House of Commons

International Development Committee

Department for International Development Annual Report & Resource Accounts 2009–10

Third Report of Session 2010–11

Volume I

Volume I: Report, together with formal minutes, oral and written evidence

Additional written evidence is contained in Volume II, available on the Committee website at www.parliament.uk/indcom

Ordered by the House of Commons to be printed Tuesday 18 January 2011

HC 605
Published on 3 February 2011
by authority of the House of Commons
London: The Stationery Office Limited
£14.50

International Development Committee

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

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Contents

Summary

In the 2010 Comprehensive Spending Review (CSR) the Coalition Government announced its decision to achieve the internationally agreed target of providing 0.7% of Gross National Income as ODA from 2013. This will involve spending an additional £2.5 billion in 2013-14 to make the total DFID budget £11.3 billion in that year.

There will be a large increase in spending on fragile and conflict-affected states – from £1.8 billion in 2010 to £3.8 billion in 2014-15. It will be difficult to ensure that every pound is well-spent in such war-torn environments. Moreover, the greater focus on fragile states is likely to lead to reduced aid to some countries with good governance where aid may be able to achieve more. We plan to hold an inquiry into fragile states where we will consider these issues in more detail. As part of the greater emphasis on fragile states DFID, the FCO and the MoD will work more closely together. We welcome this, and DFID's inclusion in the National Security Council.

DFID will increase its research budget over the next four years from 2.6% to 3% of a significantly larger budget, to approximately £350 million. DFID should seek to stimulate research in institutions in developing countries, but it must also recognise the expertise in UK universities and ensure that the UK remains an important centre of research into international development. Research commissioned by DFID must be disseminated more widely.

DFID contributes approximately 86% of the UK's total ODA. This share has been relatively stable over time and is to rise to 89% by 2014-15. However, there is concern that the DFID budget might be used for purposes other than ODA. In the current financial year DFID is transferring sums to other departments. Funds are being transferred to the FCO for the British Council. We support the work of the Council and have been assured that the funds will be used to support the ODA elements of the British Council's work, but will be seeking further clarification. Somewhat surprisingly funds have also been transferred to cover some of the costs of the recent papal visit. The Government should explain in its response to this report what the funds transferred to the FCO for the papal visit were spent on and how this was ODA-compliant.

Increasing spending through multilateral organisations would enable DFID to accommodate the large increase in spending in 2013-14 without a major increase in running costs, for example by making additional payments to the World Bank. However, it would make little sense to save on DFID's administration costs by spending money through institutions with higher costs. The case for spending through multilaterals must come from intrinsic advantages such as the quality of the institution's work, economies of scale and lower transaction costs for developing countries. We await the Multilateral Aid Review for an analysis of the costs and benefits of any such decision. We are about to publish a report on the World Bank and will be undertaking an inquiry into EU spending on aid.

At the same time as increasing spending in many areas, the Government is seeking to ensure maximum value for money. The CSR announced reductions in DFID's running

costs to 2% of the total budget. If achieved, this would make DFID the most cost-efficient development organisation in the world.

In addition, the Secretary of State has instituted a number of reviews of UK aid programmes. There is to be a ‘watchdog’, the Independent Commission for Aid Impact (ICAI), to undertake evaluations of DFID’s programmes and an Aid Transparency Guarantee to make public information about all DFID’s spending over the value of £500 on the departmental website. The information will therefore enable people all over the world, including those who benefit from aid funding, to see how UK aid is spent.

The reduction in running costs as a proportion of total costs is to be achieved by a large reduction in back office administration costs (which excludes front-line staff) of £34 million over the CSR period. We support the proposals to make savings in back office staff, but note that efficiency must not be compromised by an attempt to reduce costs whatever the consequences. We also note that some extra staff traditionally defined as back-office will also be needed, in particular people capable of effectively commissioning work from and managing external suppliers. The use of external suppliers should be determined by assessing the best way to achieve outcomes, not by external constraints on administrative costs or staffing levels. We will monitor these matters carefully through our future inquiries into DFID’s Annual Report; DFID should include in next year’s report figures for total back-office and frontline staff.

While declining as a share of total costs, running costs will increase in real terms over the next four years because the total budget will rise so much. The increase in running costs, together with the reduction in administration costs, will allow DFID to recruit 300 to 400 more frontline staff. It should recruit staff with the right skills to work in fragile states and with multinational organisations, or capable of working with the FCO and MOD on policy.

1 Introduction

> I can also confirm that this coalition Government will be the first British government in history, and the first major country in the world, to honour the United Nations commitment on international aid. The Department for International Development's budget will rise to £11.5 billion over the next four years. Overseas development will reach 0.7% of national income in 2013 (The Chancellor of the Exchequer, October 2010).[1]

1. In the 2010 Comprehensive Spending Review (CSR) the Chancellor of the Exchequer made the key announcement that the UK would meet its international commitment to provide 0.7% of Gross National Income (GNI) as Official Development Assistance (ODA) by 2013.[2] This commitment enjoys the support of the three main political parties. In 2004, before the 2005 Gleneagles Summit, the last Government announced its intention to meet the target by 2013 and in 2010 published a draft Bill.[3] The Coalition Government has now promised to legislate.[4]

2. The increase in spending on ODA can, according to the Secretary of State, only be justified if it is possible "to ensure that future allocations represent maximum value for money."[5] As part of this process, the CSR announced reductions in the Department for International Development's (DFID's) running costs from 4% to 2% of the total budget. The Secretary of State has also instituted a number of reviews of UK aid programmes, is setting up a 'watchdog', the Independent Commission for Aid Impact (ICAI), to undertake evaluations of DFID's programmes and has established an Aid Transparency Guarantee. In view of these important developments we decided that our regular annual scrutiny of DFID's Annual Report should focus on the increase in expenditure, the attempts to ensure value for money, the proposals for reducing the share of the budget allocated to running costs and the possible risks of doing this while increasing the overall budget.[6]

3. We received written submissions from 16 external organisations and individuals and took oral evidence from the Permanent Secretary and other DFID officials on 16 November 2010. The National Audit Office (NAO) produced a briefing for us on *The work of DFID in 2009-10 and its priorities for reform* which we have drawn on.[7] We are grateful

1 Spending Review Statement, Chancellor of the Exchequer, Rt Hon George Osborne MP, 20 October 2010

2 In 1970 the UN General Assembly endorsed a target that rich countries would provide 0.7% of GNI on ODA. To date only five donors have achieved this: Denmark, Luxembourg, the Netherlands, Norway and Sweden.

3 Draft International Development (ODA Target) Bill, 15 January 2010

4 DFID, Business Plan 2011-2015, November 2010.

5 Ev 20

6 This year, the Government has issued two separate publications. DFID's Annual Report for 2009-10 which was published in July 2010. It is shorter and presented differently from previous annual reports, basing its structure around a country-by-country survey of progress against the Millennium Development Goals (MDGs) rather than thematic chapters as before. The Resource Accounts are published as a separate volume. In addition, a Structural Reform Plan was published in July which was updated after the Comprehensive Spending Review (CSR) in the Department's Business Plan in November 2010 for the period 2011-2015 (DFID, Business Plan 2011-2015).

7 NAO, *The work of the Department for International Development in 2009-10 and its priorities for reform*, Briefing for the House of Commons International Development Committee, November 2010.

to all those who contributed to our inquiry and in particular to the Department for responding to our supplementary questions.

4. The next chapter looks at areas of increased expenditure and new priorities. Chapter Three considers DFID's proposals for improving value for money, which seek to ensure that DFID is "achieving value for every pound of taxpayers' money that we spend on development."[8] Chapter Four examines changes in running and administration costs and assesses the potential risks of these changes. The final chapter sets out our conclusions.

8 DFID, DFID Vision Plan – Vision, 10 November 2010, www.dfid.gov.uk

2 Areas of increased expenditure

The DFID CSR settlement

5. DFID's budget will grow unevenly over the next 4 years: by £1 billion in the two years to 2012-13 and then very rapidly by £2.5 billion in 2013-14 to reach £11.3 billion and £11.5 billion in the 2014-15. In this chapter we look at some of the Coalition Government's new priorities and areas where spending will, or might, increase. We consider:[9]

- Fragile and conflict-affected states
- Climate change
- ODA spending by other Departments
- Research
- Multilateral institutions.

Fragile and conflict-affected states

6. Government policy towards conflict-affected and fragile countries has two distinct, albeit related strands. First, it is clear that aid and soft diplomacy have a key role in conflict prevention and resolution. Secondly, 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.

7. The Secretary of State has said that he wants an international development programme that contributes to national security goals.[10] The Government plans to ensure that DFID works more closely with other Government Departments, in particular the Foreign and Commonwealth Office (FCO) and the Ministry of Defence (MOD). To achieve this, the Government has set up a National Security Council which includes the Secretary of State for International Development. DFID informed us of the advantages of this arrangement:

> The production of a national security strategy and the Strategic Defence and Security Review were interesting in the sense that it was the first time that development had a big seat at that table, and I think some of the emphasis in those documents on prevention and taking a long-term view reflects the fact that development had an important seat at that table. I think there was an awareness from many of our colleagues, both in the Ministry of Defence and the intelligence community, that in future it would be much cheaper to prevent Afghanistans rather than to try and fix the problem once it has gone terribly wrong.[11]

9 In our report on the Millennium Development Goals (MDGs) we examined a number of other Government priorities, namely DFID's commitment to meet the MDGs and its role in improving the lives of girls and women (International Development Committee, Second Report of 2010-12, *The 2010 Millennium Development Goals Review Summit)*.

10 http://www.dfid.gov.uk/Media-Room/Speeches-and-articles/2010/Development-in-a-Conflicted-World/

11 Q 66

The National Security Strategy (NSS), including the work of the National Security Council (NSC), is to be scrutinised by the Joint Committee on the National Security Strategy. We will, however, take a close interest in the development aspects of the NSS and NSC.

8. Another example of joint working between DFID, the FCO and MoD is the Conflict Pool. From 2009 the Africa Conflict Prevention Pool and the Global Conflict Prevention Pool were merged into the Conflict Prevention Pool; and the Stabilisation Aid Fund was created. In 2009 the Conflict Prevention Pool and the Stabilisation Aid Fund were merged to form the Conflict Pool; and responsibility for discretionary peacekeeping costs was moved from the FCO to the Conflict Pool. The Conflict Pool is governed and managed jointly by DFID, the FCO and MoD. It is a source of funding to support the UK Government's aims for preventing and managing international conflict. The cross-Whitehall Conflict Pool helps address global conflict, by bringing together the UK Government's development, diplomatic, and defence interests. In 2009-10 £103.7 million was allocated to the Conflict Pool.[12] **We note that closer working between departments should be assisted by the Conflict Pool which brings together the Government's development, diplomatic and defence interests. We trust the Pool will continue to be used for conflict prevention.**

9. During a visit to Afghanistan in May 2010 the Secretary of State emphasised the link between development and the UK's national interest, noting that there were few countries where

> the combination of our moral commitment to development and safeguarding our national interest is so enmeshed. Building the capacity of the state to guarantee security and stability, deliver development and reduce poverty is central to defeating violent extremism and protecting British streets.[13]

10. A recent Chatham House paper argued that if the UK wanted to deepen its commitment to tackling the challenges posed by fragile states, it needed to remodel DFID extensively with the Department concentrating on developing a coherent, preventative agenda for fragile states. [14] The report also recommended that DFID put more staff in fragile states and concentrate on enhancing its political influence rather than on administering aid budgets.

11. Of the 34 countries furthest from reaching the Millennium Development Goals, 22 are in or emerging from conflict.[15] Moreover, according to DFID, fragile states receive approximately 43% less funding than they should from the international donor community, based on their need and levels of poverty.[16] Although, as the Department

12 http://www.dfid.gov.uk/About-DFID/Finance-and-performance/Aid-Statistics/Statistic-on-International-Development-2010/SID-2010-Annex-4---Data-Sources/

13 http://www.dfid.gov.uk/Media-Room/News-Stories/2010/Secretaries-of-State-visit-Afghanistan/

14 Organising for influence: UK Foreign Policy in an age of uncertainty, June 2010

15 International Development Committee, Second Report of Session 2010-11, *The 2010 Millennium Development Goals Review Summit*, HC 534

16 International Development Committee, Fourth Report of Session 2009-10, DFID's Performance in 2008-09 and the 2009 White Paper, HC48 –II, Ev 2

recognises, it can be difficult to spend money in more challenging environments,[17] the Department intends to continue to expand its work in them. DFID told us:

> The Coalition Government has a different set of priorities from its predecessors—some continuity, but also some very important new themes. It has been clear that we need to do more than we're currently doing in the most fragile, conflict ridden states—those are obviously the hardest operating environments.[18]

12. The NAO has informed us that the CSR

> projected a rise in the share of UK ODA supporting fragile and conflict-affected states will increase from 22% in 2010 (the equivalent of £1,800 million) to 30% (around £3,800 million) by 2014-15.[19]

13. However, this spending is difficult to monitor in part because there is no agreed global list of fragile states. It will be necessary to ensure that the increased spending is ODA-compliant and we consider this below.

14. Increasing spending in fragile states will necessarily lead to a relative decrease in spending in more stable developing countries. DFID told us:

> Actually, from our point of view, that's kind of a win; the whole goal of our business is to help countries move on and no longer need aid, so we view that mostly as a good thing, but at the margins it is possible that Ministers will face quite tough choices about a bit more investment in a less fragile country, which might have higher returns, as opposed to wanting to do more in a more fragile one, whose returns might be longer in coming through.[20]

15. **DFID is placing an increased focus on working in fragile and conflict-affected countries, which are often furthest from achieving the Millennium Development Goals. In its reply to this report the Government should state which countries will be receiving the increased spending. The new focus will produce problems. There will be severe difficulties in ensuring every pound is well-spent in war-torn environments with corrupt and incompetent Governments and the greater focus on fragile states is likely to lead to less assistance to some countries with good governance where aid is likely to be well spent. We are to undertake an inquiry into fragile states in 2011 and will examine these issues in more detail.**

16. **Closer working between DFID, the FCO and the MoD is welcome, especially in fragile and conflict-affected countries. We do not expect this will lead to the potential militarisation of aid and trust it will not. We also welcome DFID's inclusion in the National Security Council and expect it will lead to a more coherent approach to national security. We support the establishment of the Joint Committee on the National Security Strategy which will scrutinise the National Security Strategy,**

17 Ev 20

18 Q 9

19 NAO, *The work of the Department,* p 20

20 Q 64

including the work of the National Security Council. We comment below on the staffing requirements of increasing emphasis on working in fragile states and conflict prevention.

Climate change

17. The Copenhagen Accord, agreed at the United Nations Conference on Climate Change in 2009, included a commitment to provide $30 billion in funding over the three years to 2013 to help developing countries mitigate and adapt to climate change and an agreement to work towards the goal of achieving US$100 billion annual funding for developing countries by 2020.[21] The last Government agreed to play its part in providing funding, as has the coalition Government. The UK is contributing £1.5 billion in Fast Start finance over three years (2010-2012), of which £300 million will be dedicated to helping rainforest nations safeguard their forests.[22] The CSR allocated £2.9 billion to assist developing countries to respond to climate change for the period to 2014-15. DFID assured us that all this funding was "for the purpose of poverty reduction through low-carbon growth, building resilience and adapting to climate change, and also tackling the problem of deforestation."[23] Although DFID has been allocated the majority of this (62%), the Department for Environment, Food and Rural Affairs (DEFRA) and the Department of Energy and Climate Change (DECC) also have shares—3% and 35% respectively. DFID added that there were "some possibilities of intra-departmental flows if we need to adjust during the course of the spending review period"[24]

18. The last Government imposed a 10% limit on the amount of ODA which could be used for helping developing countries to respond to climate change. DFID informed us that the funding allocated over the CSR period was no more than 7.5% of ODA and that "it would not go beyond this in the spending review period." [25] DFID considered that it was important for development and climate change to be tackled together; climate change had become one of the pillars of the Department's Business Plan.[26] **We welcome the Government's policy of making climate change an integral part of DFID's programmes and providing £2.9 billion funding up to 2014-15 to help developing countries respond to climate change. In its response to this report the Government should state how much of this money will be ODA-compliant and how DECC is to spend its share of the money. There should be a limit on the amount of ODA spent helping developing countries respond to climate change, and we are reassured that the funding allocated for this purpose in the CSR is less than 10% of ODA.**

21 International Development Committee, Fifth Report of Session 2009-10, *Sustainable Development in a Changing Climate*, HC 177

22 http://www.dfid.gov.uk/Media-Room/Features/2010/Cancun-summit-on-climate-change/

23 Q 60

24 Q 59

25 Q 61

26 http://www.dfid.gov.uk/About-DFID/Finance-and-performance/DFID-Business-plan-2011---2015/

Development expenditure by other Government Departments

19. At present DFID contributes approximately 86% of the UK's total ODA. This share has been relatively stable over time. It was 84% in 2006.[27] Other Government Departments and public bodies also deliver UK ODA. For example, the FCO's contribution to UK ODA spending is around 2% in 2010/11 and will increase to 2.4% in 2011/12.[28]

20. The Institute of Development Studies (IDS) has argued that if more ODA is used by other Government Departments "it must be shown— and be seen—to have an impact on poverty. If not, DFID's work will lose credibility."[29] We asked the Permanent Secretary whether she expected the proportion of ODA provided by other Departments to increase and how it would be possible to ensure it met with agreed definitions of ODA-eligible expenditure. We were told that:

> Other Departments' ODA allocations have been hard-wired in their settlement letters, and the indications that we have are that the proportion spent by DFID will actually increase to 89% by the end of the spending review. So that worry that the money would be spread round actually has not manifested itself. In terms of your question as to whether we have any leverage over it, I think we have three; one is that we're responsible for making sure that all that spend is actually compliant with the OECD definition of aid[....] Secondly, it will also be subject to the transparency agenda, so they will also have to publish in a transparent way how they are spending the aid budget. Thirdly, it will also be subject to the Independent Commission for Aid Impact, so they will be subject to evaluations that are done by the Commissioners.[30]

21. The type of expenditure which can be reported as ODA is determined by the Organisation for Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC). The basic definition of ODA, which has not changed significantly since 1972, refers to:

> to financial flows to countries on the DAC list of ODA recipients and to multilateral development institutions which are provided by official agencies or by their executive agencies, and each transaction of which is administered with the promotion of the economic development and welfare of developing countries as its main objective; and is concessional in character and conveys a grant element of at least 25 per cent.[31]

22. Although it might be desirable, the OECD-DAC told us that there were no current plans to revise the definition of ODA. There were clear guidelines about what type of expenditure was eligible to be reported as ODA. For example, 6% of donor contributions for UN Peacekeeping operations are eligible. For bilateral assistance the management of security expenditure can be counted but not counter-terrorism activities or any

27 OECD, *Review of the Development Cooperation Policies and Programmes of the United Kingdom*, 20 April 2010

28 http://www.fco.gov.uk/en/news/latest-news/?view=News&id=23068038

29 Ev w37

30 Qs57-58

31 OECD, *Is it ODA?* Fact sheet, November 2008

expenditure on weapons. Police training is eligible as are improving governance and democratisation programmes. Gift Aid through NGOs can also be reported as ODA.[32]

23. All ODA provided by DFID is subject to the International Development Act 2002 which states that the Secretary of State may provide development assistance if he is satisfied that such assistance will contribute to poverty reduction.[33] This is a narrower interpretation of ODA than that used by the OECD, but the Act applies only to ODA provided by DFID, not to ODA provided by other Government Departments.[34] This means that the ODA provided by these Departments need not have poverty reduction as its primary objective.

24. Some of DFID's budget is being transferred to others departments. In the 2010-11 Winter Supplementary Estimate £58.697m is transferred to the FCO for British Council Official Development Assistance (£40m), Conflict Prevention Pool (£16.547m), Papal Visit (£1.85m.), Police Training in Tanzania (£0.2m) and Visas for Chernobyl Victims (£0.18m). £16.033m. is transferred to the Ministry of Defence in respect of the Conflict Prevention Pool.[35] The Secretary of State told us:

> When I was in discussions with the Foreign Secretary about the British Council, it was clear that he would not be able to fund that through his budget and I said that we would look at it. I made it clear back in July that, as much of what the British Council does is ODA compliant—the Committee will understand the very good work that the British Council does around the world, particularly on education—I would not want us as a country to lose the ability to fund that. So I made it clear to the Foreign Office that we would take that over, but subject to the fact that it must be good quality spend that the independent evaluation body says is well spent.[36]

DFID subsequently clarified the situation, noting that the Secretary of State had agreed to

> release budget to the FCO to remove the [financial pressure] from them. FCO and British Council remain responsible and accountable for the spend, with no DFID involvement on a day to day basis. Of course, as the overall "owner" of UK ODA, DFID has a general interest in ensuring that all reported ODA is well spent. For future years, the recent Spending Review 2010 settlement has ensured that each department has received the appropriate amount of ODA budget.

25. **The Permanent Secretary informed us that the share of the UK's ODA which DFID spends will continue to increase. She expects it to be 89% by 2014-15. This ensures that the majority of UK aid is compliant with the International Development Act 2002 and is for the purposes of poverty reduction. Spending by other departments does not necessarily comply with the 2002 Act. DFID is transferring sums to other departments, including somewhat surprisingly funds for the papal visit. The Government should**

32 Informal meeting with Karen Jorgensen, OECD-DAC, 11 November 2010

33 International Development Act 2002, Section 1

34 International Development Committee, Seventh Report of Session 2009-10, Draft International Development (Official Development Assistance Target) Bill, paras 22-24

35 Ev 29

36 International Development Committee, Second Report of 2010-12, *The 2010 Millennium Development Goals Review Summit,* HC 534, *Ev 3*

explain in its response to this report what the funds transferred to the FCO for the papal visit were spent on and how this was ODA-compliant.

Research

26. According to the Permanent Secretary DFID will increase its research budget over the CSR period from 2.6% to 3% of a significantly larger budget (ie to c. £350 million). This is based on "analysis of the value for money we get out of research, particularly some of the research in new agricultural technologies and techniques, and medical trials."[37] We asked the Permanent Secretary whether DFID sought to ensure that the UK maintained a strong research base in international development. She told us that all research contracts were competitively tendered for and that there was no particular preference given to UK universities. 44% of DFID's central research funds went to UK institutions in 2009-10.[38]

27. We expressed our concern in the evidence session with the Permanent Secretary that the results of DFID's research were not always readily available and that little effort was made to disseminate them widely. This could be done by making it clear to those receiving research grants that they were expected to submit evidence to relevant Select Committee inquiries. We were assured that these issues would be addressed.[39] DFID has subsequently put forward a number of suggestions for this.[40]

28. **Research makes an important contribution both to DFID's work and to international development more widely and it is important that DFID continues to fund high quality independent research. DFID should seek to stimulate research in institutions in developing countries, but it must also recognise the expertise in UK universities and ensure that the UK remains an important centre of research into international development. We are concerned that at present UK research institutions are unfairly disadvantaged compared to universities in other donor countries. Research commissioned by DFID must be disseminated more widely. Tenders for research should state that researchers are expected to provide submissions to select committee inquiries into relevant subjects and make their research available to the public at large in order to increase transparency.**

Switching aid from bilateral to multilateral institutions

29. DFID provides aid directly to around 90 countries. About 90% of its bilateral aid goes to 22 priority countries.[41] A Bilateral Aid Review of all DFID's country programmes is expected to be completed at the end of February. Announcing the review on 16 June the Secretary of State said:

> The review will consider which countries should receive British aid, how much they should receive and which countries should stop receiving British aid. It will also

37 Q28

38 Ev 31

39 Q 70

40 Ev 31

41 http://www.dfid.gov.uk/Documents/publications1/departmental-report/2010/dfid-in-2009-10

> consider which aid instruments are most effective at delivering poverty reduction in different contexts. Any savings generated will be redirected to more effective programmes in other poor countries.[42]

30. DFID has already announced that it will end its aid programme in China and Russia and the funds will be redirected to countries where it can make the most difference.[43] Announcing the closure of these programmes the Secretary of State said that "UK money should be spent helping the poorest people in the poorest countries."[44] This seemed to imply that aid to other middle income countries would also be reduced. The previous International Development Committee had urged DFID to create a coherent strategy for its assistance to middle income countries.[45] This is becoming more important as the number of middle income countries, with significant levels of poverty, is increasing. We are currently engaged in an inquiry into the future of DFID's programme in India, a country which has recently attained lower middle income status.

31. DFID might be able to employ fewer staff and lower its administration costs by concentrating bilateral aid in fewer countries. DFID could also spend its increased budget with little increase in its own administration costs if the share of spending through multilateral institutions increased. In 2009-10 DFID spent £2,436m (37%) of its aid on core funding to multilateral organisations. DFID said that one of the ways it could absorb the big increase in ODA funding in the third year of the settlement (2012-2013) would be to spend it through multilateral channels. The World Bank's International Development Association (IDA) was one of a number of options.[46] However, while it is cheaper for DFID to spend funds through multilateral institutions, these institutions have their own administration costs which are in many cases almost certainly higher than DFID's.

32. DFID added that these decisions would be based on the results of the multilateral and bilateral reviews:

> Ministers are in the midst of making decisions such as choosing between multilateral and bilateral and other global issue spend. They have no preconceptions about that. I think the criteria that we will use to decide will be: "Where do we get the most value for money? Which are the institutions, or countries, where we can get the biggest development impacts for our spend?" As yet, there is no decision on that. I think the admin budget settlement ultimately constrains us a bit as to how much we can do bilaterally, but I don't think it constrains Ministers' choices to such a degree that we have to think about all the incremental increase on the programme side going through multilaterals.[47]

33. **Increasing spending through multilateral organisations would enable DFID to accommodate the large increase in spending in 2013-14 without a major increase in**

42 http://www.dfid.gov.uk/Media-Room/News-Stories/2010/Aid-budget-to-be-refocused-to-deliver-better-results-/

43 UK terminates development aid to China and Russia, *The Guardian*, 16 June 2010

44 *Ibid.*

45 International Development Committee, Third Report of Session 2008-09, *DFID and China*, HC 180, paras 16-19

46 Q 15

47 Q5

running costs, for example by making additional payments to the World Bank. However, it would make little sense to save on DFID's administration costs by spending money through institutions with higher costs. Moreover it should also be noted that increased spending through multilaterals may reduce the control available to DFID. It can be argued that it also dilutes its influence as a major international donor – a proposal which the Committee will examine further. The case for spending through multilaterals must come from intrinsic advantages such as economies of scale and lower transaction costs for developing countries. DFID has not taken a decision yet and we await the Multilateral Aid Review for an analysis of the costs and benefits.

