organisation, including in its country programmes and the different sectors in which it works.[41] They told us that some sector specific risks had been addressed as part of the Department's recent portfolio reviews of the health and education sectors. In addition, DFID is:

> […] complementing [this] with a piece of work which is looking specifically at riskiness within portfolios so we are looking at how do we think about that risk and return equation across portfolios. It is something which justifies further work. We are doing quite a lot of work on it and I should think over the coming months there will be more we can say about how we then translate that into a set of management tools in the Department.[42]

DFID also highlighted its "bigger investment" and increased focus on audit and detecting fraud, this being an area of the budget that would be protected from current and future efficiency savings, particularly given the White Paper commitments to increase work in fragile states.[43] However, it was acknowledged that "most" cases of fraud were discovered because "a member of staff or someone we work with has brought it to our attention".[44]

24. **We are concerned that DFID may not yet be taking the threat of fraud as seriously as it should. Indeed, there seems to be an over-reliance on staff reporting cases of fraud rather than DFID taking action to mitigate such risks before they arise. We recommend that, in response to this Report, DFID provide us with more information on the steps it is taking to ensure that it has a robust, consistent and strategic approach to fraud in all its country programmes and in all sectors in which it works.**

Procurement

25. Direct procurement of goods and services accounts for only a small proportion of DFID's total funding. Its budget is mainly spent indirectly, through partner organisations and joint funding mechanisms. The Office of Government Commerce's (OGC) Procurement Capability Review (PCR) of DFID carried out in 2008 noted that it typically procures £330 million of goods and services directly, but spends around £4.7 billion annually through third parties.[45]

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39 DFID, Annual Report and Resource Accounts 2008-09, HC 867, Volume II, p 68

40 Q 46

41 Q 45

42 Q 45

43 Q 46

44 ibid

45 OGC, *Procurement Capability Review Programme Department for International Development*, Jan-Feb 2008, p 6. The PCRs are modelled on the Cabinet Office's programme of Capability Reviews. However, while the Cabinet Office programme looks at leadership, strategy and delivery across the totality of a department's activity, PCR focuses solely on its commercial activities.

26. The PCR found that DFID demonstrated examples of good procurement practice, such as prompt payments and good management of direct procurements, but suffered from inconsistency and lack of a clear and comprehensive procurement strategy. Similarly, there was a lack of consistent methodology for risk assessment when delegating procurement to third parties, a significant finding given that DFID spends such a large amount of its development funding in this way and that it made clear in the White Paper that its work through multilateral bodies would increase.[46]

27. Overall, of the nine indicators of "performance excellence" assessed in DFID's PCR, six were classed as "development areas" and three as "urgent development areas".[47] DFID subsequently published an improvement plan setting out how it would address the PCR recommendations.[48] Its 12-month PCR Stocktake Report in July 2009 found that DFID had "moved a long way since its first PCR" and that DFID's Board and its senior staff had made "significant progress" in facilitating the delivery of improved commercial capability.[49] Notably, the Autumn Performance Report stated that gains had been achieved:

> […] through collaborative procurement and in 2008/09 the total savings recorded (as provided by the Office of Government Commerce (OGC) Buying Solutions) amounted to £802,915. DFID continues to achieve savings by channelling expenditure through collaborative framework arrangements and the savings achieved in 2009/10 will be included in DFID's 2010 Annual Report.[50]

28. DFID confirmed during oral evidence that as a result of the PCR it has "embraced" the concept of thinking of all its funding as procurements and that procurement outside the £330 million spent directly was now being treated in a far more strategic manner. A new procurement Head of Profession has been recruited; DFID's procurement function has been restructured; and the procurement function is now actively working with country programmes and multilateral agencies.[51] However, gaps in terms of procurement expertise in country still exist. DFID noted that:

> Traditionally, we have had people in country offices who were part qualified as local contracting officers so they were qualified to do basic local procurement. The challenge as part of the [procurement] strategy is do we have people managing the programmes who can think more strategically about the overall value and commercial approach. The answer is it is work in progress at the moment. It is one of the things the strategy says we need to get to grips with. The guy who we have heading procurement has started working with two or three country offices in particular to see how that might work, and I think there will be more to say over the next year or so on that.[52]

46 Summarised from: NAO, *Performance of the Department for International Development* 2008-09, pp19-20

47 OGC, *Procurement Capability Review Programme Department for International Development*, Jan-Feb 2008, p17

48 DFID, *Procurement Capability Review Improvement Plan*, 2008

49 Ev 77

50 DFID, 2009 Autumn Performance Report, Cm 7768, para 5.21

51 Q 92

52 Q 97. See also Q 93

29. **We welcome DFID's change of approach to procurement in that all its programme expenditure is now subject to proper procurement procedures rather than just the small part of the budget which direct procurement represents. DFID has indicated that improving these procedures is a work in progress. We would expect our successor committee to review progress on procurement practice when it looks at the next DFID Annual Report.**

Staffing

Relocation

30. The Annual Report stated that, by March 2006, DFID had exceeded the target of 85 posts to be relocated from London to East Kilbride by three posts. The 2009 Budget announced plans to increase the overall target for relocating public sector posts out of London and the South East to 24,000 posts by 2010-11. Although no additional targets have been set for DFID, the Annual Report indicated that the Department was considering the relocation of further posts to East Kilbride and the Autumn Performance Report said that staff had recently been consulted on such a proposal. [53]

31. The Permanent Secretary told us that DFID had now committed to moving at least a further 50 jobs to East Kibride from London.[54] Richard Calvert, DFID's Director General of Corporate Performance, noted that it was considerably cheaper to employ a member of staff in Scotland than in London, but acknowledged that DFID needed to establish a clear business case for any further relocations.[55]

Current and future capacity

32. The 2009 Cabinet Office Capability Review of DFID flagged up two key staff-related issues that needed attention: identification of skills gaps and how to fill them; and developing a clear strategy for ensuring that a rising budget and declining administration costs did not negatively affect capacity, effectiveness and VfM.[56] The Annual Report indicated that DFID was planning to cut its total administration expenditure by £8.9 million between 2008-09 and 2010-11, equivalent to a 5% reduction, primarily to be achieved through an £8 million reduction in staff costs.[57] The impact of staff reductions on DFID's ability to deliver its objectives has been a recurrent theme in our reports. Last year, we said:

> 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

[53] DFID, Annual Report and Resource Accounts 2008-09, HC 867, Volume I, para 4.24 and DFID, 2009 Autumn Performance Report, Cm 7768, p 47

[54] Q 66

[55] ibid

[56] Cabinet Office Capability Review, Department for International Development: Progress and next steps, 2009

[57] DFID, Annual Report and Resource Accounts 2008-09, HC 867, Volume I, p 69, Table 6 (these figures were brought to the Committee's attention in the NAO performance brief).

> 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.[58]

33. We asked the Permanent Secretary whether the assessment she gave us last year, that the Department was "coping but struggling", continued to be the case. She told us:

> I think I would probably still say we are coping but struggling. I think we have coped pretty well actually and we are on track to meet the efficiency targets that the Treasury has set for us. [...] and I do not think we have compromised the quality of the aid programme at all.

She acknowledged that "we do see some of the strain on our staff. Some of our staff surveys show that people feel they are overloaded." She also recognised the limits staff restrictions placed on DFID's activities:

> Could we do more if we had more staff? Definitely, there are all sorts of things and opportunities that arise that if we had more people we could say, "Yes, let's throw a couple of people at that issue" and really have a big role. Some of that would be on aid administration but also some of it would be on the bigger influencing agenda that has become a big part of who we are.[59]

A related point which is frequently made to us when we assess country programmes is that DFID staffing restrictions make it difficult for staff to travel outside capital cities to visit projects on the ground and limit their engagement with civil society organisations.[60]

34. The 2009 Budget and Pre-Budget Reports have highlighted that austerity will be required by all government departments throughout the current and next spending review periods. DFID officials assured us that front-line services would be protected by focusing efficiencies in administrative and corporate areas.[61] DFID also aims to "protect those bits of administration spend like audit and evaluation which ensure the quality and fiduciary soundness of what we do".[62]

35. **We welcome DFID's assurance that front-line services will be protected from staffing cuts. However it remains important to ensure that efficient delivery of such services is not undermined by inadequate administrative and staff support. The new White Paper commitments have changed the focus of front-line services. Increased working in fragile states and tackling climate change are likely to be resource-intensive and will demand particular skills. We recommend that, in response to this Report,**

58 Second Report of Session 2008-09, *DFID Annual Report 2008*, HC 220-I, para 81

59 Q 70

60 See, for example, Third Report of Session 2009-10, *DFID's Programme in Bangladesh,* HC 95-I, para 136

61 Q 56

62 ibid

DFID provide us with more details on the staffing strategy it will adopt to ensure it can meet these new demands.

Exchange rates and hedging

36. As we explored in our 2009 inquiry into *Aid Under Pressure*, exchange rate movements over the last two years have resulted in additional costs to DFID. Many of DFID's country offices have experienced reductions in spending power against administration and programme allocations budgeted in sterling. Commitments to multilateral institutions denominated in currencies other than sterling have also been affected—for example, the £110 million of increased expenditure required to meet commitments made in euros to European Commission programmes in 2008-09.[63] Conversely, existing allocations to international financial institutions (IFIs) valued in currencies other than sterling have favoured DFID. The Annual Report noted a net unrealised exchange rate gain of £760 million in DFID funding for IFIs.[64]

37. The table below shows exchange rate movements for DFID's PSA countries between April 2008 and January 2010.[65] While part of the peak fall in sterling has been recovered, the effect on individual countries has been highly variable.[66]

63 *Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn*, HC 179-I, p 28

64 DFID, Annual Report and Resource Accounts 2008-09, HC 867, Volume II, p 53

65 The PSA countries are the 22 countries in which DFID monitors its Public Service Delivery Agreement 29 (as set out in the Table, plus Zimbabwe)..

66 It should be noted that exchange rate reductions do not necessarily equate to a reduction in local spending power, since changes in price levels will also have an effect.

Exchange rate changes in DFID's PSA countries

Percentage change in exchange rate (value of sterling in local currency)

	Time period		
	01/04/08 to 31/03/09	**01/04/08 to 30/09/09**	**01/04/08 to 15/01/10**
India	-7%	-3%	-7%
Ethiopia	-16%	6%	9%
Tanzania	-21%	-14%	-11%
Afghanistan	-25%	-21%	-20%
Bangladesh	-28%	-19%	-17%
Pakistan	-8%	6%	12%
Sudan	-19%	-9%	-7%
Nigeria	-10%	3%	7%
Ghana	2%	17%	17%
DRC	29%	51%	55%
Uganda	-9%	-9%	-7%
Mozambique	-21%	-9%	-7%
Kenya	-8%	-3%	0%
Malawi	-28%	-20%	-14%
Nepal	-9%	-4%	-7%
Vietnam	-21%	-11%	-6%
Rwanda	-25%	-16%	-14%
Sierra Leone	-25%	-1%	8%
Zambia	9%	4%	0%
Yemen	-28%	-19%	-15%
Cambodia	-25%	-14%	-13%

Notes: (i) The Zimbabwean Dollar is Excluded. (ii) Ranked by size of bilateral programme.

Sources www.oanda.com *(interbank rate), DFID Annual Report and Resource Accounts 2008-09, Volume 1, 64-65*

DFID has not traditionally entered into any hedging arrangements when setting office budgets. Nor does it adjust aid allocations in response to exchange rate movements or purchasing power, because of the need to maintain the predictability of its aid for recipient countries, and the administrative burden it would place on the Department.[67] However, recent experiences have illustrated the pressure that can result from exchange rate fluctuations. The NAO performance brief highlighted the example of Malawi where such pressures have led to some staff posts remaining unfilled or greater reliance on other donors, posing risks to the capability to manage programmes at a time when administrative budgets have already been cut.[68] Such pressures have not been limited to DFID: the FCO recently announced that, due to exchange rate movements, there was a shortfall in its 2009-10 budget of approximately £110 million.[69] Our colleagues on the

67 *Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn*, HC 179-I, p 29

68 NAO, *Performance of the Department for International Development 2008-09*, p 6

69 HL Deb, 20 January 2010, col 992

Foreign Affairs Committee have explored the implications of this as part of their inquiry into the FCO Departmental Annual Report 2008-09.

