House of Commons

International Development Committee

UK aid: allocation of resources: interim report: Government Response to the Committee's Third Report of Session 2015–16

First Special Report of Session 2016–17

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The 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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Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the internet via www.parliament.uk.

Publication

Committee reports are published on the Committee's website and in print by Order of the House.

Evidence relating to this report is published on the relevant inquiry page of the Committee's website.

Committee staff

The current staff of the Committee are Sarah Hartwell-Naguib (Clerk), Daniel Whitford (Second Clerk), Steven Ayres and Rachael Cox (Committee Specialists), Kingsley Boateng and Claire Cozens (Inquiry Managers), Zac Mead (Senior Committee Assistant), Rowena Macdonald (Committee Assistant), Paul Hampson (Committee Support Assistant), and Estelle Currie (Media Officer).

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First Special Report

On 22 March 2016, the International Development Committee published its Third Report of Session 2015–16, UK aid: allocation of resources: interim report, HC 927. On 24 May the Committee received a memorandum from the Secretary of State for International Development which contains a response to the Report. The memorandum is published as an appendix to the Report.

Appendix: Government response

Introduction

The UK Government welcomes the International Development Committee's (IDC's) report on the allocation of resources, which includes a set of priority issues that the Committee would like DFID to consider ahead of the conclusion of the Bilateral and Multilateral Aid Reviews (BAR and MAR).

We appreciate the Committee's ongoing support of the Government's commitment to spend 0.7% of Gross National Income annually on Official Development Assistance (ODA). The Committee's support has been crucial in continuing to show the value this spending represents, both in reducing poverty and protecting our national interest. We also appreciate the Committee's support for the publication of the UK Aid Strategy, which sets out a whole of Government approach to delivering ODA, and we look forward to engaging with the Committee and the Independent Commission for Aid Impact (ICAI) on ensuring every penny spent represents value for money.

The UK Aid Strategy, published jointly by DFID and the Treasury (HMT), is underpinned by a very clear guiding principle: the Government will meet its promises to the world's poor and put international development at the heart of its national security and foreign policy.

We took full note of the Committee's recommendation that a clearer definition of 'fragile states' will be necessary in order to help better direct allocation decisions, given the new commitment to spend at least 50% of DFID's budget in fragile states and regions in every year of this Parliament.

We note the concerns raised by the Committee over the capacity of other government departments to deliver ODA spending. DFID will continue to support departments in meeting ODA eligibility requirements and in sharing knowledge and good practice on what constitutes effective ODA spend. We have established a new working level "practitioners' network" to share experience across Departments and Agencies which are spending ODA resources.

Response to the Recommendations

The new UK aid strategy

Recommendation 1

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)

Disagree

The UK Aid Strategy makes clear how reducing poverty and serving Britain's national interest are inextricably linked—our ODA will achieve both goals together. Poverty is falling—but maintaining this trend will depend on continued strong economic growth. In the future, extreme poverty is likely to be concentrated in Africa and fragile countries. Global insecurity is rising and the risk of conflict in previously stable parts of the world is increasing. In the Middle East, we have seen the Arab Spring and the vicious conflict in Syria, with its impact on the surrounding region. Islamist extremism has spread across North Africa and the Sahel. Natural disasters are also more frequent, and the threat of climate change is growing more acute for developing nations. As a result of tackling fragility, DFID has returned to places we thought we were safe to leave in the past.

How we allocate DFID's resources must respond to all of these challenges, building a safer, healthier, more prosperous world, which is firmly in the UK's national interest. We will play a central part in delivering our national security strategy and the UK Aid Strategy, through tackling the root causes of these challenges. Allocation decisions will continue to be based on analysis of country need and where the UK can achieve maximum impact.

The UK Aid Strategy was published alongside the Government's Strategic Defence and Security Review (SDSR) which sets out the Government's approach to human rights. The Global Goals for Sustainable Development, which the UK took a leading role in shaping, commit all UN countries to achieve substantive, measurable improvements on economic, social and political human rights. The 'leave no one behind' principle is an expression of the UK's commitment to human rights; the UK played a key role in securing this language in Global Goal negotiations.

The UK Aid Strategy sets out how the Government will continue to meet its legal commitment to spend 0.7% of Gross National Income on ODA in every year of this Parliament, in order to eliminate poverty and advance the UK's national interest. All ODA spending must meet the OECD requirement that it promotes the economic development and welfare of developing countries as its main objective. The Aid Strategy and the DFID Single Departmental Plan set out how the Government plans to align its efforts to defeat poverty, tackle instability and create prosperity in developing countries as part of delivering the internationally agreed Sustainable Development Goals (the Global Goals).

All UK ODA will continue to be provided according to the rules set by the OECD DAC, administered with the promotion of the economic development and welfare of developing countries as their main objective. It is the responsibility of individual departments to determine whether their spending relies upon the International Development Act 2002 (IDA) or upon another appropriate legal power.