34. **It is also uncertain as yet what decisions will be made in respect of middle income countries following the Bilateral Aid Review. We reiterate our recommendation made in reports in the last Parliament that DFID should have a strategy for its engagement with middle income countries, especially those with large numbers of poor people, indicating the role of bilateral and multilateral aid.**

3 Making spending on aid more effective

Aid effectiveness

35. Speaking at the Carnegie Foundation soon after taking office, the Secretary of State announced

> Ours is a new agenda, one of value for money; accountability; transparency and empowerment [...] People want to see British aid money saving lives and educating children in the world's poorest countries [...] Today I send a clear signal: value for money will be our top priority for aid.[48]

36. The Government has established three main mechanisms for improving value for money, namely the establishment of:

- reviews of bilateral, multilateral and humanitarian aid;
- an Aid Transparency Guarantee, and
- an aid watchdog (the ICAI).

Reviews of bilateral, multilateral and humanitarian aid

37. DFID has initiated reviews of its bilateral, multilateral and humanitarian aid programmes. These reviews are intended to produce the evidence from which the Department will make decisions about future aid allocations. The November 2010 Business Plan states that savings made from reducing lower priority spending and waste will be re-directed to priority countries and programmes where the impact will be greater.[49] We will comment on the Bilateral Aid Review in our Report on India, the Multilateral Aid Review in our Report on the World Bank and the Humanitarian and Emergency Response Review in our Report on the Humanitarian Response to the Pakistan Floods. **We welcome the Government's reviews of bilateral, multilateral and humanitarian aid programmes and trust that they will lead to a switch of spending to organisations and programmes which offer better value for money.**

The Aid Transparency Guarantee

38. There is to be a new UK Aid Transparency Guarantee which will mean that information about all DFID's spending over the value of £500 will be published on the departmental website and will therefore be available to the people who benefit from aid funding:

48 http://www.dfid.gov.uk/Media-Room/Speeches-and-articles/2010/Placing-women-at-the-heart-of-development/

49 DFID, Business Plan 2011-2015

> The UK Aid Transparency Guarantee will also help to create a million independent aid watchdogs—people around the world who can see where aid money is supposed to be going—and shout if it doesn't get there.[50]

39. The Department added:

> One of the things that's really important is that we make available information that is comprehensible and people can make some use of, so over the last three or four months, we've been redesigning the way we do our project documentation to make it clearer and simpler—not to lose the rigour of analysis, but to set it out in a single document in a clearer way, so that when we start to publish our project documents in January we're putting up something which may not feel like an easy read to everyone, but will be considerably easier and clearer than would have been the case previously [..] We're also going to translate the summaries of core project documents into local languages, so that this isn't just for an English-speaking audience, but in our partner countries we make available summary information on our activities.[51]

40. The Aid Transparency Guarantee should also help improve the ability of people in developing countries evaluate projects and enable them to take more responsibility for evaluating the impact of donor policies.

41. DFID intends to play a significant role in pushing forward transparency at the global level through the International Aid Transparency Initiative (IATI) especially in the run-up to the Korea High Level Forum on Aid Effectiveness to be held at the end of 2011.[52]

42. Most NGOs have welcomed "the commitments made by the Secretary of State for International Development to make information on all DFID programmes readily available online and elsewhere."[53] Owen Barder from the NGO *Development Initiatives* observed that:

> Information about aid funding and programmes empowers the intended beneficiaries, affording them greater political leverage and enabling them to put pressure on donor organisations [...]When taxpayers are able to see directly how their aid is being used [...] it will be the basis of a new social contract between taxpayers in industrialised countries and the aid system.[54]

43. **We support the establishment of the Aid Transparency Guarantee. This will help increase the effectiveness of spending on aid and empower aid recipients in developing countries.**

50 http://www.dfid.gov.uk/Media-Room/News-Stories/2010/Mitchell-Full-transparency-and-new-independent-watchdog-will-give-UK-taxpayers-value-for-money-in-aid/

51 Q 55

52 DFID Business Plan, 2011-15

53 Ev w13

54 Owen Barder, open think tank 2010, *Better Aid: Spotlight on Transparency*, April 2010

The Independent Aid Watchdog

44. The Government has also decided to set up an independent watchdog, the Independent Commission on Aid Impact (ICAI), to oversee aid spending. Announcing the establishment of the body, the Secretary of State said:

> We need a fundamental change of direction—we need to focus on results and outcomes, not just inputs. Aid spending decisions should be made on the basis of evidence, not guesswork. That is why we have taken the first steps towards creating a new independent aid watchdog.[55]

45. The main purpose of the watchdog, which replaces the Independent Advisory Committee on Development impact (IACDI) which was set up three years ago, is to be responsible for the production of impartial and objective evaluations of the UK's aid projects and programmes. At present the IACI is a shadow body. A Chief Commissioner, Mr Graham Ward, has been appointed, following a pre-appointment hearing before this Committee. The appointment of three other commissioners is expected in early 2011. The functions of the organisation and lines of accountability are described in the appendices to our report on Mr Ward's appointment. The key points are that the ICAI will:

- commission evaluations from a consortium which successfully bids to provide them;
- be accountable to Parliament through our Committee, sending us copies of evaluations;[56]
- have oversight of all UK ODA, not just that spent by DFID, and
- be fully functional by June 2011.

46. A major problem the ICAI faces is that effective evaluation is only possible if DFID programmes are designed in such a way that they can be evaluated.[57] The NAO further suggests that DFID is making slow progress at collecting reliable data from international and national authorities on key targets which may hamper effective assessment of projects.[58] Ideally, this would mean as far as possible the collection of base-line data, the use of some form of control and minimising changes to the programme once established. Otherwise, there is a danger that evaluation amounts to little more than asking people for their subjective opinions. However, designing programmes in this way is not easy and presents its own dangers if not done sensitively.

47. A number of submissions commented on the ICAI. Most welcomed its establishment in principle but raised concerns about how the evaluations would be undertaken. The

55 http://www.dfid.gov.uk/Media-Room/News-Stories/2010/Mitchell-Full-transparency-and-new-independent-watchdog-will-give-UK-taxpayers-value-for-money-in-aid/

56 The Committee undertook a pre-appointment hearing with the proposed head of ICAI, Graham Ward (International Development Committee, First Report of Session 2010-11,*Appointment of the Chief Commissioner of the Independent Commission for Aid Impact,* HC 551

57 Q 44-47

58 NAO, *The work of the Department for International Development*, p 13

NGO coalition, *BOND*, pointed to potential pitfalls, in particular the need to consider the long term:

> As well as some areas where obvious outcomes can be measured, international development also involves complex, long-term processes that are not always measurable or straightforward to analyse, or to establish attribution or direct cause and effect. In the desire to demonstrate greater development impact it seems that DFID will look to increasingly fund NGO work that focuses on 'measurable deliverables'. This may provide immediate results in the short term. However, it could also mean less impact on the longer term, more complex processes of social, economic and political change that are known to affect poverty.[59]

48. Issues such as good governance are vital to development but results from spending in this area are unlikely to be seen in the short term. The IDS warned that the watchdog must use a variety of approaches to evaluation:

> The issue has to drive the methods. And it is not only tools that need to be pluralistic, it is the defining and framing of the issues. Different groups have different priorities and different definitions of success.[60]

49. In our pre-appointment hearing with the Chief Commissioner in October, we questioned him on these issues.

50. **We welcome the establishment of the Independent Commission on Aid Impact to undertake independent evaluations of ODA spending. The Commission will report to us and we will examine its programme of work, propose subjects for evaluation and take evidence in respect of some of the evaluations from the Permanent Secretary, the Commissioners and those who undertook them. We will not take evidence on all the evaluations since this would detract from our own core functions and work.**

51. **We note that the Commission will only be effective if:**

- **DFID designs programmes in such a way that they can be evaluated;**
- **Evaluations are undertaken sensitively, taking account of the fact that the effectiveness of some programmes, for example those relating to governance, will only become apparent in the long term;**
- **Evaluations are designed to be effective but do not impose unnecessary burdens on staff in the field – they should not involve excessive bureaucracy and form-filling for staff, and**
- **DFID ensures that it has mechanisms in place to learn from the evaluations.**

59 Ev w13

60 Ev w37

4 Running costs

52. While DFID will be increasing its total spending over the next four years, it will also, according to the CSR, have to reduce the share of expenditure spent on running costs – from 4% to 2% of the total budget. Administration costs which are a subset of running costs, excluding most frontline staff, are to be reduced significantly – by 33% in real terms.[61] This has led to concerns that DFID will be unable to spend its increased budget efficiently because it will not have adequate numbers of staff in place. When we put this to DFID we were informed that these concerns were unfounded because it would be possible to increase both running costs and the number of its frontline staff.

Administration costs

53. DFID's core administration budget will be cut by £34 million over the spending review period from £128 million to £94 million.[62] DFID told us this was in line with all Government departments.[63] DFID provided us with a breakdown of the £128 million[64]:

DFID's core administration budget

Employee costs	£76m.
Property costs	£24m.
Comms & IT	£6m.
Consultancy , service & supply	£8m.
Staff Training, Travel	£12m.
Other admin costs	£2m.
Total	£128m.

54. It is not yet clear precisely how the £34 million reduction in spending will be achieved. DFID informed us that:

> Organisational Units across DFID will be preparing Operational Plans for the SR period in early 2011. These plans will set out how the department will meet the reductions in administrative costs. There are already a number of plans in place to achieve significant reductions, notably on [...] consultancy, increased income from

61 NAO, *The work of the Department for International Development*, p 7

62 *Ibid.*

63 Q 2

64 Ev 33

> property and further rationalisation and systems improvements in the corporate support functions. Further details of these plans will be available in 2011.[65]

55. However, we were given some indication how the savings might be achieved. This would be done largely through "changes to our travel policy, changes to overseas allowances, renting out more office space in Palace Street and reforming DFID's corporate centre."[66]

56. The Permanent Secretary told us that reductions in its use of office space will enable DFID to rent out some space it currently uses. We were told: "we are moving to a system where we will have only seven desks per every 10 members of staff, and everyone is going to have to hot desk."[67] The NAO informed us that

> Since 2009, the Department has let space in its London office which should generate income of £1.2m in 2010-11. The department estimates further rental income of over £2m per annum is possible in future years from renting out space available in London by relocating posts to East Kilbride.[68]

57. The travel budget will be reduced by about £1.2 million per year or about £5 million over the next 4 years by travelling less and by using economy flights. Increased use of video-conferencing will ensure communication channels remain open.[69]

58. Corporate functions include finance, procurement, human resources, information and communications technology, knowledge management and communications. DFID said it was "shifting from a ratio where [...] we had something close to one in three of our staff doing corporate or central work, to a ratio that is more like one in five or one in six. [..] That will probably account for at least £8 million to £10 million of the savings we need to make."[70] This reduction will continue the downward trajectory of costs of the corporate centre which have already been reduced from £57 million in 2006-07 to £38 million this year.[71]

59. DFID will also make a number of changes to the composition of its staff. There has been a reduction in the number of senior staff: Director Generals from four to three and Directors from 14 to 12. In addition DFID has already offered a voluntary redundancy scheme for senior staff members.[72] Staff working on communications have been reduced from about 100 to about 60 this year and there has been a significant reduction in the number of Human Resources (HR) staff.[73]

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65 Ev 33

66 Ev 25

67 Q42

68 NAO, *The work of the Department for International Development*, p 11

69 Q 25

70 Q 4

71 Q25

72 Q 19

73 Q 25

60. DFID was keen to point out that the changes were not only in response to the current public spending pressures. DFID said it had been becoming more efficient over a number of years:

> If you look at our HR function, in 2005 we had 150 people there. By the end of this calendar year we'll have about 89. That's been a steady downward pressure. If you look at space planning in the building, we sublet one floor of our building in Palace Street 18 months ago. We're going to sublet more of that space. I think what's happened is this hasn't been an overnight change to say, "We were running a particular model before and suddenly that's changing and we're cutting things that we previously felt completely relaxed about." We've been on a downward trajectory with admin costs.[74]

DFID denied that savings had been possible because it had been inefficient or excessive in its expenditure in the past; rather there were new ways of doing some things, with new technologies such as video-conferencing, which were more cost effective.[75] Despite these major organisational changes DFID claims that staff morale remains high.[76]

Staffing Abercrombie House

61. DFID's staff in the UK are divided between the London Office and the East Kilbride Office—Abercrombie House. DFID plans to increase the number of posts based in East Kilbride by 70.[77] DFID explained that although there were many corporate jobs based in East Kilbride, and this was an area for Departmental cuts, it was engaged in a process of moving more policy and management jobs there:

> If you looked at Abercrombie House five to 10 years ago, it was dominated, probably 90+%, by corporate and transactional work. That's changed quite a lot now. We've moved policy jobs, we've moved some of our bilateral aid programme management jobs, some research jobs; some of the multilateral work is done from there. The balance of work in East Kilbride has moved that office from what it was originally set up as—effectively a transactional and corporate support function—to one that's much more part of the core headquarters of the Department. One of the things that's meant, over the last six months or so, is that the 70 policy and programme management jobs that we're in the process of moving right now have largely been filled by staff who were already in Abercrombie House and previously doing corporate roles [...] We are managing some quite important shifting of staff away from seeing themselves just as Abercrombie House corporate staff, to staff who do a wide range of work, and we expect that process of continuing to review the balance of work between Abercrombie House and London to continue.[78]

74 Q11

75 Q 10

76 Q 9

77 Q 21

78 Q 21

62. However, although policy posts are being moved to East Kilbride, the majority of posts there are at Band B1 or below (295 out of 463). In contrast the majority of posts in the London office are at Band A2 and above (451 out of 756).[79]

63. Some costs in East Kilbride are lower, for example accommodation. We asked the Permanent Secretary about how DFID attempted to strike the right balance between staff in London and East Kilbride. We were told:

> you have to think coherently about teams, and so certain teams have big functions that require them to be in London, which is how we thought about which jobs we could relocate to Abercrombie, but even there we've tried to be very flexible. A big part of the spending review was run out of Abercrombie, and those teams had to go back and forth between London on a regular basis; we had to balance the costs and manage it in a sensible way. Having staff outside London also incurs costs, because if they are having to come to London three times a week and stay in hotels and pay for transport it's not very cost effective. So those are the kind of choices and balancing that we have to make as managers.[80]

64. **The previous Committee visited Abercrombie House during the last Parliament and we intend to do so during the course of this Parliament. We will keep a watching brief over staff moves to East Kilbride and at whether the balance between London and East Kilbride is optimal.**

The risks of increasing total spending while reducing running costs

65. By 2013-14 DFID will be spending over £11billion per year, meeting the UK's international commitment of spending 0.7% of GNI on ODA. To spend these funds effectively DFID will require the right numbers of staff with the right skills and abilities. In the last Parliament the International Development Committee raised on a number of occasions its concern about the consequences of DFID's decision to cut expenditure on administration while increasing spending on programmes.[81]

66. The US Agency for International Development (USAID) has found to its cost the consequences of such a policy. In December 2009 this organisation published its Annual Human Capital Management Report, which criticised the previous US Government's policy of reducing staffing across the agency:

> More than a decade of downsizing and a failure to replace employees has created a gap in the Agency's workforce. While staff levels were steadily decreasing, USAID's mission was changing and expanding to meet the challenges of the 21st century. These new roles and responsibilities have challenged USAID's small staff and required the Agency to constantly adapt its business practices.[82]

79 Ev 31

80 Q43

81 DFID's 2008-09 Annual Report indicated that that DFID was planning to cuts its administrative expenditure by £8.9 million between 2008-09 and 2010-11 primarily by reductions in staffing (International Development Committee, Fourth Report of Session 2009-10, *DFID's performance in 2008-09 and the 2009 White Paper*, HC 48, paras 32-35).

82 USAID, Fiscal Year 2009, *Annual Human Capital Management Report*, December 2009

67. USAID has now embarked on a mission to "rebuild USAID through expanding its workforce [...] to create an agile, flexible, focused, and more accountable organization."[83] DFID needs to be careful not to make the same mistakes as USAID. Adam Smith International argued:

> DFID's aspirations to provide global leadership on a range of development issues, and to 'punch above its weight', are dependent on DFID's ability to retain and further enhance its reputation for quality. It seems evident that the political and policy underpinnings of the decision to ring fence ODA have their basis in maintaining quality. If quality can be improved, so much more can be delivered. There is a distinct danger that the drive to reduce administration costs could have a very negative effect on quality and delivery of effective and efficient development aid. In short cutting administrative costs could very easily be a false economy [84]

68. Another option, which as we have seen would enable DFID to spend its increased budget without increasing administration costs, is to spend the funds through multilateral institutions. Adam Smith International cautioned that DFID should not think that it was reducing its administrative costs if it was transferring more resources to other (multilateral) organisations which had much higher overheads. This would be a "pretence" in terms of savings.[85]

Frontline staff and running costs

69. In fact, DFID's position is not as bad as the above analysis suggests. While DFID acknowledged that "the biggest risks are probably around maintaining the capacity to deliver the programme, and particularly looking at the programme in some of the more difficult environments that we work in,"[86] the Department for the reasons given below will be able to employ significantly more staff.

70. The CSR states that DFID's running costs will decline from 4% to 2% in 2014-15. However, according to the NAO, if we compare current running costs on a comparable basis (notably, excluding depreciation) to the 2% in 2014-15, they are currently 2.6%, not 4%. Since there is to be an increase in total spending of 34% in real terms, running costs while declining as a percentage of total spending will increase in real terms by 6%.[87]

71. In addition, DFID is engaged in a major "reshaping of the organisation" which will mean it will switch resources from back-office to front-line functions.[88] The Permanent Secretary explained the situation the Department found itself in:

> We are, like all Departments, cutting our core administration costs by a third, and we believe that we have to do our part, and there are some bits of our business where we think we could become more efficient. There are areas like HR, for example, where

83 *Ibid.*

84 Ev w6

85 Ev w7

86 Q 9

87 Ev 40; NAO, *The work of the Department for International Development*, p 10

88 Q 4

> our ratio of HR staff to total staff is higher than the Whitehall average; our use of space could be more efficient. We don't want to exempt ourselves from the efficiencies that our colleagues are making across Whitehall. Having said that, we are in a fairly unique position, because of the rising programme.[89]

72. As a result of the 6% increase in running cost and the 'reshaping', DFID informed us: "the spend on frontline goes up by something like 80% over the period. It's not just a growth in total running costs; it's a very big reshaping of the organisation within that."[90] The Permanent Secretary stressed that there should be a significant increase in front-line staff:

> The Treasury, in the settlement, has given us a rising programme funded administrative budget, which covers the people who are directly managing the aid programme. That rises fairly rapidly, and the good thing is, it starts rising from the beginning of the programme. We haven't decided exactly how we're going to use that additional resource, but in theory it enables us to hire an additional 300 to 400 staff, who would be responsible for directly managing the rising programme.[91]

73. There are, however, concerns. The first is whether it is necessary to increase the staff by this number if DFID significantly increases the share of funds spent through multilateral institutions. Secondly, we questioned the Department whether the new staff needed to deliver the larger budget would be in place before 2013-14 when the total DFID budget begins to rise rapidly. The Department claimed that that this would be the case.[92]

74. The Department will need to ensure that its staff have the right skills. They are key to DFID's future success. We saw in Chapter Two that DFID will require: people who know how multilateral institutions work and how to work with them; others with the skills to work with the FCO and MOD to develop policy; and more frontline staff capable of working in difficult conditions in fragile states. The previous Committee raised concerns on a number of occasions about whether DFID had the right staff with the right skills to pursue its increasing emphasis on fragile and conflict-affected countries.[93] The Committee thought DFID needed better incentives to encourage staff to take up these postings and a reconsideration of its language training provision.[94] In October 2008 the NAO report *Operating in Insecure Environments* said:

> The Department has worked hard – often in difficult and dangerous situations – to deliver real benefits to some of the world's most vulnerable people. However, higher risks in insecure environments has led to lower project success rates, and delivery of aid through partner organisations has sometimes suffered from weak partner

89 Q 2

90 Q 4

91 Q 2

92 Q18

93 International Development Committee, *DFID Annual Report 2008*, para 81

94 *Ibid*., para 88

> capacity. The Department has not always found it easy to ensure all posts are filled in insecure environments.[95]

75. DFID acknowledged that it needed to employ more specialist staff in this area:

> We definitely need more governance specialists, conflict specialists, economists who have experience in fragile states; we need more people who can deliver programmes where you can't work easily through the Government.[96]

76. We also asked DFID officials about the balance between UK-appointed and local staff on its programmes. We were told that there had been an increase in staff appointed in-country (SAIC):

> We used, seven or eight years ago, to have only single figures of staff appointed in country who were in professional, decision making, advisory roles. We now have more than 100 people of that sort, some of whom run one or two of our overseas offices. Others are deputies in the overseas offices. There are a lot of decision makers; we have a lot of economists, health professionals, governance specialists. It's a much more mixed economy than there used to be in the group of staff appointed in country.[97]

In 2010 out of a total of 2383 DFID staff, 764 were appointed in country, of which 132 were Grade A2 or above.[98] We were also informed that in countries, such as Pakistan, where the programme was expected to be expanded, it would be useful to have more locally employed staff who spoke the relevant languages and understood the local culture. UK-based staff contributed knowledge of DFID and of the UK political and financial systems. DFID said it was important to have a mix of the two.[99]

Use of technical cooperation

77. One of the ways in which DFID is able to compensate for a lack of staff with the right skills and to implement a diverse portfolio of projects and programmes in-country is through the employment of external suppliers to manage these programmes. DFID spent £420 million on technical cooperation (also known as technical assistance) projects in 2009-10 of which £374 million was paid to suppliers of these services and £19 million to experts.[100] It is not expected that expenditure through these organisations will decrease. DFID told us how it used technical assistance:

> The other big block of spend that has been loosely called consultancy is really services that are provided on behalf of DFID to developing countries. So this is the programme-funded activity—technical assistance in the language that we've often used [...]and we are not actively looking to reduce the volume of activity there. How

95 NAO, *DFID: Operating in Insecure Environments*, October 2008

96 Q 67

97 Q23

98 Ev 31

99 Q 23

100 NAO, *The work of the Department for International Development*, p 12

> much of that we contract is largely driven by programme design decisions, particularly in the country programmes. We are concerned about getting best value from that, and it is correct to say that we hadn't set fixed limits, but that does not mean that we don't care very much about the value we're getting.[101]

78. Appendix One provides a breakdown of £374 million, indicating the payments made to suppliers of technical assistance. Details of current supplier contracts with a value greater than £10m are shown in Appendix Two.

79. There are a number of concerns about expenditure on technical co-operation. According to the OECD, while DFID manages this technical cooperation well, the use of large external suppliers is likely to have negative implications for the building up of local expertise.[102] It is also unclear how effective the use of technical cooperation is. DFID told us it wanted to be better at evaluating technical assistance:

> [We are] ambitious for getting much better evaluation of technical assistance in the future by using new evaluation techniques, including randomised control trials where we can, and the truth is that the aid community as a whole has not been very good at getting a really strong grip on how effective technical expertise is. We've a lot of anecdotal evidence, but really solid evidence of impact is quite difficult to get hold of, and DFID is not alone in that; we are ambitious that in future we will strengthen our ability and that of the rest of the donor community better to understand where it works well and where it doesn't.[103]

Another concern are the fee rates paid to external suppliers. They receive large sums of money and we need to be convinced that external suppliers offer better value for money than civil servants (taking account of all overheads) and that DFID is capable of choosing the supplier who offers best value for money.

80. **Over the next 4 years the Department will make cuts in its administration costs of £34 million, equivalent to 33% in real terms. These will include significant reductions in the corporate budget as well as reduced expenditure on office space, communications and travel. New technologies are enabling reduced costs in some areas and there will continue to be reductions in staff in back-office functions. We commend DFID for making important administrative savings over the last 5 years and for its plans to do more over the next period provided they do not undermine DFID's ability to do its work effectively. The numbers of HR staff have been reduced from 150 to 89 but this reduced figure looks more than adequate. It makes obvious sense to reduce the number of back office staff rather than vital frontline staff. We welcome the decision to increase the number of policy staff at East Kilbride as the number of 'corporate' staff there decreases. It will be important to ensure that in reducing corporate functions, key roles such as the ability to monitor and manage external suppliers is not weakened.**

101 Q 32

102 OECD, *United Kingdom (2010) DAC Peer Review*

103 Q 41

81. **DFID's running costs are to be reduced to 2% of its budget over the next 4 years, but will increase by about 6% in real terms because of increases in the total DFID budget. The increase in running costs together with the reduction in administration costs will enable DFID to employ perhaps 300-400 more frontline staff, according to the Permanent Secretary.**

82. **These additional frontline line staff will be essential if DFID is to deliver effectively its increased budget, especially if much of the increase is in bilateral aid. It is important that these staff have the right skills. Once the results of the bilateral review are known, we recommend that DFID devise a strategy for how it will increase the number of its staff in those countries where it intends to have programmes. A wider range of staff will also be required if DFID is to successfully take on a new role in conjunction with the FCO and MOD. This will mean employing staff who have the ability to influence policy as well as administer aid budgets. We agree with DFID that it enhances in-country programmes to have locally-employed staff and that it is important that such staff not only fill lower grade jobs but are integrated throughout the DFID programme. We commend DFID on its efforts to do this and encourage it to continue to make sure "decision-makers" in each DFID office include some staff-appointed in-country. DFID should focus, in particular, on how this might be done in fragile and conflict-affected countries.**

83. **The use of external suppliers to provide technical assistance fills an important skills gap. However, we are concerned that the use of such suppliers may affect the ability of developing countries to build up expertise. In addition, DFID needs to ensure that it is selecting the suppliers which are providing the best value for money and to examine whether, as a major purchaser of their services, DFID could do more to drive down fee rates. We will ask the new ICAI to examine whether external suppliers are providing value for money.**

5 Conclusions

84. We welcome the Coalition Government's commitment to achieve the long-held internationally agreed target of providing 0.7% of GNI as ODA from 2013. We fully support the target and commend the Government's commitment to meet it, at a time of economic difficulty. We also support the measures the Government has taken to improve aid effectiveness. We will continue to assess DFID's programmes to ensure they provide value for money and intend to play our role in ensuring DFID's budget is spent effectively and for the purposes of poverty reduction.

85. There is a risk that reductions in administration costs will undermine DFID's ability to spend effectively its increased budget. However, this risk is being minimised: running costs are to increase, most frontline staff are not included in administration costs and DFID is to be reshaped by making large savings in back-office functions. As a result there should be a significant increase in frontline staff. We support the proposals to make savings, but note that efficiency must not be compromised by an attempt to meet artificial targets. We will monitor these matters carefully through our inquiries into DFID's Annual Report; DFID should include in next year's report figures for total back-office and frontline staff.