38. DFID told us last year that it had been reviewing the costs and benefits of hedging, following the Treasury's advice that departments could ensure predictability in the sterling value of their obligations made in foreign currency by hedging these transactions, if the costs were met within existing allocations.[70] In the Annual Report, DFID made clear that it would not be undertaking any hedging to manage currency risk.[71] In oral evidence, DFID expanded on this, indicating that it might forward buy some euros, depending on currency markets this spring, for its forthcoming European Development Fund contribution.[72]

Impact of DFID's work through CDC Group plc

39. CDC Group plc (formerly the Commonwealth Development Corporation) is a public limited company wholly owned by DFID. It invests in private equity funds focused on emerging markets in Asia, Africa and Latin America. Its mission is "to generate wealth, broadly shared, in emerging markets, particularly in poorer countries, by providing capital for investment in sustainable and responsibly managed private sector businesses".[73]

40. We stressed in 2006 that CDC's portfolio of investments must continue to be carefully scrutinised for their overall contribution to poverty reduction. We highlighted that its social and environmental record was patchy and recommended close monitoring by DFID on how and where CDC invested to ensure its "development footprint" was a wholly positive one.[74] The NAO performance brief highlighted a number of further issues regarding CDC:

> In 2008 the NAO reported that through strong financial performance with a portfolio more weighted to poor countries than other countries' development finance institutions, CDC will have achieved good VfM.[75] But the direct effects of specific investments on poverty reduction are harder to demonstrate. Whilst research suggests that investment can provide economic benefits for poor people, further evidence is needed on the extent to which it does so for the type of investments in CDC's portfolio. The NAO report recommended that DFID, as owner and overseer of CDC, seek fuller information on development and poverty impacts, and validated summary information on the extent of actual adherence to business principles for ethical investment.[76]

41. In April 2009, the Public Accounts Committee (PAC) published its report on DFID's oversight of CDC. This pointed to the lack of clear evidence of the impact of CDC's work on poverty reduction in the countries in which it operates. It also noted the conflict

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70 *Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn*, HC 179-II, Ev 157

71 DFID, Annual Report and Resource Accounts 2008-09, HC 867, Volume II, p11

72 Q 53

73 CDC Group plc, Annual Review 2008, p 2

74 Fourth Report of Session 2005-09, *Private Sector Development*, HC 921-I, para 119

75 NAO, *Investing for development: the Department for International Development's oversight of CDC Group plc*, 2008

76 NAO, *Performance of the Department for International Development 2008-09,* para 3.11

between pressure from DFID to engage more in low-income countries and the potential restrictions which CDC's business model, and DFID's performance incentives, may have on increasing work in this area.[77]

42. In July 2009 CDC published its first annual development report. The NAO found that most of the data in the report was provided to CDC by the fund managers investing CDC's capital in these businesses and was not "necessarily" audited or independently verified (although a committee of CDC's non-executive directors authorised and reviewed the monitoring and evaluation work).[78] The development report contains case studies outlining the benefits of CDC investments based on its evaluations of 12 funds. It also estimates that 3 million people were directly or indirectly supported by the work of CDC, and $2.2 billion of taxes were paid by investee companies in developing countries.[79]

43. We questioned DFID officials on whether CDC's new development report sufficiently captured the development impacts of its investments, particularly in the light of the recent NAO and PAC reports which recommended a tighter regime of oversight of CDC. The Permanent Secretary declared that she was "quite pleased" with the report. Officials noted that:

> […] it is important to say that the work of the International Finance Corporation at the World Bank, which is a kind of CDC equivalent, has looked at thousands of projects around the world and found that there is an 85% correlation between profitability and good development impact. […] I think there was clearly a gap before the requirement was in place to have the annual development impact report. They have done one and […] we were quite pleased with it. We did not think it was perfect. It is a goal for CDC to be a leader on environmental, social and governance issues and certainly, as the shareholders, making sure that is the case is a big priority for us.[80]

44. **We welcome the publication in 2009 of CDC's first annual development report as a positive step in the right direction of greater accountability and transparency in its activities. However, we are not convinced that the link between profitability of CDC's activities and their positive development impact has yet been sufficiently demonstrated. More robust evidence is needed. We urge DFID to ensure that CDC is required to produce more detailed analysis in its future reports on the correlation between its investments and pro-poor development outcomes, including their social, environmental and governance impacts.**

77 PAC, Eighteenth Report of Session 2008-09, *Investing for Development: the Department for International Development's oversight of CDC Group plc*, HC 94

78 NAO, *Performance of the Department for International Development 2008-09*,para 3.12

79 CDC Group plc, *Development Report 2008: Growth for Development*, 2009

80 Q 102

3 Climate change

45. In June 2009 we published our Report on *Sustainable Development in a Changing Climate* which formed part of our submission to the White Paper consultation process.[81] We discussed and made recommendations on a wide range of climate change issues in that Report and have not therefore repeated our comments here. This chapter focuses instead on developments since our Report was published, particularly the commitments on climate change made in the White Paper and the outcomes of the Copenhagen Climate Change Conference in December 2009.

White Paper commitments on climate change

46. The White Paper notes that climate change will affect poor countries "first and hardest".[82] In some African countries, for example, agricultural yields are expected to fall by up to 50% if climate change is not addressed. There is also likely to be increased water scarcity, deforestation and sea level rises leading to flooding. Infectious diseases are also likely to spread more quickly due to temperature increases. These challenges threaten progress on poverty reduction. The White Paper sets out an objective of supporting poor countries to adapt to the impacts of climate change and to invest in low carbon growth. Published five months before the UN Framework Convention on Climate Change (UNFCCC) Conference in Copenhagen in December 2009, it argues that global collective action is needed to deal with the threat appropriately.

47. The White Paper said that the UK Government's aims for the Conference were to:

- Agree a new global target for emissions cuts;
- Allocate responsibilities for action between nations;
- Set out ambitious new agreements on clean technology, finance, reform of carbon markets, forests, and adaptation for the poorest countries;
- Ensure that the institutional architecture for implementing the deal is ready.[83]

48. The Government wanted the target for emissions cuts to be sufficient to limit global temperature increases to no more than 2˚C. This would involve a 50% reduction in global emissions from 1990 levels by 2050. The White Paper stresses the need for developed countries to take the lead in reducing emissions. Developing country reductions should depend on development status: more economically advanced developing countries would be expected to make greater reductions. The Government also sought new agreements on developing and disseminating low carbon technology and reform of the carbon market.[84]

81 Fifth Report of Session 2008-09, *Sustainable Development in a Changing Climate*, HC 177-I

82 DFID, *Eliminating World Poverty: Building our Common Future*, p 47

83 ibid, p 48

84 ibid, p 51

49. The White Paper emphasised the importance of ensuring adequate finance to help developing countries meet the costs of adapting to climate change and developing low carbon economies. We had made this point strongly ourselves in our Report, saying that substantial funding would be required and that this should be "new, additional and predictable".[85] DFID uses the UNFCCC estimate of required funding of US$120-$164 billion per year by 2030 and states that the UK will provide new and additional public finance for climate change over and above existing Official Development Assistance (ODA) commitments. It expressed the hope that this will convince other developed countries to provide additional finance. However the White Paper also states that DFID will "increase its poverty related expenditure on climate change recognising that part of the climate financing gap could legitimately come from ODA." It set an upper limit of 10% on the amount of ODA which could be used to fund climate change responses in developing countries.[86]

Copenhagen Conference: expectations

50. In our Report on *Sustainable Development in a Changing Climate*, we expressed concern that many countries were unwilling to put figures for greenhouse gas reductions on the table in advance of the Copenhagen Conference. We warned that "too many important decisions are being left until the last minute, with the danger that agreement may not then be secured."[87] In November the Secretary of State told us that he wanted a fair, effective and ambitious outcome, including a legally binding agreement.[88] At the time he thought the prospects for achieving this were good, although he acknowledged that negotiations would be difficult. He thought there was sufficient political will on the part of the important players such as the USA, China and India.[89]

Copenhagen Conference: outcomes

51. In December 2009 over 100 world leaders and many more officials and civil society representatives from around the world met in Copenhagen for the UNFCCC Conference to discuss a successor agreement to the Kyoto Protocol which expires at the end of 2012. After five days of heated discussions, at one point suspended when the developing countries withdrew their cooperation over the failure of developed countries to agree new emissions reductions targets, the Conference produced a non-binding political agreement—the Copenhagen Accord.[90]

52. The Accord includes a number of "intended actions" towards the goal of stabilising greenhouse gas emissions at a level which would limit the increase in global temperature to below 2°C. It does not set out specific emissions cuts or targets. Instead it asks countries to "co-operate in achieving the peaking of global and national emissions as soon as possible,

85 Fifth Report of Session 2008-09, *Sustainable Development in a Changing Climate*, HC 177-I, Summary

86 DFID White Paper 2009, *Eliminating World Poverty: Building our Common Future*, p 52

87 Fifth Report of Session 2008-09, *Sustainable Development in a Changing Climate*, HC 177-I, para 149

88 Qs 125, 130

89 Qs 125-126

90 "Copenhagen climate summit negotiations suspended", 14 December 2009, www.bbc.co.uk

recognising that the timeframe for peaking will be longer in developing countries." It asked the Parties to the UNFCCC to submit by 31 January 2010 their national pledges to cut or limit emissions of greenhouse gases between now and 2020.[91] This deadline was subsequently extended indefinitely by the then Executive Secretary of the UNFCCC, Yvo de Boer, who characterised it as more of a "soft deadline."[92] By 31 January, 12 Annex 1 countries and 26 non-Annex 1 countries had provided information to the UNFCCC.[93]

53. The Accord also included:

- A statement of intention that developing countries will voluntarily cut their carbon emissions;
- A commitment to provide $30 billion in funding over the three years to 2013 to help developing countries mitigate and adapt, including funding for reduced emissions from deforestation and forest degradation;
- Agreement to work towards the goal of achieving US$100 billion annual funding for developing countries by 2020;
- Agreement that the governance structure for delivering funding should have equal representation of developed and developing countries;
- The establishment of the Copenhagen Green Climate Fund.[94]

There was no agreed deadline for creating a new internationally binding agreement. However, negotiations involving all parties, and based on existing texts, are set to continue in 2010 in the hope of agreeing a legally binding treaty in Mexico at the end of the year.

54. There was almost universal consensus amongst commentators that the outcomes of the Copenhagen Conference fell far short of what had been hoped for. The *Financial Times*, for example, said in an editorial:

> The agreement cobbled together by the US, China, India, Brazil and South Africa is merely an expression of aims. It recognises the scientific case for keeping the rise in global temperatures to 2°C. It calls on developed countries to provide $100 billion a year in support of poor nations' efforts by 2020, but without saying who pays what to whom. It appears to commit none of the signatories to anything.[95]

The International Centre for Trade and Sustainable Development expressed a similar view:

> Despite achieving agreement among the major economies—also known as the major emitters—whose buy-in holds the key to addressing climate change, the agreement reached in Copenhagen is insufficient to resolve the most critical elements that will

91 COP, Copenhagen Accord, 18 December 2009

92 "Countries take first step to comply with Copenhagen Accord", 4 February 2010, www.ictsd.org

93 Annex 1 countries are mainly developed countries. They are called this because they are listed under Annex 1 of the Kyoto Protocol. Non-Annex 1 countries are all other signatories including countries such as China and India. www.unfaccc.int/home

94 COP, Copenhagen Accord, 18 December 2009

95 "Dismal outcome at Copenhagen fiasco", *Financial Times*, 20 December 2009

> stabilize the atmosphere, protect vulnerable communities from harm, and ensure the continued sustainable development of developing countries."[96]

55. **We are disappointed with the limited and non-binding outcomes of the Copenhagen UNFCCC Conference set out in the Copenhagen Accord. The UK had admirable objectives but these proved to be unachievable. Much was made in advance of the Conference presenting a "once-in-a-lifetime opportunity" but it manifestly failed to live up to public expectations. The weakness of the outcomes represents a failure by the international community as whole. What is important now is for the major players to submit their national pledges to the UNFCCC as quickly as possible and for all parties to prepare to make firm commitments on emissions and climate change funding at the conference in Mexico in December.**

Funding for developing countries

56. Our 2009 Report stressed both the need for substantial funding to help developing countries respond to climate change impacts and the necessity that this should not have an adverse impact on the funding available for DFID's work on poverty reduction. We therefore view the White Paper commitment to limit the amount of climate change funding which can be taken from existing ODA funding to 10% as a key statement of policy. We asked the Secretary of State how this 10% limit was decided upon. He explained:

> 10% reflects the fact that there are a number of our programmes already where it would be the judgment of Job to try and say, "This is exclusively poverty reduction" or, "This is exclusively climate adaptation". Indeed, I would argue that the Chars livelihood programme that you witnessed and I witnessed [in Bangladesh] is probably an exemplar of that. Similarly the kind of work we are doing in terms of the livelihood and forestry programme in Nepal, another example of where I would argue uncontroversially there are very clear poverty reduction and climate adaptation benefits to that portion of money.[97]

In 2010, DFID expects to spend about £400 million on climate change out of its total ODA budget of £7 billion. This would work out at approximately 6% of ODA.[98]

57. Ahead of the Copenhagen Conference the Prime Minister announced the creation of a "fast track" fund which would be available for developing countries for the period 2010 to 2103. He initially pledged £800 million for assistance with adaptation and for payments to countries which take steps to reduce deforestation.[99] The sum was later increased to £1.2 billion and then again to £1.5 billion.[100] However the Government was less clear about whether this funding was additional or would be taken from existing ODA commitments. After some probing we were told: "The £1.5 billion for the Copenhagen Launch Fund is

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96 ICTSD Bridges Copenhagen update, *High level politics meets low level ambition: Taking stock of COP 15*, 21 December 2009

97 Q 128

98 Q 129

99 "Brown unveils fund to tackle climate emergency", *The Guardian*, 28 November 2009

100 See Oral Evidence taken in the inquiry into *DFID's programme in Bangladesh* on 16 December 2009, Q 199

new finance, which has not been previously announced, but it is not additional to ODA." We were also told that it would be within the 10% limit.[101]

58. **We are pleased that the Government has set an upper limit of 10% on the amount of Official Development Assistance (ODA) which can be used for programmes to respond specifically to climate change impacts. We reiterate our view that climate change funding must be additional to development assistance, as it represents a new cost to developing countries, and must not divert existing and much needed poverty reduction expenditure. We recommend that future DFID Annual Reports specify the amount of ODA which has been allocated to climate change programmes during the reporting year and set out estimates for subsequent years. DFID should also encourage other bilateral donors to fix similar limits on the amount of funding pledged for poverty reduction which can be used for climate change work.**

59. In the Copenhagen Accord, developed countries have committed to provide new funds of US$30 billion to help developing countries in the three year period from 2010 to 2012. This sum is intended as short term funding before new longer term funds can be mobilised. There is no indication of who will provide the funds or on what basis. To date the EU has pledged $3.6 billion annually. The USA and Japan have also pledged contributions, as yet unquantified.

