



International Development Committee

Oral evidence: [DFID's Annual Report and Accounts 2013–14](#), HC 750

Wednesday 4 February 2015

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Written evidence from witnesses:

- [Department for International Development](#)

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Members present: Rt Hon Sir Malcolm Bruce (Chair); Fiona Bruce; Fabian Hamilton; Jeremy Lefroy; Fiona O'Donnell

Questions 1-61

Witnesses: **Mark Lowcock**, Permanent Secretary, Department for International Development, and **Richard Calvert**, Director General, Finance, Department for International Development, gave evidence

Q1 Chair: Good morning and thank you. Of course we know who both of you are, but I wonder, for the record, if you could just introduce yourselves.

Mark Lowcock: Good morning. I am Mark Lowcock. I am the Permanent Secretary at the Department for International Development.

Richard Calvert: Richard Calvert, Director General for Finance and Corporate Performance.

Q2 Chair: Thank you both for coming in for our annual exchange, at the end of a significant year, I guess. Your expenditure, unlike other Departments, has grown very substantially by about a third—£2.6 billion. What were the key problems in spending that amount of increase and did you actually manage to overcome them?

Mark Lowcock: Maybe, Chair, I could start by going through a bit of the process that we have been through to plan for that growth. As you will recall, in 2010 the Government set the budget for the Department for the period of the four years of the Spending Review. In early 2011, the then Secretary of State published the set of things that the Government had decided to do and achieve with those resources, the results that the Government were going to deliver with those resources.

As the excellent report from the NAO has set out for you, the Department then spent essentially two years, while the budget was pretty flat, planning for how to deliver all

those results and use the resources. We substantially grew the capability of the Department, hired hundreds of extra staff. We revised lots of our business processes. We developed hundreds of business cases, so that we had more good uses for the resources than there were resources available, so that we could deal with the ebb and flow of some things coming through and others not coming through. What that meant was we were ready to deliver, by the time the money arrived, all the results the Government wanted to deliver with it.

Having said that, when you do the set of things that we do in the places we do them, you always face a range of problems. Coming to the heart of your question, there is a set of challenges arising from simply the difficulty of delivering things in the countries we work, which is why we substantially increased the capability of our frontline teams in all those fragile conflict-affected states and revised our business processes, and so on. There is a set of challenges of managing lots of partnerships, because the Department is essentially a commissioning organisation; it works through others, whether they are the multilateral system, the private sector, NGOs, foundations and so on, or the Governments of the countries in which we work, so we had to build all the relationships to deliver all the things that we wanted to deliver.

Then there is the day-to-day of keeping all the projects on track. The portfolio of the Department, if you look at the resources the Government have committed to the 1,140 major projects we are financing, it adds up to something more than £40 billion, compared to about £25 billion two or three years ago. Just managing that great big portfolio of projects brings with it lots of day-to-day challenges.

In terms of the last part of your question, regarding what we did to deal with those problems, we come to the thing that has obviously attracted some attention in the way the world has viewed the very good NAO report, the in-year financial management challenges. We have to manage the whole ship within not just the budget the Government have set for the whole Parliament, but obviously the annual budget and then on the 0.7% target itself, which is a calendar-year target. That obviously creates an additional set of things we have to work within. A lot of the time, particularly the finance complex, which Richard runs, is making sure not just that we do all the delivery, but that we spend the money when we are supposed to spend it and we spend it on things that are going to be value for money and achieve the results that we are asked to achieve. Shall I stop there?

Q3 Chair: Yes, because I will push you with a supplementary. I take all of that; I think we understand that. What you see is—you will be aware of this kind of criticism—that as your budget grows, it looks easier to manage the flow of that budget by dealing with large contracts to large organisations, sometimes multilateral and quite often American. The challenge is: do you think it is a valid criticism that your propensity to deal with large suppliers is partly because of the administrative burdens of trying to sub-divide those contracts? Fiona O'Donnell will cover some questions about the complaints that smaller suppliers have about being shut out of a process and, more to the point, whether or not you are buying the best value for money and, even if it is not about value for money, the widest range of development outcomes.

Mark Lowcock: To deal firstly with the small and medium-scale suppliers and in particular the smaller NGOs, one of the great strengths of the UK as a country, not the Department, trying to support development is that we have thousands of institutions that

have a really valid role to play. The Government are keen to use the Department to harness the capability and facilitate the engagement of hundreds and hundreds of institutions.

Q4 Chair: Fiona is going to pursue that question. I suppose if I could ask you to answer the question the other way around, the implicit criticism in the NAO report was that, in order to meet the target, you tended to put more money through the usual large organisations. Do you accept that as a valid fact, and could it change?

Mark Lowcock: First, to deal with a subset of that on the multilateral side, it is absolutely true that we changed within the totality of the multilateral the balance of funding. It is not the case that everyone got the same increase in funding or a reduction. As you know, we left a number of multilateral organisations. The process that we had for that was the one the Government set out in the Multilateral Aid Review in late 2010 or early 2011, and then reconfirmed when we updated the Multilateral Aid Review in 2013. We looked at the effectiveness of organisations. We looked at how relevant they were to the objectives we were trying to achieve, and we focused our resources on the organisations we thought were most effective and most relevant. We increased our funding, for example, to the World Bank, which, through all our analysis—and everyone else agrees—is a highly effective organisation, and we put more money through the Global Alliance for Vaccines and Immunizations, where the big replenishment was announced last week, and through the Global Fund to Fight AIDS, TB and Malaria. Those were policy-driven choices to maximise the achievement of results. There was a range of other multilateral organisations where we did not do that. We cut back the funding or we left the organisation. The choices we made in that space—as the report says 36% of the budget in the last year—were policy-driven choices.

On the bilateral side, Ministers made some decisions in 2010 to make it easier to manage a growing portfolio with an organisation that has grown a lot over the last four years, but has a finite amount of administrative resources. As you know, the staffing of the organisation has grown about 25% over the last four years. Ministers took a decision to concentrate the effort of the Department in a smaller number of countries, so that we could make a substantial contribution to development in the countries largely with the biggest MDG burden. That was the thrust of the decision they took—not every country with an MDG problem, but a set of countries that, between them, had the biggest MDG problems.

That meant we were able to free up some other resources that had previously been put to work in other countries we were no longer in to concentrate on the effort in the remaining countries. If you look at the number of investments that we have—not just the size of investments but the number—the number has increased *pari passu* with the budget, in other words. It is not really the case, we feel, that we have stopped doing small things and only do big things. The data does not justify that anxiety. We have prioritised; we have prioritised in different ways. Richard wants to come in on this.