Recommendation 2

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)

Agree

DFID's assessment of state fragility is based on a number of data sources. Each data source scores states on a different element of fragility including economics, governance, conflict, human rights and demographics. By combining the individual ranking and scoring systems DFID has aggregated the scores into a single list, which DFID shared with the Committee in a previous response to this inquiry. DFID will update the list regularly to reflect changes in the data, and continue to engage with the international community to ensure our methodology takes account of best practice. The following data sources are used in our methodology.

- The World Bank's Worldwide Governance Indicators' score for 'Government Effectiveness'
- The World Bank's Worldwide Governance Indicators' score for 'Control of Corruption'
- The World Bank's World Development Indicators' score for 'Inflation, consumer prices (annual %)'
- The World Bank's Worldwide Governance Indicators' score for 'Political Stability'
- The World Bank's Worldwide Governance Indicators' score for 'Rule of Law'
- The Institute for Economics and Peace's 'National Peacefulness' Ranking
- The World Bank's Worldwide Governance Indicators' score for 'Voice and Accountability'
- The Political Terror Scale's Assessment of Human Rights Violations
- The UN High Commission for Refugees' Annual Statistical Yearbook on Refugee and IDP (internally displaced person) Populations
- The World Bank's World Development Indicators' count of 'Population, total'
- The Inform Index' Assessment of Natural Hazard Exposure
- The Institute for Economics and Peace's assessment of 'Relations with Neighbouring Countries'

DFID will review the OECD framework when it is released.

Recommendation 3

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)

Partially agree

Over the last five years DFID's bilateral/multilateral split has been roughly 60/40, which is a middle figure compared to the other members of the DAC. The overall balance between multilateral and bilateral spending is an aggregation of many issue-specific decisions, including replenishment negotiations carried out according to the timetables of individual multilateral organisations.

When considering core funding to multilaterals, DFID weighs a number of factors: the importance of the multilateral to the UK and international development agenda; the performance of the multilateral as judged by the MAR and other performance assessments; the amount of funding requested and what development results it will deliver; the availability of alternatives; how it fits with our bilateral programme; the likely actions of other donors. We fund multilaterals when they are the best partners to work with us to deliver our objectives, whether in a humanitarian crisis, natural disaster or on a specific topic such as migration and refugees.

The Multilateral Aid Review (MAR) will include analysis on the capacity and performance of individual multilateral organisations and the collective performance of multilateral organisations in four thematic areas. This will include an assessment of in-country performance based on published evidence sources and the views of DFID's country office network.

Recommendation 4

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)

Disagree

As set out in the UK Aid Strategy, DFID will continue the move away from traditional general budget (GBS) support to more targeted forms of financing. DFID's use of GBS has been declining for some time, and based on current plans will end in 2017. DFID will neither start any new, nor restart any previous, traditional general budget support programmes in conventional aid settings. This reflects changes in the shape of DFID's portfolio towards countries where GBS is less appropriate (for example, countries with underdeveloped public financial management systems or where we have concerns around the UK Partnership Principles), and due to different needs in our partner countries. The choice for how we deliver funding will continue to be informed by a robust economic assessment in business cases, based on country context and our objectives.

We also continue to use other (non-GBS) ways of providing funding direct to governments and using their systems. We use sector budget support (SBS) where funding is clearly earmarked to support particular sectors (such as health, education, or economic development), and we use more narrowly earmarked (non-Budget Support) ways of using country systems. SBS and other more earmarked forms of funding direct to governments remain an important part of our portfolio in our partner countries. DFID continues to evolve its approach to considering where and how direct financial support to governments can be most impactful, based on evidence from the past 15 years. This evidence and the lessons that we have learnt is informing the development of new programming that is suitable for the changing context of our partner countries.

Transparency and accountability

Recommendation 5

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)

Partially Agree

The Government agrees that accountability and transparency are important tools in driving up development effectiveness. The Government set out its position on aid transparency in the UK Aid Strategy. All departments spending ODA will achieve "Good" or "Very Good" ratings by 2020. In April 2016, DFID was the only government department assessed in the Aid Transparency Index and was rated as "Very Good". The

Government will put in place arrangements for an initial assessment of all departments' progress against the Aid Transparency Index. DFID will continue to provide support and advice to other Departments on meeting their transparency commitments.

ICAI continues to perform an important role, reaffirmed in the UK Aid Strategy, of scrutinising all ODA spend across Government. Its reports provide evidence and analysis of the impact and value for money of the Government's development programmes and support Parliament to hold the Government to account. The Secretary of State has written to all departments managing ODA and stressed the need for positive engagement with ICAI in order to assist them in their duties. DFID officials are providing support on best practice in departments' engagement with ICAI.