86. There will be pressures arising from the increase in DFID's budget accompanied by a reduction in administration costs in the next few years for funds to be channelled through multilateral organisations. While we await the outcome of the Multilateral Aid Review, we hope that DFID will not merely see spending through multilaterals as an "easy option" and that it will continue to assess the effectiveness of spending through these organisations, as we will.

87. We also welcome the continuing importance that DFID is placing on transparency through the addition of the Aid Transparency Guarantee and the Independent Aid Watchdog, ICAI. However DFID should continue to find ways to open up aid spending to the general public and make it easier for people to look at the ways public money is being spent. We will continue to monitor developments in aid transparency closely.

88. The increase in frontline staff – of the order of 300-400 - will enable DFID to recruit more staff with the right skills. It requires:

- More people capable of working with the FCO and MOD on policy
- More people able to work in fragile states, and
- More people who have worked with multilateral institutions and know how to work with them effectively.

Some extra staff traditionally defined as back-office will also be needed, in particular people capable of effectively commissioning work from and managing external suppliers.

6 Appendix 1

Supplementary evidence submitted by the Department for International Development on Procurement Information

The IDC asked two additional questions:

1. **Can we have a breakdown of the £374m paid to suppliers of technical assistance?**

Breakdown of 2009/10 spending on Technical Assistance:

Supplier Name	2009/10 Payments
ADAM SMITH INTERNATIONAL LTD	£30,774,422
THE CROWN AGENTS	£28,281,172
GRM INTERNATIONAL LTD	£22,505,640
HTSPE LTD	£16,099,729
BRITISH COUNCIL	£16,016,437
HLSP LTD	£13,852,500
ABT ASSOCIATES INC	£12,639,612
Cambridge Education Limited	£11,885,487
MAXWELL STAMP PLC	£9,284,401
BMB MOTT MACDONALD	£8,631,960
COFFEY INTERNATIONAL DEVELOPMENT LTD	£8,247,258
HEALTH PARTNERS INTERNATIONAL	£7,745,067
Society for Family Health	£7,563,847
WSP INTERNATIONAL LIMITED	£7,002,520
BMB MOTT MACDONALD	£6,882,414
Crown Agents Bank	£6,840,049
MALARIA CONSORTIUM	£6,730,975
OXFORD POLICY MANAGEMENT	£6,125,334
OPTIONS CONSULTANCY SERVICES LIMITED	£5,005,695
HELM CORPORATION LTD	£4,898,144
HAREWELLE INTERNATIONAL LIMITED	£4,789,988
UNIVERSITY OF WOLVERHAMPTON	£4,614,703
CHRISTIAN AID	£4,486,727
PRICEWATERHOUSECOOPERS	£4,046,861
IMANI DEVELOPMENT	£3,525,954
LIVERPOOL ASSOCIATES IN TROP. HEALTH	£3,518,379
MOTT MACDONALD LTD	£3,481,511
ATOS CONSULTING LIMITED	£3,451,669
RIFT VALLEY AGRICULTURE PTY LTD	£3,267,825
HLSP LIMITED	£3,252,864
STANDARD CHARTERED BANK	£3,118,463
IBRD HSBC T	£3,114,000
Venco-Imtiaz Construction Company(AFG)	£3,095,118
Unit 4	£3,015,711
UNFPA (Nigeria)	£3,000,000
FAMILY HEALTH INTERNATIONAL	£2,707,077
UNICEF	£2,674,500
PKF (UK) LLP	£2,624,298
CAMBRIDGE EDUCATION LTD	£2,608,397
CHEMONICS	£2,570,123
CARE INTERNATIONAL UK	£2,495,127
EMERGING MARKETS GROUP	£2,372,580
LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE	£2,280,677

Supplier Name	2009/10 Payments
MOTT MACDONALD INTERNATIONAL	£2,130,243
INFRASTRUCTURE PROFESSIONALS ENTERPRISE	£2,041,313
POPULATION SERVICES INTERNTIONAL	£2,028,065
Masdar (UK) Limited	£1,932,640
SIDBI FOUNDATION	£1,779,797
SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA	£1,637,510
DAI EUROPE LIMITED	£1,613,612
FOREIGN AND COMMONWEALTH OFFICE	£1,541,920
OVERSEAS DEVELOPMENT INSTITUTE	£1,455,745
ONE WORLD	£1,441,119
GHK CONSULTING LTD	£1,318,254
COI	£1,209,552
CAMBRIDGE EDUCATION CONSUL	£1,182,952
UNIVERSITY OF BIRMINGHAM	£1,158,145
CLINTON FOUNDATION	£1,113,347
International Food PolicyResearch Institute (IFRI	£1,091,639
RTI INTERNATIONAL	£1,061,360
International Road Federation (IRF)	£1,033,991
PROJECT MANAGEMENT & TRAINING CONSUL	£1,027,181
PRICEWATERHOUSECOOPERS AFRICA	£979,760
AFRICAN CENTRE FOR TECHNOLOGY STUDIES	£918,518
INTERNATIONAL HIV/AIDS ALLIANCE	£913,039
CONSTELLA FUTURES	£824,074
EMERGING MARKET ECONOMICS LTD	£805,298
BMB MOTT MACDONALD	£799,405
OPIN SYSTEMS LIMITED	£793,371
WHO (GENEVA)	£783,403
PRICEWATERHOUSE COOPERS	£762,237
KPMG ANGOLA & MOZAMBIQUE	£757,275
KPMG EAST AFRICA LTD	£755,587
ITAD LTD	£751,178
THE IDL GROUP	£751,100
TRIPLE LINE CONSULTING LTD	£748,674
DELTA PARTNERSHIP SOLUTIONS LTD	£709,588
OXFAM	£695,996
CARE INTERNATIONAL	£695,661
PUBLIC ADMINISTRATION INTERN	£657,147
TROPICAL HEALTH EDUCATION TRUST	£656,715
PRICEWATERHOUSECOOPERS DEVELOPMENT	£635,193
NATURAL RESOURCES INTERN	£620,296
CAB INTERNATIONAL	£611,386
SOCIAL DEVELOPMENT DIRECT LTD	£599,149
DELOITTE TOUCHE TOHMATSU INDIA PRIVA	£580,462
DELOITTE CONSULTING (PTY) LTD	£579,629
KPMG Development Services	£573,485
NCC SERVICES LIMITED	£558,030
CROWN AGENTS (INDIA) PVT. LTD	£555,316
UNCTAD	£511,192
INTERNATIONAL ORGANISATION DEVELOPME	£505,323
UNIVERSITY COLLEGE LONDON (FEES)	£499,221
CMC PARTNERSHIP (UK) LTD	£492,550
THE MEDIAE COMPANY	£483,949
EFFECTIVE DEVELOPMENT GROUP (EDG)	£481,878
EC GROUP	£481,290
DELOITTE TOUCHE TOHAMATSU INDIA PRIVATE LTD (DTTIPL)	£462,798
HELPAGE INTERNATIONAL	£459,558
OVERSEAS DEVELOPMENT INSTITUTE (ODI)	£457,852
Rift Valley Agriculture Pty Ltd (AFG)	£427,404
LOUGHBOROUGH UNIVERSITY	£427,136

Supplier Name	2009/10 Payments
IFAD	£426,000
THE SOLUTION WORKS	£411,172
NR MANAGEMENT CONSULTANTS INDIA (PVT	£407,019
ASSOCIATES FOR INTERNATIONAL DEVELOPMENT (AID INC)	£368,513
PA CONSULTING GROUP	£339,885
INTERNATIONAL RECORDS MANAGEMENT	£338,439
Management Sciences for Health	£336,088
INTERNATIONAL SOS ASSISTANCE (UK)LTD	£331,021
WYG INTERNATIONAL LIMITED	£317,429
HALCROW GROUP LTD	£314,323
LOGICACMG UK LTD.	£306,024
SCHOOL OF ORIENTAL & AFRICAN STUDIES	£282,162
ALLEGIS GROUP LIMITED	£280,471
EDINBURGH RESEARCH AND INNOVATION LT	£276,912
MINISTRY OF DEFENCE	£271,427
THE INSTITUTE OF DEVELOPMENT STUDIE	£268,761
ECOTEC RESEARCH AND CONSULTING LTD	£265,690
HALCROW MANAGEMENT SCIENCES	£265,661
W S ATKINS INT LTD	£256,406
IBRD (HSBC) C/O THE WORLD BANK	£250,000
IPA-International Procurement Agency (BV)	£249,912
SAANA CONSULTING LTD	£243,220
LIBRA ADVISORY GROUP LTD	£240,350
RE-ACTION LTD	£234,135
FCO RECOVERIES UNIT	£223,683
WORLD RADIO FOR ENVIROMENT AND NA	£217,521
TURNER & TOWNSEND	£216,656
ROBY (ANDREW)	£208,625
REPIM	£203,577
INSPIRIS	£193,978
University Of Oxford	£193,909
THE SPRINGFIELD CENTRE	£191,875
NATURAL RESOURCES INSTITUTE	£191,227
IMATT (SL)	£189,847
SNC LAVALIN INC.	£189,156
TARU LEADING EDGE PRIVATE LIMITED	£186,674
ERNST & YOUNG PVT. LTD	£183,385
LONDON SCHOOL OF HYGIENE AND TR	£174,394
CAMBODIA DEVELOPMENT RESOURCE INSTITUTE	£171,609
Deposit Insurance Agency - Treasury Project	£170,646
Social Impact	£170,147
The World Bank (EFO)	£170,000
Development Media International	£169,800
DEBT RELIEF INTERNATIONAL LIMITED	£168,023
AMTEC CONSULTING	£166,786
CHARLES KENDALL & PARTNERS LIMITED	£166,767
REAL 2 REEL PRODUCTIONS	£164,003
AGULHAS DEVELOPMENT CONSULTANTS LTD	£162,947
COMMONWEALTH FOUNDATION	£159,966
K B ROBSON	£156,734
HEDRA CONSORTIUM	£156,595
Johnson Controls	£153,654
INTERNATIONAL INSTITUTE FOR ENVIRO	£152,308
MR G & MRS E HORLACHER	£152,159
META-DEVELOPMENT LLP	£152,124
ROY FLEMING	£152,038
Institute of Development Studies	£151,454
LISA CURTIS ASSOCIATES	£150,803
Bankable Frontier Associates	£148,772
AECOM LIMITED	£147,137
WRENmedia	£146,044
ENGAGE GROUP	£138,321
Argos Georgia Limited	£135,000
RAJAN SONI	£134,390
McKinsey & Co, Inc UK	£132,775
MOUCHEL MANAGEMENT CONSULTLING LTD	£132,128
ERNST & YOUNG PRIVATE LTD	£130,670
ADAM SMITH INTERNATIONAL	£121,306

Supplier Name	2009/10 Payments
INTERNATIONAL EDUCATION PARTNERS LTD	£117,848
CONSULTANCY WORKS LTD	£117,213
The Africa Group LLC	£116,160
IMPACT DEVELOPMENT TRAINING GROUP	£115,810
TFPL LIMITED	£109,961
STAIRWAY COMMUNICATIONS	£108,449
NetworkersMSB	£108,405
VERULAM ASSOCIATES LTD	£108,138
XAFINITY PAYMASTER	£105,986
WORLD WILDLIFE FUND INC.	£105,649
PRACTICAL ACTION LTD	£105,466
DEVELOPMENT ALTERNATIVES INC	£105,379
Pannell Kerr Forster Chartered Acc	£105,355
JOHN WARWICK	£105,059
GARTH ARMSTRONG	£104,135
MOKORO LIMITED	£101,887
UNC PROJECT	£100,884
Bangladesh Enterprise Institute	£100,542
BASIL READ (PTY) LTD	£100,000

Source is DFID ARIES 1660 Account Code payments in 2009/10. Includes spending over £100k (OJEU procurement limit), excludes spend on admin consultancy of £19.1m (not Technical Assistance)

2) Which suppliers are currently working on contracts worth more than £10m, how much the contract is worth, what its purpose is and in which country it operates?

Details of current supplier contracts with a value greater than £10m:

Supplier Name	Contract Information	Country / Region	Contract Value
ABT ASSOCIATES INC	Management of the Partnership for Transforming Health Services Phase 2 (PATHS 2)	Nigeria	£130,482,147
ADAM SMITH INTERNATIONAL LTD	Nigeria Infrastructure Advisory Fund	Nigeria	£13,500,000
	Strengthening National and Provincial Tax Administration	Afghanistan	£10,999,556
	The Growth and Employments in States (GEMS) Programme – Consulting Services to Support Improved Business Regulation (GEMS 3)	Nigeria	£13,500,000
ATOS CONSULTING LIMITED	Safety and Access to Justice Programme	Sudan	£17,763,672
BMB MOTT MACDONALD	Fund Management of the Basic Services Interim Arrangements	Sudan	£33,100,000
BRITISH COUNCIL	DFID Global Schools Partnership	UK	£21,364,646
	Justice For All (J4A)	Nigeria	£35,110,832
	Maternal and Newborn Health - Research and Advocacy Fund - Pakistan	Pakistan	£11,300,000
CAMBRIDGE EDUCATION CONSUL	Management of the Education Sector Support Programme in Nigeria (ESSPIN)	Nigeria	£84,321,475
CHRISTIAN AID	Poorest Area Civil Society Programme 2	India	£24,499,758
Crown Agents Bank	Support for Land Tenure Regularisation, Rwanda	Rwanda	£15,993,107
EMERGING MARKETS GROUP	Fund Manager for the Financial Education Fund (FEF).	UK	£11,800,000
GRM INTERNATIONAL LTD	Managing Consultant - Protracted Relief Programme : Phase II Zimbabwe	Zimbabwe	£22,546,315
	Nepal ESP	Nepal	£12,000,000
	State Accountability and Voice Initiative	Nigeria	£20,233,323
HAREWELLE INTERNATIONAL LIMITED	Challenge Fund Economic Empowerment of the Poorest	Bangladesh	£64,999,565

/cont.

/continued:

Supplier Name	Contract Information	Country / Region	Contract Value
HEALTH PARTNERS INTERNATIONAL	Reviving Routine Immunisation in Northern Nigeria	Nigeria	£19,000,000
HLSP LIMITED	Health Sector Technical Assistance - Pakistan	Pakistan	£16,800,000
	Strengthening South Africa's Revitalised Response to Aids and Health (SSARRAH)	South Africa	£13,500,000
HTSPE LTD	Management of the State Partnership for Accountability Responsiveness and Capacity (SPARC)	Nigeria	£41,141,961
	Support for Land Tenure Regularisation (LTR) - Rwanda	Rwanda	£27,401,395
LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE	Design and Operation of the International Growth Centre	UK	£29,744,678
LONDON SCHOOL OF HYGIENE AND TR	Sanitation And Hygiene Research Programme	UK	£10,000,000
MALARIA CONSORTIUM	Support to National Malaria Programme	Nigeria	£46,775,568
MAXWELL STAMP PLC	Design and Implement The Chars Livelihoods Programme - Phase 2 (Management and Technical Support)	Bangladesh	£68,000,000
	Expanding Social Protection in Uganda	Uganda	£15,080,950
PRICEWATERHOUSECOOPERS	Climate and development Knowledge network	UK	£45,799,000
Society for Family Health	Enhancing Nigeria Response to HIV/AIDS (ENR)	Nigeria	£54,999,661
THE CROWN AGENTS	Humanitarian Services To DFID and the Post Conflict Reconstruction Unit		£11,729,000
	Integrated Control of Schistosomiasis and Intestinal Helminths in sub-Saharan Africa (ICOSA)	Sub-Saharan Africa	£15,000,000
	Procurement Support to the Integrated Control of Shhistosomiasis and Intestinal Helminths Project in Sub-Saharan Africa (ICOSA)	Sub-Saharan Africa	£15,000,000
TRIBAL HELM CORPORATION LTD	Managing At The Top - Public Service Capacity Building	Bangladesh	£13,062,710
Triple Line Consulting Limited	Civil Society Challenge Fund - Fund Manager	UK	£43,822,585
UNIVERSITY OF OXFORD	Young Lives Phase IV	UK	£16,000,000
WSP INTERNATIONAL LIMITED	Technical Assistance Rural Access Programme (RAP) Nepal	Nepal	£17,000,000
Total			£1,063,371,904

Source DFID Alito database: live contracts with value over £10m

Conclusions and recommendations

Fragile and conflict-affected states

1. We note that closer working between departments should be assisted by the Conflict Pool which brings together the Government's development, diplomatic and defence interests. We trust the Pool will continue to be used for conflict prevention. (Paragraph 8)

2. DFID is placing an increased focus on working in fragile and conflict-affected countries, which are often furthest from achieving the Millennium Development Goals. In its reply to this report the Government should state which countries will be receiving the increased spending. The new focus will produce problems. There will be severe difficulties in ensuring every pound is well-spent in war-torn environments with corrupt and incompetent Governments and the greater focus on fragile states is likely to lead to less assistance to some countries with good governance where aid is likely to be well spent. We are to undertake an inquiry into fragile states in 2011 and will examine these issues in more detail. (Paragraph 15)

3. Closer working between DFID, the FCO and the MoD is welcome, especially in fragile and conflict-affected countries. We do not expect this will lead to the potential militarisation of aid and trust it will not. We also welcome DFID's inclusion in the National Security Council and expect it will lead to a more coherent approach to national security. We support the establishment of the Joint Committee on the National Security Strategy which will scrutinise the National Security Strategy, including the work of the National Security Council. (Paragraph 16)

Climate change

4. We welcome the Government's policy of making climate change an integral part of DFID's programmes and providing £2.9 billion funding up to 2014-15 to help developing countries respond to climate change. In its response to this report the Government should state how much of this money will be ODA-compliant and how DECC is to spend its share of the money. There should be a limit on the amount of ODA spent helping developing countries respond to climate change, and we are reassured that the funding allocated for this purpose in the CSR is less than 10% of ODA. (Paragraph 18)

Development expenditure by other Government Departments

5. The Permanent Secretary informed us that the share of the UK's ODA which DFID spends will continue to increase. She expects it to be 89% by 2014-15. This ensures that the majority of UK aid is compliant with the International Development Act 2002 and is for the purposes of poverty reduction. Spending by other departments does not necessarily comply with the 2002 Act. DFID is transferring sums to other departments, including somewhat surprisingly funds for the papal visit. The Government should explain in its response to this report what the funds transferred

to the FCO for the papal visit were spent on and how this was ODA-compliant. (Paragraph 25)

Research

6. Research makes an important contribution both to DFID's work and to international development more widely and it is important that DFID continues to fund high quality independent research. DFID should seek to stimulate research in institutions in developing countries, but it must also recognise the expertise in UK universities and ensure that the UK remains an important centre of research into international development. We are concerned that at present UK research institutions are unfairly disadvantaged compared to universities in other donor countries. Research commissioned by DFID must be disseminated more widely. Tenders for research should state that researchers are expected to provide submissions to select committee inquiries into relevant subjects and make their research available to the public at large in order to increase transparency. (Paragraph 28)

Switching aid from bilateral to multilateral institutions

7. Increasing spending through multilateral organisations would enable DFID to accommodate the large increase in spending in 2013-14 without a major increase in running costs, for example by making additional payments to the World Bank. However, it would make little sense to save on DFID's administration costs by spending money through institutions with higher costs. Moreover it should also be noted that increased spending through multilaterals may reduce the control available to DFID. It can be argued that it also dilutes its influence as a major international donor – a proposal which the Committee will examine further. The case for spending through multilaterals must come from intrinsic advantages such as economies of scale and lower transaction costs for developing countries. DFID has not taken a decision yet and we await the Multilateral Aid Review for an analysis of the costs and benefits. (Paragraph 33)

8. It is also uncertain as yet what decisions will be made in respect of middle income countries following the Bilateral Aid Review. We reiterate our recommendation made in reports in the last Parliament that DFID should have a strategy for its engagement with middle income countries, especially those with large numbers of poor people, indicating the role of bilateral and multilateral aid. (Paragraph 34)

Reviews of bilateral, multilateral and humanitarian aid

9. We welcome the Government's reviews of bilateral, multilateral and humanitarian aid programmes and trust that they will lead to a switch of spending to organisations and programmes which offer better value for money. (Paragraph 37)

The Aid Transparency Guarantee

10. We support the establishment of the Aid Transparency Guarantee. This will help increase the effectiveness of spending on aid and empower aid recipients in developing countries. (Paragraph 43)

The Independent Aid Watchdog

11. We welcome the establishment of the Independent Commission on Aid Impact to undertake independent evaluations of ODA spending. The Commission will report to us and we will examine its programme of work, propose subjects for evaluation and take evidence in respect of some of the evaluations from the Permanent Secretary, the Commissioners and those who undertook them. We will not take evidence on all the evaluations since this would detract from our own core functions and work. (Paragraph 50)

12. We note that the Commission will only be effective if:

a) DFID designs programmes in such a way that they can be evaluated

b) Evaluations are undertaken sensitively, taking account of the fact that the effectiveness of some programmes, for example those relating to governance, will only become apparent in the long term

c) Evaluations are designed to be effective but do not impose unnecessary burdens on staff in the field – they should not involve excessive bureaucracy and form-filling for staff

d) DFID ensures that it has mechanisms in place to learn from the evaluations. (Paragraph 51)

Staffing Abercrombie House

13. The previous Committee visited Abercrombie House during the last Parliament and we intend to do so during the course of this Parliament. We will keep a watching brief over staff moves to East Kilbride and at whether the balance between London and East Kilbride is optimal. (Paragraph 64)

Use of technical cooperation

14. Over the next 4 years the Department will make cuts in its administration costs of £34 million, equivalent to 33% in real terms. These will include significant reductions in the corporate budget as well as reduced expenditure on office space, communications and travel. New technologies are enabling reduced costs in some areas and there will continue to be reductions in staff in back-office functions. We commend DFID for making important administrative savings over the last 5 years and for its plans to do more over the next period provided they do not undermine DFID's ability to do its work effectively. The numbers of HR staff have been reduced from 150 to 89 but this reduced figure looks more than adequate. It makes obvious sense to reduce the number of back office staff rather than vital frontline staff. We welcome the decision to increase the number of policy staff at East Kilbride as the number of 'corporate' staff there decreases. It will be important to ensure that in reducing corporate functions, key roles such as the ability to monitor and manage external suppliers is not weakened. (Paragraph 80)

15. DFID's running costs are to be reduced to 2% of its budget over the next 4 years, but will increase by about 6% in real terms because of increases in the total DFID budget. The increase in running costs together with the reduction in administration costs will enable DFID to employ perhaps 300-400 more frontline staff, according to the Permanent Secretary. (Paragraph 81)

16. These additional frontline line staff will be essential if DFID is to deliver effectively its increased budget, especially if much of the increase is in bilateral aid. It is important that these staff have the right skills. Once the results of the bilateral review are known, we recommend that DFID devise a strategy for how it will increase the number of its staff in those countries where it intends to have programmes. A wider range of staff will also be required if DFID is to successfully take on a new role in conjunction with the FCO and MOD. This will mean employing staff who have the ability to influence policy as well as administer aid budgets. We agree with DFID that it enhances in-country programmes to have locally-employed staff and that it is important that such staff not only fill lower grade jobs but are integrated throughout the DFID programme. We commend DFID on its efforts to do this and encourage it to continue to make sure "decision-makers" in each DFID office include some staff-appointed in-country. DFID should focus, in particular, on how this might be done in fragile and conflict-affected countries. (Paragraph 82)

17. The use of external suppliers to provide technical assistance fills an important skills gap. However, we are concerned that the use of such suppliers may affect the ability of developing countries to build up expertise. In addition, DFID needs to ensure that it is selecting the suppliers which are providing the best value for money and to examine whether, as a major purchaser of their services, DFID could do more to drive down fee rates. We will ask the new ICAI to examine whether external suppliers are providing value for money. (Paragraph 83)

Formal Minutes

Tuesday 18 January 2011

Members present:

Malcolm Bruce, in the Chair

Hugh Bayley
Richard Burden
Mr James Clappison
Richard Harrington
Jeremy Lefroy
Pauline Latham
Mr Michael McCann
Anas Sarwar
Chris White

Draft Report (*Department for International Development Annual Report & Resource Accounts 2009–10*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 88 read and agreed to.

Appendix and Summary agreed to.

One Paper was appended to the Report as Appendix 1.

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

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

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

[Adjourned till Tuesday 18 January at 4.00 p.m.

Witnesses

List of printed written evidence

List of additional written evidence

(published in Volume II on the Committee's website www.parliament.uk/treascom)

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 2010–11

First Report	Appointment of the Chief Commissioner of the Independent Commission for Aid Impact	HC 551
Second Report	The 2010 Millennium Development Goals Review Summit	HC 534

Oral evidence

Taken before the International Development Committee

on Tuesday 16 November 2010

Members present:

Mr Malcolm Bruce (Chair)

Richard Burden	Jeremy Lefroy
James Clappison	Michael McCann
Richard Harrington	Alison McGovern
Pauline Latham	Chris White

Examination of Witnesses

Witnesses: **Ms Minouche Shafik**, Permanent Secretary, Department for International Development, **Mr Richard Calvert**, Director General Finance and Corporate Performance, Department for International Development, **Mr Michael Anderson**, Director General Policy and Global Issues, Department for International Development, and **Mr Mark Lowcock**, Director General Country Programmes, Department for International Development, gave evidence.

Q1 Chair: Good morning, Minouche. Welcome again to the Committee. I think we know who you are, but for the record, could you introduce your team?
Minouche Shafik: Thank you very much, Chair. My name is Minouche Shafik, I'm the Permanent Secretary of the Department. To my right is Mark Lowcock, who's the Director General for Country Programmes. To my left is Richard Calvert, who's the Director General for Corporate Performance, and then finally Michael Anderson, who's Director General for Policy and Global Issues. If it's all right, Chair, we manage the Department as a team so I will draw on them extensively through the hearing.

