House of Commons

International Development Committee

# UK aid: allocation of resources: interim report

## Third Report of Session 2015–16

HC 927, Incorporating HC 533

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## Third Report of Session 2015–16

*Report, together with formal minutes relating to the report*

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## The International Development Committee

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# Summary

The last year has seen several important developments which affect the UK aid budget, including a new UK aid strategy. We are publishing this as an interim report, prior to the publication of the Bilateral Aid Review and Multilateral Aid Review, to deal with the high-level strategic issues arising out of the new aid strategy.

The new strategy emphasises how UK aid benefits the UK's national interest, and contains an increased focus on fragile states and regions and greater spending of ODA by other government departments (OGDs). These are both welcome, as fragile states tend to have higher levels of extreme poverty and the increase of UK aid for OGDs has the potential to increase its impact.

The most important principle of allocating UK aid should always be that it is allocated where it can most effectively be used to reduce poverty. However, we have heard concerns that increased consideration of the national interest will lead to a reduced focus on poverty reduction, which is only listed as the fourth of four strategic objectives in the new strategy. Poverty reduction is a statutory requirement for the spending of development assistance by DFID, and has traditionally been the primary objective of UK aid spending. The Government should make reducing poverty a legal obligation for the spending of all ODA, regardless of which department is spending it and which legal power it is being spent under, which should be made explicit in all ODA programming. With the greater spending of ODA now by other government departments we urge a re-emphasis of poverty reduction as the primary objective regardless of which department is spending it, particularly in light of Sustainable Development Goal 1 being to "End poverty in all its forms everywhere".

We have received evidence that DFID's old definition of 'fragile states' did not properly appreciate the complexities of the causes of fragility, which meant that it covered the majority of DFID's priority countries and therefore did not help with allocation decisions. While DFID has produced a new definition and published a new list of fragile states and regions, it is still not clear to us precisely what that definition entails and how the list was arrived at. We are therefore asking for more detail about the definition and how it will inform allocation decisions, and are keeping a watching brief on the OECD's upcoming multidimensional fragility framework.

DFID's choice of priority countries after the Bilateral Aid Review will doubtless be heavily influenced by the new UK aid strategy. We welcome the factors stated in that strategy, but emphasise that foremost amongst these should be effectively achieving poverty reduction. It is also unclear to us how DFID precisely determines its balance between multilateral and bilateral spending. We therefore suggest that DFID sets out clearly the criteria it uses and how those criteria are used, as part of a broader strategy for how it engages with multilaterals.

The new aid strategy includes a commitment to end all traditional general budget support. We have been told that budget support has many advantages, including giving recipient countries ownership of their development, and that it should be retained as an option. We therefore think that DFID should clarify which forms of budget support, if any, will continue, and what its evidence base is for deciding to end this traditional

method of financial support. We recommend therefore that consideration then be given as to the case for an option to give general budget support in exceptional circumstances, where systems are in place to effectively monitor transparency and accountability.

Transparency and accountability are vital to ensuring that UK aid is spent effectively. The aid strategy commits all government departments to being ranked as 'Good' or 'Very Good' in the international Aid Transparency Index in five years. We think that this timescale is unambitious and unacceptable and recommend that it should be reduced to two years. Furthermore, we think that it is very important that proper parliamentary scrutiny of UK ODA spending should be retained, especially due to the greater involvement of other government departments. We consider that we have an important role to play, both through ICAI and our own inquiries, in scrutinising all UK ODA and we intend to do so.

Evidence indicates that DFID has the capacity to scale-up over time in fragile states, but there is still room for improvement. We recommend that, to succeed in fragile states and regions: DFID adjust its programming accordingly; ensure that it is planning sufficiently long-term across the board to achieve sustainable impact and includes a greater focus on conflict prevention; and consider increasing posting lengths in fragile states to improve the expertise and local knowledge of its in-country teams. We have heard concerns about the capacity of other government departments to deliver aid effectively. DFID should assist in building the capacity of those departments, and must be given the resources required to achieve that. We also have concerns that where different government departments are delivering aid within the same country or region, there can be insufficient clarity as to which is the lead department with overall responsibility to ensuring effective coordination on delivery of the aid strategy there, and that closer attention should be given to this. We will be scrutinising this more closely going forward.

DFID's own spending is constrained by a Treasury-set 'non-fiscal' target, which requires it to spend a certain amount of money in development capital, which does not impact net public sector debt. While we do not think that DFID should reduce its 'non-fiscal' spending, this does not necessarily lead to effective poverty reduction and should be relaxed to give DFID the flexibility it needs to achieve its objectives. DFID has also been expanding its use of Payment by Results, despite a weak evidence base for its advantages. We therefore recommend that DFID should reduce its use of Payment by Results until it has a stronger evidence base and the proper knowledge and expertise to implement it without negative consequences.

# 1 Introduction

1. The last year has seen several important developments which affect the UK aid budget. The International Development (Official Development Assistance Target) Act 2015 ("the 2015 Act") requires the UK to spend at least 0.7% of gross national income on official development assistance (ODA). The Spending Review 2015 set departmental settlements for the next five years, including a commitment to have more aid administered by government departments other than the Department for International Development (DFID).[1] In November 2015 the Government released a new UK aid strategy called *UK aid: tackling global challenges in the national interest*, alongside the Strategic Defence and Security Review (SDSR), with an increased focus on how international development benefits the national interest.[2]

2. DFID is currently running its first round of major reviews since the 2015 Act came into force. This includes the Bilateral Aid Review (BAR) and the Multilateral Aid Review (MAR), which will inform how DFID allocates its resources through bilateral and multilateral channels respectively, as well as the Civil Society Partnership Review (CSPR), which looks at the structure and conduct of DFID's civil society partnerships.

3. In the midst of these announcements, and in order to feed into the BAR and MAR, we held an oral evidence session with Mark Lowcock, Permanent Secretary of DFID, on 8 December 2015. That session was informed by memoranda from the Independent Commission for Aid Impact (ICAI) and the National Audit Office (NAO), on the ODA allocation process[3] and trends in UK ODA respectively,[4] for which we are grateful.

4. We decided to hold a full inquiry arising out of the issues raised during that evidence session. We called for written evidence, looking more broadly at DFID's allocation of resources and the new UK aid strategy, but specifically looking at the following issues:

- What is the right definition of 'fragile states'? What are the implications in defining fragility for DFID's decisions on where it works and how? For instance, how effective is the balance of spending through multilateral (60%) and bilateral partners (40%)?
- What is the capacity of DFID and its partners to scale up in fragile states?
- What choices and challenges does DFID face in determining where it will work in the future and what should inform those decisions?
- What is DFID's capacity to deliver on both existing commitments and refocused priorities:
    - What are the implications of the security and prosperity agenda for delivery of the other Sustainable Development Goals and work to tackle extreme poverty both in the shorter and longer term?
    - What does DFID need to do to improve on past performance in the following areas?

1 HM Treasury, *Spending Review and Autumn Statement 2015*, Cm 9162, November 2015, p 29
2 HM Treasury, *UK aid: tackling global challenges in the national interest*, Cm 9163, November 2015
3 ICAI, *The 2015 ODA allocation process* (December 2015)
4 NAO, *Trends in total UK Official Development Assistance and the Department for International Development's expenditure* (December 2015)

(1) Security; and

(2) Economic development.

- What are the challenges ahead for ensuring effective design, delivery and accountability of ODA spend by other government departments through cross-Government funds such as the Conflict, Stability and Security Fund (CSSF) and the new Prosperity Fund? What role can DFID play in ensuring value for money in all ODA spending? What is the responsibility of other government departments to comply with DFID's objective to reduce poverty?
- How effectively has DFID managed its operating costs and what are the implications of the new aid strategy for operating costs both centrally and in country offices?
- What are the challenges of meeting Treasury non-fiscal spending requirements and will these be affected by the new aid strategy?
- How has 'payment by results' worked for DFID in the past (eg. 2014–15) and what are the implications of extending this approach as implied in the aid strategy?
- How effective is DFID's approach to managing risk and how could or should this change to reflect new priorities under the aid strategy?
- How has DFID performed on the targets and indicators it had in place to March 2015? How should targets and indicators be altered to reflect delivery against Government manifesto commitments and the priorities of the new aid strategy?

