



National Audit Office

**BRIEFING FOR THE
HOUSE OF COMMONS
INTERNATIONAL
DEVELOPMENT
COMMITTEE
NOVEMBER 2009**

Performance of the Department for International Development 2008-09

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This briefing has been prepared for the International Development Committee to provide an overview of the work and performance of the Department for International Development in the financial year 2008-09 and subsequent months.

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Summary

Aim and scope of this briefing

- 1** This briefing has been prepared for the International Development Committee to provide an overview of the work and performance of the Department for International Development (DFID) in the financial year 2008-09 and subsequent months.
- 2** It takes as its basis the Department's Annual Report and Accounts 2009, drawing upon the work of the National Audit Office, together with relevant material from other external and internal reviews of departmental performance.
- 3** The contents of the briefing have been shared with the Department to ensure that the evidence presented is factually accurate, but any commentary and views expressed are the sole responsibility of the National Audit Office.

The Department's role

- 4** The Department's overall aim is to reduce poverty in poorer countries, in particular through achieving the Millennium Development Goals (MDGs). It leads the government's efforts in partnership with HM Treasury, the Foreign and Commonwealth Office (FCO), the Department of Energy and Climate Change (DECC), and the Department for Environment, Food and Rural Affairs (DEFRA). It also contributes to the global effort to avoid dangerous climate change, where government policy is led by DECC, and to reduce the impact of conflict through enhanced UK and International efforts, where the policy lead is the FCO. In 2008-09 DFID was directly responsible for £5.7 billion of UK public expenditure. Almost all of this expenditure is classed as Official Development Assistance (ODA) – official financing or other forms of assistance given to developing countries to promote and implement development.
- 5** There are few public entities under the Department's direct ownership and control. It makes direct appointments only to the CDC Group plc, the UK's development finance institute, and to the Commonwealth Scholarship Commission, a non-departmental public body (NDPB).¹
- 6** The Permanent Secretary and Principal Accounting Officer is Minouche Shafik, who is supported by the Management Board.

¹ DFID Annual Report and Resource Accounts 2008-09, Volume 1, p58.

Key events since the Select Committee's hearing on the Departmental Report 2008

7 Key events since the Select Committee's 30th October 2008 hearing on the Departmental Report 2008 are set out below.

8 The UK Government reaffirmed the importance of the MDGs, and of donors honouring their ODA commitments when the international community came together at the Doha "Financing for Development" meeting in November 2008.

9 The UK hosted the G20 London Summits for Finance Ministers and Leaders in March and April 2009, against the backdrop of the global financial crisis. Commitments totalling some \$1.1 trillion included additional funding for the International Monetary Fund (IMF) to aid struggling economies, and for development banks lending to poor countries. Commitments to increase the pace on reform of the IMF and World Bank included the need for greater voice and representation for emerging and low income countries.

10 A second Cabinet Office review of the capability of the Department was published in March 2009. The review is examined in Part 2 of this brief.

11 The Department published its White Paper, *Building our Common Future*, in July 2009. This document set out the government's plans for addressing global poverty in a context of financial crisis, climate change, and in conflict-affected or fragile countries.

Performance

Financial (Part One)

12 The Department's 2008-09 expenditure was within Resource Outturn and Administrative budgets; in terms of its Departmental Expenditure Limits, outturn was less than one per cent under budget, down from a 2.2 per cent underspend in the prior year. The Department has reported good progress for the first year of its three-year plan to generate efficiency savings, though these results are not yet externally evaluated. Reported savings of £168 million in 2008-09 were equivalent to three per cent of resources.

13 The nominal value of the Department's resources overseas has been significantly affected by fluctuations in the value of sterling since 2008. In terms of its priority countries, currency changes have ranged between reductions in the value of sterling of some 20 per cent in the case of Afghanistan, Bangladesh and Malawi to increases for Ghana and DRC. These changes have implications for the value of DFID commitments, and for its management of its own overseas administrative expenditure denominated in local currencies.

14 The global financial crisis has had highly variable effects in different DFID priority countries. To date DFID has not made large scale adjustments in its bilateral programmes, though it has reallocated funds to social protection in several countries. It has pressed for and monitored responses by key multilateral organisations, notably the IMF. Since September 2008, the IMF has greatly and rapidly increased its emergency lending to low income countries, reducing its conditions. Commentators have questioned the adequacy of IMF and World Bank resources to meet needs, and ask how far World Bank facilities have actually been used.

15 The currency fluctuations accompanying the crisis have highlighted that UK aid is planned and committed in defined amounts of sterling. From the UK's perspective, this approach reduces risk under a cash-limited public expenditure control regime, and transfers that risk to recipient countries. Since they receive contributions in a variety of currencies, they must deal with exchange risk in any case, and are arguably best placed to manage that risk effectively. But recent fluctuations have raised issues about the extent to which donors have appreciated exchange risks, have good evidence to support their practices, or do enough to help recipient finance departments to manage risks cost-effectively.

16 A substantial proportion of DFID overseas offices' running costs are committed in local currency: principally locally engaged staff salaries, accommodation and transport costs. DFID has not traditionally entered into any hedging arrangements when setting office budgets. But recent events have illustrated the pressure that can result. In Malawi, for example, those pressures have resulted in some posts remaining unfilled or greater reliance on other donors, posing risks to the capability of programme management at a time when administrative budgets have already been cut. All hedging arrangements come at some cost, but DFID has not yet set out a clear analysis of those costs or any attendant benefits. A more sophisticated DFID approach would increase demands on DFID financial management resources.

Capability (Part Two)

17 Cabinet Office reviews of DFID capability in 2007 and 2009 resulted in one of the strongest capability assessments in Whitehall. The reviews noted particular strengths in leadership and drive, and in a focus on outcomes. These findings echo those from peer reviews, which have also shown good DFID compliance with international aid principles. Aid recipients frequently praise DFID's flexibility in responding to events, its devolved management model, and its preparedness to get behind the recipient's development plans.

18 A review of procurement capability has been less positive, identifying the need for improvements in all nine areas assessed, with three being classified as ‘urgent development areas’.² The review concluded that DFID needed to apply best procurement practice to the £4.7 billion it invested through third parties annually, in addition to the £330 million of goods and services procured directly. Given the breadth of this challenge, DFID’s response is at a relatively early stage. It published a commercial strategy in December 2008, and a new head of profession took up post in July 2009.

19 Recent reviews of functions such as financial management, monitoring and evaluation and performance management have all identified considerable scope for improvement. And DFID’s staffing policies and practices have been criticised for failing to get enough experienced people to work in fragile states – an issue DFID has responded to, but where problems remain. Indeed, DFID is responding to all these reviews. But its starting position is not as strong as it is on aid policy and leadership.

20 In circumstances where the aid programme budget is increasing whilst DFID’s administrative budget is decreasing, these issues have added significance. One need noted in the most recent Capability Review was for a clear strategy for ensuring rising budgets and declining administration costs do not negatively affect capacity, effectiveness and value for money. DFID has limited scope to devote more resources to management processes, constraining its ability to enhance its cadre of experienced professionals in roles like finance, IT and procurement beyond top-level appointments. While there have been high-level strategic issues in these functional areas to address, the reviews have also picked up the challenge of consistent implementation of existing policies and practices across a dispersed network. That implies, in an organisation with a significant degree of devolved authority to overseas offices, a need for considerable effort on training and compliance monitoring.

Performance against Public Service Agreements and Departmental Strategic Objectives (Part Three)

21 The Department is still reporting against its 2005-08 Public Service Agreements (PSA) targets, because of the lags in securing data. It reports each of the three targets, relating to achievement of MDGs in Africa and Asia, and for an improved multilateral system, as “broadly on course/minor slippage”, though each contains at least one component that is off-track.³

22 This is the first year of reporting on 2008-11 PSAs and Departmental Strategic Objectives (DSO). The new PSA reporting structure focuses still more on raising the number of priority countries on-track to attain MDGs (**Figure 1** overleaf).

² Office of Government Commerce (2008) Procurement Capability Review: Department for International Development.

³ DFID Annual Report and Resource Accounts 2008-09, Volume 2, Annex H.

Figure 1
Departmental Performance against Key Performance Measures

| Public Service Agreement 2008-11 | Department's Autumn Performance Report 2008 | Department's Annual Report and Accounts 2009 |
|--|---|--|
| Proportion of population below \$1 a day | Too early to tell | Too early to tell |
| Net enrolment in primary education | Improvement | Improvement |
| Ratio of girls to boys in primary education | Improvement | Improvement |
| Under five mortality ratio | Improvement | Improvement |
| Maternal mortality ratio per 1,000 live births | Little or no Improvement | Little or no Improvement |
| HIV Prevalence rate 15-49 years old, in national surveys | Little or no Improvement | Little or no Improvement |
| Proportion of population with sustainable access to an improved water source (urban and rural) | Little or no Improvement | Little or no Improvement |
| Nominal value and proportion admitted free of duties, of developed country imports from low income countries | Too early to tell | Little or no Improvement |

Source: DFID Autumn Performance Report, December 2008 and Annual Report and Resource Accounts July 2009

23 Objectives aimed at reducing world poverty are clearly among the most challenging in Government. Judged by its own targets, DFID performance has been mixed, and it achieved a significantly lower proportion of its 2005-08 targets than most other Departments.⁴ Within those numbers, however, there is some evidence of significant progress. And DFID illustrates that progress with many examples of individual programmes and projects. But there is real difficulty in interpreting DFID performance from these numbers.

24 The Department's Public Service Agreement targets for 2008-2011 focus heavily on the progress of DFID's 22 priority countries towards Millennium Development Goals. Broadly the PSA targets are achieved where on-track countries are kept on-track and a specified number of off-track countries are brought on-track. The targets were altered in this way to add emphasis to the need for aid to increase rates of progress, and to reflect difficulties in obtaining data. But difficulties of interpretation remain:

- Attribution of progress against MDG Goals to DFID interventions is inherently difficult. Countries move on-track or off-track due to a range of factors including contributions by different bilateral or multilateral donors, the actions of recipient governments, and the impact of social, economic and environmental variables. Like other donors, DFID has no established method, crude or otherwise, for assessing its contribution to change, or indeed that of donors as a whole, in relation to its own targets.

4 National Audit Office (February 2009) Assessment of the Capability Review Programme, Figure 10.

- DFID relies on diverse data sets, gathered by international and national authorities, to assess progress. There are still severe time lags in the production of data, and wide intervals between poverty surveys, meaning that DFID often has few data points with which to establish trends or analyse variance from plans.
- Reliable, timely data on service delivery is almost as hard to obtain as outcome data. There is little opportunity, therefore, to track contribution to outputs as a proxy for future poverty reduction.
- The wide variety of expenditure channels (multilateral aid, bilateral aid, and research); the number of countries DFID engages with; and the potential significance of non-aid activity, such as that designed to reduce trade barriers, complicates the picture further.

25 These problems have been well documented for many years, and DFID can not unilaterally make progress on all of them. But some key choices affect the extent to which DFID, or external readers of its Annual Report, can form a balanced view of performance:

- Weak data derives in part from reliance on national data systems, which is consistent with the PARIS declaration on Aid Effectiveness and represents a conscious choice to try and develop those systems through supporting them. DFID is a leading bilateral contributor to statistical systems. But the pace of improvement is slow, and international standardisation of statistics below outcome level – for example, on service delivery or associated unit costs – is weak. There may be scope to raise the profile of data issues further in the international community as a whole, and with recipients of DFID funding in particular, without harm to basic aid principles of alignment and ownership.
- Difficulties in precise attribution of progress to DFID can be partly countered by a clear exposition of DFID's contribution. But to be meaningful, that contribution needs to be set in a broader narrative which outlines the other contributions to change, and the wider poverty context. Without that context, individual examples add little insight. For example, numbers of people helped is of little value unless contrasted with those in need, or the time and resources taken to help them. And the nature of others' contributions, alongside DFID's, is needed to see the full picture. That would militate in favour of reporting fewer examples, dealt with in greater depth.
- A key aspect of performance management is the extent to which DFID's responds to emerging problems or opportunities in pursuit of its objectives. But the Annual Report does not focus on, for example, DFID's response to off-track targets. And more generally, a key aspect of performance is the extent to which project or programme objectives have been achieved. While most DFID projects mostly achieve their objectives, few fully achieve them. A sense of performance against objectives would improve the value of the examples quoted.

26 Many of these questions raise generic issues around the assessment and reporting of departmental performance. There are currently no standards governing the content or structure of UK departmental performance reports or assertions.