Q2 Chair: That's entirely all right. I think I can say that the Committee values this annual exchange, although we meet many of you individually and collectively during the course of the year more informally. I hope you welcome it; you may not welcome all the questions, but it is a genuine attempt to explore how you, as the civil servant heads, are delivering the policy and the programmes. We're obviously genuinely interested in getting your take on it. Clearly, we've had an election, we have a new Government, the coalition, there are reviews going on all over the place, so your normal challenges have no doubt been enhanced in the last few months. I'll cut to the concerns we've had for some time: you have a rapidly rising budget—certainly in the third year, a sharply rising budget—yet your core administration costs are being cut. We've expressed concern about how well you can deliver a rising budget in that situation. Are you able, first, to tell us how these cuts are being applied, and also—and there may be one or two follow-up questions on this—how you differentiate between running costs and core administration costs? It's not entirely clear how those are distinguished.
Minouche Shafik: I'll start and then perhaps I'll ask Richard Calvert to say a bit more. We think that the settlement we got at the spending review enables us to manage the rising programme effectively. I know the Committee has on several occasions raised this issue with us, and we were very aware of the Committee's concerns when we were discussing with the Treasury how to manage the rising programme. The settlement does a couple of important things. We are, like all Departments, cutting our core administration costs by a third, and we believe that we have to do our part, and there are some bits of our business where we think we could become more efficient. There are areas like HR, for example, where our ratio of HR staff to total staff is higher than the Whitehall average; our use of space could be more efficient. We don't want to exempt ourselves from the efficiencies that our colleagues are making across Whitehall. Having said that, we are in a fairly unique position, because of the rising programme. The Treasury, in the settlement, has given us a rising programme funded admin budget, which covers the people who are directly managing the aid programme. That rises fairly rapidly, and the good thing is, it starts rising from the beginning of the programme. We haven't decided exactly how we're going to use that additional resource, but in theory it enables us to hire an additional 300 to 400 staff, who would be responsible for directly managing the rising programme.

Q3 Chair: Can I just clarify, because we understand that people have left, or are leaving, whether that is a net increase?
Minouche Shafik: There will be a net decrease in some areas, where we are achieving corporate efficiencies, but there will be a net increase in the areas where people are directly managing—
Chair: But your total staffing will rise?
Minouche Shafik: I think it depends a lot on the composition of the staff, where we choose to put them, the skill mix, and the costs of the staff, but we think it will roughly stay stable, although the composition will shift. There will be fewer people doing corporate functions and more people doing frontline management of the aid programme.
You asked about the total cost and the difference between core and running costs. [This time we have

something called total operating costs]. The Treasury has set a sort of benchmark or ratio that we need to stick within. In the past, the total running costs, core administration costs and programme-funded admin, as we call it, at the beginning of this spending review was 6% of the aid programme. We've now brought that down to 3% of the aid programme. Over the course of the next spending review, it will end up at around 2% of the aid programme, but, of course, on a rising aid programme. The Treasury has now agreed that that will provide a sort of a minimum that we will not go below, so that we will maintain running costs at 2%.

Q4 Chair: If that means what it says, it will make you by far and away the most efficient deliverer of overseas aid and development assistance of any organisation in the world. I would love it be true, but it's quite a claim.

Minouche Shafik: It is. The average in the industry is about 4.3% for other DAC donors, in terms of running costs, and we would be at 2%, so about half the average, in terms of efficiency. We have a pretty clear strategy of how to achieve that. I might ask Richard to say a bit more about the elements of the efficiency gains that we intend to achieve.

Richard Calvert: Thank you. The settlement enables us to make quite a big reshaping of the organisation. If you take the total running costs over the period, they rise from a total of £200 million at the start of the period to £230 million at the end of the period. Within that, obviously, the trajectory for the core admin and the frontline staffing (ie programme funded administration) goes in very different directions. Core admin, at the moment, is £128 million out of that £200 million, and that goes down to £94 million out of the £230 million. On the other hand, the spend on frontline goes up by something like 80% over the period. It's not just a growth in total operating costs; it's a very big reshaping of the organisation within that.

One of the points that's also worth mentioning is we have changed a little bit the definition of frontline. Previously frontline costs were just funding frontline activity overseas, and we've agreed with the Treasury this time that some of the programmes that we manage from the UK, for reasons of value for money or security or otherwise, we can also charge to frontline. So if we're managing, for example, programmes in overseas territories, or in some other bits of the world, and we have our core staff based in the UK because that's a better-organised way of doing it, we can also charge that to frontline. There is some change in the definition.

In terms of how we're going to deliver that change, particularly in the core admin, I think it's worth remembering that we've known for some time that we were going to have a reduction in our core admin budget. I think it has been clear both pre- and post-election that, whatever the exact outcome of the Spending Review, there would be pressure on admin costs. We've been planning for some time how we can do that. As Minouche has said, one of the main ways we're doing that is reducing our corporate costs. We think on a number of indicators, and have thought for some time, that we had quite a high-cost model for doing some of our corporate work, and we could go into the reasons behind that in a bit more detail. We see ourselves shifting from a ratio where probably, at its peak, we had something close to one in three of our staff doing corporate or central work, to a ratio that is more like one in five or one in six. That implies some quite important changes in the way we do our corporate work. That will probably account for at least £8 million to £10 million of the savings we need to make.

There's a range of other savings: big savings in admin consultancy spend, quite big savings in travel, savings in some of our allowances, savings in rent and accommodation, and so on. We have plans at the moment for delivering the majority of the savings that we need to achieve in the core admin area, albeit that we still have some work to do over the next couple of months to finalise plans in some areas.

Chair: That raises some questions, one of which I think Michael McCann wanted to ask.

Q5 Mr McCann: Good morning. Good to see you all, former colleagues of many, many moons ago. You mentioned that other countries spend an average of 4%—I think Minouche said 4.3%—on running costs. We're proposing dropping to half that. Will that mean that, in terms of the aid budget increasing, more money will have to be spent through multilaterals, because we do not have the administrative support to spend bilaterally or in other ways?

Minouche Shafik: To be honest, that hasn't been decided yet. Ministers are in the midst of making decisions such as choosing between multilateral and bilateral and other global issue spend. They have no preconceptions about that. I think the criteria that we will use to decide will be: "Where do we get the most value for money? Which are the institutions, or countries, where we can get the biggest development impacts for our spend?" As yet, no decision on that. I think the admin budget settlement ultimately constrains us a bit as to how much we can do bilaterally, but I don't think it constrains Ministers' choices to such a degree that we have to think about all the incremental increase on the programme side going through multilaterals.

Q6 Mr McCann: But there is a link between your administration costs and your ability to deliver, administratively, the aid programme?

Minouche Shafik: Yes, there is, I think.

Q7 Mr McCann: Having worked there and known the staff, I know there's a phenomenal commitment amongst DFID staff to the aid programme, more so than any other Department, agency or NDPB that I've ever been involved with. Do you feel that at times there's a temptation to take advantage of that commitment and to place additional burdens on staff without thinking of the consequences for them?

Minouche Shafik: No; I think we try to stay very aware of staff concerns, and we do that very regularly through staff surveys, management meetings with staff, and we are very aware of the commitment of our staff and do everything we can to maintain it.

Q8 Alison McGovern: Thank you, and good morning, everybody. Just a very brief follow-up. Could you just say what the most important risks are in the reduction? How are you seeking to mitigate them?
Minouche Shafik: I think there are different risks, and I might ask Mark to talk about them. For us, the top line risk that we worry about is staff security. There are a set of financial risks that we're always concerned about managing.

Q9 Alison McGovern: Sorry. I meant specifically on the question of the reduction in the administration budget. What's the worry? What's the downside risk of that?
Minouche Shafik: I think that in terms of the reductions, the biggest risks are probably around maintaining the capacity to deliver the programme, and particularly looking at the programme in some of the more difficult environments that we work in, which I'll let Mark say something about, where costs are higher and it's harder to deliver outcomes. That's one of the areas that we're concerned about.
Mark Lowcock: I think the risks come together in adding up to a very big programme of organisational change at DFID. The coalition Government has a different set of priorities from its predecessors—some continuity, but also some very important new themes. It has been clear that we need to do more than we're currently doing in the most fragile, conflict-ridden states—those are obviously the hardest operating environments. We have a massive agenda on transparency about what we're doing; that generates lots of change inside the organisation. As Richard said, we have to make substantial savings on our administration costs while we grow our frontline. All this adds up to a big organisational change challenge. DFID has changed a lot over the last 12 years. In 1997, we had 1,600 staff and a budget of £2 billion. In 2003, we had 3,000 staff and a budget of £4 billion. In the five years after that, our budget has roughly doubled and our staff has fallen by roughly 20%. Our staff morale has improved and, to take the evidence of the OECD reviews of us and the capability reviews, our effectiveness as an organisation has improved. We think we can manage challenging change, but there's no question but that the period ahead involves a lot of change, and the central responsibility of the management team is to ensure that the Department comes through that, delivering a lot more at the moment, but preferably as a more effective organisation than we are now.

Q10 Richard Harrington: Thank you. I can't help feeling that people are going to ask us as politicians, when they read about the administration changes and reductions that you're making, "How come they're able to make those changes? Surely there was bad management in the past to lead to those excess administration charges." You must feel, as management, the same as management in a business when they announce to their shareholders that they've cut *x* billion off the admin costs. You must feel open to the charge, "It can't have been run very efficiently before," and I wondered if you'd like to comment on that, Minouche—or anyone.
Minouche Shafik: Circumstances change, and you have to adapt. We've made some very deliberate changes. I'll give an example. There are some things we did in the past manually that we can now automate, because we now have HR systems that can automate functions, and 10 years ago we didn't have that option. The pressure to find efficiencies has forced us to try and seek out those kinds of opportunities. Things like videoconferencing have now become standard across DFID, and that has helped us to bring down our travel costs considerably, for example. Again, that was a new opportunity that enabled us to get much more efficiencies, reduce travel budgets, reduce carbon emissions, and so on. I wouldn't say that things were badly managed before and we're going to do better now. I would say that we were under a different set of constraints and opportunities in the past, and we managed them as efficiently as we could at the time. Now we're under pressure to find more and I think we can make those efficiencies without any substantial loss in effectiveness for the organisation as a whole.

Q11 Richard Harrington: But if you weren't under pressure from the Treasury to do that, would it have been business as usual? I don't want to get myself down to the level of the *Daily Mail* talking about your taxi bills and things, but this is what constituents seem to ask. Is it because of Treasury pressure?
Richard Calvert: For a number of years now we've been pushing down costs. Our admin costs have been going down by something like 4% to 5% a year for the last four or five years. This is not just a response to the current public spending pressures. If you look at our HR function, in 2005 we had 150 people there. By the end of this calendar year we'll have about 89. That's been a steady downward pressure. If you look at space planning in the building, we sublet one floor of our building in Palace Street 18 months ago. We're going to sublet more of that space. I think what's happened is this hasn't been an overnight change to say, "We were running a particular model before and suddenly that's changing and we're cutting things that we previously felt completely relaxed about." We've been on a downward trajectory with admin costs. Mark mentioned our overall organisational staff, which peaked at over 3,000; it's been below 2,500 for two or three years now. We've been on a downward trajectory and the current financial position pushes us down further, but it's more a continuation of the overall trend and a tightening in some new areas, rather than a complete change.
Mark Lowcock: Could I make one point, Mr Harrington, on your question? One of the other things we've done is focus more rigorously on our areas of operation overseas. As you may be aware, we've closed 35 or so of our smaller offices over the last eight years. Running that network as we used to, of 60 or 70 offices overseas, meant we needed a big, central, corporate support set of functions. We needed a bigger finance team than we need now; we needed a bigger HR team than we need now, and so on. Focusing down, as the Government has said is going

to be a priority in the forthcoming period, on a smaller number of high-priority, bigger countries of operation, is another way in which we can take costs that we previously needed to incur out of our administration budget.

Q12 Chair: I think we would accept that, and we've seen that today, but the Committee, to some extent, has been on your side, in the sense that, yes, all Ministers have been driving down your costs, and trying to cut overheads, and cut headcounts, and so on. There is a slight concern that it's almost being driven by, "We have to show we've cut the admin costs, before we've even decided what we're going to do." In that context, if more of your budget is in fragile states, that raises questions. The Treasury's concern was, "Did you deliver your 2%?" Our concern is, "Does it compromise your programme?" That would be our concern. I put it to you that, at the moment, you're not in a position to say that, because you don't know what the programme is yet.
Minouche Shafik: That's true.

Q13 Richard Harrington: Given that you are to be commended, and I mean it, for what you have done, not just this year but in the last few years, do you find it frustrating that some of the NGOs, which money is channelled through, and also the European Union, don't have the same policy towards cutting admin costs?
Minouche Shafik: I think it's a good discipline to have to be under pressure to manage aid money more efficiently. It has been a good discipline for us and I think we would like to see that discipline shared. Certainly, increasingly, say, in our funding of civil society organisations, these are the kinds of issues we will look at, and ask them to be more transparent about their own administration costs, and factor that into our decision making about funding them. Certainly when we fund UN organisations, and others, one of the things that we look at quite hard, and negotiate quite hard with them, is their administration charges, because they charge us a fixed percentage. If we ask the UN to run a programme for us, they will charge us—they vary, to be honest—10%, 12%, or something, for administration. It's the same with the World Bank, and we have a running set of negotiations, trying to bring those costs down.
Chair: Not just the NGOs, then.

Q14 Chris White: I'm sure we all realise, when you're looking at budgets, if you decrease one line you perhaps increase another. I'm sure you'll be able to give me the figures on the number of external consultants that you may use in terms of the millions of pounds you spend on that. How are you considering bringing more of this work in-house? That may improve long-term programmes.
Minouche Shafik: Absolutely. To be honest, when we were under headcount restrictions, that created some artificial incentives to outsource more, which was not good from a management point of view. Our spending on consultants has come down quite dramatically. Last year we spent £19 million. It will be much lower this year—much, much, much lower. We haven't got final numbers yet, because the year's not over, but it will be much lower. That is because we have imposed a freeze, and exceptions have to go to the Secretary of State above £20,000. There are very few exceptions. As your question implies, there is something rather healthy about bringing some of that work in-house. I believe the Committee, in its visit to Washington, may have talked to people at USAID. I think they will acknowledge that one of the biggest mistakes they made was contracting out all the expert work; they became contract managers. For me, that would be a terrible place for DFID to be.
Chair: And it doesn't make the admin costs lower either.
Chris White: No.
Minouche Shafik: Exactly. From a value for money point of view, it's terrible.
Chair: I have to say, Mr White has rather anticipated a question from his colleague, a little.
Chris White: I'm sorry. My apologies. We were talking about budgets.
Chair: I would just ask colleagues, don't steal the questions other people are going to ask.
Chris White: Sorry, Chairman.
Chair: I'm going to give Jeremy Lefroy the floor now.

Q15 Jeremy Lefroy: Thank you very much, and good morning. We're turning now to the question of the increase in the budget, particularly in the third year, 2013 onwards, and the Secretary of State told us that the steep increase in 2013 could be smoothed out by, for instance, back-loading our contribution to the International Development Association, the World Bank's concessional lending arm. A few questions on this: I will give them all at once so you can answer them together. First, do you anticipate that we will be in the top one or two in our contributions to the IDA? We were, of course, the largest in the previous round, IDA15. If so, how do you think our contribution will be staged over that period, to take into account the profile of the increase in the budget for aid over that time? What are your views on the fact that the IDA decision is likely to have to be made before the outcome of the multilateral spending review? If we're making an exception for IDA, why aren't we making exceptions, for instance, for the Global Fund, where there's quite a lot of concern that the top-up of the Global Fund was inadequate in September, and people were looking to the UK to provide some kind of leadership there. To follow up on that, if we are making decisions on, for instance, IDA before the multilateral review comes out, what, in fact is the value of that review?
Minouche Shafik: I'll let Michael answer the latter questions. Let me just start off. Ministers have not taken a view yet on the allocations in the multilateral review. As the Committee knows, we've looked at 43 multilateral institutions, and our ratings have drawn on lots of data provided by the multilaterals. We also have feedback from recipient countries, from other donors and from civil society on the performance of the multilaterals, and we've had an external set of reviewers assessing the scores that we're giving. We're scoring the multilaterals as either poor, adequate, good, or very good. The objective of the

process is to try and get most of our multilateral funding at the "very good" end of the spectrum. The process is not complete, and I can't honestly tell you where Ministers will come out on the decision on whether we will be number one, two, or three in the ranking.

I can say, at least, that the initial results for IDA are positive, and I suspect it will be one of the ones in the upper quartiles. Ministers don't have to make the decision until December, when the next replenishment meeting will be. By December we should have the bulk of the analysis done, so while we won't have published the multilateral aid review by December, I think they'll have enough information to be able to make an informed decision on that process. Michael, do you want to say a bit more, particularly about timing with the Global Fund, and other multilateral decisions?

Michael Anderson: Yes. Good morning and thank you. As the Secretary of State has made clear, one of the approaches to dealing with the big jump in ODA in the year three is to stage some of the multilateral funding in a way that will absorb some of that shock. IDA is one of a number of options; it's a big one, but it's not the only one. There are a number of others—Global Fund, GAVI, EDF—that we might look at. You asked the question about what the value of the multilateral aid review is if we have to take the decision earlier. We are looking, in the multilateral aid review, at 43 different institutions and programmes. There are an awful lot of them where we have to do more work to fact-check all our analysis. It will be relatively easy to get good quality data early about IDA, so IDA is one of the easiest ones to get an assessment of—a pretty authoritative assessment—near the start of the process. We'll be able to front-load the assessment of IDA. We won't want to go firm on the assessment until we've had a chance to have everything scrutinised, gone over and compared, but we'll have a pretty good sense. We're very pleased with the methodology of the multilateral aid review, and the kind of information it's starting to give us. We're only partway through it, but we think it's going to give us a good basis for making decisions, and the Secretary of State is very focused on the value for money component of that.

Q16 Jeremy Lefroy: And in terms of the staging, do you think that the World Bank is going to be happy with that? They'll be happy with any sort of money, but do you think they're capable of handling that kind of staging?

Minouche Shafik: Yes. We've consulted them on the back-loading, and the President of the World Bank has conveyed, I think, to the Secretary of State that they can manage that back-loading of the funding. Of course, as you well know, there are more than 40 contributors to IDA, and different people are putting in money at different times. It's a financial institution; IDA isn't eligible to borrow, but they can find ways to manage the cash flows in a way that makes it not a problem for them.

Q17 Jeremy Lefroy: Finally, just on the multilateral review in general, you talked about having four different categories, ranging from "poor". Do you expect some to be classified as "poor" and therefore for us to stop funding some multilaterals that we currently do?

Minouche Shafik: Again, the Secretary of State hasn't taken a view on what to do about the poorly performing multilaterals. I think there is some flexibility on when we have to make assessed contributions or membership dues on some of the multilaterals, versus giving them additional funding. I think there's some flexibility; you don't necessarily need to exit and leave the organisation, but you'd certainly constrain any additional money that you give them above the minimum membership fee.

Michael Anderson: The four categorisations are working categories. Whether in fact we finally end up with that categorisation is yet to be finalised. There are 11 different criteria on which organisations are evaluated, so sometimes it is apples and oranges, with organisations being strong on some criteria and weaker on others. We'll have to go on a case-by-case basis to decide the best funding approach. There are also times when there are mixes of the core funding, which the multilateral aid review is about, and then sometimes programme-specific funding, and we may need to make some nuanced judgments there. We're certainly looking at some tough messages to those organisations that don't perform well, being utterly clear about why their performance has been deemed not very high, and very clear that that has consequences for the level of UK support. As Minouche says, the Secretary of State has yet to take a view on how to handle each one in turn.

Q18 Mr McCann: A press release was issued in October 2010, and the Department said that funding to deliver aid on the frontline will increase to ensure that DFID has sufficient flexibility to manage those resources effectively. We know that there's a relationship between programme costs and direct running costs, and there's some flexibility there. Do you believe that DFID will be able to scale frontline staffing to manage the £2.5 billion increase that will come into effect from 2013–14. If so, what types of jobs and what numbers of jobs would be needed in order to deal with that spend?

Minouche Shafik: The settlement with the Treasury, in terms of programme-funded admin, will enable us to recruit somewhere between 300 to 400 additional frontline staff. We think that will give us quite a bit of flexibility to manage the rising programme. The other important thing to note is that that increase in programme-funded admin happens early, before the big increase in the aid programme, so we can get the people on board, so that they can be there to design the new programmes before we have to release the funding. That's quite important. We think it's quite a good settlement. In terms of the skill sets, we are in the midst now of thinking about what the workforce plan is for the future. We obviously can't decide that until we know what Ministers choose in terms of which programmes they want to fund, which countries, what sectors, and what skill sets we'll need to support that. Once we have Ministers' decisions, as a result of the bilateral and the multilateral aid reviews, we'll be able to know quite clearly what the workforce plan is and what our recruitment strategy will be for filling those posts. We expect to be doing that in the next couple of months.

Q19 Chair: If you're restructuring, that must cause some concern within the organisation. Obviously, over the course of the summer we had all these leaked emails, and so on. Never mind those. Clearly there are some people leaving and some people being recruited. To what extent is this happening by voluntary management; to what extent will there be redundancies, compulsory or voluntary?
Minouche Shafik: So far we've started from the top, to be honest. We've reduced the number of DGs; we went down from four to three. Over the summer, we reduced the number of Directors at DFID from 14 to 12. At the end of the summer we ran a voluntary departure scheme for our senior civil servants. We managed to reduce that number to a number that was pretty consistent with where we wanted to get to, ultimately.

Q20 Chair: How voluntary was voluntary?
Minouche Shafik: It was completely voluntary. The good thing is, we had enough people volunteer to get us to more or less where we need to be in terms of the numbers. The next stages will be driven to some extent by the decisions about the future of the programme, and the efficiency agenda that we have to achieve. We have told our staff that there is a sequence. There will be some attrition; there's a natural attrition rate within the organisation of about 8%, so that will help with numbers. Secondarily, we'll use voluntary departures, and as a last resort we will use compulsory. At this stage we don't know whether we will need compulsory, we can't say it's off the table because it would be disingenuous, I think, to do so.
Mark Lowcock: What Minouche has described is the approach, obviously, that applies to our home civil servants. As you know, about half the people who work for DFID are people we hire in the country in which we work. For them, obviously, the situation is a little bit different. When we close a country office, we normally have to make the nationals redundant on a compulsory basis. DFID works very hard to equip those people for careers in other organisations, and we are proud of our high success rate in doing that. People who've worked for us have gone on to be Ministers in the Governments of their countries, to be ambassadors, or to work in international organisations, or to do other high-powered, high-profile jobs. One of the things we've said to our staff around the world, is that, as we go through the next period of change, we're going to put a high emphasis on sustaining our previous success in equipping people who will no longer work for us to move on to other things they're keen to do elsewhere.
Chair: Before I bring in Pauline, I'm going to bring in Michael McCann, because we obviously need to look at the home bit as well—what's happening in Palace Street and in East Kilbride.
Pauline Latham: I was just going to make a comment.
Chair: Right.
Pauline Latham: I was just going to say that when we were in New York and Washington, everybody was very complimentary about the staff, and a lot of people, I think, were looking, when you make people redundant, to snatch them immediately. I think there are people out there looking to take up the slack.
Chair: USAID named the individuals they were after.

Q21 Mr McCann: Sadly, that may be the case at the higher end of the scale, but I know the history of the operation very well. There's two headquarter operations, one in East Kilbride and one in Palace Street in London, previously in Victoria Street, and when I was there, many years ago, in Eland House. The history of DFID in terms of how it has emerged in this country means that there's no direct link in terms of the types of work they do in each department. It's not equally based. Most of the high-profile jobs are based in London. There are some high-profile positions in the East Kilbride operation but nowhere near as many as in London. There was a leak, and I was given information that there was a paper that went from Ministers to HM Treasury saying that there were going to be 165 job losses in the East Kilbride department, and that there were going to be no job losses in London. The Department rejected any suggestion that those figures were accurate, and I appreciate that people have to be coy. I know that negotiations will take place between trade unions and management on these subjects over the coming months. Because of the split of jobs in DFID, is the East Kilbride headquarters more vulnerable to the redundancy round that may or may not be coming?
Minouche Shafik: On the leak of the 165 number, we don't normally comment on leaks, but it's important to say that we could find no document that was sent to the Treasury with that number in it, and we searched high and low. I think that number was fabricated, frankly. I'll let Richard say something about the vulnerability of the two headquarters because he has most of his staff in East Kilbride and is our manager, or champion, for Abercrombie House. Clearly more of the corporate jobs are located in Abercrombie House, and that is where a lot of the efficiencies will occur. It's not the only place where the efficiencies will occur. As Mark has said, part of the efficiencies will occur in closing down more country offices, and they will be reducing numbers in our field presence as well. There are also efficiencies to be made in Palace Street. It is not only in East Kilbride; these efficiencies will be borne across the organisation as a whole, for starters.
I think the other thing important thing to note is that we already are in the midst of a process of moving even more jobs to East Kilbride. We have 70 jobs that are moving to Abercrombie House now, and that is something, in terms of where we locate jobs, which we will always keep under review.
Richard Calvert: Perhaps I can add a couple of things to that. First, the composition of jobs in Abercrombie House has changed quite a lot in the last five years or so. If you looked at Abercrombie House five to 10 years ago, it was dominated, probably 90+%, by corporate and transactional work. That's changed

quite a lot now. We've moved policy jobs, we've moved some of our bilateral aid programme management jobs, some research jobs; some of the multilateral work is done from there. The balance of work in East Kilbride has moved that office from what it was originally set up as—effectively a transactional and corporate support function—to one that's much more part of the core headquarters of the Department. One of the things that's meant, over the last six months or so, is that the 70 policy and programme management jobs that we're in the process of moving right now have largely been filled by staff who were already in Abercrombie House and previously doing corporate roles. If you look, for example, at the Overseas Territory Department, one of Mark's Departments, which will be based there, much of the staffing for that has come from people who were Abercrombie House-based. We are managing some quite important shifting of staff away from seeing themselves just as Abercrombie House corporate staff, to staff who do a wide range of work, and we expect that process of continuing to review the balance of work between Abercrombie House and London to continue.

The other thing that's important to say, when you're thinking about changes in the corporate area, is that although our biggest concentration of corporate staff is in Abercrombie House, one of the reasons why we have relatively high ratios on corporate staffing is that we have a lot of networks embedded around the organisation of people doing corporate work. If you look at finance or HR or some of the other areas, we have not only the core team doing the work, mostly in Abercrombie House, but lots of people around the organisation. In fact our assessment for some time has been that we have too much duplication and too little professionalisation in those wider networks. When we're looking at reductions in the corporate spend, it absolutely doesn't just mean Abercrombie House. It may in fact be, in some areas, we concentrate even more corporate work in Abercrombie House by cutting down and reducing the need for some of the networks, and indeed centralising some of our transactional work even more. It's not to say there won't be reductions in some of the corporate functions in Abercrombie House. There will, and we've been very clear with staff that that's the case, but it's not a simple equation of saying that cuts in corporate means cuts in Abercrombie House.

Q22 Mr McCann: Richard, did you say you're in charge of East Kilbride?

Richard Calvert: Yes. Well, at management board level I have overall responsibility for Abercrombie House. I'm based in London.

Mr McCann: I was going to say: you're in charge of East Kilbride but you're based in London?

Richard Calvert: We have someone who is the head of the East Kilbride office, who is based in East Kilbride, not at management board level.

Mr McCann: What level is that?

Richard Calvert: That's Director level.

