



House of Commons  
International Development  
Committee

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# Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn

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Fourth Report of Session 2008–09

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## International Development Committee

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## Summary

The developing world was not responsible for causing the current economic crisis, but it is paying a heavy price for mistakes made by rich countries. Poor countries are experiencing significantly reduced income from trade, remittances and foreign investment. As a result, an additional 90 million people are expected to be living in poverty by the end of 2010, and 400,000 more children are likely to die. Progress towards the Millennium Development Goal of eradicating hunger and extreme poverty has been set back three years.

It is essential that the world's poorest people are protected against the worst effects of the downturn. The Department for International Development (DFID) is increasing its funding for social protection programmes, which help to provide essential services for the most vulnerable, as part of a broader initiative led by the World Bank. Such programmes are welcome but their coverage must ensure that the most needy do not slip through the net.

At the G20 summit in London in April, agreement was reached to provide billions of dollars of additional resources for the international financial institutions (IFIs), with the majority going to the International Monetary Fund (IMF). This will provide a much needed boost for balance of payments support, yet it remains unclear how much of the funding will benefit developing countries. The IMF must justify the huge uplift in its resources by responding much more flexibly and speedily to developing country needs. Moreover, the huge increase in resources for the IFIs needs to be matched by governance reforms. There has been much discussion about these but little tangible progress. In particular, developing countries need to be given a stronger voice on the boards and in the decision-making processes of the multilateral institutions.

The recession should not be used as an excuse to reduce aid flows. The UK Government has made clear that its progress towards the target of allocating 0.7% of Gross National Income (GNI) to Official Development Assistance (ODA) by 2013 will be maintained. However, several countries who made similar commitments are cutting their aid budgets. This is unacceptable. DFID needs to use its position as a global leader in development to press other governments to honour the funding pledges they have made.

Whilst the maintenance of aid flows is vital, developing countries must also be assisted to derive the maximum benefit from their own resources. They lose billions of dollars each year to tax evasion by international companies. The strong message on enforcement of international tax standards sent out by G20 countries at the London summit was welcome. The challenge now is to ensure that this agreement is implemented. The UK has a clear responsibility to address this issue in relation to those British Overseas Territories which are tax havens. The Foreign and Commonwealth Office must assist these territories to conform to international standards as a matter of urgency.

A fair international trade system which opened rich country markets to trade from the developing world is estimated to be worth three and a half times the value of global aid flows. The international community's performance towards securing an agreement in the pro-development Doha round of World Trade Organisation negotiations has been

painfully slow and has frequently looked like collapsing altogether. The UK should use every opportunity to engage the US Administration and the European Union on this issue with a view to making progress at the G8 summit in July.

Signs that the downturn is beginning to undermine previously strong UK public support for aid need to be addressed. Concerns about high levels of corruption and waste in the use of development expenditure need to be allayed. DFID must do more to show the public the many and varied positive outcomes of its work in poor countries. The visibility of UK aid expenditure needs to be increased at home and abroad. It may therefore be time for the Department to change its name to one which more accurately reflects the important work it undertakes on behalf of UK taxpayers, such as British Aid or DFID UK.

# 1 Introduction

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1. The current financial situation has created a dangerous time for development. Global Gross Domestic Product (GDP) is expected to decline by 1.3% in 2009, the first decline since the Second World War, and to recover only gradually in 2010.<sup>1</sup> World trade is on track to register its largest fall in 80 years, with trade flows estimated to be reduced by 9%.<sup>2</sup>

2. Initial predictions that developing countries would be insulated from the worst of the financial turbulence, due to their distance from global financial centres, have proved wrong. Decreasing remittances, currency devaluation, reduced foreign investment, and falling demand for goods and services are adversely affecting developing economies and emerging markets. The World Bank has estimated that, as a result, developing countries will face a financing gap of between \$270 and \$700 billion depending on the severity of the crisis and the strength of policy responses.<sup>3</sup>

3. The cost to developing countries will not just be financial. Progress towards achieving Millennium Development Goal (MDG) 1, the eradication of hunger and extreme poverty, has been set back by three years.<sup>4</sup> The Department for International Development's (DFID) estimates show that, by December 2010, an extra 90 million people will be living on less than \$1.25 a day.<sup>5</sup> The World Health Organisation has warned that the crisis could result in the deaths of an additional 400,000 children a year.<sup>6</sup>

## Support for development

4. The current financial crisis is also testing the depth of international donor support for development. The UK Government has said that it will continue to meet the commitments it has made on aid levels, most recently in the 2009 Budget Statement,<sup>7</sup> but the position of some other donors is less clear. Reductions in the level of official development assistance (ODA) would clearly compound the problems which developing countries are already facing as well as putting at risk the global targets set for development expenditure and the likelihood of reaching the Millennium Development Goals by 2015.

5. Whilst it is vital to ensure that development assistance from the global community continues to increase, it is equally important that UK public support for funding aid is maintained and that DFID's messages are even more effectively targeted. This could be threatened as the financial crisis continues to affect the real economy. The number of people who describe themselves as "very concerned about poverty in developing countries"

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1 International Monetary Fund, *World Economic Outlook: Crisis and Recovery*, April 2009, p xv

2 Q 239

3 World Bank, *Swimming against the tide: how developing countries are coping with the global crisis: Background paper prepared for the G20 Finance Ministers and Central Bank Governors Meeting, Horsham, on 13-14 March 2009*, March 2009, p 1

4 Q 239

5 Q 239. The World Bank's measure of extreme poverty.

6 "Downturn could kill 400,000 children, warns health expert", *The Times*, 14 March 2009

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

fell from 33% in 2006 to 22% in 2008.<sup>8</sup> The current economic downturn could exacerbate this trend.

## DFID's White Paper

6. Soon after we began this inquiry in January, DFID announced its intention to publish a new White Paper on *Eliminating World Poverty: Assuring our Common Future* later this year and began a consultation process in March. The White Paper consultation document asked four broad questions:

- How can we support countries to minimise the impact of the economic downturn on the poor?
- How can we build a low carbon and climate resilient world?
- How can we create a safer world and the right conditions for poverty reduction in fragile and conflict-affected countries?
- How can the international financial institutions be reformed to deliver development?<sup>9</sup>

7. This report represents our contribution to the debate on two of these issues: cushioning the impact of the downturn on the poor; and reform of the international financial institutions. Our forthcoming report on *Sustainable Development in a Changing Climate* will address the question about climate change. We have published a number of reports on DFID's work in fragile and conflict-affected states, most recently on the *Humanitarian and Development Situation in the Occupied Palestinian Territories*, *Reconstructing Afghanistan* and *Conflict and Development*.<sup>10</sup> The conclusions and recommendations set out in these reports remain relevant to DFID's consultation.

## Structure of this report

8. The global financial situation is changing rapidly, as are its impacts upon the developing world. This report focuses on what we regard as the key issues:

- How the economic downturn is affecting developing countries and how DFID is monitoring the situation (Chapter 2);
- The actions that DFID is taking to respond to the crisis, both in its bilateral programmes and through multilateral institutions (Chapter 3);
- The effect the downturn has had on international donor support for development and specifically on official development assistance (ODA) budgets (Chapter 4);

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8 Q 122 [Hetan Shah]

9 DFID, *Eliminating World Poverty: Assuring our Common Future: A consultation document*, March 2009

10 International Development Committee, Eleventh Report of Session 2007-2008, *The Humanitarian and Development Situation in the Occupied Palestinian Territories*, HC 522; Fourth Report of Session 2007-2008, *Reconstructing Afghanistan*, HC 65; and Sixth Report of Session 2005-2006, *Conflict and Development: Peacebuilding and Post-conflict Reconstruction*, HC 923



- How the international community can properly support developing countries to raise their own revenue, through trade and taxation (Chapter 5);
- The steps DFID proposes to take to maintain and strengthen UK public support for development in the challenging context of the economic downturn (Chapter 6).

## Our inquiry

9. As part of this inquiry we conducted an on-line consultation (eConsultation) in which we asked the public to respond to questions about their views on aid and development. We also held two public meetings, in Leeds and Bradford, where a range of development issues were discussed. This enabled us to reach out beyond our normal stakeholder group of academics, non-governmental organisations (NGOs) and official bodies and to provide members of the public with the opportunity to share their views on these subjects with us. We were particularly interested to hear whether public attitudes on how the UK should help developing countries had changed since the onset of the downturn. A full account of the on-line consultation can be found as an Annex to this report.<sup>11</sup>

10. We received written evidence from 18 organisations and individuals. We held five oral evidence sessions. Unusually, the Secretary of State for International Development appeared before us twice in this inquiry. First, in January, specifically on the outcomes of the Doha Financing for Development conference (held in December 2008) and then at the end of the inquiry in April. We also heard from representatives of NGOs and academics; the Chair of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD DAC), and the European Commission. We would like to thank all those who contributed to our inquiry.

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11 See p 60.

## 2 Impact of the downturn on developing countries

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11. The current economic downturn has its roots in weaknesses in the US mortgage market, but it has had global repercussions. The Secretary of State told us that there had initially been:

[...] a misplaced optimism at the outset of the financial crisis that, because of their remoteness from the global financial core, much of the developing world could potentially be unaffected by the crisis of regulation in the banking sector.<sup>12</sup>

Such optimism no longer exists. Although the exact extent of the impact on developing countries is still unclear, there is no doubt that adverse effects on the real economy in poor countries are now being felt.

12. According to the World Bank, almost 40% of the 107 developing countries are highly exposed to the financial crisis and the rest are moderately exposed, with less than 10% facing little risk.<sup>13</sup> Despite the low level of Africa's integration into the global economy, it is likely to be the region worst hit by the downturn, which it is estimated has already cost the continent \$50 billion in lost growth alone.<sup>14</sup> The Bank predicts that the financing gap that developing countries will face could be anywhere between \$270 and \$700 billion depending on the severity of the crisis and the strength of policy responses.<sup>15</sup>

13. The effects of the financial crisis have been compounded by coming so soon after the food and fuel crises of 2008, as many countries used their financial reserves then to subsidise food and fuel to cushion the impact of price rises on the poor.<sup>16</sup> Food and fuel prices rises had already pushed 100 million people back into poverty before the onset of the global recession.<sup>17</sup>

14. The economic downturn is affecting the developing world in a number of ways.

### *Reductions in trade*

a) The economic slow-down in the US and most European countries has led to reduced demand for goods produced in developing countries. For example, Cambodia has already experienced a sharp decline in the value of exports from the garment sector, from a monthly average of \$250 billion in 2008 to \$100 billion in January 2009.<sup>18</sup> The reduced value of key commodities has also hit income from trade and this has been

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12 Q 239

13 <http://www.worldbank.org/html/extdr/financialcrisis/bankinitiatives.html>

14 "Africa likely to be worst hit by financial crisis" World Bank, April 23, 2009 ; "Keeping Africa's turnaround on track", *The Washington Post*, 9 April 2009

15 World Bank, *Swimming against the tide*, March 2009, p 1

16 <http://www.worldbank.org/html/extdr/financialcrisis>

17 Q 13

18 Overseas Development Institute, *The Global Financial Crisis and Developing Countries: Preliminary Synthesis of Ten Country Draft Reports*, April 2009, pp 16-17

especially acute in countries that are heavily dependent on a small range of exports. Nigeria has suffered from the sharp drop in oil prices;<sup>19</sup> Zambia has been similarly affected by the decreased value of copper.<sup>20</sup> In some cases decline in trade has been compounded by a reduction in the availability of trade finance.<sup>21</sup>

### *Decreased foreign investment*

- b) Foreign direct investment (FDI) in several developing countries has reduced because investors are less willing to become involved in markets that are perceived to be high risk, with portfolio investments being particularly affected.<sup>22</sup> Kenya experienced net portfolio outflows of about \$48 million in June 2008 and \$12 million in October 2008. FDI decreased by 26% in Benin and 16% in Ghana between 2007 and 2008. The Institute of International Finance estimates that global financial flows to developing and emerging market countries will fall from \$929 billion in 2007 to \$165 billion this year.<sup>23</sup> The withdrawal of foreign investors has resulted in interest rate rises for developing countries on global capital markets which has made it more expensive for governments and businesses in those countries to borrow money.<sup>24</sup>

### *Fluctuations in exchange rate*

- c) The sudden withdrawal of foreign capital from several developing countries has caused “dramatic” falls in their exchange rate.<sup>25</sup> This has further affected their income from trade: firms have seen their costs increase, while their incomes are reduced. For example, firms exporting to the UK are suffering as revenue is priced in British pounds, but airfreight and many input costs are priced in dollars.<sup>26</sup> Changes in exchange rates have also affected the purchasing power of donor country aid in developing countries. We will examine the impact of currency fluctuations when we look at the effect of the downturn on aid budgets in Chapter 4.

### *Decreased remittances*

- d) The slow-down in growth and the rise in unemployment in developed countries have resulted in a decline in remittances from migrant workers back to their families in developing countries. At their peak in 2008 remittances were worth \$305 billion,<sup>27</sup> with India, Pakistan, Nigeria, Jamaica and Ghana being the primary beneficiaries of remittances originating from the UK.<sup>28</sup> The Secretary of State told us that the fall in

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19 From an average of \$100 a barrel in 2008 to \$40-45 a barrel since December 2008

20 ODI, *The Global Financial Crisis and Developing Countries*, April 2009, p 16

21 Short term loans that facilitate trade.

22 ODI, *The Global Financial Crisis and Developing Countries*, April 2009, p 13

23 Institute of International Finance, *Capital Flows to Emerging Market Economies*, January 2009

24 Institute of Development Studies, *Voices from the South*, November 2008, p 6

25 Institute of Development Studies, *Voices from the South*, November 2008, p 3

26 Humphrey, J. “Trade Credit”, *IDS In Focus Policy Briefing 7.8*, March 2009

27 World Bank, *Swimming against the tide*, March 2009, pp 7-8

28 Migration and Development; The role and impact of remittances, House of Commons Library Standard Note SN/EP/3925, November 2008, p 6

remittances was estimated at between 5 and 15%.”<sup>29</sup> In Kenya, levels fell from \$316.6 million in 2007 to \$281.7 million in 2008. This income is normally used by recipients to supplement household consumption, so this reduction is expected to have “an immediate impact on the living standards of the poor, having a direct impact on diet, school attendance and healthcare.”<sup>30</sup>

### Development assistance

- e) There was an expectation at the outset of the recession that official development assistance (ODA) budgets in developed countries would be reduced as donor governments reassessed their fiscal priorities. In practice, there has been a mixed response from donors with some countries scaling back their ODA budgets, while others, including the UK, having pledged to continue to meet their commitments. We will explore aid levels in more detail in Chapter 4.

15. When we met Robert Zoellick, President of the World Bank, ahead of the G20 meetings, he said that this downturn should not be seen as a single event but rather as a series of waves of impact. The next wave was likely to be a slow-down in the real economy in developing countries which in turn could lead to problems in their financial sectors—the reverse of the effects which have been seen in developed countries. If this is the case, the overall impact on the economies in poor countries may well be prolonged and serious.