Richard Calvert: It is certainly the case that, as our budget has grown, some of our big investments have grown in line with that. That has been a very deliberate choice where we believe we have high-performing organisations that justify a significant increase. If you look down across other aspects of our budget—for example, if you look at our NGO funding over the last four or five years—we have worked very hard to increase the range of NGOs that can participate in that. There are a lot of NGOs now, particularly small ones, which would not have been recipients of DFID funding in the past that we have

reached through schemes like UK Aid Match and through the way that we have changed some of our core NGO funding.

Q5 Fiona O'Donnell: Could I just quickly ask what you define as a small NGO?

Richard Calvert: We would be looking at organisations where we would be giving grants of perhaps as little as hundreds of thousands, rather than millions.

Q6 Fiona O'Donnell: That is the grant though. In terms of the NGO, what do you define as a small NGO?

Richard Calvert: I do not have a hard cut-off, but if you look at the range of organisations that traditionally we have funded through PPA arrangements, they have been multi-million-pound organisations in terms of turnover. Through some of the schemes that we have developed in the last three or four years, we have looked to get to much smaller organisations. We can give you some data about the number of those and some of the examples, but it is really getting out of some of the organisations that are the core of the traditional development NGO community.

I just wanted to add a point on contracting as well, because a relatively small proportion of the overall £10 billion budget is spent on directly contracted services, but, even within that, we have tried to broaden the range of small and medium-sized enterprises that can benefit from our contracting. I think we are about 30% at the moment. We have done that partly through having framework agreements, which enable us to pre-qualify lots of organisations to do work for us, and partly through trying to just get out and broaden our supplier base. Again, it is true that we have some relatively large suppliers, but I do not think that means that we have not been able also to broaden the basis of small suppliers underneath that.

Q7 Fiona O'Donnell: One of the figures we have been given is that 60% of all DFID contracts are going to just 11 large consultancies. Would you recognise that you can do big things with a small organisation, and where it is about building trust and building relationships in country, often a smaller NGO is going to be better at that, so you are going to get better outcomes? How do you allow for that and where do you value that when you are making decisions?

Mark Lowcock: We absolutely recognise that, and I completely agree with the point you make there. To draw a distinction between the commercial and the non-commercial environments, if I may, there are a lot of small businesses that have a lot to offer in providing services in developing countries. The Government, as you know, have set a target that 25% of Government procurement should go to SMEs, across Government. We are one of the Departments that is accountable for helping out with that target. In fact, for DFID, the share of our procurement going to SMEs is 30%, so we are ahead of what the Government are trying to do in that space and we have brought in lots of new partners to work with us from the commercial sector on delivering development outcomes.

On the not-for-profit sector, it is absolutely the case that the Department's comparative advantage is dealing with the larger organisations. Our staff are not limitless, but we work really hard to encourage the NGOs to form consortia to draw in smaller organisations, so that we can, through intermediaries, reach very small organisations. We do have a range of schemes ourselves that are open to organisations of any size. Things like the Civil Society

Challenge Fund, which have grown in recent years, are supposed to be a window on to the whole Department. We have to do that in a way that is manageable within the size of staffing the Government have set for the Department.

Q8 Fiona O'Donnell: You mentioned, when you were answering Sir Malcolm's question, the thousands of NGOs and also commercial organisations—smaller ones within the UK—which have expertise, but some of them, such as ERIS, are now experiencing financial difficulties. The concern would be that we lose that skill and that experience within the UK. I notice the Minister is going to be visiting Scotland later this month. I think that is really welcome. NGOs and commercial organisations in Scotland are maybe not aware of the opportunities, but do you not share that concern that we are maybe going to see that diversity shrinking in the UK?

Mark Lowcock: First, on the issue of outreach to partner organisations across the whole of the UK, in my recent visits to Scotland I have been trying to do the same thing. I have had very good discussions with umbrella groups, and I am hoping next month or the month after, when I am there, to have a series of discussions with the not-for-profit and the commercial sector. We do feel that the more potential suppliers there are available to the Department, the better we will do in driving value for money. We want there to be as many partner organisations as possible, and we need to do better in outreach, communications, explaining the opportunities and demystifying the potential for working with the Department.

We have to be careful not to take on, as our main responsibility, the financial viability and health of the whole sector. We want the sector to be available to deliver stuff, but it is not really our responsibility to bail them out when things are difficult, if I can put it in those terms. I am aware that there are lots of pressures on a range of organisations. We have to be intelligent about that, but we also need to avoid making bad decisions for the taxpayer simply to support a particular organisation, as opposed to delivering some results for the development goal.

Q9 Fiona O'Donnell: I would just say that what you do see within those organisations sometimes are skills and expertise within a narrow area of operation, whether it is women and girls, human rights or some sort of issue that connects our Governments. You will see that expertise. The other thing, in our experience of visiting countries that receive aid, is that these organisations are sometimes more flexible and you can see more innovative work going on, on the ground.

Mark Lowcock: I completely agree with that. I absolutely agree with that.

Q10 Chair: We also have the same complaint in our “Parliamentary Strengthening” inquiry: that a lot of the money—a smallish part of your budget but an important part—was going to large American institutions, rather than British institutions. I know that aid is untied, but we felt that the balance did not seem to be right.

Mark Lowcock: This is a really interesting point on “Parliamentary Strengthening”. You published your report in the week before last and the Government obviously will reply. Ministers are thinking quite hard about this. First, there is about £250 million a year spent globally on strengthening Parliaments in weaker countries, about 10% of which comes from us, so I think we are doing our fair share of the overall effort. Your point about how

we can use British institutions, especially Westminster institutions, more effectively is a really good point, and we are looking hard at your recommendations.

Obviously, the way the Westminster Foundation for Democracy takes forward its forward strategy, both in terms of the wing of its work that is working through political parties and the wing that is not through political parties, creates a lot of opportunities. We think the work of Parliaments in the countries in which we work is growing in importance and the logic would be for us to play a stronger role in supporting that, using British institutions wherever we can.

Q11 Chair: The illustrative point is that managing those smaller institutions puts a pressure on you. We are just pushing that point that the impression is that when you are limited in the number of people you have and the time that they have—you have lot of money to handle—a smaller number of large contracts is one way of shortening the administration. We have supported you in the past on your staff and that has gone on a route like that, but we are wondering whether or not you need to have more admin capacity to be able to manage more of your own procurement, rather than subcontracting it to large agents, which the smaller operators then have to engage with and then often claim that they do not get a fair crack, they are top-sliced or quite often sometimes excluded.

