



International Development Committee

Oral evidence: [DFID's Departmental Annual Report & Accounts 2012-13](#), HC 693

Wednesday 15 January 2014

Ordered by the House of Commons to be published on 15 January 2014].

Written evidence from witnesses:

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Members present: Rt Hon Sir Malcolm Bruce (Chair); Hugh Bayley; Fiona Bruce; Sir Tony Cunningham; Pauline Latham; Jeremy Lefroy; Sir Peter Luff; Mr Michael McCann; Fabian Hamilton; Fiona O'Donnell

Questions 1-70

Witnesses: [Mark Lowcock, Department for International Development, Permanent Secretary, Joy Hutcheon, Director General for Country Programmes, DFID and Richard Calvert, Director General for Finance and Corporate Performance gave evidence.

Q1 Chair: Good morning. Perhaps I could just say welcome to our Jordanian colleagues, who are just observing how we operate as a Committee. I hope you find it of some interest, but we will take no offence when you all get up and leave, because I appreciate you have other things to do. Welcome to you, Mark. Again, for the record, perhaps you could just introduce your team. I think we know them.

Mark Lowcock: Thank you very much, Chair. Joy Hutcheon is the Director General for Country Programmes, and Richard Calvert is the Director General for Finance and Corporate Performance. Maybe I could just say, given we have your Jordanian counterparts here, it is a big day on trying to deal with the next phase of the Syria and wider crisis today. The Secretary of State has been at the Kuwait conference and made an important announcement this morning on further support for the region. We all have the most enormous admiration for the burden the neighbouring countries in particular have borne, and we have been very pleased to have been able to follow up the set of decisions Ministers have made to strengthen our support, in particular for Jordan and Lebanon. That is an important new set of relationships for us.

Chair: Can I also say that the Committee, as you know, is visiting Jordan and Lebanon in March? We will perhaps see on the ground some of the impact.

Q2 Hugh Bayley: On the Syria crisis, the Government has pledged £500 million. What proportion of that has been disbursed and how quickly will the rest be disbursed?

Mark Lowcock: With today's additional pledge, it is now £600 million. In the 2011 year, Mr Bayley, if I am right—i.e. before the crisis—we spent about £2 million in Syria. In the 2012 year, it was about £73 million, as the crisis started to unfold. Last year, the 2013 year, we do not have all the numbers in but it will probably be towards £300 million and, unfortunately, the problem is not getting smaller and we are planning on the basis that a similar sort of level of activity will be needed at least for this year as well.

Q3 Chair: That actually leads in to the first question I was going to ask you anyway, which is really how you set your humanitarian budget and how you deal with it. You have had a large increase in humanitarian spend and you have explained part of the reason for that of course, in 2012-13. How far were you able to do that because of the increasing budget, and how far will you be able to do it in other circumstances?

Mark Lowcock: The starting point for the Government's approach on humanitarian and emergency response obviously goes back to the review that Lord Ashdown did in the 2010-11 year. One of the key things he said was that most people expect humanitarian crisis to be, unfortunately, a growing problem, even as development proceeds in the years ahead. The Government took a decision then largely on the basis that this is an area of activity where the UK internationally is highly regarded and has a lot of expertise and comparative advantage, so we would organise the Department to make a major contribution on this set of humanitarian-related issues. We have been building the capacity of the Department, and also always plan to be able to respond both to chronic ongoing emergencies and to new sudden-onset ones, within the way we budget in the Department.

As you say, the 2013-14 year is the one where we have had the substantial increase to deliver the Government's commitment on 0.7%. That meant we had substantial additional resources compared with the previous year. Equally, we had spent the last several years planning how to use those additional resources. The way in which we financed the biggest crisis we have been responding to over the last year, which is the Syria and wider Middle East crisis, was a combination of contingency funding that we always hold for these problems, budgets in the humanitarian departments—the Conflict, Humanitarian and Security Department, CHASE, which you are familiar with—and also some slower-than-expected expenditure on one or two other areas. For example, the European Development Fund during the course of the year told us that they expected to need £160 million less from us than they had previously told us, so that is the combination of ways in which we have funded it.

Q4 Chair: Why did they not put it into the Middle East then?

Mark Lowcock: It could not be EDF from the European side, because the European Development Fund only does African, Caribbean and Pacific countries. In fairness to them, I do think that the role that ECHO has played, under Kristalina Georgieva's leadership, has been really impressive on the Middle East crisis and certainly for us they are very important partners.

Q5 Chair: The bit that we are never quite clear about is, first of all, what the budget is. By definition, you do not know what is going to be presented as a humanitarian crisis, whether it is conflict or natural disasters. Presumably when you are setting your

budget, you have a provision for that and some contingency fund. There comes a point when presumably you say, “We’ve got nothing left.” The concern for us is at what point it prejudices your commitment to spending elsewhere. I do not think anybody on this Committee is critical of the fact that the Government has put as much as it has, in the circumstances, into Syria, but there would come a point when for that kind of money you are saying, “This is not a poor part of the world. Is that not at the expense of poorer people in poorer countries?” How can you reassure us that the system does not lead to that kind of conflict of priorities?

Mark Lowcock: At the beginning of the current spending review period, in 2011-12, we set out plans for the resources that we would have available, either in the central humanitarian departments to respond on an ongoing basis to humanitarian problems, or in the contingency fund. That was always programmed to grow. We then have a long history of having to manage unexpected ebbs and flows in the scale of the need, so this is a problem that we have always had and we have to be able to juggle the whole range of the Department’s activities to cope with it.

The period when this was most acute in the history of the Department was in 2003, when the Government decided, following the commencement of the conflict in Iraq, that we needed to make a really, really big contribution on humanitarian reconstruction. We had to find something like £300 million from a budget then that was, I guess, in the order of £3 billion or so, so that was a big commitment quickly. We had to do that by explicitly taking a set of decisions about what not to do. We closed down, as you may recall, a number of programmes in middle-income countries at that time, in order to finance that commitment.

We have not faced that challenge on the same scale. Even with the very major response we are making to the Syria crisis, the scale of our activity there, which may be 2% or 3% of the Department’s total budget this year, is not such as to do significant damage to all the other things the Government has committed to on development.

Q6 Hugh Bayley: Why has there been such a significant reduction in the proportion of DFID’s bilateral aid going to middle-income countries since 2010-11?

Mark Lowcock: Perhaps I could ask Joy, Mr Bayley, to lead on that.

Joy Hutcheon: In 2012-13 we saw a slight increase in the funding going to middle-income countries, but you are right that in the year before that, there was a 15% decrease in the proportion to low-income countries.

Q7 Hugh Bayley: It goes up and down 2% every year, but there has been a drop in round terms from 80% to low-income countries to 67%.

Joy Hutcheon: Essentially, in 2011-12 that was because of the reclassification of a number of countries in which we have large programmes. Nigeria, Pakistan and Ghana were all classified as middle-income countries during 2011-12, and there is a total of £450 million of our programming that goes into those countries, which slightly more than accounts for that 15% fall.

Q8 Hugh Bayley: The overseas development Act commits us to use our aid primarily for poverty reduction and in poor countries. At the time of the Gleneagles G8, when we and many other countries gave significant pledges to increase our aid, we undertook to double aid to Africa and yet, within the totals in recent years, aid to sub-Saharan Africa has been static or falling and we are nowhere near on track for doubling our aid to Africa. We would have had to have increased our bilateral aid, or our combined bilateral and imputed multilateral aid, to something like £5 billion and it is somewhere like £3 billion. Has the Government abandoned our pledge made at Gleneagles to double aid to Africa?

Mark Lowcock: I would need to go back to the 2005 numbers to check the baseline, but my recollection is that that commitment was met over the following three or four years. The point you allude to, Mr Bayley, which is right, is that over the last two or three years, until the beginning of the year we are now in, the total departmental budget has been roughly stable. Within that, actually the total allocation to Africa has gone up a little bit in 2012 compared with 2011—about 2%. Within sub-Saharan Africa, it is roughly stable. A bit depends on the treatment of debt relief, but the numbers are roughly stable for sub-Saharan Africa.

What I can say is that, based on the planning figures that we have published, which are in the Annual Report in front of you, those numbers will now rise, reflecting firstly the very high priority given to Africa in the Government's development policy, but secondly the growth in the departmental budget.

Q9 Hugh Bayley: Can I put two thoughts to you? I was rather alarmed when I saw the figures showing the change in emphasis between middle-income and low-income countries, but I think you give a good explanation as a short-term explanation. If we simply continue to fund countries as they get richer, and do not re-concentrate efforts on the poorest countries, and increasingly that would mean in sub-Saharan Africa, we would be betraying the key message that DFID sends to our donors around the world—that the greatest priority must be given to those in greatest need. What can we expect to come from your Department over the next year, in terms of a policy announcement that you intend, over perhaps a three-year period, to recalibrate back to low-income countries and particularly to substantially increase aid to sub-Saharan Africa?

Bond gave us some information. They say the current spending is down, but is at £3.41 billion. They are, within that figure, combining bilateral and the imputed UK share of multilateral aid, I believe. They are saying that something like £5.2 billion would be needed for us to meet the Gleneagles pledge.