5. We are currently awaiting the results of the Bilateral Aid Review (BAR) and the Multilateral Aid Review (MAR), after which we intend to take further oral evidence on issues arising from those reviews and publish a final report. However, we think that there are some important issues which cannot wait until then. There are considerations, in light of the new UK aid strategy, which we feel need to be built into the Government's approach to international development as soon as possible. We have therefore decided to publish this interim report dealing with these high-level strategic issues.

# 2 The new UK aid strategy

## The focus of the new UK aid strategy

### *Fragile states and regions*

6. The new aid strategy includes an increased focus on fragile states and regions, by way of a commitment to "allocate 50% of all DFID's spending to fragile states and regions".[5] There are a number of reasons given in the aid strategy for this focus. The first is that, in "the future, extreme poverty is likely to be concentrated in fragile countries." The second is "to address current crises, the root causes of migration, and the threats posed to the UK by the ongoing conflict [in Syria]." The third is as a "major investment in global stability, including in regions of strategic importance to the UK".[6] The Government had already previously committed to spending 30% of total UK ODA, as opposed to just DFID's budget, to support fragile and conflict-affected states by 2014–15, in the 2010 SDSR.[7]

7. The general response from witnesses to this inquiry was welcoming of the new aid strategy and its focus on fragile states and regions, due to the high concentrations of extreme poverty and high levels of need in those states.[8] Harpinder Collacott, Executive Director of Development Initiatives, told us that:

> "It brings together poverty and also other issues around instability and insecurity, which are, from our perspective, great to see. […] It reflects, from our perspective, a continuation, to some degree, of the way that DFID has been leading globally in the role that it has been given, specifically in fragile states."[9]

Mark Lowcock, Permanent Secretary of DFID, also told us that this focus is a continuation of what DFID is already doing, "something like 85% of the bilateral programme at the moment is for fragile and conflict-affected states. It will remain at a very high level." DFID's approach is therefore to direct more of the multilateral budget towards fragile states and regions, through "a dialogue with the multilateral institutions to try to focus their resources more on countries where there are real problems."[10]

8. Despite this, as the aid strategy is framed in terms of benefiting the UK's national interest, it creates the potential for a reduced focus on poverty reduction. Poverty reduction is a statutory requirement for the spending of development assistance by DFID,[11] but not necessarily for the spending of ODA by other government departments, and has traditionally been the first priority of UK aid spending. Its prime importance is also reflected in the Sustainable Development Goals, which the UK took a leading role in negotiating, with the first goal being to "end poverty in all its forms everywhere".[12] However, of the four objectives for UK aid in the new UK aid strategy, tackling extreme poverty is listed as the fourth and final objective, below objectives which are more focused on security,

5 HM Treasury, *UK aid: tackling global challenges in the national interest*, Cm 9163, November 2015, p 4
6 HM Treasury, *UK aid: tackling global challenges in the national interest*, Cm 9163, November 2015, para 1.19
7 HM Treasury, *UK aid: tackling global challenges in the national interest*, Cm 9163, November 2015, para 2.8
8 HM Treasury, *UK aid: tackling global challenges in the national interest*, Cm 9163, November 2015, para 3.8
9 Q59
10 Q43
11 International Development Act 2002, section 1(1)
12 UN Sustainable Development Knowledge Platform, 'Sustainable Development Goals', accessed 24 February 2016

prosperity and the national interest. The short version of DFID's single departmental plan for 2015–20 is framed around these objectives, in the same order, although it does make heavy reference to poverty reduction throughout.[13]

9. Girish Menon, CEO of ActionAid UK, told us that there "is a risk of a potential loss of poverty reduction as the overarching agenda for UK aid".[14] BOND and the UK Aid Network emphasised to us that the "UK's approach to aid must be driven by sustainable development and poverty reduction",[15] and noted that the "increasing emphasis on security and national interest also has the potential to undermine DFID's leadership in development effectiveness for tackling poverty."[16] Development Initiatives expressed concerns that the "focus on aligning aid spending with 'the national interest', national security priorities and the interests of UK companies, could result in UK aid (a scarce and unique resource) being directed to different priorities less focused on meeting the needs of the most vulnerable people."[17]

## *Cross-Government aid spending*

10. Another major aspect of the new UK aid strategy is the increased use of other government departments (OGDs) and cross-Government funds for disbursing ODA. Over the last Comprehensive Spending Review (CSR) period (2011–15), DFID spent about 85% of the total ODA budget.[18] This is expected to fall to about 72% for this CSR period (2015–20).[19] For the first time, ODA spending was allocated across departments through a competitive bidding process, run by the Treasury with assistance from DFID.[20]

11. The majority of witnesses have welcomed this increased cross-Government working, although many witnesses warned of the risk that this may also reduce the focus of UK aid on poverty reduction. ActionAid UK highlighted the positive possibilities presented by the expansion of cross-Government aid, "The involvement of other departments in international development has the potential to increase the impact of UK aid through better policy coherence across Whitehall."[21] Meanwhile, VSO stated that, "ODA spent through non-DFID departments should have a direct beneficial impact on, and relationship to developing economies. […] All ODA (including non-DFID ODA) should have an explicit focus on poverty reduction".[22] Save the Children similarly argued for all UK ODA to have poverty reduction as its core objective, regardless of department.[23]

12. The International Development Act 2002 ("the 2002 Act") provides the legal power for the Secretary of State to provide development assistance, with the requirement that "the provision of the assistance is likely to contribute to a reduction in poverty."[24] This is the only legal power under which DFID can spend ODA, meaning that all DFID ODA is subject to the poverty reduction requirement. Evidence to us has indicated, however,

13 DFID, 'Single departmental plan: 2015 to 2020', accessed 24 February 2016
14 Q84
15 Bond and the UK Aid Network (ACH0006) para 19
16 Bond and the UK Aid Network (ACH0006) para 22
17 Development Initiatives (ACH0035) para 1.3
18 ICAI, *The 2015 ODA allocation process* (December 2015), para 3.4
19 Oral evidence taken on 23 February 2016, HC (2015–16) 576, Q11
20 ICAI, *The 2015 ODA allocation process* (December 2015), para 3.4
21 ActionAid UK (ACH0034) para 2
22 VSO (ACH0032) para 7
23 Save the Children (ACH0020) para 6.6
24 International Development Act 2002, section 1(1)

confusion over to what extent this requirement applies to OGDs,[25] which may use the 2002 Act but also have other powers under which they could spend ODA.[26] We asked Mark Lowcock what percentage of UK ODA fell under the 2002 Act, and therefore the poverty reduction requirement, and he told us, "The vast majority of the total ODA pot is covered by the Act, but one or two departments are still working out the best legislative arrangement for some of the new provisions they have been given in the 2015 spending review."[27]

13. **We welcome the new UK aid strategy's focus on fragile states and regions, as these states and regions generally face high levels of extreme poverty. We are concerned, however, by the lack of priority given to poverty reduction within the aid strategy, and the potential implications for UK aid. This is especially a risk with other government departments, which have key aims other than poverty reduction and some of whose spending may not fall under the powers and requirements of the International Development Act 2002. Poverty reduction must be the primary purpose of UK aid spending, with other objectives surrounding security and the national interest flowing from it, rather than the other way round. We are also deeply concerned at the absence of any mention of human rights in the new UK aid strategy.**

14. ***The Government should make reducing poverty a legal obligation for the spending of all ODA, regardless of which department is spending it and which legal power it is being spent under, which should be made explicit in all ODA programming. DFID must re-emphasise in its Single Departmental Plan that the primary objective and requirement for UK aid is the elimination of poverty.***

## The definition of fragility

15. An important aspect of the fragile states and regions agenda is how fragility is defined, as this in turn affects where DFID focuses its efforts. The Overseas Development Institute (ODI) argued that "DFID should consider adopting a narrower definition of fragile states that focuses on countries with a weak or failing central government." DFID's current definition covers the majority of its priority countries, making it unhelpful for making specific allocation decisions. In 2005 DFID defined fragile states as those where the government cannot or will not deliver core functions to the majority of its people, where core functions include service entitlements, justice and security.[28] In his evidence to us on 8 December Mark Lowcock acknowledged "it does need reviewing, because the world has changed since 2010."[29] ODI pointed out that "only two of DFID's current ten largest country programmes (India and Tanzania) do not count as fragile states."[30] Simon Gill, Director of the Budget Strengthening Initiative at ODI, expanded on the reason for adopting a narrower definition to better target resources, as "'fragile states' in a very