60. The Accord also gave an undertaking to try to mobilize $100 billion per year by 2020 to address the needs of developing countries in the longer term. It notes that this funding will come from a variety of sources, "public and private, bilateral and multilateral, including alternative sources of finance".[102] However it does not indicate the balance between these sources or the proportion of the funding to be provided by different countries. Questions remain about the willingness of developed countries to commit to this in the current economic situation. Speaking after the Conference, US Secretary of State Hillary Clinton said, "the important point was not to talk about how we would fund money that we haven't yet agreed to fund, but to make the agreement that that is what we're going to do."[103]

61. There are many different estimates of the total amount of funding required. However $100 billion per year is less than most estimated costs of adaptation and mitigation for developing countries. In 2009 the World Bank estimated that between $140 and $175 billion would be needed to help developing countries take appropriate mitigation measures to keep temperature rises below 2˚C.[104] A group of 50 African states put forward a figure of US$67 billion a year by 2020 to meet adaptation needs and US$200 billion a year for mitigation.[105]

62. **The undertaking to allocate $100 billion per year by 2020 to assist developing countries to deal with climate change is a step in the right direction. However, at**

101 See Third Report of Session 2009-10, *DFID's Programme in Bangladesh*, HC 95-II, Ev 110

102 Copenhagen Accord, 18 December 2006, para 8

103 "Copenhagen's one real accomplishment" 20 December 2009, www.nyc.com

104 ICTSD Bridges Copenhagen update, *High level politics meets low level ambition: Taking stock of COP 15*, 21 December 2009

105 "Africa says poor need billions to fight climate change" Reuters, 20 April 2009. See also Q 128 for an explanation of why there are so many different figures being used.

present it remains simply an intention rather than a specific pledge. We are disappointed that the sum promised does not yet meet our criteria of being additional, adequate and predictable. The UK must continue to work to ensure there is a realistic plan for raising the funding, based on specific commitments by each developed country. The first step would be to ensure that measures are in place to meet the US$30 billion funding target for the period 2010-2012, and that the funds are disbursed quickly, since climate change is already a reality for many developing countries. We recommend that DFID report to us within 12 months on the progress that has been made in this regard.

Managing climate finance

63. It is important that an efficient and effective body is in place to disburse and monitor the millions of dollars which will be made available to developing countries. However, the management of climate finance is a contentious issue. We discussed with DFID whether the World Bank was the most appropriate body, given that it is already the channel for the majority of UK climate change funding for developing countries, or whether a new body created by the UNFCCC would be preferable. DFID argues in the White Paper that the aim should be to build on existing institutions rather than to create new ones, and that there should be a high-level coordinating body to make sure finance is allocated where it is most needed. It does not explicitly identify the relevant institutions although it does suggest that lessons can be learned from the World Bank-managed Climate Investment Fund boards which have equal representation of donor and recipient countries.[106] The Copenhagen Accord establishes the Copenhagen Green Climate Fund as "the operating entity of the financial mechanism of the Convention" and contains a provision that the governance structure should provide for equal representation of developed and developing countries.[107]

64. A significant portion of the short-term climate finance agreed for the period up to 2012 is likely to be channelled through the World Bank. A number of civil society organisations have expressed repeated concerns about the Bank's capacity to manage climate finance in a "transparent, participatory and accountable" manner.[108] BOND for example stated that:

> Any future role for the World Bank with regard to climate financing should be dependent upon appropriate institutional reform, a shift in the World Bank group investment portfolio to ensure it is supporting low carbon development and a fit with an overall financial governance system that ensure that all decisions on finance distribution (nationally, regionally, sectorally) are taken under the auspices of the UNFCCC.[109]

65. In our 2007 report on DFID's relationship with the World Bank, we questioned whether the Bank should seek to take on the role of a "bank for the environment" as we feared this would detract from its primary objective of poverty reduction.[110] Our report on

106 DFID White Paper 2009, *Eliminating World Poverty: Building our Common Future*, p 54

107 Copenhagen Accord, para 10

108 Bretton Woods Project, *Don't Bank on it: challenging the World Bank's role in future climate finance*, 4 December 2009.

109 Ev 47. See also Ev 94-95

110 Sixth Report of Session 2007-08, *DFID and the World Bank*, HC 67-1, para 106

Sustainable Development sought assurances from DFID that it would be able to monitor properly the funding which it plans to put through the Bank, since it would not have a direct role in determining to which projects or programmes it was allocated.[111] The Government told us that it had rigorous mechanisms in place to monitor the UK's contribution to the World Bank's Climate Investment Funds (CIF).[112] More recently DFID told us that the CIF would "begin to show that adaptation and mitigation finance is feasible through the multilaterals"[113] While it argues that the UNFCCC must be the authorising body for finance, it says that only the Bank has the track record to disburse such large sums of money effectively. [114] The Secretary of State told us:

> Our position […] is to say we recognise the legitimacy of the UNFCCC process and the primacy of the UNFCCC process in this whole area of policy making. Indeed, there were some concerns expressed in relation to the strategic climate funds which we were, I hope, genuinely able to allay on the basis of misunderstandings as to what would be the role of the Bank and ultimately what was our vision of the Bank's role in the future, given the concerns that both NGOs and some governments have expressed in terms of the environmental track record of the Bank in the past. In terms of Copenhagen, which will be key in determining this whole issue of new and additional funding for climate finance, we are clear that we see the UNFCCC as being the lead.[115]

66. **We welcome the fact that the principle of equal representation of developing and developed countries has been acknowledged in the establishment of the Copenhagen Green Climate Fund. We share DFID's view that the UNFCCC should take the lead in determining arrangements for allocating new funding for climate change. It may be necessary for the World Bank to play a role in disbursing funds, in the absence of other competent mechanisms for channelling such large sums of money to developing countries. We would, however, reiterate our view that the World Bank's primary focus should remain poverty reduction. Moreover, DFID should take the lead in ensuring that steps are taken to allay the misgivings of recipient countries and civil society about the appropriateness of the World Bank taking on this role.**

New sources of funding for climate change

67. Our report on *Sustainable Development* suggested two different methods for raising funds through taxation to help developing countries in their response to climate change, including a tax on aviation.[116] The Government's response to our Report stated that the Treasury did not favour pledging money by law for a specific purpose, commonly referred to as hypothecation.[117] We were therefore surprised when a few months later we learned

111 Fifth Report of Session 2008-09, *Sustainable Development in a Changing Climate*, paras 62-67

112 ibid, para 64

113 Q 4

114 Q 135

115 Q 134

116 Fifth Report of Session 2008-09, *Sustainable Development in a Changing Climate*, paras 74-77

117 Fifth Special Report of Session 2008-09, *Sustainable Development in a Changing Climate: Government Response to the Committee's Fifth Report of Session 2008-09*, HC 1008, p 10

that the Government was considering a tax on financial transactions to help fund climate change response measures in developing countries. The Secretary of State told us there was as yet no agreement on this but that, as a result of the financial crisis, the policy space had opened up to have such a discussion at international level:

> Traditionally, the British Treasury has not been the greatest advocate or the greatest fan of hypothecated forms of taxation generally, as the exchequer function likes the discretion to be able to allocate income against expenditure. In that sense I did see the Prime Minister's statement in St Andrew's as being an exciting opportunity rather than yet an achievement.[118]

A coalition of charities, unions and aid agencies has recently been formed to lobby the UK Government to push for a global tax on financial transactions, with the aim of raising up to £250 billion a year to be spent on tackling poverty and climate change and protecting public services.[119] The Prime Minister said in February that he hoped agreement could be reached on a "global bank tax" at the G20 Summit in Canada in June.[120]

68. **New, innovative sources of finance will need to be found to help developing countries respond to climate change. Although there is as yet no international agreement on this, we broadly support the principle of a tax on financial transactions to raise money for this purpose. We recommend that the UK continue to work to secure agreement amongst its international partners in advance of the G20 Summit in June.**

Transforming development practice on climate change

69. We have frequently stated that climate change should be central to DFID's work in developing countries. However, in our previous Report we commented that "we found that limited progress had been made on ensuring that climate change informs all policy decisions ('mainstreaming')" and that DFID needed to move on from discrete projects to comprehensive climate change programmes.[121]

70. The White Paper sets out how DFID envisages climate change will impact on the way it works in developing countries. It gives an undertaking to seek to integrate climate change into development policy and to conduct a strategic review of the UK's development programme to assess how it can improve its efforts. This will be piloted in eight countries and rolled out in all priority countries by 2013.[122] DFID told us it recognised that it had to do a lot more to integrate climate change properly "into the DNA of DFID" and acknowledged that it was "still climbing up the curve" on climate change.[123]

71. **We have previously expressed our concern that DFID is not yet able to demonstrate that climate change is informing its policy decisions in all the countries in which it works. We have visited many of these countries and seen good examples of discrete**

118 Q 152

119 "Call for 'Robin Hood tax' on banking transactions", *The Independent*, 10 February 2010

120 "Global bank tax near, says Brown", *Financial Times,* 11 February 2010

121 Fifth Report of Session 2008-09, *Sustainable Development in a Changing Climate*, HC 177-I, Summary

122 DFID White Paper 2009, *Eliminating World Poverty: Building our Common Future*, para 3.60

123 Q 4

climate change projects but less evidence of a fully integrated programme. We expect DFID to continue to build on its strengths and fully integrate climate change into the broadest spectrum of its work. The White Paper has made an important commitment to work towards this goal and to conduct a strategic review in eight pilot countries. We recommend that, in response to this Report, DFID provide us with more detail on progress with the review of its climate change work in the pilot countries.

4 Working in fragile states

DFID's performance to date

72. As we have noted previously, DFID has a long track record of working in fragile and conflict-affected countries and regions.[124] It has also played a significant role internationally in recent years by encouraging other donor countries to operate in more insecure environments and in creating more effective multilateral systems to deliver poverty reduction in fragile states. It co-chairs with the World Bank the International Network on Conflict and Fragility Task Team on Peace-building, State-building and Security, and has also recently taken on the co-chair role of the International Dialogue on Peace-building and State-building Objectives, alongside the Democratic Republic of Congo (DRC).[125]

73. DFID identifies 13 of its 22 PSA countries as fragile.[126] The Annual Report states that in 2008-09 DFID disbursed approximately £1.3 billion in aid to fragile states, equating to 54% of its total regional bilateral programme expenditure.[127] DFID's evidence suggests that fragile states receive approximately 43% less than they should from the international donor community, based on their need and levels of poverty.[128]

74. There have been two recent reports by the NAO and PAC on DFID's operations in insecure environments.[129] Both reports commended DFID's work in insecure states otherwise neglected by other donor countries. However, there were a number of key concerns and recommendations. In particular, operational guidance for staff working on the ground should be better developed to ensure programmes were sufficiently adapted to the individual context, while difficulties were common in building up skilled and experienced teams to work in such environments. Issues around VfM, security, and monitoring of programmes were also highlighted.

75. The Annual Report stated that the NAO's recommendations would feed into briefing papers to provide country office staff with guidance on working in fragile states. Furthermore, this guidance would be "based on the OECD-DAC's international principles of working in fragile states which aim to improve donor practice, including through a better understanding of what state-building means for donors".[130]

76. DFID also plans to publish a synthesis of its country programme evaluations in some of the fragile countries in which it currently operates. The draft of the first one indicates that

[124] See for example Sixth Report of Session 2005–06, *Conflict and Development: Peacebuilding and Post–conflict Reconstruction*, HC 923

[125] DFID, Annual Report and Resource Accounts 2008-09, HC 867, Volume I, para 2.69

[126] Ev 71. The countries are: Afghanistan, Bangladesh, Cambodia, DRC, Ethiopia, Nepal, Nigeria, Pakistan, Rwanda, Sierra Leone, Uganda, Yemen and Zimbabwe.

[127] DFID, Annual Report and Resource Accounts 2008-09, HC 867, Volume I, para 2.64, p 34

[128] Q 9 [DFID Permanent Secretary]

[129] NAO, *Department for International Development: Operating in Insecure Environments*, 2008; PAC, Sixteenth Report of Session 2008-09, *Department for International Development: Operating in insecure environments*, HC 334

[130] DFID, Annual Report and Resource Accounts 2008-09, HC 867, Volume I, para 2.68

DFID needs to do better in striking the balance between building up the capability of the state and directly delivering services.[131] Officials summarised the findings as follows:

> Overall, what the evaluation says is that DFID's devolved model works well because it means we are close to the issues and that we have played a leadership role internationally in trying to get more attention to the fragile states, but that we need to work harder to get senior and experienced staff to work in these places and we need to try to generate a stronger impact from the multilaterals where the evaluation is a little bit critical of some of their performance and also our ability to get traction over that.[132]

The Secretary of State stressed the importance of DFID's engagement in fragile states:

> […] while we would not claim yet to have all the answers of working in conflict-affected and fragile states, we do recognise that as an international community we need to do this better in the future, and if DFID, with all of its strengths, its depth of understanding and the quality of its staff, is not prepared to engage in some of these, frankly, very tough environments, then the risk is that everybody will choose to continue to work in the much more benign environments where you can meet your Paris Principles but effectively write off a billion plus people to lives lived not just immiserated by conflict but also by poverty.[133]

Afghanistan

77. We were keen to explore with DFID what it had gained from its experience of working in Afghanistan and how this had informed the new policy direction set out in the White Paper. The Secretary of State cautioned that the central focus on Afghanistan might "elide the distinction" between the specific circumstances in that country, and in particular the presence there of thousands of British and coalition forces, and the "broader issue of how the international community can work effectively […] in circumstances of state fragility and conflict".[134] He had been keen to ensure that the White Paper "did not suggest that Afghanistan is the model for every aspect" of the UK's work "in circumstances which are profoundly different from the particular circumstances of Afghanistan". He said that "it would be disingenuous to suggest that the lessons which can be drawn from Afghanistan are of universal application".[135]

78. However, officials believed that there were some useful lessons to be learned. These included the benefits of channelling money through the national government, even where this could not be in the form of direct budget support, by using a mechanism such as the Afghanistan Reconstruction Trust Fund. This enabled both the delivery of services and accountability for them to be owned by the recipient country. The Permanent Secretary said that it was a challenge to find capable partners with whom to work in fragile states but

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[131] Q 12 [Mr Lowcock]. More detailed information on the initial findings of the synthesis may be found at Ev 81.