Mark Lowcock: I perhaps can go back to the basis for the Gleneagles pledge and then respond on that narrow point. On the medium-term priority of Africa vis-à-vis other regions, and low income/least developed vis-à-vis lower middle income, that is a really a policy decision for Ministers over time to make and the Department then to implement.

Being a tiny little bit over the low-income threshold into the lower-middle-income threshold is not necessarily an enormous transformation. Joy mentioned that one of the countries in that position is Nigeria. Nigeria, in the north of the country, has 70 million plus of the world's poorest people in any non-conflict zone in the world—the worst human development, infant mortality, children out of school, malaria and morbidity challenge that is available to see in a non-conflict zone. It is right, if you want to have a strong focus on

poverty, to have a focus on those kinds of countries. Likewise in Pakistan, an enormous number of kids—7 million kids, I think—are still out of school, and there is an enormous burden of avoidable disease, but, over the medium term, it must be right that aid resources are concentrated most on the places where the problems are biggest. It is a good thing if countries progress and graduate, and we can focus our resource in other places.

Chair: That is helpful. There is some further debate about exactly where you make the cut-off and how you make the cut-off. I think we will talk to Ministers about that as well.

Q10 Mr McCann: There has been a large reduction in budget support. Is that large reduction down to the fact that Ministers in the Department have lost faith in providing aid in this way?

Mark Lowcock: Thank you, Mr McCann. Maybe I could start and ask Joy to come in. When budget support was introduced about 15 years ago, in its modern variant anyway—budget support was part of the Department's and the Department's predecessors' programme going back to the 1940s and 1950s—there were essentially four objectives that Ministers had. The first was to support macro-economic stability at a time when lots of countries were coming out of a period of high inflation, with lots of pressure on the external accounts, and some resources to help deal with that big problem was one objective. The second was to support recurrent cost financing, essentially paying teachers and health workers for the core essential work that needed to be done to meet the MDGs in countries that were not able to raise enough of their own tax to do that.

The third was to provide an incentive and a means of supporting public financial management reform and public expenditure reform. The fourth was to make as rational as possible the system by which all of the donors support an individual country, against a background where, as a lot of you have seen, too many finance Ministers in the poorest countries spend too much of their time having to talk individually to donors about little things, rather than running their country. Those were the four objectives 15 years ago.

What has happened is there has been a lot of progress in the 17 or 18 countries where we were doing especially general budget support on those objectives. The core reason why we do less of it now is that countries have progressed. That is a good thing. There are some short-term things going on as well and events we had to respond to, and Joy can talk a bit about some of that.

Joy Hutcheon: When I look across the country portfolio, there are two sets of countries. There is one where we have a conscious plan to reduce budget support, for the reasons that Mark has talked about. That is in countries like Ghana, Zambia and Mozambique. As the Committee will be aware, there are three countries at the moment where we have had to effectively suspend budget support, and those are Rwanda, Uganda—which actually is also in the first category a little—and Malawi. There are some different pressures going on. In those countries, there is a mixture of reasons, but the fiduciary environment and simply the unacceptable level of risk about putting money as budget support into that fiduciary environment is particularly important in Malawi and in Uganda.

One thing we are seeing, and I think we are going to see more of, is an increase in what we call financial aid, which is money that goes through Government systems but is not budget support. We are working with a Government, because the Government systems are

working and are an effective way of addressing a particular issue, but we are doing it very specifically to achieve a particular set of results or a particular change. The fact that budget support is reducing does not mean, per se, that we are stopping supporting Governments and using Government systems, but we are finding new ways of doing it.

Q11 Mr McCann: I do not know if it was your answer that led to the Jordanian delegation walking out, but in terms of these four objectives that you mentioned, they can broadly be described as building country capacity. In terms of paraphrasing everything you have said, do we still believe budget support is a good idea, but the reduction has been down to your success?

Mark Lowcock: That is a very good way of putting it. In a way, countries needing less budget support is a sign of their progress. There will still be cases where part of what we do in a particular country should be budget support. Ministers have taken a number of decisions along those lines. The broader context I would put this in is we are living through the period in human history that has seen the fastest ever reduction of poverty and the fastest ever increase of life expectancy. More countries are becoming less reliant on aid and the kind of aid support they need is evolving, so it is basically a good thing if they are building more of their capacity, as you say, and can raise more of their own tax revenue. That is an absolutely fundamental thing. Countries do not really want to be dependent and we do not want them to be dependent either. Those two things going together, as often as not, are success measures.

Q12 Fiona O'Donnell: I wonder if I could just follow up, Mr Lowcock. You said that a reduction in budget support was a sign of success, because it meant the countries no longer needed budget support. Does that mean, in every case when we reduce or end budget support, it is because that country has no longer requested and no longer needs budget support?

Mark Lowcock: Not in every case. There have been the cases Joy mentioned, where maybe we have not had the same degree of confidence in the fiduciary environment or the Government's commitment to improve the fiduciary environment. The more cases we have where we are changing the nature of our systems because the country is moving on, the better, from my point of view.

Q13 Fiona O'Donnell: What assessment have you made of the impact of that reduction in budget support, particularly perhaps on health systems?

Mark Lowcock: We did a major independent evaluation about four or five years ago now on the impact of budget support. It is a really good point. I do not think we have done a major exercise like that since then—maybe we should do that. One thing we are very careful to do is to try to be aware of the impact of what we do on what others might do. Unfortunately, there is a bit of a herd effect in international development that, particularly in respect of the UK, people tend to copy a lot of what the UK does. We are alert to the danger that, if we take a different position in a particular country, others might do that and that could then be detrimental beyond the narrow impact that we make.

Also, one of the things I mentioned in terms of when countries need budget support less is when they have made progress on increasing their domestic revenue. Of course, we want

to see domestic resources being put to work on the MDGs. Part of the ongoing dialogue is, when we are providing budget support, never mind when we are graduating from it, can you, a country, invest a bit more of your own resources in paying your health workers and teachers, so that they are on that journey. Hopefully, there is public demand in the country for that to be an important use of tax resources as well. We are alert to the danger of reverses of progress. We have not seen that in countries in a significant way, but we are alert to the danger of it.

Joy Hutcheon: To the extent you are asking about when we stop budget support more suddenly because there is a crisis, it is always our first preoccupation to understand how we can continue to support the poor in that country by finding other routes that are acceptable in fiduciary terms.

Fiona O'Donnell: In crisis and non-crisis situations, we need to evaluate that and understand what the impact is.

Mark Lowcock: Yes.

Q14 Pauline Latham: When you are giving budget support, how do you stop any corruption within the system? One of the criticisms we get regularly is, "We are giving all this money to these Governments. All they do is buy planes and the President gets lots of money, and it is all taken out of the country." How do you guard against that?

Mark Lowcock: Maybe Joy can speak to the approach we take in assessing the fiduciary environment, the tracking of expenditure and the overall set of systems.

Q15 Pauline Latham: You can track your expenditure but, if you are putting money into a budget and they therefore take their money out of it, it is not improving anything. It is not just where your money goes but what they do with the money they have already put in their budget to go into that department. Because we put money in, their money is taken out.

Mark Lowcock: Quite so, and one of the things we always track is if the total pot is increasing with ours. Is there evidence that we are not acting in a way that produces the perverse effect that you intend? If the total contribution from the Government to the sector is increasing, that gives us more confidence that it is safe for us to increase. At the end of the day, you are right; you can never prove perfectly the counterfactual. We do have a long track record of paying a lot of attention to levels of military expenditure, for example, and saying to countries we think there should be limits. The 2% figure has been used internationally for a long time and this is a big part of the dialogue. Sometimes, as you know, we have fallen out with countries because they have made what we thought were inappropriate expenditure choices, and we have decided to change the way we provide our assistance as a result.

Q16 Pauline Latham: At what point do you check that? They can say in their budget they are going to spend something; we can then put money in; but in year they can take it out. Do you track what they do in year?

Mark Lowcock: Yes, absolutely. Of course, the credibility of what they say they are going to do the following year is heavily informed by what they actually did the previous year

and what they told us about that. This is something that, under the framework normally provided by the IMF and the World Bank, our economists in every country are very heavily engaged with. It is an absolutely core part of what we talk to Governments about and what we track.

Joy Hutcheon: Every budget support programme has a performance framework where results that are going to be achieved through the additional funding are set out, and there is a process every year of scrutinising the new budget and having a discussion with the Government about budget allocations. The third thing that is worth mentioning is that we always, in budget support countries, work on strengthening public financial management systems very closely and support the national audit system, so that we are growing the capacity of the auditor general and the country's own ability to audit its finances. A number of the crises that we have had have been uncovered by the country's own audit systems, national audit office and public accounts committees.

Q17 Pauline Latham: Who discovered the crisis in Uganda?

Mark Lowcock: It was exactly that set of institutions. I am trying not to use the word “schizophrenic”, but we are a teeny bit schizophrenic about what happened in Uganda, because we made big investments to strengthen the public accounts committee, the auditor general, the accountant general and the media, which made them better at finding things going wrong. Personally, I think that is a jolly good thing for the country and most of my Ugandan friends agree with that, but it had some follow-on consequences, which personally I think in the long run will be good for the country, but there is some noise in the meantime.