Chair: The Committee, as you know, visited Abercrombie House during the last Parliament, and it is our intention to do so again at some point during this Parliament.

Richard Calvert: Yes.

Chair: So we'll be able to follow that through and get some sense of it.

Q23 Pauline Latham: Currently you have about half your staff based overseas. Do you expect this to change over the spending period? If you close DFID offices in-country to save costs, do you see that you could put them in with the Foreign and Commonwealth Office offices? Will that not have a danger of politicising aid, and how will you mitigate that? What do you see as the ideal ratio of UK versus locally employed staff?

Mark Lowcock: First, on your question on numbers, I think it's likely that the proportion of our total staff based overseas will increase over the forthcoming period. That's implicit in having more of our staffing budget focused on the frontline and less on the corporate functions.

On your second question, about the pros and cons of joining up with the FCO, there are some places, for example China, where we're closing our financial aid programme, but we want to collaborate with China on global development issues. The best arrangement will be a relatively small team in the Embassy working with their colleagues in the FCO on issues like climate change, global public goods, health and China's role in Africa, and we see positive advantages in joining up. Any work that we do has to be ODA compliant and ODA eligible. The Foreign Office has an ODA budget as well. I'm much less angst ridden on this infection problem that I know some people get very worked up about. I don't think it's a practical problem—that's my honest answer to that question.

On the balance between UK-based staff and staff appointed in-country, it's difficult to forecast that. We used, seven or eight years ago, to have only single figures of staff appointed in-country who were in professional, decision-making, advisory roles. We now have more than 100 people of that sort, some of whom run one or two of our overseas offices. Others are deputies in the overseas offices. There are a lot of decision-makers; we have a lot of economists, health professionals, governance specialists. It's a much more mixed economy than there used to be in the group of staff appointed in-country.

I think in some overseas offices where we know now we're going to need to grow our capacity, it's clear that a significant proportion of the growth will be staff appointed in-country. For example, the Secretary of State has come back from Pakistan this morning, and Ministers have been very clear with us about the need to grow the development contribution that Britain makes, for a whole range of reasons, to Pakistan. We know we need more Pakistani professionals, as well as more UK-based professionals, to help us. In most places where we will, following the Strategic Defence and Security Review and the National Security Strategy, need to grow our programmes, Ministers haven't yet decided exactly the sectors, if you like, where they want to have the growth. Therefore we haven't been able to decide what the staffing implications of that are, still less the balance between the UK-based staff and staff appointed in-country.

Q24 Pauline Latham: Do you think you get better value for money for people who are in-country as opposed to our staff here going out?
Mark Lowcock: We need a mix. Our staff appointed in-country bring things to us that our UK-based staff can't do: languages, knowledge of the local country, all sorts of other things that obviously our UK-based staff can't bring. On the other hand, our UK-based staff also bring a lot of important skills: an understanding of DFID; an understanding of the political system in which we operate; an understanding of our financial systems. So there's nowhere where it would be a good idea to have just staff appointed in-country or just UK-based staff; you have to decide on the balance on a case-by-case basis.

Q25 Pauline Latham: Thanks. We talked about, or the Secretary of State talked about, the savings being made in the back-office functions of DFID, and reduced travel and accommodation costs. What back-office functions do you think will be reduced under DFID's savings programmes? I know you talked about HR, but are there others that you can think of, and what have those cost over the last ten years?
Minouche Shafik: I think I will let Richard answer that question, but some of the savings would be in the back-office functions per se, but many of the savings are cross-cutting. So, for example, the savings in our travel budget; we spend about £7 million on travel a year, we have already brought that down by £1.2 million this year by changing the travel policy and doing much more travel on economy. So some of the savings will be in particular parts of the business, but some will be cross-cutting savings that will go across the business as a whole.
Richard Calvert: Let me give two or three examples, and I can probably give you the financial picture going back about five years on the costs of corporate; for 10 years, we'd have to come back to you. The first example is communications. We had a communications staffing a year ago of a little over 100 people, around half of them based in a central team, around half of them in these networks that I was talking about earlier, so networks both based in the UK policy teams and also country offices. As a result of work over the summer to review that, we expect that staffing to be probably in the mid-60s by around the end of this calendar year. We may go further over the next 12 months or so, but there's quite a significant reduction there in our communications capacity. A lot of that is about removing duplication—so, not having people in policy teams and in the central team dealing with the same issue, and consolidating the work. If you look at some of the IT costs associated with running a global network, obviously one of our key contracts supports our satellite links to all our overseas offices; we've just renegotiated that contract for the next five years. That contract will save us £9 million in comparison with what we would otherwise have paid; that's £9 million saving on a contract for which we'll be paying £10 million, so it's a close on 50% reduction in satellite link savings.
Also, in IT, we've taken over £500,000 out of consultancy and temporary staffing costs. If you took temporary and consultancy staffing across the corporate area, the saving would be well in excess of £1 million. Similarly, I could go through some of the other areas, but those are the sorts of savings that we are making: core staffing, network costs and some of the underlying contract costs. If you look at the cost of the corporate centre, particularly the bits that I am managing in the Corporate Performance Group, it has gone down from about £57 million five years ago to about £38 million. Now, we need to go some way further, but through some of the savings that I have just been talking about we think we can reduce that quite significantly.

Q26 Pauline Latham: So actually, although nobody ever wants to reduce anything, this has given you an opportunity to really look very hard, and will have taken quite a lot of staff time, but it's an opportunity to save significant sums of money without actually affecting the performance, because it's renegotiated contracts. That's a huge saving: £9 million. So it is an opportunity to have a really good, serious look at what DFID are doing and deciding that there are better ways of doing it. So a lot of people feel that savings are a threat, but actually they are an opportunity as well. Can you think of anything that will stop completely because of the savings, like speaking at conferences, or any function that people do, because they have the time, but they won't have the time to do it in the future?
Minouche Shafik: Developments Magazine? There are some very small things; we used to publish a magazine on development which we are not going to do any more in hard copy, and we are going to rely exclusively on the website, so there are some things we are stopping. Some bits of the aid programme—the Secretary of State has announced that we will no longer be giving aid to China and Russia. To be honest, I don't think there are any of those things that I could say hand on heart this is a terrible thing for the aid programme; I think these are all sensible decisions, given the changed circumstances.
Pauline Latham: Certainly, we get hundreds of glossy magazines from all sorts of organisations and I won't be sorry to receive one less, I have to say, because we can always get the information from a website in this day and age. So that is a good opportunity again. Thanks.

Q27 Chair: Without sounding either churlish or precious there are an awful lot of all-party parliamentary groups. Many of them do extremely good jobs, but they are effectively campaigning organisations. On occasion—and I'm not suggesting you shouldn't occasionally, I think you should, that's not my point—it seems to me that a disproportionate amount of engagement has gone on between the Department and an all-party group. After all, they are lobbying the Department, and it appears to be almost as if they have the blessing of the Department. I won't say here, but I can think of one particular occasion when a Committee made a visit that must have taken up an awful lot of DFID time, which I think would

have been appropriate for a Select Committee, but not for an all-party group.
Minouche Shafik: We can definitely feed that back to our teams. Obviously this Committee is our prime concern.
Chair: I can tell you privately which Committee it was.

Q28 Chris White: Will research funding be subject to cuts? Do you think it would be better value for money if funding was made conditional on the research being made more accessible to the wider public?
Michael Anderson: The research budget is being reviewed in terms of value for money, as was everything else. The Secretary of State has been very clear; he wants the value for money lens applied to all programmes, so we're going to be applying that to research. Our feeling is that we get very good value for money out of our existing research portfolio, but we'll look at that even harder. As a percentage of the DFID budget, over the period of the spending review, subject to confirmation by Ministers, we'll probably be looking to have research go from something like 2.6% of the budget up to 3%. That is based on some analysis of the value for money we get out of research, particularly some of the research in new agricultural technologies and techniques, and medical trials. So the impact per pound spent in research is very high. That is not universally true, because at the moment the research budget covers a number of different areas: growth; agriculture; governance; climate change; human development, but we also invest quite a lot in research uptake, making sure that research is absorbed around the world, and that is part of what good research organisations do.
On the point about dissemination, we are very keen to get the research out. We run two web portals; one called R4D, Research for Development, which focuses on all of DFID's projects, and that has 25,000 research items on it, and it also has ways people can sign up for RSS feeds and email feeds on different topics. We publish an annual report on research; we also contribute to a research portal called SciDev.Net, which identifies science innovations that are relevant to development and it gets out to the user community. So we do quite a lot on trying to get research out. If it is not hitting the Committee's desk, this is probably something that we need to take notice of, and make sure we are more proactive in getting things in front of you. We are very keen to get the research out and to make sure that research is produced in a form that is digestible and usable to end users, and we are trying to work quite hard on that.
Minouche Shafik: I think we often find that the people who do the research are not always the best at disseminating and communicating it; we have to make a special effort. We have a programme called Research into Use, as Michael said, which uses some very innovative techniques. I recently saw a television programme in Kenya, which we were funding, which conveyed things to farmers; it was basically a soap opera, but in the soap opera were all sorts of messages about how if you soak your seeds before you plant them, your yield will go up by 20%, and that was quite a good way of disseminating to a very large audience some quite important research findings.

Q29 Chris White: Following Jeremy's earlier question, do you think there is a trend towards bringing research in-house at all?
Michael Anderson: Well, we have increased the capacity of the research department over the last few years. We had taken a strategic decision a few years ago to focus on getting high impact from our research. So we have increased the number of senior research fellows who were brought in on a temporary basis to help strengthen our research capacity and our ability to judge between weaker and stronger research. We don't see those numbers going up any more; they will probably go down somewhat in the future, but we have strong research-centred expertise in our Department.

Q30 Jeremy Lefroy: Just following on from that and leading on to the next question, how much of the research spending is spent with UK universities? I'm particularly concerned that the UK obviously has a global reputation in a number of subjects—I can mention tropical diseases, malaria for a start, but there are many others—and I am very concerned to see as much of this done in the UK as possible. How much is?
Michael Anderson: Well, at the moment we have some particular relationships with UK universities, and we particularly have close relationships with the research councils, and we do some joint funding with research councils, which tend to focus mainly on the UK market. At the moment, the way the research is allocated is to get the best possible research at the lowest possible price in a global market. So the research budget is not skewed to favour the UK producers of research over anyone else. In practice, the bulk of our research funding goes through UK principal investigators of some kind, or often partnerships that have a UK lead, and a number of global entities in it. I don't actually have the numbers on the percentage that goes to UK universities—I'll see if we can get that to you—but the policy is driven by getting the most appropriate and relevant research at the best price, rather than supporting UK universities as such.
When Bill Gates was here, he commented on the UK being a research superpower on development, and noted how much of the Gates budget goes to UK universities; a disproportionately high proportion. That gives us some comfort that spending a large proportion of our research money in the UK is probably good value for money.

Q31 Jeremy Lefroy: Thank you. Without wishing to go over ground we've already gone over, I was encouraged to hear you talking about bringing things in-house rather than concentrating on consultants. I am, and I think colleagues are, concerned about the rates at which some consultancy is charged, having seen some of it and been on the receiving end myself. Are you intending to set limits on what you are prepared to pay at a fairly, shall we say "keen" level, obviously with the possible exception of work in

fragile states. In a written question I asked whether there is a policy to keep them, say, below £300 a day, which I would have thought is a very reasonable limit to place. The Department's answer was that you have no such policy at the moment, but I'd like you to comment on that please.
Minouche Shafik: We don't have a policy. We pay based on market rates and people's track records.

Q32 Jeremy Lefroy: If I may come back on that, to some extent DFID sets the market rate—because we are such a significant player.
Minouche Shafik: That is partly true. The first thing I should say is that our spend on consultancy is coming down very dramatically. Last year we spent about £9.1 million. If I am correct the number this year is—I'll just say under £2 million. So it's a massive reduction in consultancy spend, so the quantity is certainly going down. I think, because we're operating a freeze at the moment, any exceptions either have to go to Richard or they have to go to the Secretary of State, and as a result of that, I think people are thinking twice about the rates they have to put up, because they're being scrutinised at quite a high level, and rates that are very high are at risk of being knocked back. So both the quantity and actual daily rates will be coming down quite a lot.
I would just make one caveat. In some situations, we require people who have very specialised skills, whose rates are higher than average. Let's take an example of someone who is a real expert on global textbook procurement and is going to advise a Government on a programme that will save them £20 million in textbook procurement for an entire country. Paying that person a marginally high daily rate for a few weeks is probably worth it, but I think we have to make those judgments quite carefully.
Richard Calvert: It's worth saying that we have two very different bits of our spend, which have loosely been called consultancy in the past, but are quite different. One is what I think of as consultancy to DFID—so essentially the admin-funded consultancy, which is about helping us to run ourselves. That's a number that has in recent years been in the £15 million to £20 million range. That number is coming down very dramatically at the moment, for the reasons Minouche has set out. So far this year we've spent a little over £1 million on that type of consultancy, and we are very actively managing that, largely by cutting off the requirement for it rather than negotiating cheaper rates. We just want to cut that area of spend very seriously.
The other big block of spend that has been loosely called consultancy is really services that are provided on behalf of DFID to developing countries. So this is the programme-funded activity—technical assistance in the language that we've often used, where clearly there's a different set of drivers, and we are not actively looking to reduce the volume of activity there. How much of that we contract is largely driven by programme design decisions, particularly in the country programmes. We are concerned about getting best value from that, and it is correct to say that we hadn't set fixed limits, but that does not mean that we don't care very much about the value we're getting. At the moment we're working with OGC to implement what's called the consultancy value programme, which is a programme that came out of work done by the NAO to look at consultancy rates across Government. We recruited a professional Head of Procurement around 15 months ago whose professional career history is very much in the professional services and consultancy procurement area, because that is our core procurement activity. So we feel we've really tightened up our performance, albeit that we hadn't set arbitrary limits on daily rates.

Q33 Jeremy Lefroy: Thank you very much for that. Just coming back on the second category, which I do understand is necessary, what would you say your average daily rate is that you pay?
Richard Calvert: I'd rather come back to you and give you the rate than say one now.

Q34 Jeremy Lefroy: Just turning to external suppliers, you've given, in answer to colleagues' previous questions, some excellent examples of how some of those costs have been coming down. There is no cap on their running costs, as far as I can see, but could you give us perhaps some other examples of how you intend to drive these costs down?
Minouche Shafik: Through procurement?
Jeremy Lefroy: Yes.
Minouche Shafik: I think one of the most interesting examples came out of some recommendations of the Procurement Capability Review we had recently done with the Department. They suggested that we start looking at things like bulk procurement on behalf of countries. So, for example, we're a major buyer of malaria bed nets globally, but if Tanzania procures by itself, and Uganda procures by itself, they're losing the potential gains of us doing bulk procurement on their behalf. So over the coming year we are going to look at a few key commodities like bed nets, like condoms, like other things that we buy in bulk, and try to find opportunities to bulk purchase and bring costs down for the countries we work with. I think that's quite an interesting example, because it's not the admin consultancy that Richard was talking about, more trying to get better efficiencies from suppliers on the programme side.

Q35 Jeremy Lefroy: If I may ask the question slightly in reverse, DFID clearly has some tremendous expertise in many countries across the world that many people, businesses and other NGOs are not operating in. Are we seeking to supply services to others where we can use the benefit of our knowledge and actually charge them for it?
Minouche Shafik: I have to confess we haven't done that. We've shared our knowledge as a sort of global public good, I think, in terms of sharing knowledge at the country level with partners, with NGOs that are working in that country, and our staff try and be generous with their time in terms of sharing that knowledge. We have not, as far as I'm aware, ever charged for it.
Mark Lowcock: I think it's a very interesting question. A long time ago the Government of Botswana used to buy their aid programme from us.

The countries we're increasingly in these days are not in a position to do that. Some other OECD countries have institutions that sell services to the global development market; the German Government has an organisation called GTZ, which basically sells its services. Now, we have never, in Britain, had an organisation like that; it's not something Ministers have asked us to explore so far, but clearly conceptually this is an area where Britain has a lot of comparative expertise. British businesses do very well in winning contracts from other purchasers of development services from our operating countries, it is just that the Government hasn't itself tried to get into that market so far. It's an interesting question.

Q36 Jeremy Lefroy: So, could I just push you on that and say, is this something that you think the Government should be exploring? I certainly think it's something worth exploring—do you?
Minouche Shafik: When I was at the World Bank, for example, the World Bank did get into the business, and I used to run a part of the World Bank which actually did sell advisory services to developing countries, but it was very much higher-end, middle-income countries, like Chile or Uganda.

Q37 Chair: I was going to say China; we had quite a lively discussion in the Committee whether that was a route—China?
Minouche Shafik: Exactly. So it would really only be the better-off developing countries who could afford realistically to pay for those services. At the moment, given that our staff are pretty constrained in terms of meeting the needs of the low-income countries that are our priority, I wouldn't necessarily do it on a significant scale. I think if there were particular opportunities where, for some reason, it made a lot of sense, and we had particular expertise to share. I should qualify that with one point: we have been asked by many middle-income countries, who are thinking of setting up their own development agencies, for advice. So, for example, the Indians, the Russians, the Chinese, the South Africans and the Brazilians have all sent delegations to come and meet us to get advice on how you run a Government development Department, and we haven't charged them for that. Actually, we've kind of used it, to be honest, as an influencing opportunity and thought, if we can shape their views to do things that we think are valuable we'll do that for free, but I could imagine that would be a line of business in the future that we could consider, where we were providing services as a development organisation.
Jeremy Lefroy: Just to give the example of the BBC; I mean, the BBC makes a lot of money by selling its expertise in programmes around the world, which subsidises what goes on in the UK, and DFID is obviously regarded highly around the world—let's make some money out of it.

Q38 Alison McGovern: Two brief questions: just to bring us back to staff and consultants, have you conducted a gender pay audit? If you have, or even if you have not, have you taken account of consultants in that pay audit? Secondly, I just wanted to ask about procurement; you said just now about the possibility of procuring across countries in some of the commodities that DFID buys most. To what extent would you be constrained by anti-dumping considerations, and how would that play out in terms of the development of small business, medium-sized business, in low and middle-income countries?
Richard Calvert: Certainly for our core staffing we do look very much at pay across genders. To be honest, I don't know whether we've looked at pay rates for consultants on a gender basis; we'd have to come back to you.

Q39 Alison McGovern: What are the results of your core staff gender pay audit?
Richard Calvert: Again, if we come back to you with detailed numbers, that's probably better than giving them to you now.
Michael Anderson: On the anti-dumping arrangements, as long as there is procurement on behalf of the sovereign entity, and it's done with their approval, and so on, we can easily avoid the anti-dumping problems; it won't be a problem.

Q40 Alison McGovern: The question I was really asking is: how does that promote or not—which is the concern underlying my question—the development of small and medium-sized enterprises in the countries on behalf of which you're procuring?
Michael Anderson: Well, one good example is we have a programme in India, where we help pharmaceutical companies. We bring in technical expertise to help pharmaceutical companies improve the quality of the manufacturers to produce higher quality anti-malarials and anti-retrovirals; we also bring down the price, and we bulk procure with the Government of India. So we're helping build up companies that have a stronger ability to supply Africa as well, as a side benefit, but it's actually having really good knock-on effects in the small and medium enterprises, which then support those bigger companies. We've worked with the Clinton Foundation on making sure that there are good chains so the benefits of this come through the system. If we are talking about things which are reasonably high-tech, like bed nets and anti-malarials and so on, it is not really a market where the small and medium enterprises are going to be competing anyway, and we can input measures, as we are in India, to make sure those SMEs are getting good support and connections.
Chair: I will just say to colleagues that we have still quite a lot of questions and time is marching on, so if we want to get to everything, proceeding a little more briskly would help.

Q41 Chris White: Before I start my question, I want to applaud Mr Lefroy's previous question and suggest that it is worthy of further debate, not least, may I refer you to my speech in the House last week on policy of growth, and the potential for our civil society in that area. My specific question: DFID spends over £400 million a year on technical cooperation. Has an assessment of that been made over the last six years to see how effective this £400 million had been? If not, why not?

Minouche Shafik: I think our approach to technical cooperation has changed considerably over recent years in the sense that technical cooperation is embedded in everything we do. So I don't think we think of it as a sort of line of business. Technical cooperation is embedded when we do budget support in a country, and provide support on public financial management and technical expertise to help a country improve its financial management system. It's also embedded when we do an education programme where we bring in experts in things like bringing down classroom construction costs, or curriculum, or whatever. It has been assessed, but very much in the context of the programmes of which it is a part as opposed to a kind of separate business line. That's probably a more effective way to think about it; what we have found is that when you do and teach at the same time, you learn better than if you just teach.

Chris White: Very difficult to assess.

Minouche Shafik: It's a simplistic way of putting it, but embedded in actually doing it is a much more effective way to deliver technical cooperation, alongside an active programme, than trying to do it in the abstract.

Michael Anderson: The reviews we did, our education portfolio review, and our health portfolio review, for example, looked at technical assistance in those areas: even there, the impact of technical assistance breaks down according to area and sub-sector. We are ambitious for getting much better evaluation of technical assistance in the future by using new evaluation techniques, including randomised control trials where we can, and the truth is that the aid community as a whole has not been very good at getting a really strong grip on how effective technical expertise is. We've a lot of anecdotal evidence, but really solid evidence of impact is quite difficult to get hold of, and DFID is not alone in that; we are ambitious that in future we will strengthen our ability and that of the rest of the donor community better to understand where it works well and where it doesn't.

Chris White: I think you've made very clear how it's very difficult to make the assessment, but it sounds as though you're making progress on actually getting some concrete detail.

Q42 Mr McCann: I'll take your advice in terms of the speed and I'll all my questions at the one time. I asked the Minister earlier this year how much free space there was in both your buildings—at Abercrombie House and Palace Street—and I received the response that there was no free space. Is that answer somewhat disingenuous when you consider that DFID uses 16.7 square metres of space per member of staff, and the Government target is 10 to 12 metres square? So how can you say that there is no free space when your use of space per capita is so high? Are you aware that there is enough room in Abercrombie House for 300-plus additional workstations? So, again, why do you say there is no free space? Why do you need such a large, expensive London headquarters when you operate globally? Finally, we know that the previous Government's commitment to relocate 70 jobs—and it's been mentioned in evidence earlier—to Abercrombie House has taken place. Can you tell us what those posts are and how the decision process was made to place those jobs in Abercrombie House?

Minouche Shafik: I'll let Richard answer part of that question, but on the free space, if you look, for example, at our current office space in Palace Street, there isn't technically free space at the moment, but what we have is a plan to reconfigure the space so we can squeeze more people in. So we are moving to a system where we will have only seven desks per every 10 members of staff, and everyone is going to have to hot desk. To do that you have to reconfigure, get smaller desks, have cabinets so that people can leave their things—they won't leave their things on their desks, they'll leave things in a cupboard—so it's that reconfiguration that we're going to have to do over the next year. Although we've rented one floor already in Palace Street, we have plans to rent two more floors, which will generate £3 million of savings. So we don't have free space at the moment, but we're freeing up space so that we can earn more income from the space we have. Richard, do you want to say something, particularly about Abercrombie?

Richard Calvert: The 70 posts in Abercrombie House were a mix of posts in Mark's area on the bilateral programme management side, particularly overseas territories, and on Michael's side, posts on research and some of the policy teams. They were not corporate jobs, so this was part of the reshaping of Abercrombie. We decided on those jobs after a process of looking at a variety of options across the Department, then consulting staff, and then coming together as a management board and choosing those 70 as the ones we should go for.

Mr McCann: Okay. You didn't answer some of my questions.

Minouche Shafik: Sorry, which ones?

Mr McCann: Well, you said you've rented one floor of Palace Street, and you aim to rent two more—you're not an estate agent. I don't understand; can you explain to me why do you need an expensive London headquarters?

Minouche Shafik: Well, there are some functions—there are a whole range of Whitehall meetings and various other things—appearing before Committees, meeting MPs—

Mr McCann: With respect, that only needs a small amount of senior civil servants, people like yourself, Minouche, and others. It doesn't need the size of office block that you have in central London, so why do you need it?

Minouche Shafik: Actually, by any Whitehall standards, DFID is the most decentralised central Whitehall Department. We already have more of our staff as a proportion of the total outside London than any other Government Department.

Mr McCann: I'll try again. Why do you need an expensive London headquarters the size that it is when you're such a global operation? There's no need for those numbers to be in London, is there?

Minouche Shafik: Well, actually, as I said, by any normal standards we are at the top of the league in terms of having decentralised and having more of our staff in the regions. It's not just us who have to be occasionally in London; we have staff who have to liaise regularly with the Treasury; we have staff who have to liaise with the Ministry of Defence; we run the Stabilisation Unit: we have a whole array of functions that have to be done in collaboration with other Government Departments, with other central Government Departments, as well as engagement with Ministers.

Q43 Mr McCann: So every single person that you employ in London has engagement and direct collaboration with other Government Departments?
Minouche Shafik: Well, no; because you have to think coherently about teams, and so certain teams have big functions that require them to be in London, which is how we thought about which jobs we could relocate to Abercrombie, but even there we've tried to be very flexible. A big part of the spending review was run out of Abercrombie, and those teams had to go back and forth between London on a regular basis; we had to balance the costs and manage it in a sensible way. Having staff outside London also incurs costs, because if they are having to come to London three times a week and stay in hotels and pay for transport it's not very cost effective. So those are the kind of choices and balancing that we have to make as managers.
Chair: Michael McCann after all is the member for Abercrombie House—
Minouche Shafik: I know.
Chair: I think he's made his case very powerfully.
Minouche Shafik: I think we're doing a good job.

Q44 Chair: The new Government has established, or is establishing, in the process of establishing the Independent Commission for Aid Impact. You have had—and indeed we visited it in Abercrombie House—your own internal evaluation unit. What will be the effect of the new watchdog? What effect does it have on the internal evaluation? Does that disappear? Also, how do you continue to evaluate your own programme? To what extent will you be evaluating programmes or waiting for the watchdog to do it? How many do you expect to happen in an average year?
Richard Calvert: The evaluation department's main task previously has been to manage a programme of semi-independent studies. We're stopping that programme completely, so we're winding it down over the next few months; as the Independent Commission takes off, that programme will have been completed. So the expenditure, both on running those studies and on the staff who manage them, is going to stop. At the same time, one of the things that we've been clear about is that as we continue to scale up the programme we need to do more evaluation of our programmes in the core programme team.
Programme design has to have a stronger evaluation and results element built into it from the start. So although the central evaluation team, which currently sits in my area, is being largely wound down, in Michael and Mark's area we are looking to strengthen our capacity on evaluation, partly funded through the frontline expenditure flexibility that we have. So it's a very different kind of evaluation capacity than we currently have, but potentially actually a greater one; it may well be that by the time we get to 2013 we have more people with evaluation expertise embedded in country offices and in policy teams, but not in the central team.

