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The Economic Impact and Effectiveness of Development Aid

Report

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CONTENTS

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ABSTRACT

One in five of the world's population still lives on less than $1.25 a day. This poverty is a source of great human misery, and, if effective ways can be found to reduce it which are acceptable to the taxpayers of the developed world, then reduce it we should.

This report is about development aid, and how effective it has been in promoting development and poverty reduction in recipient countries. It examines the Government's plans for a real terms increase of 37% in official aid spending in the four years to 2015. The report does not address humanitarian aid for relief of acute distress following conflict, famine, natural disasters or other emergencies, which is less than 10% of official aid spending.

This inquiry has shown that finding ways to realise the simple ambition of reducing poverty by means of development aid is hugely challenging:

- Economic growth is essential if poverty is to be reduced. There is however no agreement amongst experts as to the effectiveness of development aid in promoting growth. Estimates vary from those which suggest that development aid has added about 0.5 per annum to growth in recipient countries to those which suggest that it has had no positive, or indeed negative, effect on growth.
- There is far from universal agreement amongst experts as to what the aim of aid should be. Should it be to maximise economic growth? Should it be to have the maximum effect on poverty? Or should it for example be a tool for ensuring that values such as human rights are spread more widely, or for combating climate change? These objectives are not necessarily in conflict but they do complicate the design of aid policy.
- There is little agreement amongst experts as to what forms of aid are the most effective. For example, some of our witnesses thought it important to promote foreign direct investment. Some thought that technical assistance was central while others were keener on large-scale projects designed, for example, to combat disease. Different arguments were advanced for project-based aid, for governmental budgetary support and for large scale infrastructure investment.
- There is disagreement among experts as to what is the best way to channel aid. Some argue for multilateral aid on the grounds that it is better for delivery of large-scale development assistance and reduces the number of different donors which aid receiving countries need to keep informed and involved. Others believe that multilateral aid, including aid through the European Union, can be wasteful and that national aid, at least so far as the UK is concerned, is better controlled. Some emphasise the benefits of channelling aid through NGOs and civil society organisations; others emphasise that such organisations can lack scale, and that competition between them can undermine aid, for example by tempting them to make concessions to corrupt governments to preserve their programmes.
- There is also disagreement amongst experts as to whether aid should focus on those countries where poverty is most acute—often "failed" or "failing" states—and those who believe that, without better governance, aid will prove a waste of time or worse.

- There is disagreement amongst experts as to whether aid is a tool enabling donor countries to combat corruption and bring about internal peace, or whether it tends to feed corruption and sustain damaging internal conflicts.

We are however pleased to report that expert opinion is virtually united in agreement that DFID enjoys an outstanding reputation internationally as an effective aid agent. It has refined the Government's approach to aid over a number of years. Now, under an energetic Secretary of State, it is taking direct action to deal with points made by aid critics by for example, increasing its emphasis on promoting private investment and on containing unrestricted budgetary support.

We do make recommendations designed to improve DFID's performance further. In particular we fear that, sometimes, it is pursuing various good objectives—helping fragile states, zero tolerance of corruption, cutting staff numbers—that are likely to prove mutually incompatible.

We have not sought in this report to reconcile all these different arguments. We have sought to form a balanced view of aid, which recognises its strengths and weaknesses. And, in particular, we have sought to apply that view to reach a sensible verdict on the future of Britain's aid programme so as to ensure, to the maximum extent possible, that it does what taxpayers expect of it: make people in the least developed countries less poor and less miserable.

Summary of Conclusions and Recommendations (1–28)

1) This report focuses on development aid which is over nine-tenths of official aid spending. It is not about humanitarian aid, which accounts for less than 10% of official aid spending. We fully support humanitarian aid. (para 3)

2) Since private capital flows to developing countries are now so much greater than official aid flows it seems clear that private spending has become a much greater contributor to development than official aid. (para 11)

3) Economic growth is essential to bring about poverty reduction in developing countries. Aid is plainly not the main driver of their growth, since capital and trade flows are so much greater, but it can arguably play a catalytic role. We consider in this report what impact aid makes on recipient countries' growth. (para 18)

4) The difficulties of accurate measurement and attribution, and of assessing what would have happened if no aid had been given, are so formidable that the evidence that aid makes a contribution to growth in recipient countries is inconclusive. (para 32)

5) Large and prolonged aid programmes can have a corrosive effect on local political systems when the priority becomes to attract aid rather than to solve problems. DFID should pay close attention to the scale and composition of aid programmes to ensure that resource flows do not overwhelm local ability to manage them and undermine systems of governance in recipient countries. They should also support recipient governments' systems of audit and public financial management and have a credible exit strategy. (para 36)

6) We welcome evidence of graduation from aid, or progress towards it, by a range of countries in Asia and Africa. We recognise that any contribution by aid to the economic growth which enables graduation may not have been great. We do not subscribe to the fallacy that because graduation took place after aid, it was even in part because of aid, since many factors such as governance, trade and investment affect growth. It seems likely that all contributed, and that aid's impact was greater where, as in Botswana, Ghana or Kenya, it was a higher proportion of GNP in the early days of development and was delivered in support of a clear strategy for growth. We welcome the Secretary of State for International Development's readiness to move with the times and prepare exit strategies in countries where graduation is near. (para 45)

7) The risks of corruption are greater in weak, unstable or failed states. It is important for donors to ensure that opportunities for corruption are as limited as possible by setting in place systems of audit and control as rigorous as local conditions permit and to withhold development aid altogether where corruption is rife and therefore endangers the effectiveness of aid. In the battle against corruption, to which we return later, accountants are more important than economists. (para 50)

8) We recommend that DFID should monitor and report on flows of capital from recipient countries, with a view to reducing aid where there are excessive outflows. We agree with Transparency International that the Government should explore with other G20 countries the scope to discourage illicit capital flight from developing countries. (para 55)

9) Growth seems the most effective remedy for global poverty. We are surprised that the role of growth is not more fully acknowledged in the international community's collective approach to poverty reduction. We recognise that trade, investment and remittances are all much more substantial than aid and more important in driving growth. We accept that accurate measurement of whether or how much aid helps promote growth is not available. But similar difficulties arise over measurement of the contribution to growth of trade, investment and remittances, though their indispensability to growth is undeniable. It is uncertain that aid makes a proportionate contribution. (para 58)

10) The risks of failure in aid to fragile states are greater than elsewhere, as is the scope for misuse of aid funds. For the Government's planned increase in aid to fragile states to have any chance of being effective we recommend careful selection of programmes and continuous evaluation of their effect, and a robust anti-corruption strategy. (para 73)

11) Where security policy and aid policy overlap with the aim of bolstering stability, circumstances are often challenging and outcomes uncertain. Lessons must be learnt from the unrealistic goals set for aid in Afghanistan. In the UK, DFID see the Government's Building Stability Overseas Strategy (BSOS) as a useful aid to decision-making. We agree with Rory Stewart MP who told us that "the liberal imperialist idea ... of creating governance and stability in a post-conflict zone through the application of development aid is mistaken." Decisions on intervention should be carefully weighed on the basis of thorough analysis of local circumstances and realistic and proportionate assessment of what is achievable. (para 74)

12) We agree with Lord Jay of Ewelme who told us that aid should complement British foreign policy. The Conflict Pool provides scope for coordinated responses by DFID, the Foreign and Commonwealth Office and the Ministry of Defence to instability and conflict in developing countries in carefully assessed cases. (para 78)

13) We believe that poverty reduction through economic development should remain the main aim of aid policy. (para 84)

14) We welcome the Secretary of State for International Development's decision to run down bilateral development aid programmes in 16 countries including China and Russia and to concentrate bilateral aid in 27 countries. (para 85)

15) Whatever its merits when it was adopted in 1970, we do not accept that meeting by 2013 the UN target of spending 0.7% (£12bn) of Gross National Income on aid should now be a plank, let alone the central plank, of British aid policy because:
a) it wrongly prioritises the amount spent rather than the result achieved;
b) it makes the achievement of the spending target more important than the overall effectiveness of the programme;
c) the speed of the planned increase risks reducing the quality, value for money and accountability of the aid programme;
d) reaching the target increases the risk identified in Chapter 4 that aid will have a corrosive effect on local political systems.

We recommend that the core of aid policy should be choosing and funding the best ways of promoting international development and stability, rather than finding new ways to spend ever-increasing resources. (para 95)

16) The Government should therefore drop its commitment to enact legislation to enshrine in British law an obligation on future Governments always to comply with the UN target of spending 0.7% of Gross National Income on aid. It would deprive future Governments of the flexibility to respond to changing circumstances at home and abroad. The Secretary of State has not put forward any case for legislation other than the Government's political commitment to it. (para 96)

17) We welcome DFID's reviews of all bilateral aid programmes and multilateral agencies supported by Britain. DFID's renewed commitment to results and value for money is a welcome change in approach, if carried through. (para 98)

18) We welcome DFID's decisions to cease funding to a few ineffective multilateral organisations. But more needs to be done. The evidence we received raised concerns about the quality of aid delivered via the World Bank and in particular the UN Development Programme (UNDP). We would support reducing funding to both organisations, which receive large amounts of DFID money, while a more detailed re-evaluation of their work is carried out. The Government should push for a substantial reduction in the European Commission's aid programmes given its focus on the EU's neighbours rather than poorer, low income countries that are in greater need. DFID must provide impact assessments and regular reports on performance of projects it funds through all multilateral organisations. (para 100)

19) India’s impressive economic growth and technological attainments, and its own aid programme, coexist with widespread, extreme poverty. British development aid to the poorest Indian states may provide a perverse incentive to the Indian government to use less of its own revenue to alleviate poverty. We recommend that the Secretary of State should urgently prepare an early exit strategy from the India development aid programme. (para 104)

20) We welcome DFID’s decision to halve general budget support by 2014/15. We also welcome the introduction of more rigorous conditions of disbursement. But we are concerned that sector budget support—where the funds are spent in specific areas such as health or education—is to jump 20% by 2014/15 and that much of Britain’s funding of multilateral agencies may be used as budget support. Since the risks of misuse of budgetary aid are high, both types of budget support—general and sectoral—should be reduced, not just the general budget support targeted by the Government. DFID should also ensure that less of the aid it provides via multilateral organisations is used for budget support, or withdraw funding from multilateral agencies that persist in focussing on budget support. (para 110)

21) We welcome the new emphasis on the development role of the private sector, which is essential to the creation of strong and sustained indigenous growth. DFID’s own efforts should increasingly concentrate on the ways in which it can help to encourage and sustain private investment. It should not be tempted into interfering unnecessarily in the activities of private companies. The more private sector skills can be embedded within the Department, the more likely its efforts are to succeed, with the prize, at the end of the day, of less taxpayer-funded aid. (para 115)

22) We recognise the difficult case-by-case judgments on aid delivery which DFID faces in easing the plight of the poorest in countries where oppressive regimes violate human rights. We recommend that DFID should continue to exercise vigilance in ensuring aid does not prop up oppressive regimes, even if they are not conspicuously corrupt in a financial sense. (para 117)

23) We recognise the valuable contribution that some NGOs can make to development and agree that DFID should use them in the right circumstances to deliver some of its aid, recognising that the NGO sector cannot substitute in the long run for credible and effective recipient-country governments. We recommend, however, that DFID should be as robust in monitoring proper use of funds by NGOs as it is with directly-delivered resources. (para 124)

24) We welcome the Secretary of State’s commitment to ensure better ‘badging’ of British aid. Other donor governments are less reticent. (para 130)

25) We do not advocate a return to tied aid. But we recommend that DFID should consider with the Department for Business, Innovation and Skills how Britain could derive direct economic benefit from its development aid programmes without worsening quality and effectiveness for recipients. (para 131)

26) The planned combination of much higher programme spending, especially in fragile states, with administrative staff cuts seems to risk weaker monitoring of programmes and less rigorous vigilance against corruption. We are not convinced that a cut in DFID staff of the magnitude planned can be reconciled with adequate control of the Department’s fast-growing budget, although we welcome DFID’s plans to strengthen the front line within a stable headcount overall, which we trust will lessen the risk. We recommend that the Secretary of State should ensure that administrative staff cuts do not hamper his focus on results and in particular the struggle against corruption. (para 136)

27) There is corruption in many developing countries. We are greatly concerned by the paltry and implausibly low levels of fraud identified by DFID of little over £1m in its global programmes. Given critical reports of the National Audit Office and the Independent Commission for Aid Impact, DFID must make much more strenuous efforts to improve its detection of corruption, especially given the sharp increases in aid over the next few years. (para 143)

28) We recommend that both Parliament and DFID monitor ICAI's own effectiveness closely, and take steps necessary to ensure that both its work and its staffing are sufficient both in quality and in quantity for it effectively to discharge its duties. (para 145)

The Economic Impact and Effectiveness of Development Aid

CHAPTER 1: INTRODUCTION

1. This report is about development aid. It examines how effective aid has been in promoting development in recipient countries, including those affected by conflict. It does *not* address humanitarian aid for relief of acute distress following conflict, famine, natural disasters or other emergencies. Humanitarian aid, which we fully support, accounts for less than 10% of global aid flows.

Definition of Aid

2. Throughout this report "aid" is defined as net official development assistance (ODA) from member countries of the OECD Development Assistance Committee (DAC) to eligible recipients.[1] Net ODA consists of grants and concessional loans provided by official agencies in donor countries[2] that are disbursed with the intention of promoting economic development. Under this definition, aid includes technical assistance, debt relief, and transfers to multilateral agencies. It excludes military and direct peacekeeping assistance but includes some 'peace and development' activities such as those funded by DFID's contribution to the Conflict Pool.

3. **This report focuses on development aid which is over nine-tenths of official aid spending. It is not about humanitarian aid, which accounts for less than 10% of official aid spending. We fully support humanitarian aid.**

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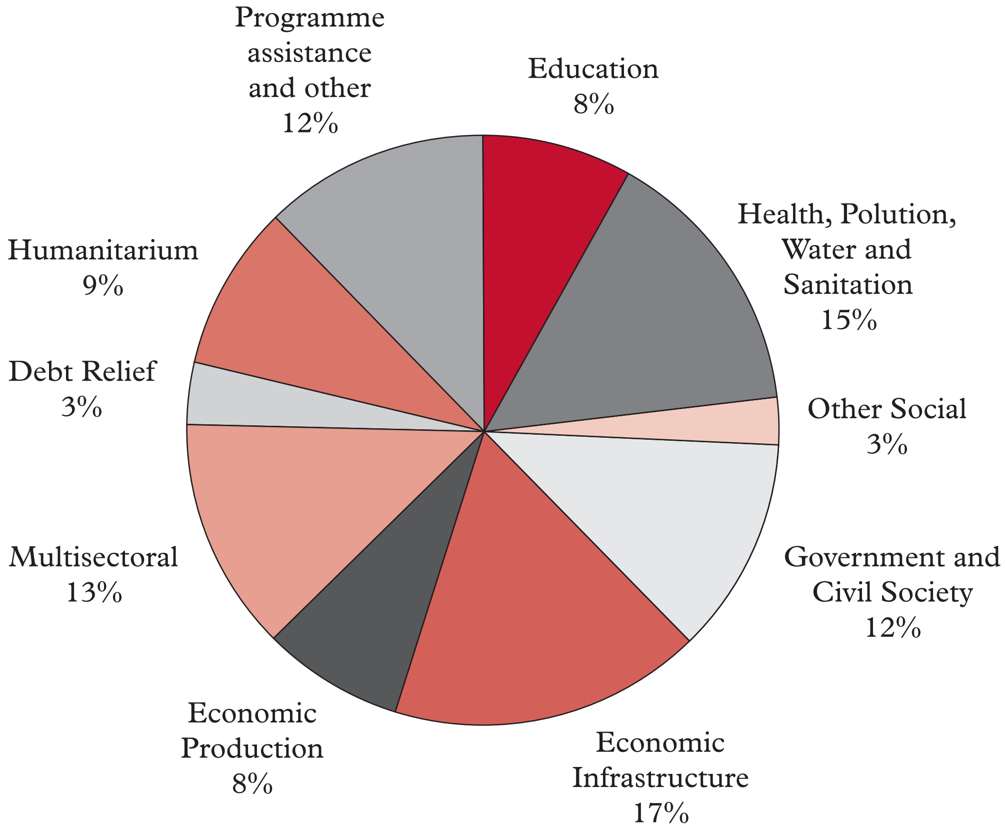
1 There are 24 DAC members (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK, USA and the EC) and 152 eligible recipients, some of whom may be non-DAC donors in their own right, for example, India, China and Brazil.