[132] Q 12 [Mr Lowcock]

[133] Q 154

[134] Q 164

[135] Q 164

countries such as the US which chose not to work through Afghan systems had not been any more successful in "delivering outcomes on the ground". Afghanistan had also shown the importance of two of the main pillars of the White Paper: employment creation and support for justice and security.[136]

White Paper proposals

79. The White Paper outlined a policy shift to refocus resources on to fragile countries. The key White Paper proposals in this regard were:

- 50% of new bilateral funding committed to fragile countries;
- Peace and state-building prioritised;
- Access to security and justice treated as a basic service (in the same way as health, education, water and sanitation);
- Generating economic opportunities and prioritising management of natural resources;
- Increased joint working with other government departments;
- Increased joint-working with multilaterals and improved international response to conflict and fragility.[137]

80. The Secretary of State noted the role this Committee had played in influencing DFID's move towards increasing its work in fragile states:

> [...] the real thinking behind the new commitment to fragile states in part reflects the work of this Committee, in part reflects other research like Paul Collier's which evidences the coincidence of conflict and state fragility with poverty, and a certain determination on our part that somebody needs to do this.[138]

The shift in focus and increased funding commitments to fragile states were broadly welcomed by witnesses. Saferworld noted:

> [...] it is right to prioritise support for inclusive political settlements, addressing the underlying causes of conflict and fragility, and promoting security and justice as basic entitlements. Such interventions are necessary not only for tackling the human cost of violent conflict but also for paving the way for broader development in some of the countries furthest away from achieving the Millennium Development Goals.[139]

However, much of the positive reaction to the White Paper proposals was qualified by a range of concerns, some of which are highlighted in the remaining sections of this chapter. In particular, as we have previously noted, increased and more effective engagement in

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136 Q 15 [Mr Lowcock]

137 DFID, *Eliminating World Poverty: Building our Common Future*, July 2009, Cm 7656, chapter 4

138 Q 154

139 Ev 111

fragile states will require more than just additional money; it will demand much greater DFID staff time and resources.[140] Indeed, as the BOND Conflict Policy Group asserts, the real challenge will be how DFID, and the Government as a whole, puts into practice this fundamentally new approach to conflict affected and fragile states.[141] Saferworld stresses the need for DFID to set out in much greater detail how it will go about planning, implementing and evaluating its interventions in these countries.[142]

81. **Whilst we support the increased focus on fragile states set out in the White Paper, the challenge this will present for the Department should not be under-estimated. We need to be reassured that sufficient analysis and research has been carried out within the organisation to ensure that it is properly prepared. We therefore recommend that, in response to this Report, DFID provide us with a detailed statement of the steps it has taken in terms of determining how it will plan, fund, implement and evaluate its work in this area.**

Staffing in fragile states

82. DFID's policy shift towards fragile states raises a range of questions about its capacity adequately to staff more resource-intensive programmes during a period that will require cross-departmental austerity and further efficiency savings. DFID told us that it had not set targets for staff reductions but was reassessing priorities in line with the White Paper "and the associated balance of staff and skills needed to deliver these".[143] When we specifically asked whether there would be any conflict between VfM commitments and increased work in fragile countries, we were told:

> DFID has a strong track record of delivering efficiency savings in a situation where we are doing more work in new areas. In the past five years, whilst our total resource budget has increased by 25% our staff numbers have reduced by approximately 15% and we have closed 11 offices. Since 1997 we have cut the number of countries we give aid to by over a third. During this time we have continued to perform well against international standards of aid effectiveness (as evidenced for example in the Paris Declaration Evaluation).[144]

83. The 2008 NAO report *Operating in Insecure Environments* highlighted that filling vacancies in hard-to-staff countries was a significant challenge. In 2005 and 2006 there were 3.4 applications per vacancy in insecure countries, compared with 4.2 in secure countries over the same period. In early 2007 the number of applications fell to 1.7 per vacancy in insecure countries.[145] The NAO performance brief states that there remains a problem in recruiting suitable staff in fragile states.[146] DFID confirmed in oral evidence

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140 See for example Fourth Report of Session 2008-09, *Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn*, HC 179, para 82

141 Ev 50

142 Ev 115

143 Ev 78

144 ibid

145 NAO, *Department for International Development: Operating in Insecure Environments*, 2008, p 28

146 NAO, *Performance of the Department for International Development 2008-09*, para 2.15

that, while it is now fully staffed in Iraq and Afghanistan, problems persist in countries such as Pakistan and Yemen.[147]

84. The Permanent Secretary explained that one of the key barriers to securing sufficient staff in fragile states was "demographic":

> It is quite easy for us to get people who are relatively early in their career and relatively older in their career because they do not have children, but a lot of the advisory cadre, the government specialists, the economists and the health specialists tend to be middle-aged and their family circumstances make it quite difficult.[148]

In many fragile states there are no schools for the children of staff to attend, while approximately a quarter of DFID's UK-based staff serving overseas are in places where they cannot have their family with them.[149] Equally, there are problems with providing staff with sufficient financial incentives to apply for jobs in fragile states. In 2009 DFID undertook a review of staffing in fragile states and is now examining financial and non-financial incentives. One of the main conclusions was that management had to give a clear message about the value of working in fragile states:

> We had to be able to tell people that if you go to a fragile state it would be good for your career. I think that is something that we have tried very hard to do, including by making it clear that a lot of the people who work for us most closely with the senior team and with ministers are people who used to work in fragile states. I hope that is a career-enhancing incentive! Secondly, there are some elements of the package that were reviewed and recommendations made in terms of the incentive package, the ability to get out periodically, particularly for those people working in fragile states where they are homebound for large chunks of the time.[150]

85. We were also concerned by the impact of staff reductions on DFID's capacity to manage its current model for its staffing in fragile states. For example, in Afghanistan, the Permanent Secretary described a work rotation of six weeks on, two weeks off for its staff which required 15-20% more staff than the normal complement.[151] It is difficult to see how this additional requirement for staff can be reconciled with the need for overall staff reductions.

86. NGOs highlighted a range of further concerns in their written evidence. BOND noted the importance of well-trained staff remaining "in post long enough to develop a thorough understanding of the issues and local context". A separate submission from its Conflict Policy Group stressed that DFID staff will increasingly need to "work 'politically' on issues that some may not have expertise or experience in, and in contexts with high levels of risk for personnel and their projects, and the UK's reputation and relationships".[152] Indeed, as

147 Q 83

148 Q 83

149 ibid

150 Q 82

151 Qs 85- 87

152 Ev 48 and 50

Saferworld pointed out, actions by DFID staff in fragile states have the potential to have a direct impact on conflict dynamics.[153]

87. In this context, Saferworld stressed the need for DFID staff to be suitably trained for the different challenge presented by fragile states. It highlighted that DFID "has some good programming tools and guidelines but they are not yet sufficiently mainstreamed and the majority of staff are not fluent in their use." It acknowledged that DFID has a "sophisticated conceptual framework with links to practical guidance" on working in conflict-affected and fragile situations but emphasised that staff needed to be properly trained and supported to implement the guidance.[154] Saferworld also doubted whether DFID had sufficient specialist staff to deliver its commitment to treat security and justice as a basic service, given that there was currently no career development structure in this sector within DFID to encourage staff to build their expertise and experience.[155]

88. **If the White Paper objectives for increased working in fragile states are to be delivered, DFID will need to ensure that it has sufficient incentives in place in terms of career development to attract able staff to implement its new approach, including in the security and justice sector. DFID should consider whether longer postings and more training in local languages are necessary for it to be effective in fragile states. It will also be essential for all staff operating in such environments to have access to, and training in the use of, appropriate guidance We recommend that, in response to this Report, DFID provide us with more detail on how staff will be supported and encouraged to work in fragile states, and how the increased staff requirement in the security and justice sector will be met.**

Fragile states and DFID's work with multilateral partners

89. The White Paper outlines DFID's plans to encourage multilateral organisations to increase their operations in fragile states as part of its objective of increased joint-working and co-ordination with them.[156] The PAC's 2009 Report on DFID's operations in insecure environments concluded that some of its usual multilateral partners had few staff and weak capability in the insecure countries where DFID was increasing its spending.[157] Particular concern was expressed about the World Bank's capacity in this regard. PAC recommended that DFID should: "include detailed scrutiny of the [World] Bank's capability and performance in insecure countries in the Mid-Term Review of Bank funding scheduled for Autumn 2009".[158]

90. In setting out its priorities and objectives for working with the World Bank in 2009, DFID undertook to work to secure further decentralisation of Bank staff and decision-making authority, with a particular focus on Africa and fragile and conflict-affected

153 Ev 113

154 Ev 113

155 Ev 113

156 DFID, *Eliminating World Poverty: Building our Common Future*, July 2009, Cm 7656, pp 84-88

157 PAC, Sixteenth Report of Session 2008-09, *Department for International Development: Operating in insecure environments*, HC 334

158 Ibid p 6

countries.[159] The proportion of internally-recruited Bank staff based in country offices currently exceeds the 25% target set under DSO 5.4, although this does not record separately progress in fragile and conflict-affected countries.[160] The World Bank's *2011 World Development Report* will have conflict, security and development as its theme. The Bank says that the report will "contribute concrete, practical suggestions to the debate on how to address conflict and fragility".[161]

91. We questioned the Permanent Secretary about the performance of multilateral partners in fragile states, particularly in terms of their staff and capability, and the likely impact on DFID's joint-working aspirations. She told us:

> We have […] pressed the UN, the EU and the World Bank to agree a clear division of labour in fragile states rather than having them blurring the lines of accountability. We have also pressed them to push for further decentralisation of their own staff into fragile states, and again they have struggled in some cases to get the right people and the best people to work in some of these tough environments. We have increasingly made these types of requests and have made our own funding of those organisations conditional on progress in those areas […] We are not there yet, but we certainly are aware of the issues and are pressing the multilaterals very hard to do better.[162]

International Alert's submission highlights the substantial amount of DFID funding which is channelled through multilateral bodies. It cautions that these organisations do not necessarily share DFID's aims and objectives for fragile states and "show no signs" of moving to this position in the near future.[163]

92. **There need to be clear linkages between DFID's increased focus on fragile states and its wider White Paper aspirations for closer working with multilateral bodies, particularly in the context of such a large proportion of DFID's funding being disbursed through these organisations. The World Bank's announcement that its 2011 World Development Report will focus on conflict and security is a welcome indication that this major development player shares some of DFID's objectives. We recommend that DFID continue to apply pressure at the highest levels of the World Bank, the European Commission and the UN agencies to ensure there is coherence on their strategies for working in fragile environments.** We discuss the broader issues relating to DFID's plans for closer links with multilateral bodies in Chapter 5 below.

Joint working with other Government departments

93. The White Paper also commits DFID to develop joint strategies with the Foreign and Commonwealth Office (FCO) and Ministry of Defence (MoD) in fragile states.[164] The UK Aid Network acknowledged that increased focus on conflict and security would "require a

159 DFID, *The UK and the World Bank 2007-2009*, 2009

160 DFID, 2009 Autumn Performance Report, Cm 7768, p 35

161 See World Bank announcement on the content of the 2011 World Development Report, 2 October 2009 at http://siteresources.worldbank.org/

162 Q 23

163 Ev 88

164 DFID, *Eliminating World Poverty: Building our Common Future*, July 2009, Cm 7656, pp 78-83

more coordinated response across relevant UK government ministries" but cautioned that this:

> […] creates challenges for ensuring that such a coordinated response is driven by development objectives. We have observed with concern that a number of donors (most notably the USA) have allowed their interventions in conflict affected countries to become dominated by military and foreign policy objectives and approaches.[165]

This was a common theme in written evidence. As Concern Worldwide emphasised, a clear distinction between military, political and humanitarian objectives needs to be maintained and "DFID's focus on poverty eradication should be incontestable and not diverted by military or security interests".[166]

94. The Secretary of State pointed to the DRC as an example of a country in which collaborative working with the FCO and MoD was "quite effective", although he acknowledged that the lessons learned needed to be extended to joint operations elsewhere.[167] However, it is of concern that the Autumn Performance Report found that 'little or no progress' had been made in relation to DSO indicator 4.2, *Cross-Whitehall agreement and support for coherent, pro-development policy*. Indeed, the UK score on the Commitment to Development Index deteriorated in 2009, with the its ranking falling from 6th to 12th out of 22 developed nations.[168]

95. In oral evidence, DFID highlighted the role of the cross-departmental Stabilisation Unit in providing staff who were suitably trained and experienced in working in fragile states. The Permanent Secretary said that the Department was on track to meet its commitment to build up a cadre of 1,000 civilians who were deployable in some of the most difficult environments around the world. [169] It was confirmed in December that the target had been reached.[170] However, the Secretary of State said that he would "draw a pretty clear distinction between the joint working anticipated in the White Paper and the important, but quite distinctive, role that the Stabilisation Unit plays." He added that he did not anticipate "that the Stabilisation Unit would be the principal driver" of the work that DFID is taking forward jointly with other government departments in countries such as Democratic Republic of Congo.[171]

96. **We note that the Stabilisation Unit now has its full staff complement, capable of being deployed to fragile states. However, the Secretary of State made clear that he did not expect the Unit to be the "principal driver" of DFID's joint work with other government departments in fragile states. We would therefore welcome clarification of**

165 Ev 118

166 Ev 62

167 Q 159

168 DFID, 2009 Autumn Performance Report, Cm 7768, p 31

169 Q 83

170 HC Deb 16 December 2009, col 139WS. See also http://www.stabilisationunit.gov.uk/

171 Q 159

the ways in which Stabilisation Unit staff will be expected to contribute to the increased DFID activity in fragile states.

