National Audit Office

BRIEFING FOR THE HOUSE OF COMMONS INTERNATIONAL DEVELOPMENT COMMITTEE

NOVEMBER 2010

Department for International Development

The work of the Department for International Development in 2009-10 and its priorities for reform

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 900 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work leads to savings and other efficiency gains worth many millions of pounds: £890 million in 2009-10.

This report has been printed on Consort 155

Design & Production by
NAO Communications
DP Ref: 009463-001 | Printed by Precision Printing

National Audit Office

National Audit Office

Department for International Development

The work of the Department for International Development in 2009-10 and its priorities for reform

BRIEFING FOR THE HOUSE OF COMMONS INTERNATIONAL DEVELOPMENT COMMITTEE

NOVEMBER 2010

This briefing has been prepared for the Members of the International Development Committee to support the Committee's inquiry into the work of the Department for International Development in 2009-10.

Contents

This briefing was prepared by Tim Bryant, Neil Carey, Jill Hearne and Simon Williams under the direction of Mark Andrews.

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

Website: www.nao.org.uk

Twitter: @NAOorguk

Part One

Introduction

Aim and scope of this briefing

1.1 This briefing has been prepared for the Members of the International Development Committee (the Committee) to support the Committee's inquiry into the work of the Department for International Development (the Department) in 2009-10.

1.2 This briefing draws on the Department's Resource Accounts 2009-10, the Department's Response to the International Development (Reporting and Transparency) Act 2006 – called "DFID in 2009-10" – and the Department's Structural Reform Plan. It also draws on our work on the Department along with other published material.

1.3 Part One provides a brief introduction to the Department. It is followed by two Parts which set out key issues arising from:

- the Department's financial performance and capability; and
- the Department's reported performance in tackling poverty and its priorities for reform.

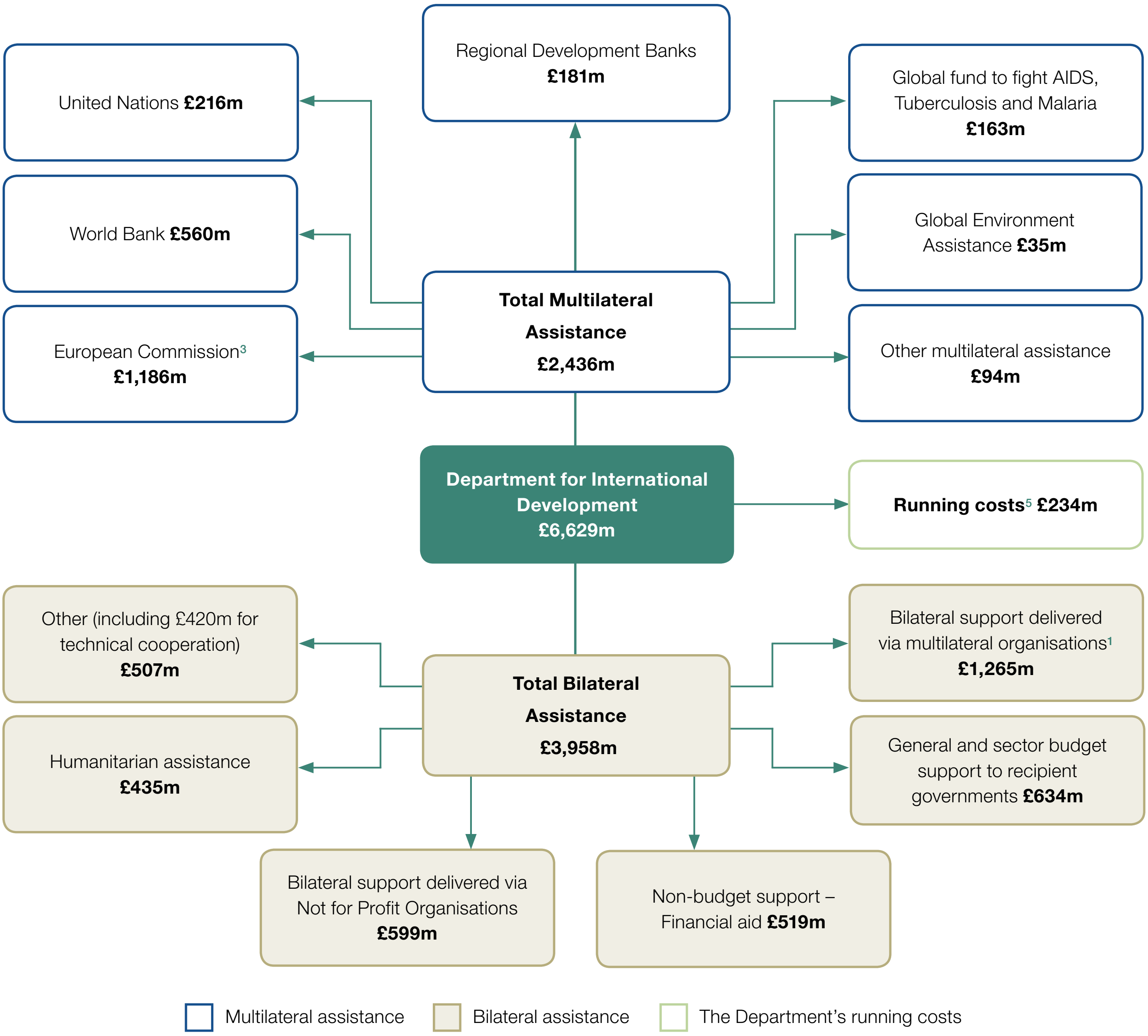
The Department's role

1.4 The Department's overall aim is to reduce poverty in poorer countries, in particular through achieving the internationally-agreed Millennium Development Goals (MDGs).[1] The Department leads the UK Government's efforts to promote international development, working with a number of other departments. It also contributes to the global effort to avoid dangerous climate change, where government policy is led by the Department of Energy and Climate Change, and to reduce the impact of conflict through enhanced UK and International efforts, where the policy lead is the Foreign and Commonwealth Office.[2]

Where the money goes

1.5 In 2009-10, the Department was directly responsible for £6,600 million of UK public expenditure, an increase of £800 million from 2008-09 and an increase of some £2,900 million since 2003-04.[3] Almost all of the Department's expenditure, (**Figure 1**), is classed as Official Development Assistance (ODA) – official financing or other forms of assistance given to developing countries to promote and implement development.[4]

Figure 1
Where the Department's money went in 2009-10



NOTES

1 In total some £1,676 million of the bilateral programme was channelled through multilaterals. In addition to the £1,265 million identified in the figure, other elements of the bilateral programme, such as humanitarian assistance and debt relief, include sums distributed through multilaterals.

2 The values for the individual components of the aid programme do not sum exactly to total Departmental expenditure because of rounding.