25 For example see Bond and the UK Aid Network (ACH0006) para 37(iii), VSO (ACH0032) para 8, and ActionAid UK (ACH0034) para 20

26 Oral evidence taken on 23 February 2016, HC (2015–16) 576, Q11

27 Oral evidence taken on 23 February 2016, HC (2015–16) 576, Q12

28 International Development Committee, Twelfth Report of Session 2010–12, *Working Effectively in Fragile and Conflict-Affected States: DRC and Rwanda*, HC 1133, para 28

29 Q41

30 Overseas Development Institute (ACH0014) para 3

narrow definition […] are the countries that get less aid money per person. If you want to concentrate your financing on those who are most needy, a very narrow definition of fragility is better".[31]

16. We have also been told that the definition should take into account the complexities of the causes of fragility. The OECD Development Co-operation Directorate (OECD-DCD) stated that:

> "The definition of fragility is complicated because it is political in nature, and because of the evolving nature of fragility. The OECD now recognises that fragility is not black and white, but instead has multiple dimensions, that change over time. Accordingly, the OECD is developing a new fragility framework to replace the 'Fragile States List' used over the past 10 years, with a multidimensional model that allows for a more nuanced analysis."[32]

17. International Alert echoed this, noting that:

> "'Fragile states' is a helpful phrase to convey a complex situation to the public. However, it does not help development practitioners to identify where to invest resources. The current international trend is to move away from this categorisation. There are many states that exhibit elements of fragility but that are not considered fragile states as a whole."[33]

It therefore called for fragility to be considered as a spectrum, "with states having the ability to move, sometimes invisibly as was the case with the Arab Spring, along the scale in either direction."[34] Similarly, Harpinder Collacott told us that DFID's definition "has been very narrowly defined up until now", and that this "is a very good opportunity for DFID to widen that definition in the scope of all the various different causes that contribute to instability and insecurity."[35]

18. DFID has recently reworked its definition of fragility. Mark Lowcock told us:

> "What we have done is another piece of analytical work on this fragility issue. We identified three criteria. Those states and regions that suffer external and social stresses that are particularly likely to result in violence is the first thing we looked at. We looked secondly at whether the states have the capacity or lack the capacity to manage disagreement and conflict in a way that does not lead to violence. Thirdly, maybe the most important new thing we did was to look as well at neighbouring states that are especially susceptible to instability because of who their neighbours are."[36]

As a result, DFID has produced a full list of fragile states and regions based on open-source data, in three categories: (i) Countries on DFID's Fragile States List; (ii) ODA-eligible countries neighbouring 'high fragility' states (excluding China and India); and (iii) Regional programmes in three specifically designated fragile regions.[37] These countries

31 Q116
32 OECD Development Co-operation Directorate (ACH0031) p 1
33 International Alert (ACH0023) p 1
34 International Alert (ACH0023) p 2
35 Q65
36 Q41
37 Department for International Development (ACH0033) Annex A

will be regularly updated to reflect changes in the data. Despite this, we have received no detail on how the different statistics were weighted or how exactly this list was arrived at from the data.

19. **There is a need for a more considered definition of fragility than has been used in the past, taking into account the complex causes of fragility. This, in turn, can help better direct allocation decisions. At first glance, it appears that DFID is taking a more nuanced approach in its definition, but in practice this has actually increased the number of its 28 priority countries classed as fragile states and regions from 21 to 22. Without more specific details about the calculations of fragility that DFID is making, it is difficult to pass judgement on this new definition. It is also currently unclear how the new definition will inform allocation decisions, beyond the broad 50% target.**

20. ***DFID should publish more complete details of its definition of fragility and specific information about how its list of fragile states and regions has been determined, including details of how the different categories of fragility will inform allocation decisions. DFID should consider the OECD's new multidimensional fragility framework when it is released.***

## Other issues in the new UK aid strategy

### *Choice of countries*

21. The aid strategy's focus on fragile states and regions also includes a geographic refocus of the UK's aid spending, including towards "Syria and other countries in the MENA [Middle East and North Africa] region to address current crises, the root causes of migration, and the threats posed to the UK by the ongoing conflict."[38] The strategy goes on to say, "In allocating aid, the Government will carefully consider the fit with its strategic objectives, the level of need, the ability of partner countries to finance their own development, what support they get from others and their future risks, including humanitarian, economic and climate."[39]

22. The written evidence we have received has been generally supportive of these factors identified in the aid strategy, but with the addition of a specific emphasis on poverty reduction, DFID's added value and the level of need of the recipient countries. Action Against Hunger told us that "DFID decisions on where to work should be balanced between an assessment of where the need is greatest, the outcome of the Bilateral Aid Review, and an analysis of DFID's own added value."[40] The OECD-DCD said "DFID should consider what is its specific added value (history, influence, capacity to intervene) but should also consider the question of under-aided states".[41] World Vision UK urged "DFID to ensure that poverty and vulnerability are the primary determinants of aid spending."[42] **We welcome the Government's statement of the factors which will influence its choice of countries and allocation decisions as being the right factors. We emphasise again that foremost amongst these should be effectively achieving poverty reduction, and therefore the level of need of recipient countries and where DFID can add value.**

38 HM Treasury, *UK aid: tackling global challenges in the national interest*, Cm 9163, November 2015, para 2.8

39 HM Treasury, *UK aid: tackling global challenges in the national interest*, Cm 9163, November 2015, para 2.11

40 Action Against Hunger (ACH0027) para 3.1

41 OECD Development Co-operation Directorate (ACH0031) p 3

42 World Vision UK (ACH0004) para 20

### *The balance between bilateral and multilateral spending*

23. The focus on fragile states and regions will also have implications for the balance between bilateral and multilateral spending, as both channels have certain difficulties when operating in fragile states. Currently, 40% of DFID expenditure goes to bilateral programming work in country and 60% to multilateral agencies, of which two-thirds goes on multilateral core funding and one-third on bilateral work carried out by multilateral agencies ("multi-bilateral funding").[43]

24. Bond and the UK Aid Network argued that the current balance should not be significantly altered. They acknowledged both that it "can be extremely challenging to deliver effective programmes in fragile states on a bilateral basis"[44] and that "there are challenges of channelling aid through multilaterals, including DFID's limited ability to tailor interventions to the context."[45] Mott MacDonald, a development consultancy firm, expressed its view that "the big multilaterals are less focused on the very poorest countries"[46] and that "multilateral spending does not represent anything like the same value for money as the bilateral programme." It therefore pushed for greater scrutiny of multilateral spending and welcomed an indication that multilateral spending would reduce as a proportion of DFID's budget.[47]

25. Mark Lowcock, Permanent Secretary of DFID, told us that decisions as to which channels to use are driven by competition:

> "Our strategy to drive value for money is to have competition between the different choices. If we know we want a project to put another million girls in northern Nigeria into education, we get propositions from a variety of service deliverers and choose the one that is going to do it best with the best value for money. With that approach, the outcome of which sort of organisation delivers what for us is driven by value for money and competition, rather than an a priori view. That is the approach that we are keen to sustain."[48]

26. This does not, however, accord with ICAI's findings, when it looked at DFID's work with multilaterals. ICAI found that "DFID's choice of multilaterals as a delivery partner is not always evidence based",[49] including that "DFID does not always consider alternatives to multilaterals in-country, making it hard to ensure transparency and value for money."[50] This led ICAI to recommend that "DFID should have a strategy for its engagement with the multilateral system as a whole at the global level" and that it "needs clear objectives for its work with the multilateral system in its country-level strategies."[51] DFID rejected these recommendations on the basis that its strategic approach is set out in the Multilateral Aid Review and its country operational plans.[52]

43 ICAI, *How DFID works with multilateral agencies to achieve impact* (June 2015), p 8
44 Bond and the UK Aid Network (ACH0006) para 8
45 Bond and the UK Aid Network (ACH0006) para 9
46 Mott MacDonald (ACH0017) para 2, and see Q43 [Mark Lowcock]
47 Mott MacDonald (ACH0017) para 11
48 Oral evidence taken on 23 February 2016, HC (2015–16) 576, Q25
49 ICAI, *How DFID works with multilateral agencies to achieve impact* (June 2015), p 25
50 ICAI, *How DFID works with multilateral agencies to achieve impact* (June 2015), para 3.20
51 ICAI, *How DFID works with multilateral agencies to achieve impact* (June 2015), p 1
52 DFID, *DFID management response to the ICAI recommendations on: How DFID works with multilateral agencies to achieve impact, June 2015* (July 2015)