Part One

Financial Performance

1.1 The Department for International Development (DFID) leads the UK government's effort to promote international development. Its overall aim is to reduce poverty in poorer countries, in particular through achieving the Millennium Development Goals (MDGs). DFID works from UK headquarters in London and East Kilbride, and from over 50 offices overseas. But it focuses its activities on progress in 22 countries – 14 in Africa and eight in Asia. Progress in these 22 countries is at the core of its PSA commitment. Its work also includes building support for development within the UK.⁵

1.2 This Part of the report examines the Department's financial performance in 2008-09 and its overall financial management capability.

Financial outturn

1.3 Volume II, Annex 1 of the Annual Report provides a detailed commentary on the financial performance of the Department. The key features are noted below.

1.4 The Department receives funding through Requests for Resources (RfRs), voted by Parliament in Supply Estimates;

- RfR1: Eliminating poverty in poorer countries (£5,189 million)⁶; and
- RfR2: Conflict Prevention (£44 million).⁷

1.5 In 2008-09, the Department's net total expenditure under both RfRs, was £5,204 million⁸; representing a £29 million underspend against Supply Estimate. This compares to an underspend in 2007-08 of £110 million⁹ against an outturn of £4,549 million.¹⁰ The underspend against RfR1 reduced to 0.5 per cent of the resources voted, down from 2.2 per cent in 2007-08.

5 DFID Annual Report and Resource Accounts 2008-09, Volume 1, Chapter 1.

6 DFID Annual Report and Resource Accounts 2008-09, Volume 2, p32.

7 DFID Annual Report and Resource Accounts 2008-09, Volume 2, p32.

8 DFID Annual Report and Resource Accounts 2008-09, Volume 2, p43, net of income authorised to be retained.

9 DFID Resource Accounts 2007-08, Analysis of net resource outturn by section, p47.

10 DFID Resource Accounts 2007-08, Analysis of net resource outturn by section, p47.

1.6 The Department's 2008-09 Balance Sheet shows an increase in Net Assets of £207 million (9.6 per cent). This increase is attributable to an £802 million upward revaluation of investments in International Finance Institutions (IFIs), partly offset by an increase in commitments to pay (£316 million); an increase in accruals and other creditors (£96 million); and an increase in provisions (£178 million).¹¹ The investments in IFIs are valued in currencies other than sterling; the £802 million upward revaluation mostly comprises a net unrealised exchange rate gain of £760 million.¹²

1.7 Although exchange rate movements favoured the Department in terms of the value of its investments in IFIs, they have also resulted in additional costs, including £110 million of increased expenditure to meet commitments made in euros to European Commission programmes in 2008-09.¹³ They have also proved a significant factor amongst the Department's Country Offices, most of which experienced reductions in spending power against administration and programme allocations budgeted in sterling. **Figure 2** overleaf presents updated exchange rate movements for DFID's PSA countries, showing that part of the peak fall in sterling has been recovered and that the effect on countries has been highly variable. And exchange rate reductions do not necessarily equate to a reduction in local spending power, since changes in price levels will also have an effect.

1.8 The Treasury has recently informed Departments that they can ensure predictability in the sterling value of their obligations made in foreign currency by hedging these transactions, if the cost is met within existing allocations. DFID have been reviewing the costs and benefits of this option and IDC asked in May 2009 to be informed of the outcome.¹⁴ Currently DFID continues to state that "In line with HMG policy, DFID does not undertake any hedging or derivative transactions to manage this [currency] risk."¹⁵

1.9 DFID's current approach is not to adjust aid allocations in response to exchange rate movements or purchasing power, citing the desire to maintain the predictability of its aid for recipient countries, and the administrative burden it would place on the Department.¹⁶ Such adjustments would change the sterling value of DFID's aid, and affect DFID's scores for predictability under internationally agreed indicators of aid effectiveness¹⁷, though they would help to maintain the value of aid in local currencies.

11 DFID Annual Report and Resource Accounts 2008-09, Volume 2, p8. The "Commitments to Pay" reflect mainly obligations to make increased contributions to the IDA (World Bank).

12 DFID Annual Report and Resource Accounts 2008-09, Volume 2, p53. The "net unrealised exchange rate gain" means that the revaluation of the investments in the IFIs has resulted in the gains exceeding the losses on exchange. The term "unrealised" means that a gain has occurred but cannot be recognised until the investments are sold i.e. realised.

13 International Development Committee (2009) Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn, Volume 1, p28.

14 International Development Committee (2009) Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn, Volume 1, p28-29.

15 DFID Annual Report and Resource Accounts 2008-09, Volume 2, p11.

16 International Development Committee (2009) Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn, Volume 1, p29.

17 The indicators used to monitor the Paris Declaration on Aid Effectiveness include "proportion of planned disbursements (as reported by donors) that are recorded by governments in the national accounting system as actually disbursed."

Figure 2
Exchange rate changes in DFID's PSA countries

| Country | Percentage change in exchange rate (value of sterling in local currency) in DFID's PSA countries | | |
|--------------|--|---|---|
| | Ranked by size of bilateral programme | Between April 2008 and March 2009 (%) | Between April 2008 September 2009 (%) |
| India | | -7 | -3 |
| Ethiopia | | -16 | 6 |
| Tanzania | | -21 | -14 |
| Afghanistan | | -25 | -21 |
| Bangladesh | | -28 | -19 |
| Pakistan | | -8 | 6 |
| Sudan | | -19 | -9 |
| Nigeria | | -10 | 3 |
| Ghana | | 2 | 17 |
| DRC | | 29 | 51 |
| Uganda | | -9 | -9 |
| Mozambique | | -21 | -9 |
| Kenya | | -8 | -3 |
| Malawi | | -28 | -20 |
| Nepal | | -9 | -4 |
| Vietnam | | -21 | -11 |
| Rwanda | | -25 | -16 |
| Sierra Leone | | -25 | -1 |
| Zambia | | 9 | 4 |
| Yemen | | -28 | -19 |
| Cambodia | | -25 | -14 |

Source: www.oanda.com (interbank rate), DFID Annual Report and Resource Accounts 2008-09, Volume 1, p64-65

NOTE

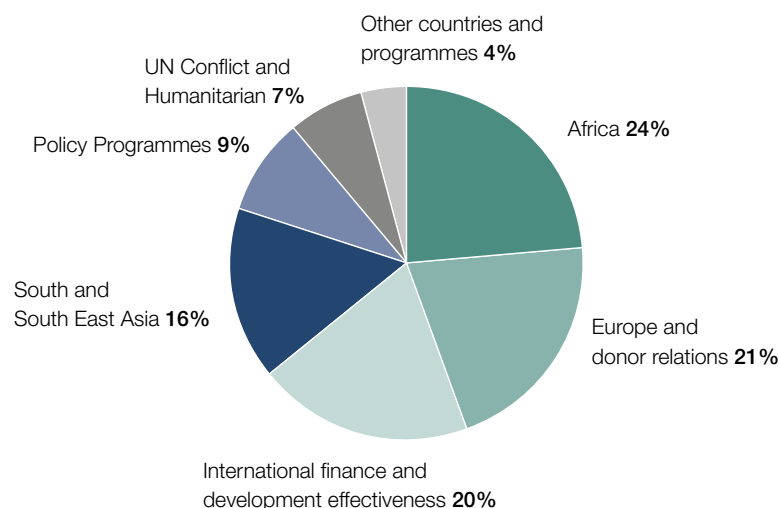
The Zimbabwean Dollar is excluded.

Analysis of spend by programme

1.10 The focus of the Department's programme spend has been fairly stable in recent years. **Figure 3** identifies budget allocations for 2008-09.¹⁸

1.11 The Department expects these shares to remain broadly consistent except for "International finance and development effectiveness" programmes which are planned to rise from 20 per cent to 24 per cent of the total programme allocation by 2010-11.

Figure 3
Analysis of budget allocations for 2008-09



Source: DFID Annual Report and Resource Accounts 2008-09, Volume 1, p64-68

1.12 The Office of Government Commerce conducted a Procurement Capability Review (PCR) of the Department in early 2008, (discussed in greater depth in Part 2). The Review noted a lack of good quality management information and concluded that DFID's new 'Activities Reporting and Information E-Systems' (ARIES) may improve management information.¹⁹ ARIES will also be critical to improving the Department's ability to "Plan, resource and prioritise", a 'development area' noted in the Cabinet Office's most recent Capability Review follow-up (also described in Part 2). The challenge facing DFID of delivering a rising programme budget in the context of a declining administration budget;²⁰ requires good management information. Quality of financial information was one aspect of the Department's financial management considered in a review commissioned by the Department and carried out by the Chartered Institute of Public Finance and Accountancy (CIPFA) during 2008-09. CIPFA's draft report was considered in June 2009 by the Department's Audit Committee, which expressed its support for managements' plans to further strengthen the finance function.

NAO financial audit

1.13 The Department's Resource Accounts are subject to audit by the Comptroller and Auditor General (C&AG). For 2008-09, the C&AG issued an unqualified opinion with no report; meaning that the accounts gave a true and fair view, were properly prepared, and that the expenditure and income had been applied to the purposes intended by Parliament. The accounts were laid in Parliament on 16 July 2009, in time for the summer Parliamentary recess. This was a significant achievement given the key challenges faced by the Department: additional work was needed to comply with

¹⁹ Audit Committee Papers Oct 2008: [http://www.dfid.gov.uk/Documents/aboutdfid/audit-committee-papers/29.10.08 Item6ProcurementReview-ProcurementCapabilityReviewSlides.ppt#6](http://www.dfid.gov.uk/Documents/aboutdfid/audit-committee-papers/29.10.08%20Item6ProcurementReview-ProcurementCapabilityReviewSlides.ppt#6).

²⁰ Cabinet Office (2009) Capability Review, Department for International Development: Progress and next steps, p10.

the introduction of new Financial Reporting Standards for Financial Instruments and the rollout of DFID's new accounting system – ARIES – was still under way. The NAO has, though, found that the Department is reliant on a few key individuals in its Finance and Corporate Performance Division (FCPD) to produce the statutory accounts.²¹ The Department is taking steps address the concerns raised by the NAO.

1.14 In 2009-10 the Department will continue its work to implement International Financial Reporting Standards in line with HM Treasury's guidance and timelines. This work will be subject to NAO audit, with the findings expected to be reported to the Department by the end of 2009.

Progress on efficiency targets

1.15 The Comprehensive Spending Review 2007 requires all Government Departments to deliver at least three per cent annual net cash releasing savings over the CSR07 period. The Department is required to achieve savings rising to £492 million by 2010-11²² and plans to achieve this through improvements to its portfolio quality, the allocation of aid to countries and institutions where it will have the most impact ("allocative efficiency") and through administrative efficiencies. This is set out in **Figure 4**.²³

Figure 4
Efficiency targets in CSR 2007

| | 2007-08 Baseline | Saving targets (£m) | | | |
|---|---------------------|---------------------|---------|--------------|--------------|
| | | 2008-09 | 2009-10 | 2010-11 | |
| Aggregate savings target (equivalent to 3 per cent of baseline) | 5,310 | Target | 159 | 323 | 492 |
| | | Outturn | 168 | | |
| Bilateral allocative efficiency | 2,165 | Target | 88 | 177 | 257 |
| | | Outturn | 74 | (cumulative) | (cumulative) |
| Multilateral allocative efficiency (inc. reallocated capital grants) | 2,295 | Target | 47 | 96 | 157 |
| | | Outturn | 53 | (cumulative) | (cumulative) |
| Portfolio Quality | 2,165 | Target | 20 | 42 | 66 |
| | | Outturn | 31 | | |
| Administrative savings | 168 | Target | 4 | 8 | 12 |
| | | Outturn | 10 | | |

Source: Figures are as per DFID Departmental Expenditure Limits

21 Rolling Action Plan to Address Control Weaknesses Identified by NAO: [http://www.dfid.gov.uk/Documents/aboutdfid/audit-committee-papers/NAO-RollingActionPlanToAddressControlWeaknessesIdentifiedbyNationalAuditOffice\(NAO\).pdf](http://www.dfid.gov.uk/Documents/aboutdfid/audit-committee-papers/NAO-RollingActionPlanToAddressControlWeaknessesIdentifiedbyNationalAuditOffice(NAO).pdf).

22 Audit Committee Papers Jan 2009: <http://www.dfid.gov.uk/Documents/aboutdfid/audit-committee-papers/vfm-efficiency-targets-jan09.pdf>.

23 Audit Committee Papers, Jan 2009: <http://www.dfid.gov.uk/Documents/aboutdfid/audit-committee-papers/vfm-efficiency-targets-jan09.pdf>.