Q18 Jeremy Lefroy: Just a very brief one: do you ever look at parliamentary expenditure in these countries? It seems that often the salaries and expenses of parliamentarians are in inverse proportion to the GDP of the country.

Mark Lowcock: The biggest case where that has been a matter of significant concern to us—I guess you will be aware of it, Mr Lefroy—is in Kenya, which has some of the world's most highly paid elected officials. It is not, candidly, that easy for civil servants in one country to engage with elected people from another country on that. I do not know if, in the dialogue you have, for example in the Parliamentary Network of the World Bank, that kind of thing ever comes up, but there is no question that decisions like that have an effect on the behaviour of a country's international friends.

Q19 Mr McCann: Why do we not export IPSA?

Mark Lowcock: You are way beyond my pay grade on that, Mr McCann.

Q20 Fiona Bruce: Good morning. Currently, you have an ODA target that requires you to meet 0.7% of GNI each and every year. Would other options be preferable, such as achieving 0.7% on average over, say, a three-year period?

Mark Lowcock: The Government has a policy to hit 0.7% each and every year, so my job and the job of my colleagues is to organise the work of the Department to deliver that policy. As you know, we have just completed the 2013 year, which is the first year the Government said it would hit the target. We will have the out-turn in the spring. You have

a report from the NAO, I know, which tells you that their view is that the Department has done what it needed to do in terms of the resources we control ourselves to achieve the target. We will see in the spring whether the numbers come out in that way. We believe we have managed our own affairs in a way to achieve that, but we will see.

In terms of whether it would be possible conceptually to have a different approach to this, it is something we have given some thought to. Mr Lefroy, in fact two years ago in this hearing, raised the same point with me, and it is something we have given some thought to, but the position really is that the Government has taken a decision on what it wanted to do and our job is to deliver that arrangement.

Q21 Fiona Bruce: I just wonder whether you have actually ever discussed any alternatives or whether you accept this is a settled position for the moment. Also, how much of your time and your staff's time is actually spent managing that target? Might it not be better spent ensuring that aid programmes actually deliver results? Is there a self-defeating result in this, in terms of delivering?

Mark Lowcock: Perhaps I could ask Richard to speak to both those two.

Richard Calvert: Clearly, there is time spent in managing our spend but, frankly, we would have to do that anyway. It is really important that, for a whole range of reasons, we understand and phase our spend in a way that fits with parliamentary control totals, with the 0.7% target and other things. When we set out on this trajectory in 2010 to scale up the Department's work to 2013, and recognised the big uplift in the budget that was required, we were very clear at the start and have been right throughout that we had to spend money in a way that really delivered results and delivered value for money. The strategy that we have had over the last three years enabled us to get to a position this year where we were confident in the quality of the spend and the quality of the pipeline.

One of the things that we have been very clear with staff about throughout that period, including over the last few weeks and months of the financial year, is that quality of spend has to come first. The key to managing 0.7% over the last few months in particular has been ensuring that we have a strong enough pipeline of activity and a strong enough pipeline of payments, which enabled us to deal with what were inevitable fluctuations in other bits of the ODA GNI equation over the last few weeks and months of the financial year. As Mark says, we will know in March what the provisional numbers are. One of the complications is that, as I think the Committee is aware, some aspects of the equation are still not known. Obviously, the biggest part of it is what GNI will be calculated as, and we will have a number for that in time for the March calculation.

There are also aspects on the spending side of the equation that are uncertain, particularly the EC attribution figure, which is not an insignificant part of our overall spend at around £700 million to £800 million. We have to take an estimated figure on that in late December. Also, there are a number of different Government Departments involved and DFID spend, to some extent, has to flex around the movement of other Government Departments. As Mark says, we are clear on what our job has been this year, and that remains our job going into 2014. We should learn lessons from the process and we should think about how we manage this over the period ahead.

Q22 Sir Peter Luff: Is there any risk that you have to be more cautious in response to a humanitarian emergency early in the financial year and can be more generous at the end of the financial year? The timing of an emergency can influence the British Government's generosity towards the situation.

Mark Lowcock: That is a really good question. The total unpredicted humanitarian spend in recent years, as a proportion of the total budget, is probably not more than 2% or 3%. I cannot think of a single case where we have held back in responding to a big humanitarian crisis for that reason. All the evidence is—this is another big thing that came out of Lord Ashdown's review—that the highest returns in dealing with a humanitarian crisis are available the faster you act. The best value for money arises from prompt response. Certainly, the culture of the Department—you know we have 100 or so humanitarian specialists—is of quite can-do people. Their culture is to crack on. I will, in the light of your question, go back and have a look at the first quarter over the last few years and whether there have been any responses that we held back on, but I cannot think of any off the top of my head.

Q23 Fiona O'Donnell: Just very quickly, the three major political parties all had in their manifestos in 2010 to enshrine 0.7% in law. I would imagine civil servants had done some preparation expecting that might be enacted. If that was the case, what impact would that have? How would you do things differently?

Mark Lowcock: We are planning to hit the 0.7%. We planned to do that for 2013 from 2010. We have been planning to do it for 2013 ever since then and we are planning to do it for 2014-15 onwards anyway. I am not sure what we would do differently, to be honest, because it is a big thing that we are already doing. If a different policy decision was taken, of the sort that Fiona Bruce was alluding to earlier, then that of course would cause us to organise ourselves differently, but otherwise I am not sure we would do very much differently.

Chair: We did do a report on the draft Bill that the previous Government produced, which probably does give some light on that. The previous legislation gave a lot of excuses, effectively, and we also observed at that time that, of a number of countries that had both hit and maintained their commitment to 0.7%, almost none of them had actually got legislation. Point taken.

Q24 Fiona Bruce: Just going back to peaks and troughs, page 29 of the NAO briefing, figure 12, shows that the Department's expenditure will have peaked in November/December and will reduce rapidly. What is the impact on your programme of accelerating this spending at the end of 2013 and then slowing down at the start of 2014, and the impact on your partners as well? I note, for example, that in the report it says, "The Department is expecting that to live within its 2013-14 programme budget it will have to defer around £300 million of planned programme spend from the first three months of 2014 into the financial year starting in April 2014."

Mark Lowcock: Richard has spoken to the natural, if you like, seasonal variation—the December issue in particular. Every year we get a number for our EC attribution figure, a £700 million or £800 million number, so it is a big number. We always pay our major contribution to the World Bank International Development Association then, so that is a big number and, because of the way that the Global Fund replenishment cycle now works,

there is a number from them as well. When you strip those three things out, December looks more normal.

On the second part of your question, the Committee has, in my opinion, rightly over the last several years worried that we have been rushing around, at the end of the calendar year or financial year, finding new things to spend money on in order to hit targets. What you describe in the second part of your question is us now being in the healthier opposite position, which is more good things that are great value that we can spend money on than we might always have the money available for. I prefer to be in that position, where we are having to choose at the end of the financial year to re-phase things, rather than to scramble round and to run the risk, which we do not think we have incurred, of funding slightly less high-value things. Let me ask Richard to add to that.

Richard Calvert: I was just going to add one point, which is that, although we have this quite lumpy pattern of spend and essentially two year-ends that impact on the Department, this has been quite predictable. We have been able to foresee for some time now, as a result of the spending review settlements, that we would be spending in excess of 80% of our financial year budget in the first three-quarters of the financial year and a relatively small percentage in the first quarter of the calendar year.

One of the things—I think Joy would probably recognise this—that is difficult for spending departments around DFID is unpredictable in-year changes in the profile of spend. You can plan for that kind of approach, particularly with multilateral payments. We will be making relatively few multilateral payments in the first quarter of the calendar year, but I do not think the consequences for the agencies we are working with will be significant at all, because we have anticipated that and set deposit or payment schedules in line with that.

Joy Hutcheon: On a practical note, it is worth saying that, for most of the countries we work in, their financial year is not the same as ours, so the difference between a payment in the last week of March and the first week of April is not material to them. Their financial years are either the US financial year or the calendar financial year.

Mark Lowcock: The other thing maybe to add, in terms of how big a problem this is in practice for us, is figure 11 has a row in it that talks about changes in the estimate during the year of the amount of DFID directly managed spend required to meet the target. You see from that figure that the range is plus or minus £200 million or £300 million, which is about 2% of the Department's total budget. That is a range of variation that we are very comfortable managing within. If it turned out to be 10% or 15%, that would become much more problematic but, given that it is a relatively narrow range, we are normally able to manage it effectively.

Q25 Fiona Bruce: Do you feel a disproportionate amount of your time is spent profiling and re-profiling, or do you feel that this is good management in any event and that you would be doing it anyway?

Mark Lowcock: The latter. It is a good thing to have a lot more discipline and focus on this, in my opinion.

Q26 Jeremy Lefroy: Good morning. Just picking up on one point that seems to have had an impact, which again I think we raised a couple of years ago, the amount attributed to Gift Aid has shot up in both of the last two years, which according to the report appears to have come from a reassessment of or perhaps better information that you get from charities. Is that indeed the case? I would still say the figure, at £91 million, looks on the low side, but it is getting closer to what I would expect.

Mark Lowcock: Richard might want to add to this. One thing I think is happening is that more people are using Gift Aid. More publicity and discussion in public fora like this I am sure contributes. I have not myself seen data on the other part of your question, which is whether we are capturing it all. Given that most of it is from well-known official agencies, I would be disappointed if we are not capturing most of it. I do not know if Richard knows more than that.