### The human cost

16. Behind the statistics lies the true cost of the global recession in the developing world—the millions of people who will fall back into poverty and who may even die as a result. An additional 90 million people are expected to be living in extreme poverty by the end of 2010,<sup>31</sup> and the World Health Organisation has warned that child mortality could rise by 400,000 deaths a year.<sup>32</sup> The World Bank has set out the series of impacts which families in poor countries are likely to experience:

[...] households may be forced into the additional sales of assets on which their livelihoods depend, withdrawal of their children from school, reduced reliance on health care, inadequate diets and resulting malnutrition.<sup>33</sup>

These trends could take years to reverse: it is estimated that progress towards the fulfilment of Millennium Development Goal 1, the eradication of hunger and extreme poverty, has been set back by three years.<sup>34</sup>

17. The Institute of Development Studies (IDS) has painted a similar picture of the real effects the downturn is having on the most vulnerable. Its research found that people were

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29 Q 239

30 “An important cushion in a downturn”, *Financial Times*, 2 April 2009

31 Q 239. The World Bank’s measure of extreme poverty.

32 “Downturn could kill 400,000 children, warns health expert”, *The Times*, 14 March 2009

33 World Bank, *Swimming against the tide*, March 2009, p 9

34 Q 239

eating less frequently, and that diets had become less diverse. In Nairobi, signs of acute malnutrition in children were reported. People were also “resorting to self-medication and avoiding expensive procedures” to reduce medical costs. A more common coping mechanism was the withdrawal of children from school or college so that they could work and help support their family. This included unconfirmed reports from Kenya and Zambia of “growing numbers of children and young girls selling sex.”<sup>35</sup>

18. IDS found that, in addition to the health and educational impacts of the crisis, there had been a number of societal impacts. The downturn had resulted in increased domestic violence as well as “incipient signs of inter-group tensions.” In particular, “minority groups have been criticised for taking advantage of the crisis, but are typically disadvantaged compared to the majority in terms of access to official resources.” Petty crime and drug and alcohol abuse were also reported to have risen.<sup>36</sup>

## Assessing the impact

19. Since the onset of the financial crisis several studies have been commissioned to try to identify which countries will be at most risk from the recession. Dr Neil McCulloch, a research fellow from the IDS, told us that the downturn had created “a little cottage industry [...] in trying to define vulnerability.”<sup>37</sup> He emphasised the importance of examining each country’s situation separately because “the nature of the impact on different countries is going to be heterogeneous.”<sup>38</sup>

20. DFID has pursued this course of mapping the particular impact of the downturn on each country in which it operates using a newly devised vulnerability matrix which the Secretary of State first described to us last October.<sup>39</sup> In its written evidence, DFID told us that this matrix contained indicators grouped around:

[...] foreign currency reserves expressed in months of imports, the extent of reversible external capital flows, the state of the economy in terms of macroeconomic fundamentals, openness to trade, and commodity dependency, and assessments of fiscal balance and food vulnerability.<sup>40</sup>

This information was being supplemented by World Bank and IMF reports in addition to information from DFID country offices. Anthony Smith, DFID’s Director of European and Donor Relations, told us in April that the matrix had now moved beyond the theoretical analysis of structural issues as the Department received “more hard data about what is actually happening in those countries.”<sup>41</sup>

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35 Hossain, N, “Voices of the Poor in the Current Crisis”, *IDS In Focus Policy Briefing 7.3*, March 2009

36 Hossain, N, “Voices of the Poor in the Current Crisis”, *IDS In Focus Policy Briefing 7.3*, March 2009

37 Q 90

38 Q 90

39 Oral evidence taken in the inquiry into the DFID Annual Report 2008 on 30 October 2008; see Second Report from the Committee, Session 2008-09, HC 220-II, Q 113

40 Ev 84

41 Q 241 [Mr Smith]

21. DFID has built on this first step towards gaining a better understanding of the nature of the crisis by commissioning research. The Overseas Development Institute (ODI) has carried out “a piece of quick response research” to examine the impact of the downturn on 10 developing countries.<sup>42</sup> DFID has also funded broader research on developing country interests in financial regulation, trade effects, trade credit in Africa, China’s response to the crisis and attitudes to the crisis in the developing world.<sup>43</sup>

22. In March, DFID announced another analytical tool: the Global Poverty Alert System. This is intended to “link international organizations, aid agencies and research groups into a single network that would provide instant updates on the impact of the economic crisis on the poor” and provide “real-time” up-dates using text messaging and e-mails.<sup>44</sup> The system was subsequently endorsed at the G20 summit in London in April and will be led by the UN.<sup>45</sup> The Department told us that the motivation for this new initiative arose from a concern that “there was not sufficient effort and attention going into monitoring the impact of the crisis, particularly on the poorest and most vulnerable people.”<sup>46</sup> Rachel Turner, DFID’s Director of International Finance and Development Effectiveness, told us that the intention was to ensure the available data reached political leaders:

[...] often at country level we do have some quite good real time data [...] That often stays quite stuck [...] in very technical units at country level [...] First of all, it is about targeting decision-makers at country level [...] it is about getting that data to the political level.<sup>47</sup>

The system was expected to make its first main report in September in time to inform the meeting of the UN General Assembly.<sup>48</sup>

**23. The rapidly changing nature of the economic crisis makes it essential that DFID is able to respond quickly and flexibly to the different impacts on partner countries. To do this, it needs reliable and frequently updated information. We are impressed by steps DFID has taken to date to analyse the impact on developing countries and its recent efforts to ensure research findings are communicated to policy-makers through the creation of the Global Poverty Alert System. However, the first findings from the new Alert System are not expected to be available until September. Given the real and serious effects that the downturn is having on the poorest people in the world, we would expect DFID to take this initiative forward with greater urgency. We recommend that the Department works with the UN to ensure that the benefits of this new system are available to inform high level political decision-making within the next few months. We also request the Department to provide further details, in its response to this Report, on how the Alert System is operating in practice, how it will influence**

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42 Ev 84. ODI, *The Global Financial Crisis and Developing Countries*, April 2009. The 10 countries are: Bangladesh, Benin, Bolivia, Cambodia, Ghana, Indonesia, Kenya, Nigeria, Uganda and Zambia.

43 Ev 84; see IDS, *In Focus Policy Briefings 7.1–7.8*, March 2009

44 <http://www.londonsummit.gov.uk/en/summit-aims/timeline-events/protecting-worlds-poor>

45 Qq 242-244

46 Q 242 [Ms Turner]

47 Q 244 [Ms Turner]

48 Qq 242-244

**policy and the extent to which DFID is able to respond quickly and flexibly to increased pressure.**

## 3 Responding to the crisis

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### DFID's response

24. The World Bank has identified three priority areas which it believes should be the focus of efforts to prevent the global financial crisis eroding progress made in reducing global poverty. First, “attention must be directed to protecting the poor through targeted social spending, including expanded safety nets” to support the poorest people through the crisis. Secondly, investment in infrastructure must be maintained as this “will be crucial to restoring growth following the crisis.” Finally it argues for a “concerted effort [...] to support the private sector especially SMEs [small and medium sized enterprises], which are essential to a resumption of growth and job creation in developing countries.”<sup>49</sup> DFID has taken steps to address all three of these areas in its response to the impact of the recession in developing countries. We discuss each element below.

### Social protection

25. The Institute of Development Studies defines social protection as “a group of policy initiatives that transfer income or assets to the poor. They protect vulnerable people against livelihood risks, and seek to enhance the social status and rights of the marginalised.” These can take several different forms; for example, direct cash transfers, or in kind transfers (such as free school meals), and can be conditional either on household income or another requirement such as a child’s school attendance. Social protection programmes may also concentrate on the provision of social services or social funds.<sup>50</sup>

26. Social protection programmes have been shown to have helped reduce poverty levels in previous economic crises. The Government of Indonesia introduced a National Safety Net Programme in 1997 after the Asian financial crisis caused poverty levels to double in a year. As a result of this programme the poverty rate reduced from 33% in 1998 to 12% in 2002. The evidence suggests that it was unlikely that the country would have recovered as quickly had it not been for this programme.<sup>51</sup>

27. Dr McCulloch of IDS argued that social protection policies not only provided help for the poorest but would also inject demand into the economy. This method of increasing demand for goods and services was particularly effective as it “does not leak out in the form of imports, because poor communities in Kenya are not buying iPods; they are just buying locally-produced food and locally-produced services”.<sup>52</sup>

28. The Secretary of State told us that DFID planned to increase its bilateral expenditure on social protection by £100 million over the next two years, as part of its response to the

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49 World Bank, *Swimming against the tide*, March 2009, p 1

50 Davies, M. and McGregor J.A., “Social Protection Responses to the Financial Crisis”, *IDS In Focus Policy Briefing 7.4*, March 2009

51 Davies, M. and McGregor J.A., “Social Protection Responses to the Financial Crisis”, *IDS In Focus Policy Briefing 7.4*, March 2009

52 Q 107 [Dr McCulloch]



crisis.<sup>53</sup> Amongst the partner countries which will benefit is Ethiopia which will receive an additional £15 million for social protection.<sup>54</sup> We were concerned that this additional expenditure on social safety nets would mean that spending on other essential programmes would be affected. When we put this to the Secretary of State he was clear that the funding had been found from DFID's contingency budget and unallocated resources from within bilateral programmes and that no existing programmes had been cut or reduced to date.<sup>55</sup>

29. While we accept that the Department needs to keep some funds in reserve to allow it to respond to unforeseen circumstances we are surprised that such a substantial increase in funding was possible from unallocated resources. Given the need for DFID to use its resources as effectively as possible we would expect DFID to have already identified spending priorities for a large proportion of that money.

30. The reallocation of £100 million within DFID's bilateral programmes to fund social protection programmes is in addition to the £200 million that the Department has pledged to the Rapid Social Response Fund, which will be hosted by the World Bank as part of its Vulnerability Fund.<sup>56</sup> Rachel Turner told us that in past crises:

The multilateral system, particularly the World Bank, has not really focused on the poorest people. The system knows how to protect a balance of payment and it sort of knows how to protect a budget but really has not worked in the past to protect poor people.<sup>57</sup>

She argued that the current reaction by multilateral development banks was "very different to the past" with the World Bank, the African Development Bank, the Asian Development Bank and the Inter-American Development Bank expected to invest a total of \$12 billion in social protection, between 2009 and 2011.<sup>58</sup>

31. Witnesses were positive about DFID's decision to fund social protection as part of its response to the crisis. Eckhard Deutscher, Chair of the OECD Development Assistance Committee (DAC), told us that it was necessary "now more than ever" to focus on developing social safety nets in poor countries and Maciej Popowski of the European Commission believed DFID's response was "definitely in the right direction."<sup>59</sup>

32. Dr McCulloch suggested that DFID should use the heightened international focus on social protection programmes to increase the level of coverage offered by existing programmes in Africa. He told us that he was "really struck by the fact that social protection efforts throughout Africa are very piecemeal, many of them DFID funded". Many programmes were "lacking in comprehensive coverage in a continent which has particular need at this time for more effective social protection."<sup>60</sup> This view was echoed in

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53 Q 247

54 Ev 84

55 Qq 247-248

56 "Douglas Alexander pledges £200 million for rapid response global safety net", DFID Press Release, 15 March 2009

57 Q 248 [Ms Turner]

58 Q 248 [Ms Turner]

59 Q 185 and Q 213

60 Q 89

a piece of IDS research which concluded that the “crisis can represent a window of opportunity and [...] it is important to seize these moments for progressive social protection initiatives.”<sup>61</sup> However, Dr McCulloch expressed a note of caution: the large sums for social protection from donors could “actually undermine the ability to generate domestic political demand throughout the developing world” for partner country governments to supply these services, which could result in a loss of country ownership and disenfranchise local people.<sup>62</sup>

**33. We commend DFID’s focus on funding social protection programmes which have been shown to play a vital role in protecting the poorest people in the poorest countries from the worst effects of economic crises. However, DFID must work closely with partner governments to ensure coverage of these programmes is sufficient to reach those with the greatest need.**

### Infrastructure

34. Investing in infrastructure is a particularly effective policy response to the recession because it serves a dual purpose. Firstly, as the Chairman of the OECD DAC emphasised, it makes an important contribution to economic growth and lays the foundation for future growth after the recession has run its course.<sup>63</sup> Secondly, it lessens the immediate impact of the downturn by creating jobs. As Mr Popowski of the European Commission explained: “If we invest in infrastructure we are automatically creating ways [...] of cushioning the impact of the crisis on the real economy because we would spur job creation and promote growth.”<sup>64</sup> Dr McCulloch echoed this view and emphasised the role that such investments could play in stimulating the local economy: “we know from experience that infrastructure expenditure is a very good way of getting money into people’s pockets”.<sup>65</sup>

35. Poor infrastructure has been identified as one of the main barriers that restricts African countries’ ability to trade with the rest of the world. Poor road systems are particular barriers to trade for landlocked countries which are dependent on transport links in neighbouring countries as well as their own. The Democratic Republic of Congo, which is almost 10 times the size of the UK, has just 1,400 miles of paved road and no well-maintained road which runs the length of the country.<sup>66</sup>

36. DFID recently announced £100 million of support for regional infrastructure and trade. This funding will be used to support the North-South Corridor initiative in Africa which aims to remove the bottlenecks that currently exist along main trading routes by speeding up border crossings, and improving railways, roads and ports across east and southern Africa.<sup>67</sup> The North-South Corridor is a \$1.2 billion project which will link the

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61 Davies, M. and McGregor J.A., “Social Protection Responses to the Financial Crisis”, *IDS In Focus Policy Briefing 7.4*, March 2009

62 Q 90

63 World Bank, *Swimming against the tide*, March 2009, p 1; Q 185

64 Q 213

65 Q 104 [Dr McCulloch]

66 “UK’s \$1bn transport network across Africa”, *The Guardian*, 20 February 2009

67 “New Dawn for Trade in Africa as UK Government Commits to the North-South Corridor.”, DFID Press Release, 6 April 2009

“copper belt” of Zambia and the Democratic Republic of Congo to ports in Southern Africa and pass through eight countries: Botswana, South Africa, Zimbabwe, Zambia, Malawi, Mozambique, Tanzania and the Democratic Republic of Congo.<sup>68</sup> Announcing this project, Gareth Thomas, Minister for International Development and Trade, said that the investment could be worth “tens of millions of pounds a year to the African economy and generate strong investment opportunities.”<sup>69</sup>

**37. Donor investment in infrastructure not only provides developing countries with a source of employment but will also enable them to emerge from this recession with a stronger economy. We welcome DFID’s decision to provide significant funds for infrastructure projects as part of its response to the downturn. The scale of the North-South Corridor project in Africa gives it huge potential to boost trade and economic development in the continent. We request the Department, in its response to this Report, to provide an update on progress with the project.**

### **Support for businesses**

38. A recent meeting of the World Trade Organisation (WTO) announced that the shortfall in trade credit was now \$100 billion and that the cost of trade credit for developing countries had become prohibitively high.<sup>70</sup> Urgent action to restore trade finance liquidity was therefore identified as one of the priorities for the G20.<sup>71</sup> The World Bank has responded to the difficulties faced by small and medium-sized enterprises (SMEs) by setting up the Global Trade Liquidity Programme (GTLP). The Secretary of State told us that the motivation for the GTLP arose from the fact that the market in trade finance, on which 90% of global trade relies, was seen to be failing.<sup>72</sup> DFID plans to increase its support for SMEs through a £300 million contribution to the GTLP (to be made through CDC Group).<sup>73</sup>

39. This Programme is intended to help address the trade finance shortage in developing countries by making additional funds available through international banks specialising in trade finance in these regions. The GTLP is due to become operational in May. Under its first phase businesses will be assisted in Angola, Ghana, Kenya, Malawi, Mauritius, Mozambique, Nigeria, Seychelles and Zambia. DFID says that the initial sum committed could help fund between £2 billion and £3 billion of trade over the next two years, by helping small and medium firms to import and export products. The GTLP will be based on a commitment of \$1 billion from IFC, a member of the World Bank Group. The IFC is seeking a further \$3-4 billion from donors. It is expected to support at least \$30 billion of trade over three years.<sup>74</sup> The Secretary of State told us that getting the GTLP up and

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68 <http://www.northsouthcorridor.org>

69 “Clearing a path for improved transport links in Africa to boost trade”, DFID Press Release, 19 February 2009

70 “Trade finance gap hits \$100 billion”, *Financial Times*, 19 March 2009

71 Q 271

72 Q 271

73 “New financial boost for businesses in developing countries from the UK government”, DFID Press Release, 2 April 2009. The CDC Group is a Government owned “fund of funds” which invests in the private sector in developing countries to promote growth.

74 “New financial boost for businesses in developing countries from the UK government”, DFID Press Release, 2 April 2009

running quickly “will make a significant difference to what would otherwise be very, very serious consequences as a result of the loss of trade finance in developing countries.”<sup>75</sup>

**40. We fully support DFID’s decision to fund the Global Trade Liquidity Programme. Ensuring the availability of trade finance is an important part of supporting small and medium-sized businesses in poor countries and thereby sustaining economic development. It is vital that the aim for the Programme to be operational in May is achieved. We request that DFID, in its response to this Report, provides us with an update on the amount of funding which has been disbursed, and to which countries.**

## Outcomes of the G20 London Summit

41. The G20 meeting held in London on 2 April set out to provide a strong multilateral response to the downturn, including the challenges that it posed for the developing world. The main outcome of the meeting was a \$1.1 trillion programme aimed at restoring credit, growth and jobs to the world economy. This included:

- A trebling of resources available to the International Monetary Fund (IMF) to \$750 billion, an increase of \$500 billion, as well as commitments to support a new special drawing rights allocation (SDR) of \$250 billion;<sup>76</sup>
- Support for a minimum increase of \$100 billion of additional lending by the Multilateral Development Banks (MDBs);
- A promise to ensure \$250 billion of support for trade finance;
- An agreement to use the sale of part of the IMF gold reserve to fund concessional financing for the poorest countries.<sup>77</sup>

42. Although these announcements are welcome, significant uncertainty remains about how they will be delivered. Of the \$500 billion of external resources pledged for the IMF “only a \$40 billion loan from China, still not confirmed by the Chinese government, was an unknown before the summit.” \$200 billion consists of two \$100 billion agreements already made by Japan and the EU.<sup>78</sup> The UK has provided \$15 billion to the IMF as part of the EU contribution.<sup>79</sup> Another \$114.5 billion has since been offered by a combination of Canada, Norway and the USA. This still leaves \$145.5 billion to be found.<sup>80</sup>

**43. The funding commitments made at the G20 London Summit are very welcome. However, uncertainty and lack of clarity remain on the detail of how the pledges will be delivered. We recommend that the UK Government maintain pressure on G20 partners to honour their commitments and on the international financial institutions**

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75 Q 287

76 Special drawing rights is the IMF’s unit of account, defined as the value of a fixed amount of yen, dollars, pounds and euros. It represents a claim on other countries currency reserves that can be exchanged voluntarily.