1.16 The Department's Annual Report sets out an achievement of £168 million savings in 2008-09, exceeding all component targets except for bilateral efficiency. DFID reports all gains as cash releasing, sustained and net of costs. Its major allocative efficiency gains are derived from its ability to reallocate its aid over time to countries where good governance offers better returns in terms of growth and poverty reduction. The NAO has agreed with HM Treasury that it will review the efficiency gains reported by all main Government Departments; for DFID this will take place by 2011. The Department's Investment Committee has planned work in 2009-10 to widen value for money analysis across the organisation.²⁴

Administration spend

1.17 Under the Eliminating Poverty Estimate (RfR1), the Department has reported £59 million less on administrative costs in 2008-09 and £717 million more on programme costs when compared to 2007-08.²⁵ The opposite trend applies to Conflict Prevention (RfR2), where the Department spent £0.35 million more on administrative costs and £1.2 million less on programme expenditure.

1.18 The Department is planning to cut its total administration expenditure by £8.9 million between 2008-09 and 2010-11;²⁶ a five per cent reduction largely to be achieved through an £8 million reduction in staff costs.²⁷

Risk management

1.19 The Department is inherently exposed to a significant degree of risk, because of the nature of its operations. One risk already highlighted is exposure to fluctuations in exchange rates. Another key risk is the possibility of fraud and corruption in the countries where it, or its delivery partners, operate. An example of this is the embezzlement, by corrupt officials, of money intended to provide medicines, medical equipment and disease preventative materials as part of the Global Fund to fight AIDS, TB and Malaria (GFATM) programme in Uganda.²⁸ From 2007 DFID funded the UK Serious Fraud Office to support police and prosecution capacity in Uganda to tackle large scale corruption cases, resulting in a number of criminal proceedings, convictions and recovery action.²⁹ However, this emphasises the risks faced by the Department, particularly for larger programmes such as GFATM, where the Department has pledged funding up to £1 billion by 2015.³⁰

²⁴ DFID Annual Report and Resource Accounts 2008-09, Volume 1, p53.

²⁵ This reflects a reclassification of administrative expenditure rather than reduced spend as such (paragraph 2.14).

²⁶ DFID Annual Report and Resource Accounts 2008-09, Volume 1, p69, Table 6.

²⁷ DFID Annual Report and Resource Accounts 2008-09, Volume 1, p69, Table 6.

²⁸ Serious Fraud Office News Release: Embezzlement in 430 million euros humanitarian projects in Uganda, July 2009: http://ec.europa.eu/anti_fraud/press_room/other/2009/8.pdf.

²⁹ Serious Fraud Office News Release: Embezzlement in 430 million euros humanitarian projects in Uganda, July 2009: http://ec.europa.eu/anti_fraud/press_room/other/2009/8.pdf.

³⁰ DFID - Key Achievements: <http://www.dfid.gov.uk/About-DFID/Quick-guide-to-DFID/Key-achievements/>.

1.20 The NAO report “Operating in Insecure Environments” also highlights the fraud risks faced by the Department, such as corruption within delivery partners. The report notes the increased risks when ‘aid workers are not able to monitor programmes closely’³¹ and where the Department is slow to identify corruption due to ‘limited project monitoring’.³² These are challenges that will become more critical as the Department increases its use of partners to deliver projects in fragile states.

1.21 The Department operates various systems to mitigate a wide range of risks; these are described in the Statement on Internal Control in the Resource Accounts.³³ Although the Cabinet Office’s follow up to the 2007 Capability Review found that ‘financial and risk management is improving’ it also identified that ‘away from the centre, in country offices it was not consistent enough’.³⁴ The implementation of DFID’s new accounting system – ARIES – is an important element of work to strengthen controls, particularly over financial management. At the time of the Capability Review the full benefits of the system had not been realised by staff³⁵; reflecting the fact that the rollout was not due to be completed until the third quarter of 2009.³⁶

1.22 The work of Internal Audit and its Counter Fraud Unit are also important elements of the Department’s work to guard against the risk of fraud and corruption. On a biannual basis, Internal Audit provides a fraud report to the Departmental Audit Committee. In 2008-09 a number of frauds were investigated – there were no cases where an individual loss exceeded £250,000.³⁷

31 NAO (2008) Department for International Development: Operating in Insecure Environments, p8.

32 NAO (2008) Department for International Development: Operating in Insecure Environments, p5.

33 DFID Annual Report and Resource Accounts 2008-09, Volume 2, p23-29.

34 Cabinet Office (2009) Capability Review, Department for International Development: Progress and next steps, p11.

35 Cabinet Office (2009) Capability Review, Department for International Development: Progress and next steps, p11.

36 DFID Annual Report and Resource Accounts 2008-09, Volume 1, p57.

37 DFID Annual Report and Resource Accounts 2008-09, Volume 2, p68.

Part Two

The Department's Capability

Cabinet Office Capability Review

2.1 The Cabinet Office published DFID's second Capability Review in March 2009. Since the 2007 review the Department has broadened its development objectives and partnerships, whilst maintaining its focus on the Millennium Development Goals (MDGs). The 2009 review concluded the Department was well-run, demonstrating good progress in relation to its 2007 review. NAO comparison of published phase two Capability Reviews placed DFID top in terms of overall scorecards³⁸. In summary, three areas have improved and the rest remain unchanged since the 2007 review (**Figure 5** overleaf).

2.2 The Department used the 2007 review recommendations to drive the development and implementation of the 'Making it Happen' change programme. This was acknowledged in the 2009 review, although the programme got off to a slow start in April 2008, and not all staff were clear about what the changes meant for them and DFID as a whole. Additional areas flagged up as needing attention in both reviews include; identification of skills gaps and how to fill them, further improving communications to make a clear case for development to all audiences, and a clear strategy for ensuring rising budgets and declining administration costs do not negatively affect capacity, effectiveness and value for money (VFM). These challenges contributed to the classification of 'development area' (the worst received for the Department in the 2009 review) for 'build capacity', 'build common purpose' and 'plan, resource and prioritise'. The Department is addressing these areas through the 'Making it Happen' change programme, as well as strengthening performance management (discussed further in 2.3 below).

2.3 'Manage Performance' improved from 'well placed' in the 2007 Capability Review to 'strong' in 2009. This reflects improvements the Department has made. The remaining issues in performance management relate to data gaps and quality. The 2009 NAO follow up to our 2002 departmental performance management review stated; "progress in securing better, more frequent poverty-related data has been slow"³⁹. This hinders evidence-based decision making. In order to better match inputs, outputs and outcomes DFID has put in place a Statistics for Results Facility, as well as introducing internally new results frameworks, strengthened log frames and standard indicators. In the Procurement Capability Review the sub-section of performance management

³⁸ Based on a points system where 5 was awarded for every 'strong' category, four for 'well placed', three for 'development area', two for 'urgent development area' and one for 'serious concerns'.

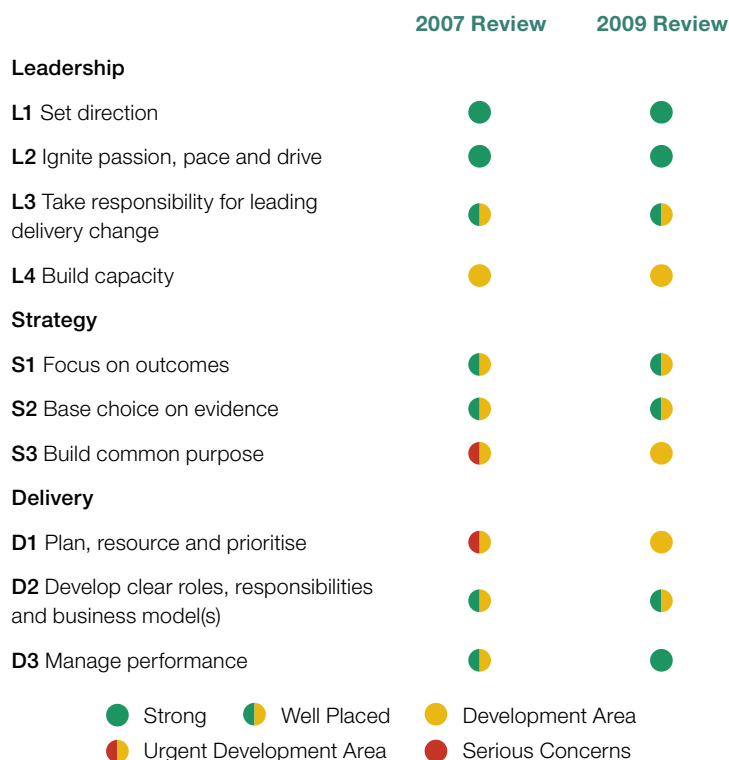
³⁹ NAO (2009) Department for International Development: Progress in Improving Performance Measurement, p3.

related to procurement is defined as ‘information and performance management’ and is classified as an ‘urgent development area’, in contrast to the 2009 Capability Review finding of strong overall performance management.

2.4 Following the 2007 review the Department has:

- Prioritised country presence.
- Improved portfolio quality against a backdrop of an increasing budget, decreasing staffing, and a movement towards more work in fragile states.
- Strengthened the focus on results, including research and evaluation and performance management of multilaterals and NGOs. The Independent Advisory Committee on Development Impact (IACDI) was established in December 2007 to improve the Department’s evaluations. Whilst it is achieving this, it is yet to have a significant impact on quality and strategy.
- Reformed the structure of the Board, including the appointment of two new non-executive directors and promotion of the Finance Director to the Board.
- Improved cross-government working in Whitehall and at country level, including in areas such as security, trade, migration, climate change and responding to the financial crisis.

Figure 5
DFID Capability Review scorecards 2007 and 2009



Source: *Capability Review – Department for International Development, Cabinet Office, 2007 and 2009*

Procurement capability

2.5 The Office of Government Commerce (OGC) undertook a Procurement Capability Review of the Department in early 2008. The Department works in a complex environment with numerous channels through which to spend its aid budget, as well as direct procurement of goods and services. OGC noted that the Department typically procures £330 million of goods and services directly, but invests around £4.69 billion through third parties annually. The review assessed the Department against this extended definition of procurement and the report highlighted DFID's multilateral and bilateral spend as areas where increased procurement influence offered the highest opportunity for increased VFM.

2.6 The Department demonstrated examples of good procurement practice, such as prompt payments and good management of direct procurements, but suffered from inconsistency and the lack of a clear and comprehensive procurement strategy. It also lacked a consistent methodology for risk assessment when delegating procurement to third parties,⁴⁰ a significant finding given that DFID plans to route most of its development funding through third parties⁴¹.

2.7 Other findings include:

- Insufficient value placed on procurement by the Board, highlighted by the standing of the Head of Procurement three levels below Board level.
- Procurement viewed as an administrative overhead rather than an asset capable of enhancing VFM.
- Poor performance not monitored and shared throughout the Department, allowing suppliers with sub-standard delivery to win contracts with DFID elsewhere.
- Evidence of the central procurement department delegating day-to-day contract management to untrained in-country staff, increasing the risk of poor contract outcomes.

2.8 The review highlighted that improvements were needed in all nine areas assessed, with three being classified as 'urgent development areas' (**Figure 6** overleaf). NAO analysis of the 16 completed Procurement Capability Reviews places DFID joint 10th out of 16 departments.⁴²

2.9 In response to the procurement capability review, OGC worked with the Department to produce an Improvement Plan. The Department developed a Commercial Strategy (published in December 2008) as a key first step in implementation of the Plan. Considerable change has begun and is ongoing⁴³. A new head of profession took up post at the start of July 2009 and is working to fully prioritise reforms. Analysis of progress against Commercial Strategy targets will need to be assessed in due course.















40 Audit Committee Papers October 2008: <http://www.dfid.gov.uk/Documents/aboutdfid/audit-committee-papers/29.10.08Item6ProcurementReview-ProcurementCapabilityReviewSlides.ppt#6>.

41 Audit Committee Papers October 2008: <http://www.dfid.gov.uk/Documents/aboutdfid/audit-committee-papers/29.10.08Item6ProcurementReview-ProcurementCapabilityReviewSlides.ppt#6>.