27. **While it seems to us that the balance between multilateral and bilateral spending is broadly correct, it is still not entirely apparent how DFID determines this balance. It is clear, however, that it will be heavily informed by the results of the Bilateral Aid Review and Multilateral Aid Review, and by the new UK aid strategy. We trust that the Multilateral Aid Review will include analysis of the performance and capacity of multilaterals in-country. The reasoning behind the balance would be more evident if DFID had a published strategy for how it engages with multilaterals. Whether or not the Multilateral Aid Review suffices as a standalone strategy, rather than just an assessment and diagnostic tool, remains to be seen and we intend to return to this topic.**

28. ***DFID should set out clearly what criteria it uses to determine the balance between multilateral and bilateral spending, and how these criteria are then used to decide the balance. DFID should build this into a broader strategy for how it works with multilaterals in the wake of the Multilateral Aid Review.***

### *Traditional budget support*

29. The new UK aid strategy includes a commitment to "end all traditional general budget support—so we can better target spending".[53] It states that:

> "The Government has reviewed value for money of all existing ODA spend across Government to identify and eliminate poor value spend and re-focus it where it can most effectively deliver UK objectives. As a result of this review a number of programmes that were weak value for money or had a weak fit with the Government's strategic objectives have been stopped, and resources re-allocated. This includes continuing the move away from traditional general budget support (unearmarked contributions to recipient countries' budgets) to more targeted forms of financing. DFID will neither start any new, nor restart any previous, traditional general budget support programmes in conventional aid settings."[54]

30. Despite this, we have heard many positive things about budget support, including that it gives recipient countries ownership of their development, rewards better-governed countries, and is low-cost and predictable. We understand that there are certain issues such as investment in public health systems which it is very difficult to incentivise donors to engage with, and which need the involvement of the relevant government. ActionAid UK told us that budget support "is the form of aid that most puts developing country governments in the driving seat of their own development strategies, which is known to have positive impacts on effectiveness, accountability and value for money."[55] While expressing concerns about the end of traditional budget support, Save the Children stated that its understanding is that "sector budget support[56] will continue."[57]

53 HM Treasury, *UK aid: tackling global challenges in the national interest*, Cm 9163, November 2015, p 4

54 HM Treasury, *UK aid: tackling global challenges in the national interest*, Cm 9163, November 2015, para 4.4

55 ActionAid UK (ACH0034) para 15

56 Financial aid earmarked to a specific sector, such as health, as opposed to a general contribution to a recipient government's overall budget.

57 Save the Children (ACH0020) para 5.2

31. Dr Paul Clist said:

> "It is a real shame to get rid of general budget support as an instrument. […] First of all, I showed in a 2012 paper that general budget support is given to better-governed countries, so, if you are better governed, within the volume of aid that you will get, you will get a higher percentage of general budget support. […] It is a policy lever that donors can use to influence outcomes in various different ways. The second thing is that, where most other aid is volatile, general budget support is predictable, it has low transaction costs, and it does not take too much time from the Government, so I think it is a real shame that that instrument is not an option, at the very least."[58]

This was echoed by Simon Gill, who told us that "It would be a shame if budget support is not a tool that we can use, because in certain situations, if it is well-managed, targeted, and safeguards are built in, it can have a really useful effect". Brenda Killen, Deputy Director of OECD-DCD, also said that she hopes it will continue to be an option, while acknowledging that there are more concerns about systems in fragile states that may make it inappropriate in some circumstances.[59]

32. **Traditional and sectoral budget support can be useful tools and give recipient countries ownership of their development. A blanket end to traditional general budget support is potentially unhelpful, as there are occasions on which it may be the most appropriate method of financing, subject to ensuring transparency and accountability.**

33. ***DFID should clarify which forms of budget support, if any, will continue, what its evidence base is for deciding to end traditional general budget support, and how it intends to ensure country ownership of development without it. We recommend therefore that consideration then be given as to the case for an option to give general budget support in exceptional circumstances, where systems are in place to effectively monitor transparency and accountability.***

58 Q123
59 Q122 and Q124

# 3 Transparency and accountability

## Transparency

34. With a much greater proportion of UK ODA spending being delivered by OGDs and through cross-Government funds, concerns have been raised with us about the levels of transparency and accountability for UK aid moving forward. DFID has robust processes in place to ensure transparency and accountability. It has "world-class expertise in transparency",[60] and is rated Very Good by the International Aid Transparency Initiative (IATI), compared to ratings of Poor and Very Poor for the FCO and MOD respectively.[61] The new UK aid strategy commits "for all UK government departments to be ranked as 'Good' or 'Very Good' in the international Aid Transparency Index, within the next five years."[62] Ben Jackson, Chief Executive, Bond, criticised this timeline, as being below the standards expected of NGOs receiving UK aid:

> "To say that it will take five years for the MOD to get to those standards, and that that is acceptable, is not acceptable to us. It is out of kilter with what is expected of many other partners, like ourselves."[63]

35. **It is crucial that a change in the proportion of aid delivered by other government departments does not lead to a change in the effectiveness of that aid. Demonstrating this effectiveness requires those departments to meet the same high levels of accountability and transparency that DFID has over the past few years. The ambition for all government departments to be ranked as 'Good' or 'Very Good' in the international Aid Transparency Index is welcome, but five years is an unambitious and unacceptable timescale.**

36. ***The Government should commit to all government departments achieving a 'Good' or 'Very Good' ranking in the international Aid Transparency Index within two years. All departments administering UK aid should report to Parliament within two years as to their ranking and, if they have not achieved one of the above rankings, should explain why this is the case.***

## Accountability

37. There are questions over the proper accountability and parliamentary scrutiny of UK ODA spending, considering it will be more spread out than ever before. The Conflict, Stability and Security Fund (CSSF) and the Prosperity Fund will be led by the National Security Council (NSC), which also raises particular issues over its accountability and transparency. Bond and the UK Aid Network told us, "The lack of transparency surrounding the NSC sits uncomfortably with the Government's drive to increase transparency of non-DFID ODA. It also has a mandate and priorities that may sometimes be at odds with sustainable development and lack the strong and robust accountability and scrutiny to which DFID is subject."[64]

60 RESULTS UK (ACH0007) para 18
61 Aid Transparency Index, 'Aid Transparency Index 2014 Results', accessed 25 February 2016
62 HM Treasury, *UK aid: tackling global challenges in the national interest*, Cm 9163, November 2015, para 4.11
63 Q153
64 Bond and the UK Aid Network (ACH0006) para 25

38. Many witnesses have raised doubts about the ability of the NSC to deliver aid effectively, and whether it will prioritise poverty reduction over a narrow definition of the national interest, making its accountability and transparency a matter of particular concern. With regards to the Prosperity Fund, RESULTS UK stated:

> "It is puzzling, to say the least, that the cross-Government Prosperity Fund is being led by the National Security Council, rather than DFID. DFID would appear to be the best-placed department for ensuring that prosperity strategies deliver on poverty reduction, not merely boosting growth and opportunities that do not reach the poorest and most marginalised communities".[65]

Mark Lowcock described the reasoning as being so that the Cabinet, the Prime Minister, the Chancellor and others would have an overview of what was going on. He explained that "global prosperity is part of what makes us secure as a country. If other countries are becoming more prosperous, what you are going to observe is that security issues become less acute."[66]

39. Much of the evidence has questioned whether there will be adequate parliamentary scrutiny of non-DFID ODA. Conscience expressed "concerns that the totality of CSSF spending is not fully accountable to Parliament."[67] The Scotland Malawi Partnership expressed similar concerns "for it is unclear whether all ODA, including the 25% not spent by DFID, will continue to be overseen by the Independent Commission for Aid Impact (ICAI) and the UK Parliament's International Development Committee."[68] Bond and the UK Aid Network also called for "strong, coherent and coordinated oversight, scrutiny and accountability of UK aid spend by all government departments, including through high-level political support for the scrutiny work of ICAI and more coordinated parliamentary accountability."[69]