2 Concessional means a grant element of at least 25%. A concessional loan can be thought of as equivalent to a commercial loan plus a pure grant.

FIGURE 1

Aid by intended use: All DAC donors 2010 (Total aid = US$128.5 billion)



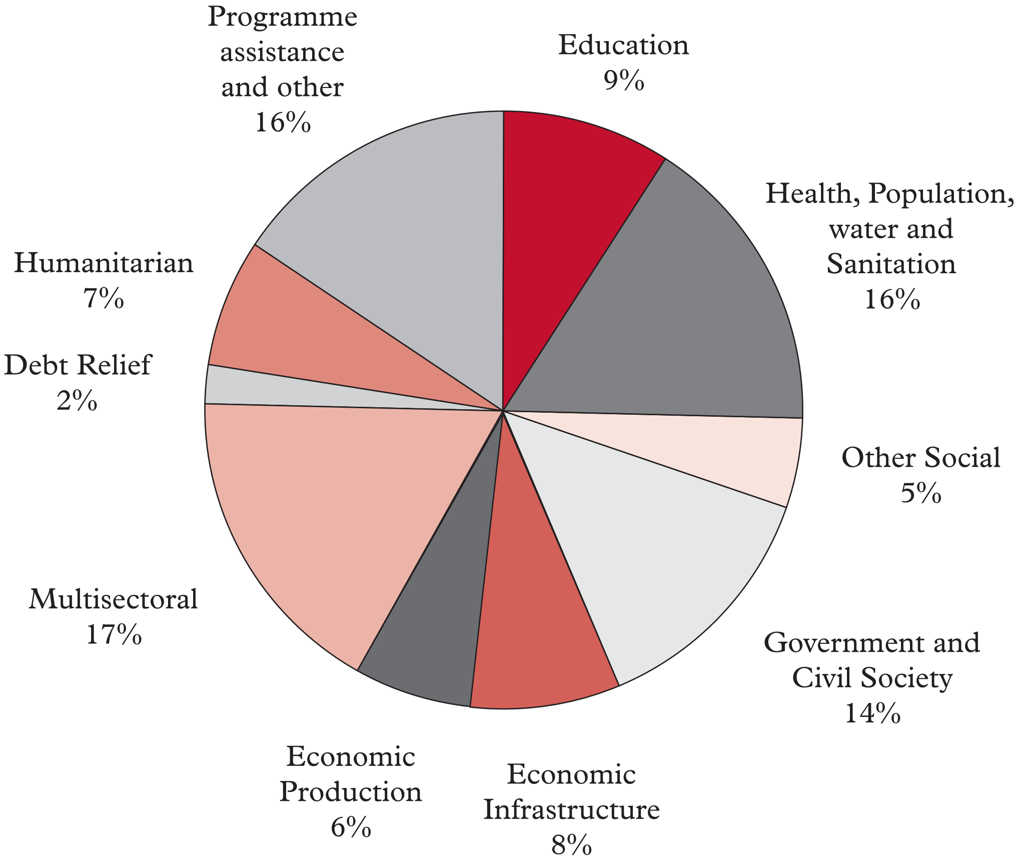
Source: OECD Development Assistance Committee Statistics on Resource Flows to Developing Countries Table 19 *www.oecd.org/dac/stats/dcrannex*

4. The report looks in particular at British aid policy and programmes and the approach of the Department for International Development (DFID) under the Coalition Government. It examines the case for the substantial increases in the aid budget planned by the Government to reach the UN target of spending 0.7% of Gross National Income (GNI) on aid by 2013.[3] It questions the Government's commitment to make compliance with the UN target a legally binding requirement, uniquely in the UK. It examines what impact the British aid programme is making on economic development in recipient countries, how well the money is spent and how robust are defences against corruption and fraud. It also examines DFID's priorities including the planned increase in spending in fragile states affected by conflict.

[3] Adopted in 1970. In 1968, Robert McNamara, President of the World Bank, asked former Canadian Prime Minister Lester Pearson to review aid effectiveness since World War II and make recommendations for the future. A central recommendation of the Pearson Commission, subsequently endorsed by the UN General Assembly in 1970, was that to meet the financing needs of the poorest countries, an ambitious target of 0.7% of the GNI of the economically advanced nations should be allocated to aid by 1975. The Commission also recommended a target for total aid (official aid plus other official flows plus private concessional flows) of 1% on GNP to be achieved by 1972 and no later than 1975. Neither target was achieved. The UN re-launched the 0.7% target at the UN Financing for Development conference in Monterrey, Mexico in 2002 (it was at this meeting that the Millennium Development Goals were formally endorsed). During the run-up to the G8 summit in Gleneagles in 2005, the EU Members States pledged to achieve the 0.7% target by 2015.

FIGURE 2

Aid by intended use: United Kingdom 2010 (Total aid US$13.1 billion)



Source: OECD Development Assistance Committee Statistics on Resource Flows to Developing Countries Table 19
www.oecd.org/dac/stats/dcrannex

CHAPTER 2: THE GLOBAL AID CONTEXT: WHO GIVES WHAT?

5. Mr Roger Riddell, author of "*Does Aid Really Work?*" told us that "aid began in the 1940s."[4] The British Government's ground nuts scheme in Tanganyika was an early example.

6. When former colonies reached independence, economic progress often lagged, and former colonial powers maintained development programmes. Aid programmes became an important strand in relations between Western developed and developing countries, coupled until the fall of the Soviet Union with a Western desire to limit Soviet political influence in the developing world.

Donors

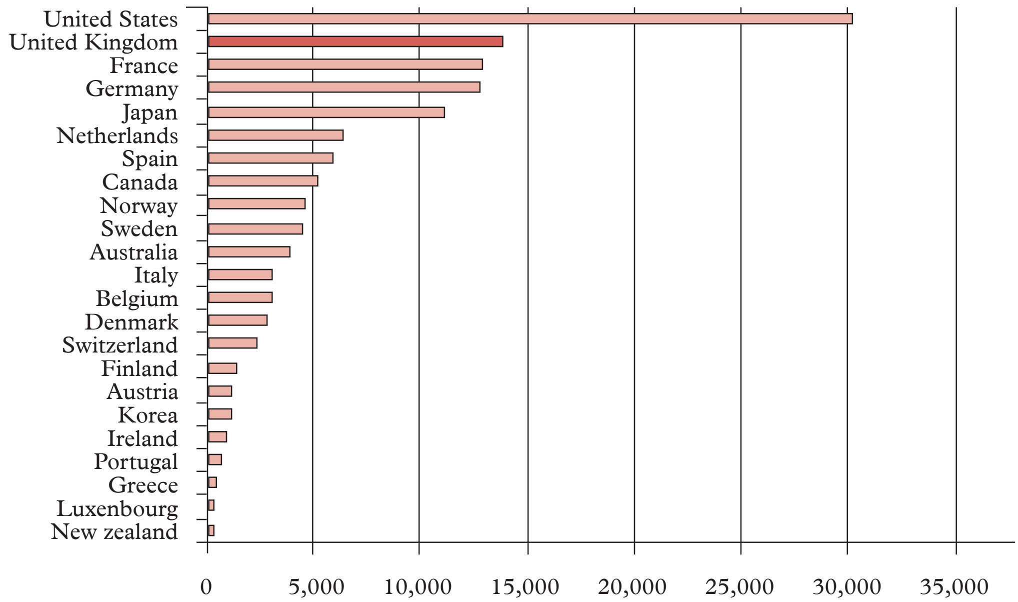
7. The main established donors are members of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD).[5] Set up in 1960, the DAC serves as a consultative forum. Its statistics give the global picture of member-states' Official Development Assistance (ODA). Other OECD member-states are now donors also.[6] Non-OECD countries such as China, India and Brazil are becoming significant donors, although still recipients of British aid. Private foundations are also now active in development aid. The arrival of all these new entrants means that sources of aid are more diverse. Whereas in 1970 75% of recorded aid to poor countries came from the US, the UK and France, by 2010 their collective share had fallen to 44%.[7]

8. In 2010, the United States was by far the biggest single DAC donor followed by the United Kingdom, France, Germany and Japan in that order. Only Norway, Luxembourg, Sweden, Denmark and the Netherlands met the UN target of spending 0.7% of GNI on aid.

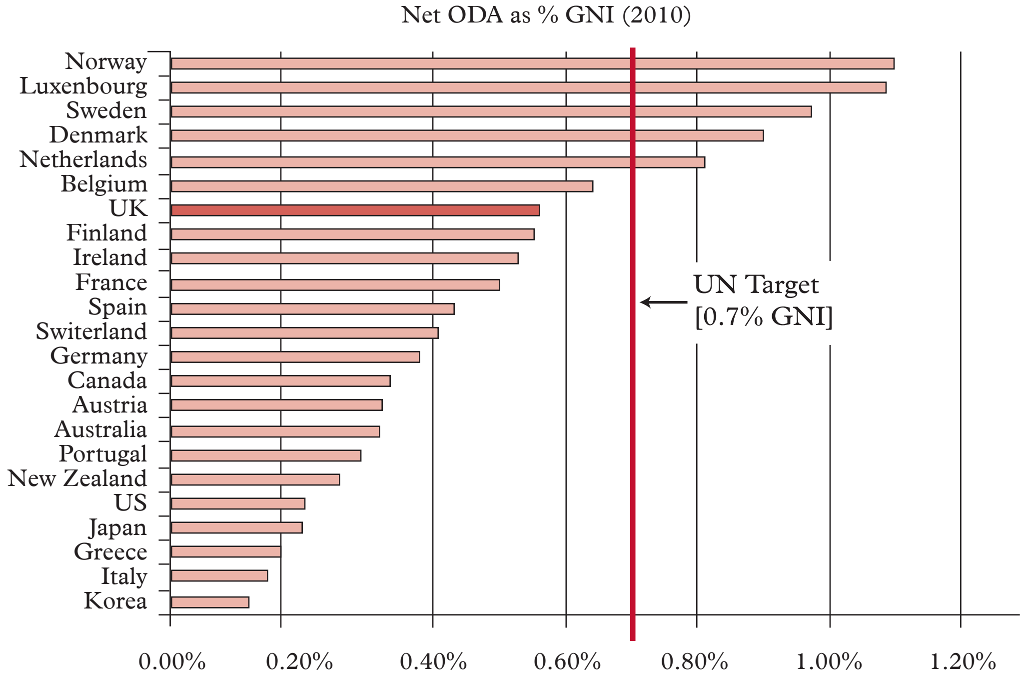
FIGURE 3

DAC Donors: Who gives what?[8]

Net ODA 2010 (US$ Millions)



4 Q 9
5 Appendix 5
6 Appendix 5–6
7 DFID 1, para 71
8 China and India are not included since they are not members of the Development Assistance Committee. But their programmes are substantial and growing.



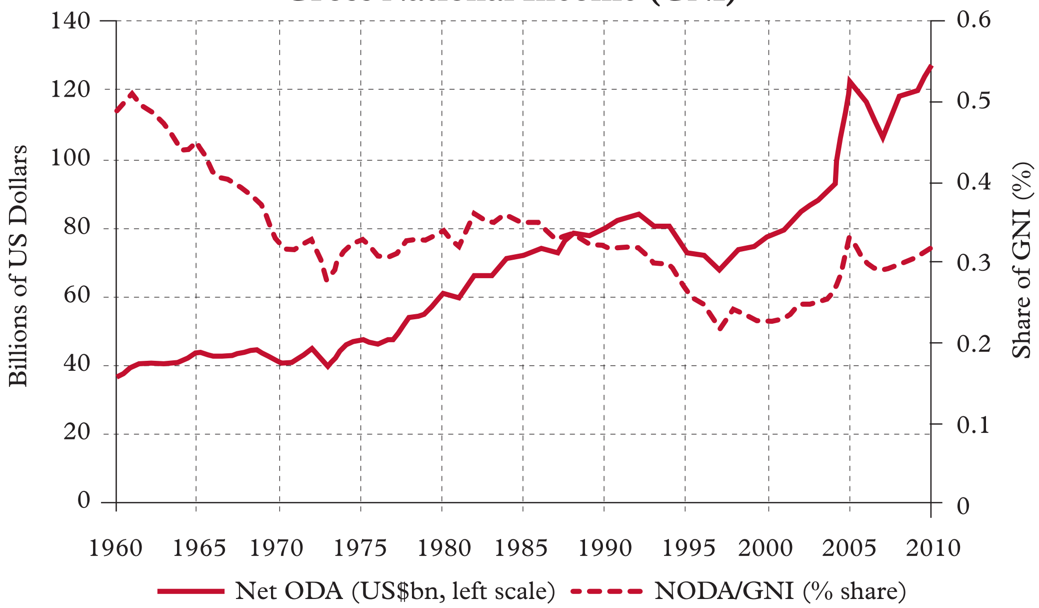
Source: OECD Development Assistance Committee Statistics on Resource Flows to Developing Countries http://webnet.oecd.org/oda2010

Spending

9. From 1960 to 2010 net development finance from DAC members rose from about $40 billion to over $125 billion a year in real terms. The proportion of donors' Gross National Income (GNI) devoted to aid fell over the same period from about 0.5% to 0.3%. Although the US is the largest DAC donor, it nonetheless allocates only 0.2% of its national income to aid. Excluding the US, the average contribution of DAC donors is about 0.4%. If all DAC donors gave 0.7% the annual total of development finance would more than double to $270 billion.[9]

FIGURE 4

The Long View: Net ODA from DAC Members, US$ billions and share of Gross National Income (GNI)



Source: OECD Development Assistance Committee Statistics on Resource Flows to Developing Countries http://webnet.oecd.org/dcdgraphs/ODAhistory/

9 Carter and Temple, para 11

OECD Development Assistance Committee net ODA is measured in constant 2009 prices and includes debt relief, which was particularly high in 2005 and 2006 as a result of the relief of £2.7 billion owed by Nigeria to the UK's Export Credit Guarantee Department.

10. While global aid spending by member states of the OECD's Development Assistance Committee (DAC) has risen steadily over the past fifty years, its share of donors' Gross National Income fell from 1960 to 1970 and again in the 1990s (when aid declined in absolute terms). Today, aid accounts for about the same share of donors' Gross National Income as it did in the early 1970s.

11. ODA remains a significant strand of international economic relations and is the means by which donor governments contribute directly to development. Total aid grew fast—8% a year—in the first decade of this century.[10] In 2010 net DAC aid was $128.5 billion, the highest ever total in real terms.[11] But developing countries' income from other external sources was much higher. In 2010 private capital flows from DAC members to developing countries—which have surged in the last couple of decades—totalled over US$1 trillion and remittances were $321 billion (Table 1). Trade is even more important; the export earnings of all developing countries in 2010 were more than 40 times the level of official aid flows.[12] Professor Paul Collier of Oxford University, author of "The Bottom Billion"[13], said "supporting development is very much more than aid. Aid is almost a sideshow in the portfolio."[14]

TABLE 1

Aid and Private Capital Flows to Developing Countries 2010

Flows	US$ billions	% of total official and private flows
Total Official Flows (net ODA)	128	10.9%
Total Private Flows (including remittances)	1042	89.1%
Foreign direct investment	509	43.5%
Portfolio Investment	128	10.9%
Net private long-term debt	84	7.2%
Remittances	321	27.4%

Source: Aid Data: OECD Development Assistance Committee Statistics on Resource Flows to Developing Countries Table 1 www.oecd.org/dac/stats/dcrannex; Private flows: World Bank Global Development Finance http://databank.worldbank.org/ddp/home.do?Step=1&id=4 Definitions for Private Capital Flows: Net Inflows on Foreign Direct Investment (US$ millions); Net Inflows of Portfolio / Equity Investment (US$ millions); Net flows on private non-guaranteed long-term debt (US$ millions); Workers remittances received from overseas. Developing countries defined as all low and middle income countries that are DAC eligible

10 Riddell, Q 20

11 OECD DAC

12 Calculated using data from World Bank, World Development Indicators, Exports of Goods and Services

13 Paul Collier, The Bottom Billion (OUP, 2007)

14 Q 333

Since private capital flows to developing countries are now so much greater than official aid flows it seems clear that private spending has become a much greater contributor to development than official aid.