42 Using a simple point system as described in footnote 40.

43 NAO interview with DFID Procurement officials.

Figure 6
DFID Procurement Capability
Scorecard 2008

| | Rating |
|---|---|
| Leadership | |
| 1 Visibility and Impact of Leadership |  |
| 2 Business and Policy Alignment |  |
| 3 Stakeholder and Supplier Confidence |  |
| Skills Development and Deployment | |
| 4 Resourcing |  |
| 5 Intelligent Client Capability |  |
| Systems | |
| 6 Governance and Organisation |  |
| 7 Sourcing and Collaboration |  |
| 8 Use of Tools and Techniques |  |
| 9 Information and Performance Management |  |
|  Strong  Well Placed  Development Area  Urgent Development Area  Serious Concerns | |

Source: Capability Review – Department for International Development, Cabinet Office, 2007 and 2009

Staff survey

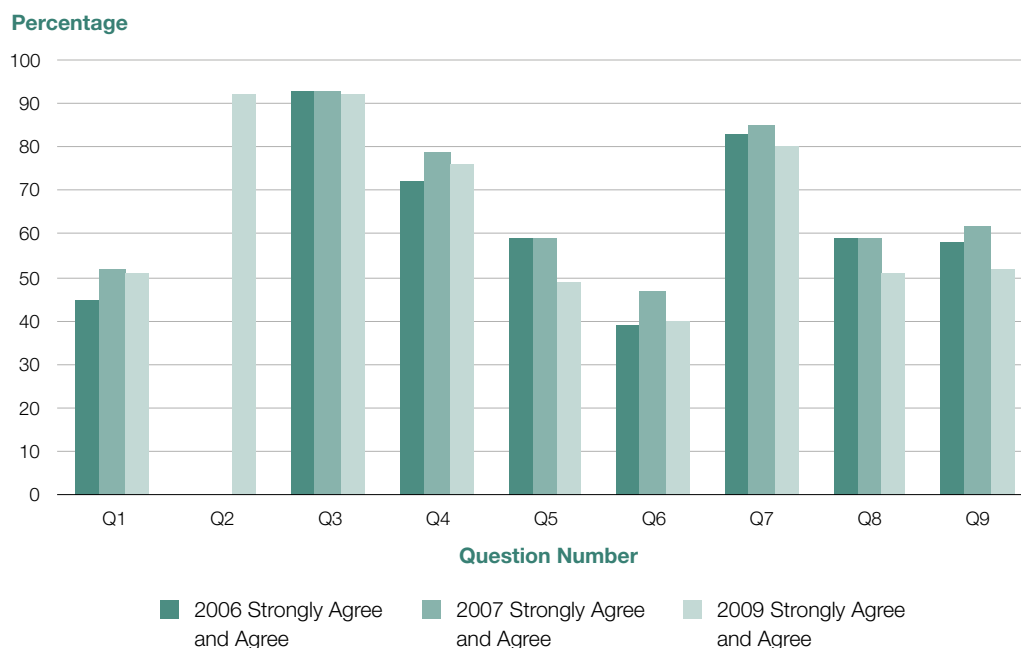
2.10 In March 2009 the Department carried out a survey, which was analysed by Oxford Policy Management (OPM), comprising eight questions from the 2007 Management survey and one new one. The survey was sent to all DFID staff, achieving an 80 per cent response rate, similar to the high rate achieved in 2007. Some 92 per cent understood what their work objectives were and how these contributed to DFID's objectives. In contrast, only 49 per cent felt they could challenge the way things were done, ten per cent less than in the 2007 survey, and only 51 per cent felt change was managed well. However, within the context of all Whitehall departments, DFID comes top for considering that change is well-managed and for confidence in senior managers.⁴⁴

2.11 In relation to the 2006 and 2007 surveys, the Pulse Survey saw an overall decline in positive responses (strongly agree or agree) compared to 2007, and mixed results compared to 2006 (**Figure 7**). It is however, important to consider these results within the current context of substantial change within DFID, which was not as prominent when the 2006 and 2007 surveys were undertaken.

⁴⁴ Institute for Government (July 2009) *State of the Service: A review of Whitehall's performance and Prospects for Improvement*, p25.

Figure 7

Staff survey responses in 2006, 2007 and 2009

**Survey Questions****Q1:** I had a structured induction when beginning my present job**Q2:** I understand what my work objectives are**Q3:** I understand how my work contributes to DFID's objectives**Q4:** The people I manage have the skills they need to deliver their objectives (managers only)**Q5:** I think it is safe to speak up and challenge the way things are done in DFID**Q6:** Poor performance is dealt with effectively where I work**Q7:** The area where I work is healthy and safe**Q8:** Change is managed well in the area where I work**Q9:** The results of this survey will be used ... to bring about positive change*Source: DFID Pulse Survey 2009, Oxford Policy Management.***NOTES**

1 There was no survey in 2008.

2 Not all questions were asked each year.

Other staffing issues

2.12 Figure 8 shows the Department's staffing data compared to 17 OECD Development Assistance Committee (DAC) member countries, using figures collected in February 2008. Compared to some other donors, DFID appears to have a relatively high proportion of its staff in headquarters; but such ratios are influenced by each donor's mix of aid spending channels, with a greater reliance on spending through multilaterals tending to demand more headquarters activity than an approach based on bilateral, projectised aid.⁴⁵

Figure 8
OECD DAC member country staff distributions

| Member Country | Total Staff | HQ | Field Expatriate | Field Local | Percentage of Staff in HQ | Percentage of Staff in the Field |
|-----------------------|--------------|--------------|------------------|-------------|---------------------------|----------------------------------|
| Portugal | 201 | 158 | 21 | 22 | 79 | 21 |
| New Zealand | 196 | 138 | 17 | 41 | 70 | 30 |
| Belgium | 515 | 338 | 87 | 90 | 66 | 34 |
| Canada | 2,838 | 1,769 | 248 | 821 | 62 | 38 |
| United Kingdom | 2,271 | 1,394 | 434 | 443 | 61 | 39 |
| Luxembourg | 90 | 55 | 10 | 25 | 61 | 39 |
| Italy | 605 | 357 | 84 | 164 | 59 | 41 |
| Austria | 190 | 112 | 22 | 56 | 59 | 41 |
| Australia | 1,148 | 594 | 153 | 401 | 52 | 48 |
| Norway | 1,176 | 584 | 232 | 360 | 50 | 50 |
| Finland | 360 | 170 | 71 | 119 | 47 | 53 |
| France | 2,589 | 1,180 | 1,134 | 275 | 46 | 54 |
| Netherlands | 1,500 | 600 | 300 | 600 | 40 | 60 |
| Ireland | 449 | 142 | 49 | 258 | 32 | 68 |
| European Commission | 3,311 | 996 | 1,214 | 1,101 | 30 | 70 |
| Switzerland | 1,884 | 559 | 145 | 1,180 | 30 | 70 |
| Denmark | 1,100 | 300 | 240 | 560 | 27 | 73 |
| Germany | 13,910 | 2,752 | 1,727 | 9,431 | 20 | 80 |
| Average | 1,907 | 678 | 344 | 886 | 49 | 51 |

Source: *Managing Aid Practices of DAC Members, OECD DAC, June 2009*

45 The DAC data displayed in Figure 8 on numbers of 'local' DFID field staff does not reconcile with numbers of 'Staff Appointed In Country' reported for March 2008 in DFID's Annual Report (Volume 1, p56).

2.13 Department staff have been praised by third parties for their skills and motivation⁴⁶. However, there are some concerns regarding the capacity of the Department's staff to ensure effective aid spend in line with an increased budget, greater focus on labour intensive work in fragile states, (as articulated in the 2009 White Paper), and a declining administrative budget. CSR 2007 awarded the Department 46 per cent more aid over the period, to be delivered with an administration budget that is declining at 2.4 per cent a year⁴⁷.

2.14 In this year's accounts, the Department classified approximately 64 per cent of overseas frontline staffing costs in 2007-08, amounting to £64.3 million,⁴⁸ as programme costs⁴⁹, rather than as administration costs. This was done, during the Comprehensive Spending Review, to better reflect the role of staff working on the delivery of projects and programmes, as opposed to administrative functions, and has the potential to relieve pressures on running costs. In principle, this could allow for quicker and more rational decisions on staffing as required to meet specific programme needs overseas, as related management costs would be funded from the same programme budget.

2.15 Further staffing challenges remain, including filling vacancies in hard-to-staff countries. In 2005 and 2006 there were 3.4 applications per vacancy in insecure countries, compared with 4.2 in secure countries over the same period. In early 2007 the number of applications fell to only 1.7 per vacancy in insecure countries⁵⁰. The Department's view is that they are successfully filling posts in conflict countries, in part by reducing posting durations for difficult places and by increasing incentives. However, the problem remains in fragile states such as the Democratic Republic of Congo (DRC) and Pakistan⁵¹. In 2009, DFID undertook a review of staffing in Fragile States and has agreed a new internal pool and cluster approach to staffing and is now reviewing financial incentives. The White Paper commitment to working more in fragile states heightens the importance of addressing this issue.

46 OECD DAC (2006) UK Peer Review.

47 Office for Government Commerce (2009) DFID Procurement Capability Review, p2.

48 DFID Annual Report and Resource Accounts 2008-09, Volume 2, Annex 1, p44.

49 The costs moved represent the costs of overseas staff, who spend the majority of their time working directly on programmes, including a proportion of associated overheads such as office and accommodation costs. Some of these costs cover UK based staff providing support to overseas offices.

50 NAO (2008) Department for International Development: Operating in Insecure Environments, p28.

51 Interview with senior members of the HR Team.

Part Three

Performance against PSA targets

3.1 The Comprehensive Spending Review 2007 set the Government performance framework for 2008-11, and reduced the total number of PSAs across Government to 30 from over 100.

3.2 The Department holds lead responsibility for reporting performance against PSA 29 – ‘Reducing poverty in poorer countries through quicker progress towards the Millennium Development Goals’, (MDGs). The MDGs are internationally adopted goals which aim to eradicate poverty, increase gender equality and promote peace and development in the developing world. The Department has reflected its commitment to achieving the MDGs by focusing its eight PSA 29 indicators on these global goals. In doing so it has selected for each MDG, one of the various indicators available. Its main delivery partners are HM Treasury, the Foreign and Commonwealth Office (FCO), the Department of Energy and Climate Change (DECC), and the Department for Environment, Food and Rural Affairs (DEFRA). More fundamentally, progress against the MDGs is also heavily influenced by the performance of other aid donors and of authorities in developing countries, and by social, economic and environmental circumstances in these societies.

3.3 The Department has reported mixed global progress to meet the eight MDGs, with each lagging wholly or in part.⁵² Achievement of the adopted PSA target does not constitute achievement of the relevant MDG, but addresses progress towards one selected goal indicator across DFID’s 22 priority countries, (**Figure 9**). The Department’s reported progress towards its PSA targets is set out in Annex B (Volume 2) of the Annual Report. Annex E (Volume 2) reports progress against the MDGs in individual PSA countries. There are also substantial time-lags in producing much data; the Department considers that it might be as late as 2013 or 2014 before it can establish the full picture of performance for the CSR period ending in 2011. For MDGs 2-7, the Red/Amber/Green ratings in the Annual Report are based on the same data as was used for the 2008 Autumn Performance Report.

Figure 9 Summary of Targets and Success Measures

MDG Target

Halve, between 1990 and 2015, the proportion of the population whose income is below \$1 (purchasing power parity, PPP) per day.

Ensure that by 2015, children everywhere will be able to complete a full course of primary schooling.

Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education by 2015.

Between 1990 and 2015, reduce the under-five mortality ratio by two thirds.

Between 1990 and 2015, reduce the maternal mortality ratio by three quarters.

By 2015, to have halted and begun to reverse the spread of HIV and AIDS.

By 2015, halve the proportion of people without sustainable access to safe drinking water and basic sanitation.

Develop further an open, rule-based, predictable, non-discriminatory trading and financial system.

PSA Success Measure

Maintain the six countries judged as on-track at the 2007 baseline, and accelerate progress in at least four remaining countries known to be off-track.

12 countries judged to be on-track at baseline are maintained and progress accelerated in at least four of the remainder.

17 countries judged to be on-track at baseline are maintained and progress accelerated in at least two of the remainder.

Four countries that were judged to be on-track at baseline are maintained, and progress is accelerated in at least eight of the remainder.

The country judged to be on-track at baseline is maintained, and progress accelerated in at least 10 of the remaining 21 off-track countries.

At least 14 of 22 countries report reducing HIV/AIDS prevalence rates among 15-49 year olds.

Seven countries judged to be on-track at baseline are maintained and progress accelerated in at least seven of the remaining countries.

A positive change in nominal terms and as a percentage of duty free imports into developed countries from low income countries.

Source: DFID Annual Report and Resource Accounts 2008-09, Volume 2, Annex B (p108-109) and Annex D (p133-136).

3.4 In 2008 the NAO examined the quality of the data systems used by the Department to measure progress against the PSA targets, covering:

- the match between the indicators selected to measure performance and the PSA;
- the match between indicators and their data systems;
- the selection, collection, processing and analysis of data; and
- the reporting of results.

This work did not validate the quality of the PSA targets themselves, nor did it conclude on the accuracy of the outturn figures included in the Department's statements. The NAO found that six of the eight data systems were "fit for purpose" and that the remaining two were either not yet established (29.1 on poverty reduction), or broadly appropriate but needed strengthening, (29.8 on the level of duty free developed country imports from low income countries). In August 2009 DFID informed us that a system on poverty reduction had latterly been established. We draw attention below to PSA targets where recent data is lacking.