Mark Lowcock: Let me have another look and see if I can establish if there are decisions we have taken to bundle things together for reasons of scarcity of admin cost that, if we were more generously staffed, we would have taken different decisions on. I do not think that that is the predominant thing that is happening, I have to say, but I will have a look at it in the light of the concern you are expressing.

Chair: You are squeezed on admin costs and then you are contracting it to organisations that have larger admin costs and better capacity. That is a bit odd. That is the point. Fiona, carry on.

Q12 Fiona O'Donnell: Could I just say: how often are these larger consultancies then subcontracting to smaller consultancies, taking a profit at that stage? Why are those smaller consultancies or NGOs not being successful in the first place?

Mark Lowcock: I understand the issue and we will have another look at it. I do want to try to provide some reassurance that we did not feel nearly as constrained in staffing over the last three years as when Minouche and I were coming and having this discussion with you in the 2007-10 period, when we felt very constrained. Most of the core decisions we have made have been focused on results, using the most effective organisations and prioritising the countries in which we work. I accept that there is an issue that we have not persuaded you on, on this point, so I am going to take it away and have a serious look at it. We will see where we get to.

Q13 Fabian Hamilton: Can I move now to the way that DFID funds multilateral organisations? What concerns me is that I understand that you now give 43% more in core funding to multilateral organisations—that is in 2013-14—whereas bilateral spending has gone up by only 33% in the same period. The proportion of your spending that you choose to give as core funding was 25% in 2009-10, but, by 2013-14, that had risen to 36%. I

wondered why there has been such a large increase and what you expect the level to be in the future.

Mark Lowcock: The origin of a set of decisions that Ministers took were in the Multilateral Aid Review and the Bilateral Aid Review in 2010-11. Essentially, we went through a process to look at 40 or so of the major multilateral institutions and decide what level of financing we wanted to give them to achieve the set of results Ministers wanted to achieve. That is basically the core process.

It is important again to make the point that we focus the resources, particularly the increased resources, on the good-performing institutions to maximise the development impact. The proportion of core funding I think will stay pretty static, on the basis of the pledges we have made to replenishments that will be discharged over the next three or four years, so I do not expect to see major variation in that. The process by which the Government will decide, during the course of the next Parliament, on the balance between bilateral and multilateral is something that Ministers need to take a view on after the election. One thing we are prepared for is to repeat the Multilateral Aid Review, so that when they are at least thinking about the multilateral element, they have good evidence on which to decide which organisations to provide what levels of support to. The choices were policy-driven choices to achieve a set of outcomes, essentially. Where we get to in the future will be the result of further analysis and decisions.

Q14 Fabian Hamilton: Thank you for that, Mark. Last year, you told us that the amount of bilateral spending through multilateral organisations was falling, but the NAO report shows that it increased in 2013 by over a third to £2 billion. What has changed?

Mark Lowcock: What I was trying to say was that the share of bilateral through multilateral was not growing. I think that is the case, but I will check the figures on that. The total budget in 2013, the year in which the big jump to 0.7% took place, was £2.5 billion bigger than in the previous year.

The reason we have been stronger, over the last four or five years, in delivering things in country through multilateral organisations is largely because of the set of countries we have moved into. We have moved largely to countries where we do not have sufficient confidence in the fiduciary framework in that country to deliver things directly through Government, so we are then left with essentially three major choices: we can find a delivery partner that is a multilateral organisation; we can work through NGOs; or we can contract through the private sector. In the fragile and conflict-affected states that we are talking about, all of those elements have grown over the last few years.

What we are trying to do is start from the question: what is the problem we are trying to help provide a solution for in this country? Is it educating more girls in northern Nigeria? If that is what we are trying to contribute to, what is the range of delivery options? In that case actually, we have done some things through UNICEF; some things through a really well performing private-company-led consortium of businesses and NGOs, which are delivering benefits for millions of girls in northern Nigeria; and some things directly through contracted NGOs. What we are always trying to do is to find the best delivery partner to solve a particular problem. There is no ideological or doctrinal preference. We are trying to have competition between delivery partners to get the best results.

Q15 Fabian Hamilton: You also told us last year about the changes you were making to improve the value for money provided by multilaterals when they manage bilateral aid. What evidence do you actually have now on the impact that those changes have made?

Mark Lowcock: We published an update in late 2013—I am not sure if it was before or after I was here last time—of progress across the set of multilateral institutions. When we did the first round of the Multilateral Aid Review, we agreed an agenda of action points with each agency on what we wanted them to do better on value for money. We then in 2013 came back and reviewed that again and we published, for each agency, an assessment of what they have made progress on, what they have made less progress on and what we wanted to see again in the future. For each agency, the detailed answer to your question is available in the public domain.

Let me give two or three highlights of things we have seen some progress on. The first is we do see progress in a stronger results culture and a focus on asking the question: what are we getting for our money in this institution? For example, they all have better management information, which they publish and put into the public domain, about what they are achieving. The World Bank, for example, has a much stronger, balanced scorecard setting out its achievements and results, so that is open to scrutiny; you can have a better discussion on it.

Secondly, a lot of them have made progress in containing their administration costs and driven down their share of admin costs in their total budget. I have given figures to the Committee before about that: 5% cuts in admin costs, year on year, across a range of especially UN organisations.

Thirdly, a lot of them have made some progress on the effectiveness of their procurement systems. One of the things the Department has been collaborating with a number of multilateral organisations on is driving down the costs of some key commodities. There is international recognition for that. For example, the programme we did with UNFPA and others on injectable contraceptives for women—driving down the costs of that in procurement—won an international prize for the effectiveness of the procurement. Last year, our procurement team got given a prize for work they did with the Global Fund on driving down the costs of Global Fund commodities. That is making the money go further, because we have contributed to reducing the cost of a bed net by a third, so we can give them for the same money to 30% more people. That has been another important area of progress.

Having said all of that, we have a number of continuing concerns that I would say are generic. One is whether there is a sufficiently strong culture of effective fiduciary management, thinking about risk and recovering losses, when losses occur. We would like, across many of the agencies, a greater degree of confidence that they are across that more effectively in the way that we feel we now are in the Department. There are then, for each of the agencies, some things that are specific to them that are not generalisable, but this whole agenda of much stronger scrutiny of the effectiveness of these agencies is one that the UK has played a leading role in, not least because of scrutiny from you and the Public Accounts Committee. The Department has been much more on this and, internationally, others have come on to it to a greater degree as well. I am sure it is going to continue and it needs to continue.