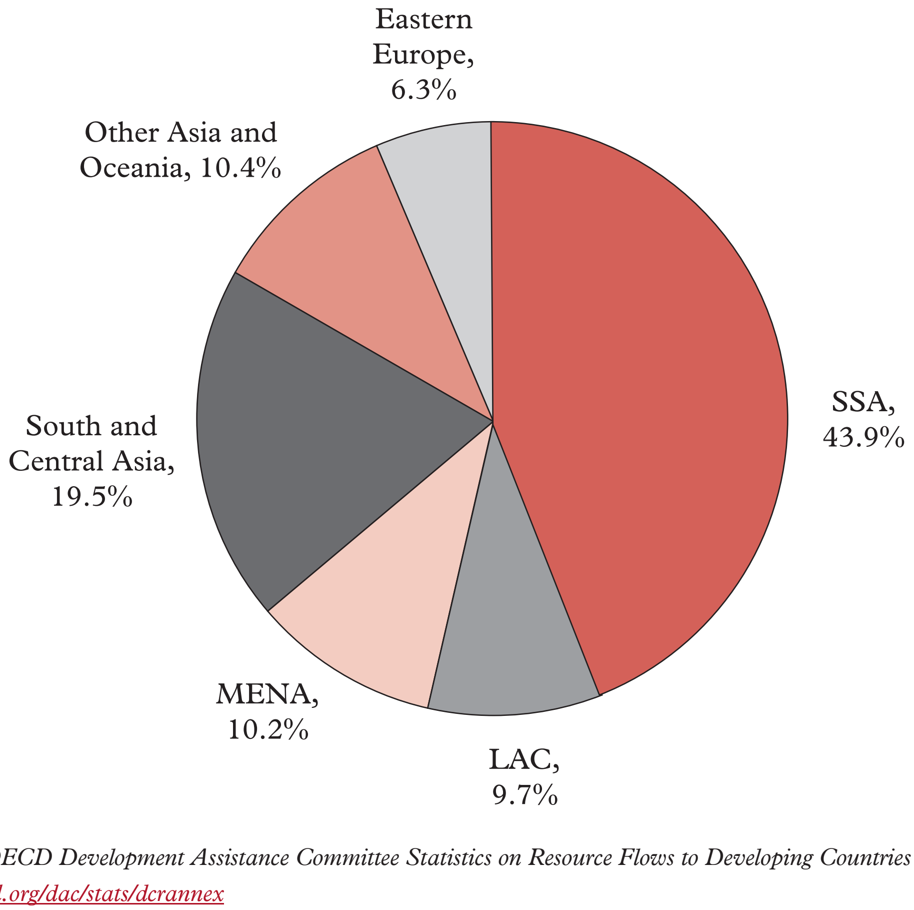
Aid Recipients

12. Some countries, for example the "Asian Tigers" such as South Korea, have graduated over time from eligibility or need for aid, while other long-term aid recipients such as Botswana have achieved impressive growth.[15] In others, such as Bangladesh, aid as a proportion of national income has fallen sharply over the years.[16] But there are still many poor people in a range of recipient countries. 148 countries remain eligible for aid by DAC criteria.[17]

13. The main destinations of DAC aid in 2010 were Sub-Saharan Africa (44%), which also received more aid per head than other regions, followed at some distance by South and Central Asia (19.5%) and Middle East and North Africa (10%).

FIGURE 5

Aid by destination: DAC donors 2010



Source: OECD Development Assistance Committee Statistics on Resource Flows to Developing Countries Table 27 *www.oecd.org/dac/stats/dcrannex*

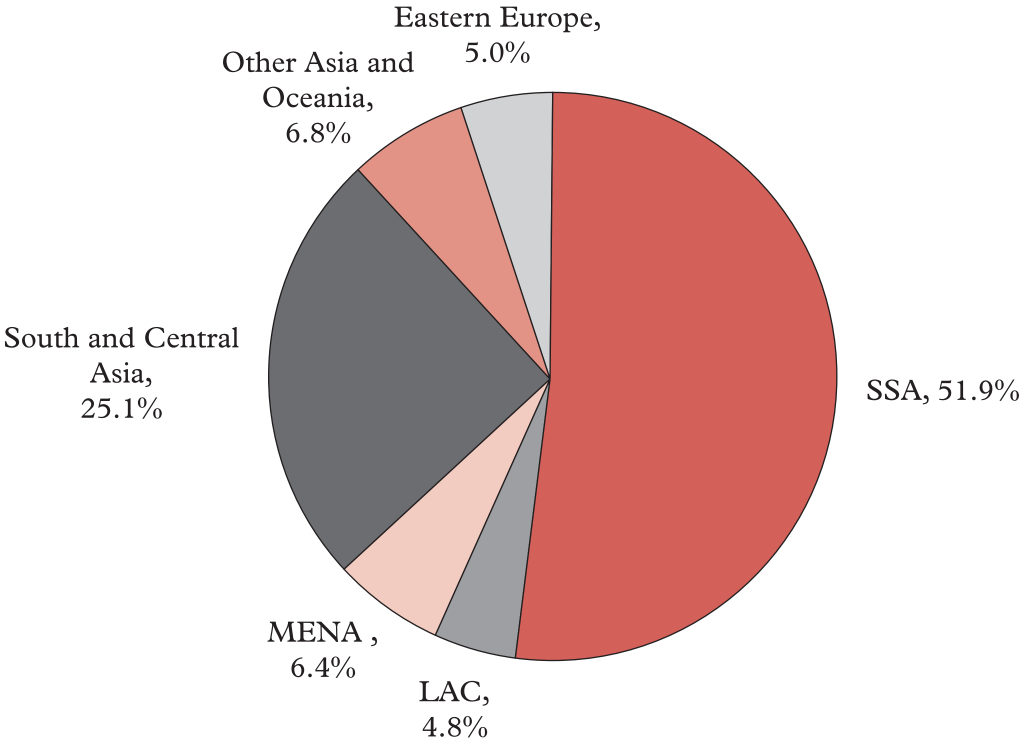
15 DFID 1, para 22, table 1

16 Q 287

17 OECD, The DAC List of ODA Recipients, Factsheet—January 2012

FIGURE 6

Aid by destination: UK 2010



Source: OECD Development Assistance Committee Statistics on Resource Flows to Developing Countries Table 27 www.oecd.org/dac/stats/dcrannex

Note: UK Aid to South and Central Asia is dominated by aid to India, Bangladesh, Pakistan and Afghanistan. Major recipients in Sub-Saharan Africa are Ethiopia, Tanzania, Nigeria, Uganda, Mozambique and Rwanda.

Sub Saharan Africa remains by far the main destination of global and British aid flows. It seems likely that an even higher share of British than of overall DAC aid goes to the region because of the UK's links to its former colonies.

CHAPTER 3: THE AIMS OF AID

14. When in the 1940s "this concept of helping people in faraway lands took off"[18], the aims of aid were not codified. The underlying motive seems to have been charitable. Professor Adrian Wood of Oxford University, formerly DFID's Chief Economist, sees the "fundamental justification" for aid as "a moral duty to help our fellow citizens on the planet who are very much poorer than we are."[19] Ms Michela Wrong, a journalist and author with wide knowledge of Africa, calls it "utopianism and post-imperial guilt complex."[20]

15. The present consensus in the global aid community is that the first purpose of aid is poverty reduction. The first of the UN Millennium Development Goals (MDGs) adopted in 2000 by the United Nations and the OECD is to "eradicate extreme poverty and hunger."

Aid, growth and the private sector

16. Economic growth is generally seen as the indispensable means to achieve poverty reduction. Professor Wood said "The only way you will eliminate mass poverty in the long run is for those countries to grow faster ... for Bangladesh, India and most of Africa, the long-run poverty reduction agenda is a growth agenda."[21] Economic growth in itself is not sufficient for poverty reduction but it is necessary. As Professor Collier notes: "growth is not a cure-all; but the absence of growth is a kill-all."[22] Sustained economic growth depends ultimately on high levels of private investment and employment; appropriately delivered, aid can arguably play a catalytic role in supporting private sector-led growth. From this perspective, as Professor Jeffrey Sachs, Director, Earth Institute, Columbia University, noted, the role of aid is to "help low income countries [out of poverty] and on to their own self-sustaining growth path."[23]

17. Aid (and aid-financed technical assistance) is widely used to support private sector activity through a range of channels: by strengthening tax, audit and legal systems; supporting land reform and registration to facilitate greater collateralisation of assets; supporting efforts to reduce the costs of doing business in the domestic economy and to improve access to global markets; and, through research and technical assistance, supporting the development of macroeconomic, trade and fiscal policies capable of managing economic volatility, and delivering coherent strategies for sustained and inclusive growth.[24] These activities complement traditional donor support for health, education and skills, and basic economic infrastructure.

18. **Economic growth is essential to bring about poverty reduction in developing countries. Aid is plainly not the main driver of their growth, since capital and trade flows are so much greater, but it can**

[18] Q 31, Picciotto

[19] Q 13

[20] Q 429

[21] Q 14

[22] As quoted by Marian Tupy, Legatum Institute

[23] Q 463

[24] Secretary of State for International Development (SoS 2), paras 11–14

arguably play a catalytic role. We consider in this report what impact aid makes on recipient countries' growth.

Additional objectives

19. Although the global donor community subscribes to poverty reduction as the overarching purpose of aid, in practice aid has not always been for pure and immediate developmental or humanitarian purposes. East-West rivalry used to weigh on aid allocations that are today still heavily influenced by global security considerations. For example, as Mr Riddell pointed out, in 1999 Pakistan, Iraq and Afghanistan together accounted for less than 1% of global official aid; five years later they accounted for 25%.[25] Here and elsewhere aid is deployed, usually in conjunction with military and security expenditures, for the immediate purpose of conflict prevention and to secure the often fragile post-conflict peace, but it is increasingly being used in longer-run attempts at state-building (we look at the effectiveness of aid to fragile states in Chapter 5).

20. Donors have also used aid funds to support home industry, for example through projects tied to suppliers in the donor country (the UK abandoned the tying of aid in this manner in 1997).

21. More recently, DFID has reportedly spent £900 million in the past four years on tackling climate change in recipient countries, including £600 million in the past financial year, and has committed a further £533 million up to 2013.[26] Over the next four years £2.9 billion, or 7%, of ODA will be spent on tackling climate change in developing countries.[27]

Forms of Aid

22. Development aid takes four main forms—these are listed below with the identified amounts spent from DFID's bilateral programme in 2010–11[28]:

- direct financing of projects (project aid)—£551m[29];
- budget support (payments to the recipient government's general budget or sectoral budget such as health)—£644m;
- technical assistance (funding of expertise of various types)—£468m; and
- governmental debt relief—£66m.

At different times, different forms of aid have been judged most conducive to development. In recent years budget support has tended to replace projects. Mr Riddell said "we have moved from a situation where aid was for many years provided predominantly in project form to aid in programme form. The new aid modalities are predominantly sector and budget support."[30] Dr Alison Evans, Director of Programmes, Poverty and Public Policy, Overseas

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25 Q 9

26 *The Sunday Telegraph*, 'UK's £1.5bn for climate change aid' by Richard Gray, 19 February 2012

27 DFID 4

28 DFID, Statistics on International Development 2011, Table 3, October 2011

29 Project aid figure taken from the category Other Financial Aid which DFID defines as: "Funding of projects and programmes such as Sector Wide Programmes not classified as PRBS [Poverty Reduction Budget Support]."

30 Q 7

Development Institute (ODI), agreed that there had been "a shift away from ... growth-enhancing or growth-inducing sectors [such as] agriculture ... and to some extent hard infrastructure."[31] Mr Jonathan Glennie, Research Fellow, ODI, although acknowledging that aid to infrastructure and business leads to growth in the short term, argued that aid in support of health and education is also "fundamental to growth"—as did Mr Max Lawson, acting Head of Advocacy, Oxfam[32]—and that aid to institutions "supports growth and poverty reduction in the longer term."[33] Mr Riddell agreed that "institutions are a critical factor" in determining the impact of aid on growth.[34]

31 Q 82
32 Q 213
33 Q 88
34 Q 2

CHAPTER 4: THE IMPACT OF AID

Aid and Growth

23. Evidence of the effect of development aid on economic growth is not clear cut. Professor Wood said "There are no really clear and uncontested conclusions on the effects of aid on economic growth."[35] Dr Evans agreed: "The broad global relationship between aid and growth will probably remain forever inconclusive."[36] Uncertainty reflects in part the innately complex relationship between aid and growth and in part the challenges of drawing lessons from "a period of history in which the political, social and economic context [for aid] has changed markedly" as the global political context has shifted and attitudes to development have changed.[37]

The challenges of assessing the impact of aid

24. The question about the effectiveness of aid should perhaps be: "how best, if at all, can aid transfers be designed to finance and support growth-promoting activities?"[38] The period over which the impact of aid is measured also matters: aid for critical infrastructure is likely to have an immediate impact on incomes and growth, whereas the impact of aid for health and education is longer-term.

25. The statistical evidence, which is inconclusive, relates to the average impact of aid, across countries and across donors. It does not tell policymakers the marginal effect of different forms of *additional* aid from a specific donor to a specific set of recipient countries.

26. There are "… numerous possible determinants of growth, many of which are highly correlated with each other."[39] Disentangling the effects on growth of aid and identifying the right counterfactual—what would have happened if a country had not received any aid or had received more aid—is very challenging. Since aid tends to be allocated to low-growth countries comparisons between countries receiving aid and others are difficult.[40]

27. Finally, there is a question of scale. Globally, aid accounts for a relatively small share of total financial flows to developing countries (see Table 1). Thus, even if every dollar of aid was as effective as private investment in generating economic growth, the measurable impact would be modest. Calculations suggest that *at its most efficient*, aid flows at their historical average level of 3.5% of recipients' GDP might contribute no more than an additional 0.5% to recipients' overall per capita growth rates.[41] This would represent a not insignificant contribution to growth but impacts of this size (or smaller) are nonetheless difficult to discern from the economic data. As Mr Owen Barder, Director for Europe, Center for Global Development, put

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35 Q 2

36 Q 82

37 Carter and Temple, para 5

38 Roger Riddell "*Is aid working? Is this the right question to be asking?* Open Democracy (November 2009) (http://www.opendemocracy.net/roger-c-riddell/is-aid-working-is-this-the-right-question-to-be-asking)

39 Barder, para 6

40 Carter and Temple, para 3

41 Tarp, para 11

it "Given the modest volumes of aid, we should not expect an impact on growth which is bright enough to shine through the statistical fog."[42]

What does the evidence say?