3.5 The remainder of this part considers the Department's reported activities and performance against each of the PSA targets in turn. We found scope for the Department to enhance its reporting of its response in countries where progress towards the selected MDG target is off-track.

- It is in places unclear how far the stated DFID activities⁵³ capture the range of current and planned DFID interventions in off-track countries. For example, in Tanzania it is unstated whether DFID interventions on MDG 1 extend beyond assisting collection and analysis of relevant statistics.
- Similarly it can be unclear whether omission indicates an absence of specific DFID intervention, or a considered decision to leave intervention to other donors. For example, in Cambodia, specific DFID contributions towards PSAs 2 and 4 are not described, and in the Democratic Republic of the Congo and Tanzania with respect to HIV/AIDS.
- Where the number of people helped is stated, this is usually not placed in the context of the numbers in need (e.g. for MDG 1 numbers reached by social protection schemes, and for HIV/AIDS in terms of testing and treatment programmes.)
- The relative share of DFID's contribution to wider interventions, alongside those of other partners, is often unclear, (e.g. in Afghanistan on child mortality). A useful exception is under Millennium Development Goal 6 where DFID is reported as contributing to falling HIV prevalence by providing some 80 per cent of condoms in Nigeria.
- References to the relative performance of DFID interventions compared to a baseline or counterfactual are rare, (a useful exception is where DFID India cites higher increases in supervised births in the States it assists than elsewhere).
- In some countries where DFID has intervened in particular areas, (e.g. to promote Girls' education and improve child mortality in parts of northern Nigeria), its rationale for localised intervention or plans for extending its successes more widely are not described.

Public Service Agreement 29.1

MDG 1: Eradicate extreme poverty and hunger¹

Reported progress

Selected MDG target: Halve, between 1990 and 2015, the proportion of the population whose income is below \$1 (purchasing power parity, PPP) per day.

On target

Selected MDG indicator: Proportion of the population whose income is below \$1 (purchasing power parity, PPP) per day.

PSA Success Measure: Maintain the six countries judged as on-track at the 2007 baseline, and accelerate progress in at least four remaining countries known to be off-track.

Too early to tell

Six countries are considered on-track, seven are off-track, and nine have insufficient data for assessment. No evidence is presented on acceleration because the data used is the same as the baseline.

NOTE

¹ The Select Committee asked the Department in 2008 to consider including an indicator for hunger and nutrition in its monitoring of MDG 1. The 2009 Annual Report reports on MDG trends to halve hunger, though there is currently no PSA target for this aspect of MDG1.

3.6 In 2008 it was not possible for the NAO to validate PSA 29.1 data systems because of the unavailability of country level data. DFID has since reported on progress for 13 out of 22 PSA countries against this indicator in the Annual Report. DFID judges nine of its 22 PSA countries as having insufficient data – either no data at all or for one year only. For the remaining 13 countries, as shown in **Figure 10**, although DFID draws a conclusion about whether they are ‘on-track’ there are still significant recent gaps and time-lags. Only five PSA countries have more than three years’ data with which to establish a trend. The NAO intends to assess in autumn 2009 whether the data systems underlying this indicator are now fit for purpose.

Figure 10

Currency of data for PSA 29.1

| Most recent data in 2009 Annual Report | 13 countries with sufficient data to report on progress |
|--|---|
| 2000 | 1 (Tanzania) |
| 2002 | 1 (Mozambique) |
| 2003 | 3 (Nepal, Nigeria, Sierra Leone) |
| 2004 | 1 (Zambia) |
| 2005 | 6 (Bangladesh, Ethiopia, Ghana, India, Uganda, Yemen) |
| 2006 | 1 (Vietnam) |

Source: National Audit Office analysis of DFID Technical Annex – PSA Indicators.

3.7 The Department reports inconclusive progress against this PSA target overall, based on available data covering just over half of the PSA countries. Nor is there evidence of the extent of accelerated progress in off-track countries. DFID's main reported activities to address income poverty in the seven off-track countries⁵⁴ comprise:

- Social protection schemes: including a cash transfer scheme which has so far benefited 287,000 people in Mozambique, and pilot schemes reaching some 12,000 households in Zambia.
- Support for economic growth: including technical assistance to macro-economic management by the authorities in Nigeria, supporting rural development and World Bank loans to small and medium enterprises in India, and access to micro-credit for poor people in Yemen.

Impact of the global financial crisis

3.8 Progress towards reducing levels of poverty and hunger in developing countries has been at risk from the onset of the global economic crisis since mid 2008. Research indicates that the effects, though still emerging, vary greatly in severity between countries, though all are affected. Declining world trade has impacted particularly on countries like Cambodia and Indonesia exporting manufactured goods to developed countries. Prices of manufacturing commodities such as copper and oil declined dramatically, affecting countries such as Nigeria, Zambia and Bolivia; but cocoa and gold prices held up, insulating others. Swings in some commodities have since rebounded, adding to volatility.⁵⁵ In many developing countries, remittances from workers overseas represent between five and ten per cent of GDP, and slower growth or falls in remittances pose a further threat to countries like Kenya and Bangladesh.⁵⁶

3.9 More positively, research has not yet shown a large scale flight from aid by developed countries. But developing world governments have identified a need for increased levels of aid for social sectors if they are to meet their existing commitments to health and education and continue with the planned rollout of social protection initiatives, as a result of falling contributions to these programmes by the state. Only a large-scale increase in levels of donor funding would enable prior poverty and the impoverishment resulting from the crisis to be addressed to any significant degree through social protection. Overall, based mainly on data from 2008, there appear likely to be significant but variable implications for poverty levels. Estimates across countries range between an additional 0.2 per cent and one per cent of populations remaining in poverty in 2009 above the levels that would have occurred without the crisis.⁵⁷ The IMF's July 2009 global GDP per capita forecast showed Africa slipping into negative growth.

⁵⁴ DFID Annual Report and Resource Accounts 2008-09, Volume 2, Annex E.

⁵⁵ te Velde, DW (September 2009) ODI Briefing Paper: The global financial crisis and developing countries: taking stock, taking action.

⁵⁶ Overseas Development Institute (June 2009) The global financial crisis and developing countries: Working Paper 306. Synthesis of findings from work in 10 developing countries.

⁵⁷ Overseas Development Institute (June 2009) The global financial crisis and developing countries: Working Paper 306. Synthesis of findings from work in 10 developing countries.

3.10 To date DFID has not made large scale adjustments in its bilateral programmes in response to the still-evolving crisis, but its response has included reallocation of funds to social protection in Ethiopia, Mozambique and Bangladesh for 2009-10 and 2010-11.⁵⁸ It has pressed for and monitored responses by relevant multilaterals, notably the IMF. Since September 2008, the IMF has greatly and rapidly increased its emergency lending to low income countries, reducing its conditions. Recent public consultation undertaken to support the G20 process recognises the response made but has questioned the adequacy of IMF and World Bank resources to meet needs, and asks how far World Bank facilities have actually been used.⁵⁹

Investing for Development: CDC Group plc

3.11 CDC is a government-owned business with net assets of £2.3 billion investing in private businesses in emerging markets, particularly Sub-Saharan Africa and South Asia. It is a major element of DFID's support for the private sector in developing countries, aiming to fill a shortage of finance for investment that is a major constraint to growth and poverty reduction. In 2008 the NAO reported that through strong financial performance with a portfolio more weighted to poor countries than other countries' development finance institutions, CDC will have achieved good value for money. But the direct effects of specific investments on poverty reductions are harder to demonstrate. Whilst research suggests that investment can provide economic benefits for poor people, further evidence is needed on the extent to which it does so for the type of investments in CDC's portfolio. The NAO report recommended that DFID, as owner and overseer of CDC, seek fuller information on development and poverty impacts, and validated summary information on the extent of actual adherence to business principles for ethical investment. The report also recommended better information on how other investors' investment is associated with investment by CDC, and improvements in the corporate governance of the Company, particularly over executive remuneration.⁶⁰

3.12 CDC's portfolio valuation fell by one third in 2008, though less than the 55 per cent reported decline in a comparable index for emerging markets during the financial crisis. In July 2009 CDC published its first annual development report, for 2008. Most of the data in the report was provided to CDC by the fund managers investing CDC's capital in these businesses. Though not necessarily audited or independently verified, a committee of CDC's non-executive directors authorised and reviewed the monitoring and evaluation work. The report presented case studies illustrating the benefits of CDC investments drawn from CDC's evaluations of 12 funds. CDC intends to increase its coverage to 20 evaluations in 2009, including seven by external consultants to enhance independence. The report also included headline statistics such as an estimated three million people directly or indirectly supported, and US\$2.2 billion of taxes paid, by investee companies in developing countries. This reflected data received from many but not all of CDC's 681 portfolio companies.⁶¹

58 DFID Annual Report and Resource Accounts 2008-09, Volume 1, p12.

59 ODI G20 Consultation project brief and Report on the "Web-based" G-20 Consultations on the adaptability and responsiveness of the International Financial Institutions, September 2009.

60 NAO (2008) Investing for development: the Department for International Development's oversight of CDC Group plc.

61 CDC Group plc Development Report 2008: Growth for Development.

Public Service Agreement 29.2

MDG 2: Achieve universal primary education

Reported progress

Selected MDG target: Ensure that by 2015, children everywhere will be able to complete a full course of primary schooling.

Lagging

Selected MDG indicator: Net enrolment in primary education.

PSA Success Measure: 12 countries judged to be on-track at baseline are maintained and progress accelerated in at least four of the remainder.

Improvement¹.

14 countries remain on-track, of the remainder five are off-track (three severely), and three have insufficient data to measure progress.

NOTE

¹ Volume 2 Annex B states 'At baseline 12 countries were on-track. The current assessment shows that 14 countries are on-track to achieve the PSA target. Progress in Ghana, Zimbabwe and Vietnam accelerated.'

3.13 The Department reports improvement against the PSA success measure, but states that progress towards the overall MDG target is lagging. 'Eighty nine per cent of children of official primary school age are enrolled in primary education, but the pace is too slow to ensure that, globally, children will be able to complete a full course of primary schooling'.⁶² The Education for All Global Monitoring Report 2008 projects that there will be at least 29 million children out of school (with over seven million in Nigeria alone) by the 2015 target date.

3.14 In DFID's priority PSA countries in Africa, average primary school net enrolment (the proportion of children of primary school age actually enrolled) in 2006 was 79.8 per cent; an increase of 11.8 percentage points since 2000. Whilst there has been no change in overall progress on net enrolment in African PSA countries since 2005, individual countries such as Tanzania, Ethiopia and Zambia have each seen at least a 25 per cent improvement.⁶³ Data available for Asian PSA countries in 2006 shows enrolment at 89.5 per cent, a 5.8 per cent improvement since 2000.

3.15 DFID's main reported activities to address primary enrolment in the five off track countries⁶⁴ comprise:

- Investment in infrastructure, including building 140 teachers houses and 544 new classrooms in Malawi and improving sanitation to over 400 schools.
- Investment in learning materials, including providing funding for 18 million primary school text books since 2006 in Malawi, and funding free textbooks to 4.3 million primary and secondary school children in Pakistan.

⁶² DFID Annual Report and Resource Accounts 2008-09, Volume 2, Annex D.

⁶³ DFID Annual Report and Resource Accounts 2008-09, Volume 2, Annex H.

⁶⁴ DFID Annual Report and Resource Accounts 2008-09, Volume 2, Annex E.

- Improving procurement systems in Nigeria to reduce the costs of textbooks, classrooms and water and sanitation.
- Improving the quality of teaching and learning, including supporting a teacher professional upgrade programme in Nigeria.

3.16 Achieving universal primary education requires not only achieving full primary enrolment, but ensuring that children complete a full cycle of education which enables them to use and extend their capabilities, develop skills, improve their livelihoods and increase their earning potential. In addition to the primary net enrolment ratio which is DFID's PSA indicator, there are a further two indicators which contribute to progress towards MDG 2; the proportion of pupils starting grade 1 who reach the last grade of primary; and literacy rates of 15-24 year olds, men and women. An Overseas Development Institute assessment measuring the effects of child welfare indicators on economic growth⁶⁵ found that primary school completion rates have the largest impact on economic growth, and simply enrolling children in school is not enough to generate growth.