Richard Calvert: It is important to remember as well that, if we are contracting a multilateral through our bilateral programme on a specific project, then that is subject to a close degree of scrutiny by the project team. All our normal project oversight and scoring processes would apply to that. There is one set of agendas that Mark has described around

the overall performance assessment of multilaterals at agency level, but then in terms of all the activities that we directly fund, we have a much closer degree of oversight, scrutiny and challenge. If you are looking at the overall performance of our funding that is channelled through multilaterals, you need to look at both the core funding, but also the scoring of the individual activities.

Mark Lowcock: This is an important point that I am grateful to Richard for flagging. One of the worries that you might legitimately have is, as the portfolio has grown and as you have more money to look after and a larger number of projects, whether the average success of projects is falling. In the annual report, we have given you data on what is happening to the portfolio quality, as we would call it. Actually, it has held up extremely well; it is basically static through the period of growth. The bilateral portfolio in particular—this will speak to one of the things I know you feel—has held up particularly well. It has been very important for us to focus on the risk that, as we have more money, we spend it less wisely and our portfolio declines. There is no evidence of that happening.

Fabian Hamilton: That is very reassuring, thanks.

Q16 Chair: Can I turn to your humanitarian assistance and support? That has grown pretty substantially. Our information is that it was 8% in 2011-12 and went to 16% in 2013-14. In 2013, the UK accounted for 13% of all humanitarian assistance provided by DAC countries, which is up a half over four years. We have asked this before, to be honest, and we have asked Ministers and not got a very straight answer: what should it be? We appreciate that it is politically acceptable to support crises and, therefore, if you have a rising budget it is a good place for it to go, and we appreciate that you cannot predict what they are going to be, but we still feel you must have some kind of area of what you can and cannot do, and at what point you either have to say no, give less or take it from other programmes. What do you think it should be?

Mark Lowcock: The first thing to say on this is you mentioned the DAC. One of the things the DAC said to us in their peer review that they published at the end of last year is that the UK plays a very significant role on humanitarian, and we are highly regarded by the international system for that. The DAC says that DFID humanitarian staff are widely perceived as supportive and highly competent, and we provide high-quality funding to partners in multi-annual, predictable, fast and flexible ways. One of the reasons we do a lot of humanitarian is that we have a track record of doing it well and it is a priority for Ministers and the Government.

On what has happened to the humanitarian spend of the Department over the last two years, the first thing to say is there has been a very noticeable spike in humanitarian burden, need, since 2013. We have had the Arab Spring; the really massive humanitarian burden caused by the civil war in Syria spilling over to many neighbouring countries; we had Typhoon Haiyan in late 2013 in the Philippines; and since the second half of last year, we have been dealing with the world's biggest ever known health pandemic in the Ebola crisis. The first driver has been a spike in humanitarian need, and this is something that the whole international system has been having to deal with—the US Government as well. We, the US and the EC humanitarian office are the biggest financiers of humanitarian response. We have all had a big spike in need to respond to, and the decision-makers in all those systems have decided, “We have to respond to that, even if it is at the expense of other things.”

We do, as you say, have a rule of thumb for the level of effort on humanitarian. The UK has met about 10% of the global humanitarian response over recent years in a consistent way and Ministers have said the Department should plan on about 10% of our activity being on humanitarian.

Q17 Chair: It has been above that in the last couple of years.

Mark Lowcock: It has gone up and down and, equally, there have been some years, 2011 and 2012, where it was below, because the needs were not as acute in those years. It varies according to need and Ministers decide in each case how big a response they want to have. It is absolutely the case that the Secretary of State feels quite strongly that this is something that the Department is good at, the needs are very acute and it resonates with the public, so it is an important thing for the UK to contribute to.

Q18 Chair: It is a bit like Cinderella. The Committee sometimes is concerned, if I am blunt about it—and you do not have to comment necessarily—if Ministers to say, “We’re responding in this way. Parliament is asking to do it; the public is expecting us to do it.” That gets them a rosy glow, but if we find out afterwards that it is at the expense of a long-term development programme that has not got the funding that it would have done, then that is a point of concern for this Committee. We have a duty to defend that.

Mark Lowcock: If I may, Chair, I would just like to say on that that, unless you deal with acute humanitarian problems, your whole development effort can be undermined. Candidly, unless we had come to the rescue of Sierra Leone, it would have been impossible for Sierra Leone ever to get itself back on its feet. Likewise with South Sudan and Somalia, unless we deal with the humanitarian situation, you cannot get on to the development agenda.

Chair: I think the Committee would accept that. The countries that you name are countries that DFID is engaged with in any case, but the Philippines is not a country that we have been traditionally engaged with. Of course the crisis in the Middle East is acute but, nevertheless, they are not priority countries for DFID or would not have been; they are middle-income countries. That does not mean you should not respond, but you can understand that the Committee is saying, “That’s fine, yes, and the countries you named are absolutely our central concern, but why are we taking more of the burden and does that not compromise some of the other development activities?” By definition, if the money is going there, it is not able to go to directly managed programmes, bilateral programmes, global funds or whatever.

Q19 Fiona O’Donnell: This is going to link in to my next question as well, but I take your point, Mark, that you are not going to get children in school and reduce maternal deaths if you are not investing in humanitarian aid, which are among the MDGs. Why, then, in the Central African Republic has the decision been taken to halve humanitarian aid, when the crisis there is escalating and we are more likely then to have to spend more in the long term and to miss the MDGs in that country?

Mark Lowcock: It illustrates the prioritisation challenge. We could have had a bigger response there, but then that would have had to be at the expense of some other development programme somewhere else. We are always managing those trade-offs. We have been looking at strengthening the Department’s capability to look across the range of

all of the humanitarian needs at a time, prioritise and try to focus on the ones where we think the need is greatest and we can make the biggest contribution.

I have been having a series of conversations with Valerie Amos, the UN's Emergency Relief Co-ordinator, about this, because there is a need for a stronger global prioritisation and agreement in what, in any year, the humanitarian burden is and how best to prioritise available resources against it, at a time when the need seems to be growing and the resources are not growing. Unless we plan, manage and prioritise better, we are not going to do as well as we should aspire to do in meeting these humanitarian needs.