3 The total for the European Commission comprises a £789 million share of development spending by the European Commission's External Assistance Budget, and £397 million given directly by the Department to the European Development Fund.

4 The Department has applied international reporting practices when calculating the values in this Figure. The practices differ from those used under Resource Accounting, and so values are not directly comparable to those in the Department's 2009-10 Resource Account. The main difference is the treatment of the £789 million UK share of the European Commission's development spending. The £789 million is reflected above but not included in the Department's Resource Accounts.

5 In its Statistics on International Development 2005-06 to 2009-10, the Department uses the term administration costs rather than running costs.

Source: Department for International Development, Statistics on International Development 2005-06 to 2009-10, October 2010

1.6 In 2009-10, the Department used 37 per cent of its resources to provide core funding to multilateral organisations, such as the European Commission and the World Bank, and 60 per cent of its resources to provide direct bilateral assistance to individual countries (see Figure 1). The bilateral programme includes funding specific development projects, providing emergency aid, funding non-government organisations active in development work, and funding multilateral organisations for specific purposes or to undertake work in specific countries. The Department also provides direct budget support to 13 overseas governments' central exchequers in support of government programmes to assist poverty reduction in general, or in a specific sector such as education.[5]

1.7 The Department provides aid to around 90 countries and has offices in 39 countries, where almost half of its' staff work.[6] It has prioritised some 22 low income countries in South Asia and Sub-Saharan Africa which it considers have the greatest prospect for meeting the Millennium Development Goals with assistance.[7]

Key developments following the election of the Coalition Government

1.8 **Figure 2** outlines key events affecting the Department since the May 2010 General Election. **Figure 3** outlines the budget figures set for the Department through the 2010 Spending Review.

Figure 2
Key events since the May 2010 election

May 2010	The Queen's speech included a renewed commitment to spend 0.7 per cent of the UK's gross national income as Official Development Assistance. The commitment applies from 2013 and thereafter.[8] (see paragraph 3.4)
June 2010	The Department announced the creation of a new independent 'aid watchdog'. The watchdog – to be known as the Independent Commission for Aid Impact – is due to be fully established by June 2011.[9] (see paragraph 3.10) The Department announced reviews of multilateral and bilateral aid. Both reviews are to be completed by February 2011.[10, 11] (see paragraphs 3.11 to 3.15) The Department announced that it was introducing a new UK Aid Transparency Guarantee.[12]
July 2010	The Department announced plans to cut costs, including closing 15 projects which had been failing for up to two years.[13] (see paragraph 2.4) The Department's draft Structural Reform Plan setting out priorities for change was published.[14] (see paragraph 3.3) The Department announced a review of the way the UK responds to humanitarian emergencies, to be completed by March 2011.[15]
September 2010	The UN Summit on the Millennium Development Goals led to the adoption of a global action plan to achieve the Goals by 2015, and new commitments for women's and children's health and other initiatives against poverty, hunger and disease.[16]
October 2010	Results of Spending Review 2010 were announced.[17] (see Figure 3, page 7)

Source: National Audit Office

Figure 3

Spending Review 2010: The Department's budget and planned spending on UK Official Development Assistance, 2010-11 to 2014-15

The Department's total budget is rising from £7,800 million in 2010-11 to £11,500 million in 2014-15 (the equivalent of a 34 per cent increase in real terms).[18] Two thirds of the increase – some £2,500 million – is planned to take place between 2012-13 and 2013-14.

The Department is to become a leaner organisation with it's core administration costs planned to fall by £34 million from £128 million to £94 million, (the equivalent of 33 per cent reduction in real terms) in the four years to 2014-15.

Total UK Official Development Assistance is expected to rise from £8,400 million in 2010 (the equivalent to 0.56 per cent of the UK's gross national income) to £12,600 million in 2014 (0.70 per cent) and then remain stable as a percentage of gross national income.[1]

NOTE

1 Total UK Official Development Assistance includes spending by other government departments, in particular, the Foreign and Commonwealth Office, the Department of Energy and Climate Change and the Ministry of Defence, as well as net investments by the CDC Group plc, the UK's development finance institution.

Source: HM Treasury, Spending Review 2010, HM Treasury, October 2010, pages 60-61, 81-82 and 87

Part Two

The Department's financial performance and capability

The Department's Resource Accounts

2.1 The Department's 2009-10 Resource Accounts received a clean audit opinion from the Comptroller and Auditor General. The Department underspent its resource provision by £268 million, 4.2 per cent of the £6,319 million Estimate voted by Parliament. The large majority of the underspend – £242 million – arose from changes in the accounting treatment of a loan and the level of provision made for a liability, and not from aid expenditure being lower than planned.[19]

Managing the risk of fraud and corruption

2.2 The Department applies a range of controls to mange the risk of fraud and corruption. It undertakes risk assessments of its country programmes and individual projects and has sight of the counter-fraud systems of the multilaterals it funds through its representation on their management boards and audit committees.[20] It is alerted to potential frauds through referrals from its country offices, informants, partner donors and partner governments. The Department does not report on the prevalence of fraud or the total losses arising from identified frauds, but it is required to disclose in its Resource Accounts confirmed cases which have led to losses in excess of £250,000. There were no such confirmed cases of fraud in 2009-10.

Efficiency savings achieved and planned

2.3 In the two years to March 2010, the Department reported it had made £391 million of cash-releasing efficiencies; 60 per cent of its target for the three-year Comprehensive Spending Review period ending March 2011 (see **Figure 4**). The majority of the efficiencies – some £374 million – are attributed to reallocation: targeting aid more on countries and multilateral organisations which the Department judges have the most impact on poverty reduction. Also, the Department measures the quality of its portfolio of projects using annual assessments of the likelihood of projects achieving their objectives. The Department uses this information to generate an index of quality and places a financial value on movements in that index. The index has not improved as quickly as expected, so by March 2010, DFID had delivered £9 million of efficiencies; around 15 per cent of its £66 million three-year target for efficiencies from improving the quality of its portfolio of projects.

Figure 4
Efficiency targets set through the Comprehensive Spending Review 2007 and the 2008 pre-budget report

	Baseline expenditure in 2007-08	Target for end 2010-11	Savings delivered by end 2009-10[2]	Further savings required to achieve target for end 2010-11
Bilateral allocative efficiency	2,165	305	220	85
Multilateral allocative efficiency	2,295	254	154	100
Portfolio quality	2,165	66	9	57
Administrative savings	168	12	7	5
Communication savings[1]	16	10	0	10
Total savings	**–**	**647**	**391**	**257**

NOTES

1 Communication savings were identified by the Department in response to the 2008 pre-budget report and were expected to arise at the end of the Comprehensive Spending Review period. The figure of £16 million was for expenditure in 2008-09.