77 Official communiqué issued at the close of the G20 London Summit, 2 April 2009, para 5

78 “Mission: possible”, *The Economist*, 11 April 2009

79 “IMF poised to secure \$500 billion boost to protect poor countries”, *The Guardian*, 25 April 2009

80 “Mission: possible”, *The Economist*, 11 April 2009

to ensure that the benefits of these commitments are felt by poor countries at the earliest opportunity.

### *Funding for the IMF*

44. The main purpose of the IMF is to assist countries in addressing balance of payments deficits—it does not provide countries with aid. We were told by the President of the World Bank that, while the work of the IMF is important, providing additional funding to the IMF was no substitute for supporting infrastructure and social protection spending. Poor countries urgently needed this to help them through the economic downturn. Kevin Watkins, director of UNESCO’s Education for All Global Monitoring Group, echoed this view: “While the IMF has a key role to play in the financial crisis [...] poverty reduction is not the IMF’s core business—and it doesn’t do it well.”<sup>81</sup> DFID officials agreed that “the role of the IMF for middle-income countries is where these really big numbers are”, suggesting that IMF support for developing countries will be more limited.<sup>82</sup>

45. Other commentators have been critical about the prospect of the IMF playing an increased role in developing countries. In previous crises, including the Asian financial crisis, the IMF “imposed stringent conditions on many countries that came to it for help, forcing them to target unrealistically low inflation rates and implement [...] pro-cyclical policies—spending cuts and interest rate rises that can exacerbate a downturn.” Concerns have been raised that similar conditions could be imposed on developing countries seeking IMF assistance during the current downturn.<sup>83</sup>

46. A recent report by the Global Campaign for Education (GCE) argued that no real progress had been made in changing the conditionality attached to IMF loans, and was particularly concerned that this would impact upon developing countries’ abilities to fund basic social services, especially education.<sup>84</sup> In the run up to the London summit, the IMF announced that changes to its concessionary lending were on track and that conditionality for low-income countries (LICs) had changed.<sup>85</sup> However, the GCE asserts that the changes are only structural and relate to how the money is delivered; they do not change the economic conditions countries must meet to receive support.<sup>86</sup> The World Bank has voiced similar concerns, arguing that its sister organisation often puts too many conditions on countries asking for help.<sup>87</sup> Hugh Brendenkamp, IMF Deputy Director of Strategy, Policy and Review, has denied that the IMF is preventing LICs investing in basic social

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81 “Hungry children do not make good learners”, *The Guardian*, 28 April 2009

82 Q 266. The IMF is doing some work in low-income countries: when we visited Kenya we heard that the IMF was in the process of approving a loan to cover Kenya’s budget deficit.

83 “Can the IMF now feed the world”, *The Observer*, 26 April 2009

84 Campaign for Global Education, “Education on the Brink: Will the IMF’s new lease on life ease or block progress towards education goals?”, April 2009

85 “IMF Overhauls Lending Framework”, IMF Press Release 09/85, 24 April 2009

86 Campaign for Global Education, *Education on the Brink: Will the IMF’s new lease on life ease or block progress towards education goals?*, April 2009, p 23-24

87 “Britain to demand radical reform of the World Bank at G20”, *The Observer*, 22 February 2009

services: “The IMF has called for more aid to prevent low income countries from having to cut expenditure as we go into recession.”<sup>88</sup>

47. The Secretary of State defended the G20’s decision to focus on the refinancing of the IMF, arguing that developing countries would benefit. He said that the view that refinancing the IMF would not help developing countries was a fallacy and that “the poorest people in the world would have suffered more if the financial crisis had led to the collapse of the banks”. He made “no apology for the actions that were taken in the United Kingdom, in the United States and elsewhere in securing stability of the global financial architecture.”<sup>89</sup> Mr Alexander believed that refinancing the Fund would allow it to cope with the “very significant calls” on its reserves which were expected in the coming months. This would mean that the World Bank, whose main remit is poverty reduction, would not have to use its resources for “crisis management” as it had in previous balance of payment crises when there had “simply not been adequate capital within the Fund to be able to deal with it independently”.<sup>90</sup>

48. Rachel Turner highlighted changes to the IMF’s relationship with developing countries that had come out of the London Summit. One key change is the doubling of access limits for low-income countries from 75% to 150% of their quota access levels. This would apply to both the Exogenous Shocks Facility and the IMF’s Poverty Reduction and Growth Facility. Previously IMF funds which could have been made available to low-income countries had remained unused because of the “binding constraint” of those countries having reached the ceiling of permitted funding levels.<sup>91</sup> While this change had not yet been agreed by the IMF board, DFID was “fairly confident” that the proposals would get through.<sup>92</sup>

49. We were told that discussions were also under way to improve the concessionality of IMF financing. Currently IMF loans are 30% below market rate compared to the 60% discount offered by the World Bank’s International Development Association.<sup>93</sup> This increase in the concessionality of IMF lending is to be partially financed by the sale of a proportion of the IMF’s gold reserves. However, DFID was unable to tell us how much income was expected to be raised from this sale as this was a decision that the IMF board was yet to take. “It is quite a complicated equation. There is a set of options that have been worked up for the board and decisions will be taken. We do not have the answer yet”.<sup>94</sup>

**50. We agree with the Secretary of State that it was in everyone’s interest for the IMF to be recapitalised. But this, in itself, is not enough to support developing countries through the downturn. The UK needs to continue to engage with the IMF to ensure that this additional money is rapidly made available to poor countries which need it. Increasing access limits is an important first step. DFID must also ensure that the**

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88 “Hungry children do not make good learners”, *The Guardian*, 28 April 2009

89 Q 272

90 Q 262 [Mr Alexander]

91 The limit which determines the maximum amount of money a country can borrow.

92 Q 262 [Ms Turner]

93 Q 262 [Ms Turner] IDA is the part of the World Bank which provides loans and grants to developing countries.

94 Q 269 [Ms Turner]



conditions attached to IMF loans are reduced and that they are consistent with the aim of reducing poverty and promoting growth in the world's poorest countries. The sale of IMF gold reserves seems a sensible way to increase the concessionality of the rate at which IMF loans are made. We request that DFID, in response to this Report, provides us with more details on progress with the sale.

### *Funding for the multilateral development banks*

51. The headline figure of a \$100 billion increase in lending by the multilateral development banks (MDBs) sounds impressive. The MDBs had planned to make loans worth \$200 billion over the next five years: this additional lending therefore represents a substantial and welcome increase. However when we questioned DFID about these increases we discovered that they were being achieved without any additional commitment of resources by donor governments. This is because “the additional £100 billion is made up of the multilateral development banks doing more with their existing balance sheets.”<sup>95</sup> An additional \$60 billion of capacity has been found on the World Bank balance sheet, with the balance coming from the regional development banks.<sup>96</sup>

52. The Secretary of State assured us that the MDBs were not over-stretching their resources and that nothing was being done that would compromise the credit-worthiness of the Banks.<sup>97</sup> This suggested to us that the Banks must have been over-cautious in the past. Mr Alexander agreed with this assessment:

[...] that is the position we have argued for some time [...] I have been arguing that the very strength of the balance sheet was not, in and of itself, going to make as effective a contribution to tackling poverty [...] as if it was using its balance sheet effectively.<sup>98</sup>

He believed that now was the time for the World Bank in particular to step in and use the strength of its existing reserves to provide the resources which developing countries need.<sup>99</sup>

53. **We agree that the multilateral development banks, and particularly the World Bank, should make the most effective use of the funds they already have on their balance sheets to maximise poverty reduction outcomes. At a time when other donors are having to take hard decisions on spending, it is clearly welcome that the Banks can increase their lending by \$100 billion. DFID has pressed for this and we are pleased that it has won the argument. It should now maintain its engagement with the Banks to ensure funds are disbursed rapidly to poor countries most affected by the downturn.**

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95 Q 263 [Ms Turner]

96 Q 263 [Ms Turner] The regional development banks are the Asian Development Bank, the African Development Bank, the Inter-American Development Bank and the European Bank for Reconstruction and Development.

97 Q 264

98 Q 265

99 Qq 264-5

### ***Reform of the international financial institutions***

54. There was a high degree of consensus between DFID and commentators before the summit on the need for the G20 negotiations to lead to further reform of the international financial institutions (IFIs), particularly the World Bank and the IMF.<sup>100</sup> They need reform both to improve the speed and level of funding, and to provide developing countries with a greater say in the institutions' internal decision-making processes. The Secretary of State emphasised that the World Bank needed to "make more funding available more quickly".<sup>101</sup> This concern was echoed by Dr McCulloch who told us that a report by the Brookings Institute had found that:

There is a very large sum of money that is stuck in the disbursement pipeline. This is not money that needs to go through the umpteen steps of the World Bank approval process [...] this is money that has already been approved by the board and which is still sitting in a bank account which has not actually been disbursed.<sup>102</sup>

55. Dr Gottschalk, a research fellow at IDS, gave us an example of the delays which occur in disbursement of funds. The IMF's Exogenous Shocks Facility (ESF) was set up in 2005, but did not deliver its first loans until December 2008 when funding was made available to help Malawi cope with the effect of food and fertiliser price rises and to assist the Kyrgyz Republic to deal with commodity price shocks. Dr Gottschalk described these loans as being "too few" and arriving "too late" and argued that they were still being used to address past shocks while a new crisis was happening.<sup>103</sup>

56. Some progress has already been made on this issue. The World Bank has created a Fast Track Facility to speed access to \$2 billion of the \$42 billion made available to the poorest countries following the 15th replenishment of the International Development Association.<sup>104</sup> The Secretary of State told us back in January that the Bank had already improved the speed with which it responded to need: "if you look at the Bank's response to the global food crisis last year, it acted with urgency uncharacteristic of the institution in the past."<sup>105</sup>

**57. We are glad that the World Bank is becoming a more agile institution which can respond more rapidly to the needs of developing countries. However, much progress remains to be made by the international financial institutions (IFIs) to ensure that the gap between approving funds and disbursing them is as short as possible. DFID has played a leading role to date in pushing for these changes and it is the largest contributor to the World Bank's International Development Association. It is entitled to continue to press the IFIs to improve their performance in this regard.**

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100 "Britain to demand radical reform of the World Bank at G20", *The Observer*, 22 February 2009 and "Brown calls for World Bank and IMF reform", *The Daily Telegraph*, 10 February 2009

101 Douglas Alexander, "A Bank for the World", *Parliamentary Network of the World Bank (PNoWB) April Newsletter*, April 2009

102 Q 97 [Dr McCulloch]

103 Ev 121

104 Ev 85

105 Q 22 [Mr Alexander]



58. The second area where there was general agreement on the need for reform of the IFIs was on their governance, and particularly the level of involvement of developing countries in decision-making processes. At the last Autumn Meetings of the Bank and the IMF in 2008, agreement was reached on the establishment of a merit-based process for the selection of the President of the World Bank and the Managing Director the IMF, which have previously been US and European appointees respectively.<sup>106</sup> The World Bank Governors also agreed to increase the voting share of developing countries to 44% and to create an additional chair to represent Sub-Saharan Africa on the board.<sup>107</sup>

59. Witnesses were unanimous in their belief that these reforms, although welcome, were far from sufficient. Maciej Popowski of the EC told us that an additional African seat on the World Bank board would “not do the trick. It is a good start but we need to go further than that.”<sup>108</sup> Eckhard Deutscher of the OECD DAC described the decision as “more [of] a symbolic step.”<sup>109</sup> He argued for much more radical change and quoted Horst Koehler, a former director of the IMF, who suggested that European countries should consider being represented by one chair. “The Europeans, without losing their voice and influence, should have a look at how we can have a more efficient governance structure in both institutions”.<sup>110</sup>

60. Mr Deutscher emphasised that the real issue which needed to be addressed was the allocation of shares within the Bank and the Fund, which determine how much weight a country carried in the voting process.<sup>111</sup> The recent Manuel Report<sup>112</sup> on IMF reform reiterated the importance of accelerating the process of reforming the quota system to increase the voice of developing countries in decision-making.<sup>113</sup> As Dr McCulloch highlighted, this will be a difficult issue to resolve:

In order to increase representation for some that means decreasing representation for others [...] I notice he [Douglas Alexander] did not say in his speech that Britain would be happy to take a lower voting share and yet those are the issues which are going to need to be addressed.<sup>114</sup>

61. Dr McCulloch also stressed the importance of decentralising World Bank staff to ensure that they spent more time engaging with officials and civil society in the country in which they operate. He said that, while some progress had been made, much more could

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106 Douglas Alexander, “A Bank for the World”, *PNoWB April Newsletter*, April 2009; and Committee on IMF Governance Reform, *Final Report*, 24 March 2009

107 “World Bank Governors Approve Governance Reforms, Adding Board Seat for Africa”, World Bank Press Release 2009/220/EXC, 11 February 2009

108 Q 222

109 Q 193

110 Q 192

111 Q 193

112 Produced by the Committee chaired by Trevor Manuel, South African Minister of Finance.

113 Committee on IMF governance reform, *Final Report*, 24 March 2009, para 23

114 Q 98

be done. He advocated changing the Bank's internal incentive and reward mechanisms to encourage staff to engage more effectively with developing countries.<sup>115</sup>

62. The World Bank recently announced the membership of the Zedillo Commission,<sup>116</sup> which will review its internal governance structure. Douglas Alexander said that the reform package which this Commission produces must address the issues of voting rights, decentralisation and the relationship between the Bank's shareholders and managers.<sup>117</sup>

63. The G20 communiqué acknowledged the need to reform the IFIs but the specific commitments made are simply to implement reforms already agreed in October 2008 and to hold future meetings on reforms in 2010 and 2011.<sup>118</sup> Oxfam and ActionAid have argued that it was a mistake to make such large increases in the resources of the IFIs, especially the IMF, before governance reforms had been implemented.<sup>119</sup> Mr Boutros-Ghali, who chairs the IMF's steering committee, has warned that governments are already showing "reluctance" to follow through on promises they made at the G20 to reform the IMF.<sup>120</sup>

64. As we said in our 2008 report on *DFID and the World Bank*, "adequate representation of developing countries in World Bank decision-making is not only a question of fairness, it is one of effectiveness: greater ownership by developing countries will lead to more effective Bank programmes." We emphasised the strong role which we believed the UK should play in pressing for reform.<sup>121</sup> The Secretary of State stressed that the UK remained committed to this:

At the last meeting in October I argued, along with colleagues, to see an additional African seat on the board. I argued that we should have an open, merit based, transparent selection process for the presidency of the Bank. I argued that there needed to be more fundamental reform of what has come to be called phase two of the reform of the Bank [...] I will be this weekend in Washington [at the Spring Meetings of the IFIs] urging that we seize the opportunity provided by the G20 summit which asked that the reform process for the Bank, known as phase two, looking at issues of voice and accountability, be accelerated so that we would be in a position whereby shareholders would take forward that work between now and the October meeting of the Bank, ahead of decisions being reached next spring in 2010 [...] I hope that gives you some assurance that we are not simply writing a cheque for the IMF and walking away. We think there is both a need for resources and for effective reform in the IFIs. We need to be taking forward those processes simultaneously.<sup>122</sup>

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115 Q 99

116 To be chaired by Ernesto Zedillo, director of the Yale Center for the Study of Globalisation

117 Douglas Alexander, "A Bank for the World", *PNoWB April Newsletter*, April 2009

118 G20 communiqué, 2 April 2009, para 20

119 "Concern grows on powerful role for the fund", *The Guardian*, 4 April 2009

120 "Fund' reforms are at risk, warns Boutros-Ghali", *The Financial Times*, 22 April 2009

121 Sixth Report of Session 2007-08, *DFID and the World Bank*, HC 67-I, Summary

122 Q 268

65. If developing countries are going to be properly represented in decisions on how the global community responds to the current economic crisis, reform of the international financial institutions (IFIs) needs to take place without further delay. The UK Government clearly understands the need for reform and we accept that it is not prepared simply to “write a cheque and walk away”. But the timescale set out at the London summit, with no new reforms to be agreed, let alone implemented, until next year at the earliest, fails to respond to the urgent need. We reiterate our view that DFID, as one of the highest donors to the World Bank, must continue to use its leverage at every opportunity to press for swifter reform of the IFIs, particularly in relation to the representation of developing countries on the World Bank board.