Now, CAR is a case where we have provided a response, but we had lots of other things that were coming on to the agenda as well. We had to, with a fixed budget and a lot of other things we were trying to do, prioritise. My responsibility really is to make sure that the set of needs is properly understood and then Ministers can take a set of decisions in the round and decide what they want to prioritise. As I say, the outside reviewers, the DAC in particular, basically thinks that the UK is quite strong at doing all this kind of thing. If there is a case when we have done too much on humanitarian problem X and not enough on the CAR, I am happy to look at that, but that is not the normal critique that is made of us.

Q20 Fiona O'Donnell: You said earlier that departmental spending is prioritised according to achieving the MDGs. Spend in Africa has been reduced and it is increasing in Asia. You probably cannot answer this question, but the feeling could be that we are starting to spend our aid on considering British influence and security, rather than how we reduce poverty. In the evidence that we had from the NGOs, they said that, if we want to end poverty by 2030, we need an increased focus on Africa, but the Department is decreasing its spend in Africa.

Mark Lowcock: I am not sure where this view that the Department is decreasing its spend in Africa is coming from, actually.

Q21 Fiona O'Donnell: It fell by 4% in 2013 to 54%.

Mark Lowcock: In 2013, we spent £4.6 billion in bilateral official development assistance to Africa. That compares to £3.7 billion in 2012. For 2014, we have not got the final numbers yet, but it will be in the ballpark of £4.5 billion or so, so a substantial increase on the previous run rate. As a share of the total—and the pot is growing—Africa is 55% or something. That will also remain pretty static on the basis of the forward plans we have done.

That is not to say that we are not doing important things in Asia as well, but if you look at the countries with the biggest MDG burden and then you compare that with the allocation the Minister decided of the Department's resources, there are very few other development organisations, if any, that have as strong a correlation between MDG need and resource allocation. Indeed, we have a very strong focus on places with a very high MDG need—education in Pakistan, for example, or lots of things in Nigeria—that are largely ignored by many other donors. Lots of things we do on the MDG front are compensating for the less optimal resource allocation, we think, from other providers of aid.

Q22 Fiona O'Donnell: The increase in aid to Asia in 2013 was 42%, not of the total pot but in terms of what went to Asia. Can you tell us how much of that went to low-income countries or least-developed countries?

Mark Lowcock: I do not have that data on me. Can I write to you about that?

Fiona O'Donnell: Yes. It would be interesting in terms of countering that feeling that the priorities are shifting.

Mark Lowcock: I understand the point. If you look at the Department's programme in Asia, the big recipients are India, although the programme there is being wound down quite fast, Pakistan, Bangladesh, Afghanistan and Nepal, and then in 2013, because of the typhoon, the Philippines. A quarter of the population of the Philippines, by the way, live on less than \$1 a day, so there is a high poverty burden in Philippines, which is one of the reasons the typhoon wreaked such havoc.

Q23 Fiona O'Donnell: The decision in India does not take account that most of the world's poor are in middle-income countries, so you cannot use that argument to stop spending in one area and then to approve spending in another.

Mark Lowcock: The other point I would just like to make is we decreasingly feel that the category "low-income/middle-income" is a good representation of where the MDG burden is, because you can be just above the threshold and have a massive MDG problem, which is the characteristic of one example you have just given. I have given the examples of Pakistan and Nigeria. If you really focus on the MDGs, you need to look country by country, rather than by income classification.

Q24 Jeremy Lefroy: I do apologise; I had a Bill Committee that has only just finished. The DAC peer review echoed the IDC's findings in the Sierra Leone report that country offices are not systematically consulted on central programmes—something we felt quite concerned about when we realised there were central programmes in the country of which we were not aware. There did not seem to be much co-ordination between the local office and the central programme. Could I ask how the new protocol for engaging country teams is working on that and what feedback you have received from country-based teams on the interaction with centrally based programmes?

Mark Lowcock: The Secretary of State talked to you a bit about this when she was here on 11 December, and the Minister also, in the Westminster Hall debate on 11 December, set out the set of things the Department was putting in place to have both better engagement between the country teams and the central Department, but also much more transparency. One of the things the DAC said is that, in general, we do have a very strong results system and they say we are a top performer on transparency. We have made a tremendous effort to be open about budgets, programmes and intended results, but it is a fair criticism that this area of what data we provide about how resources we channel through multilateral organisations or other centrally managed programmes get to countries is an area for improvement. Basically, we are in the middle of putting in place a number of things, and we will provide the data on this in this year's annual report, the 2015 annual report.

First, there will be better projections, much more up to date, of how resources we give, whether it is the Global Fund to Fight AIDS, TB and Malaria or GAVI, end up in which countries. They are usually two or three years behind in the data. We will use the raw

material and project forwards, so we will provide data for the same year for the multilaterals as we do for the bilaterals, albeit they will be projections. We are also building a new aid management platform to aggregate all the data across the whole organisation and make it more transparently available. Richard can say more about that, but the prototype will be up and running later in the year.

Coming to the other part of your question, we clearly have a set of processes and protocols about engagement between the country team and the headquarters, about making sure everybody knows what is going on, where, that we are financing, and is engaging, if they are in the country, appropriately with the relevant organisations. In the set of visits I am doing over the next few weeks, I am going to be testing that out to see whether what we are doing to try to ask people to follow things in a different way is having an impact at the country level. In some places, I can see it already. I was talking to the team in Zimbabwe a couple of days ago, and they were giving me quite a detailed briefing of what is going on through the Girls' Education Challenge there. I know it is starting to happen, but it is a work in progress and we will give you a full report in this year's annual report about how we are getting on.

Richard Calvert: In terms of the transparency of this, the Committee will know that, as part of our transparency work, we have set up the development tracker system on our website, which means you can go and look at our interventions by country, by sector or by project. That gives us a tool that we can use to build up a complete picture of interventions country by country. We have already starting bringing some other Government Departments' spending on to the development tracker. We can load on to that data from centrally managed programmes as well, so we have a very simple tool.

Earlier in the session, we were talking about the overall pressure on departmental staffing resources. For us, the key to this is how we generate the data in a way that is resource-efficient and simple, and requires data to be entered only once. We now have a good tool, which is publically available, which we can use. Over the coming months, as Mark says, we are just working through the different central programmes to see how quickly and easily we can get the data available.