2 The values for individual savings do not sum exactly to the total savings for 2009-10 because of rounding.

Source: The Department's 2009-10 Resource Account

2.4 In May and July 2010 the Department also announced new cost saving measures, including ending 15 low performing projects which it had judged had been failing for up to two years. These projects had remaining lifetime budgets totalling £100 million.[21] The Department estimates that closing these projects will release £76 million in 2011-12.

Relationship between running costs and programme spending

2.5 The Department's running costs, which include the costs of all staff including those on the front line, have been relatively stable over the last five years, but have fallen relative to DFID's increasing spending on aid programmes. The Department's Statistics on International Development show that its running costs fell from 5.0 per cent of its total expenditure in 2004-05, to 3.5 per cent (£234 million) in 2009-10.[22] Comparisons with other countries are difficult because of different splits between running costs and programme costs. Latest figures available from the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC), indicate that, for the UK as a whole, running costs accounted for 3.3 per cent of total UK Official Development Assistance in 2009; this was 0.8 percentage points below the average for all donors.[23]

2.6 As a result of Spending Review 2010, the Department's running costs (excluding depreciation) will be capped each year but should grow in real terms. By 2014-15, running costs (excluding depreciation) will account for 2 per cent of the Department's total budget in that year;[24] the equivalent to about £233 million, a real terms growth of around six per cent over the four years of the Spending Review.[25] Over the same four year period, programme spend is planned to grow by 34 per cent in real terms.

2.7 As agreed with HM Treasury, the Department also manages its business using a narrower definition covering core administration costs. Some running costs, such as the costs of some overseas staff and related overheads, are treated as programme expenditure rather than administration expenditure, reflecting the role of these staff in delivering aid projects. The Department's 2009-10 Resource Accounts recorded core administration costs as £159 million, with some £71 million of staff and overhead costs classified as programme expenditure.[26] Over the four years of the Spending Review period, the Department expects to cut expenditure on areas classified as core administration by a third in real terms from £128 million in 2010-11 to £94 million in 2014-15 (both values exclude depreciation).[27]

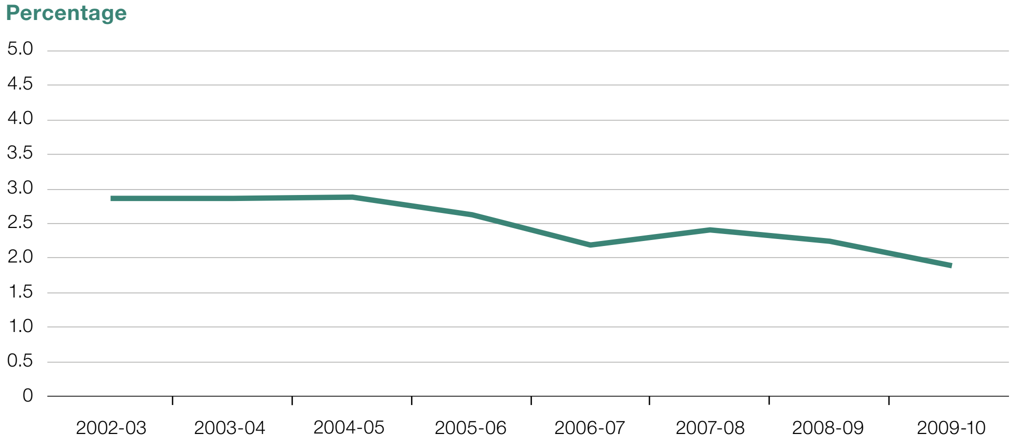
2.8 The likely growth in the Department's overall running costs over the Spending Review period, combined with planned cuts to the core administration element of those costs, provides an opportunity for the Department to increase the staff resources available for front line delivery. The Department's October 2010 press notice covering the 2010 Spending Review said that "funding to deliver aid on the front-line will increase – to ensure DFID has sufficient flexibility to manage resources effectively".[28]

Staffing

2.9 On average, the Department employed 2,383 staff in 2009-10, 22 per cent fewer than in 2004-05. Expenditure on staff in cash terms peaked in 2008-09, falling back by some 4.5 per cent to £114 million in 2009-10.[29] **Figure 5** shows that staff costs have fallen as a percentage of the Department's total expenditure in the last five years.

2.10 In March 2009, the Cabinet Office published its second Capability Review of the Department. The Review assessed DFID's underlying capability to effectively meet its delivery challenges. The Review gave the Department one of the strongest assessments in Whitehall, concluding that the Department was well-run. However, the Review highlighted the challenge faced by the Department in managing increasing programme spend with fewer staff.[30] The previous International Development Committee and other commentators have said that the Department's increasing focus on fragile states and climate change is likely to be resource-intensive.[31] In our June 2010 report on Bilateral Support to Primary Education, we found evidence of staffing stretch; the Department's 34 education advisers had little time 'in the field' to observe actual practice and progress.[32] The Department reported in July 2010 that it is strengthening its approach to Strategic Workforce Planning with the aim of ensuring it is able to deploy staff to priority programmes.[33]

Figure 5
Staff costs as a percentage of the Department's total expenditure, 2002-03 to 2009-10



Source: National Audit Office analysis of figures in the Department's Resource Accounts 2003-04 to 2009-10

The Department's estate

2.11 A March 2010 report by the Office of Government Commerce (now part of the new Efficiency and Reform Group within the Cabinet Office) showed that the Department spent around £10 million on its accommodation in London and East Kilbride in 2009.[34] The Department used 16.7m^2 of space per full time member of staff, which was the third highest of the 18 main departments, and above the government target of 10-12 m^2. The Department's cost of space per full time member of staff was also third highest at £6,800. Since 2009, the Department has let space in its London office which should generate income of £1.2 million in 2010-11. The Department estimates further rental income of over £2 million per annum is possible in future years from renting out space available in London freed by relocating posts to East Kilbride. No formal rental agreements are yet in place for this second tranche of space.[35]

Procurement of goods and services

2.12 In 2008, the Office of Government Commerce was critical of the Department's management of its procurement of goods and services, and its investments in third parties such as multilaterals.[36] The Department has been implementing an action plan agreed with OGC. In spring 2010, the Department conducted a peer-reviewed assessment of its progress against the plan. The results of this assessment, and of similar peer-reviews undertaken by other departments in 2010, have not been published.