28. There is an enormous amount of research seeking to peer through this fog using a variety of techniques and looking at different sets of countries and over different historical episodes. Results necessarily vary but a large majority of studies suggest a statistically significant but relatively weak positive effect of aid on growth in the short-run and the long-run.[43] A smaller number of studies suggest no statistically significant measurable impact.[44] All agree, however, that there is no robust evidence that aid has a significantly negative effect on economic growth on average.[45]

29. Delving behind the aggregate numbers, the research paints a picture that is broadly consistent with expectations. Aid tends to be more effective in well-governed countries with sound institutions and good macroeconomic management so that aid is effectively channelled into investment in infrastructure; and when there is a clear alignment of objectives between donors and recipients.[46] In countries where political institutions are weak or corrupt, and where economic policymaking is inimical to private sector investment, aid transfers are more vulnerable to expropriation and may lead to capital flight and undermine growth. Aid can also serve to strengthen the hand of the political elite against the people and help perpetuate autocratic rule.[47]

30. These results reinforce the well-known paradox that aid tends to be most effective where it is needed least. But the paradox may not always apply in post-conflict countries. Ms Sue Wardell, Director, Conflict, Humanitarian, Security and Middle East, DFID, cites recent research by Professor Collier and by the World Bank (2011) indicating that aid can be effective in stabilising post-conflict environments.[48] In his book *The Bottom Billion*, and in oral evidence, Professor Collier suggests that aid may have added "around 1% to these countries' annual growth rate", admittedly against a counterfactual of very poor economic performance. He claims that aid helped stop such countries from falling apart and thus gave them a chance to re-establish a measure of economic order.[49][50]

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42 Barder

43 Tarp, para 10. Arndt, Channing; Jones, Sam; and Tarp, Finn (2010) "Aid, Growth, and Development: Have We Come Full Circle?," *Journal of Globalization and Development*: Vol. 1 (2) and Clemens, Michael, Steve Radelet, Rikhil Bhavnani and Samuel Bazzi (2004) "Counting Chickens when they hatch: timing and the effects of aid on growth" *Centre for Global Development Working Paper* 44

44 Tarp, para 11. Raghuram G. Rajan & Arvind Subramanian, 2008. "Aid and Growth: What Does the Cross-Country Evidence Really Show?" *Review of Economics and Statistics:* Vol. 90(4)

45 Adrian Wood, Q 2. "The one thing we can be clear about is the evidence that almost certainly aid does not reduce growth". And Tarp, para 12, "Put differently, there is no systematic evidence that perverse economic effects from aid overshadow its benefits"

46 Morrissey, para 2–3; Barder, para 5. Riddell, Q 2

47 Booth, para 4

48 Wardell, Q 179

49 Collier, Q 317 "I do not think that I would even claim that it [aid] is necessary, but it can certainly be useful. Historically, it might have been necessary to reduce the number of countries that fell apart and to pull back those that did. We see from Somalia the enormous costs of what happens when a country really falls apart. The lesson of Somalia is basically that whatever it costs to avoid that situation is money well spent."

31. Most witnesses discount aid as a serious cause of Dutch disease[51]—where a foreign exchange windfall leads to a strengthening of the exchange rate, damaging export competitiveness and underpinning an excessive reliance on (relatively cheap) imports, and so damages growth. Mr Riddell notes "… [the Dutch Disease] is a problem but two things seem to be critical. The first is for recipients to be aware of the potential problem, understand how it could occur and take steps to mitigate those effects. The second is a message for donors ... They have a key role to play by providing aid in a predictable manner, as short-term volatile inflows can be potentially the most disruptive."[52]

32. **The difficulties of accurate measurement and attribution, and of assessing what would have happened if no aid had been given, are so formidable that the evidence that aid makes a contribution to growth in recipient countries is inconclusive.**

Aid and accountability

33. Even if aid helps promote growth, it may still have harmful side-effects, for example by undermining the recipient governments' accountability to their own people. Professor Wood said "I think there is a serious concern there. It is one of my biggest single worries about aid. If you give a country too much aid for too long you damage its basic governance structure because the politicians pay more attention to the donors than they do to their citizens."[53] Ms Wrong put it more graphically, describing a slum resident in Nairobi during an outbreak of cholera "… looking at the television cameras and saying 'where are the donors?', and I thought why wasn't he saying 'where is the mayor'…'where are the MPs?'…'where is the government?',… for me it really exemplifies what seems to be a massive problem with aid … it whittle[s] away the accountability of African governments."[54] We also heard compelling evidence, to which we return later in this Chapter, that aid can frequently finance corruption.

34. Aid, particularly budget support, can also undermine recipient governments' incentive to invest in effective domestic tax collection, although the evidence is mixed.[55]

35. Witnesses expressed concern that ill effects of aid could be magnified in fragile states whose institutions of governance and systems of political

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50 Wardell, Q 179, quotes Collier's research on conflict prevention suggesting that that raising average per capita incomes "from $250 per head to $500 per head, you can reduce the chance of conflict occurring by 50% over a five-year period."

51 Wood, Q 4, Sachs, Q 466 "… if your aid policy is sensible, it will promote productivity on the supply side through the provision of infrastructure or a healthier labour force or a better educated labour force …"; Ndulu, Q 41, Picciotto, Q 41

52 Riddell, Q4

53 Q 7

54 Q 399

55 As with aid-growth evidence, results are contested. S. Gupta, B. Clements, A. Pivovarsky and E. Tiongson (2004) "Foreign Aid and Revenue Responses" in S. Gupta, B. Clements and G. Inchauste (eds) *Helping Countries Develop: The Role of Fiscal Policy* find that development grants have a mild negative effect on tax effort, although loans had a contrary effect. Subsequent work, including Morrissey and Clist (2011) "Aid and Tax Revenue: Signs of a Positive Effect since the 1980s" *Journal of International Development* vol 23, pp 165–80, tends to overturn this result, particularly when the focus is on the last 15–20 years.

accountability are already weak, especially if fragile states are to receive a greater share of aid resources in future.

36. **Large and prolonged aid programmes can have a corrosive effect on local political systems when the priority becomes to attract aid rather than to solve problems. DFID should pay close attention to the scale and composition of aid programmes to ensure that resource flows do not overwhelm local ability to manage them and undermine systems of governance in recipient countries. They should also support recipient governments' systems of audit and public financial management and have a credible exit strategy.**

Fungibility

37. Aid can be diverted from its intended use to other uses. This "fungibility" can happen directly, if aid given for one programme is spent on another programme, or indirectly, if aid given to support one programme frees other revenues for other purposes. Aid is said to be fungible if it does not add dollar-for-dollar to existing expenditures on the activity for which the aid was earmarked by the donor. Notorious examples are cited where money provided by donors is used to support purposes not approved by donors, for example military expenditure for internal repression.

38. Some forms of aid are less fungible than others. Technical assistance tends to be the least fungible, simply because it is tied to specific projects that might otherwise not take place. Budget support is the most fungible.

39. It is not necessarily true that all cases of fungibility are a bad thing. Sometimes circumstances change and money given for one purpose will produce a larger development return if used for another. However, fungibility is too often abused. It makes the evaluation of the effectiveness of aid harder; it reduces confidence in donor countries in their aid programmes; and in some cases it may cause side-effects which outweigh any beneficial effects of the donation. We believe that the closest possible audit of aid flows is necessary to minimise any risk of unjustified use of fungibility by recipient countries.

Graduation from aid dependency

40. Between 1961 and 2011, 36 countries worldwide graduated from eligibility for the most concessional aid from DAC donors to middle-income status. But eight of these subsequently reversed and are now eligible again for the most concessional form of aid.[56] Perhaps the most celebrated graduate is South Korea. As recently as 1960 it was receiving 10% of GDP in aid (not counting an even larger share of non-aid military support from the US). By the mid-1970s aid accounted for less than 1%. In 2010, South Korea

[56] The 36 graduates are: Albania, Azerbaijan, Botswana, Cameroon, Chile, China, Colombia, Congo, Costa Rica, Cote d'Ivoire, Dominican Republic, Ecuador, Equatorial Guinea, Egypt, El Salvador, Honduras, Indonesia, Jordan, South Korea, Mauritius, Macedonia, Montenegro, Morocco, Nicaragua, Nigeria, Papua New Guinea, Paraguay, Philippines, Serbia, St. Kitts, Swaziland, Syria, Thailand, Tunisia, Turkey, Zimbabwe.Eight of these have reversed and are again eligible for concessional aid: Cameroon, Congo, Cote d'Ivoire, Honduras, Nicaragua, Nigeria, Papua New Guinea, Zimbabwe.Sources: DFID 1, para 20, and The World Bank International Development Association Graduates available at http://go.worldbank.org/PSTVR12110

completed the transition from recipient to donor and became a member of the DAC group of donors.

41. Vietnam, Bangladesh and Ghana are examples of long aid-dependent very poor countries where recent growth has been driven by a dynamic private sector and where DFID is developing its exit strategy.[57] The Secretary of State for International Development wrote "Ghana shows that well-targeted long-term development, matched by political and economic stability, does work. British support has played a vital role in this … our relationship, already focused on wealth creation, will soon move to an exit strategy as the private sector and economic growth replace the need for international aid."[58]

42. Recipient countries too wish to graduate from aid dependency. Professor Benno Ndulu, Governor of the Bank of Tanzania stated: "I think a very clear sense and commitment is there to reduce aid dependency over time. In the medium-term plan that was recently approved by Parliament, there is a target that the country has set to reduce significantly the extent of dependency through increasing domestic revenue to a very large extent and finding other forms of financing that draw on the involvement of the private sector."[59]

43. Table 2 below shows how aid dependence, measured as aid as a share of GDP, has fallen very sharply in 11 fast-growing countries, often over a relatively short period.

TABLE 2

Fast-growing aid graduates

Country	Maximum aid as % of GDP	Year	Minimum aid as % of GDP	Year	Growth of GDP per capita p.a. 1990–2010
Bangladesh	8.2%	1977	1.3%	2009	5.8%
Botswana	31.6%	1966	0.5%	2005	7.1%
China	0.7%	1992	0.01%	2008	11.6%
Ghana	16.3%	2004	4.1%	2008	4.0%
Indonesia	6.2%	1971	0.05%	2004	6.4%
India	4.1%	1964	0.1%	2009	7.0%
Kenya	16.8%	1993	6.1%	2008	3.1%
Korea	9.8%	1961	-0.1%	1984	8.4%
Mauritius	4.9%	1981	0.2%	2006	6.8%
Malaysia	1.2%	1987	0.07%	2009	6.1%
Vietnam	5.9%	1992	2.9%	2008	7.4%

Source: World Bank, Global Development Finance.

Note: Korea, China and India now also donor nations.

57 DFID 1, para 21 on Vietnam; Manning, Q 287 on Bangladesh

58 *The Observer*, 'Ghana's boom proves aid really can work', 15 January 2012

59 Ndulu, Q 32

44. DFID cite the finding of the report of 2006 of the Commission on Growth and Development[60]—a group of government officials, business people and academics backed by Western governments and the World Bank which examined the policies that fostered rapid and sustained economic growth and poverty reduction—that a key driver of success was a strong "future orientation" that delivered high levels of private saving and investment. In the Commission's view, while foreign savings (i.e. aid and private FDI and capital flows) play an important role in the early stages of a growth take-off, sustained growth depended on domestic saving and investment. We turn in Chapter 6 to the role of foreign aid in catalysing the take off in private sector growth.

45. **We welcome evidence of graduation from aid, or progress towards it, by a range of countries in Asia and Africa. We recognise that any contribution by aid to the economic growth which enables graduation may not have been great. We do not subscribe to the fallacy that because graduation took place after aid, it was even in part because of aid, since many factors such as governance, trade and investment affect growth. It seems likely that all contributed, and that aid's impact was greater where, as in Botswana, Ghana or Kenya, it was a higher proportion of GNP in the early days of development and was delivered in support of a clear strategy for growth. We welcome the Secretary of State for International Development's readiness to move with the times and prepare exit strategies in countries where graduation is near.**

Aid and corruption

46. Transparency International defines corruption as "the abuse of entrusted power for private gain."[61] Mr Laurence Cockcroft, of its UK Board of Trustees, suggested that corruption damaged societies "first, at the level of individuals; second, at the level of the macroeconomy; and, thirdly, at the level of the environment. In each case, I think that one can see that corruption is very devastating."[62] He added that corruption is hugely regressive: the poor suffer today, especially in their ability to access public services, while future generations will suffer from the legacy of the low investment, slow growth and the depletion of natural and financial resources that a corrupt environment generates.

47. The association between aid and corruption seems strong but precise causal links between aid and corruption are hard to identify, not least because, unsurprisingly, no reliable statistics on the scale of corruption exist.

48. Ms Wrong was nevertheless categorical that "… [aid] and corruption always go hand-in-hand, because aid is essentially seen by those entrusted with it as "free money", whose loss will go unnoticed by the giver and whose appropriation is nothing like as morally reprehensible as appropriating local tax revenue, for example."[63]

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60 Secretary of State for International Development, (SoS 2), para 10

61 Transparency International—available at http://www.transparency.org/news_room/faq/corruption_faq

62 Q 483

63 Wrong

49. Certain types of aid are particularly vulnerable to corruption. Large and complex donor-funded projects can provide scope for bribery and fraud. Fungible aid transfers such as budget support which may be less easy to trace are also susceptible to corruption.

50. **The risks of corruption are greater in weak, unstable or failed states. It is important for donors to ensure that opportunities for corruption are as limited as possible by setting in place systems of audit and control as rigorous as local conditions permit and to withhold development aid altogether where corruption is rife and therefore endangers the effectiveness of aid. In the battle against corruption, to which we return later, accountants are more important than economists.**

Capital flight

51. Capital flight occurs when owners of liquid assets move them to other countries perceived as safe havens or as offering better returns. It can be legal or illegal. When legal it stays on the books of the entity or individual making the outward transfer. When illegal it disappears from records and is often associated with corruption.[64]

52. Transparency International UK cited a report[65] which estimated the developing world lost US$8.44 trillion over the decade to 2009 in illicit financial flows. They also observed that "Leakages … as a result of the illicit transfer of the proceeds of bribery, theft, kickbacks and tax evasion have been increasing relative to trade mispricing"[66]—when imports are corruptly over-priced and exports under-priced on customs documents as a means to transfer money overseas. Capital flight also reduces tax revenue. Christian Aid research estimated that developing countries lose $160 billion a year from transfer mis-pricing and false invoicing, around 1.5 times the global aid budget.[67]

53. Transparency International recommended that the Government should work with the G20 "to curb illicit financial outflows from developing countries as well as ensure that the UK and other major financial centres do not absorb and benefit from these illicit outflows."[68]

54. Developing country economies can also suffer from legal capital flight when domestic economic conditions and investment opportunities are poor. Donors can help governments halt and reverse capital flight both by supporting government efforts to achieve macroeconomic stability and through measures aimed at improving the investment climate including infrastructure investment, the reduction of red tape and bureaucratic barriers to investment and so forth, what Professor Collier has referred to as "investing in investing."[69]

64 Global Financial Integrity, Illicit Financial Flows from Africa: Hidden Resource for Development, page 7

65 Global Financial Integrity, Illicit Financial Flows from Developing Countries Over the Decade Ending 2009

66 Transparency International

67 Christian Aid, para 6.4

68 Transparency International

69 Q 323

55. **We recommend that DFID should monitor and report on flows of capital from recipient countries, with a view to reducing aid where there are excessive outflows. We agree with Transparency International that the Government should explore with other G20 countries the scope to discourage illicit capital flight from developing countries.**

Aid and poverty

56. Sustainable poverty reduction is the main aim of development assistance.[70] Aid can reduce poverty in three main ways: direct support to the poor and vulnerable in the form of food aid, cash or in-kind transfers, usually in response to a pressing humanitarian imperative; budgetary contributions to government—or NGO-run programmes designed to improve social and welfare services to the poor, often in pursuit of Millennium Development Goals; and development assistance that helps create the conditions for sustained economic growth.

57. Local effects of aid to reduce poverty can often be seen. But assessing the role of aid in long-term sustainable global poverty reduction is much harder, in part because progress is so gradual and in part because of familiar difficulties of measurement, attribution and unknown counterfactuals. Researchers at the World Bank have tried to estimate the cost of lifting an individual permanently out of poverty through the so-called 'growth elasticity of poverty reduction' which seeks to measure the amount of poverty reduction achieved for a given increase in average per capita incomes.[71] Their estimates range widely—reflecting a host of characteristics including how unequal the country is and how labour-intensive the growth—but tend to reinforce the importance of economic growth to poverty reduction.[72]

58. **Growth seems the most effective remedy for global poverty. We are surprised that the role of growth is not more fully acknowledged in the international community's collective approach to poverty reduction. We recognise that trade, investment and remittances are all much more substantial than aid and more important in driving growth. We accept that accurate measurement of whether or how much aid helps promote growth is not available. But similar difficulties arise over measurement of the contribution to growth of trade, investment and remittances, though their indispensability to growth is undeniable. It is uncertain that aid makes a proportionate contribution.**

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70 International Development Act (2002)

71 Martin Ravallion (2004) "Pro-Poor Growth: A Primer" *World Bank Policy Research Paper 3242.* Washington DC, World Bank.