40. Our formal remit, as the International Development Committee, is "to examine the expenditure, administration and policy" of the Department for International Development.[70] The Independent Commission for Aid Impact (ICAI), however, which reports to us, has an explicit mandate "to scrutinise any UK Government Official Development Assistance (ODA) spend".[71] In relation to this mandate, OGDs have explicit responsibilities towards ICAI, including to "provide ICAI with full and unrestricted access to all relevant information and documents in a timely manner up to but not beyond Official (including Official-Sensitive) material"[72], and ICAI has previously reported on non-DFID ODA spend.[73] Additionally, the Department for International Development, which we scrutinise, has many responsibilities with regards to ODA spend across Government under the International Development (Reporting and Transparency) Act 2006 and the 2015 Act.[74]

65 RESULTS UK (ACH0007) para 13
66 Q10
67 Conscience: Taxes for Peace not War (ACH0009) para 2
68 Scotland Malawi Partnership (ACH0024) para 3.2
69 Bond and the UK Aid Network (ACH0006) para 3(vi)
70 Standing Order No. 152
71 ICAI, *ICAI-DFID Framework Agreement* (September 2015), Annex A para 7.1
72 ICAI, *ICAI-DFID Framework Agreement* (September 2015), Annex A para 7.3
73 See ICAI, *A preliminary investigation of Official Development Assistance (ODA) spent by departments other than DFID* (February 2015)
74 Including to report on the amount of aid provided and to make arrangements for the independent evaluation of the extent to which ODA provided represents value for money.

41. **Parliamentary scrutiny of aid spending is vital to ensure that it is spent well. We consider that we, as the International Development Committee, have a role in scrutiny of all UK ODA, both through ICAI and through our own inquiries into UK aid. We intend to exercise this function, alongside any relevant other parliamentary committees, with regards to all government departments and the National Security Council, in order to maintain a broad overall picture of all UK aid. Furthermore, we highlight the fundamental importance of ICAI in the scrutiny of UK aid and its clear mandate to scrutinise all Government aid spending, regardless of department. In order to ensure the effectiveness of ICAI's reviews, other government departments must treat it with the same seriousness and respect that has exemplified the relationship between it and DFID.**

# 4 Capability and capacity

## DFID's capacity to scale-up in fragile states and regions

42. As mentioned earlier, DFID already operates heavily in fragile and conflict-affected states, having scaled-up from 2010 to spending 30% of UK ODA in those states. An assessment of that scale-up by ICAI was quite critical of how it had been done and found:

> "The targeted volume of expenditure and the planned pace of the increases was out of step with the capacity of DFID, its partners and, most importantly, the countries themselves to deliver. It has taken DFID four years for scale-up to start to deliver impact. Transformative impact in fragile states will take a generation to achieve and is dependent upon development of in-country state capacity. This was insufficiently recognised at the start of scaling up, where increased funding was directly linked to assumed greater impact."[75]

ICAI made a similar finding in its most recent Annual Report, "DFID has become, to a significant extent, a specialist in fragile states. We are concerned that DFID is yet to grasp the full implications of this."[76]

43. We have been told that DFID is capable of scaling-up, but that it will potentially face substantial difficulties in doing so. Coffey International Development stated that "DFID has significant experience of working in fragile states, but it still faces challenges. In countries where the security threat is high, DFID staff face travel and other restrictions that make it difficult for them to fully appreciate the local context, to visit projects, and to have on-the-ground project oversight."[77] Adam Smith International also said that an "issue that will require attention is DFID's ability to station sufficient numbers of its own staff in the more dangerous fragile countries."[78] International Alert noted that it is "a reality that working in fragile states requires a high number of expert personnel than traditional development environments: to maintain a deep contextual understanding, to manage risk, build and influence relationships that promote change and properly coordinate and integrate with broader HMG strategies."[79]

44. We have also been told that DFID still needs to fully adapt to the timescales necessary to achieve impact in fragile states and regions. ODI said that "DFID will need to scale up human resources capacity and alter staff incentives to respond to the increased focus on fragile states"[80] and that the latest "research on assistance in fragile states places a strong emphasis on in-depth understanding of the local context and on building long-term relationships."[81] Simon Gill expanded on this:

> "There is a need for a longer-term focus. Our experience, and one of the things we put in the submission, is that DFID staff's tours of duty in fragile states are still short. There is lots of turnover; they do not necessarily get the best people

75 ICAI, *Assessing the Impact of the Scale-up of DFID's Support to Fragile States* (February 2015), p 1
76 ICAI, *Independent Commission for Aid Impact: Annual Report to the House of Commons International Development Committee 2014–15* (June 2015), p 20
77 Coffey International Development Ltd (ACH0026) para 6
78 Adam Smith International (ACH0025) para 1.4
79 International Alert (ACH0023) p 4
80 Overseas Development Institute (ACH0014) para 8
81 Overseas Development Institute (ACH0014) para 9

> in those places. We have teams in South Sudan; one has 30 years' experience engaging with the region. Most have over five years' experience, and you need people with that depth of knowledge and political understanding to make a real difference, and also people who have the trust and understanding of that context. That is one proposal. Despite the rhetoric, there is still a need to look at posting length in fragile states."[82]

We are concerned that the current typical three-year review period for DFID projects is too short, bearing in mind that we have been told that transformational change in a fragile state can take over a generation, and consider that DFID will need to review its timescales and current criteria, such as Payment by Results, which it sets to achieve sustainable impact in such areas.

45. We have previously had concerns about whether DFID's staffing levels were appropriate to administer its growing aid budget. Mark Lowcock acknowledged that there was a period "where that was something we worried about a lot." He recently reassured us, however, that DFID has now agreed its staffing budget with the Treasury for 2016–17, and that this "is not currently the worry." He stated that the new staffing budget "permits us to put extra capacity into areas where we do not currently have enough capacity […] and to provide more advisory services to other government departments."[83] Joy Hutcheon, Director General for Corporate Performance Group at DFID, told us that DFID is "actually expecting to see an expansion in our staff numbers, rather than a contraction."[84]

46. **We believe that DFID has the expertise and knowledge necessary to scale-up over time and deliver sustainable development in fragile states and regions, in line with the focus of the new UK aid strategy, although we are concerned that DFID may not at present have the capacity to allocate effectively, as stipulated in the new aid strategy, "50% of DFID's budget to fragile states and regions in every year of this Parliament". We are reassured that DFID has been given the funds required to increase its staffing levels to administer its ODA budget. It nevertheless needs to recognise that achieving results will require a longer-term focus and greater attention on conflict prevention. DFID's current programme lengths, posting lengths, review cycles and criteria do not operate on the timescales necessary to achieve transformative impact.**

47. ***To succeed in fragile states and regions, DFID should:***

- ***adjust its programming accordingly;***
- ***ensure that it is planning sufficiently long-term across the board to achieve sustainable impact and includes greater focus on conflict prevention; and***
- ***consider increasing posting lengths, whilst taking into account local conditions.***

***While this may have resourcing implications, it is important for DFID's ability to deliver the fragile states and regions agenda itself, rather than just relying on contractors.***

82 Q112
83 Oral evidence taken on 23 February 2016, HC (2015–16) 576, Q24
84 Oral evidence taken on 23 February 2016, HC (2015–16) 576, Q30

## The capacity of other government departments to deliver aid

48. Unlike DFID, which has years of expertise in this area, many other government departments (OGDs) will be spending much larger sums of ODA than they have in the past. Evidence to this inquiry has acknowledged that this presents an opportunity for policy coherence and the development of new skills in OGDs. We have also heard that OGDs are unlikely to have the capacity and skills necessary to deliver aid effectively. Mott MacDonald said that it is "comfortable with increasing ODA spend" by OGDs, but has "concerns about whether these departments have the staff, skills and systems to ensure effective design, delivery and accountability of ODA spend."[85] The Institute of Development Studies similarly noted that "there are serious challenges to ensure other government departments meet the aid effectiveness and transparency standards achieved by DFID."[86] International Alert recommended, specifically with regards to the Prosperity Fund, that "DFID expertise is drawn upon heavily in the delivery of this fund by the NSC."[87]

49. This worry that OGDs do not have the necessary skills was echoed in oral evidence. Simon Gill said, "What I worry about DFID is that hard skills from the MOD, FCO and HMT are useful, but the soft set of skills that those people will need to make them effective operators in a fragile state will need contextualisation and briefing from DFID staff."[88] Julian Egan told us, "DFID has decades of expertise in this area and other ministries are still developing that, so there is a need for some support and guidance in the delivery of non-DFID assistance."[89] Girish Menon also shared this viewpoint, "DFID has a major role to make sure that the other departments, which have possibly not stepped into the sphere in the past to the degree to which DFID has, provide the necessary expertise and skills."[90] Mark Lowcock pointed out, however, that assisting other departments will also affect DFID's resources, and referred to 30 staff moving across from DFID to the Foreign Office to work on the CSSF as an example of this.[91] We have heard from Minister Desmond Swayne himself that DFID jointly administers "the Conflict, Stability and Security Fund together with the Ministry of Defence and the Foreign Office, so I suppose it is a collective effort."[92] However, while the CSSF will be under NSC direction, there does not appear to be a lead department coordinating this work, which needs to be clarified.