Technical cooperation

2.13 In 2009-10, the Department spent £420 million (down £94 million from 2008-09) on technical cooperation projects to enhance the capability of public services and institutions in developing countries.[37] Technical cooperation is mainly delivered through the use of external suppliers, experts employed on fixed-term contracts, training and research and development.[38] Of the £420 million spent in 2009-10, some £374 million was paid to external suppliers of technical assistance and £19 million to experts.[39] A 2010 OECD-DAC Peer Review of the Department concluded that DFID manages technical cooperation flexibly, working well with other donors and using partner country systems for the procurement of expertise where feasible. However, OECD-DAC also concluded that the placement of technical cooperation personnel does not necessarily lead to the sustainable development of partner country capacities. It suggested that the UK should give explicit consideration to how other activities, such as partnerships with other parts of UK government and scholarships, can improve the capacity of developing countries.[40]

2.14 A confederation of European non-governmental organisations (NGOs) reported in 2010 that the Department had not carried out any major assessments of its technical cooperation activities in recent years and was not monitoring whether its country offices were implementing central guidance on technical cooperation.[41] The most recent Department-funded evaluation of technical cooperation focused on its use in Sub-Saharan Africa between 1999 and 2004.[42]

Part Three

The Department's reported performance in tackling poverty and its priorities for reform

Reported performance against the Millennium Development Goals

3.1 Since 2001, the Department's key measures of performance have been increasingly based on the Millennium Development Goals (MDGs). The MDGs cover eradicating poverty; increasing gender equality; improving health and education; and promoting peace and development. The UN's target is for the Goals to be achieved by 2015. Assessing the Department's contribution to the progress made against MDGs is inherently difficult. Countries move on-track or off-track due to a range of factors including contributions by different bilateral or multilateral donors, the actions of recipient governments, and the impact of social, economic and environmental variables. In summer 2010, the Department assessed that its 22 priority countries were on-track to achieve 39 per cent of the seven MDG targets selected as the Department's key performance measures for the period 2008-11 (**Figure 6** overleaf). The countries were off-track for 25 per cent of targets and seriously off-track for 24 per cent.

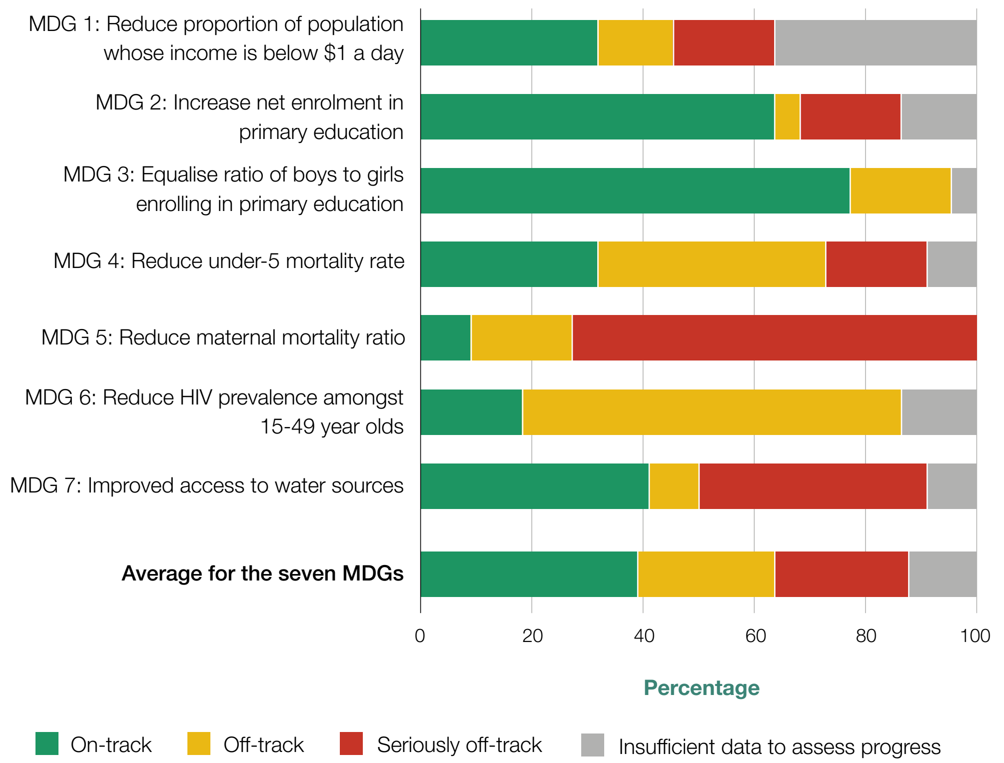
3.2 Like all aid donors, the Department faces significant challenges in obtaining timely and reliable data from international and national authorities. As a result, its assessments of progress against MDGs are often based on old data and limited trends. In summer 2010, the Department judged that it did not have sufficient data to assess the progress of its priority countries to 12 per cent of the seven selected MDG targets (see Figure 6). In 2009, we found that the Department's "progress in securing better, more frequent poverty-related data [had] been slow".[43]

Structural Reform Plan priorities

3.3 The Department's Structural Reform Plan outlines its main priorities under six themes (see **Figure 7** on page 15). In this briefing we comment on the reforms where we have recent and relevant experience.

Figure 6

Percentage of the Department's 22 priority countries on-track to achieve the seven key MDGs selected for 2008-11, as at summer 2010



NOTES

1 On-track – Countries that have either 'achieved' their target or are on-track to achieve their target, i.e. they have a rate of progress above the rate needed to attain their target value by 2015.

2 Off-track – Countries that have made progress, but too slowly to reach their target by 2015. Continuing at the same rate, they would however reach their target in at most twice the time, i.e. by 2040.

3 Seriously off-track – Countries that have made still slower progress, or regressed.

Source: National Audit Office analysis of assessments included in the Department's July 2010 report "DFID in 2009-10"

Figure 7
The six themes of the Department's Structural Reform Plan

1 Honour international aid commitments to support the Millennium Development Goals.

2 Value for money. Make British aid more effective in reducing poverty through improved transparency and value for money.

3 Make British international development policy more effective in boosting economic growth and wealth creation.

4 Improve the impact of British development in conflict countries, including through more integrated working across HMG, with a particular focus on Afghanistan and Pakistan.

5 Role of women. Recognise the role of women in development and promote gender equality.

6 Drive urgent action to tackle climate change by supporting low carbon growth and adaptation in developing countries.

NOTE
1 The wording of some of the themes as set out in the original Structure Reform Plan was revised during the Spending Review. The revised wording has been included above.