Q45 Chair: As far as the evaluation staff are concerned, will they be redeployed? They are not necessarily going to go to the Independent Commission; of course, it's entirely up to the Independent Commission what it does and, indeed, the structure doesn't allow for that, so they presumably will either be redeployed or leave?
Richard Calvert: They will largely be redeployed. Some of them have already moved to new jobs; in fact, some of the Abercrombie House based team have moved into the 70 jobs **that we're currently relocating; others who have deep evaluation expertise will move into the** new functions embedding evaluation across the organisation.

Q46 Chair: There's a concern that this is an independent watchdog, so in a sense you have to deal with it as it comes to you, but nevertheless you presumably have to make your operation in the knowledge that this exists, so you'll have to have some kind of modus operandi that says, "We may have to be evaluated and, indeed, we might want to anticipate evaluation." I mean, is it going to affect, if you like, the culture within the Department?
Minouche Shafik: As you said, the Independent Commissioners will be able to select what topics they want to evaluate. I think the Secretary of State has said that he would like to have the opportunity to suggest topics, because there may be areas that he's concerned about that require evaluation, but in the end it will be the choice of the Commission themselves as to what topics they choose to evaluate.
Chair: I understand that, and, indeed, this Committee has an input into that.
Minouche Shafik: You'll have more say than we will, Chair.

Q47 Chair: My concern is not that, but that you had internally an evaluation process, you now have an external one, but does that mean there's no kind of culture of anticipation, if you like, or assessment? Are you basically saying, "We do our job as efficiently as we can, and it's up to the external body to decide what they want to look at"?
Richard Calvert: I think this is where the work on strengthening evaluation at the frontline is really important, because as an organisation we acknowledge that there's more we can and should be doing on embedding evaluation in programmes, so that we're not only generating clear evidence about how well programmes are working but we're using that evidence better in the organisation. One of the key lessons from the predecessor to the new Independent Commission was that we still did not have a strong enough lesson-learning culture in the organisation, so we do need to up our game on some of that. We believe we need to do that for its own sake, because it's the right thing to do, and the right thing to maximise value, but it will also put us in a position

where we hope the Independent Commission, when it comes and looks at bits of the organisation, will find that we have a solid evidence-based grid to draw conclusions from.

Q48 James Clappison: Could I ask you about evaluation of emergency aid, and particularly emergency aid delivered through third parties? A lot of our aid is delivered through third-party organisations—about half of it, I understand, including some of our emergency aid. Will this be subject to evaluation?
Minouche Shafik: Virtually everything that DFID does will be subject to evaluation. It's important to know also that there is an ongoing review of all our humanitarian emergency work, which is being led by Lord Paddy Ashdown.

Q49 James Clappison: Can I ask you about that, because I'm thinking particularly of the money that we distribute through the EU; will that be subject to evaluation, including the humanitarian aspects of it?
Minouche Shafik: Yes. If the Commission decides that it wants to look at that, it's certainly within its purview.

Q50 James Clappison: Since we have got you here as the people in charge of the Department, can I go slightly wider and ask you about our response to Haiti? I asked a written question recently about this, and I was told our response was primarily through the EU, I think it's right to say, and only a very small part of the aid that was promised by the EU for Haiti, for this year, following the earthquake in January, has actually been delivered. Can you comment on your evaluation of that, and how much aid we're giving to Haiti? Here we have a very poor country suffering a natural disaster.
Minouche Shafik: Mark may want to say something about that, but the total commitment to Haiti was £30 million, which the UK made primarily and was exclusively focused on the humanitarian response, but we also took attribution for part of the EU commitment.
Mark Lowcock: I think we should pursue, Mr Clappison, what we've done to scrutinise the EU delivery of its emergency response in Haiti; of course, there's long-term development programmes the EU runs and the US as well, so I don't know whether the critique is about both of those; we'll pursue that. A lot of the £30 million Minouche talked about was delivered either directly by us in collaboration with, for example, the MoD—the ships that were sent and the supplies that were sent—or through UN organisations, or through NGOs, largely British ones, and the Red Cross. The EU gets—

Q51 James Clappison: Sorry to interrupt you—we gave the money to the Red Cross, did we? The Government?
Minouche Shafik: Yes.
Mark Lowcock: Yes.
Minouche Shafik: But there was a separate channel; we take attribution for money that we had already given to the EU.

Q52 James Clappison: I was told in the written answer that by the end of September the EU had only spent €30 million of the money which it had promised; it had promised €200 million for this year, and its performance was lamentable compared with other international organisations, which had delivered a much higher percentage of the aid that they promised. Now, this is very slow aid getting through in a dire situation with people stricken with cholera. Is there anything we can do to evaluate this and do something about it, because a large amount of our aid effort to Haiti is going through the EU?
Chair: Just as a clarification, are we talking about the EU or the European Commission? In other words, is it member states who haven't delivered the money?
James Clappison: This is through the EU as a whole.
Minouche Shafik: I presume this is through ECHO—
Mark Lowcock: I think this aid is delivered by the European Commission, financed by the budget, which, of course, we don't have control over in the Department; it's simply attributed to us, or financed through the EDF. So we can comment on proposals in the Department, and the implementation of them, but it's not as though we have discrete decisions to make as to how we give the EU another £30 million for Haiti. That's not the rules of the game, for better or for worse, for the way EC-managed programmes are delivered.
Michael Anderson: Just one very quick sentence. Our evaluation department is engaging in a multi-donor evaluation of our assistance to Haiti, so we should get some lessons from that.

Q53 James Clappison: Could I ask, very briefly, if you could let me have a note of how much aid we have actually given to Haiti, either on our own or through international organisations? How much has actually been delivered so far?
Minouche Shafik: Absolutely, happy to do that.
James Clappison: Speed of response is very important when people are suffering from cholera and homelessness, and all the rest of it.

Q54 Chair: An outstanding potential concern: if the independent watchdog is evaluating what you do, and you're delivering 2% of administration, a substantial part of our aid is going to multilateral agencies, who you say are looking for 10% and 12% contributions. How are they going to evaluate the effectiveness of UK aid, through the World Bank, through the UN, compared with bilateral aid, if there's such a wide disparity and they don't have the same direct control or access?
Minouche Shafik: I think the Commissioners will be entitled to look at the performance of the multilateral institutions, because we are major shareholders in those institutions. If they want, for example, to review the work that we are doing on climate, or something, and they want to assess the Climate Funds that we support at the World Bank, they will be entitled to look at those. The World Bank, of course, has its own evaluation capacity which looks at its programme, but as a shareholder and as a contributor they would have access to the information that they would need.

Chair: That will make very interesting reading, I think, some time in the future.

Q55 Richard Burden: I'd like to continue on the issue of transparency. In particular, we're a member of the International Aid Transparency Initiative. That's gone down quite well in a number of quarters, a number of NGOs, and so on. What I'm not entirely sure of is, since the Government in June this year came out with the UK Aid Transparency Guarantee, how's that actually going to be delivered? I mean, in practical terms, how is information about aid programmes going to be made available, not simply to the NGO community and the stakeholders who know their way around the system anyway, but more widely? I mean, how is it actually going to help?

Minouche Shafik: It's a very big change for us, and I think Richard will say something about what we're doing to prepare for that change.

Richard Calvert: The biggest change for us is to start from January 2011 to make available all our core project documentation through our website. Now, how is that going to work? Well, one of the things that's really important is that we make available information that is comprehensible and people can make some use of, so over the last three or four months, we've been redesigning the way we do our project documentation to make it clearer and simpler—not to lose the rigour of analysis, but to set it out in a single document in a clearer way, so that when we start to publish our project documents in January we're putting up something which may not feel like an easy read to everyone, but will be considerably easier and clearer than would have been the case previously.

In addition, we're also going to translate the summaries of core project documents into local languages, so that this isn't just for an English-speaking audience, but in our partner countries we make available summary information on our activities. We're also making the data freely usable, so that, as we put it up on our website, we are allowing other organisations to take and use that data as well, which helps with the wider value of the documentation. So I think at the end of the day we have to recognise, if we're designing a development intervention in a relatively complex area, there's not ever going to be an absolutely simple and straightforward way of communicating that, though we are trying to keep it as simple as we can. We believe this is the right balance between usability and keeping rigour in the cycle. It also avoids us duplicating documents, because the last thing we want in a constrained environment is for one bit of the organisation to write project documents, and another bit to rewrite those into a format that may be publicly accessible.

Q56 Richard Burden: The Secretary of State, when talking about the UK Transparency Guarantee, was essentially looking at three sets of people that needed to have that transparency: donors, beneficiaries, and taxpayers. Now, hopefully the kind of system you've described will work, whether in-country or here, in relation to donors and beneficiaries, certainly if you are looking at beneficiaries in terms of Governments and so on. I'm interested in the taxpayers end of it, because with the best will in the world, they're not necessarily going to get their way around the website, and a lot of information they get will, in practical terms, be filtered not by what's on your website, but what's on your website combined with what the *Daily Mail* or the *Daily Express* tell them is on your website. Now, given the fact you're cutting back on your administration, and part of that, I understand, will include the outreach work you do here in the UK, how—or is it really a job for somebody else, not the Department now?—are you going to get across to the public here and receive feedback from the public here about issues regarding the effectiveness of aid, value for money, and so on, that isn't just, in practical terms, entirely filtered and mediated by the media?

Minouche Shafik: You're absolutely right. I fear that there is no escaping the fact that we will have intermediaries; information intermediaries who will interpret this data and spin it in whatever way they like, you're absolutely right. I think the only thing we can do is hope that there are some more informed and intelligent intermediaries to complement—substitute hopefully—the less informed, who will spin the data in as negative way as possible. I think we're very keen to see civil society organisations and others use the data and interpret it. The other thing that I worry a lot about, and I think this Committee has a very important role in is, as you well know, we're in a very risky business; things go wrong. We operate in some of the most difficult countries in the world: if we're not taking risks, we're not doing our jobs. When things go wrong, the public need to understand that you took a risk with a small amount of money in a difficult environment and it didn't work, but in the wider context of the billions that you're managing that are working, that was a reasonable risk. I hope that the Committee can help us have a slightly more grown-up conversation with the public about what is reasonable in terms of reasonable risks and reasonable outcomes, and good value for money from the aid programme.

Chair: I have to say, the *Daily Mail* does not regularly attend meetings of this Committee.

Minouche Shafik: No. I wish they would.

Q57 Jeremy Lefroy: Just turning now to overseas development assistance as a whole, I think the latest figure is that some 12% of ODA is spent by Departments other than your own?

Minouche Shafik: That's correct.

Jeremy Lefroy: Have you any input into that to ensure that that meets the overall objectives of Government: that development assistance is spent primarily on poverty alleviation?

Minouche Shafik: Yes.

Jeremy Lefroy: Do you expect that 12% to increase in coming years, particularly because of—without wishing to prejudge any questions—the importance of climate change, and perhaps what's going on in Afghanistan particularly, and possibly in all of Africa?

Minouche Shafik: Yes. Actually the results of the spending review show that that number will not change over the course of the four years. Other Departments' ODA allocations have been hard-wired in their settlement letters, and the indications that we have are that the proportion spent by DFID will actually increase to 89% by the end of the spending review. So that worry that the money would be spread round actually has not manifested itself. In terms of your question as to whether we have any leverage over it, I think we have three; one is that we're responsible for making sure that all that spend is actually compliant with the OECD definition of aid.

Q58 Jeremy Lefroy: That's a statutory responsibility you have is it?
Minouche Shafik: That's correct. As you probably know, the ODA definition has now become a national statistic, so it's not just us, but it's the Office for National Statistics that has to ensure compliance with the international standard. Secondly, it will also be subject to the transparency agenda, so they will also have to publish in a transparent way how they are spending the aid budget. Thirdly, it will also be subject to the Independent Commission for Aid Impact, so they will be subject to evaluations that are done by the Commissioners. So those are three quite important levers I think, to make sure that the quality of that aid is high.
Jeremy Lefroy: Thank you.

Q59 Richard Burden: Can I ask you about the climate change finance element of this? The spending review allocated £2.9 billion for international climate finance, shared between DFID, DEC and also DEFRA. Can you tell us what the split is between the three Departments?
Michael Anderson: Over the course of the spending review period—there are some lumps in it—basically it is 35% to DEEC; 62% to DFID, and 3% to DEFRA. The DEFRA funding is specifically for forestry, and the spending review settlement letters identify some possibilities of intra-departmental flows if we need to adjust during the course of the spending review period.

Q60 Richard Burden: And as far as ODA is concerned, of that £2.9 billion, how much of that actually will count towards ODA?
Michael Anderson: All of it is ODA; the entire international climate finance package is ODA. It is all for the purpose of poverty reduction through low-carbon growth, building resilience and adapting to climate change, and also tackling the problem of deforestation.

Q61 Richard Burden: Right, so without getting my mental arithmetic going quite right at the moment, the previous Government talked about there being a 10% cap on the proportion of ODA that should be devoted to climate finance. A number of organisations, UNICEF in particular, and a lot of others beyond that, have said that actually if you're looking at climate change finance, it's necessary that development is about more than that. We should be talking about additionality here, not just top-slicing the budget. Where does the 10% figure now fit?
Michael Anderson: Over the course of the spending review, it rises to a peak of 7.5% of ODA on international climate finance, so it's well under the 10% that the previous Government committed to. We think there's a real advantage in targeting development assistance on the developmental aspects of climate change, because in most of the countries where we work the development issues and the climate change issues are absolutely bound up together, and we don't think there's any loss in effectiveness in climate financing by making sure we get the synergies with development.

Q62 Richard Burden: And you are confident that it will not go above the 10% figure?
Minouche Shafik: Well, the Government has not committed to that 10% ceiling in principle, but in practice they have budgeted for only 7.5%.
Richard Burden: But you'd be confident that in that situation that it will remain within the 10%?
Minouche Shafik: That's the current plan; that's what we've been asked to do, yes.
Michael Anderson: Subject to one point, which is we have said if there is a big international agreement, which requires additional climate finance, we'll have to revisit the entire package.

Q63 Chair: Well to cut to the point, and Richard might want to follow it up as well, first, you're making it clear that a commitment was made by the previous Government, but the coalition Government has made no comment, as far as I'm aware on that. It hasn't said one way or the other?
Minouche Shafik: Exactly. That's correct.
Chair: You're saying that, on what you're practically working out, it will come under, but what you've just said, of course, could potentially take it a long way over.
Minouche Shafik: We just don't know what the content of a future international climate deal could be, so we just have to caveat the 7.5% by saying that if something major happens and the world agrees on something, and the UK has to pay a share—
Chair: That may be something the Committee may want to return to, as you know, we did a report in the last Parliament on that.

Q64 Pauline Latham: On one hand, we want to improve the cost-effectiveness of aid by the UK; on the other hand, we now want to focus on fragile states, where obviously the projects that you deliver are more difficult and more expensive to deliver, because of the security issues. How do you balance these fairly incompatible objectives, and how will stable countries with effective aid programmes be affected by DFID's increasing focus on those fragile states?
Mark Lowcock: Well, as the Secretary of State said in his keynote speech on conflict, I think it was in September, 22 of the 34 countries furthest away from the MDGs, i.e. where the MDG burden is greatest, are in conflict or coming out of conflict. So at the top level there's actually no tension between a development aid or poverty agenda and a fragile state agenda; they're completely synergistic. It's true that in some fragile states it's more expensive to deliver development outcomes than in some stable states. Ten days ago, I was in Southern Sudan, and everything in

Southern Sudan is very expensive. There aren't any roads; communications are very difficult; so a bed net costs you more, if you like, in Juba than if you bought it in Kampala. That's the truth; it's a fact of life. In other fragile states, however, development outcomes can be cheaper than in some stable states. In Bangladesh, for example, to pay for a girl to go through school, or to provide a maternity package of services for a pregnant woman, is cheaper than in many of the other countries in which we work.

One of the development challenges is driving the costs down in the expensive places. Clearly, because the Government has said that 30% of ODA by the last year of the spending review period will go to fragile states—that is a higher proportion than is currently the case; it's roughly doubling the total spend—that's at the expense of something. One of the things it's at the expense of is the more stable states. Actually, from our point of view, that's kind of a win; the whole goal of our business is to help countries move on and no longer need aid, so we view that mostly as a good thing, but at the margins its possible that Ministers will face quite tough choices about a bit more investment in a less fragile country, which might have higher returns, as opposed to wanting to do more in a more fragile one, whose returns might be longer in coming through.

Q65 Pauline Latham: Yes, deciding which way to go is quite a tension, isn't it?

Minouche Shafik: It is.

Pauline Latham: You want the bigger bang for the buck really, but is it right to do that, or is it right to focus on where you're getting less value for money, but actually affecting people in a very, very difficult situation?

Mark Lowcock: This is an issue we wrestle with a lot.

Pauline Latham: I'm sure.

Mark Lowcock: I'm not sure there's a right answer or a wrong answer necessarily, but one of the things that we do look at is where other people's aid projects are going. If you look at the global allocation of aid resources, one thing you observe is that there is a very low level of effort from that total pot in relation to the MDG burden, in the most fragile places. So Northern Nigeria, to give an example, has 70 million of the poorest people in any non-conflict zone in the world, and there is essentially no international aid there, other than the DFID programmes and a little bit of World Health Organisation. So one of the things we are doing is compensating for misallocation, in some sense, of global aid resources.

Pauline Latham: Yes, thanks.

Q66 Chair: The Secretary of State was quite enthusiastic about the instigation of the National Security Council, but I think we're not terribly clear as to how it operates; I'm hoping the Prime Minister may give some clarification in front of the Liaison Committee when he appears there. I think the first question has partly been answered by Mark Lowcock, which is the securitisation, if you like, of aid. I mean, what you're saying is the ODA development requirements deal with that. However, how does the Security Council operate? Who sets the agenda and decides what it's going to do? And when you're talking about Afghanistan and Pakistan, how do the development versus the security issues balance? I don't know how involved you are, and if you've sat in on a National Security Council, but it seemed like a good idea—I don't think we're critical of it—but it's not entirely clear how it operates.

Minouche Shafik: Maybe I'll say something about how it operates, and let Mark say something about the trade-offs in a place like Afghanistan and Pakistan. In terms of how it operates, as you know, the National Security Council meets weekly; our Secretary of State is an active member of that. I actually sit on a Permanent Secretaries' Committee that meets five days before Ministers meet to work out papers and set the agenda for those Ministerial meetings. The agenda is set collaboratively between obviously the Prime Minister—if there's something he wants us to look at, he puts that on the agenda—and the Cabinet Office, which has a rolling agenda of major topics to be discussed that usually that runs three or four months ahead.

I think the production of a national security strategy and the Strategic Defence and Security Review were interesting in the sense that it was the first time that development had a big seat at that table, and I think some of the emphasis in those documents on prevention and taking a long-term view reflects the fact that development had an important seat at that table. I think there was an awareness from many of our colleagues, both in the Ministry of Defence and the intelligence community, that in future it would be much cheaper to prevent Afghanistans rather than to try and fix the problem once it has gone terribly wrong. Those were themes that we on the development side were very keen to push.

Chair: It might have been helpful if we'd had one of those before Iraq. I don't ask you to comment.

Minouche Shafik: I couldn't possibly comment. I think the other two big themes from us were the doubling of the Conflict Prevention Pool, which were, again, consistent with what I've just said about preventing rather than trying to fix too late in the process, and secondly the commitment to work in fragile states, which I'll let Mark say something about.

Mark Lowcock: Afghanistan and Pakistan are obviously constant agenda items in the NSC. The Secretary of State has been to Afghanistan twice since taking office; he's been three times this year to Pakistan; he's involved in all the key discussions across Government. Development is a fundamental part of Britain's approach to those countries. So, just as somebody who has been involved in this across Government for the last ten years or so, I do think the current system is working very well; that's my observation on it. One of the things that was agreed in the Strategic Defence and Security Review was that there should be a Sub-Group on Building Stability Overseas, which is jointly chaired by the Foreign Secretary and the Development Secretary, and there's a group of officials which prepares those meetings, and that group is jointly chaired by the Political Director in the Foreign Office and me.

So we think that the development voice is more prominent in handling and dealing across Government with unstable places overseas where the UK has a national interest than has been the case, at least at some points in the past. Of course, the proof of the pudding will be in how these structures work over the next few years or so, but from a development point of view, our view is that the tensions which some people worry about a lot are really overstated, and joining up across Government is good for development, and not a threat to development.

Q67 Chair: That's fair enough, but if you're engaged in more fragile states and that is more part of the security strategy—focusing on the National Security Council—do you have enough of the right people? Do you need more of them? How do you relate to the Foreign Office? To what extent should the people be in DFID; to what extent should they be in the FCO?
Mark Lowcock: We definitely need more governance specialists, conflict specialists, economists who have experience in fragile states; we need more people who can deliver programmes where you can't work easily through the Government. One of the things we have—
Chair: But those are all obviously DFID staff?
Mark Lowcock: Yes. To run the development programme we primarily need people with development skills. We need our colleagues in the MoD and the FCO to work on some issues; for example, we're trying to reduce the amount of its budget the Government of South Sudan spends on its defence forces. Colleagues in the MoD who have experience in civilian oversight of a military system are adding incredible value to that as we help the Government of South Sudan. So there are some discrete areas where colleagues across Government bring skills we don't have, but essentially to deliver a development programme we need development specialists.

Q68 Jeremy Lefroy: You've just mentioned Sudan and anticipated what I was going to ask. How high up the priority list of the National Security Council is the situation in Sudan, which I think strikes all members of this Committee as being incredibly urgent, and, indeed, we discussed it when we were in New York? Secondly, longer term, how much of a priority is the National Security Council giving to the Democratic Republic of Congo, and in particular how much is the input of DFID in that? I imagine you would take a lead on it.
Mark Lowcock: On Sudan, Ministers have had a series of collective discussions and exchanges. The Foreign Secretary is chairing a session of the Security Council in New York on Sudan at the moment; the Secretary of State made his longest-ever overseas visit, which he's just come back from, to Sudan; and I mentioned that I was there three weeks ago. I think that's some evidence of the seriousness with which we view the current situation. I think it's a long-term challenge, actually, both for the North and the South. South Sudan is the size of Spain and France combined; there's maybe 20km of paved roads. Most people who teach in primary schools, or if not most a very high proportion, didn't themselves complete primary schooling, so the development challenge is enormous, which means that DFID is going to be working in South Sudan for a very long time.
Minister O'Brien has visited DRC—it was one of the first places he went to. The Secretary of State hasn't visited since he took up this post, obviously he did in opposition, and it's one of those countries that is kind of up on the forward programme, if you like. One of the big issues is the future of MONUC, which delivers a lot of services, but at quite high expense, that are necessary for stability and also to the development programme. I think that will come higher up the agenda for the Government over the next few months.

Q69 Alison McGovern: Just to take us back briefly to Afghanistan and Pakistan; to what extent can FCO staff add value to the Department, especially in relation to working with countries in the region? The same question might apply to the Middle East and North Africa; to what extent are you able to work with colleagues in India and other influential countries in the region, where the FCO can lead and add better value? Is that a practice that's happening?
Minouche Shafik: Yes. We work very closely together. For example, in Afghanistan everyone says that there will be progress only when there's a political solution, and the FCO leads on the political, diplomatic side of the agenda. Also I think it's widely viewed that peace will come to Afghanistan when the neighbours and the regional partners are supportive of a peaceful Afghanistan and, again, the FCO has a key role in working closely with the neighbours in the region to try and build support for stability in Afghanistan. Our skills are very complementary, and it's very important for us to work together to get the best possible outcomes for the Government.

Q70 Chair: I just wonder if I could, before we finish, hark back. You were talking about research and the difficulty of disseminating research findings. I don't know whether there's more you could do to improve that flow of information to the Committee, because we sometimes conduct inquiries, and we find that an organisation has carried out research for the Department, but they don't give evidence to us. They just don't respond, and that seems to us slightly surprising. So I just wondered whether you could—I don't want you to make it a condition that they should give evidence—let us know when it's relevant? If the Department is giving evidence to us on a particular inquiry, you could perhaps annotate any relevant research that the Department has commissioned in that area, and we could at least know that that's there, and maybe draw those organisations in.
Minouche Shafik: Absolutely. We will come back to you with a proposition about to how we can get our research findings to flow to the Committee more regularly and systematically.

Q71 Chair: Thank you very much indeed. As I said at the beginning, we value these annual exchanges. The Committee is obviously very engaged both in policy and delivery, but you're kind of the meat in the sandwich, basically, because ultimately you are the people who actually have to deliver these policies on the ground. It is not inappropriate at this stage to say, on behalf of the Committee, that we have undertaken, and we will be undertaking, as always, visits into the field, and the quality and commitment of the staff that we meet on the ground is almost inordinately high. With all these changes going on I hope that will still be the case, but clearly there will be some big challenges out there, and we thank you and your staff for the cooperation that they give us, especially if occasionally we don't make it easy for them, but we're not here always to make it easy for them. They do give us fantastic support and insight. New members of the Committee who are about to embark on some of these visits will make their own judgments, but I am fairly confident that they will come to the same conclusions, so thank you very much indeed.

Minouche Shafik: Thank you.

Written evidence

Written evidence submitted by the Department for International Development

The following questions *(in italics)* were sent to the Department for International Development for answer on 25 August 2010. The Department answered on 11 October 2010 (**in bold**).

2009–10 Resource Accounts

Q1. *The Analysis of Net Resource Outturn in the Resource Accounts shows that expenditure related to Conflict Prevention and Stabilisation was £16.7 million in 2009–10 compared with £41.8 million in the previous year (p52). Furthermore, there was an under-spend (compared with the Estimate) in this area of £4.5 million "reflecting the difficulties in operating in conflict areas and hostile environments" (paragraph 5.6.5).*

Q1a) *What are the underlying reasons for this reduction in expenditure?*

This includes spending in geographical areas in which DFID operates in a joint decision making capacity with the MoD and FCO. In 2009–10 DFID had an original Conflict Pool budget of £49 million in the 09–10 Main Estimate but made transfers to FCO of £26 million and MoD of £2 million during the Winter Supplementary Estimate and Spring Supplementary Estimate stages. FCO and MoD then spent these funds on agreed conflict prevention projects.

Q1b) *Could the Department expand on the difficulties related to operating in conflict areas and hostile environments which led to an under-spend in this area?*

The under-spend of £4.5 million is spread over several fragile states. The challenge in operating in such settings is considerable. The two most significant explanations for a programme underspend relate to staff safety and security and the underlying capacity of implementing partners. Both of these factors increase programme risk and uncertainty which in turn can lead to programme underspending.