50. **We are not confident that other government departments currently have the capacity and experience to deliver aid to the same high standards as DFID, but developing this capacity in those departments will be of great long-term benefit. We are also concerned that a lack of clarity may exist as to which department may be leading and coordinating delivery of ODA, where a number of different departments are involved in the same region or area of work.**

51. ***In the short-term, DFID should assist heavily in the administration of programmes run by other government departments, for example through secondments and exchanges of staff, to maintain the quality of UK aid, accountability and transparency. In the***

85 Mott MacDonald (ACH0017) para 12
86 Institute of Development Studies (ACH0028) para 3.1
87 International Alert (ACH0023) p 6
88 Q154
89 Q75
90 Q102
91 Oral evidence taken on 23 February 2016, HC (2015–16) 576, Q14
92 Oral evidence taken on 8 March 2016, HC (2015–16) 675, Q43

***longer-term, DFID should share its expertise with other government departments and develop their capacity to deliver ODA effectively. DFID should have oversight of all ODA delivery, including where different government departments are involved. DFID must be given the resources necessary to do this without impacting on its own work and levels of expertise. Clear statistics should be provided by all government departments providing ODA as to the proportion subject to the International Development Act 2002.***

## Other issues relating to DFID spending

### *The target for 'non-fiscal' spending*

52. HM Treasury rules require DFID to spend £5 billion of 'non-fiscal capital' over this CSR period.[93] 'Non-fiscal capital' is spending, such as loans, equity investments and certain contributions to multilateral development banks, which is expected to generate at least some financial return to DFID in the future and therefore does not impact net public sector debt.[94] In its report on Business in Development, ICAI examined the 'non-fiscal' target and found that such spending faces "an issue of absorption capacity: that is, it may be hard to spend the amounts required in the time available." The target "may also create a bias in favour of large programmes that allow DFID to deploy quickly large amounts of funding that qualify as non-fiscal." It added that, in any case, if and when that spending generates a return, the return will be classified as negative ODA, which creates uncertainty and will need careful managing.[95] The NAO has also previously expressed concerns over the challenges for DFID in having to meet strict targets.[96]

53. In this inquiry we have also heard about issues with the 'non-fiscal' target. ICAI told us that "DFID has relatively few options available to it to meet this requirement", being primarily through the International Development Association (IDA) of the World Bank or through CDC, DFID's development finance institution.[97] Bond Disability and Development Group noted "a risk of tension between the non-fiscal spending requirements, and the commitment to leave no-one behind", as "non-fiscal spending is most likely to suit programmes that yield a relatively quick and recyclable financial return, such as investment in economic development."[98]

54. **DFID's 'non-fiscal' target does not necessarily lead to effective poverty reduction. Due to the small number of avenues available to DFID for 'non-fiscal' spending, the evidence suggests that the target can force DFID to spend large amounts of money through a small number of channels, regardless of whether that money would be more effectively spent elsewhere. While we do not think that DFID should reduce its 'non-fiscal' spending, it needs the flexibility to allocate its own spending in line with what will best achieve its primary aim of poverty reduction.**

55. ***The Treasury should relax DFID's 'non-fiscal' target, and grant DFID the flexibility to spend in whatever way DFID deems will be most effective.***

93 Department for International Development (ACH0033) para 32

94 ICAI, *Business in Development* (May 2015), para 2.19

95 ICAI, *Business in Development* (May 2015), paras 2.20–2.22

96 NAO, *Managing the Official Development Assistance Target*, HC (2014–15) 950, January 2015, p 7

97 ICAI, *The 2015 ODA allocation process* (December 2015), paras 3.8–3.9

98 Bond Disability and Development Group (ACH0008) para 4.4.1

### Payment by Results

56. DFID has also expanded its use of results-based aid, also known as Payment by Results (PBR), so that PBR contracts now represent, between April and October 2015, "nearly 80% by value of all new centrally-procured contracts over this period."[99] These are programmes "where payments are made after the achievement of pre-agreed results, rather than being made up front to fund future activities."[100] DFID acknowledged in its written evidence that "innovative PBR approaches require careful design and management if they are to deliver on their potential",[101] and pointed to its Evaluation Framework for Payment by Results[102] and its Smart Guide to PBR Contracting.[103]

57. We have received much evidence raising concerns about the efficacy of PBR.[104] Dr Paul Clist, while praising DFID for piloting these mechanisms, highlighted in his written evidence that, "There is currently no publically available evidence that DFID's use of results-based aid has had an additional positive effect on development outcomes."[105] He also told us about the possibility that PBR leads to illusory success, due to "misleading data",[106] "distortion of incentives",[107] and "evidence of PBR rewarding short term success and ignoring long-term effects."[108] He added in oral evidence, "One of the problems with Payment by Results is that it will often look like it is a success when it is not, because it is essentially a one-way bet. If the results have not been met, you do not disburse anything. If the results have been met, you disburse everything, and therefore it looks like a success, and naïve evaluations will often claim success when there genuinely is not."[109] Marie Stopes International also urged "some caution in the rapid expansion of Payment by Results contracts" and stated that "the evidence base for Payment by Results needs to increase before it is used as DFID's standard funding mechanism."[110]

58. We heard that some features of PBR are potentially particularly problematic in fragile states and regions, including its bias towards larger aid deliverers, the possibility that it incentivises easier to achieve short-term results, and its lack of flexibility. Ben Jackson told us that Bond's concern "is that it has a danger of biasing towards certain institutions—particularly those with a lot of capital—that can deliver and have the money to be able to do that", given payment does not come until results have been achieved.[111] The Tropical Health and Education Trust (THET) wrote that "there exists a risk that PBR and other cost-effectiveness-based approaches will focus DFID's attention on short-term, easily measurable goals, at the expense of potentially transformational programmes that respect

99 Department for International Development (ACH0033) para 41
100 DFID, 'Payment by Results Strategy: Sharpening incentives to perform', accessed 25 February 2016
101 Department for International Development (ACH0033) para 37
102 DFID, *DFID's Evaluation Framework for Payment by Results* (May 2014)
103 DFID, *Designing and Delivering Payment by Results Programmes: A DFID Smart Guide* (September 2014)
104 For example see World Vision UK (ACH0004), Tropical Health and Education Trust (ACH0005), and Bond and the UK Aid Network (ACH0006)
105 Dr Paul Clist (ACH0002) p 1
106 Dr Paul Clist (ACH0002) para 6
107 Dr Paul Clist (ACH0002) para 7
108 Dr Paul Clist (ACH0002) para 8
109 Q138
110 Marie Stopes International (ACH0021) para 8
111 Q136 [Ben Jackson]

context and complexity and that require long-term cooperation by disparate stakeholders".[112] Simon Gill said that "Payment by Results forces you to work in a very binary way, and it is much more complicated than that."[113]

59. **Evidence to the Committee suggests that there is still only a weak evidence in support of Payment by Results and that it can have negative consequences. We are therefore alarmed by its rapidly increasing usage, as this is not yet supported by the evidence. DFID must be very careful that the use of Payment by Results works effectively in a fragile states and regions context, with the necessary focus on real transformational change and flexibility to adapt to changing circumstances.**