Source: DFID, Draft Structural Reform Plan, July 2010, and DFID, Press release, Spending Review 2010, 20 October 2010

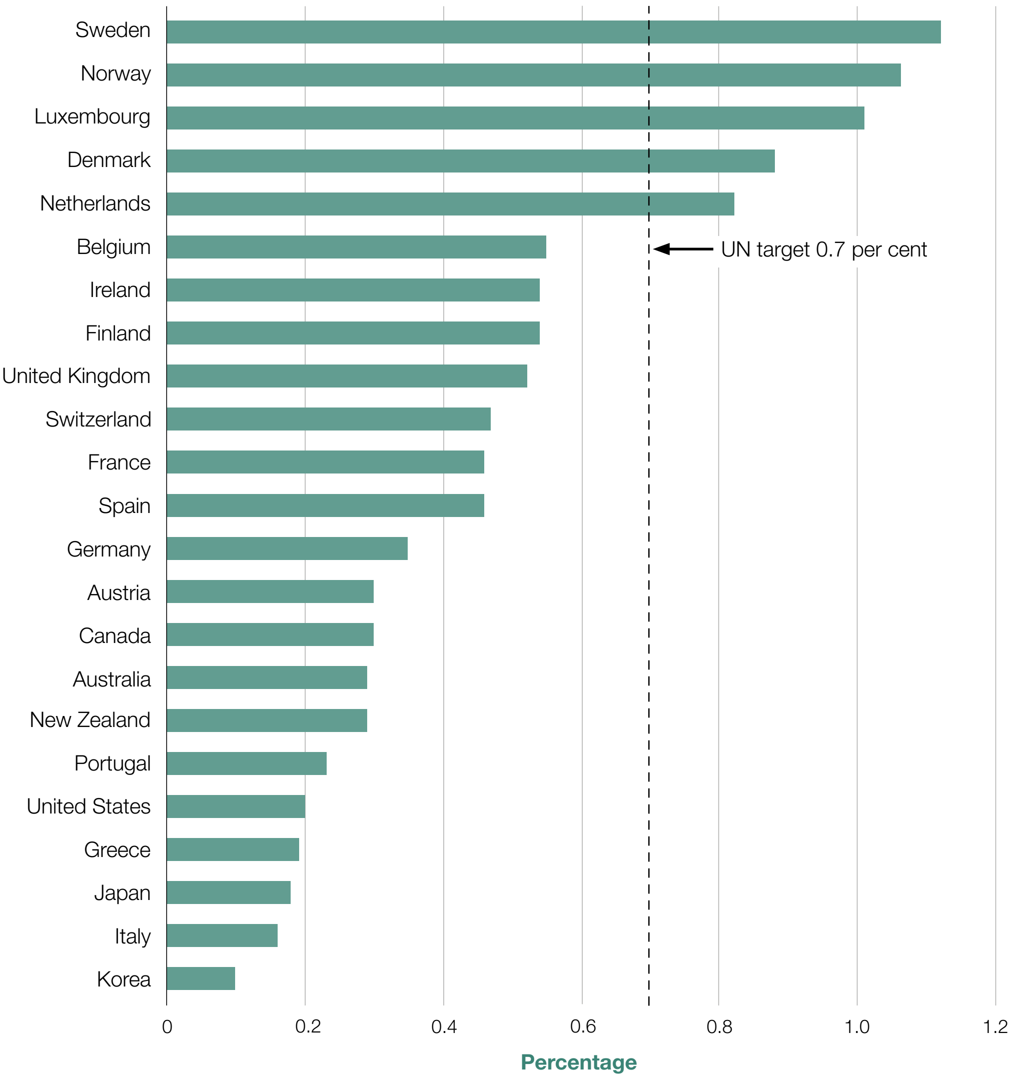
Honour international aid commitments to support the Millennium Development Goals

UK spending on Official Development Assistance

3.4 In the calendar year 2009, the UK's spending on Official Development Assistance (ODA) reached a new high at 0.52 per cent of gross national income. The UK's ODA, as a percentage of gross national income, is now the ninth highest of the 23 countries that are members of OECD's Development Assistance Committee.[44] In 2009, five OECD-DAC countries met the UN target to give 0.7 per cent of their gross national income as ODA (see **Figure 8** overleaf). By November 2011, the Government plans to have passed legislation requiring the UK to achieve the UN target in 2013 and thereafter. The Secretary of State told the International Development Committee in July 2010 that increasing the aid budget was both morally right and in the UK's national interest.[45]

3.5 The previous International Development Committee welcomed the previous Government's intention to legislate in this area. The Committee, however, questioned the extent to which a legal commitment to achieve the UN target would both offer greater predictability to a developing country on the level of UK aid it would receive and galvanise other donors to meet their commitments.[46] The UN predicts that in 2010 global ODA will be $108 billion (at 2004 prices)[47]; some $22 billion below the levels expected in 2005 when developed countries made commitments at the Gleneagles G8 and Millennium +5 summits. The Department reported that some of the shortfall was due to worldwide economic contractions,[48] which reduced the value of gross national income, and thus the dollar value of commitments made in 2005.[49]

Figure 8
Official Development Assistance as a percentage of gross national income for the 23 OECD-DAC countries, 2009



Source: Development Assistance Committee of the OECD

3.6 In the calendar year 2009, the Department accounted for 88 per cent of UK's total ODA of £7,365 million,[50] up 4 percentage points from 2004.[51] The remaining ODA in 2009 was largely made up of:

- net investments of £213 million by CDC Group plc (the UK's development finance institution);
- Ministry of Defence and Foreign and Commonwealth Office contributions totalling £103 million to the Conflict Prevention Pool; [52]
- other Foreign and Commonwealth Office spending totalling £169 million;
- ODA elements of the EC's external assistance budget attributed to government departments other than DFID (£115 million); [53]
- Department of Energy and Climate Change contributions of £150 million to the Environmental Transformation Fund.[54]

3.7 The previous International Development Committee and some NGOs have said the requirement for the UK to meet the UN's 0.7 per cent target may create incentives to spend more aid through other government departments whose aid is required to meet the OECD-DAC definition of Official Development Assistance, but not required to have a poverty reduction focus.[55] Spending Review 2010 announced an increase in the FCO's ODA spending to help meet the Government's 0.7 per cent commitment.[56] Over the spending review period, however, DFID expects that it will continue to account for 88 per cent or more of total UK ODA. NGOs have also said that the UK might move itself closer to the target by extending its definition of ODA to include expenditure on areas, such as domestic refugees and university scholarships for students from developing countries, which are allowable under OECD-DAC rules.[57]

Improving accountability in developing countries

3.8 The Department is planning to give more support to accountability institutions such as parliaments, law enforcement and civil society organisations. In countries where the Department provides direct budget support to the government's central exchequer, it plans that up to 5 per cent of its funding will go to support such institutions.[58] In July 2010, OECD-DAC supported the Department's increasing focus on improving accountability, but it pointed out that downward pressure on administration budgets and staffing levels could limit DFID's ability to develop and nurture partnerships with civil society.[59] During the fieldwork for our 2010 report on Bilateral Support to Primary Education, civil society organisations told us that staffing constraints in DFID restricted opportunities for interaction with the Department.[60]