Q2. *The Resource DEL budget shows that Central Departments expenditure related to "eliminating poverty" increased from £239.3 million in 2008–09 to £315.0 million in 2009–10 (p89). However, in 2010–11 it is planned that it will reduce to £161.5 million. Is this change due simply to the reclassification of different budgets or are there other reasons behind it?*

Central department expenditure includes costs associated with centrally maintained assets and liabilities which are used in general administration and delivery of strategic objectives. Examples of this include fixed assets and loans issued by DFID. In addition to this there were grants issued by corporate departments which did not solely meet one specific objective. As a result these were classed within central department expenditure under a general aim of eliminating poverty. For 2010–11 we have ensured that all grants have specific objectives that enable them to be allocated directly and therefore not included within central department expenditure.

Q3. *Table A2 of the Resource Accounts indicates that expenditure on procurement fell by £200 million between 2008–09 and 2009–10 but is set to more than double this year—planned expenditure is £1.1 billion in 2010–11 compared with an outturn of £474.2 million in 2009–10. Can you explain the reasons for these variations?*

A reclassification of codes contributed to the variation between 2008–09 and 2009–10. The 2010–11 planned expenditure on procurement is estimated to be £778 million. Further work is being undertaken by Procurement Department to validate this figure which will then allow a more detailed comparison with earlier years.

2070 Spending Review, Administrative Budgets and Multilateral Expenditure

Q4. *What consultation mechanisms is DFID using to inform its reassessment of priorities ahead of the 2010 Spending Review?*

The Department is currently reviewing all its programmes to ensure that future allocations represent maximum value for money. The Bilateral Aid Review, Multilateral Aid Review and Emergency Response Review have been launched to achieve this.

Consultation within these reviews provides an important opportunity to consult on future spending priorities. The Department has already met with civil society organisations to discuss their assessment of multilateral organisations; and will meet to discuss the Bilateral Aid Review on a monthly basis from September. The Bilateral Aid Review has also had frequent consultation with other government departments, both in London and overseas.

Additionally, consultation with the public has been mediated through the Spending Challenge website (launched by HM Treasury) and the DFID website which invited comments on specific priorities in the Coalition Programme including the Poverty Impact Fund, Malaria and Maternal Health.

Q5. *Is the Department willing to comment on the documents leaked to the press during August 2010 discussing the possible abandonment of a number of international aid commitments?*

All DFID programmes are currently under review to ensure they have the greatest impact on global poverty as driven by specific needs on the ground. The future direction of DFID's programmes will be announced once these reviews conclude. We do not comment on leaked documents.

Q6. *Does the Department envisage that its spending and work on conflict prevention and stabilisation will be impacted by the Spending Review settlements of the FCO and MoD?*

Effective work on conflict prevention and stabilisation requires Development, Foreign Policy and Defence approaches to be brought together. The Strategic Defence and Security Review (SDSR), which is closely linked to the spending review for FCO and MOD, is currently considering how HMG's work on conflict prevention and stabilisation can be better integrated and strengthened. The results of the review will have implications for all Departments involved.

FCO, MOD and DFID already work very closely to jointly deliver UK objectives in key countries around the world, but there is more we can do to capitalise on the resources and expertise of our diplomats and defence and development experts to ensure our contribution is greater than what could be achieved by any department working alone. DFID, FCO and MoD are putting forward a joint bid for funds for conflict, stabilisation and peacekeeping as part of SR10.

Q7. *Table AS of the Resource Account (p92) splits DFID's administration costs between "Paybill" and "Other". Can you provide figures for the main components of "Other" administration expenditure over the period 2003–04 to 2010–11?*

Table A5
ADMINISTRATION COSTS (EXCERPT)

	2003–04 £'000	*2004–05 £'000*	*2005–06 £'000*	*2006–07 £'000*	*2007–08 £'000*	*2008–09 £'000*	*2009–10 £'000*	*2010–11 £'000*
Operating lease rentals	16,756	21,077	20,603	20,002	21,627	22,280	25,347*	23,510
Non cash items—see note 10 on page 58 of Resource Accounts for details	30,758	26,672	24,744	49,188	(6,381)	17,240	17,025*	15,795
Other current expenditure	80,858	86,139	86,063	89,861	106,625	47,439	42,770*	50,654
Loss on disposal of assets	767	292	388	1,704	1,196	834	1,685*	1,685
Other admin costs—Rf R2		283	1,694	1,734	1,684	1,834	2,176*	3,906

* These items have been extracted from the disclosures in note 10 on page 58 of the Resource Accounts.

Other current expenditure includes items such as consultancy payments, travel, training costs and other classes of expenditure which individually are not greater than £2 million. Consultancy payments for 2009–10 were £19.1 million (2008–09: £24.5 million), travel for 2009–10 was £12.3 million (2008–09: £14.1 million), training costs represented £5.3 million in 2009–10 (2008–09: £7.1 million) and other costs were £6.1 million (2008–09: £5.0 million). Further work in-year is underway for 2010–11 allocations which will result in adjustments to published figures.

Q8. *Note 9 to the 2009–10 Resource Account (p56) explains that the £32 million cost of overseas frontline staff was reclassified during 2008–09 from administration to programme expenditure. Have DFID and the Treasury now settled on a detailed definition of what types of expenditure should be categorised as 'administration' and, if so, can you provide the definition?*

As part of the 2007 Comprehensive Spending Review, Treasury agreed that the costs of DFID staff overseas working directly towards our strategic priorities could be charged to programme expenditure. This treatment was set for that period only. For SR07 where an overseas employee spends greater than 50% of their working time on programme activities they count as Programme Funded Administration

and are then classified as Programme. DFID and Treasury are currently discussing how these staff should be treated for the SR10 period.

Q9. *In 2009–10 DFID spent £2.5 billion (38%) of its programme expenditure through multilateral organisations, up 8% on the previous year (p82). Will the reduction in DFID's administrative budgets mean that more money will be disbursed directly to multilateral organisations? How much of DFID's programme expenditure do you plan to disburse through multilateral channels in 2010–11?*

(i) DFID has launched reviews of all its programmes to inform future allocations. The relative spend through multilateral and bilateral channels will be determined by the results of these reviews and the government's priorities. We are working with Treasury to ensure that we have sufficient front line delivery staff to manage programmes effectively and to deliver value for money for the programme spend.

(ii) DFID plans to spend £3.4 billion of programme spend through multilateral channels in 2010–11, compared to a figure of £2.5 billion in 2009–10. The increase on the 2009–10 spend mainly relates to the following increases:

International Development Association	**£350 million**
European Development Fund	**£100 million**
Global Funds	**£200 million (including Fast Track Initiative £150 million)**
Climate Investment Fund	**£100 million**

Q10. *Is DFID getting a sufficient quality of data on results from each of its multilateral partners to assess value for money? To what extent has DFID directed increases in funding to those multilateral it assesses as best-placed to monitor and report results?*

The Multilateral Aid Review, which was launched in June 2010, is conducting a comprehensive assessment of value for money from DFID's contributions to its multilateral partners. These assessments cover a range of indicators, including strategic fit, partnership behaviour, delivery of results, and cost control. The extent to which multilateral monitor and report results is an important factor in this assessment. The findings of the review will determine how DFID funds the multilateral organisations.

Q11. *Following the OGCs*[1] *procurement capability review of DFID in 2008, the Department has undertaken a Procurement Capability Review self-assessment.*[2]
(a) *What were the findings of the self-assessment?*

The findings were very positive. The Department has made good progress with the establishment of a more commercial culture throughout the organisation, restructuring its professional procurement cadre, and promoting a new organisational model to improve the Department's procurement capability. The assessment was independently verified, and endorsed by the OGC.

(b) *Why has the self-assessment not been published on the OGCs website?*

OGC did not publish assessments that concluded around the time of the 2010 election.

(c) *What are the main actions the Department has taken, or is taking, in response?*

The main actions were to maintain the momentum on better commercial understanding throughout the Department, use management data to inform commercial decisions, and to develop effective engagement with key suppliers and external business partners.

STAFFING

Q12. *How will DFID's 33% administrative savings translate into headcount reductions? How will the reductions be split between:*
(a) *back office/support functions*
(b) *HQ functions*
(c) *UK staff based overseas*
(d) *locally engaged staff based overseas?*

DFIDs administrative cuts are challenging and savings plans are being prepared that drive greater efficiency in back office functions both in the UK and Overseas through redesigning business process and management restructuring. We are making the same administration cuts as other Departments across Whitehall.

The impact of the administrative costs reduction on overall headcount will be affected by agreements with the Treasury on the costs of additional frontline delivery staff required to deliver a growing

1 Now part of the Efficiency and Reform Group in the Cabinet Office
2 http://www.ogc.gov.uk/procurement_capability_reviews_procurement_capability_reviews_wave_two_self-assessment.asp.

programme spend. Both the reduction in administration posts and potential growth of frontline posts will have a bearing on redeployment, severance and recruitment. These will be derived from the Business Planning process which will follow on from the Spending Review announcement in October.

Q13. *A 2006 Report by the NAO found that of 28 central government bodies, DFID spent the most on consultants. Can you detail the Department's expenditure (both within and outside the UK) on consultants over each of the last five years by company, nature of support, policy area and programme? Could you do the same for the current forecast for 2010–11?*

DFID applies the central government definition of consultancy which is "the provision of advice and / or guidance on the strategy, structure, management or operations of an organisation in pursuit of its purpose and objectives". This change was implemented in 2007, after publication of the NAO report.

DFID spending on consultancy for the past three years is as follows:

Year	*Expenditure (£000)*
2007–08	21,200
2008–09	24,500
2009–10	19,100

Supplier services on behalf of and for the benefit of developing countries are reported separately. DFID engages the wider supplier market as technical experts to deliver development projects and programmes and to help country governments and other partners to reduce poverty. Suppliers do valid work for DFID, including humanitarian relief operations, advising governments, improving health and education services and delivering real improvements for people in developing countries.

DFID has recently introduced a new management information system that is going through a transition period of implementation. At this stage, the new system can provide details of all payments made to suppliers, but cannot yet isolate the payments relating specifically to the relatively new OGC definition of consultancy. Work is ongoing to provide this level of detail over the coming year.

Q14. *Will the reduction of in-house staff numbers lead to an increased requirement for temporary and contract staff within the Department? If not, why not?*

We will reassess overall staffing plans following the outcome of the Spending Review and our Bilateral Aid, Multilateral Aid and Emergency Response Reviews. In the meantime, following the June emergency budget, there is a freeze on recruiting staff (including temporary and contract staff) from outside the Civil Service in all but exceptional circumstances. We continue to redeploy staff internally to work on priority business.

Q15. *How do the results achieved by consultants, employed by DFID to provide technical co-operation overseas, compare with the results of other DFID projects? What are the reasons for any variations?*

DFID does not compare performance in this way. Technical cooperation funded work is contracted on behalf of development recipients, usually as part of a programme of integrated inputs, and the results are assessed in terms of development outcomes.

Q16. *The Department plans to increase employment of staff locally in-country. Presumably, such staff will be subject to country specific employment law and rights (including pensions provisions), and local pay-rates. What kind of savings do you envisage will be made from such a policy?*

In general, staff costs of employees recruited in-country are significantly less than the costs of deploying Home Civil Servants overseas. Changes to the number of locally recruited employees in each overseas office will be decided after the Spending Review and our Bilateral Aid, Multilateral Aid and Emergency Response Reviews. It is therefore not possible to forecast savings at this time.

Q17. *What criteria will you use to decide in which locations to increase engagement of local staff?*

Changes to staffing plans, including the number of Staff Appointed in Country, will be reviewed following the outcome of the Spending Review and our Bilateral Aid, Multilateral Aid and Emergency Response Reviews. The mix and source of staff in DFID overseas offices is influenced by the nature of DFID activities in each country and the local labour market.

2009 WHITE PAPER

Q18. *The publication DFID in 2009–10 makes no mention of the 2009 DFID White Paper. This White Paper signalled a notable shift in aid and development policy by DFID, refocusing resources on to fragile countries and treating security and justice as a basic service alongside health, education, water and sanitation. In terms of the commitments made, does DFID still plan to:*
(a) *provide a sum equivalent to 5% of budget support for building governance and accountability of aid disbursals?*

DFID's Structural Reform Plan includes an action to "develop and publish new guidance on implementing the commitment that up to 5% of all budget support should go to accountability institutions" DFID will use the aid budget to support the development of local democratic institutions, civil society groups, the media and enterprise.

(b) *disburse 50% of new bilateral funding to fragile countries?*

DFID's bilateral funding is the subject of the current Bilateral Aid Review. This process will determine DFID's future financial commitments to all of our priority partner countries, including those which are classified as fragile.

(c) *double its central support to civil society organisations to £300 million a year by 2013?*

The level of DFID's support to civil society over the SR10 period will be determined by the on-going Bilateral Aid, Multilateral Aid and Emergency Response reviews. In parallel a new centrally supported Poverty Impact Fund and a new round of Programme Partnership Arrangements are being launched.

DFID's review of its work with civil society (2010) shows that there is scope to be more strategic, results focused and get better value for money when working through civil society organisations (CSOs). This review showed that bilateral expenditure through CSOs in 2008–09 was approximately £515 million—comprising £273 million through country offices and £242 million through central funding schemes.

EFFICIENCY SAVINGS

Q19. *In 2009–10 DFID completed a review to streamline and cut-out unnecessary process and procedures.*[3] *What are the estimated future savings as a result of this review?*

We regularly review the effectiveness of processes and look for ways to reduce the costs of our existing procedures and processes. There has been no attempt to separately estimate the level of future savings as a result of that specific review. The savings resulting from changes to our procedures have helped ensure the department is meeting its overall efficiency savings within the administration budget.

Q20. *Is the Department on track to deliver overall VfM savings of £647 million by the end of 2010–11? What are the specific efficiency savings now being sought in 2010–11?*

The Department is well on track to achieve its efficiency savings target of £647 million by the end of 2010–11. In 2010–11 we plan to make efficiency savings by:

- **allocating the bilateral programme to countries where the poverty impact will be greater—£127.5 million;**
- **allocating the multilateral programme to institutions where the poverty impact will be greater—£158.5 million;**
- **improving the performance of our projects and programmes—£24 million;**
- **making communications savings—£10 million; and**
- **making further operational efficiencies—£4 million.**

Q21. *The Secretary of State in July mentioned "£150 million of work that is not performing well, or that we think could be better targeted, and we will be coming forward with some detailed proposals in respect of that..." (Q8). Could you provide us with more details of the £150 million of work that is not performing well, the performance criteria used and the plans the Department has for this work?*

DFID reviewed projects and programmes for their consistency with Ministerial priorities and their continued relevance, performance, and expected future value for money. Using these criteria, the Department identified those that could be closed and have funds reallocated during fiscal year 2010–11. In taking these decisions, the Department took account of developmental and reputational impacts of early closure.

Decisions on where to reallocate the funds will be taken once the Bilateral and Multilateral aid reviews report in the Autumn. This will ensure that the funds are spent in line with new Government priorities.

[3] *DFID in 2009–10*, paragraph 4.22

AID EFFECTIVENESS

Q22. *The Secretary of State outlined plans for a comprehensive review of all DFID bilateral and multilateral programmes to the Committee in July. The Secretary of State stated that one of the drivers of this review was to "... get more value out of every British development pound spent in each county" (Q1). Although the results of the reviews will not be published until early 2011 (Q56), can the Department indicate any initial findings of the review process to date?*

Since the Secretary of State launched the Bilateral Aid Review (BAR) at the end of June we have been reviewing all aspects of our bilateral programme to ensure that the objectives of the UK aid programme are achieved in the most cost-effective manner possible and based on a solid understanding of what works and what does not. We have asked all country and regional teams to outline: the results that they could achieve over the next four years; how much this would cost and how this would deliver value for money; the evidence underlying their plans; and how they will address women and children. We are currently reviewing these "offers" internally and with an external scrutiny panel to steer the development of country business plans.

DFID institutional teams will assess the performance of the multilateral organisations, taking into account the evidence of in country reviews, and the submissions of evidence received from the multilaterals, other government departments and civil society. Two external reviewers, Alison Evans, Director of the Overseas Development Institute, and Lawrence Haddad, Director of the Institute of Development Studies, will challenge and quality assure the resulting assessments.

It is too early for initial findings at this time. As we progress both reviews we would be interested in receiving the views of the IDC on the priorities for our multilateral and bilateral programme and on the initial findings when they are published.

RISK AND FRAUD

Q23. *How do you think the outcome of the Spending Review and any savings or efficiencies required will impact on the department's ability to mitigate risk, particularly in country offices, as outlined in the Resource Accounts' Statement on Internal Control?*

As with all government departments, DFID was asked to reduce administrative costs by one third by 2014–15. We plan to deliver a significant element of administration cost savings through changes to our travel policy, changes to overseas allowances, renting out more office space in Palace Street and reforming DFID's corporate centre. We are working with Treasury to ensure that we have sufficient front line delivery staff to manage programmes effectively, including effective action to mitigate risk. Risk Management will continue to feature strongly in our Business Planning Process which will follow the spending review announcement.

We are enhancing our approach to risk management throughout DFID as a result of recommendations made in a recent internal review.

Q24. *DFID is exposed to a significant degree of risk because of the nature of its operations. Can DFID provide details of all incidence of fraud investigated in 2009–10 and total losses incurred as a result of such fraud?*

DFID is committed to ensuring that the UK's overseas aid is well spent. Any allegations or suspicions of misuse of DFID funds are reported to DFID's Head of Internal Audit, and are looked into by the Department's Counter Fraud Unit (CFU).

Fraud, corruption or any other misuse or abuse of DFID funds, interests or activities are not tolerated, and DFID will take the strongest action possible where such abuse is proven. This action includes disciplinary action, criminal prosecution, recovering funds lost or misused, and withholding funds where arrangements for preventing future losses are not satisfactory. In addition, the CFU proactively uses the information gathered from allegations and from its own audits and investigations to strengthen DFID's systems and controls to reduce the risk of future losses.

By their nature, fraud, corruption and other abuse are often hidden, and so DFID is not able to make a reliable estimate of total losses through the development activities which it funds. Losses which have been detected and reported are logged centrally by the CFU, and these are summarised for 2009–10 in the table below.

Allegations Reported	*Misuse Proven*	*Gross DFID Losses (£'000)*	*Amounts Recovered (FOOO)*	*Net DFID Losses (£'000)*	*Payments Stopped (£'000)*
97	25	459	199	260	847

Procurement fraud, payment fraud and theft of assets and cash together accounted for the majority of detected misuse in the last year. From an analysis of detected and reported incidents, the risk of fraud and abuse lies in most part with DFID's external partners rather than within DFID itself, and DFID is working actively with these partners to ensure they have adequate controls in place to manage UK aid effectively, as well as strengthening its own counter-measures.

Q25. *How does DFID plan to mitigate fraud risks as it increases its use of partners to deliver projects in fragile states?*

DFID applies its rigorous anti-fraud practices in every country, whether fragile or more stable. Aid instruments are chosen based on context and appropriateness in the individual country and aid may be delivered through the state, with the state or outside the state even in fragile contexts. So in situations where the state is increasingly poverty focussed or risks are decreasing, instruments such as budget support may be used subject to normal fiduciary risk assessments. Donors often use pooled funding in fragile contexts to help manage risks.

DFID is working actively to combat fraud and corruption both internally and with our partners. We take a robust approach to addressing allegations involving our funds, including through disciplinary sanctions, criminal prosecutions and the suspension of aid where appropriate. We have oversight of the counter-fraud systems of our multilateral partners through our representation on management boards and audit committees. We also work closely with the audit and integrity functions of our major partners and we review and monitor the controls partners have in place, for example the financial management capacity of civil society organisations.

DFID applies a range of controls and procedures to minimise the risk of fraud and corruption. We carry out Fiduciary Risk Assessments, conducted against international benchmarks and subject to independent scrutiny. Financial aid is only provided where there is a credible programme to address weaknesses in public financial management (PFM). Where financial systems of partner governments are improving but do not yet represent best practice, we attach high priority to strengthening them, for example by improving the effectiveness of budget planning, financial management information systems, and countries' supreme audit institutions. Public expenditure tracking surveys and extra short-term safeguards are used while PFM systems are being strengthened.

DFID also undertakes wider risk assessments of its country programmes and of individual projects. Project management systems have a wide range of controls to prevent risks materialising including payment authorisation and procurement requirements, project monitoring, performance reviews and independent evaluations. These processes draw on expert advice, including on PFM and counter-fraud. All organisations in receipt of funding from DFID are required to provide audited financial statements to give independent assurance that funds are used for intended purposes.

Oversight is provided by the National Audit Office, which scrutinises DFID's accounts and financial management systems and conducts specific value for money studies, and by DFID's Internal Audit Department (IAD) which reviews and provides independent and objective assurance to management on the effectiveness of DFID's controls, risk management and governance systems. IAD's work is overseen by an independent Audit Committee, which also receives reports from the NAO.

CDC Group plc

Q26. *Regarding CDC's 2009 Annual Development Report:*
(a) *How does the Department feel it compares with the findings of the first Development Report (for 2008)?*

The 2009 Report builds on and deepens the analysis contained in the 2008 Report as well as focussing on a different range of sectors. Most importantly, the 2009 Report includes the results of the independent evaluation of a number of CDC funds, which was not a feature of the 2008 Report.

(b) *Does it better reflect the correlation between CDC's investments and pro-poor development outcomes, including their social, environmental and governance impacts?*

DFID considers that this report reflects the links better—and that the evidence will build as data are collected over time. 38% of Funds will have been evaluated by 2010. CDC is investing more in poor countries in Asia and sub-Saharan Africa. The total invested has increased from £829 million in 2008 to £1.2 billion in 2009. In terms of development outcomes, 85% of funds evaluated (17 out of 20) in 2009 were rated as satisfactory or better and 16 of the 20 funds evaluated (80%) performed satisfactorily or better on environment, social and governance (ESG) matters.

(c) *Is DFID satisfied that the latest report was sufficiently independent and provided a balanced assessment of the development impacts of CDC's investment?*

The report represents a step in the right direction. Seven of the 20 fund evaluations carried out in 2009 were outsourced by CDC to an external party (Triple Value) following a competitive tender. From 2010 onwards, CDC intends to have approximately half of its evaluations outsourced. This is in line with

international best practice, taken as the IFC's Independent Evaluation Group. DFID is working with CDC to improve the tatter's ability to assess the indirect impact of its investments with a view to including more on this subject in future reports.

Q27. *Could you provide details of the CDC CEO's total remuneration package in 2009–10?*

The CEO received a total remuneration package in 2009 worth £489,060. Remuneration consists of three elements: basic salary, Short-Term Incentive Plan (STIP) payments, which are paid annually and which are dependent on CDC annual business performance, and Long-Term Incentive Plan (LTIP) payments, which are dependent upon CDC's rolling three year financial returns and its development impact performance. A summary of the CEO's remuneration for 2007 to 2009 is shown in the table below.

Base salary (£)	*STIP (£)*	*LTIP (£)*	*Total (£)*
2009: 225,000	2009: waived	2009: 264,060	2009: 489,060
2008: 225,000	2008: 0	2008: 347,000	2008: 572,000
2007: 220,000	2007: 275,000	2007:470,712	2007: 970,000

The framework within which CDC's remuneration operates was agreed by the last Government and is designed to keep CDC's total pay award lower than the market average for its comparator group and to link executive pay to the delivery of DFID's objectives. The CDC Board is responsible for the implementation of the framework.

Future Reporting of Departmental Performance

Q28. *In its 2008–09 annual report DFID reported that its achievement against PSA targets for the 2003–05 and 2006–08 periods would be monitored until final outturn data was available. But the 2009–10 report omits this. Will DFID be accounting for what it achieved against PSA targets in these periods?*

DFID provided an update of its achievement against PSA targets for the 2003–05 and 2006–08 in its 2009 Autumn Performance Report. The only targets where final out-turn data were not available were those relating to MDG delivery in partner countries. No new data on these targets had emerged prior to publication of the 2009–10 reports. DFID will continue to report progress of MDG delivery both globally and in partner countries. More details will be set out in its forthcoming business plan.

11 October 2010

Winter Supplementary Estimate 2010–11

1. *Introduction*

The Department for International Development Winter Supplementary Estimate for 2010–11 seeks the necessary resources and cash to support the functions of the Department. These are continuing functions from previous years and no new functions have been added.

The purpose of this memorandum is to provide the select committee with an explanation of how the resources and cash sought in the Winter Supplementary Estimate will be applied to achieve the departmental Structural Reform Plan. This includes information on comparisons with the resources provided in earlier years in Estimates and departmental budgets, and may also refer to future financial plans.

The net increase in provision sought in this Supplementary Estimate relates primarily to:

- £9,643,000 take up of Departmental Unallocated Provision (DUP).
- £200,000,000 increase in capital grants (IDA replenishment within CDEL budget but on resource side of Estimate (voted) offset within CDEL by Global Trade Liquidity (GTL) loan receipts (non voted) to be paid to the Consolidated Fund as Extra Receipts (CFER).

An explanation of key terms used in the memorandum is provided as an annex.

2. *Summary of the main spending control figures contained in the Estimate*

Voted provision

The Supplementary Estimate provides for a 3.05% increase in voted resource:

- Increase in the Net Resource Requirement (NRR) of **£209,643,000**;

  RfR1 increase of £208,296,000 RfR2 increase of £1,347,000

  RfR2 increase of £1,347,000
- Increase in the Net Cash Requirement (NCR) of **£209,643,000**.

Budgetary data

The changes to key budgetary figures are:

Resource Departmental Expenditure Limit reduces by **£74,730,000**

Of which:

- *Near-cash—reduction of—£74,730,000*
- *Administration budget—nil*

The net reduction in Resource DEL is due to transfers to other government departments.

Capital Departmental Expenditure Limit increases by **£265,000**

The net reduction in Capital DEL is due to transfers from other government departments.

Annually Managed Expenditure is unchanged.

3. *Detailed explanation of changes in provision sought in the Supplementary Estimate, and implications for budgets*

(a) Movements in provision related to DEL

£nil Net change in DEL

(b) Movements in provision neutral in budgets

RfR1: Eliminating poverty in poorer countries

OTHER CHANGES IN DEL SPENDING

+£200,000,000	IDA replenishment funded in CDEL by GTL loan receipts which will be CFERed. (RfR1: subhead D3).
+£20,000,000	Increase in capital expenditure in the form of a short term loan fully offset by capital loan receipts (RfR1 : subhead C7)
-£20,000,000	Increase in capital receipts in the form of short term loan repayments fully offset by capital expenditure (RfR1 : subhead C8)

TAKE UP OF DEPARTMENTAL UNALLOCATED PROVISION

+£9,643,000	Allocated to programme DEL budgets (RfR1 : subhead B3)

RESOURCE TRANSFERS TO / FROM ANOTHER REQUEST FOR RESOURCES

–£1,347,000	Transfer resources to RfR2 (RfR1: subhead B2).