## Vulnerability Fund

66. Many hoped that the G20 summit would result in additional funding pledges to meet the specific difficulties that the recession poses for developing countries. There has been no shortage of ideas for how this could be done. Ban Ki-moon, the UN Secretary-General, called on the G20 to announce a \$1,000 billion stimulus package for developing countries threatened by the global financial crisis.<sup>123</sup> Another suggestion was that, rather than set an absolute amount of money that should be raised to support developing countries, a proportion of each national and international stimulus package should be used to support developing countries. President Zoellick has recommended that each developed country allocate 0.7% of its stimulus package to the World Bank’s Vulnerability Fund.<sup>124</sup> (This figure was chosen because it is the same as the percentage of GNI which donor countries have pledged to provide in official development assistance by 2015.) According to the G20 communiqué, the total global stimulus package was worth \$5 trillion. Had 0.7% of this amount been pledged to the Vulnerability Fund this would have raised an additional \$35 billion for developing countries. However, the Secretary of State told us that this proposal did not “find favour” at the London summit.<sup>125</sup>

67. The Vulnerability Fund is an umbrella fund that channels resources through the Bank, the UN and other development banks to help countries which do not have sufficient resources to cope with the crisis. Assistance will be provided in the Bank’s three priority areas described above: social safety net programmes; infrastructure projects; and the Global Trade Liquidity Programme.

68. We asked the Secretary of State whether DFID regarded the commitments it has made to these funds as the UK’s response to the World Bank President’s call for 0.7% of stimulus packages to be devoted to the Vulnerability Fund. We did not get a direct response to the this question. Mr Alexander told us that he did not think that Mr Zoellick’s suggestion was “the most effective response the G20 could have taken”.<sup>126</sup> He argued that the proposal:

[...] could provide something of a get out of jail free card for countries who were not meeting the bigger obligations that they had in terms of prior commitments [...] to

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123 “Ban sets target of \$1,000bn for aid to poorer nations”, *The Financial Times*, 26 March 2009

124 World Bank, *Swimming against the tide*, March 2009, p 14

125 Q 270

126 Q 271

overall spend as a proportion of their economy and they could instead say, “We have quite a small stimulus package and we are managing 0.7% of that.”<sup>127</sup>

He also expressed concern that having two 0.7% figures could dilute the clarity around the longstanding commitment made by developed countries to allocate 0.7% of Gross National Income (GNI) to poor countries by 2015.<sup>128</sup> In the next chapter we shall review the progress that donors have made towards reaching this target.

**69. We welcome the creation of the World Bank’s Vulnerability Fund—developing countries need large and dedicated sums to support them through the downturn. We do, however, agree with the Secretary of State that setting a target of dedicating 0.7% of stimulus packages to this new Fund could cause confusion and undermine international resolve to achieve the long-standing and much more ambitious commitment to allocate 0.7% of Gross National Income to official development assistance by 2015. Nevertheless, we believe that the premise which underlies the World Bank President’s proposal is valid: if rich countries can find substantial sums to boost their own economies, they should recognise the pressing need in poor countries and identify dedicated sums, additional to existing pledges, to assist them. We invite the Secretary of State, in response to this Report, to indicate how the UK is responding to the World Bank President’s proposal.**

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127 Q 271

128 Q 276

## 4 Donor Support for Development

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70. At the start of the downturn many organisations expressed concern that the crisis might cause donor countries to reduce their aid budgets. UK Aid Network told us:

The global financial crisis is putting increasing pressure on developed country economies, reducing the funds they have available for public spending and encouraging them to look inward at their own problems rather than those of the developing world.<sup>129</sup>

Commentators have pointed out that this must be avoided, as it becomes more important than ever during a downturn to maintain ODA levels, when aid plays an important counter-cyclical role in supporting developing countries as other sources of funding are reduced. Dr McCulloch of IDS argued that:

The dramatic collapse in private sector capital flows to developing countries will force such countries to undertake significant contractions, unless alternative financing sources can be found [...] Aid represents one such source of financing. It is therefore particularly important that aid to the most vulnerable countries is not cut, since this would compound the impact of reduced private sector capital flows.<sup>130</sup>

71. The OECD Development Assistance Committee concurs with this view, warning that any decrease in ODA contributions would mean that additional burdens would be placed on developing countries at a time when they face reduced income from other sources, combined with additional calls on their resources due to increased poverty levels. It believed that this could “undo some of the progress already made towards meeting the Millennium Development Goals.”<sup>131</sup>

### UK aid budget

72. Through the course of the current recession the UK Government has frequently reaffirmed its commitment to meet its own target of allocating 0.7% of Gross National Income (GNI) to ODA by 2013.<sup>132</sup> This intention was reiterated most recently in the 2009 Budget Statement, which confirmed that UK ODA would reach £9.1 billion in the next financial year, signalling that the UK is on track to meet its interim target of allocating 0.56% of GNI to ODA by 2010–11.<sup>133</sup> Under the 2007 Comprehensive Spending Review settlement, DFID’s budget was set to increase from £6,843 million in 2009–10 to £7,917 million in 2010–11.<sup>134</sup> **We welcome the UK Government’s clear determination to fulfil its pledge to allocate 0.7% of Gross National Income to Official Development**

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129 Ev 146

130 Ev 132-133

131 “Development aid at its highest ever in 2008”, OECD Press Release, 30 March 2009

132 Qq 29, 31 [Mr Alexander]

133 “Budget 2009 – keeping our promises to the world’s poorest people”, DFID Press Release, 22 April 2009

134 2007 Comprehensive Spending Review, p 240. The 2010-11 figures was reduced by £155 million in the 2009 Budget to meet efficiency savings requirements (see paragraph 80-82).

**Assistance by 2013. The increase in DFID's funding of nearly £1 billion in the next financial year, confirmed in the 2009 Budget, is a significant step towards achieving this goal and sends an important message to other donors and to partner countries about the UK's commitment to international development.**

73. An important point to bear in mind when predicting aid volumes is that the economic downturn will have a negative effect on growth in many developed countries and that GNI is therefore likely to fall. This would mean that, even if donors continued to meet the percentage targets for aid expenditure, the actual *amount* derived from that percentage is less than would have been predicted when the 0.7% target was set. Kevin Watkins of UNESCO estimated that the 0.56% of GNI which EU member states have pledged to achieve collectively by 2010 is now worth \$4.6 billion less than it was a year ago.<sup>135</sup>

### **Currency fluctuations**

74. While there have been no reductions in UK ODA aid levels the financial crisis is nevertheless having an impact on the purchasing power of this expenditure, mainly due to the depreciation in the value of sterling. Since reaching a low-point in January 2009 the pound has regained its value slowly but is still significantly below its rate in August 2008.<sup>136</sup> The Secretary of State told us in January that DFID was already feeling the effects of this: "The changes in the level of sterling have impacted directly [...] on our purchasing power in a number of developing countries and is also impacting on our contributions to multilaterals."<sup>137</sup>

75. The Department estimated that exchange rate movements during 2008–09 cost it £122 million. £110 million of this was incurred in increased expenditure to meet commitments made in euros to European Commission (EC) programmes, due to the significant fall in the value of sterling against the euro. Another £10 million arose from increased costs of capital charges; and £2 million was accounted for by rising administration costs.<sup>138</sup>

76. DFID has emphasised that the Treasury expects Government Departments to manage the impact of exchange rate movements (up or down) within agreed settlements.<sup>139</sup> The Department has therefore had to reprioritise its budget to meet these costs. Of the additional £100 million needed to fund contributions to EC programmes, £73 million was found from DFID's contingency fund (from which DFID also provides resources in response to humanitarian disasters).<sup>140</sup> The Treasury has recently informed Departments that they can, if they wish, ensure the predictability in the sterling value of their obligations made in foreign currency by hedging these transactions. This would eliminate the risks, and possible gains, of currency movements but the cost of hedging these transaction would have to be found from within departmental budgets. DFID is currently reviewing the costs

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135 "Forgotten victims of the downturn", *Financial Times*, 11 March 2009

136 Ev 156

137 Q 15

138 Ev 158

139 Q 255; see also Ev 158

140 Ev 157

and benefits of this scheme.<sup>141</sup> If DFID decides to pursue this course of action it should be arranged by the Treasury on the Department's behalf.

77. We were told that “most of DFID's payment commitments are denominated in sterling, and are therefore not impacted by exchange rate movements.”<sup>142</sup> However, this seems to ignore the potential impact that the decreasing purchasing power of sterling could have on DFID's expenditure, which the Secretary of State referred to when he spoke to us in January. The second time we took evidence from the Secretary of State we returned to this issue. He downplayed the impact of currency fluctuations, arguing that it was not “unprecedented that there have been variations in the level of dollar aid and sterling aid that is provided.” He pointed out that recent changes in currency values had coincided with a fall in the price of oil, food and other key commodities and that this had partially offset the costs associated with the reduced value of the pound.<sup>143</sup>

78. DFID does not change its aid allocations in response to exchange rate movements. The Secretary of State said that it would not be possible for DFID to do this, both because of the administrative burden it would place on the Department and because it would undermine efforts to make the UK's aid predictable for recipient countries.<sup>144</sup>

**79. We accept that currency fluctuations are a normal occurrence with which all development agencies have to deal. However, the movements in sterling in recent months have been the most extreme in many years and this is bound to have an impact on DFID's spending power. We request that DFID, in its response to this Report, provides us with a update on how its budget for the current financial year has been adjusted to cope with this challenge. We would also be grateful to know the outcome of its deliberations on the Treasury's proposal to allow Departments to ensure the predictability of foreign exchange commitments by entering into hedging transactions.**

### ***DFID efficiency savings***

80. While DFID's budget continues to increase under the 2007 Comprehensive Spending Review settlement, the 2009 Budget imposed a requirement on all Government Departments to find additional efficiency savings. In DFID's case this will amount to £155 million in 2010–11. The Department has identified savings in the follow divisions:

- £50 million from the International Division, which will be partially achieved through pushing for stronger cash management in the multilateral organisations to which DFID contributes.
- £40 million of savings in the Policy and Research Division which DFID hopes to achieve through strengthened partnerships on research and analytical work, and improved procurement and management of its policy and research contracts.

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141 Ev 157

142 Ev 158

143 Q 257 [Mr Alexander]

144 Q260



- A £10 million cut in the budget of the Communications Division, to be achieved by “more effective, focused central communications work and more efficient use of web and social media networks”.
- A reduction of £55 million in DFID’s contingency fund which will reduce the resources available for unforeseen emergencies. DFID has stated that this 60% cut will still leave it with sufficient funds to respond to international disasters.<sup>145</sup>

DFID believes that it can achieve these savings without affecting existing committed flows of funds to its partner countries.<sup>146</sup>

81. We have expressed concern in several of our previous reports that measures which DFID has been required to take to meet existing Government efficiency targets have led to reduced staff headcount and that this in turn may well impact upon the delivery of the Department’s objectives. In our report on the DFID Annual Report 2008 we concluded:

We have previously accepted that DFID cannot be exempt from Government efficiency targets but we believe the situation has changed. Our concern now is that DFID no longer has sufficient staff in place to ensure its increasing budget is used most effectively in support of poverty reduction and achieving the Millennium Development Goals.<sup>147</sup>

**82. Whilst we accept the need for the UK Government to reduce public expenditure, the announcement of further departmental efficiency savings reinforces our concerns about DFID’s ability to meet its objectives of poverty reduction in the world’s poorest countries. As we have pointed out, DFID is unusual in being a Department with an increasing budget and a reducing headcount. The countries in which it now operates are increasingly more fragile ones and therefore likely to be more labour-intensive. We reiterate that it would be regrettable if “efficiency” measures actually made the Department less effective. We shall return to this subject in our inquiry later this year into the DFID Annual Report 2009.**

## International donor support

83. The most recent OECD report on aid flows showed that, in 2008, OECD Development Assistance Committee members increased their development assistance by 10.2%.<sup>148</sup> Although the DAC Chairman made it clear “that these figures do not yet factor in any impact the crisis would have on aid flows,” he argued that they were encouraging:

As recently as several months ago aid targets seemed to be slipping out of our reach but now it seems that the situation is reversed. The aid commitments undertaken by donors, notably the Gleneagles commitments of the G8 countries, have come within realistic reach.<sup>149</sup>

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<sup>145</sup> Addendum to DFID’s Value for Money Delivery Agreement, 22 April 2009

<sup>146</sup> Addendum to DFID’s Value for Money Delivery Agreement, 22 April 2009

<sup>147</sup> Second Report of Session 2008-2009, *DFID Annual Report 2008*, HC 220-I, para 81

<sup>148</sup> “Development aid at its highest ever in 2008”, OECD Press Release, 30 March 2009

<sup>149</sup> Q 180



84. The OECD's projections of future DAC development expenditure look even more impressive with an estimated increase in ODA levels of 22% by 2010.<sup>150</sup> However, these figures are based on the assumption that donors will meet publicly announced targets, including the EU's target that each member state should spend 0.56% of GNI on ODA by 2010. It projects, for example, that Italy will increase its ODA spending by 145% over two years. However as the OECD itself noted, the Italian authorities have indicated that "Italy's ODA trend will be influenced by constraints on Italy's public finances."<sup>151</sup> In December 2008 the Italian Parliament approved a cut of 56% for 2009 in the amount of ODA that goes through the Ministry of Foreign Affairs.<sup>152</sup>

**85. We note that the OECD's projections of aid expenditure by Development Assistance Committee countries continue to show an upward trend. We are, however, concerned that these may be over-optimistic and do not provide a true reflection of countries' intentions. We are alarmed by Italy's decision to make a substantial reduction in its ODA budget, particularly in the context of Italy holding the G8 presidency. Its actions could send out the wrong signals about donors' intentions and cause development assistance to drop off the international agenda. We urge the UK Government to make strenuous efforts to ensure that assistance to poor countries remains at the heart of international discussions held during the ongoing economic crisis and thereby build on the achievements which the London summit delivered for developing countries.**

86. Italy is not the only country that has announced reductions in its aid budget. On 7 April 2009 the Irish Government announced the fourth cut in its development budget since June 2008, bringing the total reduction to €255 million.<sup>153</sup> The OECD's press notice on aid flows draws attention to several countries that are not even half way towards achieving the GNI/ODA targets, including Austria and Greece.<sup>154</sup> NGOs have argued that, even before the crisis, some countries were not on track to meet their existing commitments. ActionAid told us: "It is [...] clear from several governments' medium term finance frameworks that their existing promises for more aid are unlikely to be met (Greece, Portugal, France and possibly Germany.)"<sup>155</sup> Development Initiatives made a similar point believing that, when countries make commitments and fail to take the steps required to meet them, it "undermines the integrity of international diplomacy."<sup>156</sup> At the informal meeting of EU development ministers in Prague at the end of January 2009, the Commissioner for Development and Humanitarian Aid noted that a number of EU member states might have difficulties meeting their commitments.<sup>157</sup>

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150 OECD-DAC Secretariat simulations of DAC Members' Net ODA volumes in 2008 and 2010: Table 4 attached to "Development aid at its highest ever in 2008", OECD Press Release, 30 March 2009

151 OECD-DAC Secretariat simulations of DAC Members' Net ODA volumes in 2008 and 2010: Table 4 attached to "Development aid at its highest ever in 2008", OECD Press Release, 30 March 2009

152 Ev 145

153 "European NGOs condemn Irish aid budget cut" CONCORD/AidWatch Press Release, 7 April 2009