Improving the transparency and value for money of British development aid

Improving DFID's evaluation

3.9 In December 2007, Ministers established the Independent Advisory Committee for Development Impact (IACDI) to strengthen and assure the independence of DFID's evaluation function. In 2009, the Advisory Committee judged that the quality of DFID's evaluation was similar to other leading bilateral aid agencies, but contended that the Department should aim for a higher standard. It said that: all new DFID projects needed to be designed so they could be evaluated; the Department needed to address defensive attitudes to evaluation; responses to evaluations needed to be more transparent; and the independence of the Department's evaluation function needed to be reinforced.[61] The Department has said that it is changing the way it designs aid programmes so that evaluation considerations are 'embedded' in its programmes at all stages of the project cycle.[62]

The new Independent Commission for Aid Impact

3.10 The Department is establishing an independent scrutiny body – the Independent Commission for Aid Impact (ICAI) – as part of strengthening the focus on the results and outcomes of aid. ICAI is tasked with providing greater independent scrutiny of all UK aid spending and is seen by the Department as having a key role to play in retaining public confidence in the credibility and impact of the UK's aid programme.[63] ICAI is being established in shadow form during autumn 2010 and is due to be fully operational by June 2011.

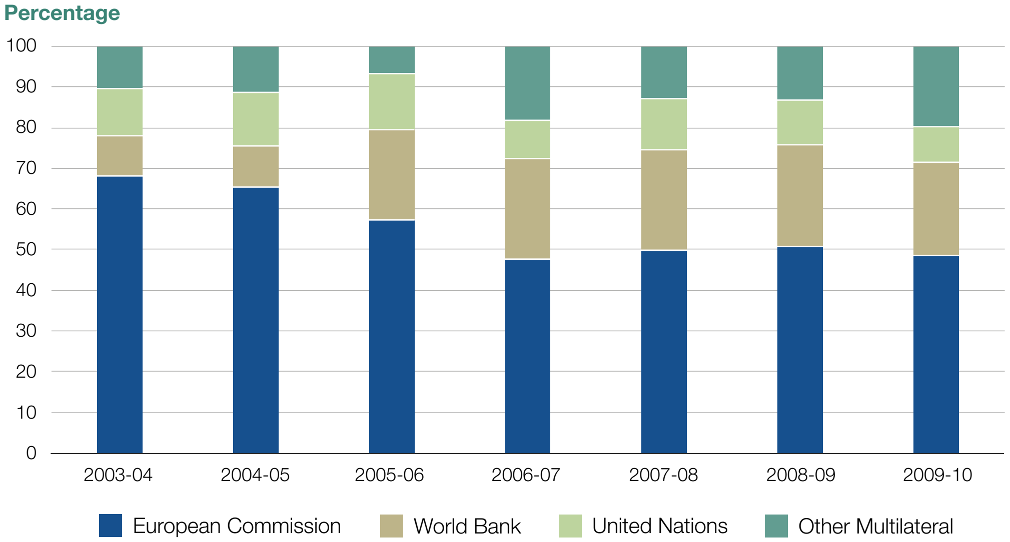
The multilateral aid review

3.11 The Department has had mixed success in improving the performance of multilaterals. The Department judged that during 2005 to 2008 multilaterals improved the way they were supporting developing countries to achieve the MDGs, and that four of the nine UN agencies it had selected to work with had improved their institutional effectiveness. In 2008, it reported that despite lobbying from the UK, the proportion of the European Commission's External Assistance Budget going to low income countries would average 56 per cent over the period 2007-2013, against the 70 per cent the Department had targeted.[64] The Department cannot vary its share of the EC's External Assistance Budget (some £789 million in 2009-10).[65]

3.12 In 2009-10, the Department provided some £2,436 million of core funding to multilateral organisations. Almost 50 per cent went to the European Commission with a further 32 per cent split between the World Bank and United Nations agencies (**Figure 9**). It also channelled around £1,676 million of its bilateral aid budget through multilaterals in specific countries or for specific purposes.[66] The Department's current multilateral aid review (to be completed by February 2011) is focusing on core funding of multilateral organisations and will consider: the relevance of multilateral organisations to the Government's development objectives and their ability to deliver results in country; the extent to which they have delivered and demonstrated value for the money in the past; their plans going forward; and the likelihood of reform to improve their effectiveness. Some 45 UK NGOs told the Department that three areas should be the main basis for assessing multilaterals: their poverty reduction results; their democratic accountability and transparency; and the views of developing countries.[67]

Figure 9

Breakdown of the Department's expenditure on multilaterals, 2003-04 to 2009-10



NOTE

1 Contributions to the European Commission comprise two elements. The Department is attributed a sum (£789 million in 2009-10) to reflect spending on development activities by the European Commission through its External Assistance Budget. The Department also provides funding to the European Development Fund (£397 million in 2009-10).

Source: National Audit Office presentation of data from DFID's, Statistics on International Development: 2005-06 – 2009-10, October 2010 and earlier years

The bilateral aid review

3.13 The Department is planning to complete a review of its bilateral aid programme by February 2011. The aims of the review include establishing: the countries in which it should retain a presence and the programmes it should close; the sector priorities for the bilateral aid programme; the delivery mechanisms to be used; the levels of spending for each country to 2014; and the results to be prioritised.[68] The review is likely to lead to the UK's aid being focused on fewer countries; the Department has already announced that it will phase out aid to Russia and China as soon as practical and responsible.[69]

3.14 The Department's bilateral aid programme has been focused on low income countries and increasingly on fragile states. By 2008-09, 90 per cent of country-specific non-humanitarian bilateral aid went to low income countries, up from 81 per cent in 2004-05.[70] The percentage fell back to 77 per cent in 2009-10 when India moved from low income to lower middle income status.[71] The Institute of Development Studies reported in September 2010 that the percentage of the world's poor people living in middle income countries rose from around 7 per cent in 1990 to around 70 per cent in 2007-08.[72]

3.15 The proportion of the Department's country-specific bilateral aid programme going to fragile states has risen from 48 per cent in 2005-06 to 56 per cent in 2009-10.[73] In September 2010, the Department said it would continue to increase aid to fragile and conflict-ridden countries as this would strengthen the Department's contribution to national security and boost the fight against extreme poverty.[74] This was confirmed in Spending Review 2010. The Review projected a rise in the share of UK ODA supporting fragile and conflicted affected states from 22 per cent in 2010 (the equivalent of around £1,800 million)[75] to 30 per cent (around £3,800 million) by 2014-15. In June 2010, OECD-DAC said that the Department's focus on fragile states was consistent with the Department's MDG focus, as these countries face major challenges in achieving the Goals. However, it concluded that the risks and costs of operating in fragile states are likely to impact both on the quality of the Department's bilateral portfolio and on its ability to deliver an increasing aid budget with declining administrative resources. OECD-DAC also said it was unclear how relatively stable countries with successful bilateral programmes will be affected by the Department's focus on fragile states.[76]

Make British international development policy more effective in boosting economic growth and wealth creation

3.16 CDC Group plc is a Department-owned fund management business which had net assets of £2,500 million in 2009.[77] CDC invests in emerging markets, particularly Sub-Saharan Africa and South Asia. It has pioneered investment through private sector investment funds, rather than investing in businesses directly. The Department sets the overall framework for CDC's investment policy, and said in its Structural Reform Plan that it wants CDC to become more proactive and pro-poor.[78] CDC has a high profile and has attracted significant negative media comment, for example, on its contribution to reducing poverty and its governance.