Richard Calvert: We have improved our methodology and we have worked quite hard over the last couple of years to try to get an improved methodology. It is one of the figures that relies, to some extent, on extrapolation from evidence and survey information, but we have improved the evidence base, which has enabled us to come up with what we believe is a more accurate figure and for the statisticians to feel that that is properly justifiable.

Q27 Jeremy Lefroy: Thank you. I would like to turn now to non-fiscal spending, i.e. spending that results in an asset on the balance sheet. The Treasury has asked you, or instructed you, to increase that by £500 million in the year. Is that actually happening?

Mark Lowcock: Yes is the answer. The non-fiscal includes three or four major categories. The biggest category by far is our contribution to the soft lending and granting arms of the multilateral development banks, so the World Bank, the African Development Fund, the Asian Development Fund and so on. The accounts classification scorers in the Treasury and the NAO have determined that those contributions are to be treated as non-fiscal, so they have been growing. That is the biggest part of what we are doing.

Q28 Jeremy Lefroy: Do they treat them at 100% of face value or do they discount them as, for instance, the student loan is discounted by 30% as non-fiscal expenditure?

Mark Lowcock: The rationale for this treatment of those contributions, as I understand it, is firstly to do with the fact that, were these institutions ever wound up, there would be a payment due back to the contributors to it. Secondly, it is to do with the fact that this asset is held in special drawing rights. Candidly, for reasons that are not completely transparent to me—and I am an accountant—the scorers have determined that that is the right classification. It is not to do with the recoverable value of the asset, though. That is not the basis on which they have made that judgment. For other parts of the non-fiscal, that is part of the basis, and maybe Richard could speak a little to those elements, a lot of which are new and come back to the discussion we had last year about lending instruments, equity and those sorts of things.

Q29 Jeremy Lefroy: Before Mr Calvert speaks, if I may just ask, would you not think it was sensible that, like any business putting an asset on its balance sheet, we took a view as to whether that asset was worth what we are putting it at? As I say, the student loan book is scored at 70% of its face value, on the basis that 30% will not be collectable. If this

money is going on soft loans to multilateral development banks, which we may never ever see back, but may continue to accumulate over the years, we are at the risk of having zombie assets on the Government accounts, at some point, which have to be written down.

Mark Lowcock: You are asking me a question about a regime that I am told to live within, rather than be a designer of.

Q30 Jeremy Lefroy: I understand, but I would like your view. Given that you are responsible for giving this money to these banks, is it worth 100% of what we score it at?

Mark Lowcock: The most I can say is that I think it is a good idea for us to manage these kinds of things more in the way that you would manage a normal asset, but there are particular issues around the scoring of these bits of expenditure. There is only a limited amount of productive time I can personally spend on engaging in the debate.

Q31 Jeremy Lefroy: I fully understand, but what this comes back to is, if the banks themselves knew that we were taking a view that what we lent them was not worth as much as the face value of the money, that should put pressure on them, if there is a problem—there may be no problem, but we do not know—to improve their lending regime.

Mark Lowcock: That is a really powerful point, Mr Lefroy. That is a very powerful point, which is one of the reasons I know was in the Secretary of State's mind when she decided that, for the latest replenishment of IDA, we should make part of our contribution in very transparently repayable loans in order to increase the incentive the institution has to manage its balance sheet for full recovery. I am completely with you on that point.

Richard Calvert: We do hold on our balance sheet, in relation to the international financial institutions, what we believe is a fair share of our value in the assets for that organisation. The point around the capital subscriptions, because that is being put into a pooled fund, is we do not track through that particular share of the overall assets into the organisation, identify that share of the assets separately on our balance sheet and discount it or impair it, in the way that we will with some of the other instruments.

The distinction I would draw, coming on to the other non-fiscal assets, is that in those cases we have a much more identifiable specific asset, which we are buying into and holding either directly or a share of. In those cases, there will be a very strong focus on what the realisable value of those assets is. We are looking at the moment at the precise accounting treatment of those, although I think we are very close to finalising that. What is often more complicated is the valuation methodology around those instruments but, again, we are working on that and our expectation is that, over the next few weeks, we will be clear both about the valuation methodology and the accounting treatment.

In some cases, the focus on non-fiscal has been about simply recognising as non-fiscal the number of assets that effectively we already held but did not recognise on the balance sheet. In one or two other cases, and the private infrastructure fund—PIDG—is the most important one, it has led us to change the structure of our holding in PIDG in order to be clear that we are investing in a returnable capital instrument and an asset where we could realise value.

Q32 Jeremy Lefroy: It seems to me, Mr Calvert, that we are beginning within DFID to create a quasi-development bank by putting this non-returnable capital into more formal formats on the DFID balance sheet. Perhaps you could just say how much non-returnable capital, including the investments in development banks, is on the DFID balance sheet at the moment.

Richard Calvert: I would draw a distinction between holdings in the international financial institutions and the other non-fiscal instruments, because we do have substantial holdings, as HMG, in the international financial institutions. I do not off the top of my head recall the exact number, but it is extremely unlikely and there is no intention ever to realise that.

Q33 Jeremy Lefroy: Having said that, if there is no intention to realise them, in effect they are worth nothing to the UK taxpayer.

Richard Calvert: They have a balance sheet value, but the Government does not have an intention to take money out of those.

Q34 Jeremy Lefroy: Could the Government ever take money out?

Mark Lowcock: It depends. It is a good mindset to be in to hope that, at some point, there are not enough poor countries that need to borrow from the World Bank to require all the balance sheet, and to work towards the point at which, therefore, the subscribers of the capital can be repaid. That is a good mindset. Now, these are not traded assets so, in that sense, your point is a very fair one, but the alternative approach, which is to decide these are not assets at all, would create the wrong set of incentives in the minds of the World Bank and, indeed, the wrong sort of expectations for us and our taxpayers. There is a decent rationale for that treatment.

Q35 Chair: It is the reason we have a single full-time director, presumably.

Mark Lowcock: It is among them, yes.

Richard Calvert: To go to what may have been underlying your question, does it mean DFID is starting to operate as a bank or do we continue to operate, essentially, as a funder of others, including other banks? At the moment, we are still in a position where, fundamentally, we are funding other organisations. The resources we put in to the IFIs, the resources we put into PIDG or our work through the CDC essentially involves using a third party to operate as a bank. We are creating assets and you are right to identify this is a new way of operating for us. We are creating assets on the balance sheet, which we may choose to realise, but it is not our intention at the moment to operate those instruments on the basis that we are realising assets as part of our routine financial management or resource management processes, year on year. At the moment, the instruments we are setting up, including PIDG, are set up so that they are the ones that are actually doing the management of funds, the allocation of funds and realisation, rather than DFID.

Chair: I think we might explore this a bit more when we have published our report on the future of development finance and seen the Government's response to it.

Q36 Jeremy Lefroy: Could we just have, at some point, a list of all the assets that you have now created? Presumably, you have done quite a lot of that in the last year.

Mark Lowcock: We have done a little, but we can write to you now with a list, and of course they will be in the accounts.

Q37 Fiona O'Donnell: My question is about multilaterals. It is in three parts, but it is probably easier to put them all together. The National Audit Office brief shows that you have lots of initiatives under way just now to improve the value for money that we get from multilaterals. Why is there so much activity just now? Have you got concerns about their ability to deliver value for money and also in terms of poverty reduction? I just wondered more generally how you respond to the concerns that some people have that it is actually a lazy and easy way for the Department to spend money through multilaterals.

Mark Lowcock: Why do we have a big focus on this? For the same reason that we have a big focus on value for money across the whole of the portfolio. It is a massive part of what we are doing on the bilateral programme as well. We are building our own skills, capability and so on, on value for money. I guess we will come to some of that later in the hearing.

We did the Multilateral Aid Review in 2010. We identified a significant number of areas for improvement for all of the agencies, even the well-performing ones. We updated the Review in 2013 and we saw there was significant progress, so we were motivated to keep going on this agenda, because it absolutely is our view that there is no multilateral organisation that does not have significant room for improvement on value for money. The better they do on it, the more people we will lift out of poverty and the faster we will do it. It is a core part of the Government's overall approach to all the organisations we interact with. It is not just a multilateral-versus-bilateral thing.

On the lazy and easy way of disbursing resources point, what I would say is we have been extremely discriminating on the multilaterals to which we have provided additional core funding, and they have only been the ones that have ended up as the top performers through the Multilateral Aid Review. There are a number of organisations, as we discussed in the Committee before, which we either left or basically flat-lined, when we could not leave them, or cut the funding. Providing that incentive is an important thing to do.

Another way, as you know, in which we fund multilaterals is by using them as a delivery partner in-country, whether it is to deliver a girls' education programme, a malaria programme or whatever. Our starting point is the country team asking itself, "Okay, we've got this problem we want to try to help solve. What is the range of partners we could use to solve that problem?" Particularly in fragile and conflict-affected states, where it is very difficult for us to work through Government systems, essentially there are three main options. We can hire a private-sector contractor, which we often do; we can work through NGOs, which we do a lot; or we can identify a multilateral organisation. The big thing we have been trying to do is improve the value-for-money drive when we choose a multilateral organisation to do that.