72 Those countries that have made most rapid progress towards the first of the MDGs—to halve those living in extreme poverty by 2015—have been the fast growing countries of East Asia, most notably India, China and Vietnam.

CHAPTER 5: FRAGILE STATES

59. Conflict undermines stability, order and economic development. According to DFID, countries experiencing major violence between 1981 and 2005 had a poverty rate 21 percentage points higher on average than those which did not. About 1.5 billion people live in countries suffering repeated waves of political and criminal violence.[73]

60. The 2011 World Development Report stated: "People in fragile and conflict-affected states are more than twice as likely to be undernourished as those in other developing countries, more than three times as likely to be unable to send their children to school, twice as likely to see their children die before age five, and more than twice as likely to lack clean water."[74]

61. The report continues: "Yet when security is re-established and sustained, these areas of the world can make the greatest development gains." Examples given include Ethiopia more than quadrupling access to improved water from 13% of the population in 1990 to 66% in 2009–10 and Mozambique more than tripling its primary school completion in eight years to 2007.[75]

62. The Government believes aid can help. Spending in fragile and conflict-affected states is to increase from 22% to 30% of Official Development Assistance (ODA) between 2010 and 2015. With the programmed growth of overall ODA, this equates to an almost doubling of annual expenditure from £1.8 billion in 2010–11 to £3.4 billion in 2014–15.[76]

63. DFID argues aid can help build peaceful states by:

- Addressing the underlying causes of conflict and fragility
- Supporting conflict resolution mechanisms
- Supporting inclusive political settlements and inclusive political systems
- Developing core state functions—such as security, justice, finance, and macroeconomic management
- Responding to public expectations—such as for jobs and basic services.[77]

64. DFID cites examples such as clearing minefields in Nepal, road building in the Democratic Republic of Congo and malaria prevention and treatment programmes in Ethiopia, building up police and justice services in Iraq and training midwives in Pakistan.[78]

65. But aid programmes in conflict affected or threatened fragile states are more risky and uncertain of success than in peaceful nations. Clearly the scope for corruption and waste is greater and it is more difficult to put aid to good use, especially where the state may not even function and the risk of violence is ever present.

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73 DFID 1, para 90

74 World Bank, World Development Report 2011, Conflict, Security and Development, page 5

75 World Bank, World Development Report 2011, Conflict, Security and Development, page 6

76 House of Commons International Development Committee, *Working Effectively in Fragile and Conflict—Affected States: DRC and Rwanda*, Twelfth Report of Session 2010–12, HC 1133, page 7

77 DFID 1, para 87

78 DFID (Conflict Pool)

66. Aid can even worsen conflict if it is not—or is perceived not to be—fairly distributed between warring factions. Ms Wardell told us that the DFID programme in Nepal in 2002 was benefiting one group—the elite—more than the ordinary people and that it was not getting to the poorest and most disadvantaged.[79] This led DFID to revise their programme.

67. Witnesses nevertheless argued that aid to fragile states should continue. Sir Tim Lankester, formerly Permanent Secretary of the ODA (now DFID) said: "It is immoral, I think, to walk away from the very poor in countries where states are not functioning."[80] In conflict zones aid should not go through the central government: "I would not be propping up the Government of Somalia; I would be working through non-governmental channels."[81] Mr Michael Anderson, Director-General, Policy and Global Issues, DFID, explained DFID's approach in fragile states where government may be weak or have broken down: "We frequently find that in fragile states we have to partner with NGOs, with sub-national entities and sometimes with particular ministries."[82]

68. Professor Collier argued the key goal in post-conflict countries was to generate jobs to keep fighters away from conflict: "The only realistic place for job creation in a post-conflict environment—which is fundamentally uncompetitive in anything that is internationally tradable, except for natural resources, which do not create jobs—is in reconstruction, the construction sector, which can generate masses of jobs."[83]

69. He also sees an important role for aid in support of stability: "a holding operation preventing things falling apart"; Somalia was an example of "the enormous costs of what happens when a country really falls apart. The lesson of Somalia is basically that whatever it costs to avoid that situation is money well spent." [84]

70. But Professor Collier also argued donors in post-conflict countries had often been distracted from their core competence by pursuing unrealistic objectives: "The fantasy that we have been pursuing as an international donor community is that what these countries need is an election and democracy and that we can then rapidly let go."[85] In Afghanistan, hopes and aims were unrealistically high: "We massively overloaded the agenda. What was going to happen in post-conflict Afghanistan? It was going to fix our drugs problem, for a start, and it was going to achieve gender equality. Basically, it was going to become Denmark in two years. This was preposterous."[86]

71. Rory Stewart MP also gave Afghanistan as an example of overblown donor community input, citing the vast amounts of spending—equivalent to the annual domestic revenue of the entire Afghan national government—overwhelmingly from the US, in the area of law and justice aimed at building

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[79] Q 202
[80] Q 57
[81] Q 58
[82] Q 150
[83] Q 329
[84] Q 317
[85] Q 329
[86] Q 329

institutions in the Western liberal model.[87] He said: "The reality at the end of 10 years of investment is that 85% of Afghans continue to completely avoid the formal justice system ... They will be brought to trial—if, indeed, you can call it a trial—by other people in the village."[88]

72. Although he acknowledged there had been "some success in Bosnia and Kosovo working with certain kinds of institution" Mr Stewart saw no template for handling aid in fragile states: "What works in Bosnia does not necessarily work in Afghanistan. I am trying to get away from this lessons-learnt mania and the idea that there is some generic expert in post-conflict resolution or state building who can leap on a plane to Somalia and opine."[89]

73. **The risks of failure in aid to fragile states are greater than elsewhere, as is the scope for misuse of aid funds. For the Government's planned increase in aid to fragile states to have any chance of being effective we recommend careful selection of programmes and continuous evaluation of their effect, and a robust anti-corruption strategy.**

74. **Where security policy and aid policy overlap with the aim of bolstering stability, circumstances are often challenging and outcomes uncertain. Lessons must be learnt from the unrealistic goals set for aid in Afghanistan. In the UK, DFID see the Government's Building Stability Overseas Strategy (BSOS) as a useful aid to decision-making. We agree with Rory Stewart MP who told us that "the liberal imperialist idea ... of creating governance and stability in a post-conflict zone through the application of development aid is mistaken."[90] Decisions on intervention should be carefully weighed on the basis of thorough analysis of local circumstances and realistic and proportionate assessment of what is achievable.**

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87 For example, expenditure by the US State Department and USAID on governance and development in Afghanistan has averaged US$5 billion per annum since 2009, compared to Afghan domestic revenue of approximately US$1bn (US Congressional Research Services "*The Costs of Iraq, Afghanistan and other Global War on Terror Operations since 9/11*", March 2011, RL 33110 and IMF, International Finance Statistics, January 2012).

88 Q 342

89 Q 343

90 Q 340

CHAPTER 6: BRITISH AID POLICY

Institutional and statutory framework

75. The institutional framework was put in place in 1964 when in the words of Mr Richard Manning, former senior DFID official and former Chairman of the OECD's Development Assistance Committee, the Government "put together all Britain's aid assets in one place",[91] the new Overseas Development Ministry. Under successive Governments it was either a Ministry in its own right or an Overseas Development Administration under the aegis of the Foreign and Commonwealth Secretary. In 1997 it was remodelled as the Department for International Development (DFID) under the Secretary of State for International Development. Lord Jay of Ewelme, a former official of the ODA (now DFID) and former Permanent Secretary of the Foreign and Commonwealth Office, told us that "the right structure is to have a separate DFID from the Foreign Office, but working closely together."[92]

76. The International Development Act 2002 sets out the powers of the Secretary of State and lays down the terms on which he may provide development and humanitarian assistance. None of our witnesses suggested that the Act should be changed or repealed.

77. DFID is a partner with the Foreign and Commonwealth Office and the Ministry of Defence in the Conflict Pool set up in 2008 by merger of the previous Africa Conflict Prevention Pool and Global Conflict Prevention Pool. In 2009 the Stabilisation Aid Fund, established to support stabilisation in Iraq and Afghanistan, was also merged into the Conflict Pool. The Conflict Pool does not draw on its three partners' Departmental budgets, but is separately funded by the Treasury. It aims for pan-Whitehall coordination of conflict prevention activity.[93]

78. **We agree with Lord Jay of Ewelme who told us that aid should complement British foreign policy. The Conflict Pool provides scope for coordinated responses by DFID, the Foreign and Commonwealth Office and the Ministry of Defence to instability and conflict in developing countries in carefully assessed cases.**

The aims of British aid policy

79. The International Development Act 2002 empowers the Secretary of State to "... provide ... development assistance if he is satisfied that ...[it]... is likely to contribute to a reduction in poverty."[94] Most of our witnesses, for example Lord Jay of Ewelme,[95] agreed that poverty reduction should be the main priority.

80. In furtherance of the primary purpose of poverty reduction and of DFID's ultimate goal—still distant—of making itself redundant, the priorities of the DFID business plan are to:

i) <u>Honour international commitments</u>

Honour the UK's international commitments and support actions to achieve the Millennium Development Goals

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91 Q 315
92 Q 59
93 Q 169
94 International Development Act 2002, section 1(1)
95 Q 52

ii) Introduce transparency in aid

Make British aid more effective by improving transparency and value for money

iii) Boost wealth creation

Make British international development policy more focussed on boosting economic growth and wealth creation

iv) Strengthen governance and security in fragile and conflict-affected countries

Improve the coherence and performance of British international development policy in fragile and conflict-affected countries, with a particular focus on Afghanistan and Pakistan

v) Lead international action to improve the lives of girls and women

Work to empower and educate girls, recognise the role of women in development and help to ensure that healthy mothers can raise strong children

vi) Combat climate change

Drive urgent action to tackle climate change, and support adaptation and low carbon growth in developing countries[96]

81. DFID's Bilateral Aid Review makes clear that spending in fragile states and conflict areas is to increase to 30% (as a share of the total budget) by 2015, in line with the view expressed in the Government's Building Stability Overseas Strategy (BSOS) that "Working to address instability and conflict upstream is a sound investment."[97] At the same time bilateral programmes in 16 countries including China and Russia are being wound down, so that bilateral aid will be concentrated in 27 countries.

82. The International Development Act also defines "furthering sustainable development" as a purpose of development assistance. DFID cites research conclusions that "aid has a positive and statistically significant causal effect on growth over the long run" and contends that even "aid ... spent on providing immediate benefits rather than directly on economic growth ...[may] eventually increase economy-wide productivity and hence the growth of incomes."[98]

83. None of our witnesses advocated a return to tying aid funds to purchase of British goods or services. Mr Jan Dehn of Ashmore Investment Management Ltd agreed that tied aid was "... a very inefficient allocation of resources ..." it was not "... in our general interest ... to tax everyone in the UK to give money to a particular company so that it can gain a contract as part of our aid budget."[99]

84. **We believe that poverty reduction through economic growth should remain the main aim of aid policy.**

85. **We welcome the Secretary of State for International Development's decision to run down bilateral development aid programmes in 16 countries including China and Russia and to concentrate bilateral aid in 27 countries.**

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96 DFID Business Plan 2011–2015

97 DFID, Foreign and Commonwealth Office and Ministry of Defence (2011), 'Building Stability Overseas Strategy', page 2

98 DFID 1, para 7 and Secretary of State for International Development (SoS 2)

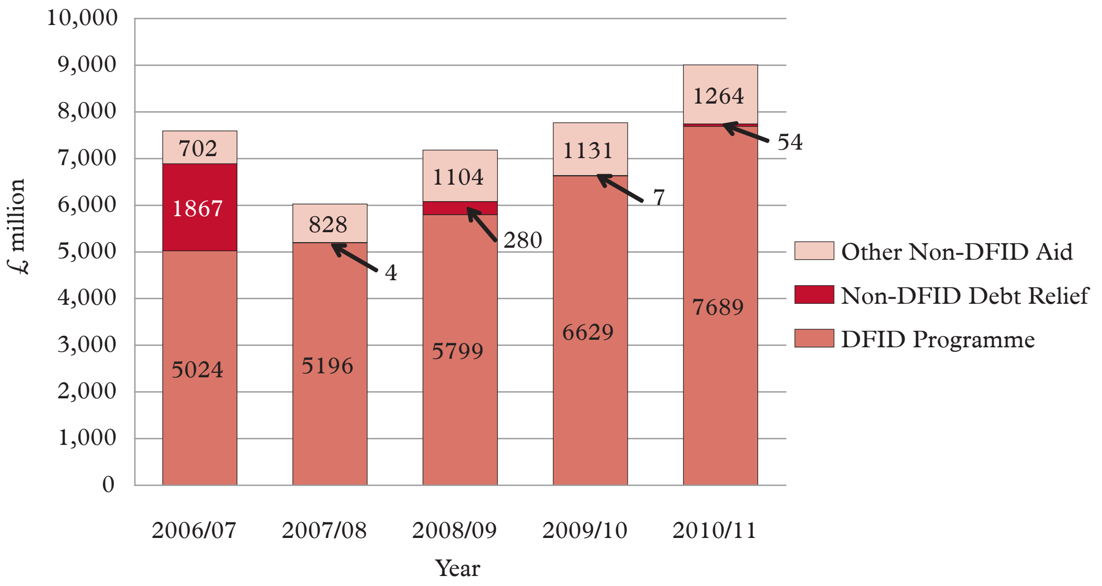
99 Q 282

Spending on aid

86. The UK's gross spending on development (DFID and non-DFID) rose from about £7.6 billion in 2006/07 to £9.0 billion in 2010/11.

FIGURE 7

UK Gross Public Expenditure on Development 2006–2011 (current prices)

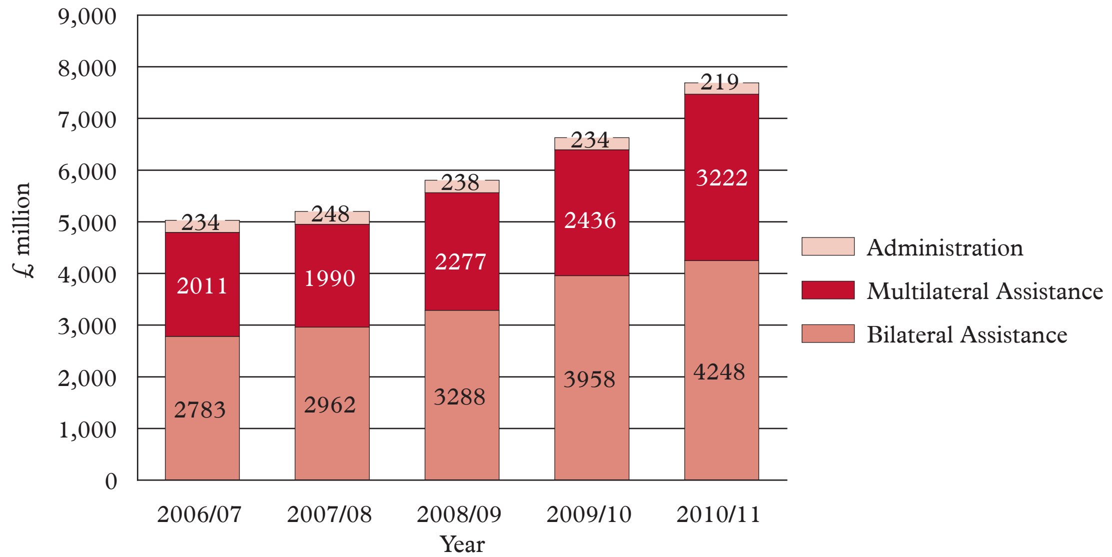


Source: DFID / National Statistics, Statistics on International Development 2006/07–2010/11, October 2011.