RESOURCE TRANSFERS WITHIN THE REQUEST FOR RESOURCES

Nil	Re-allocation of administration costs to align Estimate with internal budgets, reflecting various changes made during 2010–11 (RfR1, subheads A to F, section 1).
Nil	Re-allocation of funds for capital grants to align Estimate with internal budgets, reflecting various changes made during 2010–11 (RfR1, subheads A, B, C, D, section 3).
Nil	Re-allocation of programme funds to align Estimate with internal budgets, reflecting various changes made during 2010–11 (RfR1, subheads A to F, sections 2 to 3).

RfR2: Conflict Prevention

RESOURCE TRANSFERS TO / FROM ANOTHER REQUEST FOR RESOURCES

+£1,347,000	Transfer resources from RfR1 (RfR2: subhead A2).
£209,943,000	**Net change in voted resources from take up of DUP and transfers to voted resources**

Of which:

£6,642,000	Net change in voted resource DEL
–£6,642,000	Net change in non-voted resource DEL
£203,001,000	Net change in voted capital DEL
–£203,001,000	Net change in non-voted capital DEL

4. Departmental Expenditure Limit

This Supplementary Estimate will result in an overall reduction in Resource DEL of £74,730,000 and increase in Capital DEL of £265,000. Details of DEL in Estimates are:

£'000	*Voted*	*Non-voted*	*Total*
Resource DEL			
Main Estimate	5,016,569	1,067,000	6,083,569
Winter Supplementary Estimate	5,023,211	985,628	6,008,839
Capital DEL			
Main Estimate	1,534,000	22,000	1,556,000
Winter Supplementary Estimate	1,737,001	-180,736	1,556,265
Revised total DEL*	**6,739,212**	**804,892**	**7,544,104**

*****Depreciation of £21 m, which forms part of RDEL, is excluded from total DEL since CDEL includes capital spending and to include depreciation of those assets would lead to double counting.

Significant movements in DEL, other than those explained in section 3 above, are:

— -£40,000,000 transfer to Foreign and Commonwealth Office in relation to British Council ODA

— -£16,467,000 transfer to Foreign and Commonwealth Office in relation to the Conflict Prevention Pool

— -£16,033,000 transfer to the Ministry of Defence in relation to the Conflict Prevention Pool

— -£1,850,000 transfer to Foreign and Commonwealth Office in relation to the papal visit

— -£200,000 transfer to Foreign and Commonwealth Office in relation to police training in Tanzania

— £-180,000 transfer to Foreign and Commonwealth Office in relation to visas for Chernobyl victims

— £265,000 capital transfer from Foreign and Commonwealth Office in relation to the Juba office (Sudan)

The table below compares outturn from 2007–08 onwards with planned DEL for the previous and current years:

		Plans			
£ million	*Voted*	*Non-voted*	*Total*	*Outturn*	*Variance*
Year					
Resource					
2007–08	3,853	711	4,564	4,478	-1.9%
2008–09	3,998	840	4,838	4,783	-1.1%
2009–10	4,543	836	5,379	5,348	-0.5%
2010–11	5,023	986	6,008		
Capital					
2007–08	731	-	731	739	1.1%
2008–09	891	-	891	876	-1.7%
2009–10	1,366	-	1,366	1,353	-1.0%
2010–11	1,737	-181	1,556		

Note: Plans and outturn are shown as originally reported, figures have not been restated for effects of reclassifications between resource and capital, as plans are not adjusted retrospectively.

5. DEL End Year Flexibility (EYF)

The 2010–11 EYF stock for the Department for International Development was reported in the Public Expenditure Outturn White Paper (PEOWP) 2009–10 (Cm 7911) and is shown in the table below. There have been no changes since then.

£'000	Admin	Other Resource	Total Resource	of which: Depreciation and impairments	Capital
PEOWP (July 2010)	18,310	224,703	243,013	*12,145*	27,934
Balance of EYF at 31 March 2010	18,310	224,703	243,013	*12,145*	27,934

EYF balances have arisen as a result of small cumulative underspends in previous years.

The remaining Resource EYF has not been utilised during 2010–11.

6. Administration Budget

The Supplementary Estimate will have no impact on the administration budget. A comparison with earlier years (outturn) and plans is set out below.

Administration budget (previous years) Restated to reflect classification changes	*Plans*	*Outturn*
2007–08	167,010	155,170
2008–09	162,950	162,727
2009–10	159,950	159,048
2010–11	157,644	

There are no changes to the current year's administration budget.

DFID's administration budget has been reduced by 5% per annum in real terms from 2007–08 for the remainder of the CSR07 period.

7. Approval of Memorandum

This memorandum has been prepared with reference to guidance in the Estimates Manual provided by HM Treasury and that found on the House of Commons, Scrutiny Unit website. The information in this memorandum has been approved by the Director, Value for Money.

Liz Ditchburn
Director, Value for Money

16 November 2010

Glossary of Key Terms

Annually Managed Expenditure —a Treasury budgetary control for spending that is generally difficult to control, large as a proportion of the department's budget, and volatile in nature.

Consolidated Fund Extra Receipts (CFER) —Income, or related cash, that may not be appropriated in aid of an Estimate (for example if income is of a nature which cannot be retained or if income exceeds expenditure in that section of the Estimate) and is surrendered to the Consolidated Fund.

Departmental Expenditure Limit - a Treasury budgetary control for spending that is within the department's direct control and which can therefore be planned over an extended (Spending Review) period (such as the costs of its own administration, payments to third parties, etc).

Request for Resources (RfR) - a function based description of the organisational level of the department. These can vary between one or more RfR and should be objective- based, referring to the purpose for which the functions being carried out by the department are intended to meet.

22 November 2010

Further written evidence submitted by The Department for International Developement

DFID STAFFING BY GRADE AND LOCATION AT 31 MARCH 2010

	Home Civil Servants (HCS)					*Staff Appointed in Country (SAIC) These are staff engaged locally overseas in developing countries, on local terms and conditions of service.*	*DFID Grand Total*
Grade	*London*	*East Kilbride*	*UK Total*	*Overseas*	*Overall HCS TOTAL*		
Senior Civil Service (SCS)	61	9	70	25	95	0	95
Band A1	125	33	158	119	277	4	281
Band A2	214	63	277	170	447	67	514
Band A2(L)	51	56	107	24	131	61	192
Band B1(D)	26	7	33	20	53	0	53
Band B1	113	106	219	35	254	112	366
Band B2	99	98	197	6	203	206	409
Band C1	55	82	137	1	138	184	322
Band C2	12	9	21	0	21	53	74
Below Band C2	0	0	0	0	0	77	77
TOTAL	756	463	1219	400	1619	764	2383

Follow up from IDC Annual Report; Research and Evidence Session

Q28 *Research—R4D, SciDEv.Net, Annual Report on Research*[4]

Q30 *Jeremy Lefroy—How much of the research spending is spent with UK Universities*

In 2009–10 44% of DFID's central research funds went to UK institutions, we do not expect this pattern to change in the current year.

Q 70 *Making department research available to the IDC*

MS committed to get back to the IDC with a proposition on how to get research findings to the Committee regularly and systematically

We are pleased to learn that we have an invitation to engage with the IDC on getting research findings to the Committee and would like to discuss the feasibility of the following ideas with the Committee clerk:

(i) The most immediately entry point could be to give an informal mini-presentation of the www.Research4Development website to interested members of the committee and to encourage individuals to sign up to a RSS feed and alerts in the topic areas that interest each of them personally. The website covers all on-going research funded by DFID so would give a ready stream of new and emerging evidence in areas of personal interest.

(ii) Alternatively, to prevent too much email traffic, we could use the list of forthcoming IDC Inquiries to undertake a rapid search of the Rearch4Development website to pull out the latest records and evidence in these topics and the list of organisations working on these. In addition it would be a relatively simple matter to contact the organisations, tell them about the forthcoming inquiry, with a link to a relevant online invitation to submit evidence to the Committee.

UK Assistance to Haiti

"...a note of how much aid we have actually given to Haiti, either on our own or through international organisations? How much has actually been delivered so far?

Out of the money that was promised by the EU to Haiti this year, which I believe was supposed to be several hundred billion euros-worth of aid, only €30 million of aid have actually got through to Haiti. This is from a written answer. We are getting near to the end of the year. Is it possible to look into this and see what's going

[4] Not printed. www.scidev.net

wrong with EU aid, and why it hasn't got through to Haiti earlier? Why are we seeing the scenes that we are seeing from Haiti and why has the EU aid apparently not got there?"

The UK responded immediately to the earthquake in Haiti, pledging £20 million in humanitarian assistance. These funds are fully committed, with all planned activities either complete or well underway (£15.6 million has been disbursed so far, with payment requests awaited from partners such as the Ministry of Defence and NGOs for the remainder). Our assistance to date has included a 64 person search and rescue team and a surgical team, and has provided over 380,000 people with food, shelter, clean water and medical care. Disease surveillance funded through the World Health Organisation helped ensure that the cholera outbreak was identified and responded to promptly.

On Monday 29 November, the Secretary of State approved additional support to Haiti in response to the cholera crisis. This will address critical needs and gaps in water, sanitation and health provision. Funds will be disbursed as quickly as possible and will......... In addition, DFID will provide £1.34 million to improve cholera preparedness and prevention efforts across the rest of the Caribbean, especially the Overseas Territories.

Going forward, the UK's support to reconstruction in Haiti will be through our contribution to the programmes of the European Union, United Nations, World Bank and other multilaterals. Our share of the programmes and debt relief announced by these organisations for 2010–11 is over $100 million. In addition, our contribution to the UN peacekeeping mission to Haiti, MINUSTAH, in 2010–11 will be £45.3 million.

European Union Assistance

The Committee asked in particular for an update on the European Union's programme through the European Commission (EC) in Haiti.

ECHO disbursed €30 million in emergency and humanitarian assistance between January and September. The UK's share of this is 14%. A further €90 million in humanitarian assistance is planned to be spent by August 2011 on shelter, water sanitation and hygiene (including cholera prevention and response), healthcare and nutrition, amongst other things. ECHO was amongst the first donors to respond to the cholera crisis, re-programming €12 million to strengthen national efforts on cholera prevention, education and treatment.

The EC also made a pledge of €460 million towards reconstruction in Haiti. This has since been increased by €62 million to €522 million. Our share this is 14%, roughly £62 million. €317 million has been committed so far, with €57.8 million disbursed as general budget support. This makes the European Commission the largest provider of general budget support to Haiti in fiscal year 2009–10, allowing the Haitian government to maintain critical expenditure in education, health and security, amongst other things. The European Union has demonstrated an impressive degree of co-ordination between the Commission and Member States. The DFID humanitarian team recently deployed to Haiti to assess the cholera situation worked from the ECHO office.

Multilateral Assistance

Programmes of the scale needed in Haiti inevitably take time to design. Disbursement has been slow, but is now increasing. For example, of some of the multilaterals to which the UK is a contributor:

- The **World Bank** has committed almost $320 million of the $479 million pledged before June 2011. Debts worth $39 million have been cancelled since January, with $98 million of new disbursements between January and August, including $42.5 million budget support. This includes support to education, water, healthcare, nutrition, Government and budgeting, structural damage assessment and rubble clearance. Despite the difficult operating environment, the Bank's current disbursement ratio for Haiti is 40%, significantly higher than its global average of 26%. The UK's share is 9%, or $29 million of commitments and $12 million of disbursements and debt relief so far this year.
- The **Inter-American Development Bank** has disbursed $148 million so far this year, with another $2 million pending and a further $37 million projected to be disbursed by end of December. This includes support to education, health, water, sanitation, electrical, roads and urban infrastructure, vocational training and business support. IDB has also cancelled Haiti's remaining debts ($479 million). The UK's share of IDB spend this year is 1% ($1.5 million to date), and our share of debt cancellation delivered is $8.7 million.
- The **Caribbean Development Bank** approved a grant of $2.6 million to Haiti in October, and is seeking Board approval of projects worth $15.2 million in December. Disbursements to Haiti for 2010 so far amount to $3.3 million, of which the UK's share is 24% or $792,000.

The UK also has a share in the programmes of UN agencies such as UNDP, UNICEF, UN AIDS and others, and the Global Funds in Haiti.

Haiti—Draft Press Statement[5]

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[5] See www.dfid.gov.uk/Media-Room/News-Stories/2010/Britian-to-reinforce-humanitarian-support-in-Caribbean-and-HAITI

Further supplementary written evidence submitted by the Department for International Development

Running costs are to be reduced to 2% by 2014–15. Is the NAO right that on a comparable basis running costs are currently 2.6% of the total budget?

Yes, Total Operating Costs are currently £128 million core admin + £72 million PFA totalling £200 million against programme spend of c £7.5 billion which equate to 2.6%.

Is the NAO right that given the increase in the total budget running costs will increase by 6% over the period (I assume Spending Review?)?

Yes, DFIDs running costs of £200 million would increase to £219 million if only inflation applied over the SR period. The Total Operating Costs agreed in SR10 of £233 million in 2014–15 equates to real growth of 6%.

Core administration costs are currently £128 million and are expected to fall to £94 million. Can we have a breakdown of the £128 million and how each of the main items is expected to decline (to make the savings of£34 million in real terms)

The breakdown of the £128 million is as follows:

Employee Costs	£76 million
Property Costs	£24 million
Comms & IT	£6 million
Consultancy, service & supply	£8 million
Staff Training, Travel	£12 million
Other admin Costs	£2 million
Total	**£128 million**

Organisational Units across DFID will be preparing Operational Plans for the SR period in early 2011. These plans will set out how the department will meet the reductions in administrative costs. There are already a number of plans in place to achieve significant reductions, notably on against consultancy, increased income from property and further rationalisation and systems improvements in the corporate support functions. Further details of these plans will be available in 2011.

14 December 2010

Answers to IDC Further questions to DFID

British Council Spend

Talks were held with FCO regarding the British Council ODA spend for 2010–11, FCO were facing financial pressures in that respect.

Any possible confusion may be down to language. When the Secretary of State says that “we would take that over” it is the financial pressure that he refers to, in that we would release budget to FCO to remove that pressure from them.

FCO and British Council remain responsible and accountable for the spend, with no DFID involvement on a day to day basis. Of course, as the overall “owner” of UK ODA, DFID has a general interest in ensuring that all reported ODA is well spent.

For future years, the recent Spending Review 2010 settlement has ensured that each department has received the appropriate amount of ODA budget.

14 December 2010

British Council have stated that their estimated ODA spend for 2010–11 is around £80 million.

Breakdown by sector:

English	£11.3 million
Education	£47.6 million
Society	£9.3 million
Arts	£11.9 million

Can we have a breakdown of the £374 million paid to suppliers of technical assistance?

BREAKDOWN OF 2009–10 SPENDING ON TECHNICAL ASSISTANCE

Supplier Name	*2009–10 Payments*
ADAM SMITH INTERNATIONAL LTD	£30,774,422
THE CROWN AGENTS	£28,281,172
GRM INTERNATIONAL LTD	£22,505,640
HTSPE LTD	£16,099,729
BRITISH COUNCIL	£16,016,437
HLSP LTD	£13,852,500
ABT ASSOCIATES INC	£12,639,612
Cambridge Education Limited	£11,885,487
MAXWELL STAMP PLC	£9,284,401
BMB MOTT MACDONALD	£8,631,960
COFFEY INTERNATIONAL DEVELOPMENT LTD	£8,247,258
HEALTH PARTNERS INTERNATIONAL	£7,745,067
Society for Family Health	£7,563,847
WSP INTERNATIONAL LIMITED	£7,002,520
BMB MOTT MACDONALD	£6,882,414
Crown Agents Bank	£6,840,049
MALARIA CONSORTIUM	£6,730,975
OXFORD POLICY MANAGEMENT	£6,125,334
OPTIONS CONSULTANCY SERVICES LIMITED	£5,005,695
HELM CORPORATION LTD	£4,898,144
HAREWELLE INTERNATIONAL LIMITED	£4,789,988
UNIVERSITY OF WOLVERHAMPTON	£4,614,703
CHRISTIAN AID	£4,486,727
PRICEWATERHOUSECOOPERS	£4,046,861
IMANI DEVELOPMENT	£3,525,954
LIVERPOOL ASSOCIATES IN TROP. HEALTH	£3,518,379
MOTT MACDONALD LTD	£3,481,511
ATOS CONSULTING LIMITED	£3,451,669
RIFT VALLEY AGRICULTURE PTY LTD	£3,267,825
HLSP LIMITED	£3,252,864
STANDARD CHARTERED BANK	£3,118,463
IBRD HSBC T	£3,114,000
Venco-Imtiaz Construction Company(AFG)	£3,095,118
Unit 4	£3,015,711
UNFPA (Nigeria)	£3,000,000
FAMILY HEALTH INTERNATIONAL	£2,707,077
UNICEF	£2,674,500
PKF (UK) LLP	£2,624,298
CAMBRIDGE EDUCATION LTD	£2,608,397
CHEMONICS	£2,570,123
CARE INTERNATIONAL UK	£2,495,127
EMERGING MARKETS GROUP	£2,372,580
LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE	£2,280,677
IFAD	£426,000
THE SOLUTION WORKS	£411,172
NR MANAGEMENT CONSULTANTS INDIA (PVT	£407,019
ASSOCIATES FOR INTERNATIONAL DEVELOPMENT (AID INC)	£368,513
PA CONSULTING GROUP	£339,885
INTERNATIONAL RECORDS MANAGEMENT	£338,439
Management Sciences for Health	£336,088
INTERNATIONAL SOS ASSISTANCE (UK)LTD	£331,021
WYG INTERNATIONAL LIMITED	£317,429
HALCROW GROUP LTD	£314,323
LOGICACMG UK LTD.	£306,024
SCHOOL OF ORIENTAL & AFRICAN STUDIES	£282,162
ALLEGIS GROUP LIMITED	£280,471
EDINBURGH RESEARCH AND INNOVATION LT	£276,912
MINISTRY OF DEFENCE	£271,427
THE INSTITUTE OF DEVELOPMENT STUDIE	£268,761
ECOTEC RESEARCH AND CONSULTING LTD	£265,690
HALCROW MANAGEMENT SCIENCES	£265,661
W S ATKINS INT LTD	£256,406

Supplier Name	*2009–10 Payments*
IBRD (HSBC) C/O THE WORLD BANK	£250,000
IPA-International Procurement Agency (BV)	£249,912
SAANA CONSULTING LTD	£243,220
LIBRA ADVISORY GROUP LTD	£240,350
RE-ACTION LTD	£234,135
FCO RECOVERIES UNIT	£223,683
JDF Justin Felice	£218,863
WORLD RADIO FOR ENVIROMENT AND NA	£217,521
TURNER & TOWNSEND	£216,656
ROBY (ANDREW)	£208,625
REPIM	£203,577
INSPIRIS	£193,978
University Of Oxford	£193,909
THE SPRINGFIELD CENTRE	£191,875
NATURAL RESOURCES INSTITUTE	£191,227
IMATT (SL)	£189,847
SNC LAVALIN INC.	£189,156
TARU LEADING EDGE PRIVATE LIMITED	£186,674
ERNST & YOUNG PVT. LTD	£183,385
LONDON SCHOOL OF HYGIENE AND TR	£174,394
CAMBODIA DEVELOPMENT RESOURCE INSTITUTE	£171,609
Deposit Insurance Agency—Treasury Project	£170,646
Social Impact	£170,147
The World Bank (EFO)	£170,000
Development Media International	£169,800
DEBT RELIEF INTERNATIONAL LIMITED	£168,023
AMTEC CONSULTING	£166,786
CHARLES KENDALL & PARTNERS LIMITED	£166,767
REAL 2 REEL PRODUCTIONS	£164,003
AGULHAS DEVELOPMENT CONSULTANTS LTD	£162,947
COMMONWEALTH FOUNDATION	£159,966
K B ROBSON	£156,734
HEDRA CONSORTIUM	£156,595
Johnson Controls	£153,654
INTERNATIONAL INSTITUTE FOR ENVIRO	£152,308
MR G & MRS E HORLACHER	£152,159
META-DEVELOPMENT LLP	£152,124
ROY FLEMING	£152,038
Institute of Development Studies	£151,454
LISA CURTIS ASSOCIATES	£150,803
Bankable Frontier Associates	£148,772
AECOM LIMITED	£147,137
WRENmedia	£146,044
ENGAGE GROUP	£138,321
Argos Georgia Limited	£135,000
RAJAN SONI	£134,390
McKinsey & Co, Inc UK	£132,775
MOUCHEL MANAGEMENT CONSULTLING LTD	£132,128
ERNST & YOUNG PRIVATE LTD	£130,670
ADAM SMITH INTERNATIONAL	£121,306
INTERNATIONAL EDUCATION PARTNERS LTD	£117,848
CONSULTANCY WORKS LTD	£117,213
The Africa Group LLC	£116,160
IMPACT DEVELOPMENT TRAINING GROUP	£115,810
TFPL LIMITED	£109,961
STAIRWAY COMMUNICATIONS	£108,449
NetworkersMSB	£108,405
VERULAM ASSOCIATES LTD	£108,138
XAFINITY PAYMASTER	£105,986
WORLD WILDLIFE FUND INC.	£105,649
PRACTICAL ACTION LTD	£105,466
DEVELOPMENT ALTERNATIVES INC	£105,379
Pannell Kerr Forster Chartered Acc	£105,355
JOHN WARWICK	£105,059
GARTH ARMSTRONG	£104,135

Supplier Name	*2009–10 Payments*
MOKORO LIMITED	£101,887
UNC PROJECT	£100,884
Bangladesh Enterprise Institute	£100,542
BASIL READ (PTY) LTD	£100,000

Source is DFID ARIES 1660 Account Code payments in 2009–10

Includes spending over £100k (OJEU procurement limit)

Excludes spend on admin consultancy of £19.1 million (not Technical Assistance)

Which suppliers are currently working on contracts worth more than £10 million, how much the contract is worth, what its purpose is and in which country it operates?

DETAILS OF CURRENT SUPPLIER CONTRACTS WITH A VALUE GREATER THAN £10 MILLION

Supplier Name	*Contract Information*	*Country / Region*	*Contract Value*
ABT ASSOCIATES INC	Management of the Partnership for Transforming Health Services Phase 2 (PATHS 2)	Nigeria	£130,482,147
	Nigeria Infrastructure Advisory Fund	Nigeria	£13,500,000
ADAM SMITH INTERNATIONAL LTD	Strengthening National and Provincial Tax Administration	Afghanistan	£10,999,556
	The Growth and Employments in States (GEMS) Programme—Consulting Services to Support Improved Business Regulation (GEMS 3)	Nigeria	£13,500,000
ATOS CONSULTING LIMITED	Safety and Access to Justice Programme	Sudan	£17,763,672
BMB MOTT MACDONALD	Fund Management of the Basic Services Interim Arrangements	Sudan	£33,100,000
	DFID Global Schools Partnership	UK	£21,364,646
BRITISH COUNCIL	Justice For All (J4A)	Nigeria	£35,110,832
	Maternal and Newborn Health—Research and Advocacy Fund—Pakistan	Pakistan	£11,300,000
CAMBRIDGE EDUCATION CONSUL	Management of the Education Sector Support Programme in Nigeria (ESSPIN)	Nigeria	£84,321,475
CHRISTIAN AID	Poorest Area Civil Society Programme 2	India	£24,499,758
Crown Agents Bank	Support for Land Tenure Regularisation, Rwanda	Rwanda	£15,993,107
EMERGING MARKETS GROUP	Fund Manager for the Financial Education Fund (FEF).	UK	£11,800,000
	Managing Consultant—Protracted Relief Programme : Phase II Zimbabwe	Zimbabwe	£22,546,315
GRM INTERNATIONAL LTD	Nepal ESP	Nepal	£12,000,000
	State Accountability and Voice Initiative	Nigeria	£20,233,323
HAREWELLE INTERNATIONAL LIMITED	Challenge Fund Economic Empowerment of the Poorest	Bangladesh	£64,999,565
HEALTH PARTNERS INTERNATIONAL	Reviving Routine Immunisation in Northern Nigeria	Nigeria	£19,000,000
HLSP LIMITED	Health Sector Technical Assistance—Pakistan	Pakistan	£16,800,000
	Strengthening South Africa's Revitalised Response to Aids and Health (SSARRAH)	South Africa	£13,500,000
HTSPE LTD	Management of the State Partnership for Accountability Responsiveness and Capacity (SPARC)	Nigeria	£41,141,961
	Support for Land Tenure Regularisation (LTR)—Rwanda	Rwanda	£27,401,395
LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE	Design and Operation of the International Growth Centre	UK	£29,744,678
LONDON SCHOOL OF HYGIENE AND TR	Sanitation And Hygiene Research Programme	UK	£10,000,000
MALARIA CONSORTIUM	Support to National Malaria Programme	Nigeria	£46,775,568
MAXWELL STAMP PLC	Design and Implement The Chars Livelihoods Programme—Phase 2 (Management and Technical Support)	Bangladesh	£68,000,000
	Expanding Social Protection in Uganda	Uganda	£15,080,950
PRICEWATERHOUSECOOPERS	Climate and development Knowledge network	UK	£45,799,000

Supplier Name	*Contract Information*	*Country / Region*	*Contract Value*
Society for Family Health	Enhancing Nigeria Response to HIV/AIDS (ENR)	Nigeria	£54,999,661
	Humanitarian Services To DFID and the Post Conflict Reconstruction Unit		£11,729,000
THE CROWN AGENTS	Integrated Control of Schistosomiasis and Intestinal Helminths in sub-Saharan Africa (ICOSA)	Sub-Saharan Africa	£15,000,000
	Procurement Support to the Integrated Control of Shhistosomiasis and Intestinal Helminths Project in Sub-Saharan Africa (ICOSA)	Sub-Saharan Africa	£15,000,000
TRIBAL HELM CORPORATION LTD	Managing At The Top—Public Service Capacity Building	Bangladesh	£13,062,710
Triple Line Consulting Limited	Civil Society Challenge Fund—Fund Manager	UK	£43,822,585
UNIVERSITY OF OXFORD	Young Lives Phase IV	UK	£16,000,000
WSP INTERNATIONAL LIMITED	Technical Assistance Rural Access Programme (RAP) Nepal	Nepal	£17,000,000
Total			£1,063,371,904

Source: DFID Alito database: live contracts with value over £10 million.

Printed in the United Kingdom by The Stationery Office Limited
2/2011 007437 19585

ISBN 978-0-215-55624-0
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PEFC/16-33-622