3.17 Progress against these further indicators is much slower than against enrolment. In sub-Saharan Africa, less than two-thirds of pupils reach the last grade in the majority of countries (DFID website). In Malawi, of the 60 per cent of children who enter primary school at the official age, around half drop out or repeat grade 1, and only seven per cent progress smoothly to grade 5.⁶⁶ Research demonstrates that "rapid expansion deteriorates quality to the extent that low retention and high drop-out rates prevent universal completion from being achieved".⁶⁷ A recent case study on Burkina Faso concluded that: 'general teaching and learning conditions have tended to deteriorate: overcrowded classrooms, absence of basic classroom materials, lack of drinking water, sanitary facilities and canteens in most schools, insufficient teacher training, and so forth. In addition, the education system is not yet in a position to manage learning outcomes appropriately'.⁶⁸

3.18 Measuring learning achievement in PSA countries is difficult as information remains sparse, but assessments point to low levels of attainment. Recent surveys in Ghana and Zambia⁶⁹ have found that fewer than 60 per cent of young women who completed six years of primary school could read a simple sentence in their own language. Similarly, assessment exercises in Pakistan found that over two-thirds of pupils at grade 3 level were unable to write a simple sentence in Urdu, and a similar percentage was unable to subtract three-digit numbers.⁷⁰

65 ODI (2007) *The impact of investing in children: Assessing the cross-country econometric evidence*.

66 UNESCO (2009) *EFA Global Monitoring Report 2009. Overcoming inequality: why governance matters*, p67-68.

67 Lewin, K. (2007) *Diversity in convergence: access to education for all*, *Compare*, 37(5), 577-599. Consortium for Research on Educational Access, Transitions and Equity (CREATE).

68 Vachon, P. (2007) *Burkina Faso Country case study, Country profile prepared for the Education for All Global Monitoring Report 2008 - Education for All by 2015: will we make it?* UNESCO, Paris.

69 UNESCO (2009) *EFA Global Monitoring Report 2009. Overcoming inequality: why governance matters*, p29.

70 UNESCO (2009) *EFA Global Monitoring Report 2009. Overcoming inequality: why governance matters*, p12.

Public Service Agreement 29.3

MDG 3: Promote gender equality and empower women

Reported progress

Selected MDG target: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education by 2015.

Lagging

Selected MDG indicator: Ratio of girls to boys in primary education.

PSA Success Measure: 17 countries judged to be on-track at baseline are maintained and progress accelerated in at least two of the remainder.

Improvement.

18 countries remain on-track; of the remainder three are off-track, one severely (DRC), and one (Sudan) has insufficient data at baseline.

3.19 Recent progress in getting children into school has benefited girls in particular, but the World Education Forum target set in 2000, of eliminating gender disparities in primary and secondary education by 2005 has already been missed. The Department reports improvement against this PSA target but states that progress towards the MDG is lagging. “The gender gap in primary school enrolment is closing albeit slowly. 95 girls of primary school age were in school for every 100 boys in 2006 compared with 92 in 1999.”⁷¹ Significant gender disparities remain in West Asia, Oceania and sub-Saharan Africa, where respectively 91, 89 and 89 girls are enrolled in primary school for every 100 boys (DFID website). At the country level, there has been significant progress in Zimbabwe, Uganda, Ghana, and Tanzania which all record gender parity, but progress in Cambodia has slowed.

3.20 In Sub-Saharan Africa, completion rates were as low as 55 per cent for girls in 2006.⁷² Research indicates that the main barriers to eliminating gender disparity in education include negative attitudes of teachers and stereotyped gender roles in curricula and factors such as violence in schools, including sexual violence, insecure school environments, and inadequate sanitation. These disproportionately affect girls’ self-esteem, participation and retention.⁷³

3.21 DFID’s main reported activities to achieve gender parity in primary schools in the three off-track countries⁷⁴ comprise:

- Programmes to increase attendance including funding advocacy campaigns and grants in Nigeria for separate facilities, equipment uniforms and transport for girls, and providing stipends for girls in Pakistan to increase progression from primary to middle school.

71 DFID Annual Report and Resource Accounts 2008-09, Volume 2, Annex D.

72 DFID website, Millennium Development Goal Three: <http://www.dfid.gov.uk/Global-Issues/Millennium-Development-Goals/3-Promote-gender-equality-and-empower-women/>.

73 UNESCO (2008) EFA Global Monitoring Report 2008. Education for all by 2015 – will we make it?

74 DFID Annual Report and Resource Accounts 2008-09, Volume 2, Annex E.

- Programmes to increase access for girls, including paying the mandatory school insurance premium for around eight million children in DRC.
- Measures to address gender imbalance amongst teachers, such as support for over 700 female teacher trainees in rural Nigeria.

Public Service Agreement 29.4

MDG 4: Reduce child mortality

Selected MDG target: Between 1990 and 2015, reduce the under-five mortality ratio by two thirds.

Selected MDG indicator: Under five mortality rate.

Reported progress

Lagging

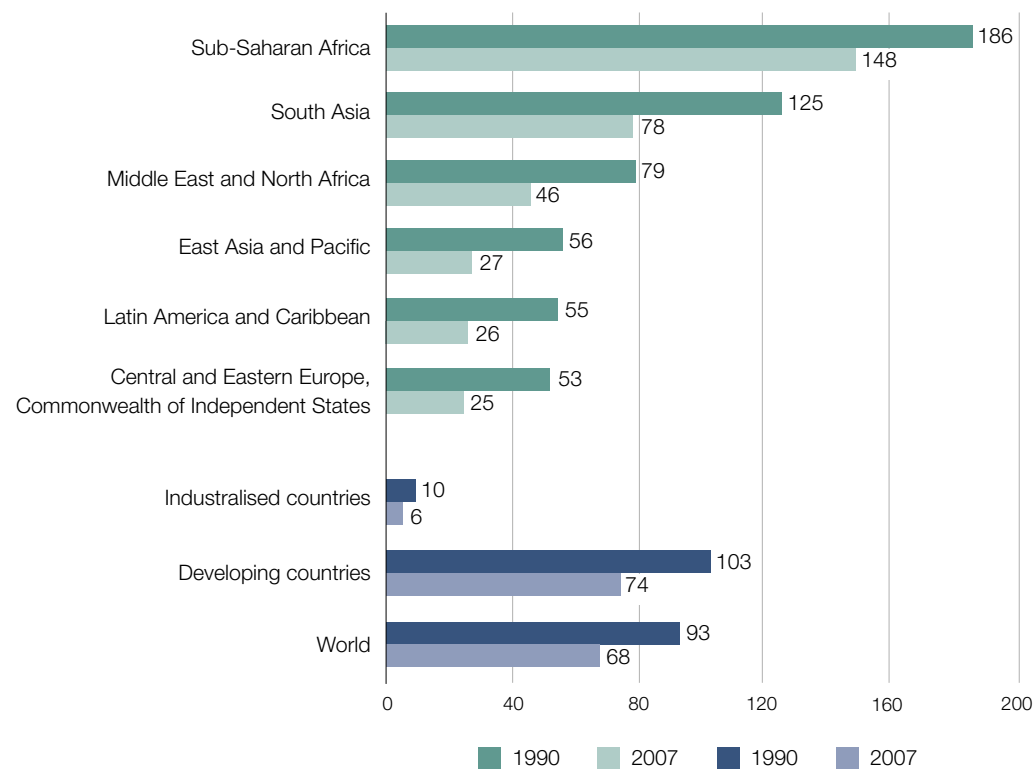
PSA Success Measure: Four countries that were judged to be on-track at baseline are maintained, and progress is accelerated in at least eight of the remainder.

Improvement.

Four countries remain on-track, and are joined by a further three, (Mozambique, Rwanda and Zambia). Vietnam remains on-track but with a worsening trend.

Figure 11

Trends in child mortality



Source: UNICEF

3.22 Causes of death amongst under-fives vary geographically, but most are attributable to acute respiratory infections, diarrhoea, malaria, measles, HIV/AIDS or neonatal condition, often compounded by malnutrition. Effective interventions are well-understood and technically appropriate to countries with high child mortality rates. The challenge lies in delivering the interventions effectively and efficiently.

3.23 The Department reports improvement overall in terms of the PSA success measure. DFID's main reported activities to address child mortality in the 13 off-track countries⁷⁵ comprise general strengthening of health services and specific measures targeted on the young, including:

- Programmes to increase overall access to free health care, including budget support for measures in Ghana which have more than doubled the numbers of people registered for free health care since 2006 to about half the population, and support to increasing numbers of health facilities and health extension workers in Ethiopia.
- Support for reform initiatives, where the performance of the Health service is seen to require improvement, as in Uganda where reforms are needed to ensure that health workers are at their post and delivering treatment.
- Support to programmes specifically focused on child health, including enhanced health services for maternal and newborn care to four states in India, and training courses on newborn care for doctors and nurses in Yemen.
- Programmes focused on the young to increase immunisation rates against killer diseases like measles and polio, and to reduce the prevalence of Malaria through greater use of bed nets. Though rates are reported as rising, they are not yet high enough in off-track countries.
- Emergency food aid and vitamin supplements, as in Zimbabwe, to stave off crisis levels of malnutrition.

3.24 DFID-funded research in Bangladesh has illustrated which interventions have the greatest impact on child mortality relative to investment. Though caution is required while drawing global conclusions from national contexts, the research showed high returns from immunisation coverage (though there is an ongoing debate amongst academics on this point⁷⁶), training of traditional birth attendants and food programmes targeted on children, with lower returns from general food programmes and rural infrastructure.⁷⁷ Other research also shows highest effectiveness from basic community or household-level interventions, whilst noting that these have tended to operate on a small scale, with little support from formal health systems which favour curative facility-based care.⁷⁸ There is also evidence to suggest that child mortality rates vary

⁷⁵ DFID Annual Report and Resource Accounts 2008-09, Volume 2, Annex E.

⁷⁶ Wang, L. (2003) "Determinants of child mortality in LDCs: Empirical findings from demographic and health surveys," *Health Policy* 65, no. 3: 290-2; Kruk, M. and Freedman, L. "Assessing health system performance in developing countries: A review of the literature," *Health Policy* 85, no. 3 (2008): 270.

⁷⁷ World Bank evaluation Department for DFID (2005) An impact evaluation of interventions to improve maternal and child health and nutrition outcomes in Bangladesh.

⁷⁸ Shoo, R (2007) Reducing child mortality: the challenges in Africa, *UN Chronicle*.

significantly based on the availability of electricity, particularly in urban areas, and on the availability of maternal and infant health programmes.⁷⁹ Countries such as Malawi, which has expanded community level provision, and improved clean water supply, have also made progress in child mortality.⁸⁰

Public Service Agreement 29.5

MDG 5: Improve maternal health

Reported progress

Selected MDG target: Between 1990 and 2015, reduce the maternal mortality ratio by three quarters.

Lagging.

Selected MDG indicator: Maternal mortality ratio.

PSA Success Measure: The country judged to be on-track at baseline is maintained, and progress accelerated in at least 10 of the remaining 21 off-track countries.

Little or no improvement.

The situation remains largely as set at the baseline, with no countries changing categories.

3.25 In considering progress, it is important though to note the particular lack of trend data on this measure, (**Figure 12**).⁸¹

Figure 12

Availability of trend data on maternal health

| Total number of years from which data is available | Countries |
|--|---|
| 1 | 21 (Afghanistan, Bangladesh, Cambodia, DRC, Ghana, India, Kenya, Malawi, Mozambique, Nepal, Nigeria, Pakistan, Rwanda, Sierra Leone, Sudan, Tanzania, Uganda, Vietnam, Yemen, Zambia, Zimbabwe) |
| 2 | 1 (Ethiopia) |

Source: National Audit Office analysis of DFID Technical Annex – PSA Indicators

79 McGuire, J. (2006) "Basic health care provision and under-5 mortality: A cross-national study of developing countries," *World Development* 34, no. 3: 406-7.

80 For example, though Malawi's deployment of 11,000 health surveillance assistants, and improved provision of water points.

81 DFID has described existing measures as "...expensive, technically difficult, require large sample sizes and are too imprecise for tracking progress". DFID (2004) *Reducing maternal deaths: Evidence and action. A strategy for DFID.*

3.26 The Department reports that South Asian countries are closer to meeting the MDG target than Sub-Saharan Africa, where it observes some recent improvements in Ghana and Ethiopia. Slow progress against maternal mortality outcomes is strongly associated with slippage in the related PSA indicator for 2005-2008, which shows only a marginal increase in the percentage of births assisted by skilled birth attendants since 2000 across Sub-Saharan Africa.⁸² DFID's main reported activities to address maternal mortality in off-track countries⁸³ include:

- General budget support or pooled funding (such as in Afghanistan), or general support to health services (Bangladesh).
- Influencing policy changes towards free health provision for pregnant women (Ghana, Nigeria, Nepal).
- Programmes extending access to local antenatal and postnatal services through health extension workers or midwives (Ethiopia, Pakistan).
- Procurement of obstetric equipment, drugs, facilities or training (Ghana, Kenya, Nigeria, Sudan, Zimbabwe, Nepal, Cambodia, Yemen).
- Support for better statistical data and to CSOs to assess the extent of need and the impact of programmes (Sierra Leone, Tanzania).
- In some countries, (e.g. Uganda, Rwanda, Zambia) reported DFID activities focus on general references to budget support and policy dialogue.