For example, we have done a series of portfolio reviews with UNICEF, looking at all of the cases where we have taken that decision to use UNICEF to deliver a programme in a country and learn the lessons, from country to country, across the whole portfolio we financed with UNICEF, on what has gone well and what has not, what they need to do better and how we make sure all our country teams know the lessons of good experience. That again has contributed to progress on value for money.

Last year, you expressed some concern to us about whether we do too much of what in the jargon is called multi-bi, using a multilateral partner to deliver a bilateral programme. We have reduced the amount we have done in the last year, so that there is more competition from different suppliers or partners to deliver programmes for us when we are making that supplier choice in particular countries.

Q38 Fiona O'Donnell: You may remember last time you appeared before us was a very difficult session about TradeMark Southern Africa and the major failings in that project. How satisfied are you that you are now monitoring these kinds of projects, especially in terms of poverty reduction? Have we got rigid and rigorous systems in place to monitor all projects now?

Mark Lowcock: The Secretary of State and I were here last month, and we did poorly on that. The important thing is to make sure we do not have recurrences, we learn the lessons and we try to make an opportunity out of this bad thing that happened. The Secretary of State, since she arrived, has been putting in place a major programme of improvement in our project and programme cycle management, and we have been able to take further steps in the last few months or so.

One particular thing we have done, which as you know was a problem on TMSA, is clear the backlog of annual reviews so that, every year, we are taking a proper professional look, with some oversight on it, on how the project is going and whether there are any problems. We had a discussion with the Secretary of State earlier this week on how all that is going, and we will be reporting to her again at the end of the month on whether we have completely cleared the backlog, but we are making very good progress on that.

There is a range of other things we are doing to improve project and programme management capability. We are training hundreds of people around the organisation in those skills. In particular, we are investing in the commercial skills and commercial capability of very senior staff. We are putting the top 100 people in DFID all through commercial skills training. The first course was earlier this month; Richard and I were on it. The next one is in March, and then there will be one in May and August. We are investing in our internal audit capability to make sure that we catch problems. This whole area is right at the top of the Department's priorities for this year, as it should be, because, having had this big scale-up, we now have a central responsibility to get the best possible value for every penny that we are responsible for, under the 0.7%.

Q39 Fiona O'Donnell: Are you confident then? Hugh Bayley, my colleague, referred to the core purpose of the Department for International Development, which is poverty reduction. Are you auditing these projects on the basis of what they are delivering?

Mark Lowcock: The most fundamental responsibility we have is to spend our budget in accordance with what Parliament has said it can be used for. Parliament, in the 2002 Act, said that we can only spend money on something if we are confident that the effect will be to reduce poverty. I do not think there is any member of staff in the Department who does not know that is what we are about. Of course, there are lots of ways in which you reduce poverty. Sometimes it is direct and sometimes it is indirect, but that is absolutely fundamental to the mission of the Department.

Chair: I am going to ask colleagues to try to crisp it up a bit. Hugh Bayley has one specific supplementary and then I am going to bring Fabian Hamilton in.

Q40 Hugh Bayley: We discovered recently that 87% of UK ODA is spent by your Department and 13% by other Departments, so my questions are: has that proportion changed perhaps over the last five years? What oversight does your Department have of ODA spend by the Foreign Office, Ministry of Defence and others? Is there a Cabinet committee that brings together the Departments and exercises departmental oversight on ODA? Could you, perhaps after this meeting, let us have a memo agreed, in a few paragraphs, I mean, with the permanent secretaries of the other ODA-spending Departments showing the value of ODA that they each spend, indicating broadly how the money is spent? Will you look at whether the Government should be producing, perhaps as an appendix to your report, a consolidated overview of UK ODA, so that we can see the picture in one place?

Chair: Can I suggest a quick response and some notes?

Mark Lowcock: On the penultimate question, yes, I will ask my colleagues to agree that we give you the memorandum. On the last question, the consolidated overview, of course each Departmental Select Committee has oversight of this in these kinds of sessions. I will take away whether there is some aggregation beyond that. On the question of oversight, each accounting officer is responsible for their budget. We have a lot of discussion, for example, on whether an activity would score as ODA. The other Departments constantly come to us for advice and help. A lot of the way the cross-Government ODA is managed is in joint teams, so our staff populate other Departments and we have imports. On the question of cross-Government discussion at ministerial level, obviously the National Secretary Council, on which the Secretary of State sits, covers these issues and has had a number of discussions on development issues and more in prospect. There is political oversight as well.

Q41 Hugh Bayley: Has the proportion changed over five years?

Mark Lowcock: The proportion I do not think has changed materially. It is in the 85% to 90% range every year, but we will go back to the numbers, Mr Bayley, and check.

Q42 Fabian Hamilton: I want to go back to the money we spent multilaterally and I wanted to ask you about capabilities at a local level, before we actual commit to bilateral funding. For example, I note that ICAI found that a large number of separate relationships that DFID has with UNICEF makes it difficult for the two to share collective experience of working with each other. I wonder whether you have been able to resolve this issue and, if so, what difference that has made to working, for example with UNICEF, and other similar organisations.

Mark Lowcock: I think it was a really good insight from ICAI, which was why we did the portfolio review I described earlier. Joy has been talking to UNICEF at the top level recently about this, so maybe she can give you more detail.

Joy Hutcheon: I went to New York in November to conduct a review of the bilateral portfolio spent through UNICEF. It is £200 million, so it is 80% of our overall funding—our core funding is £40 million, so it was a really important thing to do to go and have that conversation. We had both gathered feedback from across our own organisations and we

were able to have that conversation at the strategic level about the things that were happening variously at a local level.

We talked about issues about the recruitment and retention of UNICEF staff and the problems our teams sometimes have about capability on the ground, knowing what is happening and when there is staff turnover. We talked about what UNICEF is doing to promote effective programme management. We talked about programme design, where we thought that our teams could be agreeing on the shape of programmes, the results and the reporting cycles a bit earlier to make sure we had buy-in from both teams. We talked particularly to UNICEF about how they exercise accountability on their downstream partners, where we wanted a bit more visibility over what was happening there. I think it is very good that ICAI prompted us to start that set of reviews. I am going back next month to do the same process with UNDP, where we have a portfolio of about the same size.

Mark Lowcock: It might be worth saying, by the way, on this that I think this debate started with Mr McCann's question to me in 2011, and we have been thinking about it since then. It has been reinforced by ICAI taking an interest.

Fabian Hamilton: You have a very good memory if you can remember back to 2011.

Mr McCann: It was a good question.

Q43 Fabian Hamilton: It obviously was a good question, but I was not on the Committee then. Joy mentioned UNDP and I just wanted to pick you up on that, because we have a feeling sometimes on our visits that DFID funds UNDP because it is an organisation that does this kind of work for parliamentary strengthening, and we know it can absorb substantial sums of money without necessarily producing the kind of quality of work we would like to see. I wonder how you plan to improve that. Obviously, going back to New York, you are going to talk to them, but what are you going to say to them?

Joy Hutcheon: We are in the process of preparing that at the moment, and I am meeting our country teams later this week to actually hear directly from them what they want me to say to UNDP. The MAR finding around UNDP was quite interesting, because it scored rather better than some of the frustrations the teams expressed would have led us to believe. This process enables us to join up a bit the MAR assessment and what our people are actually finding on the ground.

One of the things that we know we need to address with UNDP is that it has a slight propensity to take money for all sorts of activities and to be tempted not to focus on the key activities in their strategic plan. We want to have a discussion with them about how they are going to stay focused, and I think they will challenge us not to offer them money for things that are not in their strategic plan, so we need to be disciplined about that as well.

Q44 Chair: Can I just interject there? We do not want to return to tied aid but you will find—we have published evidence on our Burma report and when we produce the report—that we think there is scope for DFID to support parliamentary strengthening in a different way and possibly to support some more British-based capability rather than farm it all out.

Mark Lowcock: Thank you very much, Chair. I completely agree with that point. We need more competition to help countries tackle these sorts of problems. As you know, we have started funding the Westminster Foundation from the Department. I hope that goes well. The first year's performance in the annual review of that was quite positive, but there are quite big challenges ahead. A lot of what we have done with other parliaments has been in the finance/public accounts space, and there is a range of potential suppliers you can go to there. One of the biggest drivers of the improvement that Joy has talked about and we would all like to see on UNDP is them feeling there is more competition. I completely agree with you; most of the countries in which we work have British-like institutions. We have a comparative advantage to offer help in this area.

Q45 Fabian Hamilton: Yet we still farm it out to UNDP, so I am glad you are examining that and hopefully that will lead to a change. ICAI also found weaknesses in the EU's performance management system, on which you need to rely in order to assess the value for money and impact of this spending. I wonder what progress DFID has made on improving its oversight of EU contributions.

Mark Lowcock: We have been pushing this. In December, the EU published their proposal for a results framework, which we hope will be implemented this year and they will start to report on next year. I know this was a concern previously of the Committee. We have also commissioned a range of country offices to provide us with feedback on the performance of Commission programmes in the countries in which they work. In fact, when we did the MAR update, which was published in December, that was informed in respect of the EU by all that country-level data. I know that people will keep looking at this. We have given our country offices extensive guidance on the importance of doing this work. We have also asked the Foreign Office to try to do that in countries where DFID is not represented, where the European Commission is spending money. That is sometimes a bit more difficult, because the size of FCO representations in lots of those countries is very small and they are quite hard-pressed, but we recognise that this is something we need to do as well as possible.