The DFID programme rose substantially faster, from £5.0 billion in 2006/07 to £7.7 billion in 2010/11, a rise of 53% (Figure 7). This increase was more or less balanced between increases in DFID's bilateral aid programme and spending via multilateral institutions. Over the same period, DFID's administration expenditure fell from 4.65% of total departmental spending to 2.85% (Figure 8).

FIGURE 8

The DFID Programme 2006–2011



Source: DFID / National Statistics, Statistics on International Development 2006/07–2010/11, October 2011.

87. Under the Coalition Government spending plans, DFID is the only Department to receive a substantial increase in spending, 37% in real terms

between 2010/11 and 2014/15, when almost all other departments are expected to cut spending.[100] These planned increases in spending are to enable the Government to meet its commitment to reach by 2013 the target of spending 0.7% of Gross National Income (GNI) on aid. On this basis, the 2010 Treasury Spending Review projects total UK net ODA to equal £12.6 billion in 2014, approximately 1.7% of total public sector expenditure; in 2010 net ODA accounted for approximately 1.2% of expenditure.[101]

88. The 0.7% target was adopted in 1970 by the UN including the UK (cf. footnote 3). No British Government has resiled from the target but neither has any achieved it. British net Overseas Development Assistance rose from 0.43% in 2008 to 0.56% in 2010.

TABLE 3

UK Aid Summary

	UK Net ODA (Constant 2009 prices)	Share total net ODA from all DAC donors	Net ODA as % of UK Gross National Income (GNI)
2008	£7.36 bn	9.6%	0.43%
2009	£7.23 bn	9.4%	0.52%
2010	£8.64 bn	10.6%	0.56%

Source: OECD Development Assistance Committee (DAC), Statistics on Resource Flows to Developing Countries; UK share calculated from DAC data

Note: Figures differ slightly between UK budget and DAC sources. DAC data are reported on calendar year basis and expressed in constant 2009 prices.

89. Some of our witnesses opposed continued pursuit of the UN target. Michela Wrong wrote that the target "places supply before demand, the wrong way to go about things."[102] It was "... a straitjacket ... unhelpful and possibly dangerous ..."[103] because it encouraged officials "... to turn a blind eye to flagrant abuse in the pressure to get the money out of the door."[104] Mr Dehn said 0.7% was "an arbitrary number ... budgets should be flexible so they can adjust to needs."[105] Sir Edward Clay, formerly British High Commissioner in Kenya, said "...0.7%... has had its day."[106]

90. Others still see merit in the UN target. Sir Tim Lankester thought it "worth having as an aspirational target."[107] Lord Jay of Ewelme thought it "a good target to aim for, provided that it can be well spent ... I do not think we should underestimate the impact that a British aid target and the quality of

100 HM Treasury, Spending Review 2010, Table 1 (excludes departmental capital budget).

101 HM Treasury, Spending Review 2010, Table 2.16. Public expenditure is defined as public sector current expenditure plus public sector gross investment (Spending Review, Table 1.1). Over the Spending Review period, revisions to gross national income will be accompanied by corresponding adjustments to the budget for Net ODA.

102 Wrong, para 7

103 Q 437; Q440

104 Wrong, para 7

105 Q 272

106 Q 51

107 Q 51

British aid can have on others."[108] Mr Simon Trace, Chief Executive, Practical Action, saw the target as "modest ... affordable ... and a reasonable thing to go for."[109] Professor Sachs was "all for the 0.7%."[110] Professor Collier "would not have given the 0.7% target anything like the profile that it has ... The main reason why we should do it is that we said we would."[111]

91. The Secretary of State for International Development defended meeting the UN target on the same grounds: "we have promised that we will do that" [112] "... it is the right thing to do ... we would not seek to balance the books on the backs of the poorest people in the world."[113]

92. The coalition Government is committed not only to meeting by 2013 the UN target of spending 0.7% of GNI on aid but also to bringing forward legislation to make compliance with the target a legal obligation on future British Governments. All of our witnesses who opposed meeting the UN target were strongly against enshrining it in legislation. So were some supporters of the target: Lord Jay of Ewelme said "I am not in favour of it being a legislative obligation."[114]

93. The commitment to legislation has its defenders. Professor Sachs "... would say 'Go for it'."[115] Mr Jonathan Pell said the target "should perhaps be put into legislation."[116] Mr Patrick Watt, Director of Policy and Research, Save the Children, said legislation would "protect the aid budget from political jockeying."[117] Mr Alex Cobham, Chief Policy Adviser, Christian Aid, thought British aid would "be much more predictable and therefore much more beneficial."[118]

94. The Secretary of State for International Development explained the commitment to enshrine the 0.7% target in British law as "a commitment of all three parties, it was a commitment in the Gracious Speech and it was a commitment in the coalition agreement. If you make these commitments, I think you should stand by them."[119] He added "There are arguments against declaratory legislation—I freely accept that—but the position of the coalition Government is that the Bill will proceed at the time the business managers decide that it should ... As the Prime Minister made very clear when he went before the Liaison Committee, we will proceed when the business managers are able to find us a slot."[120] The Secretary of State did not adduce economic or developmental benefits expected to flow from legislation.

95. **Whatever its merits when it was adopted in 1970, we do not accept that meeting by 2013 the UN target of spending 0.7% (£12bn) of Gross**

[108] Q 56
[109] Q 221
[110] Q 463
[111] Q 335; Q 336
[112] Q 602
[113] Q 596
[114] Q 51
[115] Q 475
[116] Q 272
[117] Q 221
[118] Q 222
[119] Q 605
[120] Q 608

National Income on aid should now be a plank, let alone the central plank, of British aid policy because:

a) it wrongly prioritises the amount spent rather than the result achieved;

b) it makes the achievement of the spending target more important than the overall effectiveness of the programme;

c) the speed of the planned increase risks reducing the quality, value for money and accountability of the aid programme;

d) reaching the target increases the risk identified in Chapter 4 that aid will have a corrosive effect on local political systems.

We recommend that the core of aid policy should be choosing and funding the best ways of promoting international development and stability, rather than finding new ways to spend ever-increasing resources.

96. **The Government should therefore drop its commitment to enact legislation to enshrine in British law an obligation on future Governments always to comply with the UN target of spending 0.7% of Gross National Income on aid. It would deprive future Governments of the flexibility to respond to changing circumstances at home and abroad. The Secretary of State has not put forward any case for legislation other than the Government's political commitment to it.**

CHAPTER 7: HOW DFID OPERATES

New approach: General

97. The Coalition Government made changes to aid policy after coming to power in May 2010. It promised greater emphasis on results when choosing and funding aid programmes. It set up an Independent Commission for Aid Impact (ICAI) to monitor the effectiveness of overseas development assistance. A review of bilateral aid led to programmes in 16 countries—including China, Iraq, Russia and Vietnam—being closed. British bilateral aid is now to focus on 27 countries from Afghanistan to Zimbabwe. Table 4 below lists the largest recipients of bilateral aid, with Pakistan expected to be the largest recipient in 2014/15, up from sixth largest in 2010/11. The Government also reviewed aid disbursed through 43 multilateral development agencies. As a result "core funding" was stopped to the International Labour Organisation, the UN International Strategy for Disaster Reduction, UN-HABITAT and the UN Industrial Development Organisation, all deemed "poor value for money." Multilaterals that had "serious weaknesses"—which included the International Organisation for Migration, the Food and Agriculture Organisation, the development programmes of the Commonwealth Secretariat and UNESCO—were put on a watch list and may lose funding if improvements are not made by next year.[121]

98. **We welcome DFID's reviews of all bilateral aid programmes and multilateral agencies supported by Britain. DFID's renewed commitment to results and value for money is a welcome change in approach, if carried through.**

TABLE 4

Principal recipients of UK Bilateral Aid (excluding humanitarian assistance and regional or non-allocable expenditure) 2010/11 and 2015

Top 10 Recipients				
2010/11	**£million**	**% Total**	**Projected Allocation 2014/15**	**% Projected Total**
India	279	11.0%	Pakistan	12.1%
Ethiopia	245	9.7%	Ethiopia	10.6%
Bangladesh	171	6.8%	Nigeria	8.3%
Tanzania	144	5.7%	Bangladesh	8.1%
Nigeria	142	5.6%	India	7.6%
Pakistan	120	4.7%	Dem Rep Congo	7.0%
Afghanistan	97	3.8%	Afghanistan	4.8%
Uganda	94	3.7%	Tanzania	4.5%
Mozambique	94	3.7%	Kenya	4.1%
Rwanda	90	3.6%	Sudan	3.8%

Source: DFID, Statistics on International Development 2011 and DFID Bilateral Aid Review, March 2011

[121] DFID (2011), UK aid: changing lives, delivering results (this is a summary of the results of the bilateral and multilateral aid reviews)

Bilateral vs multilateral

99. In addition to its bilateral aid programmes the UK channels aid through multilateral agencies. DFID's multilateral programme accounted for £3.22 billion in 2010/11, up from £2.28 billion in 2008/09 (41%). The European Commission's development programme received the largest DFID multilateral assistance (£1.26 billion), followed by the World Bank (£927m) and the United Nations (£355m).[122]

- The European Commission

Open Europe argued that the European Commission is unclear whether it is an "all-encompassing aid donor or ... a niche player complementary to the member states' existing aid programmes." The organisation argues that Commission aid is heavily driven by geopolitical considerations (such as immigration from and political stability in neighbouring countries) and colonial ties. For example, Turkey, an upper middle income country, is the biggest single recipient of EU aid. Only 46% of EU aid goes to low income countries, compared to the UK's 74%, EU member states' 58% and the US's 56%. Open Europe would like the EU to be only a forum for donor coordination, rather than a donor in its own right.[123]

Mr Manning agreed that the Commission had "chosen largely to 'communitise' ... aid to its immediate neighbours." But he did not criticise this policy: "There is virtually no British aid to immediate neighbours of the EU and there is not a lot of bilateral aid from others, either ... you have to ask yourself: is it intelligent or not for the European Union to have a common approach to providing assistance to countries that either are potential members or have a long-term close relationship."[124]

- World Bank

Adam Smith International argued that the World Bank's approach was flawed in turning funds to procure and administer assistance over to developing country governments which often "do not have the capacity to do this effectively" with the administrative arrangements "often extremely poor." There was also an "institutional prejudice in favour of 'getting money out the door'", so that "spending more money is seen as a sign of success."[125]

DFID's Multilateral Aid Review of 2011 was more positive about the World Bank.[126] Its key affiliate the International Development Association—the arm of the World Bank which supports the poorest countries and is one of the world's largest sources of aid to low-income countries—was rated 'very good' and as delivering a strong contribution to the UK's development objectives, although over keen on getting money out the door: "incentives ... are tilted

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122 Data taken from DFID, Statistics on International Development, 2006/07–2010/11, October 2010

123 Open Europe

124 Q 314

125 Adam Smith International

126 The World Bank is made up of five agencies of which the International Development Association is one. The other four are: the International Bank for Reconstruction and Development which lends to governments of middle-income countries and creditworthy low-income countries; the International Finance Corporation which provides loans, equity and technical assistance to stimulate private sector investment in developing countries; the Multilateral Investment Guarantee Agency which provides guarantees against losses caused by non-commercial risks to investors in developing countries; and the International Centre for Settlement of Investment Disputes which facilitates conciliation and arbitration of investment disputes.

towards inputs—project and loan approvals—rather than results". The IDA's organisational strengths were rated as satisfactory, though there were "limited incentives to generate cost savings in projects."[127] The World Bank's International Finance Corporation (IFC), which provides loans, equity and technical assistance to stimulate private sector investment in developing countries, was rated 'good' by the Multilateral Aid Review. Its contribution to UK development objectives was only rated satisfactory because the IFC focuses more on middle income countries and less on the poorest nations and fragile states than DFID. But the IFC's organisational strengths were rated strong.[128]

- UN Development Programme (UNDP)

DFID's Multilateral Aid Review rated UNDP's performance as 'good'.[129] This overall result was surprising given some of the criticisms in the Multilateral Aid Review of UNDP. The Review stated: "Evidence gathered at country level was highly critical of UNDP's ability to deliver results." The Review added that delivery of projects "can be undermined by staffing issues and bureaucratic processes" and cited "limited evidence of active senior management consideration of cost control". Furthermore, the Review saw the chances of improvement as uncertain: "The Executive Board is politicised and there is a lack of consensus on the key areas for reform. It is not clear that current plans for change will deliver the required depth and breadth of reform."

DFID said the Multilateral Aid Review "has sent a strong signal to the UN leadership and is seen as a catalyst for change." Britain is "working with like-minded donors ... to improve results reporting and to ensure maximum value for money for the UK's contributions."[130]

100. **We welcome DFID's decisions to cease funding to a few ineffective multilateral organisations. But more needs to be done. The evidence we received raised concerns about the quality of aid delivered via the World Bank and in particular the UN Development Programme (UNDP). We would support reducing funding to both organisations, which receive large amounts of DFID money, while a more detailed re-evaluation of their work is carried out. The Government should push for a substantial reduction in the European Commission's aid programmes given its focus on the EU's neighbours rather than poorer, low income countries that are in greater need. DFID must provide impact assessments and regular reports on performance of projects it funds through all multilateral organisations.**

Why aid India?

101. British aid to India was £421 million in 2010.[131] We questioned why DFID still provides development aid to India despite its rapidly growing economy, which can fund space and nuclear activities as well as its own aid

[127] Department for International Development, Multilateral Aid Review, Page 182, March 2011

[128] Department for International Development, Multilateral Aid Review, Page 185, March 2011

[129] Adam Smith International

[130] DFID 1, para 47

[131] Statistics on International Development 2011, Table 10, Top Twenty Recipients UK Net Bilateral ODA 2008–2010

programme, and reported statements by Indian Ministers that they would rather do without British aid but that British officials had replied that cancellation would cause political embarrassment in Britain.[132]

102. The Secretary of State for International Development told us that he had after careful consideration taken the decision to retain the bilateral aid programme in India, focussing on the three poorest states: "In India, seven and a half times the total population of the United Kingdom live on less than $2 a day. In some of the poorest states, more than half the children are malnourished ... The decision that I made was that we should walk the last mile with India on development but that we should work in only the very poorest states. We have identified three of the eight poorest states as the places where we should work, principally on trying to support with technical assistance basic services and governance."[133] The Secretary of State also told us that reported dismissive comments by Indian Ministers about British aid were "out of date" as they were made in 2010.[134] Agreement with India on British aid programmes was reached the following year "and they have since welcomed our programme."

103. Christian Aid told us that Madhya Pradesh, population 70 million, has rates of poverty nearly identical to the Democratic Republic of Congo, even though India's GDP per capita is over 10 times that of the DRC.[135] We also heard that there are still as many Indians (about 300 million) living in extreme poverty as in the whole of Sub-Saharan Africa.[136] Professor Ramachandra Guha of the LSE advocates closure of DFID's operations in India.[137] Mr Dominic Lawson, a journalist, sees British aid to India as "a combination of misplaced post-colonial noblesse oblige and a desire to look good on the international stage."[138]

104. **India's impressive economic growth and technological attainments, and its own aid programme, coexist with widespread, extreme poverty. British development aid to the poorest Indian states may provide a perverse incentive to the Indian government to use less of its own revenue to alleviate poverty. We recommend that the Secretary of State should urgently prepare an early exit strategy from the India development aid programme.**

Budget support

105. Budget support comes in two forms: general which can be spent in any area; or sectoral which can be spent only in one area such as health or education. Both are disbursed through the national government of the recipient country, unlike project aid which is often delivered outside the host government's system.