Budgetary pressures

97. We discussed the overall budgetary pressure on DFID in chapter 2. In oral evidence with the Permanent Secretary we explored the potential conflict between required savings and the increased costs and resource requirements of operating in fragile states. She acknowledged that increased funding for fragile states would not be effective if it was accompanied by cuts in administrative budgets in these countries:

> In our decision-making about allocating our administration budget, we have tried very hard to protect the budgets of fragile states and the front line, so, if you look at the proportion of our administration budget spent in fragile states, it has actually increased over this CSR1 [Comprehensive Spending Review] period. We have tried to take the hits on the administration budget elsewhere […] because [in fragile states] the costs of operating are far, far higher and they are much more staff intensive, plus you often have additional security costs. Those costs vary enormously, so in places like Nigeria, the administration cost as a share of the programme is about 6.4%, whereas in Pakistan it is far less, it is about 2.6% […] and in Afghanistan it is quite high, it is 5.7% because of course you have got lots of additional security costs associated with operating there […] but we have tried very hard to protect those front-line resources because we think that the poverty benefits of operating there are really high.[172]

98. However, this protection of administrative as well as programme budgets in fragile states does mean that the pressure on budgets elsewhere will be even greater. The White Paper says a great deal about what DFID will be doing more of in the coming years, but is less clear on what DFID will be doing less of. When questioned about this, both the Secretary of State and the Permanent Secretary appeared confident that no other policy areas or countries would lose out, although it was acknowledged that there would be "some things we will not be able to do that we might have done otherwise".[173]

Accounting and reporting mechanisms for the 50% spending target

99. We were keen to learn how DFID intended to assess whether it was meeting its target of spending 50% of new bilateral funding in fragile states. The first step would presumably be to identify which countries fell within this category. Although DFID does not publish a list of fragile states, the Secretary of State defined them as "countries where the government cannot or will not deliver core functions of the state for the majority of its people." He said that it was not "particularly difficult to recognise the attributes of state fragility when you encounter them in country".[174] However, Saferworld pointed out that countries which may seem relatively stable and secure on the surface may harbour underlying tensions that risk

172 Q 11

173 Qs 11, 64, 153-154. See also Ev 71

174 Q 155

escalating or being triggered into violence, for example the 2007-08 post-election violence in Kenya.[175]

100. The Secretary of State did not provide us with any details of how DFID would measure and account for the increased allocation to fragile states. DFID's current reporting of aid statistics does not include specific lines on disbursal to fragile states as a whole. Indeed, while the text of the Annual Report states that £1.3 billion (54%) of its regional programme budget was spent in fragile states, we were unable to corroborate this figure with the statistical information provided in volume II of the Annual Report.[176] DFID's total bilateral programme excluding non-region specific disbursals is put at £2.71 billion in Table A.2. 54% of this equates to approximately £1.46 billion. For DFID to have reached the 50% level in 2008-09, its disbursals to fragile states would have needed to be just over £1.35 billion (which, depending on rounding, they may have been). This lack of clarity illustrates the difficulties stakeholders might encounter in trying to track increased disbursals to fragile states.

101. **It is important that DFID is transparent in its reporting of performance each year against its 50% spending commitment for fragile states. We recommend that data on bilateral disbursals to fragile states is published in the Departmental Report, Autumn Performance Report and DFID's *Statistics on International Development* each year. We believe that this commitment should also be incorporated into DFID's Departmental Strategic Objective 6 as a performance indicator.**

175 Ev 111

176 DFID, Annual Report and Resource Accounts 2008-09, HC 867, Volume I, para 2.64, p 34

5 Increased multilateral working

102. DFID makes clear that it "is strongly committed to working through the multilateral system", in particular on areas such as climate change.[177] The White Paper stated that the UK would "review and agree a new approach to multilateral funding" and that DFID would "put a higher proportion of our new resources into multilateral organisations, in response to delivering reforms".[178]

103. DFID's expenditure on core multilateral funding increased by 51% between 2003-04 and 2008-09, and by 14% between 2007-08 and 2008-09 alone.[179] The total 2008-09 expenditure on the multilateral programme of £2.3 billion represented 41% of total DFID programme expenditure.[180] The largest multilateral recipient is the European Commission (51% of the total in 2008-09), followed by the World Bank (25%) and the United Nations (11%).[181] In addition, almost one-fifth of DFID's total bilateral programme spend was channelled through multilateral organisations in 2008-09.[182]

Multilateral effectiveness

104. DFID's DSO 5 target is to increase the effectiveness of all bilateral and multilateral donors. Performance measurement is an essential element in ensuring aid effectiveness. A 2009 NAO review of DFID's performance measurement found improvements regarding multilateral aid, and areas for further work:

> DFID has increased its focus on multilateral performance in recent years, and has continued to develop associated assessment tools. Its moves to secure joint assessment with bilateral partners are welcome. Current assessments, however, are still very generalised, both about the performance of a multilateral and about DFID sponsorship of that institution. There is scope to achieve greater precision by continuing the development of current tools, extending the use of customer or DFID country team feedback on multilateral performance (where multilaterals provide insufficient data about their performance), and sharpening the strategies DFID use to guide their funding and monitoring of multilaterals.[183]

European Commission

105. DFID assesses EC effectiveness as having improved between publication of the Annual Report in July and the Autumn Performance Report (APR) in December 2009. However, the Permanent Secretary made "a big distinction" between the European

177 DFID, Annual Report and Resource Accounts 2008-09, HC 867, Volume I, para 3.10

178 DFID, *Eliminating World Poverty: Building our Common Future*, July 2009, Cm 7656, pp 103 and 108

179 Statistics on International Development (SIDS) 2008-09 & 2007-08, table 3 (cf 49% in DFID Annual Report and Resource Accounts 2008-09, Volume 2, p 70)

180 DFID, *Eliminating World Poverty: Building our Common Future*, July 2009, Cm 7656, para 3.10 and SIDS 2008-09, table 3

181 SIDS 2008-09 table 3

182 SIDS 2008-09 table 3

183 NAO, *DFID: Progress in improving performance management*, 2009, pp 28-29

Development Fund (EDF), which focused on low-income countries, and other EC aid, which was primarily targeted at middle-income and neighbourhood countries. She highlighted the improvement in the effectiveness of EDF funding which the OECD peer review had identified, contrasting this with a "more negative assessment" of other EC aid which was "more politically driven and less poverty-focused with much less supervision on the ground". She suggested that the Government had been able to "drive much better performance with the EDF" rather than other EC aid because the latter was an "assessed contribution over which we have very little choice over the amount."[184]

106. The APR confirmed that the EC is on track to meet the target of 40% of commitments being disbursed as general budget or sector support by 2010-11: it reached 39% in 2008, rising from the baseline of 30.2% in 2006. It also shows an increase in the proportion of EC aid projects scored as good/very good from 71% in 2008 to 74% in 2009.[185]

107. Policy coherence is another key indicator of aid effectiveness. The policy coherence for development (PCD) approach was launched in 2005 as part of the European Consensus on Development. It is based on the premise that development encompasses far more than aid and requires the broad range of policies, including on trade and energy, to be aligned with development objectives. The November 2009 European Council Conclusions found that the EU has strengthened its approach to PCD over recent years, but that "further work is needed to set up a more focused, operational and results-oriented approach to PCD".[186] The EU plans to "take account of development objectives in a more pro-active way" on five issues initially, with two corresponding to the White Paper themes of climate change and security, along with trade/finance, food security and migration. The Council also called on the Commission to present "concrete proposals for a focused and operational PCD work programme" in 2010.[187]

108. The White Paper gives a commitment to make poverty reduction a primary aim of EU external policy, as well as to lobby for a single development and humanitarian aid Commissioner.[188] When we asked the Permanent Secretary whether the Commission was "delivering as one", in the same way as is planned for the UN (see below), she told us that progress would "depend on what development architecture in Europe looks like after Lisbon."[189] The Annual Report suggested that progress on policy coherence for development might also depend on "the shape of the new Commission and the possible formation of the External Action Service" following implementation of the Lisbon Treaty.[190] Concerns have been expressed that the new High Representative for Foreign Affairs may have control over budgets for developing countries, that the focus on poverty

184 Qs 23-24

185 2009 Annual Performance Report, p 34

186 EU Council Conclusions on Policy Coherence for Development, 17 November 2009

187 EU Council Conclusions on Policy Coherence for Development, 17 November 2009, para 10

188 DFID, *Eliminating World Poverty: Building our Common Future*, p 111

189 Q 27

190 DFID, Annual Report and Resource Accounts 2008-09, HC 867, Volume II, p 123

reduction may be lost, and that responsibilities should not have been shifted to the new International Cooperation, Humanitarian Aid and Crisis Response Commissioner.[191]

109. **We request that, in response to this Report, the Government provides us with its assessment of the likely impact of the structure of the new European Commission, its membership, and the establishment of the External Action Service, on EC aid effectiveness overall, and development policy coherence in particular.**

World Bank

110. The UK is the largest donor to the International Development Association (IDA), the World Bank's concessional lending arm.[192] The White Paper reported that the World Bank performs better than other multilateral organisations on both Paris Declaration indicators of aid effectiveness and against DFID assessments. The Permanent Secretary said that the World Bank had "actually done pretty well in terms of meeting the Paris targets.[193] However, an IDA review of Paris Declaration implementation found "a need for further policy change […] to move to a more systematic mainstreaming of [aid effectiveness] on the ground."[194]

111. DFID reports no real overall progress on the World Bank's aid effectiveness. There appears to have been greater decentralisation of Bank staff: the proportion of internationally recruited staff in country offices reached 29% (against a 25% target), and the share of total portfolio managed by country offices was 37% (the target being 35%). However, the Permanent Secretary said there was "quite a robust debate" going on about:

> […] whether they are actually making enough progress on decentralisation and getting more capacity and delegation in the field. That goes beyond the narrow discussion of meeting a target but actually asking are they meeting the spirit of the target whereby you have more capacity on the ground to engage with partners in the field.[195]

112. **The next replenishment of the International Development Association (IDA) is approaching. In addition, as we have indicated, at least part of the huge sums for future climate change assistance are also likely to be channelled through the World Bank. It is therefore essential that DFID continues to press the Bank to increase its effectiveness and that it uses its position as the largest contributor to IDA to push for speedier implementation of the reforms sought in the White Paper on increased multilateral working.**

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191 See "Hearings of the EU's Commissioners-designate", 14 January 2010, on the One International website at www.one.org/international

192 The £2 billion commitment represents 14% of the total for the period July 2008 to June 2011, DFID Annual Report and Resource Accounts 2008-09, HC 867,para 3.11

193 Q 32

194 IDA 15 Mid-Term Review: Aid Effectiveness-Executive Summary. See World Bank website at http://siteresources.worldbank.org

195 Q 35

United Nations

113. The United Nations was singled out in the White Paper as an institution that has a "unique legitimacy and authority" globally.[196] However, the effectiveness of many UN bodies is questionable. The Permanent Secretary told us that most UN agencies had "not met the Paris targets".[197] Although the Annual Report recorded some progress with UN effectiveness, she admitted that the trajectory of improvement was "shallow" for UN agencies in particular.[198]

114. The White Paper stated that more money would be put through UN system-wide funds, subject to good performance, and that DFID's core funding for UN agencies would be linked to impact, efficiency and reform.[199] The Permanent Secretary explained how this worked:

> […] we now have five UN agencies on performance contracts, so we say to them: "We will give you core funding but, actually, the incremental funding will be dependent on you delivering against an agreed set of performance benchmarks", and so we now have UNDP, UNICEF, UNHCR, WHO and the World Food Programme on these performance contracts […] we have just done our first assessment of them and about half of them got their performance tranche and about half of them did not. So it was quite clear that performance was consequent. We have now applied that also to the Global Fund, so we are trying to be quite tough in raising the bar on performance.[200]

115. DFID has also been a strong advocate of the "One UN" approach under which UN support in a given country is delivered through a single, coordinated UN programme.[201] DFID reported that, as of July 2009, 12 countries had been approved to receive aid through "Delivering as One"; six further countries had met the criteria, and 14 were making "good progress" towards it, with a further 21 potentially eligible.[202] DFID has committed £40 million over two years for countries adopting the approach and other countries that wished to. The approach was piloted in eight countries in 2007, with six more added since. DFID's assessment is that it "is delivering increased UN effectiveness and efficiency savings."[203] Evaluations of the One UN pilots were expected to begin in autumn 2009.[204]

116. **The UN has a unique place in development and is capable of delivering services where other multilateral and bilateral bodies sometimes cannot. However, there is a clear and urgent need for significant reform to streamline delivery and reduce duplication amongst UN agencies. We support DFID's approach of tying a proportion**

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196 DFID, *Eliminating World Poverty: Building our Common Future*, para 6.10

197 Q32

198 2009 Autumn Performance Report, pp 32-38 and Q 34

199 ibid, p107

200 Q 29

201 2009 Autumn Performance Report, p 36

202 2009 Autumn Performance Report, p 32

203 DFID Press Release, "Thomas: I want to see UN delivering as one", 22 October 2009

204 2009 Autumn Performance Report, p 36

of UN funding to performance measures. DFID is also a strong supporter of the "Delivering as One" approach and has assessed that it is making the UN more effective. We recommend that, in response to this Report, DFID provide us with more evidence for this assessment. We would also wish to be kept informed of progress with the latest round of evaluations of One UN pilot programmes.

Reforming the governance of international financial institutions (IFIs)

117. As we emphasised in our *Aid Under Pressure* Report, the substantial increase in funding for the IFIs agreed by the international community in 2009 needs to be accompanied by governance reform to ensure that developing countries are fully involved in decision-making. At the Pittsburgh conference in September 2009, the G20 outlined a timetable for IMF governance reform by January 2011 (rather than 2013 as originally planned) and by the April 2010 Spring Meetings for the World Bank.[205] We explore specific IMF and World Bank reforms below.