Q25 Jeremy Lefroy: What we were concerned about was not just the data, although that is extremely important, but management and the fact that you might have bilateral programmes locally managed by DFID offices and centrally managed programmes, of which the DFID offices might be fairly vaguely aware of what is going on. There might be potential conflict in there, if they were operating to some extent at cross purposes. Certainly, my view—I do not know if it is the Committee's view—is that the country manager should have a firm grip on everything across the board, not just DFID, but FCO, Defra and DECC ODA-financed programmes that are going on in the country. It is logical that the DFID country manager should take, if not ultimate line responsibility, certainly some kind of responsibility for all ODA programmes within the country. I do not think we saw that and I would really like to understand whether we are moving towards that and whether there is cross-departmental agreement that that needs to happen, or whether possibly other Departments have not yet signed up to that.

Mark Lowcock: There is work going on at the moment. ICAI is doing a report about how ODA managed by other parts of Government is going. As you know, those budgets have grown. As a share, they are still quite small of the total ODA, but they have grown and

they are quite significant. It matters that it is well spent and that we have a proper overview of it, so I would be interested to see what the external assessment of that is.

Certainly, we have had quite energetic processes, for example, on the Conflict, Security and Stability Fund, the first year of which is about to begin on 1 April, having taken over from the Conflict Pool with £1 billion in that pot. It is very energetic, cross-Government, priority setting, resource-allocation setting, with permanent secretary collective supervision of the choices being made and engagement with the National Security Council on whether they are the right choices. That is a really big pot.

Likewise, we have a quite well governed process, effective and energetic process around the International Climate Fund, where we and DECC are largely the main Departments. We have done one-off special exercises with the MOD and the Home Office on ODA in their budgets, looking at what the priorities are, how resources are spent and how we can work together better. There is a forward agenda with the FCO, whose ODA budgets have grown quite significantly, where the Secretary of State is keen for us to do some work on that as well.

When you come then to the country level, a lot of the ODA that is spent by the Government Departments is not spent in the core DFID countries. A lot of it is spent in other countries, so we will not have the same oversight there. Where we do, I have a lot of sympathy for your view that we need a good sense of it and a good grip on it. We have put in place some processes in the Department. For example, the Secretary of State, Alistair Fernie and Stefan were talking to you last week on the “Jobs and Livelihoods” inquiry, and she was talking about the growth diagnostic. That is a process that is run jointly by the country office and by the private sector department in London, so there is a lot of join-up on that and that is quite an interesting model for generally ensuring good information flow.

All of this comes at the cost of how civil servants spend their time, so it needs to be proportionate. If they are doing that, they are not doing something else, but, at the margin, they should be doing a bit more of this join-up work, and I welcome your interest in it. We need to make progress.

Q26 Jeremy Lefroy: Can I then move on to the Bilateral Aid Review? In your evidence, you say that centrally managed programmes include £2 billion worth of bilateral programmes managed in the UK. Could I ask to what extent those programmes were properly covered in the Bilateral Aid Review and will be in the future?

Mark Lowcock: I am not sure exactly what that reference is to. I think it must be to things like the Girls’ Education Challenge, the research programmes and so on—civil society funding. The Girls’ Education Challenge was set up only after we did the Bilateral Aid Review, so that, by definition, was not covered in the Bilateral Aid Review.

Q27 Jeremy Lefroy: In the next Bilateral Aid Review, how will it be covered? Will it be covered as a bilateral programme or as a multilateral programme?

Mark Lowcock: There is a choice there for the incoming Government about how exactly they want to do that process. I would certainly favour a process that looks at all the activity funded by the UK from aid resources in a particular country, and looks at it all in the round, and not one that is just thinking about what the country team is going to deliver. There will be a number of planning process choices to be made after the election. A lot

will depend on the priorities the Minister of the day sets and how they want to do it, but, certainly from a management point of view, we would want it to be holistic and comprehensive, in the way you have described.

Richard Calvert: It is worth saying that much of the results framework that we have put in place in February 2011, at the end of that period of Multilateral and Bilateral Aid Reviews, incorporated results being delivered through those centrally managed programmes. We see them as a core part of our delivery and, as we report our results, that should be apparent.

Q28 Jeremy Lefroy: Thank you. If I could come back on that, the centrally managed programmes accounted for £5.7 billion spending in 2013-14, which was over half the budget, but they were major contributors to only three of the 20 key results. Why is there such a mismatch between spending and results there?

Mark Lowcock: The big blocks you have talked about there are the core contributions to multilateral institutions, and we report the results on those separately from the departmental results framework. On page 4 of the annual report, we have produced a one-page summary of the headline results. The first half of that page is on the direct delivery through the departmental results framework, but the second half is all the results through the multilateral organisations, so we absolutely do track the multilateral institution results delivery as well. Later in the annual report, there are 20 pages or so of results, data and analysis, and performance data, picking up again some of the questions Mr Hamilton was asking me about value for money. The DRF is just a slice of the total results reporting system we have. The multilateral we also do, and pay a lot of attention to, and report on in the annual report.

Q29 Jeremy Lefroy: Just finally, a question we have raised before: we are concerned about two things really—the potential loss of expertise within DFID and also the need to have a challenger organisation. We have suggested before and we would suggest again that DFID considers some kind of arm's length consultancy being set up, owned by DFID but operating at arm's length, which could provide some kind of challenge and potentially cost control over the management of some of these very large centrally managed programmes, not necessarily to win all the bids, but at least to provide a challenger and also an opportunity for DFID staff to work at arm's length basis, or ex-DFID staff, within the DFID ambit, so that their skills would not necessarily be lost—a little along the lines of CDC in the private sector.

Mark Lowcock: You had a really important discussion on this, Mr Lefroy, with the Secretary of State. I cannot remember which session it was—last week or on 11 December. We are absolutely thinking about that set of issues following you raising that with her. It is on the to-do list. I am not in a position to make any commitments to you about it, but I would say that one of the big takeaways for us of your future-of-aid reports where, Chair, you were quoted as saying the UK has a fantastic array of institutions of all sorts, with great expertise that is relevant to developing countries. Essentially, what you were saying was, “Why does the Department not work harder to convene, facilitate and put all that capability and enthusiasm to work?” We have a lot of sympathy for that, and the Secretary of State has been talking to us about how exactly we can do a better job on that.

It is one of the big takeaways for us from the Ebola crisis. Dozens of British institutions, a lot of them in the health sector but not only, have come forward with their people, made a big difference and want to keep helping. It is exactly to your point, Mr Lefroy: that is part of a much wider concept of Britain's contribution to development, where maybe in the future the Department needs to play a stronger, more facilitative role for that whole wider system, not just the things we are directly delivering ourselves. It is absolutely on the agenda.