Q46 Fabian Hamilton: You think the country offices are giving us some pretty good feedback, then, on the effectiveness of EU programmes.

Mark Lowcock: It has definitely improved. The country officers are always quite hard-pressed. It is not perfect, but the direction of travel is a bit better, I think. I guess people will look at it again and we will get some more evidence.

Q47 Fabian Hamilton: Are you looking to make any changes at all?

Mark Lowcock: We thought it was good to get the better-quality data country by country that we got when we did the MAR update so, in that sense, this new approach has been corroborated. I will be interested to see what evidence is generated on the use and real traction of the European Commission's performance framework and how that has drilled down to the country level. I would be interested to hear from our country offices and whether they see or hear anything of that. That will be an area to keep an eye on and we will have to adjust in light of experience.

Q48 Pauline Latham: If multilaterals are unwilling to compete against other providers, how can your teams be sure that a multilateral is the most cost-effective way of delivering a project?

Mark Lowcock: Increasingly, what we have been trying to do when we are designing a project is avoid the country teams automatically resorting to the idea that, if it is this sort of project, it is Organisation X. The guidance on business cases and preparing ideas requires people to think much more explicitly now about the range of possible suppliers, so that introduces some implicit competition. If all the potential suppliers in a country know we are thinking about tackling a problem but we have not decided whether to use a private sector route, an NGO route or a UN route, we hope that will encourage all of them to improve the quality of their offer.

The other thing we have done is to keep driving as hard as we can on administration costs, value for money and better procurement capability in all the multilaterals, so there is a big value-for-money programme. Since I was last answering questions on this, there have been some improvements. The Global Fund's budget for 2013, for example, on administration was 15% lower than the 2012 budget. The European Development Fund budget for overheads was frozen at 3.25% rather than 5%, as part of the Government's overall approach to containing the costs of Europe, so there is some progress. We see more people raising these issues. Agencies are seeing that some of their competitors are having to address this, so that again gives them an incentive, but, as I said much earlier in the hearing, this is going to be a constant theme. I do not think we have got to where we should get to on really driving value for money across these organisations.

Joy Hutcheon: The choices that teams are making are already being reflected in the composition of the bilateral portfolio. This year, in 2012-13, 25% of the bilateral portfolio was through multilaterals. In the previous year it was 32%, and what we are seeing is the proportion of contracted programmes going up from 16% to 21%, so we are already seeing that shift starting but, as Mark said, not yet finished.

Q49 Pauline Latham: Does that give value for money?

Joy Hutcheon: The exam question that they are asking is, for this set of results, what is the best value-for-money way of delivering it. They will then have a conversation with a commercial adviser about different procurement routes and try to use all the evidence to make that judgment.

Mark Lowcock: On the cost side, we are definitely making progress on all of the different routes. They are all much more cost-conscious, so value for money is a combination of the value you get and what you pay for it. On what we pay for it, we are definitely making progress. We are also making progress on the value side. The organisations are feeling a need to compete better on the quality of what they can offer for the price.

Q50 Mr McCann: The Secretary of State has made a high priority of improving DFID's work with suppliers. What progress has been made and have you addressed ICAI's concerns?

Richard Calvert: Shall I start off on that? As you say, the Secretary of State has challenged the Department very clearly on this and, in many ways, the concerns raised by ICAI reflect that. We have acknowledged as a Department that we needed to strengthen

our work in dealing with suppliers. There have been two or three key strands to that and I will describe some of the progress that we have made over the last year or so.

Firstly, there was a much more active approach to engaging with and managing our key suppliers—our top 11 or so providers of services to DFID. We have now established a key supplier relationship with all of those. We have a member of the senior civil service in DFID responsible for each of those relationships. We have held our first key supplier conference, which has brought together Ministers, officials and key suppliers to work through any kind of key issues. Within the Department, we now have a much better sense that we should not think about suppliers just in terms of individual contracts, but we should think in terms of the relationship as a whole. It has given us a better basis for managing performance issues with suppliers, where they have arisen. We should also say, from our side, it has given us a better basis for getting learning and experience from suppliers. As the ICAI report pointed out, this is not simply a purchaser/supplier relationship—there is an element of partnership in a lot of the work that we do with our key suppliers. We have made good progress on that.

As Mark alluded to earlier, we have been working hard on the skills and capability side within the Department. We will be up to 17 commercial advisers quite shortly, and that is really from a base of zero not very long ago, so that gives us a lot more specialist capacity at professional adviser level, but we will also, by the end of March, have had half of our senior civil servants go through the commercial awareness and training programme. The other half will be completed towards the end of 2014.

One of the things that comes out most consistently through all of these strands is the importance of thinking about the commercial and delivery aspects of an intervention at an earlier stage in the process. There are some specialist skills that are important in this, but a lot of this is about a change of mindset within the Department. When we are thinking about the initial design of an intervention, we are thinking about how we are going to deliver it and what are the most appropriate routes. We have talked about some of the choices between multilateral partners or suppliers. Probably one of the biggest reasons why we have not been as good in the past always as we should have been is we have sometimes left that judgment too far into the process of programme design, where we have taken design decisions that have effectively led us to a narrow route of options on delivery.

Q51 Mr McCann: Another criticism was project management delivery, which you know that ICAI identified as a weakness and thus was producing less value for money. What progress has been made there?

Mark Lowcock: I will perhaps start and ask Richard to come in. I talked a bit earlier about the wide range of things we are doing to improve the quality of programme management. One of the biggest most important things is just investing in the skills and incentives and culture of the staff. We appointed a head of profession for programme management, who started work six months ago. We have had 700 staff through basic training programmes since the beginning of last year and, of those, something like 300 have reached the level where they have some accreditation. We are also building a more advanced level of accreditation, so people demonstrably have a better set of skills for programme management than they previously had.

We then have a much stronger focus in our management information, which is served up every month to the directors, then to the directors general, and then to me and to Ministers, so we can track what is happening on the major programmes. Ministers are having a regular series of meetings, country by country, on this now, so there is much more scrutiny about what is going well and what is going less well. We are asking people a bit more explicitly to be up front in saying what their two or three worry projects are. We try to create a positive incentive to share a problem, so it can be fixed, rather than to conceal a problem. As you know, we have a kind of index that captures the overall aggregate score of the whole of the portfolio we invest in, and the score is reasonably stable. Over time, as all these investments come in, we want to see that score moving up. That is evidence of getting better value for money and more successful project completion.

Richard Calvert: You have covered a lot of the key points, Mark. For the Department as a whole, the strongest message is we need to be much more consistent in our approach to programme management. We have a lot of experience in good programme managers in the Department, but the approach we are taking at the moment is designed to ensure that we have greater consistency across all of our activities and projects, but also that we allow programme managers to spend their time in the most value-adding way.

One of the other aspects of the work on programme management has been to look again at how we produce business cases and where effort goes in the programme cycle. We and others have recognised that, although the new business case that was introduced in 2010 has brought in a lot more rigour around important aspects of the appraisal process, it has also taken a lot of time and effort in teams to produce, and we have ended up with business cases taking up relatively more of the time of programme teams than we think is necessary. Now, that is not to say that the business case is not always going to be a really critical document or a critical part of the programme process, but we are looking to slightly rebalance efforts so relatively more time is freed up to focus on the delivery and implementation, and to make sure the time spent at the business-case stage is time well spent. We are at the moment piloting a slight variation of the business-case format and approach, which keeps the rigour that we introduced in 2010 but takes away some of the unnecessary process and detail.

Q52 Mr McCann: I am sure the Committee will want to monitor the success of these programmes. The final point I would ask is this: Adam Smith International's view is there is a difference between what is seen as a prestigious policy adviser and the worker bee of programme management implementation. Do you think that is a legitimate criticism and, if so, what are you doing to stop that interpretation or that division?

Mark Lowcock: We think programme management is a profession, and those skills are needed in our advisory cadres, as well as in the programme support teams more narrowly described. No, I do not agree with that proposition at all. One thing we are doing is having much more explicit nomination of who the senior responsible person is for all the major programmes, and you will only be able to be a senior responsible officer for a programme if you demonstrably have the right set of programme management, commercial and related skills. You might have joined us as an economist, an engineer or a health professional but, unless you have that other set of skills, you will not be in those roles.

Q53 Jeremy Lefroy: Moving on, on the same subject, we have had a note in confidence from a development professional who wishes to remain anonymous. Perhaps you have pre-empted this, Mr Calvert, but it said that “business cases are too intricate and require too many different people to be involved in their completion”. It was pointing out that “the combination of the unwieldy business case and the requirement for Secretary of State approval for virtually every spending decision” that is above £5 million, I think it is now, or even lower than that, “causes the most difficulty”. I wonder what your reaction is to that. To some extent, you have begun to answer that—the fact that the business case takes a long time and involves a lot of redrafting, with perhaps people being very concerned to cover every single angle that the Secretary of State may raise.