118. Witnesses were not impressed by the White Paper's stance on IFI reform. BOND found it "disappointing that the White Paper is not clearer about the type of governance reforms DFID envisions for the IMF and World Bank and the need for parity of voice and vote between developed and developing countries."[206] Results UK also saw "few specific proposals" on reform, and stated that "the circumstances in which funding for a programme would be reduced or withheld should be clearly communicated."[207]

International Monetary Fund (IMF)

119. The Jubilee Debt Campaign and Results UK both highlighted the important role the IMF plays in development, and the need for DFID to work closely with the Treasury on its reform.[208] The White Paper includes a commitment to build on past IMF governance reforms.[209] The 2009 Autumn Meetings accepted that quota reform "is crucial for increasing the legitimacy and effectiveness" of the IMF.[210] It endorsed the G20's call for a "shift in quota share to dynamic emerging market and developing countries of at least five percent from over-represented countries to under-represented countries using the current quota formula as the basis to work from."[211] The voting share of the Fund's poorest members would be "protected".[212] The International Monetary and Financial Committee of the IMF Board of Governors (IMFC) has urged Fund members to "promptly consent" to the quota and voice reforms already agreed in April 2008.[213]

205 The Government, as chair of the G20, issued a paper on IFI responsiveness and adaptability, *Supporting Global Growth*, at the Pittsburgh Summit available at http://www.g20.org

206 Ev 48

207 Ev 103

208 Ev 96 and 106

209 DFID, *Eliminating World Poverty: Building our Common Future*, p 117

210 ibid

211 Communiqué from the International Monetary and Financial Committee (IMFC) of the Board of Governors of the IMF, 4 October 2009,para 4 available at http://www.imf.org and Pittsburgh Communiqué, Preamble, para 20

212 IMFC communiqué, http://www.imf.org/external/np/sec/pr/2009/pr09347.htm, para 4

213 ibid

120. The G20 had said that the current quota review should cover "other critical issues", specifically: increases in overall quotas; Executive Board size, composition and effectiveness; and Fund Governors' involvement in strategic oversight. Ministers called on the IMF "to examine the full range of governance reforms" at the Autumn Meetings, and requested a report on the review's progress at the 2010 Spring meetings.[214] Minsters also stated the intention "to adopt an open, merit-based and transparent process for the selection of IMF management at our next meeting." The Autumn Meetings also agreed a review of the IMF's mandate "to encompass the whole range of macroeconomic and financial sector policies that affect global stability", reporting by the 2010 Autumn meetings.[215]

121. The G20's call for an allocation of Special Drawing Rights (SDRs) was met earlier this year, with $280 billion worth of SDRs created. Because allocations were based on economic strength, developed countries received $180 billion of these, and of the $100 billion that went to developing countries, only $21 billion went to low-income countries (LICs). The Government told us that it was "leading the agenda to explore how the increased SDR allocations can be used to make even more finance available to LICs".[216] However, the G20 proposal is for "mechanisms that could allow the mobilisation of existing SDR resources to support the IMF's lending to the poorest countries",[217] which the Bretton Woods Project argues would "transform conditionality-free SDRs into conditionality-laden loans".[218]

122. The White Paper highlighted the "major reforms" to IMF conditionality policy which had taken place in March 2009:

> Structural measures are no longer used as binding conditions and may only be used as benchmarks to monitor progress. So now, the IMF no longer bases its programme financing decisions on policies such as countries' approaches to privatisation and capital market liberalisation. The UK government and UK NGOs led the way in calling for this wholesale reform. Its achievement is testimony to a good partnership between the Treasury and DFID.[219]

However, commentators were less positive. The UK Aid Network argued that the IMF still favours "contractionary spending policies" even though this could undermine safety nets.[220] Results UK also noted that:

> By allowing for the individual characters of developing economies, and consulting with countries about the most appropriate fiscal policy for them, the IMF can become a more constructive partner for poverty reduction. Although we commend

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214 Communiqué from the International Monetary and Financial Committee (IMFC) of the Board of Governors of the IMF, 4 October 2009,para 5 available at http://www.imf.org

215 IMFC communiqué, para 5

216 Fourth Special Report of Session 2008-09, *Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn: Government Response*, HC 1009, p 5

217 IMFC communiqué, para 36

218 "G20 remains vague on social impact measures, still fails to tackle fundamental reform", Bretton Woods Project, 3 October 2009, www.brettonwoodsproject.org/

219 DFID, *Eliminating World Poverty: Building our Common Future*, p 116 (box)

220 See Ev 118. UKAN cites "IMF austerity chills crisis countries", *Bretton Woods Update July-Aug 2009*

recent progress in reducing structural conditionality in the IMF's programmes as highlighted in the White Paper, much still needs to change. The UK's further funding of the IMF should be made conditional on progress in policy and processes, rather than just on governance reform. [221]

123. **We have long argued that the number of conditions imposed by the IMF should be reduced, and that any which remain should be fully consistent with reducing poverty. The March 2009 reforms, moving away from binding structural conditions towards 'benchmarking', are to be welcomed. However, it remains to be seen whether this change of policy will genuinely reduce IMF policy prescription, or whether benchmarking merely becomes conditionality by another name. We recommend that, in response to this Report, DFID set out its views on the impact of all IMF reforms agreed in the last 12 months and its aims for further reform.**

World Bank

124. The White Paper outlined a five-point plan for World Bank reform.[222] The UK Aid Network supports the view that increased joint working with the Bank must be accompanied by governance reforms, as well as increased effectiveness and country ownership, but criticised the reform agenda in the White Paper as "not sufficiently progressive". It argues that the White Paper proposals do not "match up to the effectiveness standards set for the UN", and calls for additional funds, including the IDA replenishment in autumn 2010, to be subject to commitment to reform.[223] BOND believes that "scrutiny of the performance of the World Bank needs to be given greater attention, as the White Paper makes UN funding conditional on its performance but fails to do so for the World Bank."[224]

125. The Government's plans for the World Bank include increasing its legitimacy, with "voting reform by April 2010 that would give developing countries more say."[225] The Autumn Meetings "stressed the importance of moving towards equitable voting power [...] over time through [...] a dynamic formula which primarily reflects countries' evolving economic weight and the World Bank's development mission", and endorsed a shift of "at least 3% of voting power for developing and transition countries [...] to the benefit of under-represented countries", on top of the shift of just under 1.5% from the first phase of reforms. The aim is that agreement should be reached by the 2010 Spring Meetings, with a commitment to protect the voting weight of "the smallest poor countries".[226]

126. The Secretary of State stressed that World Bank effectiveness and legitimacy should be linked, highlighting the fact that governance, voice and effectiveness issues were now proceeding together, not separately: "We would hope we could work with others to create

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221 Ev 103

222 DFID, *Eliminating World Poverty: Building our Common Future*, p 117

223 Ev 117

224 Ev 48

225 DFID, *Eliminating World Poverty: Building our Common Future*, p 117

226 Development Committee of the World Bank and IMF, Communique 5 October 2009, para 7 available at http://siteresources.worldbank.org,

the conditions—this is far from guaranteed—where a broader bargain could emerge whereby we could address a number of these issues simultaneously."[227] However, the Government's Response to our *Aid Under Pressure* Report warned that "reaching agreement by Spring 2010 is an ambitious timetable given the complexity of issues and even the number of stakeholders involved."[228]

127. The White Paper also noted the agreement at the G20 London Summit "that the next Heads of the World Bank and IMF will be selected in an open, transparent and competitive process, regardless of nationality."[229] At Pittsburgh, this was extended to "all international institutions".[230] The Development Committee communiqué from the Autumn Meetings did not make reference to the selection process of the World Bank President.[231] **We support the move to open and merit-based appointments to the heads and senior management of all international institutions, but are concerned that this has yet to be formally endorsed by the World Bank. We call on the Government to work towards adoption of this commitment at the 2010 Spring Meetings.**

128. The White Paper noted that the Government had sought reduced World Bank conditionality over a number of years, and that the average number of loan conditions had:

> […] fallen from 32 in 1999 to 12 in 2007 […] More importantly, the Bank has stopped imposing conditions on sensitive policies such as privatisation and liberalisation if country ownership is uncertain or the political environment is fragile.[232]

The White Paper also called for a World Bank that was "more flexible and swift" in delivery, with the aim of reducing the average time to process most loans from 18 months to 12. [233] This might involve "more budget support, as this is fast-disbursing and helps Governments to deliver on their current spending plans."[234] The Secretary of State reiterated in a speech on 10 February that the World Bank needed to become "quick and nimble enough to respond to an unpredictable world". He said that his vision for it included a willingness to tackle the "toughest development challenges" and to concentrate its efforts on the poorest countries.[235]

129. **While it is regrettable that it took an economic crisis to force the pace of change, the additional funding for the international financial institutions (IFIs) agreed at the 2009 London G20 Summit appears to have been accompanied by an increased sense of**

227 Q 165

228 Fourth Special Report of Session 2008-09, *Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn: Government Response*, HC 1009, p 9

229 DFID, *Eliminating World Poverty: Building our Common Future*, p 117

230 Pittsburgh Summit Leaders' Statement, September 2009, para 21

231 Development Committee of the World Bank and IMF, Communique 5 October 2009, para 7 available at http://siteresources.worldbank.org

232 DFID, *Eliminating World Poverty: Building our Common Future*, p 116 (box)

233 ibid, p 117

234 *Aid Under Pressure, Government Response*, HC 1009, p 7

235 Speech by the Secretary of State on 10 February 2010 at the London School of Economics available on DFID website at www.dfid.gov.uk/media-room

urgency in relation to reform. However, the shifts in economic power that led to the G20's new prominence have yet to be reflected in the governance structures of the IFIs and the pace of progress remains too slow. We support the White Paper's emphasis on linking future funding of the World Bank to reform. This should be given particular focus in the negotiations for the forthcoming International Development Association replenishment, where the UK's leverage will be at its greatest. We believe that the UK, as one of the major funders of the IFIs and the regional development banks, should be more forceful in pressing for an increased focus on poverty reduction and a greater voice in governance for developing countries. We invite DFID to provide us with more information on its plans to make its funding for these bodies explicitly conditional on reform, in the same way as applies to UN agencies.

6 Support for development in the economic downturn

130. Our June 2009 report on *Aid Under Pressure* examined the threat posed to developing countries by the economic downturn and broadly welcomed DFID's response.[236] The crisis has set back development through reduced income from trade, remittances and foreign investment, with DFID estimating an additional 90-100 million people expected to be living on less than $1.25 a day, due to the "combined effect of the global food, the global financial and the global fuel crises."[237] The World Bank has estimated that about 64 million more people will be living on less than $1.25 a day in 2010 and that the poorest countries that "rely on grants or subsidized lending, may require an additional $35-50 billion in funding just to sustain pre-crisis social programs."[238]

DFID's response

131. As we have stressed, with pressure on public finances caused by the recession, it is more important than ever that donor countries keep their promises on aid and meet their targets. The 2009 Budget stated that the UK's ODA commitments would be maintained, despite economic contraction.[239] We are separately scrutinising the Government's recently published draft International Development (Official Development Assistance Target) Bill which would require the UK to allocate 0.7% of national income to aid in 2013 and each subsequent year.

132. As part of its additional assistance during the recession, DFID has set up a Poverty Response Team in its Policy and Research Division:

> […] to focus on our commitment to protect the poorest people in the current economic downturn [...] to strengthen and disseminate tools and evidence on social protection to partner governments, develop further research, support international policy coherence and work to maintain political momentum".[240]

DFID also acted to "front-load" aid funding to certain countries, including Ethiopia, Mozambique and Bangladesh, to limit the poverty impact of the recession. There was a strong focus on social protection with around £150 million of bilateral funding allocated for this over two financial years.[241] The Annual Report noted that DFID had not at that

236 Fourth Report of Session 2008-09, *Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn*, HC 179-I

237 Q 167 [Secretary of State]

238 "As world economy slowly recovers, developing world faces scarce financing, says World Bank", 21 January 2010 at http://go.worldbank.org/ and World Bank, *Global Economic Prospects 2010: Crisis, Finance and Growth,* pp 41-44

239 DFID Press Release, "Budget 2009 – Keeping our promises to the world's poorest people", 22 April 2009

240 Fourth Special Report of Session 2008-09, *Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn: Government Response*, HC 1009, p 2

241 ibid, p 2

time "made large scale adjustments in its bilateral programmes", but the Department has said it would front-load "more widely if this is needed and we can make a difference."[242]

Other donors

G8 commitments

133. At the 2005 Gleneagles Summit commitments were made to increase aid to developing countries by around $50 billion a year by 2010, with at least $25 billion a year going to Africa.[243] The Annual Report states that the UK's bilateral aid to sub-Saharan Africa will reach £3.4 billion by 2010-11, almost three times 2004-05 levels.[244] However, the Africa Progress Panel, set up to monitor Gleneagles progress, said in its 2009 report that it "remains uncertain" whether the G8 pledge to double aid to Africa by 2010 will be met:

> […] the financial crisis and its aftermath risk reversing some of the recent gains. Several countries, including Italy and Ireland, have already announced significant cuts in their ODA in response to budgetary pressures. Crisis-related effects such as exchange rate movements and falling gross national incomes (on which ODA calculations are based) are bound to put further downward pressure on overall aid commitments.[245]

134. The 2009 DATA report stated that the G7 had disbursed only a third of the amount needed to be on track to deliver its commitment to Africa ($7 billion of $21.5 billion). While "an average of an additional $7.2 billion each year in 2009 and 2010" was needed, the report projects that only $3.46 billion more would be delivered in 2009, about half of the requirement (with around 80% of this shortfall down to Italy and France), leaving $11 billion of the annual increase to be found in the final year, 2010.[246]

135. The Annual Report recorded improvement on the Gleneagles commitments, but by the time the Autumn Performance Report was published in December this had changed to "no real progress". DFID noted that provisional global ODA figures for 2008 showed a $20 billion a year increase, which was still $30 billion short of the target, warning that "difficult economic conditions will make continued progress difficult to achieve".[247] DFID told us that it was "concerned by OECD DAC projections that both of the Gleneagles targets are likely to be missed.[248] Nevertheless, there were continued reaffirmations of the Gleneagles commitments at the 2009 G8 and Pittsburgh G20 summits.[249]

242 DFID Annual Report and Resource Accounts 2008-09, Volume 1, p 12 and Fourth Special Report of Session 2008-09, *Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn: Government Response,* HC 1009, p 10

243 G8 communiqué 2005, para 8

244 DFID, Annual Report and Resource Accounts 2008-09, HC867, para 1.10

245 Annual Report of the Africa Progress Panel 2009, *An Agenda for Progress at a Time of Global Crisis: A Call for African Leadership*, p 24

246 ONE International, *The DATA Report 2009: Monitoring the G8 Promises to Africa*, June 2009, p 8. Russia does not currently report on its ODA, and did not make a commitment on ODA to Africa at Gleneagles.