106. Professor Ndulu said: "To some extent, project funds are much less amenable to co-ordination and to government prioritisation in the manner

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132 *Sunday Telegraph*, 'India tells Britain: We don't want your aid' by Andrew Gilligan, 5 February 2012

133 Q 607

134 Secretary of State for International Development (SoS 5)

135 Taken from the CIA's World Factbook. On a purchasing power parity basis GDP per capita in 2010 was $3,500 for India and $300 for the DRC.

136 Q 11, Q 54, Q131

137 *Financial Times*, 'Send India the power of our pen, not our purse', 10 February 2012

138 *The Independent*, 'If India doesn't want it, why are we still giving them money?' by Dominic Lawson, 7 February 2012

that budget support ... would be."[139] Save the Children argued that budget support is more effective than project aid, which is more fragmented and therefore involves higher transaction costs. But Mr Riddell, argued that, lower transactions costs had not yet happened:[140] "For both donors and recipients, transaction costs seem to have risen, not fallen."

107. In contrast, the Business Council for Africa UK wrote: "Large amounts of budgetary support by their very nature tend to undermine the democratic process by intervening between the government and its electorate because the government is neither accountable to, nor dependent on, the electorate for that part of its revenue." Once the money is handed over it is "virtually impossible for DFID to apply any rigorous audit regime". The organisation added that large amounts of budgetary support make corruption "more likely to flourish" and risk freeing up recipient government funds for other programmes that do not enhance economic development such as "expensive items of defence equipment."[141]

108. Professor Sachs said: "I am not keen on programmes that say, 'You are a good Government, you get high governance scores from the World Bank, therefore you are going to be a recipient of budget assistance and we trust you.' I trust nobody." Handing over money to central government and expecting it to reach the local level is, unless very carefully designed, "a hope too far",[142] Professor Sachs is instead "a big fan of well targeted, well defined programmes that can accomplish well designed and specified purposes", such as delivery of bed nets or vaccines.[143]

109. The Secretary of State for International Development told us that budget support could be useful since otherwise avoidance of recipient governments' systems "might weaken or undermine developing countries accountability to their own citizens."[144] But "The UK Government only gives general budget support in countries where we are completely satisfied that funding will be used for the intended purpose."[145] He had decided that DFID would halve bilateral general budget support, £360 million in 2010/11, by 2014/15. DFID has tightened disbursements, now made in biannual or quarterly tranches rather than annually. Bilateral sector budget support is nevertheless to rise from £283 million by about 20% over the same period.[146] And much of Britain's funding of multilateral agencies—£3.2 billion in general funding and £1.5 billion for specific programmes in 2010–11[147]—takes the form of budget support. For example, the European Commission gave €1.8 billion (£1.5 billion) in 2010 for budget support—26% of the Commission's aid programmes.[148]

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139 Q 34

140 Roger Riddell, Does Foreign Aid Work?—a chapter in Monique Kremer, Peter van Lieshout and Robert Went (eds.) (2009) *Doing Good or Doing Better, Development policies in a globalizing world*

141 Charles Cullimore, Business Council for Africa UK

142 Q 461

143 Q 461

144 Secretary of State for International Development (SoS 3)

145 Secretary of State for International Development (SoS 3)

146 DFID 3

147 DFID, Statistics on International Development, Table 3, October 2011

148 DFID 5; DFID provided budget support figures for six of the multilateral agencies it funds.

110. **We welcome DFID's decision to halve general budget support by 2014/15. We also welcome the introduction of more rigorous conditions of disbursement. But we are concerned that sector budget support—where the funds are spent in specific areas such as health or education—is to jump 20% by 2014/15 and that much of Britain's funding of multilateral agencies may be used as budget support. Since the risks of misuse of budgetary aid are high, both types of budget support—general and sectoral—should be reduced, not just the general budget support targeted by the Government. DFID should also ensure that less of the aid it provides via multilateral organisations is used for budget support, or withdraw funding from multilateral agencies that persist in focussing on budget support.**

Aid, private investment and DFID

111. DFID now emphasises its commitment to the private sector as a driver of growth. Its policy paper "The Engine of Development—the Private Sector and Prosperity for poor people" says that British aid helps pave the way for private-sector led growth by investing in developing the necessary workforce skills and in physical infrastructure. Policies designed to insure macroeconomic stability and good governance can help too by creating an environment in which the private sector is prepared to use its skills, and invest.

112. The Secretary of State for International Development calls DFID's private sector department the "SAS of the DFID army. We are giving it a huge priority."[149] DFID is seeking to recruit staff from the private sector with the right skills in finance, investment, audit and supply change management to support its efforts. Dr Alison Evans noted that "With the need to engage much more closely with private sector partners … you need to have high-quality technical skills that are able to execute against those agendas … compared with others within the field … they have a good complement of skills in the area of ... private sector development." Of DFID she said while recognising that progress was being made the balance is not completely right.[150]

113. Our witnesses broadly welcomed DFID's declaration of a new focus on the private sector although some expressed considerable doubt whether this was yet part of DFID's DNA. They expressed support for well-targeted technical assistance in support of, for example, commercial legal reform, audit and contract enforcement and strengthening standards enforcement. Mr Simon Harford of private equity firm Actis said "really targeted technical assistance, to complement what the private sector is doing anyway, would be very catalytic."[151]

114. Technical assistance could also help improve local firms' access to private capital, both domestic and international. Mr Harford and Mr Jan Dehn hoped donors would support the development of local capital market infrastructure and associated regulation.[152]

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[149] Q 635

[150] Q 90

[151] Q 262

[152] Harford, Q 259 and Dehn, Q 263

115. **We welcome the new emphasis on the development role of the private sector, which is essential to the creation of strong and sustained indigenous growth. DFID's own efforts should increasingly concentrate on the ways in which it can help to encourage and sustain private investment. It should not be tempted into interfering unnecessarily in the activities of private companies. The more private sector skills can be embedded within the Department, the more likely its efforts are to succeed, with the prize, at the end of the day, of less taxpayer-funded aid.**

Political conditionality

116. Concern is sometimes expressed about aid to countries with oppressive regimes or patchy human rights records. Ms Wrong said: "I think you have to be tougher on them. I think it is time that they realised they are no longer donor darlings. Particularly the relationship with [Rwandan leader Paul] Kagame,... this is now a regime that has not once but several times sent assassination squads out to the UK, out to South Africa, to bump off members of its opposition who are exiled abroad. That makes me very uneasy."[153]

117. **We recognise the difficult case-by-case judgments on aid delivery which DFID faces in easing the plight of the poorest in countries where oppressive regimes violate human rights. We recommend that DFID should continue to exercise vigilance in ensuring aid does not prop up oppressive regimes, even if they are not conspicuously corrupt in a financial sense.**

DFID and NGOs

118. DFID works closely with local and international non-governmental organisations (NGOs). About 15% of DFID's bilateral aid funds projects run by NGOs,[154] while for the major UK NGOs, DFID accounts for as much as 10–20% of their total income.[155]

119. While NGOs have traditionally been in the vanguard of humanitarian and relief efforts in conflict and post-conflict environments, they are also increasingly engaged in longer-term development activities, delivering core services especially in health, education, water and sanitation and, more recently, business services and political governance.

120. There is a wide range of NGOs large and small, based in donor and recipient countries, with different aims and skills. Some are more effective than others. Journalist and author Linda Polman outlined in her book War Games the problems raised by the explosion of small, new NGOs, some of which provided aid that was useless—in one case frostbite medication to victims of tropical disasters—or even harmful such as performing medical operations without the necessary aftercare.[156] NGOs' comparative advantage is often seen as the flexibility to operate where official donor agencies or even

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153 Q 430

154 Independent Commission for Aid Impact, The Department for International Development's Approach to Anti-Corruption, 2 November 2011

155 Q 208

156 Linda Polman War Games: The Story of Aid and War in Modern Times, Chapter 3 (Penguin, 2010)

recipient governments cannot, especially in remote and insecure environments. They may also, in some cases, be able to operate beyond the reach of predatory governments in weak states. Rory Stewart MP said: "It appears to be possible for Oxfam or Save the Children to deliver development aid to communities without paying huge numbers of bribes. In fact, one of the nice things about operating in most of the developing world is that most Governments in the developing world seem to be relatively good about not shaking down NGOs for bribes."[157] Others, however, argue that international NGOs, especially those engaged in humanitarian assistance, are vulnerable to capture by powerful interest groups and thus become indirectly complicit in corruption.[158]

121. There are risks to excessive reliance on the NGO sector. In the long run, the NGO sector cannot be a substitute for effective government, nor should it. As Professor Sachs notes: "they are not ... the ultimate mechanism for success" since they "cannot deliver ... a coherent national programme."[159] Professor Collier said: "The public sector has the scale but not the motivated workforce, and the churches and NGOs have the motivated workforce but not the scale."[160] Heavy reliance on NGOs in the short-run may even hinder attempts to re-build government capacity in the longer term. Other witnesses pointed out that NGOs delivering good projects can undermine the credibility of host governments by depriving them of credit for progress with local people.[161]

122. More generally, the strength of the NGO sector is also a weakness. Local NGOs tend to be very small, which limits their capacity to deliver efficient services at scale, and they vary enormously in terms of their capacity to deliver and their quality of financial management. And since many local NGOs are able to operate only by maintaining close links with domestic political elites, there is an ever present risk of co-option by undesirable regimes.

123. DFID conducts detailed and regular due diligence on UK and international NGOs before funding them,[162] but, according to the Independent Commission for Aid Impact NGOs funded in recipient countries are "not subject to the same level of scrutiny."[163]

124. **We recognise the valuable contribution that some NGOs can make to development and agree that DFID should use them in the right circumstances to deliver some of its aid, recognising that the NGO sector cannot substitute in the long run for credible and effective recipient-country governments. We recommend, however, that DFID should be as robust in monitoring proper use of funds by NGOs as it is with directly-delivered resources.**

[157] Q 351

[158] For example Linda Polman War Games: The Story of Aid and War in Modern Times (Penguin, 2010)

[159] Q 461

[160] Q 328

[161] Q 352

[162] Q 250

[163] Independent Commission for Aid Impact, The Department for International Development's Approach to Anti-Corruption, par 3.28, 2 November 2011

Should DFID learn from China's engagement with developing countries?

125. China's assistance to developing countries, particularly those in Africa, is closely integrated with its wider commercial interests and tends to be geared towards acquiring control over scarce natural resources and gaining access to new and growing markets for its exports. Aid projects are typically executed on a commercial basis relying heavily on Chinese capital, labour and expertise. Ms Evans said: "They frame it very much in a language of mutual reciprocity—this is about solidarity. They see themselves as partners of these countries, certainly not as donors ... Quite a lot of that is ... with an explicit eye to a return, in terms of access to critical resources or particular markets [but] interpreting this as a single self-interested transfer is dangerously stereotypical."[164] Mr Glennie opposed any emulation by the UK of the Chinese approach to aid: "As the sixth or seventh richest country in the world, we do not have the same right to demand a return as I think the Chinese and the Indians do."[165]

126. NGOs opposed linking aid with commercial interests. Mr Max Lawson feared that wider adoption of China's self-interested approach to aid could lower standards: "Our fear is ... that we will see a fall in the standards of European aid in a race to the bottom and a return to a much more self-interested approach to the aid business, against which we spent many years campaigning."[166]

127. The UK has long abandoned tied aid aimed at securing commercial benefits, on the lines of the old Aid and Trade Provision (ATP). In Mr Manning's experience of managing tied aid "You make so many bad decisions ... that we should do everything we can to avoid it."[167] He doubted in any case that British business would be competitive with China in building infrastructure in Africa. Better in his view to "work with African governments to strengthen local accountability and good governance, so that they take a careful approach to borrowing from any source, including the emerging economies."[168]

128. Asked if the UK should emulate China in deriving direct economic benefit from aid projects, the Secretary of State for International Development argued that British aid policy "does have an economic return in terms of building prosperity in very poor countries" and that the aid budget "is spent in Britain's national interest [and] is a tremendous investment in our future stability and prosperity."[169] He would however ensure that British aid was more conspicuously badged: "Recently in Mandalay I visited a big project which Britain is supporting and I was irritated to discover a number of plaques lauding the generosity of the German Government, which was greatly below the generosity of the British taxpayer. So I am intent on making that change."[170]

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[164] Q 95

[165] Q 99

[166] Q 245

[167] Q 305

[168] Q 297

[169] Q 631

[170] Q 628

129. The Secretary of State considered that China's role was "extremely productive and extremely good for development." It would discover "the importance of embracing transparency and openness." He had discussed with his Chinese colleague "ways in which we could cooperate in third countries and on issues where we both have common interests."[171]

130. **We welcome the Secretary of State's commitment to ensure better 'badging' of British aid. Other donor governments are less reticent.**

131. **We do not advocate a return to tied aid. But we recommend that DFID should consider with the Department for Business, Innovation and Skills how Britain could derive direct economic benefit from its development aid programmes without worsening quality and effectiveness for recipients.**

Staffing

132. Like other Whitehall departments DFID is to cut its administration budget by a third in the four years to 2014/2015. Of the £33.8 million savings £18.5 million have already been made through country office closures, reductions in the number of senior civil servants, new controls on travel and consultancy and tighter approval of training. That leaves £15.3 million to be found, of which £9.1 million is to come from streamlining human resources, moving to cheaper office accommodation in London and new telecoms services.[172]

133. The cuts have raised concerns about the quality and evaluation of the aid programme. Professor Wood said: "There will be fewer and fewer people per $1 million of aid spent ... To deliver aid effectively, particularly in fragile states, is a very labour-intensive activity. I am seriously concerned that there is a mismatch here."[173]

134. But DFID officials told us: "The spending settlement also allows us to scale up our front-line staffing ... The overall picture for departmental staffing is that numbers will probably stay at around 2,400 over the period. Within that, a significantly higher proportion of staff will be working on the front line and a smaller proportion on corporate tasks."[174] Some administrative staff were being recategorised as programme support staff. Front line delivery costs would rise from £91.2 million in 2011/12 to £138.9 million in 2014/15.[175] A large part of the planned expansion of front line staff is in advisory posts across a range of areas. Advisory staff in the area of evaluation and results are set to double to 51 over the two years to March 2013 while the number of humanitarian aid advisors is targeted to more than double to 22.