154 These figures excluded debt relief. "Development aid at its highest ever in 2008", OECD Press Release, 30 March 2009

155 Ev 95-96

156 Ev 114

157 Ev 131

87. However, when we explored with academic witnesses the relationship between economic growth and aid levels we learned that there was no evidence of a direct link between recession and reductions in government development spending. ODA flows over the last 40 years showed no strong association between the levels of Gross National Product (GNP) or growth in GDP and aid expenditure.<sup>158</sup> We have referred to the UK's pledge to maintain aid levels despite falling GDP but this is not the only example: the Spanish government has indicated that it will fulfil its existing commitments, despite experiencing a very strong economic contraction; and in December 2008 the Swiss parliament invited its government to put forward a budget that increased aid expenditure.<sup>159</sup>

88. This suggests that the recession may not be the only motivation behind recent reductions that some countries have made in their aid budgets, and that the financial crisis should not be seen as an insurmountable barrier to donors meeting their commitments. Dr McCulloch argued that, given that there was no link between levels of development spending and economic growth, the choice as to whether or not to maintain aid spending through the recession was primarily political: "The real truth of the matter is that it is a political choice." This meant that the leadership shown by the large donors would be important in determining whether other countries would meet their commitments. He highlighted the role the UK could play in encouraging others to meet their pledges:

Certainly the British Government's continued commitment to its ODA targets and its delivery of those commitments will make a huge difference as to whether or not global aid flows are cut.<sup>160</sup>

89. Contributors to our eConsultation were supportive of the UK playing a leading role in international development and thought that this should include putting pressure on other governments to honour the commitments they have made. One contributor said that the UK Government should be "encouraging other governments to contribute more generously, so as to multiply the total amount available for aid."<sup>161</sup> Another wrote that: "Development may be one of the remaining areas in which the UK can be a leader in the world. Yes, the UK should try to encourage others to contribute more aid."<sup>162</sup> On both occasions when we heard from the Secretary of State he emphasised the actions that the United Kingdom was taking to engage with donor partners to encourage them to honour the commitments they had made.<sup>163</sup>

**90. Whilst the UK Government has indicated that it will honour its commitments to developing countries, despite the onset of the recession, not all countries have done the same. We would encourage DFID to use every opportunity to press donor partners to continue to meet the promises they have made on aid levels, particularly in the context of high-level international meetings.**

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158 Ev 131-132 and Qq 100-101

159 Ev 131

160 Q 100

161 Ev 162, post on "Aid Under Pressure" eConsultation by ilsol, <http://forums.parliament.uk/aid-under-pressure>

162 Ev 162, post on "Aid Under Pressure" eConsultation by InTheRing, <http://forums.parliament.uk/aid-under-pressure>

163 Q 24 and Q 279

## Aid effectiveness

91. In our 2008 Report on Aid Effectiveness, we concluded that, if the millions of people still living on less than \$1 a day were to be lifted out of poverty, donors needed to provide more effective aid, not simply larger quantities of aid.<sup>164</sup> As the downturn puts increased pressure on developing countries, it is even more important that donors deliver the money they have pledged in a way that ensures that it has the maximum possible impact. The UK Aid Network reinforced this point in their evidence:

With the financial crisis putting aid spending under increased scrutiny, the importance of improving aid effectiveness and meeting related international standards and commitments is becoming increasingly important. Now more than ever, the aid community needs to display full and unwavering commitment to making aid work better.<sup>165</sup>

92. As our previous report highlights, full implementation of the 2005 Paris Declaration is crucial. The Declaration is an international agreement signed by over 100 donors which sets out five key principles for the effective delivery of aid:

- ownership of development policies by recipient countries;
- alignment of donor support with developing country institutions, policies and poverty reduction strategies;
- harmonisation and transparency of donor actions;
- managing resources and improving decision-making to achieve better results; and
- mutual accountability of donors and partners.<sup>166</sup>

The Accra Agenda for Action agreed in September 2008 set out further steps which developing and donor countries would take to “accelerate and deepen implementation of the Paris Declaration.”<sup>167</sup>

93. DFID has informed us that it has already met seven out of the ten 2010 targets and is on track to meet the remaining three.<sup>168</sup> The OECD recently published an update on implementation of the Paris Declaration. This found that, although some progress was being made, a further acceleration was needed if countries were to reach the targets set for 2010.<sup>169</sup> In oral evidence, the Chairman of the OECD DAC said that he felt furious that the same discussions on the need for aid effectiveness had been taking place for years. The actions which were required were clearly understood but “this is a matter of political will

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164 Ninth Report of Session 2007-08, *Working Together to Make Aid More Effective*, HC 520-I, Summary

165 Ev 145

166 *Working Together to Make Aid More Effective*, HC 520-I, para 7

167 See Seventh Special Report of Session 2007-08, *Working Together to Make Aid More Effective: Government Response to the Committee's Ninth Report of Session 2007-08*, HC 1065, for the text of the Accra Agenda and the Government's commentary on it.

168 Seventh Special Report of Session 2007-08, *Working Together to Make Aid More Effective: Government Response to the Committee's Ninth Report of Session 2007-08*, HC 1065, p 1

169 OECD, *Aid Effectiveness: A progress report on implementing the Paris Declaration*, OECD, 2009, p 20

and I am asking for this political will.” He was hopeful that the economic downturn would prompt donors to pay more than “lip-service” to this issue, and would provide the necessary incentive to accelerate movement towards full implementation of the aid effectiveness agenda.<sup>170</sup>

**94. The effects of the economic downturn on donors and recipients could provide the necessary motivation to make more rapid progress on aid effectiveness. This would produce tangible benefits in the impact that existing aid levels have on poverty reduction as well as helping to maintain public support for development. We agree with the Chairman of the OECD Development Assistance Committee that the time is over for governments simply “paying lip-service” to the principles of aid effectiveness set out in the Paris Declaration. Although DFID has been a good performer to date in implementing the Paris Declaration principles, there is no room for complacency. We recommend that the Independent Advisory Committee on Development Impact (IACDI) consider including evaluation of DFID’s progress towards meeting its Paris Declaration commitments as part of its future work programme.**

95. We have received evidence from the Local Government Association (LGA) which suggests that DFID could make more effective use of its resources if it exploited the expertise that exists within local government in the UK. It gave one example of Warwick District and Warwickshire local government officers working on a waste management and health education project in Sierra Leone. This resulted in “reduced incidence of malaria and waterborne disease, improved hygiene practices and capacity in local councils to generate their own revenue.”<sup>171</sup> When we raised this with the Secretary of State he said that the Department was already in discussion with the Commonwealth Local Government Association about the work that DFID was doing. He undertook to take this matter forward with the LGA.<sup>172</sup>

**96. We believe that DFID could improve the effectiveness of its development activity if it made greater use of the expertise that exists within local government in the UK. We recommend that DFID explore the possibility of a development partnership with the Local Government Association and other local government organisations. We will examine this issue in more detail in our inquiry into Urbanisation and Poverty.**

### ***Timetable for meeting the 0.7% GNI target***

97. If developing countries are to make the most effective use of development assistance they need to know how much they are going to receive and when they will receive it, so that they can set their budgets and plan future expenditure. Dr McCulloch emphasised the importance of donor governments maintaining aid budgets and providing a predictable flow of support to developing countries. He said:

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170 Q 204

171 Ev 127

172 Q 251

One of the key findings in the literature [...] is the damage done by aid volatility. It is the fluctuations and sudden changes in fashion in aid which actually damages growth prospects for many developing countries.<sup>173</sup>

The Chairman of the OECD DAC made a similar point, arguing that ODA needed to be a reliable and predictable source of funding if it was to achieve sustainable development results: “anything else would defy the very purpose [ODA is] meant to have and it would be a terrible cost for developing countries and for tax payers in the donor countries.”<sup>174</sup>

98. One proposal for increasing the amount of information partner countries receive about aid flows is for donors to set out timetables explaining how they plan to meet their aid commitments. These timetables would contain annual targets for aid allocations. Development Initiatives believed that this would make it much easier to judge whether a donor was meeting its pledges: the current lack of intermediate targets means that it is impossible for a donor to be formally “off track” against the overall 2015 target of 0.7% GNI.<sup>175</sup>

99. The EU has agreed that all member states should set out “rolling multi-annual indicative timetables showing how they will reach agreed ODA/GNI targets.”<sup>176</sup> However, Maciej Popowski of the EC told us that half of member states were yet to produce a timetable. In a recent report the Commission noted that most countries which have not provided timetables for future spending “cite legal restrictions related to their national budget cycle” as the reason that they have been unable to provide this information although some countries are in the process of reviewing these obstacles. The EC says that “these efforts have to be pursued and concluded urgently, especially in those countries that had referred to internal discussions on the issue in previous years.”<sup>177</sup>

100. The UK Government is one of those unable to provide a complete timetable due to the national budget cycle. It has, however, set out a timetable to 2010–11, the period covered by the 2007 Comprehensive Spending Review. Its plans for 2011–13 will be set out following the next Spending Review.<sup>178</sup>

**101. We understand the difficulties which national budget cycles pose for donors in setting indicative timetables for reaching the 0.7% goal for aid allocations by 2015. Agreeing timetables would, however, make it much easier to assess whether pledges were being met. Just as importantly, it would greatly assist partner countries in planning future expenditure by giving them more certainty about the amounts of aid they would receive and when. We believe the European Commission should continue to push member states to set timetables. The UK has a good record on aid predictability and meeting its funding pledges. Ways must now be found to improve on this as part of the overall aim of aid effectiveness, notwithstanding the stated obstacle of the**

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173 Q 92 [Dr McCulloch]

174 Q 183

175 Ev 113

176 Ev 86

177 European Commission, *Supporting developing countries in coping with the crisis*, Commission Working Paper, SEC (2009) 444, 8 April 2009, para 5.1.6

178 Ev 131

**Comprehensive Spending Review cycle. The UK has set a more ambitious target than other donors, aiming to reach 0.7% of GNI by 2013. We therefore recommend that DFID now sets out a clear timetable for how this will be achieved over the next four years which includes annual milestones.**

### *Maintaining a clear definition of ODA*

102. In its submission ActionAid argued that the recession had led to an increase in what it terms “phantom aid”—aid that does not support poverty reduction.<sup>179</sup> A 2008 report by Concord, a group of European development NGOs, made a similar point, criticising EU governments for distorting their aid figures by including spending on debt relief, the education of foreign students and support to refugees in Europe. It asserts that this spending has no developmental impact and points out that, in 2007, European countries spent almost €8 billion on these non-aid items, making up 17% of all European ODA.<sup>180</sup> The report did, however, concede that the share of “inflated” aid had recently declined dramatically, largely due to ODA comprising less debt relief than in previous years.

103. The OECD DAC is responsible for defining what expenditure may be counted as ODA. Its most recent guidance explicitly states that assistance to refugees from developing countries arriving in donor countries “is reportable as ODA during the first 12 months of stay, and all costs associated with eventual repatriation to the developing countries of origin are also reportable.”<sup>181</sup> The Concord report argued that this practice should be stopped, as it believed that “this spending does not contribute to development in the countries of origin.”<sup>182</sup> The UK does not count such costs towards its ODA expenditure. Concord does however highlight the UK’s joint DFID/Department for Energy and Climate Change £800 million Environmental Transformation Fund as being wrongly counted as ODA expenditure, saying “Unfortunately, this funding line is not additional to previous UK ODA pledges and [...] further clouds reporting and diverts money from other poverty reduction priorities.”<sup>183</sup>

104. The clear view of the DAC Chairman was that all finance for projects in developing countries not aimed at the reduction of poverty, for example climate change projects, “should be additional”. He said that, in principle, he was open to the prospect of looking again at what contributions could be counted as ODA but before such discussions took place, there would need to be an agreement that countries would not seek to use them as an opportunity to escape their existing commitments, by trying to get items that were excluded in previous negotiations, for example expenditure on security or military engagements, reinstated as part of ODA. He questioned whether there was an appetite to reopen the ODA debate, pointing out that most countries were relieved when “Pandora’s box was closed three years ago” and ODA definitions were agreed.<sup>184</sup>

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179 Ev 95

180 Concord, *No time to waste: European governments behind schedule on aid quantity and quality*, 2008

181 “Is it ODA?”, OECD Factsheet, November 2008

182 Concord, *No time to waste: European governments behind schedule on aid quantity and quality*, 2008, p 11

183 Concord, *No time to waste: European governments behind schedule on aid quantity and quality*, 2008

184 Q 196

105. We believe that it is vital that every pound that countries pledge as Official Development Assistance (ODA) is spent on programmes whose main purpose is poverty reduction. We recommend that the internationally agreed definition of ODA is tightened to reflect this. We will return to the specific issue of the relationship between ODA and funding for climate change adaptation and mitigation in our forthcoming report on Sustainable Development in a Changing Climate.



## 5 Trade and Taxation

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106. Vital though it is for poor countries to receive support from the developed world, it is also essential that they are assisted to derive the maximum benefit from their own resources. We discussed in Chapter 3 the steps DFID has taken to support trade in Africa through the North-South Corridor and to boost trade finance in support of small and medium-sized businesses in developing countries. In this Chapter, we will explore how the international trade and taxation systems could be improved to benefit developing countries.

### Trade

107. As we have described in Chapter 2, international trade has already been affected by the financial crisis, through both a reduction in the availability of trade credit and reduced demand for goods and services from the developed world.

108. We have repeatedly pressed for a successful outcome to the Doha round of World Trade Organisation negotiations which was intended to be a “development” round, aimed at boosting the ability of poor countries to trade with the developed world.<sup>185</sup> We have emphasised that the establishment of a fair and free world trade system would do at least as much to boost development in poor countries as aid funding. This point was echoed by the G20 which estimated that bringing the negotiations to a successful conclusion could boost the global economy by \$150 billion a year.<sup>186</sup> In oral evidence to us, the Chairman of the OECD Development Assistance Committee estimated that sums generated for developing countries through an effective world trade system would be worth three and half times as much as development assistance. He said that donors were “handcuffing” themselves by pursuing “false policies” on trade at the same as devoting large sums to aid.<sup>187</sup>

109. The Doha round of WTO negotiations began in November 2001. The most recent stage of negotiations in July 2008 broke down after disagreements between India and the US about the Special Safeguard Mechanisms which were designed to protect poor farmers by allowing countries to impose a special tariff on certain agricultural goods in the event of an import surge or price fall.<sup>188</sup> A meeting scheduled for the middle of December 2008 was cancelled. Pascal Lamy, WTO Director-General, said that this was because it “would be running an unacceptably high risk of failure, which could damage not only the round but also the WTO system.”<sup>189</sup>

110. The G20 communiqué restated the international community’s intention to reach “an ambitious and balanced conclusion to the Doha development round which is urgently

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185 See for example Third Report of Session 2005-06, *The WTO Hong Kong Ministerial and the Doha Development Agenda*, HC 730-I; Fifth Report of Session 2006-07, *EU Development and Trade Policy: An Update*, HC 271; and Second Report of Session 2007-08, *Development and Trade: Cross-Departmental Working*, HC 68

186 G20 communiqué, para 23

187 Q 189

188 “Dismayed powers plea to salvage WTO talks”, *Agence France-Presse*, 30 July 2008

189 “WTO chief drops plans to press ministers for outline Doha deal”, *Financial Times*, 13 December 2008



needed” and said that renewed focus and political attention would be brought to this.<sup>190</sup> However, similar aspirations were expressed at the Doha Financing for Development Conference in December 2008 without result.<sup>191</sup> Moreover, concern has been expressed that the downturn may push developed countries in the opposite direction—towards increased protectionism rather than opening up their markets. The G20 communiqué stated:

[...] we will not repeat the historic mistakes of protectionism in previous eras [...] we reaffirm the commitment [...] to refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions or implementing WTO inconsistent measures to stimulate exports.<sup>192</sup>

The Chairman of the OECD Development Assistance Committee similarly warned against this type of knee-jerk reaction from developed countries.<sup>193</sup>

111. The intention to press for a pro-development trade agreement was supported in oral evidence by Mr Maciej Popowski, Director of EU Development Policy of the European Commission, who emphasised that the negotiations needed to be brought to a successful outcome as soon as possible.<sup>194</sup> The Secretary of State told us that the UK was already engaged with the Director-General of the WTO and others to see whether progress could be made at the G8 meeting in July. He stressed that the Government had “worked hard to get the language in the G20 communiqué around Doha” and to raise the issue with the new US Administration at the earliest opportunity “to reaffirm the fact that we do regard the global trade deal as being important.”<sup>195</sup> Ron Kirk, the US trade representative, recently reaffirmed the new Administration’s commitment to achieving a “successful and speedy conclusion” of the Doha negotiations and to securing a “balanced and ambitious agreement with meaningful market access gains for all involved.”<sup>196</sup>

**112. The developed world, represented at the G20 meeting in London, accepted that a new global agreement on trade could boost the global economy by \$150 billion. A successful outcome to the Doha round of World Trade Organisation negotiations could generate three and a half times as much revenue for poor countries as they receive in aid. Unfortunately, acknowledging these facts does not seem to bring a new world trade agreement any closer. We believe that the rich world should show its commitment to economic growth in developing countries by resisting protectionism, offering access to its markets to poor countries and by finally concluding the pro-development Doha round of WTO negotiations. Failure to do this could negate much of the good work which has been done to assist developing countries to cope with the recession. The UK has taken a strong position in trying to encourage other countries to resolve their**

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190 G20 communiqué, para 23

191 Doha Declaration, para 32

192 G20 communiqué, para 22

193 Q 189

194 Q 226

195 Q 286

196 “US backs new approach to Doha negotiations”, *The Financial Times*, 14 May 2009

**differences on trade and should continue to engage the US and the EU on this at every opportunity with a view to making real progress at the G8 meeting in July.**

## **Taxation**

113. Tax revenue provides a long-term and sustainable source of funding. Taxation also facilitates financial planning, and plays an important role in strengthening good governance. Building the capacity of countries to raise their own revenue through taxation is therefore essential if they are to reduce their dependence on aid.