60. ***DFID should reduce its use of Payment by Results until it has a stronger evidence base and the deeper knowledge and understanding to implement it without negative consequences.***

112 Tropical Health and Education Trust (ACH0005) para 16
113 Q136 [Simon Gill]

# 5 Conclusion

61. **The new UK aid strategy is a welcome restatement of the UK's strong commitment to international development. Its focus on fragile states and regions shows the Government's willingness to work in the difficult environments where levels of extreme poverty are highest. The associated increase in cross-Government working presents an opportunity for the Government to build international development into much of what it does and to build capacity. Furthermore, the strategy puts forward a compelling argument for how achieving the 0.7% target also benefits the UK's national interest.**

62. **We have some concerns, however, about how the aid strategy was developed and how it will be taken forward. Poverty reduction has been, and should always be, the first priority of UK aid. The strategy's status as a Treasury-led document with little explicit focus on poverty reduction risks creating an impression that the objectives regarding the UK's national interest, and therefore security and prosperity, were drawn up first, with DFID left to connect the dots with poverty reduction. That "tackling extreme poverty and helping the world's most vulnerable" is listed as the fourth of four strategic objectives compounds this impression and risks damaging the reputation of UK aid abroad.**

63. **The most important principle of allocating UK aid should always be that it is allocated where it can most effectively be used to reduce poverty. This has many dimensions, with both the security and prosperity agenda and increased cross-Government working being worthwhile and meaningful ways of achieving poverty reduction. It is important that the thinking flows from poverty reduction to these agendas, rather than the other way round, and that allocation decisions are made in line with this. It is further important that, as other government departments become more heavily involved in UK aid, the Government is alive to the risk that the focus on poverty reduction may be weakened.**

64. **The Government also needs to properly recognise the specific challenges associated with working in fragile states and regions and increasingly across Government, and respond appropriately. DFID's focus must be how to achieve long-term transformative impact in fragile states and regions. Other government departments will require a great deal of capacity building and assistance from DFID to ensure effective aid delivery. Finally, transparency and accountability must remain as core principles of UK aid, with effective parliamentary scrutiny of all areas of ODA spend.**

# Conclusions and recommendations

## The new UK aid strategy

1. We welcome the new UK aid strategy's focus on fragile states and regions, as these states and regions generally face high levels of extreme poverty. We are concerned, however, by the lack of priority given to poverty reduction within the aid strategy, and the potential implications for UK aid. This is especially a risk with other government departments, which have key aims other than poverty reduction and some of whose spending may not fall under the powers and requirements of the International Development Act 2002. Poverty reduction must be the primary purpose of UK aid spending, with other objectives surrounding security and the national interest flowing from it, rather than the other way round. We are also deeply concerned at the absence of any mention of human rights in the new UK aid strategy. (Paragraph 13)

2. The Government should make reducing poverty a legal obligation for the spending of all ODA, regardless of which department is spending it and which legal power it is being spent under, which should be made explicit in all ODA programming. DFID must re-emphasise in its Single Departmental Plan that the primary objective and requirement for UK aid is the elimination of poverty. (Paragraph 14)

3. There is a need for a more considered definition of fragility than has been used in the past, taking into account the complex causes of fragility. This, in turn, can help better direct allocation decisions. At first glance, it appears that DFID is taking a more nuanced approach in its definition, but in practice this has actually increased the number of its 28 priority countries classed as fragile states and regions from 21 to 22. Without more specific details about the calculations of fragility that DFID is making, it is difficult to pass judgement on this new definition. It is also currently unclear how the new definition will inform allocation decisions, beyond the broad 50% target. (Paragraph 19)

4. DFID should publish more complete details of its definition of fragility and specific information about how its list of fragile states and regions has been determined, including details of how the different categories of fragility will inform allocation decisions. DFID should consider the OECD's new multidimensional fragility framework when it is released. (Paragraph 20)

5. We welcome the Government's statement of the factors which will influence its choice of countries and allocation decisions as being the right factors. We emphasise again that foremost amongst these should be effectively achieving poverty reduction, and therefore the level of need of recipient countries and where DFID can add value. (Paragraph 22)

6. While it seems to us that the balance between multilateral and bilateral spending is broadly correct, it is still not entirely apparent how DFID determines this balance. It is clear, however, that it will be heavily informed by the results of the Bilateral Aid Review and Multilateral Aid Review, and by the new UK aid strategy. We trust that the Multilateral Aid Review will include analysis of the performance and capacity of

multilaterals in-country. The reasoning behind the balance would be more evident if DFID had a published strategy for how it engages with multilaterals. Whether or not the Multilateral Aid Review suffices as a standalone strategy, rather than just an assessment and diagnostic tool, remains to be seen and we intend to return to this topic. (Paragraph 27)

7. DFID should set out clearly what criteria it uses to determine the balance between multilateral and bilateral spending, and how these criteria are then used to decide the balance. DFID should build this into a broader strategy for how it works with multilaterals in the wake of the Multilateral Aid Review. (Paragraph 28)

8. Traditional and sectoral budget support can be useful tools and give recipient countries ownership of their development. A blanket end to traditional general budget support is potentially unhelpful, as there are occasions on which it may be the most appropriate method of financing, subject to ensuring transparency and accountability. (Paragraph 32)

9. DFID should clarify which forms of budget support, if any, will continue, what its evidence base is for deciding to end traditional general budget support, and how it intends to ensure country ownership of development without it. We recommend therefore that consideration then be given as to the case for an option to give general budget support in exceptional circumstances, where systems are in place to effectively monitor transparency and accountability. (Paragraph 33)

### Transparency and accountability

10. It is crucial that a change in the proportion of aid delivered by other government departments does not lead to a change in the effectiveness of that aid. Demonstrating this effectiveness requires those departments to meet the same high levels of accountability and transparency that DFID has over the past few years. The ambition for all government departments to be ranked as 'Good' or 'Very Good' in the international Aid Transparency Index is welcome, but five years is an unambitious and unacceptable timescale. (Paragraph 35)

11. The Government should commit to all government departments achieving a 'Good' or 'Very Good' ranking in the international Aid Transparency Index within two years. All departments administering UK aid should report to Parliament within two years as to their ranking and, if they have not achieved one of the above rankings, should explain why this is the case. (Paragraph 36)

12. Parliamentary scrutiny of aid spending is vital to ensure that it is spent well. We consider that we, as the International Development Committee, have a role in scrutiny of all UK ODA, both through ICAI and through our own inquiries into UK aid. We intend to exercise this function, alongside any relevant other parliamentary committees, with regards to all government departments and the National Security Council, in order to maintain a broad overall picture of all UK aid. Furthermore, we highlight the fundamental importance of ICAI in the scrutiny of UK aid and its clear mandate to scrutinise all Government aid spending, regardless of department.

In order to ensure the effectiveness of ICAI's reviews, other government departments must treat it with the same seriousness and respect that has exemplified the relationship between it and DFID. (Paragraph 41)

## Capability and capacity

13. We believe that DFID has the expertise and knowledge necessary to scale-up over time and deliver sustainable development in fragile states and regions, in line with the focus of the new UK aid strategy, although we are concerned that DFID may not at present have the capacity to allocate effectively, as stipulated in the new aid strategy, "50% of DFID's budget to fragile states and regions in every year of this Parliament". We are reassured that DFID has been given the funds required to increase its staffing levels to administer its ODA budget. It nevertheless needs to recognise that achieving results will require a longer-term focus and greater attention on conflict prevention. DFID's current programme lengths, posting lengths, review cycles and criteria do not operate on the timescales necessary to achieve transformative impact. (Paragraph 46)

14. To succeed in fragile states and regions, DFID should:

    - adjust its programming accordingly;
    - ensure that it is planning sufficiently long-term across the board to achieve sustainable impact and includes greater focus on conflict prevention; and
    - consider increasing posting lengths, whilst taking into account local conditions.