Mark Lowcock: Maybe I can deal with the second part of that and come back to Richard on what we are doing on documentation and so on. We had a discussion in 2012 when I was here about the advantage from my point of view of having much stronger ministerial engagement and oversight on a wider proportion of the portfolio, and I am absolutely clear that is a very positive thing. It is empowering and a positive thing for the staff who are developing programmes as well. They like the fact that there is top-level political engagement in the work they are doing. There are two different things there. Having this real focus from our ministerial team is absolutely supportive of improving the quality of project and programme management.

The question of documentation is a different thing. Ministers quite rightly do not want to see documents being much longer than they need to be. I can tell you that permanent secretaries are not very keen on that either and nor are directors general. The incentives are all completely aligned. We have been trying to make sure that documents cover what they need to cover and that they are done in a way that is proportionate. There have been cases where things have taken too long and too many people have been consulted. We are changing the processes and systems to deal with that, and it is a work in progress. The incentives coming down the system—I do not think anybody anymore can think that their prospects in life are improved by writing hundreds of pages of nugatory material, but maybe Richard could speak some more about the detail of all this.

Richard Calvert: Just a couple of very brief points: one of the keys to the change in the business case is actually splitting what was previously the business case into two documents. We have what is essentially an appraisal and approval document on the one hand and, on the other hand, a programme delivery plan. A lot of the detail that goes into the delivery plan, so how a project is going to be managed and delivered to—its lifecycle—is for the programme team to manage and keep as an ongoing document as the programme goes on. The previous business case format asked teams to try to compress that into a single document, so that is one of the big changes.

The second thing is not just about the document, but it is about really clarifying who is responsible for preparing and signing off a business case, and avoiding what we recognise as a bit of a tendency in DFID for lots of people to want to be involved and lots of people to want to have their say in the design. We are just being clear about who takes lead responsibility. Mark has talked about the senior responsible owner model that we are going to be introducing. There is a bit of culture and behaviour, and there is a bit of change in the documentation. As I said earlier, we are piloting the new approach at the moment with 10 live business cases and we will be very happy to share the results of that with the Committee.

Q54 Jeremy Lefroy: Following on from that, is there any distinction in the amount of work being done for what would be classed as less risky or riskier business cases?

Mark Lowcock: Yes, absolutely. There is and there should be. The riskier things should attract a greater degree of professional engagement, scrutiny and so on, and the less risky should be done in a more proportionate way.

Q55 Jeremy Lefroy: Finally, on implementation, clearly our view is somewhat coloured by TradeMark Southern Africa and the real problems of implementation of that or complete lack of implementation there. How have you already changed your review of the way in which programmes are implemented as a result of that, as I imagine you must have done?

Mark Lowcock: I have alluded to parts of that during the course of the hearing. The first thing is everyone around the whole organisation has seen we had a problem there, so everyone has a strong personal incentive to be all over the quality of implementation, so that they do not find themselves supervising a project with that kind of problem. That is a very big driver of change behaviour, activity and so on. The second thing, which I do think is really important, is a much more rigorous and tougher approach on the annual review process, and the third thing is improving the quality of management information, so that we see both a much more aggregated and disaggregated—by country, by sector and by theme—picture month by month of what is going well and what is going less well.

I am sorry to repeat a point I made earlier, but I think it is an important point. We need to build a culture where people think it is okay to express worries about how something is going. Sometimes what happens if you have a problem is everyone gets fantastically risk averse. Actually, that is counterproductive. There is a delicate balance to be managed here to encourage people to believe and act as though it is okay to expose a problem if you think there is a problem, and get help in dealing with that problem.

Chair: I am conscious of the fact that we have a number of questions and we would still like to get people away for Prime Minister's Questions. I think Hugh Bayley has a supplementary and Fabian Hamilton has one.

Q56 Hugh Bayley: My impressions from visiting your country offices over a number of years is that you put an enormous amount of effort into writing the business case, but surely an equally important part of the process is the first conceptual take that the country team has that a particular block of work in the education field is necessary, which is not anything like as rigorously assessed. After you have approved work in a particular field, there is to my mind far too little field engagement by your staff, because of pressures on numbers. Should you not change the balance, so that you spend more time looking at the landscape of a country and sector in which you are working, and looking at the impact of projects, and rather less on gold-plating the business case itself?

Mark Lowcock: I particularly agree with your second point, which is we need to slightly move the balance of professional and staff effort to the post-approval phases, and that is what the end-to-end review and all the things I have been saying about programme management, are intended to contribute to, so I agree with that.

Q57 Fabian Hamilton: One of the ways in which our teams might be able to avoid the operating cost limits on them is by contracting out services that might more sensibly, perhaps, be conducted within DFID. I wonder if you can tell us to what degree you think this is actually happening and what controls are in place to ensure that teams do not contract out those services simply to avoid operating costs.

Mark Lowcock: The controls are basically about the rules that apply to the administration budget and the operating cost budget, on the one hand, and the programme budget on the other hand. We have not had significant problems with breach of those rules. I do not think it is a major problem in practice; it is one that conceptually could arise.

As you know, we have had a substantial growth in the professional capability of the Department over the last three years. Staffing levels have gone to roughly 3,000 from 2,500 or so in 2010. We needed to do that because we were planning to deliver a lot more. We are still, by the way, in the position, as the NAO has said in their report, that “the best available evidence indicates the cost of delivering UK aid is low compared to other donor countries”—about half that of other donor countries, according to the NAO, so it is not as though we are lavishly staffed.

We are in a better position now than we would have been without this growth in our professional capability, especially at the front line, and I have not seen—Richard, I do not know if you want to contradict this—significant or worrying breaches of the control regime about what is administration and operating costs, and what is programme. You can, if you want to, make a case to use some external piece of advice or help under your operating cost budget. Sometimes that is a rational decision, because we do not necessarily have all of the expertise that a Department like DFID sometimes needs inside. Sometimes it is rational to get a bit of help from outside, but the fact that we have grown our internal capability such a lot puts us in a better position.

Q58 Fabian Hamilton: You are confident that this is not being done—that the contracting-out is not being used as a way of avoiding operating costs.

Richard Calvert: We are confident. As Mark said, it is something that we have to keep under review, and the NAO and Treasury will do that. As Mark said, the rules are what really drive the classification, rather than who is carrying out the task. If you simply employ a contractor to fill the job of a core member of staff, that is still going to score as an admin charge. I think we have enough controls, but there is equally lots of our work, particularly on the programme delivery side, where we are going to be using contractors.

Q59 Fabian Hamilton: Can I just follow up something that Hugh Bayley said earlier about the global view of the work that DFID does? ICAI tells us that there are a number of staff in different country offices who would actually quite like to see the impact of the programmes that they are putting into operation but, because of the work load on them, they cannot get out into the field enough to see that. What are you doing to try to ensure that is possible? Do you think it is a good idea that our staff should see the impact?

Chair: That is why they are pleased when the Committee turns up and enables them to do it.

Mark Lowcock: Completely—it is 100% a good idea. There should be more of that. Having a stronger focus on the post-approval phases and a stronger requirement to do the

annual reviews on time and to a higher quality will produce that as one of the effects, I hope.

Q60 Fabian Hamilton: Are you going to allow time to be freed up for staff to be able to do that?

Mark Lowcock: That is exactly what I would expect to see as a result of trying to streamline the process on the pre-approval phases of a business case to free up resource for its implementation.

Joy Hutcheon: Some offices do this extremely well already. Ethiopia had 30 field visits in the third quarter of last year. One of the things we need to do is just make sure people are doing the right things while they are out on the visits and are joining up looking at the financial reports in the office with them going and looking at the results on the ground. There is quantity and quality that we need to keep an eye on.

Q61 Mr McCann: To go back to Fabian's original point about the right balance, paragraph 5.3 of the report says that the Department's latest work force plans prepared by its advisers in September 2013 suggests an increase in the number of posts by around 5%, but it states in the same paragraph that there is not enough money to do that. That would suggest that what we have been saying over the last few years—that the Department is artificially depressing its costs—has actually taken place.

Mark Lowcock: If you look at the next page, you will see the staffing numbers' growth that I was alluding to earlier. These do not include all the staff in the Department, by the way—one or two categories are not included there.

Mr McCann: That is in the field—the advisers.

Mark Lowcock: This is the total. The right-hand side is the total, and most of the growth has been in the field, in the front line. It is true, and you are absolutely right, Mr McCann, that we are coming to the end of that phase of rapid growth. The total operating cost budget, including the administration budget, will be under more pressure for the period ahead. Exactly how that plays out in staffing levels is a slightly different thing, because people have got very efficient in working out whether it is better value for money to have an extra staff member rather than get something done outside. I do not think there will be a lot of growth in the staffing of the Department over the period ahead, but I am not saying there will not be any growth.

Q62 Mr McCann: You can assure me that it will not be artificially depressed and the decisions made for reasons of value for money and delivery, and not because the budget has been capped.

Mark Lowcock: I have given that assurance before. I said, last year and the year before, that I am not ready to be in a position where I am worried that we do not have the capacity to deliver what we are trying to deliver. We have made a lot of progress on that and, candidly, the Committee over the years has given us some help with that. I am less worried about that as a problem, personally, than I was some years ago but, if I become more worried, it will be my responsibility to have something done about it.