114. Tax evasion is a major problem faced by developing countries in attempting to raise tax revenue. Tax havens facilitate tax evasion by operating lax regulations; providing companies with anonymity through bank secrecy; and by failing to co-operate on tax matters with authorities from the country in which the funds originated.

115. There are varying estimates of the value of revenue lost to developing countries through tax evasion: Oxfam have estimated it to be \$120 billion<sup>197</sup> while Christian Aid has stated that poor countries lose \$160 billion a year in tax evasion by corporations.<sup>198</sup> When we questioned the Secretary of State about this in January he said that “the veracity of some of these figures was [...] open to dispute”, but that the Department was “already working with the Treasury to see whether we can get to a clearer evidence base to establish figures in which we would have confidence.”<sup>199</sup> When he appeared before us again in April, Mr Alexander told us that he still could not give us a figure for the taxes lost to developing countries but that “real progress has been made”.<sup>200</sup>

116. Tax evasion was one of the issues addressed at the G20 summit. The final communiqué contained a commitment to “take action against non-cooperative jurisdictions, including tax havens.”<sup>201</sup> The accompanying Declaration on Strengthening the Financial System stated that “We stand ready to take agreed action against those jurisdictions which do not meet international standards in relation to tax transparency” and set out a “toolbox of effective counter measures” which countries could consider using. The G20 countries committed themselves to developing proposals by the end of 2009 “to make it easier for developing countries to secure the benefits of a new cooperative tax environment.”<sup>202</sup> The Secretary of State emphasised that the G20 agreement represented “an opportunity which I think we must seize [...] to ensure that more of those revenues are kept within developing countries”.<sup>203</sup>

117. The OECD recently published a report indicating that all countries had now made a commitment to implement internationally agreed standards for tax information exchange,

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197 “Tax haven crackdown could deliver \$120 billion a year to fight poverty”, Oxfam Press release, 13 March 2009

198 *Death and Taxes*, Christian Aid, May 2008 and Ev 109

199 Q 38

200 Q 281 [Mr Alexander]

201 G20 communiqué, para 15

202 G20 Declaration on Strengthening the Financial System, London, 2 April 2009, pp 4-5

203 Q 281 [Mr Alexander]

but found that 42 signatories had not substantially implemented them.<sup>204</sup> Of these, seven are British Overseas Territories (Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Gibraltar, Montserrat and the Turks and Caicos Islands).<sup>205</sup> While some of these 42 countries, including Austria and Switzerland had only recently signed up to the standard, others, including Anguilla, Montserrat and the Turks and Caicos Islands had committed to implement the standard in 2002 but had yet to sign a single bilateral agreement. Concern has been raised that, for some jurisdictions, agreeing to the standard has been little more than a delaying tactic.<sup>206</sup> The OECD has acknowledged that some small tax havens lack the resources to enter into negotiations with large countries. It says that it outlined in 2002 how countries could tackle the process of arranging multilateral tax information exchange agreements and that it intended to revisit this shortly.<sup>207</sup>

118. Written evidence from Global Witness provided an example of a UK tax haven being involved in the loss of revenue by developing countries. They claim that:

The son of the President of Congo-Brazzaville, responsible for marketing the country's oil, used the secrecy offered by a British tax haven, Anguilla, to set up a company and disguise his ownership of it. He then opened a bank account for this company in Hong Kong, into which Congolese oil revenues were paid.<sup>208</sup>

119. The UK Government has a responsibility to ensure that British Overseas Territories comply with international agreements. DFID officials explained that the FCO was now working with HM Revenue & Customs to assist UK Overseas Territories to meet the OECD standards.<sup>209</sup> The Secretary of State believed that the FCO's co-ordinating role marked a real change in the UK Government's approach and that the Prime Minister's chairmanship of the G20, where international consensus was achieved, was a clear indication of the UK's commitment to tackling tax havens.<sup>210</sup> Indeed, we were told that, since the summit, Gordon Brown had written to the Overseas Territories concerned urging them to comply with OECD standards.<sup>211</sup>

**120. Developing countries suffer disproportionately from the existence of tax havens which prevent them receiving much-needed tax revenue which they should derive from economic activity within their borders. The ending of tax havens is necessary, not only for reasons of justice but also to promote good governance and robust management of public finances in poor countries. We believe that the consensus reached at the G20 represents an important milestone on the way to reforming and fully implementing international taxation standards. The UK Government deserves credit for ensuring this**

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204 Four jurisdictions were reported as not having agreed to the standard. The OECD progress report dated 2 April announced that they would commit to the standard on 7 April – see “Four more countries commit to OECD tax standards”, OECD newsletter, 7 April 2009

205 OECD Progress Report on the jurisdictions surveyed by the OECD global forum in implementing the internationally agreed tax standard, 2 April 2009

206 “Havens’ crackdown won’t fix avoidance”, *The Independent*, 4 April 2009

207 “Following G20 OECD delivers on tax pledge”, *OECD newsletter*, 2 April 2009

208 Ev 118

209 Q 284

210 Q 285

211 Q 285

issue was given appropriate priority at the London summit. Momentum now needs to be maintained. The UK has an opportunity to make amends for its previous failure to address this issue by taking urgent steps now to ensure that British Overseas Territories cease to be tax havens. We do not believe that the Prime Minister writing to the territories concerned is sufficient; more direct action must be taken. We request that, in response to this Report, the Department provides us with an update on progress with the FCO's work with Overseas Territories towards their achievement of the OECD's taxation standards.

## 6 Public support for development

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121. UK public support for development has traditionally been regarded as being strong.<sup>212</sup> 74% of respondents to DFID's latest *Attitudinal Tracking Study* claimed to be "concerned about poverty in developing countries."<sup>213</sup> However, there are indications that the economic downturn could be undermining the public's willingness to support Government aid expenditure. The Secretary of State told us that he was "worried" about how to maintain this during difficult economic times.<sup>214</sup>

122. His anxiety appears to be justified by the findings of the most recent survey of public opinion, which show "early evidence that global poverty is becoming less of a priority for the UK public with an increase in the proportion believing other problems are more important and that they have enough problems of their own."<sup>215</sup> In DFID's latest study public opinion was divided on Government spending on development: 32% of respondents thought that people in poor countries were not as deserving of UK tax money as people in the UK, while 41% disagreed and 24% were unsure.<sup>216</sup>

123. Falls in donations to charities provide further evidence that the recession is having a negative impact upon public support. The Charity Commission has reported that over half of charities have been affected by the downturn.<sup>217</sup> 19% of respondents to DFID's 2008 survey reported that they were making donations to charities which worked in developing countries; a reduction from 21% the previous year.<sup>218</sup> A further sign of decreasing public support is the drop in sales of fair trade goods: the number of people who say that they would be willing to pay more for ethical products has dropped by 12% over the last year and the percentage of respondents who would buy the best product regardless of its ethical credentials increased by the same amount.<sup>219</sup>

### Measuring public support

124. If DFID is to take effective action to combat these trends it needs to be able to draw on reliable information which provides a meaningful insight into public opinion. It does not appear that the relevant information is being collected at present. Dr Hudson, of University College London, told us that the majority of surveys of public opinion which attempted to gauge people's views about development failed to measure attitudes properly. He doubted the usefulness of some of the questions included in DFID's surveys, in particular whether it

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212 Ev 97

213 DFID, *Attitudinal tracking study – February 2009, March 2009*, p 4

214 Q 289

215 DFID, *Attitudinal tracking study – February 2009, March 2009*, p 4

216 DFID, *Attitudinal tracking study – February 2009, March 2009*, p 4

217 Charities Commission, *Economic Survey of Charities*, 17 March 2009, p2

218 DFID, *Public Attitudes Towards Development*, October 2008, section 7.2

219 "Hard-up shoppers abandon fair trade and their principles as the economic crisis hits budgets", *The Times*, 26 March 2009

was helpful to ask people if they were concerned about poverty in poor countries, as this was “not a good question to track true support.”<sup>220</sup>

125. Dr Hudson argued that it was wrong to conclude that a high level of concern about poverty correlated to a high level of support for development assistance, as these are two separate issues.<sup>221</sup> He believed that it would be more useful for people to be asked to consider the priority which should be given to increased spending on development assistance compared to other policy areas, so as to ascertain its relative importance to them:

[You need to] ask questions about how people would rank increasing development aid versus other commitments—domestic commitments such as spending on the NHS or law and order. That is when you really tap in to whether people support increasing or maintaining levels of aid at the moment.<sup>222</sup>

This was likely to produce very different figures from those currently reported. He cited a British Election Study in which people had been asked to name the key issues that faced Britain. Only 10 of the 5,000 respondents mentioned anything that “looked like global poverty and development assistance [...] in terms of salience, it does not seem to be particularly high.”<sup>223</sup>

126. The actual level of public support is further confused because the term “development aid/assistance” is subject to different interpretations. People may think that it refers to humanitarian aid (responding to a natural disaster or emergency) or development assistance (supporting long-term growth and development).<sup>224</sup> Dr Hudson noted that: “Public opinion does not even see ‘helping poor people’ as ‘development’ because [people] conceive aid as short-term charity for humanitarian relief.”<sup>225</sup> Cathy Pharoah, Professor of Charity Funding, Cass Business School, said that evidence from focus groups supported this view: “I do not think it is something the general public thinks about or is aware of.”<sup>226</sup>

127. DFID’s 2008 Survey showed that 42% of the public mistakenly believed that the UK Government’s development work was focused on humanitarian relief.<sup>227</sup> Dr Hudson argued that, if people thought that development assistance was about responding to humanitarian disasters, that would artificially increase the level of support, remarking “who is going to say no?” to that.<sup>228</sup> He had raised some of these concerns with the head of DFID’s Strategic Communication Division in late 2008 and, while she was “very open to have further conversations”, these issues had yet to be followed up.<sup>229</sup> The Secretary of State

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220 Q 126

221 Ev 152-153

222 Q 126

223 Q 126

224 Ev 153

225 Ev 153

226 Q 132 [Professor Pharoah]

227 DFID, *Public Attitudes Towards Development*, October 2008, section 3.1

228 Q 126

229 Q 126

told us that the question of the methodology used in DFID's surveys was not one that the Department had considered.<sup>230</sup>

**128. If DFID is to build public support for development effectively it needs first to establish what people's attitudes are. This requires the collection of information that truly reflects public opinion. We do not believe that DFID's surveys, as they are currently designed, achieve this. They focus on whether people are concerned about poverty, rather than whether they would support increased funding for development, nor do they attempt to assess the relative importance people place on development compared to domestic policy areas such as health and education. We recommend that DFID examines how it assesses the level of public support for development and re-designs its surveys to address the weaknesses we have identified.**

### Strengthening public support

129. In December 2007 DFID launched its Communication Matters Strategy which outlined how it planned to increase public knowledge about the work of the Department. In April 2009 DFID announced a review of its work on building support for development in the UK. The aim of the review is to "reflect on the impact of this work to date and to inform future efforts" with the likelihood of an increase in DFID's budget for this work in the next year.<sup>231</sup> Four areas are being examined:

- DFID's work through the education system;
- How the Department engages with the media;
- The Development Awareness Fund (which provides awards for development awareness activities on a challenge fund basis);
- DFID's work with trade unions, diaspora, and faith and black and minority ethnic groups.

The studies are expected to report in June 2009.

### Corruption

130. One key public concern about development spending which was frequently raised with us during the inquiry related to the levels of corruption and waste in development spending. Regardless of the reality of the situation, there is a perception that a significant amount of the money given to developing countries is either misspent or misappropriated. Several contributors to our eConsultation raised this as an area of concern:

"although financial assistance increases growth it is significantly affected by corruption and bad management in recipient countries."<sup>232</sup>

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230 Q 289

231 "Reviews underway of DFID's Building Support for Development work in the UK", DFID Press Release, 2 April 2009

232 Ev 164, post by "Indeedwecan" <http://forums.parliament.uk/aid-under-pressure>



“If the government is going to send aid, for goodness sakes make sure that it gets to its destination.”<sup>233</sup>

“aid should only be distributed by reputable organisations and not stolen or misdirected. In cases where aid is stolen or misappropriated, the aid should be halted immediately until the stolen aid is returned, so as to put political pressure on the thieves.”<sup>234</sup>

Waste and corruption in development spending was also a key topic of discussion at our public meetings.

131. DFID’s research confirms that this is an area of significant public anxiety. The figures from its 2009 public attitudes study showed that 53% of respondents thought that most financial aid to poor countries was wasted and 57% believed that it was pointless to donate money because of corruption within partner governments.<sup>235</sup> This was an increase from October 2008 when 47% of people considered that the majority of financial aid given to poor countries was wasted.<sup>236</sup>

132. NGOs agreed that DFID needed to address these concerns. Global Witness argued that:

Public support for development expenditure, particularly at a time when there is pressure on public budgets, depends on a public perception and understanding that aid is necessary and effective. DFID [...] has to deal with a generalised public perception that aid money is itself subject to being looted.<sup>237</sup>

Kirsty Hughes, Head of Advocacy at Oxfam, believed that DFID should take steps to reassure the public that there are systems in place to prevent aid money being lost to corruption; this could be done without it being necessary for the public to understand “every last legal detail [...] but they need to know it’s there and they [need to] have confidence in the system”<sup>238</sup> Professor Pharaoh suggested that the Government should focus on providing the public with:

[...] some very clear stories of how aid very often and very effectively reaches its targets. [...] Government could play a role, I think, in demonstrating the transparency and effectiveness of the aid distribution process. That would give people a certain amount of comfort.<sup>239</sup>

133. DFID’s research concluded that groups with high levels of concern about aid expenditure being wasted (men and those aged over 65) should receive targeted evidence and messaging about aid effectiveness.<sup>240</sup> However, DFID’s current Communication

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233 Ev 161, post by “Derekjudge” <http://forums.parliament.uk/aid-under-pressure>

234 Ev 162, post by “ilsol” <http://forum.parliament.uk/aid-under-pressure>

235 DFID, *Attitudinal tracking study – February 2009*, March 2009, p 4

236 DFID, *Public Attitudes Towards Development*, October 2008, section 3.1

237 Ev 115

238 Q 146 [Ms Hughes]

239 Q 132 [Prof Pharaoh]

240 DFID, *Attitudinal tracking study – February 2009*, March 2009, p 11

Strategy focuses on targeting the segments of the population that it believes will be most receptive to its messages rather than the groups in which concern about corruption and waste is most prevalent.<sup>241</sup> The Strategy does say that “while our main focus is on the three priority groups [“interested mainstream”, “family first sympathisers” and “active enthusiasts”], we are also working to develop communications that effectively target the remaining audience group.”<sup>242</sup> However no detail is given about how the Department will go about achieving this.