    While this may have resourcing implications, it is important for DFID's ability to deliver the fragile states and regions agenda itself, rather than just relying on contractors. (Paragraph 47)

15. We are not confident that other government departments currently have the capacity and experience to deliver aid to the same high standards as DFID, but developing this capacity in those departments will be of great long-term benefit. We are also concerned that a lack of clarity may exist as to which department may be leading and coordinating delivery of ODA, where a number of different departments are involved in the same region or area of work. (Paragraph 50)

16. In the short-term, DFID should assist heavily in the administration of programmes run by other government departments, for example through secondments and exchanges of staff, to maintain the quality of UK aid, accountability and transparency. In the longer-term, DFID should share its expertise with other government departments and develop their capacity to deliver ODA effectively. DFID should have oversight of all ODA delivery, including where different government departments are involved. DFID must be given the resources necessary to do this without impacting on its own work and levels of expertise. Clear statistics should be provided by all government departments providing ODA as to the proportion subject to the International Development Act 2002. (Paragraph 51)

17. DFID's 'non-fiscal' target does not necessarily lead to effective poverty reduction. Due to the small number of avenues available to DFID for 'non-fiscal' spending, the evidence suggests that the target can force DFID to spend large amounts of money through a small number of channels, regardless of whether that money would be more effectively spent elsewhere. While we do not think that DFID should reduce its 'non-fiscal' spending, it needs the flexibility to allocate its own spending in line with what will best achieve its primary aim of poverty reduction. (Paragraph 54)

18. The Treasury should relax DFID's 'non-fiscal' target, and grant DFID the flexibility to spend in whatever way DFID deems will be most effective. (Paragraph 55)

19. Evidence to the Committee suggests that there is still only a weak evidence in support of Payment by Results and that it can have negative consequences. We are therefore alarmed by its rapidly increasing usage, as this is not yet supported by the evidence. DFID must be very careful that the use of Payment by Results works effectively in a fragile states and regions context, with the necessary focus on real transformational change and flexibility to adapt to changing circumstances. (Paragraph 59)

20. DFID should reduce its use of Payment by Results until it has a stronger evidence base and the deeper knowledge and understanding to implement it without negative consequences. (Paragraph 60)

## Conclusion

21. The new UK aid strategy is a welcome restatement of the UK's strong commitment to international development. Its focus on fragile states and regions shows the Government's willingness to work in the difficult environments where levels of extreme poverty are highest. The associated increase in cross-Government working presents an opportunity for the Government to build international development into much of what it does and to build capacity. Furthermore, the strategy puts forward a compelling argument for how achieving the 0.7% target also benefits the UK's national interest. (Paragraph 61)

22. We have some concerns, however, about how the aid strategy was developed and how it will be taken forward. Poverty reduction has been, and should always be, the first priority of UK aid. The strategy's status as a Treasury-led document with little explicit focus on poverty reduction risks creating an impression that the objectives regarding the UK's national interest, and therefore security and prosperity, were drawn up first, with DFID left to connect the dots with poverty reduction. That "tackling extreme poverty and helping the world's most vulnerable" is listed as the fourth of four strategic objectives compounds this impression and risks damaging the reputation of UK aid abroad. (Paragraph 62)

23. The most important principle of allocating UK aid should always be that it is allocated where it can most effectively be used to reduce poverty. This has many dimensions, with both the security and prosperity agenda and increased cross-Government working being worthwhile and meaningful ways of achieving poverty reduction. It is important that the thinking flows from poverty reduction to these agendas, rather than the other way round, and that allocation decisions are made

in line with this. It is further important that, as other government departments become more heavily involved in UK aid, the Government is alive to the risk that the focus on poverty reduction may be weakened. (Paragraph 63)

24. The Government also needs to properly recognise the specific challenges associated with working in fragile states and regions and increasingly across Government, and respond appropriately. DFID's focus must be how to achieve long-term transformative impact in fragile states and regions. Other government departments will require a great deal of capacity building and assistance from DFID to ensure effective aid delivery. Finally, transparency and accountability must remain as core principles of UK aid, with effective parliamentary scrutiny of all areas of ODA spend. (Paragraph 64)

# Formal Minutes

## Wednesday 16 March 2016

Members present:

Stephen Twigg, in the Chair

| | |
|---|---|
| Fiona Bruce | Pauline Latham OBE |
| Dr Lisa Cameron | Jeremy Lefroy |
| Stephen Doughty | Wendy Morton |
| Nigel Evans | Albert Owen |
| Helen Grant | Virendra Sharma |

Draft Report (*UK aid: allocation of resources: interim report*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 64 read and agreed to.

Summary agreed to.

*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 (Standing Order No. 134).

[Adjourned till Tuesday 22 March at 9.45 am

# Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry page.

| | |
|---|---|
| **Tuesday 8 December 2015** | *Question number* |
| **Mark Lowcock**, Permanent Secretary, and **Anna Wechsberg**, Director of Strategy, Department for International Development | Q1–58 |
| **Tuesday 19 January 2016** | |
| **Larry Attree**, Head of Policy, Saferworld, **Harpinder Collacott**, Executive Director, Development Initiatives, and **Julian Egan**, Head of Advocacy, International Alert | Q59–83 |
| **Jonathan Glennie**, Director of Policy, Save the Children, **Girish Menon**, Chief Executive, ActionAid UK, and **Aaron Oxley**, Executive Director of RESULTS UK, Action for Global Health | Q84–107 |
| **Tuesday 9 February 2016** | |
| **Brenda Killen**, Deputy Director, Development Co-operation Directorate, Organisation for Economic Co-operation and Development, **Dr Paul Clist**, Lecturer in Development Economics, University of East Anglia, **Simon Gill**, Director, Budget Strengthening Initiative, Overseas Development Institute, and **Ben Jackson**, Chief Executive, Bond | Q108–158 |

# Published written evidence

The following written evidence was received and can be viewed on the Committee's inquiry page.

ACH numbers are generated by the evidence processing system and so may not be complete.

1 Action Against Hunger (ACH0027)

2 ActionAid (ACH0034)

3 Adam Smith International (ACH0025)

4 AgDevCo (ACH0003)

5 Anti-Slavery International (ACH0018)

6 Bond—UK membership body of international development NGOs; and UK Aid Network (ACH0006)

7 Bond Disability and Development Group (ACH0008)

8 Bond Disability and Development Group (ACH0039)

9 CAFOD (ACH0012)

10 Campaign for Science and Engineering (ACH0029)

11 Coffey International Development Ltd (ACH0026)

12 conscience: taxes for peace not war (ACH0009)

13 Crown Agents (ACH0016)

14 DAI Europe (ACH0022)

15 Department for International Development (ACH0033)

16 Department for International Development Annex A (ACH0038)

17 Development Initiatives (ACH0035)

18 Dr Paul Clist (ACH0002)

19 Institute of Development Studies (ACH0028)

20 International Alert (ACH0023)

21 International Synergies Ltd (ACH0011)

22 Marie Stopes International (ACH0021)

23 Mott MacDonald (ACH0017)

24 Mr Jie Sheng Li (ACH0001)

25 OECD Development Cooperation Directorate (ACH0031)

26 Overseas Development Institute (ACH0014)

27 Plan UK (on behalf of the UK Action for Global Health network) (ACH0013)

28 Population Matters (ACH0036)

29 Prof Jonathan Fisher, Senior Lecturer in African Politics, University of Birmingham (ACH0030)

30 RESULTS UK (ACH0007)

31 Save the Children (ACH0020)

32 Scotland Malawi Partnership (ACH0024)

33 The International Committee of the Red Cross (ACH0037)

34 THET (The Tropical Health and Education Trust) (ACH0005)

35 VSO (ACH0032)

36 World Vision UK (ACH0004)

# List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the Committee's website at www.parliament.uk/indcom.

## Session 2015–16

| | | |
|---|---|---|
| First Report | Syrian refugee crisis | HC 463 |
| Second Report | Ebola: Responses to a public health emergency | HC 338 |
| First Special Report | The Future of UK Development Co-operation: Phase 2: Beyond Aid: Government Response to the Committee's Tenth Report of Session 2014–15 | HC 339 |
| Second Special Report | Jobs and Livelihoods: Government Response to the Committee's Twelfth Report of Session 2014–15 | HC 421 |
| Third Special Report | DFID's bilateral programme in Nepal: Government Response to the Committee's Fourteenth Report of Session 2014–15 | HC 422 |
| Fourth Special Report | Department for International Development's Performance in 2013–14: the Departmental Annual Report 2013–14: Government Response to the Committee's Fourteenth Report of Session 2014–15 | HC 420 |
| Fifth Special Report | Syrian refugee crisis: Government Response to the Committee's First Report of Session 2015–16 | HC 902 |