135. Mr Gordon Bridger, a former senior aid official and author of "How I Failed to Save the World" alleged that DFID officials were not motivated to ensure value for money because they were awarded bonuses for reaching aid spending targets, regardless of effectiveness or results.[176] The Secretary of State vehemently denied this claim describing it as "nonsense". He went on: "No member of staff has an objective to simply spend a certain amount of

[171] Q 641

[172] Secretary of State for International Development (SoS 4)

[173] Q 28

[174] Q 143

[175] Ibid

[176] Q 663

money."[177] DFID operates two performance award schemes—one for senior civil servants and another for all other staff. Senior civil servants can receive a bonus ranging from 10–13% of annual salary.[178] For the year 2010–11 out of 93 senior civil servants, 23 were awarded a bonus—the maximum awarded was £15,000; the median £10,000. A maximum of 25% of senior civil servants can receive a bonus. The criteria for awarding bonuses to senior civil servants are based on DFID's Business Plan.[179] Non-senior staff can receive bonuses from £275 to £1,000.[180]

136. **The planned combination of much higher programme spending, especially in fragile states, with administrative staff cuts seems to risk weaker monitoring of programmes and less rigorous vigilance against corruption. We are not convinced that a cut in DFID staff of the magnitude planned can be reconciled with adequate control of the Department's fast-growing budget, although we welcome DFID's plans to strengthen the front line within a stable headcount overall, which we trust will lessen the risk. We recommend that the Secretary of State should ensure that administrative staff cuts do not hamper his focus on results and in particular the struggle against corruption.**

Corruption

137. The Secretary of State for International Development called corruption the "cancer in development" and said "we have to have zero tolerance towards corruption."[181] Corruption "diverts resources hugely from productive deployment. An obvious example is using aid money ... for the purchase of expensive defence toys that are neither necessary nor productive", according to Mr Charles Cullimore of the Business Council for Africa UK.[182] DFID's written evidence stated: "The Department does not tolerate corruption or misuse of taxpayers' funds in any form."[183] But as Sir Tim Lankester and Lord Jay of Ewelme pointed out, "... there is a degree of corruption in any developing country. That does not mean that all money you give to that country is going to be misused."[184] Lord Jay of Ewelme nevertheless emphasised that "... you should never publicly accept that corruption is there ... you fight against it and you try to ensure that you have the sort of programmes that prevent it happening."[185] Former Foreign and Commonwealth Office consultant Michael Shaw said: "Life is grey, not black and white, is it not? If you are going to say, 'Absolutely no corruption whatever', you will not get anywhere in life."[186]

138. It is not clear how far tough talk leads to tough action against corruption. Although the Secretary of State cited a rise to 90% in recovery of identified

177 Secretary of State for International Development (SoS 6)

178 Secretary of State for International Development (SoS 6)

179 Figures available at http://www.dfid.gov.uk/About-us/How-we-measure-progress/SCS-staff-who-received-a-bonus/

180 Secretary of State for International Development (SoS 6)

181 Q 617

182 Q 669

183 DFID 2, para 19

184 Q 68, Q 71

185 Q 73

186 Q 670

losses from corruption, the total sum quoted for a year was only £1.2 million[187] or less than 0.02% of DFID's annual budget, an implausibly low proportion. The National Audit Office acknowledge that DFID's "risk profile is very different" from other departments as it "distributes aid in some of the most troubled areas of the world."[188] Although "once a fraud is known, DFID's record on investigating it is good",[189] DFID "does not attempt to quantify its estimated likely losses ... The Department is too reactive and cannot provide Parliament and the taxpayer with a clear picture of the extent, nature and impact of leakage."[190] The Auditor General added: "I can understand, frankly, why DFID is not very keen to talk about fraud in its programme because it probably thinks that that is quite damaging to the Government's willingness to support aid programmes."[191]

139. Sir Edward Clay wrote that during his time as High Commissioner to Kenya, from 2001–2005, corruption "infected every institution of the state."[192] "When I have challenged DfID's continuing assistance to the Kenyan government, and their association with some suspect individuals, the stock answer has been that their investment in education and the fact that over a million additional children had been admitted to primary school overrode any serious reservations they might have about the senior Kenyans they worked with. But of the top heads that rolled as a result of the outcry over corruption I had helped stimulate in 2004, three were key ministers in our bilateral relationship. Thus, the good that our aid has done was tainted by association of British support with some seriously bad hats."[193] Referring to a corruption scandal in the Kenyan Education Ministry, Ms Wrong wrote "This discovery, a full *nine years* into the donor-funded programme, raises alarming questions about the level of checking and auditing performed by DFID officials who believe themselves—naively—to be fully on top of their dossiers." Ms Wrong argued DFID "routinely plays down the importance" of policing corruption.[194] Sir Edward Clay agreed, but welcomed DFID's subsequent suspension of aid to the Kenyan education ministry "I do not think it has yet produced the missing money; but the action was a severe shock to Kenya, and felt right at the top."[195] The Secretary of State later told us that £120,000 of lost funds in this case had been recovered.[196]

140. Ms Wrong also emphasised the risk of more corruption arising from pressures to spend a rapidly-rising aid budget. "The obvious way to get large amounts of money out the door is to give it as direct budgetary aid, but that means very little oversight unless you trust the Auditor-General in the country concerned and ... that is often a mistaken assumption to make. You are either going to have to do it as direct budgetary aid, which you cannot then monitor, or you are going to have to give it to the multilaterals and then

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187 Q 619

188 Q 369

189 Q 391

190 National Audit Office (April 2011), Department for International Development—Financial Management Report

191 Q 393

192 Sir Edward Clay (SEC 1)

193 Sir Edward Clay (SEC 1)

194 Wrong, para 5

195 Sir Edward Clay (SEC 1),para 24

196 Secretary of State for International Development (SoS 1)

you are depending on their processes, or you are just not going to give it. But you have to give it because you have to meet 0.7% aid, so I do not understand how you square that circle."[197] Corruption was also likely to increase as a greater proportion of an increasing aid budget focuses on countries, such as fragile states, where the risk of fraud is higher.[198]

141. Ms Wardell said that in countries where corruption was rife DFID tried to avoid "holding poor people hostage to their poor governance ... What we will say is that we will not invest in certain areas or we will not work with certain parts or certain institutions like the Government because we do not have any confidence in their ability to manage funds in an accountable way." She gave examples of programmes in Pakistan and Guyana where DFID had cut funding after corruption was uncovered.[199]

142. Fraud can also be prevalent in the programmes of multilateral agencies funded by Britain, such as the external aid programmes of the European Union. OLAF, the EU's anti-fraud body, stated in its 2009 annual report: "In the external aid area, OLAF investigators often encounter modus operandi typical of organised fraud. The risks that make such fraud possible include shortcomings in coordination between the different global and international donor organisations."[200] One of the measures against corruption taken by the Government is the setting up of the Independent Commission on Aid Impact (ICAI), intended to hold DFID to account on this and other fronts. According to the ICAI's first report on DFID's anti-corruption measures, much more needs to be done: "Most UK aid ... is delivered by external partners. DFID's monitoring of these partners requires improvement. There is a need for more articulated processes for managing the corruption risks associated with particular aid types and greater attention to due diligence and on-the-ground monitoring."[201] The Secretary of State said he had accepted the ICAI's recommendations on how to improve DFID's anti-corruption measures and instructed his department to implement them "lock, stock and barrel."[202]

143. **There is corruption in many developing countries. We are greatly concerned by the paltry and implausibly low levels of fraud identified by DFID of little over £1m in its global programmes. Given critical reports of the National Audit Office and the Independent Commission for Aid Impact, DFID must make much more strenuous efforts to improve its detection of corruption, especially given the sharp increases in aid over the next few years.**

The Independent Commission for Aid Impact (ICAI)

144. The government is aware of the need to persuade the public that aid money is being used wisely and well. The Secretary of State said: "My job as

197 Q 413

198 Independent Commission for Aid Impact, The Department for International Development's Approach to Anti-Corruption, executive summary, November 2011

199 Q 193

200 OLAF/European Anti-Fraud Office, Annual Report 2009, Ninth Activity Report for the period 1 January 2008 to 31 December 2008

201 Independent Commission for Aid Impact, The Department for International Development's Approach to Anti-Corruption, executive summary, November 2011

202 Q 617

Development Secretary ... is to spend the money well and to get the results that we have promised to get."[203] To secure this it has set up the Independent Commission on Aid Impact, which reports directly to parliament through the House of Commons International Development Committee. This is an important development which in principle we applaud.

145. However, we are concerned that the Commission is not in practice fulfilling the role which it has been given. In its evidence to us, the Commission refused to divulge the most basic facts about its budget on grounds of commercial confidentiality, though the Secretary of State subsequently wrote to us admitting the figures could be derived from published documentation. In oral evidence, the ICAI failed to convince the committee that it was appropriately resourced for the work with which it was charged and that it could be relied on adequately to fulfil its role. These are early days for ICAI, but **we recommend that both Parliament and DFID monitor ICAI's own effectiveness closely, and take steps necessary to ensure that both its work and its staffing are sufficient both in quality and in quantity for it effectively to discharge its duties.**

[203] Q 606

APPENDIX 1: SELECT COMMITTEE ON ECONOMIC AFFAIRS

The Members of the Committee which conducted this inquiry were:

Lord Best
Lord Currie of Marylebone
Lord Forsyth of Drumlean
Lord Hollick
Baroness Kingsmill
Lord Lawson of Blaby
Lord Levene of Portsoken
Lord Lipsey
Lord MacGregor of Pulham Market (Chairman)
Lord Moonie
Lord Shipley
Lord Smith of Clifton
Lord Tugendhat

Christopher Adam, Professor of Development Economics and Official Fellow, St Cross College, University of Oxford, acted as Specialist Adviser for this inquiry.

Declarations of Interest

A full list of Members' interests can be found in the Register of Lords' Interests:

http://www.publications.parliament.uk/pa/ld/ldreg/reg01.htm

APPENDIX 2: LIST OF WITNESSES

Evidence is published online at www.parliament.uk/hleconomicaffairs and available for inspection at the Parliamentary Archives (020 7219 5314).

Evidence received by the Committee is listed below in chronological order of oral evidence session and in alphabetical order. Those witnesses marked with * gave both oral evidence and written evidence. Those marked with ** gave oral evidence and did not submit any written evidence. All other witnesses submitted written evidence only.

Oral evidence in chronological order

**	(QQ 1–30)	Professor Adrian Wood and Mr Roger Riddell
*	(QQ 31–50)	Professor Robert Picciotto
**		Professor Benno Ndulu
*	(QQ 51–81)	Sir Edward Clay
**		Lord Jay of Ewelme
**		Sir Tim Lankester
*	(QQ 82–121)	Overseas Development Institute
*	(QQ 122–168)	Department for International Development
*	(QQ 169–205)	Conflict Pool: Department for International Development
**		Conflict Pool: Foreign and Commonwealth Office
**		Conflict Pool: Ministry of Defence
*	(QQ 206–251)	Christian Aid
*		Oxfam
*		Practical Action
*		Save the Children
**	(QQ 252–283)	Actis
*		Adam Smith International
*		Ashmore Investment Management Ltd
*	(QQ 284–316)	Professor Philip Booth
**		Mr Richard Manning
*	(QQ 317–337)	Professor Paul Collier
**	(QQ 338–364)	Rory Stewart MP
*	(QQ 365–398)	National Audit Office
*	(QQ 399–459)	Ms Michela Wrong
**	(QQ 460–479)	Professor Jeffrey Sachs
*	(QQ 480–509)	Transparency International UK
*	(QQ 510–595)	Independent Commission for Aid Impact

*	(QQ 596–642)	Andrew Mitchell MP, Secretary of State for International Development
*	(QQ 643–679)	Mr Gordon Bridger
*		Mr Charles Cullimore, Business Council for Africa UK
**		Mr Michael Shaw

Alphabetical list of all witnesses

**	Actis
*	Adam Smith International
	Africa Delivers
*	Ashmore Investment Management Ltd
	Professor Jean-Paul Azam
	Embassy of Bangladesh
	Aid Effectiveness Unit of Economic Relations Division, Bangladesh
	Mr Owen Barder, Center for Global Development
	Mr Matt Berkley
*	Professor Philip Booth, Institute of Economic Affairs
*	Mr Gordon Bridger
	Dr Patrick Carter
	Mr John Chown
	Embassy of China
*	Christian Aid
*	Sir Edward Clay
*	Professor Paul Collier
*	Mr Charles Cullimore, Business Council for Africa UK
*	Andrew Mitchell MP, Secretary of State for International Development
*	Department for International Development
*	Department for International Development (Conflict Pool)
	Economic Affairs Division, Government of Pakistan
**	Foreign and Commonwealth Office (Conflict Pool)
*	Independent Commission for Aid Impact
**	Lord Jay of Ewelme
	Kenya High Commission
**	Sir Tim Lankester
	Legatum Institute
**	Ministry of Defence (Conflict Pool)
	Professor Oliver Morrissey

*	National Audit Office
**	Professor Benno Ndulu
	Nigeria High Commission
	ONE
	Open Europe
	Organisation for Economic Co-operation and Development (OECD)
*	Overseas Development Institute
*	Oxfam
	Professor Alan Penney
*	Professor Robert Picciotto
*	Practical Action
	Publish What You Fund
**	Mr Roger Riddell
**	Professor Jeffrey Sachs
*	Save the Children
**	Mr Michael Shaw
**	Rory Stewart MP
	Professor Finn Tarp
	Professor Jonathan Temple
*	Transparency International UK
	UK Aid Network
	UNICEF UK
	WaterAid
**	Professor Adrian Wood
	World Vision
*	Ms Michela Wrong

APPENDIX 3: CALL FOR EVIDENCE

The Economic Impact and Effectiveness of Development Aid

The Economic Affairs Committee has decided to conduct an inquiry on *The Economic Impact and Effectiveness of Development Aid*. The Committee welcomes written evidence on any or all of the issues set out below by June 30.

The inquiry will seek to assess the impact of official development assistance (ODA) on the economic growth and development of recipient countries and in particular the impact of the UK's ODA.

Net aid flows from traditional donors—the members of the OECD Development Assistance Committee (DAC)—totalled US$129 billion in 2010, the highest ever recorded in real terms and equivalent to approximately 0.36% of donors' Gross National Income.[204] The UK's contribution of US$13.7bn, equivalent to 11% of the total, represented 0.56% of UK's Gross National Income. Non-DAC members contributed a further US$7bn.[205]

The Inquiry, **which will not examine the role of humanitarian aid**, will seek to answer questions such as:

(1) How far and in what ways does official development assistance (ODA) affect the economic growth of recipient countries? Where possible to identify, what has been the impact of British ODA? How robust are results from studies in this area?

(2) How does economic growth in countries which experience large surges in ODA compare to similar countries which do not?

(3) What lessons, if any, can be learnt from the experience of former aid-receiving countries that have graduated from reliance on ODA?

(4) What factors determine the effectiveness of ODA in recipient countries? Are they dependent on the scale and form of aid flows? How is aid effectiveness monitored?

(5) Do conditions imposed by government donors on recipient countries improve the effectiveness of ODA? What has been the British government's experience?

(6) How should ODA be allocated? How far do (and should) the Millennium Development Goals (MDGs) shape aid allocations?

(7) How useful is the UN target of rich countries giving 0.7% of GNP in ODA? If the target was reached would it lead to more official development aid than developing countries could efficiently absorb?

(8) Does ODA complement or inhibit private investment in developing countries?

(9) How does ODA, and British aid in particular, interact with financial flows from other sources including new donors, such as China, India and Brazil, private capital flows, and philanthropic sources?

(10) How does and how should development assistance engage with security concerns, at a global level and at the level of individual (fragile) states?

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204 See OECD-DAC www.oecd.org/dac/stats/data

205 Figures for 2009 only.They take no account of aid flows from China, India, Brazil and Russia.

(11) What are the prospects for using aid to support market-based initiatives, for example in providing insurance against earthquake damage?

(12) In what ways, if any, can the British government improve the effectiveness of its development aid?

17 May 2011

APPENDIX 4: GLOSSARY

DAC	Development Assistance Committee (of the OECD)
GNI	Gross National Income
LAC	Latin American and Caribbean
LICs	Low Income Countries
MENA	Middle East and North Africa
NODA	Net ODA
ODA	Official Development Assistance
SSA	Sub-Saharan Africa

APPENDIX 5: THE OECD DEVELOPMENT ASSISTANCE COMMITTEE (DAC)

- The DAC sets definitions and classifications for reporting on aid financing by bilateral and multilateral agencies.
- DAC [24 members]: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK, USA, and EC.
- Non-DAC [20 members]: Czech Republic, Hungary, Iceland, Israel, Poland, Slovak Republic, Slovenia, Turkey, Kuwait, Saudi Arabia, UAE, Taiwan, Thailand, Cyprus, Estonia, Latvia, Liechtenstein, Lithuania, Malta and Romania.
- Eligible recipients of ODA:

  —Least Developed Countries [48, mainly Sub-Saharan Africa]

  —Other Low Income Countries [6]

  —Lower Middle Income Countries [40, including India]

  —Upper Middle Income Countries [43, including China, Turkey, Brazil, Argentina]

APPENDIX 6: DAC DEFINITIONS

Official Development Assistance (ODA)

Grants and loans to (eligible) developing countries that are:

- Provided by official agencies in donor countries
- Concessional (with a 'grant element' of at least 25%)
- Disbursed with the intention of promoting economic development.

Aid tends to mean "Net ODA (NODA) from DAC members to DAC-eligible recipients"

Coverage:

- Excludes **military** and **peacekeeping** aid, but includes some 'peace and development' activities (e.g. DFID contributions to HMG Conflict Pool).
- Includes **technical assistance** and **debt relief**.
- Includes transfers to **multilateral agencies** (e.g. World Bank and IMF).