134. The Secretary of State told us that DFID was “consciously seeking to broaden the range of outlets in which we communicate the message that development works.” He cited recent press articles in the *Daily Mirror* and *The Sun* on DFID activities, as well as the Department’s involvement in Comic Relief as examples of steps DFID had taken to reach beyond its normal target audiences.<sup>243</sup>

**135. Corruption in the use of aid flows is clearly one of the main concerns the UK public has about development spending. DFID needs to address this issue head on if it is to succeed in allaying taxpayers’ concerns. We are not convinced that its current approach is achieving this. We recommend that DFID’s Communication Strategy be refocused and redesigned. The aim should be to create a more effective tool for persuading the sceptical sectors of society that their money is not being lost or misspent and that development assistance brings real benefits to the world’s poorest people.**

## Promoting DFID’s work

136. NGOs and academics raised wider points about how DFID frames its public message. Professor Pharoah said that there was a “boredom and tedium” with the use of statistics, and did not believe that they meant much to the general public: “If you tell them we spent £3 billion on this, what does it mean? They have nothing to measure it against. They do not understand the money stories; it sounds a lot to them, they have never had £3 billion.” She believed that DFID’s public relations objectives would be better served by providing “positive stories about the impact of aid and more stories about tangible ways in which lives have been affected.”<sup>244</sup>

137. DFID accepts in its Communication Strategy that it needs to highlight the impact of its programmes rather than the amount of money it spends. It also advocates a greater focus on the people who benefit from DFID’s work rather than the institutions through which programmes are delivered and that these messages should be expressed in plain language, not technical jargon.<sup>245</sup> We have commented in previous reports that DFID should focus more on the outcomes which it wishes to achieve rather than on the amount of funding it provides, when designing and evaluating its programmes.<sup>246</sup> This evidence

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241 DFID, *Communications Matters: Our Communication Strategy*, 2008, p 13; DFID, *Attitudinal tracking study – February 2009, March 2009*, p 10

242 DFID, *Communications Matters: Our Communication Strategy*, 2008, p 17

243 Q 291

244 Q 132 [Prof Pharoah]

245 DFID, *Communications Matters: Our Communication Strategy*, 2008, p 13

246 See, for example, First Report of Session 2007-08, *DFID Annual Report 2007*, HC 64-I, Summary and para 11

suggests that this is not only a better way to formulate policy but also a more effective way to present DFID's activities to the public.

138. The Secretary of State identified a tension between pursuing policies which would have the maximum poverty reduction impact and those which would resonate most with the public. He recounted an exchange he had had with the Prime Minister after the launch of the International Health Partnership, a programme designed to strengthen national health systems, which received very little press coverage. The Prime Minister had queried whether:

[...] we need to do more around single diseases, not because we do not need to do sustainability and health systems, it is the right policy, but we need to look at ways that we can capture the public imagination as well.<sup>247</sup>

**139. Whilst the policies which DFID pursues should always be those which will have the most impact on poverty reduction, the Department must make every effort to present its work in a way that is accessible and meaningful to the public. This would be assisted by emphasising its desired outcomes in the promotion of its major programmes rather than the sums of money to be spent.**

### *Raising the Department's profile*

140. Only 22% of survey respondents said that they knew a lot, a fair amount or even a little about DFID. 54% said that they had never heard of the Department before it was mentioned to them during the survey. Some contributors to our eConsultation reported that they had very little knowledge about what DFID was or what it did. One contributor commented that he had "only been vaguely aware of DFID before this eConsultation".<sup>248</sup> Others who knew about the Department themselves nevertheless believed knowledge amongst the general public was low. One contributor said: "If the intention is for the UK public to know about DFID, what it does, what its achievements are, etc then a huge amount [of additional publicity] is needed"<sup>249</sup>

141. However, academics and NGO representatives took a different view. They were not particularly concerned about the low level of public knowledge about DFID. When asked "Does it matter that DFID does not mean anything to most people?" Professor Pharoah responded "No, it does not matter at all—not if we are talking about the general public."<sup>250</sup> The Secretary of State told us that he was not sure that the level of public awareness about the existence of his Department was "the true measure of our success as a Government department."<sup>251</sup> He did acknowledge, however, that DFID needed "to work harder to make sure that the people of Britain understand not necessarily the name of the Department but the work that the Department is doing."<sup>252</sup> He commented that British NGOs did not

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247 Q 292. We assessed the relative merits of funding health systems and disease specific programmes in our most recent report on HIV/AIDS, see Twelfth Report of Session 2007-2008, *HIV/AIDS: DFID's New Strategy*, HC 1068-I, paras 8-35

248 Ev 159, post by "Yeswecan" <http://forums.parliament.uk/aid-under-pressure>

249 Ev 160, post by "InTheRing" <http://forums.parliament.uk/aid-under-pressure>

250 Q 159

251 Q 293

252 Q 295

spend much time telling their supporters about the money they get from the British Government. He felt that they could do more to publicise the substantial amount of funding they received from DFID: in some cases as much as 70% of their core resources.<sup>253</sup>

142. While Mr Alexander did not think that it was particularly important to increase the number of people who knew about his Department, he did emphasise the need to build a consensus around what its purpose is.<sup>254</sup> He described the shift he wanted to bring about in the way people viewed UK development spending:

My real objective would be to get to a place where [aid] expenditure [...] is deemed to be as central to Britain's sense of identity as the kind of money that we spend on the BBC or the National Health Service at the moment. I think most people would recognise that the BBC is part of what it means to be a British citizen and the National Health Service is equally part of what it means to be a British citizen. I hope that in the years to come we can build a consensus that Britain meeting its international obligations is part of who we want to be as a people in the 21st century.<sup>255</sup>

He also suggested that the Department could raise its profile by re-naming itself. Not surprisingly, people did not feel a “natural emotional attachment” towards government ministries:

I do not think it is coincidental that neither the BBC nor the National Health Service is called the Department of Health or the Department of Broadcasting. You start at a certain disadvantage in terms of people's assumptions and presumptions about a ministry as distinct from international development, British aid and that is informing some of the thinking we are doing at the moment.<sup>256</sup>

In the past DFID had gained legitimacy and credibility from focusing on partner country-led development rather than “waving the flag” and the judgement had been made that it was “sustainable” for people not to be aware of the work of the Department. His view was that this was no longer case. The publication of the Department's new White Paper later this year would provide a “natural opportunity” for making a change in terms of increasing the visibility of the Department.<sup>257</sup>

143. The question of the Department's title is something that has struck us when we travel overseas to observe DFID's work. During our recent visit to Kenya we saw projects being run by Solidarités, a French NGO, whose work in North Horr is funded by DFID. The NGO personnel were wearing t-shirts with a “DFID-Solidarités” logo. Local people benefiting from the DFID-Solidarités projects told us that they had no idea what DFID was, although they knew about Solidarités.

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253 Q 295

254 Q 293

255 Q 293

256 Qq 293-4

257 Qq 295-297

144. We have noted in previous reports that there are occasions when there are advantages to DFID having a name that does not directly link it to the UK, because of political sensitivities in some parts of the world about the UK's international role.<sup>258</sup> Nevertheless, we believe that a change in the Department's nomenclature to one that more clearly identified its work as being funded by British taxpayers, for example British Aid or DFID UK, might increase accountability and public awareness at home and abroad of the valuable and extensive development work that the UK funds and carries out.

**145. We endorse the Secretary of State's view that the UK's development work needs to gain greater resonance in the public consciousness. We, too, want to reach a point where the UK's achievements in meeting its international commitments to developing countries is seen as being part of our national identity. We agree that increased public awareness of DFID's work could make a significant contribution to this and that greater visibility for the Department's activities is a key component of a more effective public relations strategy. We would therefore support a change in the Department's name to better reflect what it does and that it is funded by UK taxpayers. We are open-minded on what the new title should be but "British Aid" or "DFID UK" seem like reasonable suggestions. The Secretary of State indicated that this matter would be included in DFID's new White Paper to be published later this year—we look forward to seeing firm proposals for change then.**

## Engaging with young people

146. We heard from the DEA, a development education charity, that providing people with a detailed understanding of development issues in one of the most efficient ways to strengthen long-term public support for development. Its submission argued that this is more effective than "simplistic public relations and awareness raising campaigns" as "the public may believe these and support them when they see them but soon forget [them] [...] if they have not thoroughly thought the message through and made connections to their own lives."<sup>259</sup>

147. DFID has stated that education is a key part of its longer term strategy for building support for development.<sup>260</sup> It pledged in its 2006 White Paper that the UK Government would "double its investment in development education," and "seek to give every child in the UK the chance to learn about the issues that shape their world."<sup>261</sup> The budget for development awareness is currently £19 million and will rise to £24 million in 2009–10.<sup>262</sup> DFID also provides funding for regional development education centres which provide teachers with guidance and educational materials to enable them to include global and developmental issues in their lessons.<sup>263</sup> As part of the review of its work on building

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258 Seventh Report of Session 2005–2006, *Humanitarian response to natural disasters*, HC 1188-I, para 143

259 Ev 111

260 Ev 87

261 DFID, *Eliminating World Poverty: Making Governance Work for the Poor*, 2006, p 124

262 Ev 111

263 Ev 87

support for development in the UK, DFID will be re-examining its work in the education sector.<sup>264</sup>

### ***Community Linkage initiative***

148. While NGOs involved in development education were generally supportive of DFID's work in this area they did raise specific concerns about the Department's Community Linkage initiative. This project aims to increase links and partnerships between schools and communities in the UK and those in countries where DFID works, for example through 'twinning' schools. Hetan Shah, Chief Executive of DEA, said that they had received anecdotal evidence that this work can "reinforce stereotypes" about people in the developing world.<sup>265</sup> He also expressed concern that: "DFID has increasingly focused on the quantity of links rather than the quality of links, and so we are concerned that by driving up the numbers [...] it may have an actual effect on the quality of the work."<sup>266</sup> Mr Shah also raised doubts about the cost-effectiveness of these programmes saying that, whilst ensuring effective co-operation between local authorities, schools and NGOs in this country "is slightly less glamorous than a link, it actually has more effect upon helping young people understand the issues."<sup>267</sup>

149. When we raised Mr Shah's concerns with the Secretary of State he said that he believed that programmes that involved young people spending time in developing countries were an important part of raising awareness of the challenges these countries faced:

If we are growing a cohort of young people here in the United Kingdom who have themselves experienced doing worthwhile work in developing countries, have met people of their own age and stage with whom they can engage and learn in developing countries and then come back and share those stories and those experiences that will be a material and significant contribution to exactly the kind of consensus that I hope we are all united in wanting to build amongst the British people.<sup>268</sup>

**150. Time spent in a developing country can clearly be a worthwhile and rewarding experience for the young people involved. However, DFID must ensure that it is using its resources for awareness-raising in a way that achieves the maximum possible impact. It may be that "less glamorous" work in the UK would be a more efficient use of money than funding people to travel abroad. We suggest that the Department uses the opportunity presented by the review of its development awareness work to reassess its Community Linkage initiative and reflect upon whether it is the most effective way to achieve the Department's aims.**

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264 "Reviews underway of DFID's Building Support for Development work in the UK", DFID Press Release, 2 April 2009

265 Q 172

266 Q 173

267 Q 175

268 Q 298

### ***Broadening development education***

151. The DEA also argued that DFID could do more to expand the reach of development education programmes. It highlighted evidence of an “increasing demand from the youth sectors to introduce development awareness and global learning into their work in response to the interests and concerns of young people” and emphasised the role that “global youth work” could play in engaging young people outside formal education. DEA noted that: “At present there is very little support for global youth work and no strategic coordination that could ensure the potential of this work is maximised.”<sup>269</sup>

152. Mr Shah remarked that, while there were some examples of good practice in delivering global education in higher and further education, this was not yet being taken up in a systematic way. He believed that DFID should commit to expanding global learning into “non-formal education for young people, further education and higher education—to build on the sort of work it has done with schools.”<sup>270</sup>

**153. DFID needs to build on the work it has done to increase public awareness of development in schools. We recommend that, as part of the review of its building support for development programmes, DFID investigate the possibility of extending its work with young people beyond schools into youth work, and higher and further education.**

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269 Ev 112

270 Q 177



## Conclusion

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154. This report sets out our broad assessment of how the economic downturn is affecting developing countries and the support available to them. We have also stressed the importance we attach to maintaining UK public support for aid expenditure and the need for DFID to improve its performance in this respect.

155. We have attempted to respond to two of the questions posed by DFID in its consultation document on the forthcoming White Paper: how DFID can support countries to minimise the impact of the economic downturn on the poor; and how the international financial institutions can be reformed to deliver development.

156. In answer to the first question, we believe that DFID's combined focus on social protection and infrastructure has made an important contribution towards cushioning the worst impacts of the recession on developing countries. DFID must build on this, especially its work on social protection, to ensure that its programmes are sufficiently comprehensive to support the most vulnerable in the poorest countries.

157. The key reforms needed in the international financial institutions are to improve their ability to respond rapidly and effectively to developing countries' funding requirements; and to change their governance structures, particularly in relation to the balance between donors and recipients on boards and in decision-making processes. DFID is recognised as a global leader on development and is the largest donor to the World Bank's development arm. It is therefore particularly well-placed to apply leverage to its donor partners to make progress in these areas. We look forward to learning how it will take this vital work forward when we see the White Paper later this year.

## Conclusions and recommendations

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### Impact of the downturn on developing countries

1. The rapidly changing nature of the economic crisis makes it essential that DFID is able to respond quickly and flexibly to the different impacts on partner countries. To do this, it needs reliable and frequently updated information. We are impressed by steps DFID has taken to date to analyse the impact on developing countries and its recent efforts to ensure research findings are communicated to policy-makers through the creation of the Global Poverty Alert System. However, the first findings from the new Alert System are not expected to be available until September. Given the real and serious effects that the downturn is having on the poorest people in the world, we would expect DFID to take this initiative forward with greater urgency. We recommend that the Department works with the UN to ensure that the benefits of this new system are available to inform high level political decision-making within the next few months. We also request the Department to provide further details, in its response to this Report, on how the Alert System is operating in practice, how it will influence policy and the extent to which DFID is able to respond quickly and flexibly to increased pressure. (Paragraph 23)

### Responding to the crisis

2. We commend DFID's focus on funding social protection programmes which have been shown to play a vital role in protecting the poorest people in the poorest countries from the worst effects of economic crises. However, DFID must work closely with partner governments to ensure coverage of these programmes is sufficient to reach those with the greatest need. (Paragraph 33)
3. Donor investment in infrastructure not only provides developing countries with a source of employment but will also enable them to emerge from this recession with a stronger economy. We welcome DFID's decision to provide significant funds for infrastructure projects as part of its response to the downturn. The scale of the North-South Corridor project in Africa gives it huge potential to boost trade and economic development in the continent. We request the Department, in its response to this Report, to provide an update on progress with the project. (Paragraph 37)
4. We fully support DFID's decision to fund the Global Trade Liquidity Programme. Ensuring the availability of trade finance is an important part of supporting small and medium sized businesses in poor countries and thereby sustaining economic development. It is vital that the aim for the Programme to be operational in May is achieved. We request that DFID, in its response to this Report, provides us with an update on the amount of funding which has been disbursed, and to which countries. (Paragraph 40)

## Outcomes of the G20 summit

5. The funding commitments made at the G20 London Summit are very welcome. However, uncertainty and lack of clarity remain on the detail of how the pledges will be delivered. We recommend that the UK Government maintain pressure on G20 partners to honour their commitments and on the international financial institutions to ensure that the benefits of these commitments are felt by poor countries at the earliest opportunity. (Paragraph 43)
6. We agree with the Secretary of State that it was in everyone's interest for the IMF to be recapitalised. But this, in itself, is not enough to support developing countries through the downturn. The UK needs to continue to engage with the IMF to ensure that this additional money is rapidly made available to poor countries which need it. Increasing access limits is an important first step. DFID must also ensure that the conditions attached to IMF loans are reduced and that they are consistent with the aim of reducing poverty and promoting growth in the world's poorest countries. The sale of IMF gold reserves seems a sensible way to increase the concessionality of the rate at which IMF loans are made. We request that DFID, in response to this Report, provides us with more details on progress with the sale. (Paragraph 50)
7. We agree that the multilateral development banks, and particularly the World Bank, should make the most effective use of the funds they already have on their balance sheets to maximise poverty reduction outcomes. At a time when other donors are having to take hard decisions on spending, it is clearly welcome that the Banks can increase their lending by \$100 billion. DFID has pressed for this and we are pleased that it has won the argument. It should now maintain its engagement with the Banks to ensure funds are disbursed rapidly to poor countries most affected by the downturn. (Paragraph 53)
8. We are glad that the World Bank is becoming a more agile institution which can respond more rapidly to the needs of developing countries. However, much progress remains to be made by the international financial institutions (IFIs) to ensure that the gap between approving funds and disbursing them is as short as possible. DFID has played a leading role to date in pushing for these changes and it is the largest contributor to the World Bank's International Development Association. It is entitled to continue to press the IFIs to improve their performance in this regard. (Paragraph 57)
9. If developing countries are going to be properly represented in decisions on how the global community responds to the current economic crisis, reform of the international financial institutions (IFIs) needs to take place without further delay. The UK Government clearly understands the need for reform and we accept that it is not prepared simply to "write a cheque and walk away". But the timescale set out at the London summit, with no new reforms to be agreed, let alone implemented, until next year at the earliest, fails to respond to the urgent need. We reiterate our view that DFID, as one of the highest donors to the World Bank, must continue to use its leverage at every opportunity to press for swifter reform of the IFIs, particularly in relation to the representation of developing countries on the World Bank board. (Paragraph 65)