Q63 Hugh Bayley: You made the point just a moment ago, Mr Lowcock, that on the DAC figures the administrative cost of UK spending is considerably lower than most other large donors but, if you spend less as a proportion on administration, does it not mean that there is a greater risk on quality and results?

Mark Lowcock: It depends on how efficient we are, what quality of processes we have and how well governed and managed we are. We are having another OECD DAC peer review this year of the Department, which will give us a comprehensive assessment of where we stand on the whole set of issues, including this, compared with our peers. As you know, over the last two or three reviews, the core finding has been of the quality of the UK development programme, notwithstanding the fact that, a bit like the NHS, it has delivered very efficiently and is cheap relative to the outcomes. I would be extremely disappointed if they say that has changed. My observation is that the quality of people we have brought in, the motivation, and the effectiveness and efficiency of those people is very high.

Q64 Hugh Bayley: One of the things that your figures obscure, in a way, is that when you contract money out to a third party, they of course have administrative costs that do not get included in the total. Would it be possible for you to produce an estimate of what the overall administrative cost is and maybe even for a few of the multilaterals? You would look at the World Bank; you would say your executive director and team in Washington, and the team in London, account for, should we say, 1% of a programme or 2% of the contribution that the UK makes to the World Bank, but the World Bank's administrative cost is 2%, 4% or whatever it is. It would give a more realistic view, especially when we use multilaterals, of what the total administrative overhead is, theirs including ours.

Mark Lowcock: We have done that for some programmes. Two or three years ago, we had this discussion, you will remember, on the total overhead cost for delivering our health programme in Zimbabwe. We were doing some things and there were contractors and implementing organisations. We did look at the totality of that. It is quite expensive and time-consuming to do it, but I am very happy to have a look at whether we have conducted more examples of that sort recently we can share with you. For the multilateral organisations, we absolutely expect them as organisations to have a good sense of their total operating costs and admin, and to be tracking that and driving it down. I gave the example earlier of how the Global Fund has been doing that.

Regarding the proportion of the cost of the World Bank, if you like, and whether that changes when you add in the cost of our supervision of our interest in the World Bank, that element of the cost is so small that it will not make any material difference to an organisation of 15,000 people or something. I do not think that is going to move the dial.

Q65 Chair: We have a couple of questions to go, so that we can get to the end. It is really about recruitment, retention and promotion, and there are issues we have raised before. One is the turnover of staff and the other is their qualifications. ICAI rated the Burmese operation good because of its continuity. I notice it has all changed since, of course. We also saw the value of having a Burmese-speaking Foreign Office official with us. It was quite important. You are operating in fragile states, and then we are told that people have difficulty working there. Given that is what the organisation does, should you not be recruiting people

who expect to go there? Should you not be encouraging more people to learn languages? Should that not be part of the career development and promotional package? We have raised all these issues before, but we are still conscious of the fact that they are not as we would like them to be.

Mark Lowcock: Quickly, 1,300 of our staff have recorded language skills on the system. Fifty-six languages other than English are spoken. Half of those people are fully proficient in another language, and we have been spending more money on language training over the last 12 months or so. One of the main reasons why we have our highly capable staff appointed in-country is because of the language, cultural and contextual skills that they bring.

Q66 Sir Tony Cunningham: Could I just ask if that language training is done in-country?

Mark Lowcock: It is a mixture, Sir Tony.

Sir Tony Cunningham: It is so important to do it in-country.

Mark Lowcock: I completely agree with you. One thing that people often do is spend some time with a family or in a community. You are learning not just the language, but a whole bunch of other things as well.

Chair: They might learn Nepalese and then you will send them to Zimbabwe.

Mark Lowcock: We need to be intelligent about that. You have raised before with us the issue, which is also in your question, about how we get continuity for a longer period or benefit from a longer period from people who spend a chunk of time, say, in Afghanistan but, for reasons I do not at all resile from, we will not send to Afghanistan for years and years on end. Increasingly, we have cases where people have done a posting, come back and worked on Afghanistan and that region for two or three years in London, and maybe have gone back again. We have taken to heart the messages you have given to us on this. We will keep paying attention to that and I think we are getting a bit better at it.

Chair: I think that is the case with the Burmese staff. Some of them are still working on the Burmese programme, but they are doing it from here.

Mark Lowcock: I do not know on Burma, to be honest. I would need to look into that. There may be one or two people, but I am not sure.

Joy Hutcheon: Could I just give two very quick examples on language training? We appointed a new head of DFID Mozambique last year and we had two Portuguese speakers to make the choice between, which was a good position to be in. We just appointed the new head for DRC for 2015, and we have done it a year early so that we can make absolutely sure that he has his language skills up to speed before he goes into that post.

Q67 Chair: Being what, French or local?

Joy Hutcheon: That is the French language.

Q68 Jeremy Lefroy: I was just going to ask if it is a requirement of all UK-based staff who go overseas to learn the language once they are there, because that would seem to me to be an obvious requirement, as a matter of courtesy to the host country?

Mark Lowcock: It is not a formal requirement for everybody to do that.

Jeremy Lefroy: Should it not be?

Mark Lowcock: I am reluctant to add to the number of formal requirements that there are for people to be posted to particular roles. In order to be an economist for us in Country X, you need to be a member of the Government Economic Service, which has extremely stringent entry criteria. You need the right development background as well.

Jeremy Lefroy: I am not saying you should have to speak the language before you go. I am saying, once you are there, it should be part of your contract that you are expected to learn the local language as much as possible.

Joy Hutcheon: In most of the countries where we work, the business of Government is conducted in English. There are some Lusophone and Francophone countries where we do expect people to have learned the language. In a number of countries, there is not a single local language and, actually, language is a deeply divisive issue. It is not immediately obvious, if you go to Zambia for example, which one of the multiple languages in Zambia you would learn. I think all of our heads of office, in my experience, will make an effort to have a conversational level of language just to be able to deal with the local staff in their office, and to be polite and courteous and demonstrate that they are making an effort.

Mark Lowcock: I would prefer that, to be honest. If we made a requirement, people will be paying people to do that as part of a job. You cannot make it a requirement and then ask them to do it in their free time. Let me take it away and think about it again, but I think I would prefer to stick with the implicit expectation rather than formal requirement.

Chair: I think we like what you are saying, but we would look for more results and we will monitor those.

Q69 Mr McCann: Chair, we are running out of time, so could I ask perhaps for this question to be responded to in writing? It really goes to Abercrombie House and the staff reductions there. I have tried at several meetings to understand the process as operated. There was an announcement made—we have been told that the reductions have been made. Perhaps you could give us a note in writing about how many staff have gone, what grades they were in, what they actually did, what aspects of their jobs we no longer do and where the work has gone that still remains in the Department. There is a very strong concern that I have, and I have expressed to the Committee, that some of the basic admin jobs carried out in Abercrombie House have just been absorbed into higher-grade specifications, which means that we have people being paid big sums of money and who are meant to be delivering programmes—the jobs they have been recruited to—and their time is being spent on basic admin duties. If that detail could be supplied, I would be grateful.

Chair: That could be in writing.

Q70 Mr McCann: Writing is fine, yes. The question that I have is this. I know you have not given us a formal response to the Scotland report, but I personally was very concerned about a lack of interest, which appeared to me to be from senior management in East Kilbride, about the concept that the communications were not that good with both NGOs in Scotland and with press communications. It was summed up by the fact that a £9 million budget, which we allow the Scottish Government to spend, gets more publicity than the billions of pounds we spend on international aid. Can you give us a little sneak preview of what your response will be? Will you agree to our request for a bespoke communications unit being set up in East Kilbride?

Mark Lowcock: The Minister is responding next month to the report.

Mr McCann: Are you going to hold me in suspense?

Mark Lowcock: I am really sorry, Mr McCann. I am not sure what the Minister will be deciding.

Chair: It is a serious issue.

Mark Lowcock: It is a serious issue, which is why I am not going to give you an off-the-cuff reply.

Chair: This is politics and it is right that Ministers should reply. The high profile of the Scottish Government's little budget is ridiculous. The budget is agreed with DFID, which they do not tell anybody. They give the impression it is a spontaneous act of their own. It is a huge DFID programme that most people in Scotland know nothing about. They will tell you all about how wonderful the Scottish Government is in Malawi and will know nothing about what the UK Government does there.

Mr McCann: One MSP told us that they spend 0.7% of the Scottish budget on international development.

Chair: Can I also thank you for the changes that you have made to the report in light of the recommendations we had, which makes everything much more accessible? There were one or two other smaller points, which I do not think we have got time for, but I will put to you in writing, and obviously there are a few things that you have agreed to put back in writing. As always, it was a useful exchange—I hope from your point of view as well as from ours. We will obviously publish a report. Thank you for your answers. Clearly, you have had a huge increase in your budget. You have a huge task to deliver. You are operating globally. It is hardly surprising that you have problems here and there, but we would like to think that the relationship between us and the Department is mutually beneficial and that we actually help you deliver the job. I hope you will take, therefore, criticisms that come from this Committee as constructive.

Mark Lowcock: Thank you, Chair. I hope you will have taken from the answers that we listen very carefully to everything that you say and we think about it for the next year and the following year, so absolutely thank you.

Chair: Thank you very much and thank you, colleagues.