3.27 Countries with very high maternal mortality ratios, over 750 deaths per 100,000 live births, share problems of high fertility and unplanned pregnancies, poor health infrastructure with limited resources, and low availability of health personnel.⁸⁴ The burden extends beyond mortality; for every woman who dies in childbirth, around 20 more suffer injury, infection or disease – approximately 10 million women each year.⁸⁵ A particular challenge for aid donors and recipient governments is to ensure that expansion of health services is accompanied by at least adequate levels of expertise amongst practitioners. There is little evidence on the competence of skilled birth attendants: though studies have indicated low proficiency.⁸⁶

3.28 Five preventable conditions account for an estimated 75 per cent of maternal deaths – haemorrhage, sepsis, hypertensive disorders, obstructed labour, and unsafe abortion. Beyond ensuring provision of a routine, low-cost delivery service, obstetric experts agree that reducing maternal mortality depends on effective secondary care

82 Cook, C (2002) *The effects of skilled health attendants on reducing maternal deaths in developing countries: testing the medical model*, Creighton University.

83 DFID Annual Report and Resource Accounts 2008-09, Volume 2, Annex E.

84 Shah, I., Say, L. (2007) "Maternal Mortality and Maternity Care from 1990 to 2005: Uneven but Important Gains", *Reproductive Health Matters* 15(30):17-27.

85 World Health Organisation, *World Health Reports*.

86 Harvey, S. et. al. (2004) "Skilled birth attendant competence: an initial assessment in four countries, and implications for the Safe Motherhood movement" *International Journal of Gynecology Obstetrics*. 87(2): 203-210. In Benin, Ecuador, Jamaica, and Rwanda, some 166 practitioners answered 55.8 per cent of multi-choice knowledge questions correctly and performed 48.2 per cent of skills steps correctly on an anatomical model.

for such complications.⁸⁷ Obstetric emergencies arise in some 15 per cent of deliveries. Recognising danger signs and seeking care quickly is critical. Transportation must be available, and appropriately staffed and equipped facilities must be within reach. Experts have defined necessary provision at a level of four basic emergency facilities per 500,000 of population and one comprehensive facility per 500,000, but progress in ensuring such provision is unclear.⁸⁸ There is also evidence to suggest that the role of infection in maternal mortality is seriously underestimated, and that access to antibiotics should consequently be a priority.⁸⁹

3.29 The Taskforce on Innovative Financing for Health Systems, co-chaired by the UK, was established in 2008, with a focus on meeting the maternal and child mortality MDGs, which require stronger health systems. The Select Committee recommended that the UK use its influence to ensure that the Taskforce starts to have tangible impact early in 2009.⁹⁰ In July 2009 the Taskforce presented its recommendations on innovative mechanisms to help meet funding needs, which included expanding a “solidarity levy” on airline tickets.⁹¹ The G8 Leaders Declaration acknowledged the report, stating that “A number of G8 countries are considering and taking forward specific Leading Group and Task Force recommendations.”⁹²

Public Service Agreement 29.6

MDG 6: Combat HIV & AIDS, malaria and other diseases

Reported progress

Selected MDG target: By 2015, to have halted and begun to reverse the spread of HIV and AIDS.

Lagging

Selected MDG indicator: HIV prevalence rate, 15-49 years old, in national based surveys.¹

PSA Success Measure: At least 14 of 22 countries report reducing HIV/AIDS prevalence rates among 15-49 year olds.

Little or no improvement.

Much remains to be done if the target is to be met. In several countries where prevalence has reduced it remains high, and in Kenya and Mozambique progress has reversed.

NOTE

1 It is important to note the distinction between HIV incidence and prevalence; the latter can rise as treatment keeps infected people alive for longer.

87 Disease Control Priorities Project, *Maternal Deaths: An Unacceptable Lack of Progress* (March 2007) <http://www.dcp2.org/file/69/DCPP-MaternalDeaths.pdf>. Cited the cost of basic prenatal and delivery coverage for 50 per cent of women at \$0.41 per capita in South Asia and \$0.60 per capita in sub-Saharan Africa. The research cited \$2,729 cost per life saved from investment in emergency obstetric care in Sub Saharan Africa.

88 White Ribbon Alliance for Safe Motherhood.

89 Costello, A., Azad, K., Barnett, S. (2006) “An alternative strategy to reduce maternal mortality,” *Lancet* 368 (9546): 1478–9.

90 International Development Committee (2009) *DFID Annual Report 2008*, p13.

91 Taskforce on Innovative Financing for Health Systems (2009) *More money for health, and more health for the money* <http://www.internationalhealthpartnership.net/pdf/IHP%20Update%2013/Taskforce/Johansbourg/Final%20Taskforce%20Report.pdf>.

92 G8 Leaders Declaration: *Responsible Leadership for a Sustainable Future*, 08/07/09 http://www.g8italia2009.it/static/G8_Allegato/G8_Declaration_08_07_09_final,0.pdf.

3.30 DFID's main reported activities to address HIV/AIDS prevalence in the many off-track countries⁹³ include:

- Support to improve leadership and governance of the AIDS response (Ethiopia) though the nature and extent of DFID's influence is less clear.
- Supporting increased access to testing, and to antiretroviral drugs for those living with AIDS, (230,000 in Kenya, 119,000 in Mozambique, 25,000 in Zimbabwe, and over 147,000 in Malawi).
- Support for programmes focusing on prevention and behaviour change (Kenya, Sierra Leone, Sudan), including measures to promote use of barrier contraception particularly by high risk groups. In some cases, (Pakistan, Ethiopia, Cambodia) the extent of improved behaviours is reported.

3.31 Since 2000 DFID has played a leading role in a surge of funding to fight HIV/AIDS. Compared to other health goals, the evaluation of how governments and donors can spend money on HIV/AIDS in the most effective and efficient manner is less developed. Evaluations focus more on prevention measures rather than (newer) treatment programmes. But even here very little is known about the effect that information or testing programmes have on peoples' knowledge of HIV/AIDS and behaviours. Similarly, evaluations of condom-distribution programmes record programme outputs (such as numbers of condoms distributed), rather than prevention outcomes. This enables international donors to communicate achievements, but also does not provide a basis to assess and improve the effectiveness of programmes or to prioritise between them. Predominantly, evaluations list project outputs without establishing a baseline or a control group to assess effects and outcomes.⁹⁴

3.32 Less still is known about the cost effectiveness and impact of treatment programmes, due to their newness and a lag in commissioning research. Large scale distribution of ARTs began after 1999 in response to public pressure, notwithstanding studies which indicated very low cost-effectiveness compared to other HIV/AIDS interventions. Studies suggest that major falls in the cost of ART drugs may have reduced this gap but that it remains substantial. High costs also heighten the issue of the sustainability of treatment programmes without sustained donor funding.⁹⁵

3.33 One cause of the lack of evaluation of HIV/AIDS interventions has been fragmented donor activity. Three of the major global donors (two supported by DFID), have established their own AIDS-specific systems and processes distinct from each other and of country health services. Reviewers have called for harmonised health information, human resource management and drug distribution systems.⁹⁶

93 DFID Annual Report and Resource Accounts 2008-09, Volume 2, Annex E.

94 Ministry of Foreign Affairs Denmark (February 2008) Synthesis of Evaluations of HIV/AIDS Assistance.

95 Ministry of Foreign Affairs Denmark (February 2008) Synthesis of Evaluations of HIV/AIDS Assistance.

96 Center for Global Development (April 2008) Seizing the Opportunity on AIDS and Health Systems. The agencies are the U.S. President's Emergency Plan for AIDS Relief (PEPFAR), the Global Fund to Fight AIDS, Tuberculosis and Malaria, and the World Bank's Multi-Country AIDS Program for Africa.

3.34 The UK Government launched “Achieving Universal Access – the UK’s strategy for halting and reversing the spread of HIV in the developing world” in June 2008.⁹⁷ A monitoring and evaluation framework was published in 2008⁹⁸, and DFID published a baseline report in October 2009 to allow progress to be monitored.⁹⁹

Public Service Agreement 29.7

MDG 7: Ensure environmental sustainability

Reported progress

Selected MDG target: By 2015, halve the proportion of people without sustainable access to safe drinking water and basic sanitation.

On-track (for selected water indicator).

Selected MDG indicator: Proportion of population with sustainable access to an improved water source (urban and rural).

PSA Success Measure: Seven countries judged to be on-track at baseline are maintained and progress accelerated in at least seven of the remaining countries.

Little or no improvement.

Nine countries are on-track, of the remainder 11 are off-track (nine severely), and two have insufficient data to measure progress.

3.35 The world, except sub-Saharan Africa, is on track to meet the Goal of halving the proportion of people without access to safe drinking water. Current trends suggest that globally the water Goal will be met. Progress is slowest in sub-Saharan Africa, which has the largest population using unimproved water sources¹⁰⁰. For DFID’s PSA countries, 11 remain off-track.

3.36 In 2008-09 DFID supported country water and sanitation programmes mainly by funding Governments, multilateral development banks, the European Commission, charities and Non Government Organisations. DFID’s main reported activities to address water provision in off-track countries¹⁰¹ include:

- Improving governance and equity in the sector by funding Wateraid to work with the Water and Sanitation Network in Tanzania.
- Working with governments (Rwanda, Tanzania) and multilateral organisations (DRC) to increase access to safe drinking water through providing infrastructure and expertise.
- In Kenya, Mozambique and Nigeria, DFID reports no independent water portfolio. In such countries it contributes to the sector through its education investments and is helping to construct toilet facilities, including separate cubicles for girls¹⁰².

97 HM Government (2008) *Achieving Universal Access – the UK’s strategy for halting and reversing the spread of HIV in the developing world*.

98 HM Government (2008) *Achieving Universal Access – the UK’s strategy for halting and reversing the spread of HIV in the developing world Monitoring performance and evaluating impact*.

99 *Achieving Universal Access – the UK’s strategy for halting and reversing the spread of HIV in the developing world. A 2008 Baseline*.

100 DFID website: Millennium Development Goal Seven <http://www.dfid.gov.uk/Global-Issues/Millennium-Development-Goals/7-Ensure-environmental-sustainability/>.

101 DFID Annual Report and Resource Accounts 2008-09, Volume 2, Annex E.

102 DFID Annual Report and Resource Accounts 2008-09, Volume 1, Chapter 2.

3.37 In 2003, the NAO reported on DFID's support to the water sector. Between 1997 and 2002, DFID's expenditure in the water sector averaged some four per cent of the bilateral aid programme, which the NAO described as 'relatively modest'. The NAO reviewed the extent of DFID's involvement in 20 countries with lowest levels of water access and found that there was little correlation between country spend and countries with the greatest water need.¹⁰³

3.38 DFID has doubled its spending in water in Africa from about £48 million in 2004 to over £95 million in 2007¹⁰⁴, and has committed to provide £200 million by 2010-11.¹⁰⁵ The NGO Wateraid considers this relatively modest when compared to the £1 billion annual spend pledged to education globally¹⁰⁶. In 2008-09 DFID's expenditure on water and sanitation accounted for 2.7 per cent of total bilateral expenditure, a steady increase from 1.4 per cent in 2004-05.¹⁰⁷

3.39 DFID's new policy, launched in October 2008, has a greater focus on sanitation, 'the most neglected of the MDGs and yet one where we can make the biggest difference for the least money'¹⁰⁸. The World Health Organisation (WHO) estimates¹⁰⁹ that for every 50 pence invested in safe water and basic sanitation, economic returns range from £1.50 to £17, depending on the region and the technology. On this basis, achieving the MDG targets on water and sanitation at an annual investment of over £5 billion, would deliver annual economic benefits of around £42 billion.¹¹⁰

3.40 In 2006, WaterAid recommended that DFID's priorities in the water/sanitation sector should include strengthening delivery capacity at local level, improving coordination between governments, donors and service providers, facilitating the inclusion of water/sanitation in national plans, and encouraging further investment in the sector. Whilst a number of countries still lack robust national plans,¹¹¹ evidence suggests that others have made progress.¹¹² WaterAid contends that donors such as DFID should therefore ensure that their programmes are well co-ordinated with these national plans.¹¹³

3.41 The IDC, in 2007, stated that it was imperative that DFID secure urgent international agreement to its Global Action Plan to put structures in place to ensure aid for sanitation and water is spent effectively. A meeting of Governments, civil society leaders and development agencies in Washington in April 2007 agreed to produce global annual progress reports and hold annual global high level meetings. DFID supported the

103 NAO (2003) DFID: Maximising impact in the water sector.

104 DFID website: Water and sanitation – fifth update on DFID's water action plan <http://www.dfid.gov.uk/Media-Room/News-Stories/2009/Water-and-sanitation---fifth-update-on-DFIDs-water-action-plan/>.