10. We welcome the creation of the World Bank's Vulnerability Fund—developing countries need large and dedicated sums to support them through the downturn. We do, however, agree with the Secretary of State that setting a target of dedicating 0.7% of stimulus packages to this new Fund could cause confusion and undermine international resolve to achieve the long-standing and much more ambitious commitment to allocate 0.7% of Gross National Income to official development assistance by 2015. Nevertheless, we believe that the premise which underlies the World Bank President's proposal is valid: if rich countries can find substantial sums to boost their own economies, they should recognise the pressing need in poor countries and identify dedicated sums, additional to existing pledges, to assist them. We invite the Secretary of State, in response to this Report, to indicate how the UK is responding to the World Bank President's proposal. (Paragraph 69)

### Donor support for development

11. We welcome the UK Government's clear determination to fulfil its pledge to allocate 0.7% of Gross National Income to Official Development Assistance by 2013. The increase in DFID's funding of nearly £1 billion in the next financial year, confirmed in the 2009 Budget, is a significant step towards achieving this goal and sends an important message to other donors and to partner countries about the UK's commitment to international development. (Paragraph 72)
12. We accept that currency fluctuations are a normal occurrence with which all development agencies have to deal. However, the movements in sterling in recent months have been the most extreme in many years and this is bound to have an impact on DFID's spending power. We request that DFID, in its response to this Report, provides us with a update on how its budget for the current financial year has been adjusted to cope with this challenge. We would also be grateful to know the outcome of its deliberations on the Treasury's proposal to allow Departments to ensure the predictability of foreign exchange commitments by entering into hedging transactions. (Paragraph 79)
13. Whilst we accept the need for the UK Government to reduce public expenditure, the announcement of further departmental efficiency savings reinforces our concerns about DFID's ability to meet its objectives of poverty reduction in the world's poorest countries. As we have pointed out, DFID is unusual in being a Department with an increasing budget and a reducing headcount. The countries in which it now operates are increasingly more fragile ones and therefore likely to be more labour-intensive. We reiterate that it would be regrettable if "efficiency" measures actually made the Department less effective. We shall return to this subject in our inquiry later this year into the DFID Annual Report 2009. (Paragraph 82)
14. We note that the OECD's projections of aid expenditure by Development Assistance Committee countries continue to show an upward trend. We are, however, concerned that these may be over-optimistic and do not provide a true reflection of countries' intentions. We are alarmed by Italy's decision to make a substantial reduction in its ODA budget, particularly in the context of Italy holding the G8 presidency. Its actions could send out the wrong signals about donors' intentions and cause development assistance to drop off the international agenda. We urge the UK

Government to make strenuous efforts to ensure that assistance to poor countries remains at the heart of international discussions held during the ongoing economic crisis and thereby build on the achievements which the London summit delivered for developing countries. (Paragraph 85)

15. Whilst the UK Government has indicated that it will honour its commitments to developing countries, despite the onset of the recession, not all countries have done the same. We would encourage DFID to use every opportunity to press donor partners to continue to meet the promises they have made on aid levels, particularly in the context of high-level international meetings. (Paragraph 90)

## Aid effectiveness

16. The effects of the economic downturn on donors and recipients could provide the necessary motivation to make more rapid progress on aid effectiveness. This would produce tangible benefits in the impact that existing aid levels have on poverty reduction as well as helping to maintain public support for development. We agree with the Chairman of the OECD Development Assistance Committee that the time is over for governments simply “paying lip-service” to the principles of aid effectiveness set out in the Paris Declaration. Although DFID has been a good performer to date in implementing the Paris Declaration principles, there is no room for complacency. We recommend that the Independent Advisory Committee on Development Impact (IACDI) consider including evaluation of DFID’s progress towards meeting its Paris Declaration commitments as part of its future work programme. (Paragraph 94)
17. We believe that DFID could improve the effectiveness of its development activity if it made greater use of the expertise that exists within local government in the UK. We recommend that DFID explore the possibility of a development partnership with the Local Government Association and other local government organisations. We will examine this issue in more detail in our inquiry into Urbanisation and Poverty. (Paragraph 96)
18. We understand the difficulties which national budget cycles pose for donors in setting indicative timetables for reaching the 0.7% goal for aid allocations by 2015. Agreeing timetables would, however, make it much easier to assess whether pledges were being met. Just as importantly, it would greatly assist partner countries in planning future expenditure by giving them more certainty about the amounts of aid they would receive and when. We believe the European Commission should continue to push member states to set timetables. The UK has a good record on aid predictability and meeting its funding pledges. Ways must now be found to improve on this as part of the overall aim of aid effectiveness, notwithstanding the stated obstacle of the Comprehensive Spending Review cycle. The UK has set a more ambitious target than other donors, aiming to reach 0.7% of GNI by 2013. We therefore recommend that DFID now sets out a clear timetable for how this will be achieved over the next four years which includes annual milestones. (Paragraph 101)
19. We believe that it is vital that every pound that countries pledge as Official Development Assistance (ODA) is spent on programmes whose main purpose is

poverty reduction. We recommend that the internationally agreed definition of ODA is tightened to reflect this. We will return to the specific issue of the relationship between ODA and funding for climate change adaptation and mitigation in our forthcoming report on Sustainable Development in a Changing Climate. (Paragraph 105)

## Trade and taxation

20. The developed world, represented at the G20 meeting in London, accepted that a new global agreement on trade could boost the global economy by \$150 billion. A successful outcome to the Doha round of World Trade Organisation negotiations could generate three and a half times as much revenue for poor countries as they receive in aid. Unfortunately, acknowledging these facts does not seem to bring a new world trade agreement any closer. We believe that the rich world should show its commitment to economic growth in developing countries by resisting protectionism, offering access to its markets to poor countries and by finally concluding the pro-development Doha round of WTO negotiations. Failure to do this could negate much of the good work which has been done to assist developing countries to cope with the recession. The UK has taken a strong position in trying to encourage other countries to resolve their differences on trade and should continue to engage the US and the EU on this at every opportunity with a view to making real progress at the G8 meeting in July. (Paragraph 112)
21. Developing countries suffer disproportionately from the existence of tax havens which prevent them receiving much-needed tax revenue which they should derive from economic activity within their borders. The ending of tax havens is necessary, not only for reasons of justice but also to promote good governance and robust management of public finances in poor countries. We believe that the consensus reached at the G20 represents an important milestone on the way to reforming and fully implementing international taxation standards. The UK Government deserves credit for ensuring this issue was given appropriate priority at the London summit. Momentum now needs to be maintained. The UK has an opportunity to make amends for its previous failure to address this issue by taking urgent steps now to ensure that British Overseas Territories cease to be tax havens. We do not believe that the Prime Minister writing to the territories concerned is sufficient; more direct action must be taken. We request that, in response to this Report, the Department provides us with an update on progress with the FCO's work with Overseas Territories towards their achievement of the OECD's taxation standards. (Paragraph 120)

## Public support for development

22. If DFID is to build public support for development effectively it needs first to establish what people's attitudes are. This requires the collection of information that truly reflects public opinion. We do not believe that DFID's surveys, as they are currently designed, achieve this. They focus on whether people are concerned about poverty, rather than whether they would support increased funding for development, nor do they attempt to assess the relative importance people place on development



compared to domestic policy areas such as health and education. We recommend that DFID examines how it assesses the level of public support for development and re-designs its surveys to address the weaknesses we have identified. (Paragraph 128)

23. Corruption in the use of aid flows is clearly one of the main concerns the UK public has about development spending. DFID needs to address this issue head on if it is to succeed in allaying taxpayers' concerns. We are not convinced that its current approach is achieving this. We recommend that DFID's Communication Strategy be refocused and redesigned. The aim should be to create a more effective tool for persuading the sceptical sectors of society that their money is not being lost or misspent and that development assistance brings real benefits to the world's poorest people. (Paragraph 135)
24. Whilst the policies which DFID pursues should always be those which will have the most impact on poverty reduction, the Department must make every effort to present its work in a way that is accessible and meaningful to the public. This would be assisted by emphasising its desired outcomes in the promotion of its major programmes rather than the sums of money to be spent. (Paragraph 139)
25. We endorse the Secretary of State's view that the UK's development work needs to gain greater resonance in the public consciousness. We, too, want to reach a point where the UK's achievements in meeting its international commitments to developing countries is seen as being part of our national identity. We agree that increased public awareness of DFID's work could make a significant contribution to this and that greater visibility for the Department's activities is a key component of a more effective public relations strategy. We would therefore support a change in the Department's name to better reflect what it does and that it is funded by UK taxpayers. We are open-minded on what the new title should be but "British Aid" or "DFID UK" seem like reasonable suggestions. The Secretary of State indicated that this matter would be included in DFID's new White Paper to be published later this year—we look forward to seeing firm proposals for change then. (Paragraph 145)
26. Time spent in a developing country can clearly be a worthwhile and rewarding experience for the young people involved. However, DFID must ensure that it is using its resources for awareness-raising in a way that achieves the maximum possible impact. It may be that "less glamorous" work in the UK would be a more efficient use of money than funding people to travel abroad. We suggest that the Department uses the opportunity presented by the review of its development awareness work to reassess its Community Linkage initiative and reflect upon whether it is the most effective way to achieve the Department's aims. (Paragraph 150)
27. DFID needs to build on the work it has done to increase public awareness of development in schools. We recommend that, as part of the review of its building support for development programmes, DFID investigate the possibility of extending its work with young people beyond schools into youth work, and higher and further education. (Paragraph 153)



## Annex: Note on the Committee's eConsultation

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On 13 January 2009 the International Development Committee announced its intention to conduct an inquiry into the impact of the global economic downturn on the developing world. This inquiry explored four main themes: the impact the downturn was having on developing country economies; the global response to the challenges that developing countries faced; what steps were being taken to ensure that developing countries' income from trade and taxation was maximised; and the effect the financial crisis was having on public support for development.

As part of its investigation of this fourth topic the Committee decided to conduct an eConsultation in order to reach out beyond the normal stakeholder group of academics, non-governmental organisations (NGOs) and official bodies and to provide members of the public with the opportunity to share their views on these subjects with the Committee. In particular the Committee wanted to hear whether the onset of the recession had impacted upon support for development and how much was known about the work of the Department for International Development (DFID).

The web forum was created by the Parliamentary Web Centre. In order to contribute directly, interested parties were required to create an account. At registration, a set of basic terms and conditions were set out, as well as a clear explanation of the forum's moderation policy. Once they had created an account, contributors received a username and password that allowed them to access and submit to the forum. Users were also able to read the posts and discussions without logging in. During the course of the forum, Committee staff, with support from the Web Centre, were responsible for 'facilitation moderation'.

Participants were asked to focus their comments around the following questions:

- a) Should the Government change the amount it spends on humanitarian assistance and development?
- b) Has the current financial crisis changed your attitude to humanitarian assistance and development?
- c) What role should the UK Government play internationally in terms of humanitarian assistance and development?
- d) Does DFID do enough to publicise its work?

50 contributions were made to the eConsultation. These postings have been grouped and analysed under common themes and are contained in the volume of evidence published with this report.

The web forum closed in April 2009, but contributions can still be viewed at <http://forums.parliament.uk/aid-under-pressure>. The Committee would like to thank all those who took the time to share their views.

# Formal Minutes

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**Tuesday 19 May 2009**

Members present:

Malcolm Bruce, in the Chair

Hugh Bayley  
Mr Virendra Sharma

Mr Marsha Singh  
Andrew Stunell

Draft Report (*Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 157 read and agreed to.

Annex and Summary agreed to.

*Resolved*, That the Report be the Fourth Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

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

Written evidence was ordered to be reported to the House for printing with the Report, together with written evidence reported and ordered to be published on 13 January, 6 March and 23 April 2009.

[Adjourned till tomorrow at 10.00 am]

# Witnesses

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## Wednesday 21 January 2009

Page

**Rt Hon Douglas Alexander MP**, Secretary of State for International Development, **Mr Martin Dinham**, Director General International, and **Mr Anthony Smith**, Director, Europe and Donor Relations Division, Department for International Development

Ev 1

## Wednesday 4 March 2009

**Dr Dambiso Moyo**

Ev 16

**Dr Neil McCulloch**, Fellow, Institute of Development Studies, **Dr David McNair**, Senior Economic Justice Adviser, Christian Aid, and **Dr Dirk Willem te Velde**, Programme Leader (Investment and Growth), Overseas Development Institute

Ev 24

## Tuesday 31 March 2009

**Professor Cathy Pharoah**, Professor of Charity Funding, Cass Business School, London, **Dr David Hudson**, Director of International Public Policy, University College London, **Hetan Shah**, Chief Executive, DEA (development education charity) and **Kirsty Hughes**, Head of Advocacy, Oxfam

Ev 34

## Wednesday 1 April 2009

**Mr Eckhard Deutsch**, Chairman, OECD Development Assistance Committee

Ev 50

**Mr Maciej Popowski**, Director EU Development Policy: Horizontal Issues, Directorate General for Development, European Commission

Ev 56

## Wednesday 22 April 2009

**Rt Hon Douglas Alexander**, MP, Secretary of State for International Development, **Mr Anthony Smith**, Director, Europe and Donor Relations Division, and **Ms Rachel Turner**, Director, International Finance and Development Effectiveness Division, Department for International Development

Ev 63

## List of written evidence

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1	Department for International Development	Ev 80; Ev 82; Ev 84; Ev 156; Ev 158
2	Association of Chartered Certified Accountants (ACCA)	Ev 88
3	ActionAid	Ev 90; 95
4	CAFOD	Ev 98
5	Christian Aid	Ev 107
6	DEA	Ev 110
7	Development Initiatives	Ev 112
8	Global Witness	Ev 115
9	Dr Ricardo Gottschalk, Institute of Development Studies	Ev 120
10	Jubilee Debt Campaign	Ev 122
11	Local Government Association	Ev 125
12	Dr Neil McCulloch, Institute of Development Studies	Ev 128
13	John Micklewright	Ev 134
14	Norfolk Education and Action for Development (NEAD)	Ev 137
15	Jeffrey Owens	Ev 140
16	UK Aid Network (UKAN)	Ev 143; 146
17	UK Forum on Agricultural Research for Development (UKFARD)	Ev 150
18	Dr van Heerde and Dr Hudson	Ev 151
19	Summary of Responses to the Committee's eConsultation	Ev 159

## List of Reports from the Committee during the current Parliament

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

### Session 2008-09

First Report	Work of the Committee in Session 2007-08	HC 138
Second Report	DFID Annual Report 2008	HC 220 (HC 440)
Third Report	DFID and China	HC 180

### Session 2007-08

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

**Session 2006–07**

First Report	DFID Departmental Report 2006	HC 71 (HC 328)
Second Report	HIV/AIDS: Marginalised groups and emerging epidemics	HC 46-I&II (HC 329)
Third Report	Work of the Committee in 2005–06	HC 228
Fourth Report	Development Assistance and the Occupied Palestinian Territories	HC 114-I&II (HC 430)
Fifth Report	EU Development and Trade Policies: An update	HC 271 (HC 622)
Sixth Report	Sanitation and Water	HC 126-I&II (HC 854)
Seventh report	Fair Trade and Development	HC 356-I&II (HC 1047)
Eighth report	DFID's Programme in Vietnam	HC 732 (HC 1062)
Ninth report	Prospects for sustainable peace in Uganda	HC 853 (HC 1063)
Tenth report	DFID Assistance to Burmese Internally Displaced People and Refugees on the Thai-Burma Border	HC 645-I&II (HC 1070)

**Session 2005–06**

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