3.17 Our 2008 report on the Department's oversight of CDC concluded that through strong financial performance with a portfolio more weighted to poor countries than other countries' development finance institutions, and in securing a good return on public funds, CDC will have achieved good value for money. But our report also concluded that the direct effects of CDC's specific investments on poverty reduction for poor people were harder to demonstrate. We said that fuller information on the development and poverty impacts of CDC's investments was needed, as well as validated summary information on the extent of actual adherence to business principles for ethical investment. The report also recommended better information on how other investors' investment is associated with investment by CDC, and improvements in the corporate governance of the Company, particularly over executive remuneration.[79]

3.18 CDC has made some progress in addressing recommendations we made in our 2008 report, for example, it is completing more evaluations of its funds. However, limited progress has been made to date in focusing its overall portfolio more on poorer countries and CDC could improve the information it reports on the extent to which, as lead investor, it stimulated others' investment which otherwise would not have happened.[80]

3.19 In October 2010, the Secretary of State proposed that "the Fund of Funds model should make up no more than part of a new, broader and more actively managed" CDC portfolio. CDC should regain its power to make investments directly in target countries, participating through a wider range of vehicles, including investment in debt instruments and the provision of guarantees. DFID is also exploring how CDC could regain its power to borrow.[81] In our 2008 report we noted the implications of greater diversity in CDC's investments. We recommended that DFID ensure that financial reporting separates different types of investment business, for clearer shareholder awareness of the extent and risk of market developing investments. Where specific development benefits are part of the justification for the investment, they should be fully monitored and reported.

Recognise the role of women in development and promote gender equality

3.20 The UN said in 2010 that gender equality and the empowerment of women are at the heart of the MDGs but progress has been sluggish.[82] Of the Department's 22 priority countries, 17 are currently on-track to achieve the MDG for equal enrolment of girls and boys in primary education, but only two are on-track to achieve the MDG for reducing maternal mortality by two thirds (see Figure 6, on page 15).

3.21 The Department's Structural Reform Plan says new programmes will be approved to increase the number of girls completing primary and secondary education[83], which indicates a change in emphasis from the Department's previous focus on increasing girls enrolment in primary education. Our 2010 report on DFID's Bilateral Support to Primary Education found that enrolment is a crucial first step into education, but is not a sufficient measure of access to education because pupil dropout in developing countries is high, and the amount of education delivered and received is low. Primary education can help poverty reduction only if it equips children with basic knowledge and skills. Returns are particularly high for girls if they progress through to secondary schooling, though recent statistics show that only 44 per cent of girls do this. Among the Department's priority countries typical dropout rates are 10 to 15 per cent just for Year One of primary school.[84]

Endnotes

1 DFID, *DFID in 2009–10: Response to the International Development (Reporting and Transparency) Act 2006,* Paragraph 1.1.

2 NAO, Briefing for the House of Commons International Development Committee, *Performance of the Department for International Development 2008-09*, November 2009, paragraph 4.

3 DFID, *Statistics on International Development 2009-10*, October 2010, Figure 3.

4 DFID, *DFID in 2009–10: Response to the International Development (Reporting and Transparency) Act 2006*, paragraph 1.6.

5 DFID, *Annual Report 2009*, Volume 2, annex F, paragraph F22.

6 DFID, *DFID in 2009–10: Response to the International Development (Reporting and Transparency) Act 2006*, paragraph 1.5.

7 DFID, DFID web archive, *'Poverty impacts and results',* 4 March 2009, http://webarchive.nationalarchives.gov.uk/+/http://www.dfid.gov.uk/Global-Issues/Millennium-Development-Goals/1-Eradicate-extreme-poverty-and-hunger/Poverty-impacts-and-results/,.

8 Hansard HL, *Queen's Speech 2010*, 25th May 2010, Column 7.

9 DFID Press notice, *Mitchell: Full transparency and new independent watchdog will give UK taxpayers value for money in aid*, 3rd June 2010.

10 DFID Press notice, *UK to review multilateral aid spend*, 9th June 2010.

11 DFID Press notice, *Aid budget to be refocused to deliver better results*, 16th June 2010.

12 DFID Press notice, *Mitchell: Full transparency and new independent watchdog will give UK taxpayers value for money in aid*, 3rd June 2010.

13 DFID Press notice, *'Mitchell announces cost saving measures to boost help for world's poor*, 1st July 2010

14 DFID, *Draft Structural Reform Plan*, July 2010

15 DFID Press notice, *Lord Ashdown to lead review of emergency aid*, 14th July 2010.

16 United Nations website, *Summit on the Millennium Development Goals, 20-22 September 2010*, http://www.un.org/millenniumgoals/

17 HM Treasury, The Spending Review Framework, June 2010, Cm 7872, paragraph 2.7

18 Figures given for each year are the Department's total departmental expenditure limit (DEL) and therefore include both its resource departmental expenditure limit and its capital departmental expenditure limit. The figures exclude £100 million in Annually Managed Expenditure the Department has been allocated for each year of the Spending Review period. Annually Managed Expenditure covers programmes which are typically volatile and demand-led, and which are therefore not subject to firm multi-year limits in the same way as DEL.

19 DFID, *Resource Accounts 2009-10,* paragraph 5.6.2.

20 International Development Committee, *DFID's Performance in 2008–09 and the 2009 White Paper: Government Response to the Committee's Fourth Report of Session 2009–10,* September 2010, HC 452, page 2.

21 DFID Press release, '*Mitchell announces cost saving measures to boost help for world's poor*, 1 July 2010.

22 DFID, *Statistics on International Development*, published in 2009 and 2010. In each publication see Figure titled the 'DFID Programme' The statistics use the term 'administration costs" rather 'total running costs'. We have confirmed with DFID that the terms are consistent.

23 OECD website, 'ODA by Sector', http://stats.oecd.org/Index.aspx?DatasetCode=ODA_SECTOR. OECD uses the term 'administration costs' rather 'running costs'. We have confirmed with DFID that the terms are consistent.