105 DFID Annual Report and Resource Accounts 2008-09, Volume 1, Chapter 2.

106 WaterAid (2006) Financing and aid instruments for water and sanitation.

107 DFID Annual Report and Resource Accounts 2008-09, Volume 1, Table A.4, p90.

108 DFID (2009) Meeting our promises 2009 The fifth update on DFID's work in water and sanitation since the 2004 Water Action Plan.

109 Hutton, G. and Haller, L. (2004) Evaluation of the Costs and Benefits of Water and Sanitation Improvements at the Global Level. Executive Summary of the document: WHO/SDE/WSH/04.04: Geneva..

110 This includes savings of approximately £3 billion a year in the health sector. (Assuming an exchange rate of US\$1=£0.5).

111 WaterAid, "The Millennium Development Goals," WaterAid, www.wateraid.org/documents/plugin_documents/gf4a_focusing_on_national_plans_fin_feb_2009.pdf (accessed August 14, 2009).

112 WaterAid, "Focusing on national plans," WaterAid, www.wateraid.org/documents/plugin_documents/gf4a_focusing_on_national_plans_fin_feb_2009.pdf (accessed August 14, 2009).

113 WaterAid, "Focusing on national plans," WaterAid, www.wateraid.org/documents/plugin_documents/gf4a_focusing_on_national_plans_fin_feb_2009.pdf (accessed August 14, 2009).

first UNWater Global Annual Assessment of Sanitation and Drinking Water (GLAAS), published in 2008. WaterAid states that along with UNICEF and the Dutch government, the UK has championed the proposed global framework for action, an action plan to ensure that water and sanitation are prioritised by governments and donors alike.¹¹⁴

Public Service Agreement 29.8

MDG 8: Develop a global partnership for development

Reported progress

Selected MDG target: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system.

Lagging.

Selected MDG indicator: The value (in nominal terms), and proportion admitted free of duties, of developed countries' imports (excluding arms and oil) from low income countries.

PSA Success Measure: A positive change in nominal terms and as a percentage of duty free imports into developed countries from low income countries.

Little or no improvement.

The 2005-2007 average was 66.5 per cent – a very marginal improvement on the 2004-2006 baseline of 66.3 per cent. This represented an increase in nominal terms to an average of \$90 billion per annum of duty free imports in 2005-2007 compared to \$77.3 billion per annum in 2004-2006.

3.42 The NAO found that the data system for measuring progress against this PSA target was broadly appropriate but needed strengthening.¹¹⁵ The PSA target refers to progress across 68 'Low Income Countries' (LICs), rather than DFID's 22 priority countries reported on for other PSA targets. This difference is not made explicit in the Annual Report, although the LICs are listed on a technical annex available on the DFID website.¹¹⁶ DFID does not report on progress for individual LIC's exports. But Figure 3 in Volume 1 of the Annual Report shows that the percentage of goods admitted duty free into developed countries was some five per cent lower for PSA countries than LICs as a whole, if on a similar upward trend.

3.43 An average of 66.5 per cent of goods from LICs were admitted duty free into developed countries over the three year period to 2007 compared with 66.3 per cent at baseline. The latest data available and used by DFID to monitor progress is for 2007. DFID reports an increased average in nominal terms of duty free import volumes from LICs to developed countries between 2004-06 and 2005-07, but data is not yet available to identify more recent effects arising from the global recession.

¹¹⁴ WaterAid at Stockholm World Water Week 2009, 17 August 2009: http://www.wateraid.org/international/about_us/newsroom/7824.asp#.

¹¹⁵ NAO (2009) Measuring Up - How good are the Government's data systems for monitoring performance against Public Service Agreements? PSA 29.

¹¹⁶ LICs are defined as countries with per capita GNI below \$825 in 2004.

3.44 DFID's main reported activities to increase the value of duty free imports from LICs, and to address the lack of progress in the proportion of goods admitted duty free into developed countries are:

- Funding of at least £409 million annually on Aid for Trade by 2010, most of which will be spent through multilateral partners.
 - Aid for Trade is about the faster and cheaper movement of goods and about creating opportunities for developing countries to grow and develop through trade. DFID expects to lead to an evaluation of Aid for Trade in 2012-13, possibly with OECD-DAC and/or other donors.¹¹⁷ It is not yet clear whether this evaluation will cover the impact of the joint DFID/Department for Business Innovation and Skills Trade Policy Unit since 2007.
- Pursuing the G20 commitment at the London Summit to resist protectionist trade measures and to conclude the Doha Development Round of World Trade Organisation negotiations as soon as possible. According to DFID's recent White Paper, a deal would provide completely free access to developed markets for at least 97 per cent of exports from least developed countries. Negotiations for this round started in 2001.
 - At the London Summit leaders committed to refrain from protectionism, and reaffirmed this at the G8 meeting in L'Aquila in July. At L'Aquila, leaders committed to complete the Doha round in 2010. The Director-General of the World Trade Organisation has acknowledged "the renewal of high-level engagement in the [Doha] negotiations."¹¹⁸
- The UK has invested in Economic Partnership Agreement (EPA) negotiations.
 - An example of the joint Trade Policy Unit's work is in shaping the EU EPAs that govern trade arrangements with African Caribbean and Pacific (ACP) countries. EPA agreements have been struck with 36 ACP countries.¹¹⁹ NGOs such as Action Aid are critical of EPAs, arguing that rather than helping poor countries trade out of poverty, they are skewed in favour of rich countries and threaten to increase poverty.¹²⁰ DFID reports that significant progress was made in 2008/09 in securing development friendly trading arrangements. However, a study for the European Parliament on the October 2008 EPA between the EU and Caribbean Forum states, identified disagreements over the adequacy of the 'development component'.¹²¹

117 DFID (2009) Evaluation Department Forward Work Programme 09-10 and List of Evaluation Topics Proposed for 2010-12 <http://www.dfid.gov.uk/Documents/publications/evaluation/forward-work-plan0910.pdf>.

118 Director-General of the WTO introductory speech introducing his third monitoring report to the Trade Policy Review Body on 13 July 2009: http://www.wto.org/english/news_e/news09_e/tpr_13jul09_e.htm.

119 Department for Business Innovation and Skills, Economic Partnership Agreements – Update: <http://www.berr.gov.uk/whatwedo/europeandtrade/tp-unit/epaslatest/page42844.html>.

120 Action Aid, Economic Partnership Agreements: <http://www.actionaid.org.uk/1412/epas.html>.

121 European Parliament (2009) The CARIFORUM–EU Economic Partnership Agreement (EPA): The Development Component <http://www.odi.org.uk/resources/download/3222.pdf>.

Departmental Strategic Objectives and funding of multilaterals

3.45 DFID has set seven Departmental Strategic Objectives (DSOs) for the 2008-11 spending period to drive delivery across the organisation, (**Figure 13**). They incorporate a further 40 progress indicators, including a mix of quantified measures and planned activities. Some DSOs relate to themes already discussed earlier in this brief with respect to the PSA targets, (DSOs 1 and 6), or in Parts 1 and 2 of this report (DSO 7).

Figure 13 DFID's Departmental Strategic Objectives

- 1 Promote good governance, economic growth, trade and access to basic services.
- 2 Promote climate change mitigation and adaptation measures and ensure environmental sustainability.
- 3 Respond effectively to conflict and humanitarian crises and support peace in order to reduce poverty.
- 4 Develop a global partnership for development (beyond aid).
- 5 Make all bilateral and multilateral donors more effective.
- 6 Deliver high quality and effective bilateral development assistance.
- 7 Improve the efficiency and effectiveness of the organisation.

Source: DFID Annual Report and Resource Accounts 2008-09, Volume 2, p105-106

3.46 Of the seven DSOs, DFID reports “strong progress” for five, and “some progress” for DSO 1 (Promote good governance, economic growth, trade and access to basic services) and DSO 5 (Make all bilateral and multilateral donors more effective).

3.47 Because of the importance of multilaterals to DFID's mission, and because only “some progress” is recorded, we extract DSO 5 for commentary here. In relation to DSO 5, DFID spent 41 per cent of its programme budget on central funding of multilateral organisations, and channelled 29 per cent of its bilateral programme through multilateral organisations in 2008-09.¹²² DFID's multilateral programme increased by 49 per cent between 2003-04 and 2008-09.¹²³ DSO 5 has six indicators¹²⁴ (**Figure 14** overleaf).

3.48 However, the success measure for indicator 5.1 is “Paris declaration met at global levels”. DFID has reported that on current trends most Paris declaration targets will be missed, so adhering to DFID's definitions of progress¹²⁵, would put “Improvement” open to question. This also applies to indicator 5.2 where global ODA is projected to increase by US\$30 billion by 2010 rather than US\$50 billion as targeted. Five of the six indicators for DSO 5 use data from the Paris Declaration survey to measure success. However, it is difficult through the DSO to identify DFID's contribution to the performance against these targets.

¹²² DFID Annual Report and Resource Accounts 2008-09, Volume 1, p42.

¹²³ DFID Annual Report and Resource Accounts 2008-09, Volume 2, p70.

¹²⁴ DFID Annual Report and Resource Accounts 2008-09, Volume 2, p120-126.

¹²⁵ DFID Annual Report and Resource Accounts 2008-09, Volume 2, p105-106.

Figure 14
DSO 5 indicators

| Indicator | DFID assessment |
|--|---------------------------------------|
| 5.1 Improved global performance against Paris Declaration commitments | Improvement ¹ |
| 5.2 2005 Gleneagles commitments delivered (including increased aid volume) | Improvement ¹ |
| 5.3 Improved effectiveness of the EC | Little or no improvement ² |
| 5.4 Improved effectiveness of the IFIs | Little or no improvement ² |
| 5.5 Improved effectiveness of the UN system | Little or no improvement ² |
| 5.6 Improved effectiveness of the Global Fund | Improvement ¹ |

Source: *DFID Annual Report and Resource Accounts 2008-09, Volume 2, p122-126*

NOTES

- 1 Defined as “where an improvement has been recorded against the baseline and there is a strong likelihood of meeting the success criteria”.
- 2 Defined as “where no or little change has been recorded against the baseline or progress is insufficient to meet the success criteria”.

3.49 In its Annual Report, DFID describes how it works to ensure that its increasing funds to multilaterals are used efficiently to contribute to achieving the MDGs.¹²⁶ In order to do so, it needs reliable information on performance. The Cabinet Office Capability Review concluded that, “Funding for multilateral agencies has increased and with it performance management has improved.”¹²⁷ An NAO review of DFID’s progress in improving performance measurement¹²⁸ identified improvements in DFID’s measurements of multilateral performance, but also opportunities to do better:

“DFID has increased its focus on multilateral performance in recent years, and has continued to develop associated assessment tools. Its moves to secure joint assessment with bilateral partners are welcome. Current assessments, however, are still very generalised, both about the performance of a multilateral and about DFID sponsorship of that institution. There is scope to achieve greater precision by continuing the development of current tools, extending the use of customer or DFID country team feedback on multilateral performance (where multilaterals provide insufficient data about their performance), and sharpening the strategies DFID use to guide their funding and monitoring of multilaterals.”

126 DFID Annual Report and Resource Accounts 2008-09, Volume 1, p43.

127 Cabinet Office (2009) DFID Capability Review, p11.

128 NAO (2009) DFID: Progress in improving performance management, p28-29.

3.50 In its report on DFID's operations in insecure environments¹²⁹, the Public Accounts Committee (PAC) concluded that some of DFID's usual multilateral partners have few staff and weak capability in the insecure countries where DFID is increasing its spending. PAC recommended that DFID should:

“include detailed scrutiny of the [World] Bank's capability and performance in insecure countries in the Mid-Term Review of Bank funding scheduled for Autumn 2009.”

3.51 In setting out its priorities and objectives for working with the World Bank in 2009¹³⁰, DFID undertakes to work to secure further decentralisation of Bank staff and decision-making authority, with a particular focus on Africa and fragile and conflict-affected countries. The proportion of internally-recruited Bank staff based in country offices met the 25 per cent target set under DSO 5.4¹³¹, though this does not record separately progress in fragile and conflict-affected countries.

¹²⁹ House of Commons Public Accounts Committee (2009) Department for International Development: Operating in insecure environments <http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpublicacc/334/334.pdf>.

¹³⁰ DFID (2008) The UK and the World Bank 2007-2009 <http://www.dfid.gov.uk/Documents/publications/world-bank-2009.pdf>.

¹³¹ DFID Annual Report and Resource Accounts 2008-09, Volume 2, p124.

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