Q30 Jeremy Lefroy: From our point of view, it enables people to perhaps continue with their careers in a slightly more distinct consultancy role outside the ambit of DFID, but nevertheless, within the public sector ethos and public service ethos.

Mark Lowcock: Yes, exactly so.

Q31 Fabian Hamilton: The NAO report says that the Department added or rescheduled activities in 2013, 2014 and 2015, so that the ODA target could be met. The Adam Smith International organisation told us that the ODA target and your financial-year budget leads to spending either being speeded up or slowed down, disrupting programmes and diverting management attention. Do you think that chopping and changing your plans to meet the ODA target actually makes sense?

Mark Lowcock: Let me say a couple of things on this, Mr Hamilton, and then ask Richard to supplement it. The NAO report is a very good report and it does a good job of explaining the way in which the Department goes about managing the finances, both to deliver the results we deliver, but also to live within the financial-year and the calendar-year constraints. What would be a matter of deep concern would be if, in order to hit the 0.7% target, we were either paying bills before they were due or we were choosing to do things that were poor value for money. It is really important for me to just make the point that the NAO report does not raise either of those things as a concern.

What it says is—and it is right—that it is complicated for the Department to manage the finances and the finance team, which Richard supervises, has to work really hard at the two year-ends to make everything run smoothly, but the problem is not that we are picking bad things to do with the money or we are paying bills before we need to pay them. Indeed, one of the things that we have illustrated for you on page 47 of our own annual report is that, for the 2014-15 year and the year we are about to go into, we have substantially more good things to do with the money than we have money available. That does mean we make choices and sometimes we make the choices late in the day because, for example, in November 2013, we had a great big typhoon to deal with.

It is absolutely the case that we are juggling lots of things often at the year-end, but it is not the case that there is any evidence that we are making bad choices as a result of that. We are making choices between good things that are going to make a big difference to the lives of very poor people. It is a question of which good thing we are going to do and exactly how we are going to phase it, but let me ask Richard.

Q32 Fabian Hamilton: Let me be clear. I was not implying that these are bad choices, but simply that they are disrupting the way you manage the system.

Richard Calvert: Government Departments live within annual control totals and have done for as long as we can all remember. The idea of managing to year-ends and managing activity within annual control totals is not new. What managing against the 0.7% target has done is give us two points in the year when we need to manage our spend, but the fundamentals of managing within an annual cycle are not new.

Aside from the things that Mark has said, that fundamentally what has driven our choices is value for money and not paying ahead of need, the key for me is if we could build up a strong enough pipeline in time for the scale-up of the budget in 2013 and the maintenance of that beyond, could we build up a strong enough pipeline that gave us enough choice and contingency to make sure that we could cope with the inevitable uncertainties which there would be, and there were in the autumn of 2013 and there were again in autumn 2014 as well? Did we have enough choice to be able to adapt our programme, and did we have enough mechanisms to enable us to avoid that disrupting the delivery of programmes on the ground?

As the NAO report correctly points out, there are some instruments that we have, particularly around promissory note deposits for the multilaterals, where there is some flexibility around any period, whether you make it the calendar year-end or the financial year-end. There is some flexibility around the precise amount that we would deposit. We do that within agreed limits, which stay within the agreements we have with the multilaterals and the need to not pay ahead of need, but there are some instruments that we use that will give us a certain amount of flexibility at year-end that do not impact on delivery on the ground.

What we want to avoid as far as possible is having to really have an impact on the programmes that we directly manage. That is not to say we do not change our plans in year. We do. We have for many years, as Mark has implied. There are programmes that, irrespective of delivering against a calendar-year target, will have problems; there will be other areas of need that come along and we will need to adjust our plans. Underneath all of this, the real key for us, and it goes back to the very first question at the start of this session, is around the planning that we undertook since 2010 to build up the capacity in the pipeline to give us a prospect of delivering 0.7% in a way that represents really good value for money and delivers results.

Q33 Fabian Hamilton: Let me try to be helpful. The NAO says that the UN resolution does not require 0.7% to be achieved each and every year, so we have previously suggested, as you know, that a rolling three-year average would give a little bit more flexibility to the Department. I wonder whether you could tell us what you think the benefits and the disadvantages would be if the target was defined a little more flexibly, as you have suggested.

Mark Lowcock: The first thing to say on this—and actually Fiona Bruce asked me this question two years ago—is our job is to hit the target the Government say is the target. At the moment, what we are asked to do is hit 0.7% each year and every year. In fact, that is also the effect of the Bill that is going through Parliament at the moment, so that is what we are going to do. Let us then come to other ways of dealing with this issue, if you like.

Q34 Fabian Hamilton: That Bill is not law yet and may never become law.

Mark Lowcock: Indeed, quite so. Either way, the Department will do what it is told to do; that is my core point. There are a variety of different proposals made along the lines that you have described, Mr Hamilton, and the precise specification makes a big difference. If you take a rolling three-year programme, what that means is for years one and two you have a lot of flexibility. In the third year, by definition, you have to hit a precise number, because it is the end of the rolling three-year period. In the fourth year, you also have to hit a precise number, because you are dealing with what you had in years two and three. In the fifth year, you are dealing with years three and four. In a rolling programme, you get the benefit in the first year and possibly the second year, but not at any point thereafter. You are locked in after that.

There are other proposals. You were quoted, Chair, as saying, “Well, what about a two-year thing?” and I took you to mean not rolling, so you take each two years at a time. We could do that if that is what we were asked to do. There you would get a benefit in the first year, but no benefit in the second year, because the total would be determined for the second year by what you did in the first year.

What we feel, as management in the Department, is that actually 2014, the second year we were doing 0.7%, went a bit better than 2013. We feel we have got a handle on this. It is true that the GNI number has changed late in the day and there is not much we can do about that, but the level of those changes is not such as to create major problems for us. As I say, the Department will do what we are told to do, but this does not feel to us like an enormous problem or difficulty. It feels like something that is basically manageable.

Richard Calvert: Just to add a couple of points to that, now we have reached 0.7% and we are into delivery of 0.7% at a broadly consistent level, there is a lot to be said, from a departmental management point of view, for keeping a steady budget. It comes back to the point about living within annual control totals anyway. We are going to have to live within an annual financial-year control total. From my perspective, having that broadly steady and then just managing 0.7% within that is more straightforward than having that zig-zagging up and down, particularly having late adjustments because maybe you have undershot or overshot in a previous year.