247 2009 Autumn Performance Report, p 32

248 Ev 73, Q 21

249 Leaders' Statement from the G20 Pittsburgh Summit, September 2009, para 37

136. A Preliminary Accountability Report was published at the L'Aquila G8 Summit in June 2009. This gave a breakdown by G8 expert group sectors (food security, water, health and education), but did not include an assessment of progress on the Gleneagles pledges.[250] ActionAid noted that the G8's "own accountability report does not even acknowledge how far off track they are."[251] However, the G8 has agreed on a "full and comprehensive accountability mechanism to monitor progress and strengthen the effectiveness of our actions". It said that a "senior level working group" would be set up to work on a "broader, comprehensive and consistent methodology for reporting with a focus on our activities in development and development-related areas".[252] The accountability framework and progress report would be delivered for the 2010 G8 summit.

137. The Secretary of State said that this framework would not have been delivered without "British pressure", and that it "was a significant prize to secure a degree of transparency in terms of progress made in relation to ODA commitments."[253] DFID's Director General, International, said that the Government had "been instrumental" in the accountability framework proposal "which would hold all members of the G8 to account, both individually but also collectively, for the various commitments that they have made". He said that "there is work going on through the year to ensure that that [the accountability framework] is kept up to date with more detail and more strength behind it. "[254]

138. **The June 2010 G8 summit will mark five years since the historic commitments were made at Gleneagles on overall development aid and aid to Africa. We believe it is time to deliver on those promises. However, a number of G8 countries are failing to live up to their commitments. Nor has the scale of this failure been sufficiently transparent. The UK has been instrumental in gaining agreement for a G8 accountability framework and progress report, which will provide much greater transparency in tracking each country's aid expenditure. It is important that this new accountability mechanism is fully functioning as soon as possible. We recommend that, in response to this Report, DFID provide us with an update on progress towards establishing the accountability framework, and the steps it is taking to ensure its publication in time for the June 2010 G8 Summit.**

European Union commitments

139. The EU has collectively committed to allocate 0.56% of its GNI as aid by 2010 and to reach the 0.7% target by 2015. DFID highlighted "underperformance by some EU donors" and indicated that this would be discussed at the EU General Affairs and External Relations Council (GAERC). DFID told us last year that it was "working with our EU colleagues to ensure that in November Ministers will have an accurate assessment of EU ODA projections for 2010 and address any shortfalls."[255] Officials stressed that the GAERC

250 G8 Preliminary Accountability Report, L'Aquila G8 Summit, 8-10 July 2009

251 "G8 admits its failure to meet Gleneagles aid pledges", The Independent, 11 July 2009

252 G8 L'Aquila Summit Leaders' Declaration, July 2009, paras 3 and 98 and Annex. See www.g8italia2009.it/

253 Q 123

254 Q 121 [Mr Dinham]

255 Ev 73

argued "very strongly [...] that EU members should keep to their commitments which for the older Europe members [...] is 0.51% and, for newer members, 0.12%; and to their commitments to 0.7% by 2015."[256] The Council conclusions included proposals for EU leaders to look at progress on these targets each spring.[257] The Government also reported that EU Development Ministers had agreed to UK proposals "for the Commission to take on a strengthened role in monitoring official development assistance (ODA) performance and for the European Council to monitor EU ODA on a regular basis."[258] The Secretary of State told us:

> I think it would be fair to say that anticipating the meeting there was not universal support for the position that Britain was advocating in saying we need clear language upholding the commitments—I mean the commitments that had been made by others—but by a great deal of work by officials and contributions from ministers we got to a place where we got a pretty robust Presidency statement [...] which we certainly welcome. [259]

140. The latest OECD projections show that, of the 15 countries which are both OECD DAC and EU members, six will fall short of meeting the target to allocate 0.51% of GNI to official development assistance by 2010 (Austria, France, Germany, Greece, Italy and Portugal). The remaining nine countries, including the UK, have met or are on track to meet the target.[260] European Voice said that for some Member States "their best—although temporary—hope is that the economic recession is reducing their gross national income so much that even where aid is stagnant, the percentage measure improves."[261] An OECD peer review of Italy's aid found it was "facing major challenges", and that Italy was "unlikely to meet 0.7% by 2015."[262] In our *Aid Under Pressure* Report we welcomed the UK's continued progress towards the 0.51% and 0.7% targets but stressed the importance of the European Commission pressing all Member States to set timetables for meeting their aid commitments.[263]

141. **The predicted failure of some EU Member States to meet their 2010 targets demonstrates the value of proper accountability of future aid flows. We have previously called on the European Commission to push Member States to set timetables for meeting their aid commitments and would reiterate this view. We believe that there should also be an accountability framework for the EU, with projections published annually at the spring meetings of the European Council, which would monitor performance against development assistance commitments. We recommend that DFID press for an accountability mechanism of this kind in the Council of Ministers.**

256 Ev 24; Q 121 [Mr Dinham]

257 ibid

258 HC Deb 24 Nov 2009, col 52WS

259 Q121 [Mr Dinham]

260 "Donors' mixed performance for 2010 sparks concern", OECD press release, 17 February 2010. Five countries have already met the higher 0.7% target (Belgium, Denmark, Luxembourg, the Netherlands and Sweden).

261 ibid

262 OECD's review of Italy's development co-operation, 19/01/2010 available at http://www.oecd.org

263 *Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn,* HC 179-I, para 101

Response of multilateral organisations to the economic downturn

United Nations

142. Our report on *Aid Under Pressure* welcomed the introduction of a global poverty alert system which would enable the impact of the economic downturn on developing countries to be assessed quickly.[264] The 2009 DFID White Paper reiterated the UK's commitment to this. The UN Global Impact and Vulnerability Alert System (GIVAS) was launched in July 2009 and the first GIVAS report was presented to the UN General Assembly in September.[265] This indicated that the economic crisis was only beginning for hundreds of millions of people and that the "near poor" were being forced back into poverty, and emphasised the importance of social protection programmes, which it said were under pressure.[266] DFID has provided £1 million in technical assistance for GIVAS and says it will continue to support and monitor it.[267] **We welcome the UN's Global Impact and Vulnerability Alert System (GIVAS) which DFID has promoted and supported with £1 million for technical assistance. We invite DFID to provide us with an update on GIVAS's work since the publication of its first report last September and to indicate its objectives for the system over the next 12 months.**

World Bank

143. The World Bank has said that the poorest countries "will need access to financing for years to come" to help them deal with the effects of the recession.[268] The World Bank and the regional development banks were allocated an additional $100 billion by the G20 at the London Summit. DFID told us last autumn that it expected that additional commitments would surpass $115 billion, and that the "additional $6bn financing from the World Bank and other development banks for the private sector in the poorest countries is also available now."[269]

144. The World Bank's President, Robert Zoellick, said: "we have leaned forward, including through front-loaded and fast-tracked assistance, to scale up support to poor countries severely hit by the crisis". IDA commitments made in the period from July 2008 to October 2009 reached a record level of $16.9 billion and were 50% higher compared to the same period in the previous IDA. IDA disbursements in July-October 2009 almost doubled compared to the same period in the previous year.[270] Ten countries have benefited from the IDA fast track facility, with "new resources being agreed under faster procedures".

264 *Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn,* HC 179-I, para 23

265 See UN Background Note on the Global Impact and Vulnerability Alert System, July 2009, available at http://www.un.org/sg/GIVAS

266 *Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn: Government Response*, HC 1009, p 2

267 ibid, p 1

268 See World Bank website, Financial Crisis – What the World Bank is Doing, September 2009 available at http://www.worldbank.org/financialcrisis/

269 *Aid Under Pressure, Government Response*, HC 1009, p 5

270 World Bank Press Release, "World Bank's Fund for Poorest Countries Delivers Record Support during Global Crisis", 20 November 2009

DFID told us that around 20 countries have had IDA assistance "frontloaded" at the request of the UK Government.[271]

145. Social protection in particular has been boosted by a new Rapid Social Response Fund, with a £200 million DFID contribution, and an additional £2 million in "grant technical assistance to support the design of new social protection programmes and to help capture and share lessons and good practice". DFID reports "a three-fold increase in lending to social protection from approximately $1.5 billion per annum (2006-2008) to $4.5 billion in 2009. Countries which have benefited include Afghanistan, Ghana, India, Kenya, Pakistan and Rwanda".[272]

146. The White Paper said that DFID would work with the World Bank to set up "a new crisis response instrument, to allow financing to flow to the poorest countries and households most affected by shocks" by 2010.[273] More recently, the UK has argued for the urgent creation of a crisis response facility. DFID's Director General, International told us:

> At the moment IDA allocations tend to be based on need and performance looking backwards rather than needs which are immediately occurring. What we are looking for—and that is what we have been pushing both through the G20 mechanisms and through the mechanisms of the Bank—is a facility which can respond in an agile way to a crisis when it happens.[274]

The World Bank has said this could provide "additional funding for the protection of core spending on health, education, safety nets, infrastructure and agriculture in IDA-only countries".[275] A $1.3 billion pilot facility was approved in December 2009 and will run from January 2010 until the end of June 2011, with many programmes expected to be implemented in the first half of 2010, mostly to "support the scale up of operations already in place or currently under preparation."[276] DFID's Director General, International saw this as "good progress on a piece of very important new architecture which will make the World Bank more nimble and flexible in its response to crises."[277] He also expressed hope that a permanent facility would be in place by the end of 2010 as part of the IDA replenishment talks, although there were "lots of discussion about how that will be funded".[278] **We support the World Bank's new crisis response facility, which the White Paper called for, and we welcome the speed with which a pilot has been implemented. We recommend that DFID continue to press for a long-term funding solution to be agreed to ensure that the facility can become permanent under the next International Development Association replenishment.**

[271] Fourth Special Report of Session 2008-09, *Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn: Government Response*, HC 1009, p 8

[272] "Douglas Alexander pledges £200 million for rapid response global safety net", DFID Press Release, 15 March 2009; see also Fourth Special Report of Session 2008-09, p 3

[273] DFID, *Eliminating World Poverty: Building our Common Future*, p 118

[274] Q 168

[275] World Bank Press Release, "World Bank's Fund for Poorest Countries Delivers Record Support during Global Crisis", 20 November 2009

[276] World Bank Press Release "World Bank Approves Crisis Response Window for Poorest Countries", 10 December 2009

[277] Q 166

[278] Qs 166, 168

7 Conclusion

147. At a time of austerity and a search for savings in the public sector, it is essential that every pound of public money spent on development assistance has a measurable impact. If this cannot be demonstrated, public support for aid funding may weaken. We have assessed DFID’s Annual Report in this context.

148. When taking evidence at Westminster and visiting DFID country programmes we discuss DFID’s work with a wide range of people including recipient country representatives, donor partners, NGOs and local people who benefit from DFID’s work. We are frequently told that DFID is a leader amongst donor agencies and that it is innovative in terms of its overall development policies, in devising programmes and in the way it delivers them. The Annual Report provides some further evidence of this high quality performance.

149. However, there are some areas of concern which need to be addressed and which we have set out in this report. The question of whether DFID has sufficient staff resources to use its rising budget effectively is a recurring and serious issue. In the context of the White Paper’s new emphasis on fragile states, DFID’s capacity to deliver ambitious and higher risk development policies will come into even sharper focus. The Department needs to ensure that future Annual Reports give an accurate and frank account of the extent to which these new challenges are being met and of the impact on departmental resources.