24 HM Treasury, *Spending Review 2010*, October 2010, page 61.

25 In 2010-11, total running costs (excluding depreciation) are expected to be around £200 million.

26 Figure of £71 million provided by DFID to the NAO.

27 HM Treasury, *Spending Review 2010*, October 2010, page 87.

28 DFID, Press release, *Spending Review 2010*, 20th October 2010.

29 DFID Resource Accounts 2005-06 to 2009-10. For 2009-10 staff costs see page 56 of the 2009-10 Resource Account.

30 NAO, Briefing for the House Of Commons International Development Committee, *Performance of the Department for International Development*, November 2009, paragraphs 17 and 2.1 to 2.2.

31 International Development Committee, Fourth Report of Session 2009-10, *DFID's Performance in 2008-09 and DFID's White Paper,* March 2010, HC 48-I, paragraph 35.

32 NAO, *DFID: Bilateral Support to Primary Education,* June 2010, HC 69, paragraphs 5.5 and 5.6.

33 DFID, *Resource Accounts 2009-10*, page 112.

34 Office of Government Commerce, *The State of the Estate in 2009,* March 2010, Appendix C.

35 Information provided by DFID to the NAO.

36 NAO, Briefing for the House of Commons International Development Committee, *Performance of the Department for International Development 2008-09,* November 2009, paragraphs 2.5 to 2.8.

37 DFID, *Statistics On International Development 2004-05 to 2008-09,* October 2009, page 19 and DFID, *Statistics On International Development 2005-06 to 2009-10*, October 2010, page 31.

38 DFID, *Statistics On International Development 2004-05 to 2008-09,* October 2009, page 8.

39 Information provided by DFID to the NAO.

40 DAC, *Peer Review: United Kingdom*, 2010, page 83-84.

41 CONCORD, *Penalty Against Poverty: More and better EU aid can score Millennium Development Goals*, June 2010, page 36.

42 DFID, *Developing Capacity? An Evaluation of DFID-funded Technical Cooperation for Economic Management in Sub-Saharan Africa. Volume 2: Case Studies, June 2006,* Executive Summary paragraph S3.

43 NAO, *Department for International Development: Progress in Improving Performance Measurement,* May 2009, paragraph 3.

44 OECD-DAC, *Net Official Development Assistance in 2009, April 2010*.

45 International Development Committee, Uncorrected Transcript of Oral Evidence Session, *The Secretary of State's plans for the Department for International Development,* Thursday 15 July 2010, published as HC 363-I, question 5.

46 International Development Committee, *Draft International Development (Official Development Assistance Target) Bill*, Seventh Report of Session 2009–10, March 2010, HC 404.

47 UN, *The Millennium Development Goals Report 2010*, June 2010, page 67.

48 DFID, *Resource Account 2009-10*, page 101.

49 OECD, *Development aid rose in 2009 and most donors will meet 2010 aid targets*, April 2010.

50 DFID, *Statistical Release: Provisional UK Official Development Assistance as a proportion of Gross National Income, 2009,* April 2010.

51 DAC, *Peer Review: United Kingdom, 2010,* page 48.

52 The Conflict Prevention Pool, which is managed jointly by MOD, FCO and DFID, aims to prevent and manage international conflict.

53 DFID is attributed most of the UK's share of the EC's external assistance budget – see paragraph 3.11.

54 DFID, *Statistical Release: Provisional UK Official Development Assistance as a proportion of Gross National Income, 2009*, March 2010, table 4 and paragraph 13.

55 CONCORD, *Penalty Against Poverty: More and better EU aid can score Millennium Development Goals,* June 2010, page 36.

56 HM Treasury, *Spending Review 2010,* HM Treasury, October 2010, page 59.

57 Save the Children, Policy Brief, *UK development aid – challenges and choices,* April 2010.

58 DFID, *Structural Reform Plan,* July 2010, Action point 1.3.

59 DAC, *Peer Review: United Kingdom,* 2010, pages 53 and 79.

60 NAO, *Department for International Development: Bilateral Support to Primary Education,* June 2010, HC 69, paragraph 5.6

61 Independent Advisory Committee on Development Impact, IACDI Chair's Annual Letter to Secretary of State 2009, December 2009, page 2.

62 DFID website, '*Evaluation*' information page, link: http://www.dfid.gov.uk/About-DFID/Finance-and-performance/Evaluation/, last updated 15 September 2010.

63 DFID, *Terms of Reference: Independent Commission for Aid Impact,* September 2010, paragraph 12.2.

64 DFID, *2008 Autumn Performance Report,* December 2008, Cm 7515, pages 79-87.

65 As explained in Figure 9, the UK also funds the European Development Fund. The UK can vary its contributions to this Fund.

66 See Figure 1 and also DFID, *Statistics On International Development 2005-06 to 2009-10,* October 2010, pages 8 and 15.

67 BOND, *Letter to Andrew Mitchell Re: DFID Multilateral Aid Review,* 13 August 2010, http://www.bond.org.uk/data/files/bond_letter_to_andrew_mitchell_re_dfid_multilateral_aid_review_13.08.10.pdf.

68 Hansard HC, 21 July 2010, Column 345W.

69 DFID Press release, *Aid budget to be refocused to deliver better results,* 16 June 2010.

70 DFID, *Statistics On International Development 2004-05 to 2008-09,* October 2009, page 78. Note expenditure excludes humanitarian assistance.

71 DFID, *Statistics On International Development 2005-06 to 2009-10*, October 2010, page 69. Note expenditure excludes humanitarian assistance.

72 Andy Summer, Institute of Development Studies, *Global Poverty and the New Bottom Billion: What if Three-Quarters of the World's Poor Live in Middle-Income Countries?*, September 2010.

73 DFID, *Statistics On International Development 2005-06 to 2009-10*, October 2010, page 69. Note expenditure excludes humanitarian assistance.

74 DFID Press release, *UK to increase aid money spent on conflict countries,* 16 September 2010.

75 DFID, Press release, *Spending Review 2010,* 20 October 2010.

76 DAC, *Peer Review: United Kingdom,* 2010, pages 49 and 50.

77 CDC Group Plc, *Financial Review 2009*, 2010, page 2.

78 DFID, *Structural Reform Plan*, July 2010, Action point 3.2.

79 NAO, *Investing for development: the Department for International Development's oversight of CDC Group plc,* December 2008, HC 18, paragraphs 13 to 15.

80 NAO *Investing for development: the Department for International Development's oversight of CDC Group plc,* December 2008, HC 18. Appendix 2.

81 DFID Press Release, *Private sector holds key to tackling global poverty,* 12 October 2010.

82 United Nations, *Millennium Development Goals Report 2010,* page 4.

83 DFID, *Structural Reform Plan*, July 2010, Action point 5.1.

84 NAO, *Department for International Development: Bilateral Support to Primary Education,* June 2010, HC 69, paragraph 7.