Capability and capacity

Recommendation 6

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)

Partially agree

We have begun updating our building stability framework, which will be available later this year. The emerging analysis from this framework has identified the following key elements as necessary building blocks for stability, and is informing teams' analysis and programme development:

- Fair power structures
- Legitimate and capable institutions

- Inclusive economic growth
- Conflict resolution processes
- Supportive regional environment.

We appreciate the Committee's support on steps made to ensure we can deliver increased ODA spend as we increasingly deliver in fragile and conflicted affected regions. As we have discussed with the Committee, DFID does not have a policy mandating tour lengths for an overseas posting. All overseas postings are considered to meet business requirements, as well as the continued wellbeing and safety of our staff working in fragile states and countries which are emerging from conflict.

We have made a number of structural changes through the Better Delivery agenda to strengthen delivery of programmes from inception to completion. This includes the SRO role, investment in strengthening handovers when SROs change and mandated delivery plans. The Smart Rules are the guiding mechanism for these changes, and are now embedded across DFID.

Recommendation 7

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)

Partially Agree

Individual Departments remain accountable for the administration, quality and value for money of their own ODA spending, in line with Treasury requirements under Managing Public Money. DFID will continue to support other government departments in meeting ODA eligibility requirements and in sharing best practice and experience in delivering effective ODA spend. This includes advice on programme management techniques, sharing evaluation information and research data in relevant sectors and staff exchanges. A senior level working group, co-chaired by HMT and DFID, will look across Departments to help ensure coordination and good value for money. All departments' spend on ODA will continue to be subject to independent scrutiny from the Independent Commission for Aid Impact (ICAI).

It is the responsibility of individual departments to determine whether their spending relies upon the International Development Act 2002 (IDA) or upon another appropriate legal power. There are no plans to monitor the proportion of ODA spent under the powers of the IDA. DFID will continue to produce a range of National Statistics on UK ODA, published annually in Statistics in International Development.

Recommendation 8

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)

Disagree

Like all departmental budgets, the DFID budget was set by HMT through the Spending Review process. As part of the SR Departments were asked to consider whether their spending proposals up to 2020/21 could be delivered via loans or guarantees and worked alongside the Treasury to jointly develop clear evidence-based for proposals. The appropriate level for financial transactions within DFID's budget was agreed through the SR.

DFID works to ensure value for money and that aid goes only where it is most needed and where it will deliver the very best results for taxpayers' money. DFID uses financial transactions (including loans and equity investments) only where these instruments offer the best value for money. These investments complement rather than replace our other approaches. Traditional grant aid will continue to play a critical role and remains the vast majority of DFID's portfolio.

Through financial transactions, DFID makes investments into the multilateral development banks and the private sector to achieve development objectives. Our financial transactions support the growing need to mobilise additional finance to achieve the internationally agreed SDGs announced in 2015.

Providing support in this way is critical to the UK government's vision to help poorer countries achieve a secure, self-financed, timely exit from poverty. Inclusive economic growth is core to achieving this vision and investment spend is a key element of our strategy to promote economic development in developing countries. No country can eradicate poverty or graduate from aid without economic growth. Our objective is to stimulate transformational and inclusive growth that creates jobs and strengthens economies. Our investments are delivering results for poor people; businesses backed by CDC, the UK's Development Finance institution, created nearly 1.3 million new direct and indirect jobs last year and projects supported by the PIDG provide new or improved infrastructure to 98 million people.

Recommendation 9

19. **Evidence to the Committee suggests that there is still only 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)

Disagree

We agree that evidence about how PbR can be most effective is still at an early stage (see "Sharpening Incentives to Perform" published in June 2014). This is why DFID's PbR Strategy commits the Department to expand the evidence base on what works best through learning-by-doing—trialling innovative, outcomes-based PbR in new contexts and sectors.

DFID defines Payment by Results (PbR) broadly, including all programmes where some portion of payments are released only following the achievement of pre-agreed results. This can include output-level results (e.g. number of children enrolled at school) or outcome-level results (e.g. measurable improvements in a child's literacy or numeracy). DFID is currently delivering 19 carefully-designed innovative programmes, which incorporate particularly innovative payment by results mechanisms, and where payments depend on delivery of results which are relatively high on the 'results chain'—outputs or outcomes. The value of these multi-year innovative programmes is currently around £2.2 billion. Of this, around £600 million (~30%) is tied to delivery of pre-agreed outputs or outcomes. Each programme has robust learning and evaluation components, in line with their innovative nature, and many are now mid-delivery.

In both its innovative and more conventional programming, DFID is proceeding with caution and learning from experience to ensure that expansion of PbR delivers increased value for money and development impact. DFID published its Evaluation Framework for Payment by Results in June 2015, which identifies priority PbR evaluation questions. DFID is disseminating emerging lessons and evaluation evidence. DFID produced a "Smart Guide" to PbR Contracting in December 2015, which builds on experience and best practice on results-based contracting developed across the organisation in recent years.