List of recommendations

Measuring effectiveness

1. It is important that DFID's aid effectiveness reports, due to be published shortly, include suitable quantitative data to ensure that the Department is able to monitor and report on its own progress against the effectiveness indicators associated with its departmental objectives in advance of the final Paris Declaration Survey in 2011. (Paragraph 8)

2. The Paris Declaration targets are due to be met this year. We are concerned that nothing has yet been agreed between donors on future targets for aid effectiveness. We therefore urge DFID to be at the forefront of efforts to create a new internationally recognised set of targets to ensure that the effectiveness of aid disbursals by all donor countries and multilateral bodies continues to be monitored. (Paragraph 10)

3. We welcome DFID's new commitment to allocate a sum equivalent to 5% of budget support towards strengthening accountability mechanisms for aid expenditure within developing countries. We have consistently argued for increased resources for institutions of accountability in developing countries, particularly parliaments, but also civil society and the media. We recommend that, in response to this Report, DFID provide us with further information on how this funding will be allocated. (Paragraph 12)

4. We fully accept that DFID should close programmes which are clearly not fulfilling their objectives. On the other hand, it must be careful not to pull out of work which is meeting obvious development needs but where, for legitimate reasons, the impact is not immediate. Work which DFID is undertaking in areas such as governance, security and tackling corruption has to be seen as long-term projects which may not show an immediate return. A balance therefore needs to be struck between identifying programmes which are clearly not meeting their objectives and those which have to be allowed a five or even ten-year period in which to show results. (Paragraph 17)

Tackling fraud

5. We are concerned that DFID may not yet be taking the threat of fraud as seriously as it should. Indeed, there seems to be an over-reliance on staff reporting cases of fraud rather than DFID taking action to mitigate such risks before they arise. We recommend that, in response to this Report, DFID provide us with more information on the steps it is taking to ensure that it has a robust, consistent and strategic approach to fraud in all its country programmes and in all sectors in which it works. (Paragraph 24)

Procurement

6. We welcome DFID's change of approach to procurement in that all its programme expenditure is now subject to proper procurement procedures rather than just the small part of the budget which direct procurement represents. DFID has indicated that improving these procedures is a work in progress. We would expect our successor committee to review progress on procurement practice when it looks at the next DFID Annual Report. (Paragraph 29)

Staffing

7. We welcome DFID's assurance that front-line services will be protected from staffing cuts. However it remains important to ensure that efficient delivery of such services is not undermined by inadequate administrative and staff support. The new White Paper commitments have changed the focus of front-line services. Increased working in fragile states and tackling climate change are likely to be resource-intensive and will demand particular skills. We recommend that, in response to this Report, DFID provide us with more details on the staffing strategy it will adopt to ensure it can meet these new demands. (Paragraph 35)

Impact of DFID's work through CDC Group plc

8. We welcome the publication in 2009 of CDC's first annual development report as a positive step in the right direction of greater accountability and transparency in its activities. However, we are not convinced that the link between profitability of CDC's activities and their positive development impact has yet been sufficiently demonstrated. More robust evidence is needed. We urge DFID to ensure that CDC is required to produce more detailed analysis in its future reports on the correlation between its investments and pro-poor development outcomes, including their social, environmental and governance impacts. (Paragraph 44)

Climate change

9. We are disappointed with the limited and non-binding outcomes of the Copenhagen UNFCCC Conference set out in the Copenhagen Accord. The UK had admirable objectives but these proved to be unachievable. Much was made in advance of the Conference presenting a "once-in-a-lifetime opportunity" but it manifestly failed to live up to public expectations. The weakness of the outcomes represents a failure by the international community as whole. What is important now is for the major players to submit their national pledges to the UNFCCC as quickly as possible and for all parties to prepare to make firm commitments on emissions and climate change funding at the conference in Mexico in December. (Paragraph 55)

10. We are pleased that the Government has set an upper limit of 10% on the amount of Official Development Assistance (ODA) which can be used for programmes to respond specifically to climate change impacts. We reiterate our view that climate change funding must be additional to development assistance, as it represents a new cost to developing countries, and must not divert existing and much needed poverty reduction expenditure. We recommend that future DFID Annual Reports specify the

amount of ODA which has been allocated to climate change programmes during the reporting year and set out estimates for subsequent years. DFID should also encourage other bilateral donors to fix similar limits on the amount of funding pledged for poverty reduction which can be used for climate change work. (Paragraph 58)

11. The undertaking to allocate $100 billion per year by 2020 to assist developing countries to deal with climate change is a step in the right direction. However, at present it remains simply an intention rather than a specific pledge. We are disappointed that the sum promised does not yet meet our criteria of being additional, adequate and predictable. The UK must continue to work to ensure there is a realistic plan for raising the funding, based on specific commitments by each developed country. The first step would be to ensure that measures are in place to meet the US$30 billion funding target for the period 2010-2012, and that the funds are disbursed quickly, since climate change is already a reality for many developing countries. We recommend that DFID report to us within 12 months on the progress that has been made in this regard. (Paragraph 62)

12. We welcome the fact that the principle of equal representation of developing and developed countries has been acknowledged in the establishment of the Copenhagen Green Climate Fund. We share DFID's view that the UNFCCC should take the lead in determining arrangements for allocating new funding for climate change. It may be necessary for the World Bank to play a role in disbursing funds, in the absence of other competent mechanisms for channelling such large sums of money to developing countries. We would, however, reiterate our view that the World Bank's primary focus should remain poverty reduction. Moreover, DFID should take the lead in ensuring that steps are taken to allay the misgivings of recipient countries and civil society about the appropriateness of the World Bank taking on this role. (Paragraph 66)

13. New, innovative sources of finance will need to be found to help developing countries respond to climate change. Although there is as yet no international agreement on this, we broadly support the principle of a tax on financial transactions to raise money for this purpose. We recommend that the UK continue to work to secure agreement amongst its international partners in advance of the G20 Summit in June. (Paragraph 68)

14. We have previously expressed our concern that DFID is not yet able to demonstrate that climate change is informing its policy decisions in all the countries in which it works. We have visited many of these countries and seen good examples of discrete climate change projects but less evidence of a fully integrated programme. We expect DFID to continue to build on its strengths and fully integrate climate change into the broadest spectrum of its work. The White Paper has made an important commitment to work towards this goal and to conduct a strategic review in eight pilot countries. We recommend that, in response to this Report, DFID provide us with more detail on progress with the review of its climate change work in the pilot countries. (Paragraph 71)

Working in fragile states

15. Whilst we support the increased focus on fragile states set out in the White Paper, the challenge this will present for the Department should not be under-estimated. We need to be reassured that sufficient analysis and research has been carried out within the organisation to ensure that it is properly prepared. We therefore recommend that, in response to this Report, DFID provide us with a detailed statement of the steps it has taken in terms of determining how it will plan, fund, implement and evaluate its work in this area. (Paragraph 81)

16. If the White Paper objectives for increased working in fragile states are to be delivered, DFID will need to ensure that it has sufficient incentives in place in terms of career development to attract able staff to implement its new approach, including in the security and justice sector. DFID should consider whether longer postings and more training in local languages are necessary for it to be effective in fragile states. It will also be essential for all staff operating in such environments to have access to, and training in the use of, appropriate guidance We recommend that, in response to this Report, DFID provide us with more detail on how staff will be supported and encouraged to work in fragile states, and how the increased staff requirement in the security and justice sector will be met. (Paragraph 88)

17. There need to be clear linkages between DFID's increased focus on fragile states and its wider White Paper aspirations for closer working with multilateral bodies, particularly in the context of such a large proportion of DFID's funding being disbursed through these organisations. The World Bank's announcement that its 2011 World Development Report will focus on conflict and security is a welcome indication that this major development player shares some of DFID's objectives. We recommend that DFID continue to apply pressure at the highest levels of the World Bank, the European Commission and the UN agencies to ensure there is coherence on their strategies for working in fragile environments. (Paragraph 92)

18. We note that the Stabilisation Unit now has its full staff complement, capable of being deployed to fragile states. However, the Secretary of State made clear that he did not expect the Unit to be the "principal driver" of DFID's joint work with other government departments in fragile states. We would therefore welcome clarification of the ways in which Stabilisation Unit staff will be expected to contribute to the increased DFID activity in fragile states. (Paragraph 96)

19. It is important that DFID is transparent in its reporting of performance each year against its 50% spending commitment for fragile states. We recommend that data on bilateral disbursals to fragile states is published in the Departmental Report, Autumn Performance Report and DFID's *Statistics on International Development* each year. We believe that this commitment should also be incorporated into DFID's Departmental Strategic Objective 6 as a performance indicator. (Paragraph 101)

Increased multilateral working

20. We request that, in response to this Report, the Government provides us with its assessment of the likely impact of the structure of the new European Commission, its membership, and the establishment of the External Action Service, on EC aid effectiveness overall, and development policy coherence in particular. (Paragraph 109)

21. The next replenishment of the International Development Association (IDA) is approaching. In addition, as we have indicated, at least part of the huge sums for future climate change assistance are also likely to be channelled through the World Bank. It is therefore essential that DFID continues to press the Bank to increase its effectiveness and that it uses its position as the largest contributor to IDA to push for speedier implementation of the reforms sought in the White Paper on increased multilateral working. (Paragraph 112)

22. The UN has a unique place in development and is capable of delivering services where other multilateral and bilateral bodies sometimes cannot. However, there is a clear and urgent need for significant reform to streamline delivery and reduce duplication amongst UN agencies. We support DFID's approach of tying a proportion of UN funding to performance measures. DFID is also a strong supporter of the "Delivering as One" approach and has assessed that it is making the UN more effective. We recommend that, in response to this Report, DFID provide us with more evidence for this assessment. We would also wish to be kept informed of progress with the latest round of evaluations of One UN pilot programmes. (Paragraph 116)

23. We have long argued that the number of conditions imposed by the IMF should be reduced, and that any which remain should be fully consistent with reducing poverty. The March 2009 reforms, moving away from binding structural conditions towards 'benchmarking', are to be welcomed. However, it remains to be seen whether this change of policy will genuinely reduce IMF policy prescription, or whether benchmarking merely becomes conditionality by another name. We recommend that, in response to this Report, DFID set out its views on the impact of all IMF reforms agreed in the last 12 months and its aims for further reform. (Paragraph 123)

24. We support the move to open and merit-based appointments to the heads and senior management of all international institutions, but are concerned that this has yet to be formally endorsed by the World Bank. We call on the Government to work towards adoption of this commitment at the 2010 Spring Meetings. (Paragraph 127)

25. While it is regrettable that it took an economic crisis to force the pace of change, the additional funding for the international financial institutions (IFIs) agreed at the 2009 London G20 Summit appears to have been accompanied by an increased sense of urgency in relation to reform. However, the shifts in economic power that led to the G20's new prominence have yet to be reflected in the governance structures of the IFIs and the pace of progress remains too slow. We support the White Paper's emphasis on linking future funding of the World Bank to reform. This should be given particular focus in the negotiations for the forthcoming International Development Association replenishment, where the UK's leverage will be at its greatest. We believe that the UK, as one of the major funders of the IFIs and the regional development banks, should be more forceful in pressing for an increased focus on poverty reduction and a greater voice in governance for developing countries. We invite DFID to provide us with more information on its plans to make its funding for these bodies explicitly conditional on reform, in the same way as applies to UN agencies. (Paragraph 129)

Support for development in the economic downturn

26. The June 2010 G8 summit will mark five years since the historic commitments were made at Gleneagles on overall development aid and aid to Africa. We believe it is time to deliver on those promises. However, a number of G8 countries are failing to live up to their commitments. Nor has the scale of this failure been sufficiently transparent. The UK has been instrumental in gaining agreement for a G8 accountability framework and progress report, which will provide much greater transparency in tracking each country's aid expenditure. It is important that this new accountability mechanism is fully functioning as soon as possible. We recommend that, in response to this Report, DFID provide us with an update on progress towards establishing the accountability framework, and the steps it is taking to ensure its publication in time for the June 2010 G8 Summit. (Paragraph 138)

27. The predicted failure of some EU Member States to meet their 2010 targets demonstrates the value of proper accountability of future aid flows. We have previously called on the European Commission to push Member States to set timetables for meeting their aid commitments and would reiterate this view. We believe that there should also be an accountability framework for the EU, with projections published annually at the spring meetings of the European Council, which would monitor performance against development assistance commitments. We recommend that DFID press for an accountability mechanism of this kind in the Council of Ministers. (Paragraph 141)

28. We welcome the UN's Global Impact and Vulnerability Alert System (GIVAS) which DFID has promoted and supported with £1 million for technical assistance. We invite DFID to provide us with an update on GIVAS's work since the publication of its first report last September and to indicate its objectives for the system over the next 12 months. (Paragraph 142)

29. We support the World Bank's new crisis response facility, which the White Paper called for, and we welcome the speed with which a pilot has been implemented. We recommend that DFID continue to press for a long-term funding solution to be agreed to ensure that the facility can become permanent under the next International Development Association replenishment. (Paragraph 146)

Formal Minutes

Tuesday 2 March 2010

Members present:

Malcolm Bruce, in the Chair

Hugh Bayley
Daniel Kawczynski
Mr Marsha Singh
Mr Virendra Sharma
Andrew Stunell

Draft Report (*DFID's Performance in 2008-09 and the 2009 White Paper*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 149 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Fourth 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 14 October and 25 November 2009.

[Adjourned till Tuesday 16 March at 10.00 am

Witnesses

Tuesday 24 November 2009	*Page*
Ms Nemat (Minouche) Shafik, Permanent Secretary, **Mr Mark Lowcock**, Director General,Country Programmes, **Mr Andrew Steer**, Director General, Policy and Research, and **Mr Richard Calvert**, Director General, Corporate Performance, Department for International Development	Ev 1
Wednesday 25 November 2009	
Rt Hon Douglas Alexander MP, Secretary of State for International Development, **Mr Andrew Steer**, Director General, Policy and Research, and **Mr Martin Dinham**, Director General, International, Department for International Development	Ev 22

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 2009-10

First Report	Progress on the Implementation of DFID's HIV/AIDS Strategy	HC 49–I&II (HC 342)
Second Report	Work of the Committee in Session 2008-09	HC 167
Third Report	DFID's Programme in Bangladesh	HC 95–I&II

Session 2008-09

First Report	Work of the Committee in Session 2007-08	HC 138
Second Report	DFID Annual Report 2008	HC 220–I&II (HC 440)
Third Report	DFID and China	HC 180–I&II (HC 535)
Fourth Report	Aid Under Pressure: Support for Development Assistance in Global Economic Downturn	HC 179–I&II (HC 1009)
Fifth Report	Sustainable Development in a Changing Climate	HC 177–I&II (HC 1008)
Sixth Report	Scrutiny of Arms Export Controls (2009): UK Strategic Export Controls Annual Report 2007, Quarterly Reports for 2008, licensing policy and review of export control legislation	HC 178 (Cm 7698)
Seventh Report	Urbanisation and Poverty	HC 511–I&II (HC 251)
Eighth Report	DFID's Programme in Nigeria	HC 840–I&II (HC 250)

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)