As Mark says, the one thing that we cannot control and do not seek to control is what happens to GNI after the year-end. We can plan to spend 0.7% on the basis of the best estimate of GNI at the end of December, which is what we do. What you saw for the 2013 numbers is the ONS assessment of GNI has changed twice since then. It changed in March, which gave us a number of 0.72%; it changed again in October, which reduced that to 0.71%. There is not a lot we can do about that. We can plan and deliver 0.7% on the basis of the best available data at the end of December.

Q35 Fabian Hamilton: I know it is against DAC rules, but would it make any difference if you changed the accounting period from calendar year to financial year? Is that an irrelevance?

Richard Calvert: You say yourself it is not the way that DAC scores it, so it would give us a problem in terms of the international credibility and comparability of our numbers, which is a bit of a killer argument. It would make a marginal difference to managing to one year-end rather than two, but, to be honest, it is manageable under the current system, with that one proviso that what we cannot do is legislate for what happens after December.

Q36 Fabian Hamilton: I understand that point, but have you spoken to DAC about this at all, or are they just adamant that it should be the calendar year?

Richard Calvert: There is a debate going on at the moment about the ODA scoring rules and different ways to change those and modernise those. The problem is you are dealing with a set of DAC members who have a whole series of different financial year-ends. Although it might suit us to say, "Let's shift it to the end of March," there will be another bunch of countries for whom that does not work, so I rather suspect the calendar year is where we are going to stay.

Q37 Fabian Hamilton: Everybody agrees on the calendar year.

Richard Calvert: Yes, it is the lowest common denominator.

Q38 Chair: Just a small point on that, although it is a big point in money terms: the graph we have shows a huge spike in November/December, 40% going out then. First of all, are you satisfied that managing that does not take your eye off delivery? Perhaps more to the point, if you are committed to that extent, what if there is a crisis in that period? How can you respond to it if you are so boxed in?

Mark Lowcock: Richard should add to this, but just a few things: first, those numbers are a little distorted by the fact that there are some bills we get that always come in, in December. Our roughly £1 billion-a-year bill for the EC attribution always comes in in December.

There are then some other things that we have decided for many years to keep to the end of the calendar year for reasons of flexibility. Deposits of promissory notes, which the NAO report again gives a good description of, for the Global Fund to Fight AIDS, TB and Malaria and the World Bank, are concentrated to the back end of the year. Actually, because the promissory note is just a firm commitment to pay, but not the transfer of the cash, it registers as expenditure, but the taxpayer does not foot the bill until it is drawn down over a period of years. That is actually quite a good way of creating flexibility.

The third thing that has been a feature, certainly in the last two years, has been, by happenchance and fate, there have been big humanitarian crises that have crystallised right at the end of the year. The typhoon led to a spike in November/December 2013. What you will see at the end of 2014 is again a spike as a result of Ebola. That has been happening as well. When you strip all that out, there is a bit of a surge late in the year, and we are working on how we can deal with that better, but it is not as acute as it looks in the picture. Richard should add.

Richard Calvert: That covers the key points. Many organisations have an end-year peak in spend. For us, if you went back more than five years, you would find there tended to be a peak towards the end of the financial year, for a lot of the same reasons that Mark has described. Some of that spend has been concentrated in November/December. For me, the thing that I most want to look at is the underlying bilateral spend and whether there are issues there that we can unpack around why some of that is peaking towards year-end. For some of the big multilateral payments, there may be choices we can make around moving those within the year. To be honest, I think the issues there are as much if not more

presentational than they are about substance. When we score against our budget, our contribution to the EU budget makes very little practical difference on the ground to anyone.

Q39 Chair: If you only have 10% of your budget left for the last quarter and something happens, how do you deal with it?

Richard Calvert: That is really back to the point about the underlying bilateral spend. We have seen the underlying bilateral spend weighted more towards that final quarter of the calendar year, rather than the final quarter of the financial year.

This is a challenge we absolutely accept. It is one we are grappling with at the moment. When we set the level of budget that we expected to deliver by the end of December, we looked in detail at all the significant payments projected for the first quarter of the 2015 calendar year. We went through every payment over £2 million with the teams to say, “What’s this about? Is there enough contingency?” We looked with the humanitarian team at what flexibility we have, and it is tight in the first quarter of 2015; that is absolutely the case. We believe that, unless there is a really substantial unforeseen new requirement, then we have enough flexibility to manage the budget.

Now, in a way that is always the case. The nature again of annual targets is there can be a point towards the end of the year where, if there was another huge humanitarian crisis—if there was another tsunami—then the Government has to work out how it is going to respond to that. That may mean we need to talk to the Treasury about the implications of that, but, that on one side, we believe we can manage the final three months of the year.

Q40 Jeremy Lefroy: I have a very quick one on this subject. With promissory notes, if you are issuing them, let us say in December, for instance for the Global Fund or GAVI, do you issue a promissory note based on a year’s expenditure? For instance, if the top-up of the Global Fund was £1 billion, would you issue the promissory note for £330 million because that was a third of £1 billion or would you issue it for the whole three-year period and then just charge it to the financial year in which the promissory note was issued? Coming back on that, are there cases where promissory notes are not drawn down and, therefore, the money comes back in and potentially has a distorting effect in future years?

Mark Lowcock: The system is different institution by institution. Basically, the point of a promissory note is that it gives the receiving institution a high degree of confidence that they can commit the resources, because what they do not want to do is have a flaky, unbankable promise from some contributor, commit the resources to programmes and find they cannot get the money. That is the point of the promissory note. The decision we make about the size of promissory notes and when to deposit them for each institution is largely about the level of commitment authority they need, and it varies institution by institution, and replenishment by replenishment. For the Global Fund, for the £1 billion, in fact we deposited a note of, I think, £450 million the first time, because we wanted to frontload their commitment authority.

Now, turning to the other end of your question, there are two bits of that. The cash drawdown is basically determined according to the liquidity needs of the institution, which is different from the commitment authority. They are cash needs. What we have been trying to

do, over recent years, is drive down the liquidity in lots of these institutions, because we thought they had more liquidity than they needed, so we have been extending the period over which, on average, promissory notes are drawn down. We have also slightly changed the terms of some of the promissory notes we have deposited. They used to be all fixed drawdowns; we have now tied them more to liquidity needs. In that sense as well, we have been tightening up the system.

Lastly, if the institution turns out never to need the money—I do not remember cases of that, actually—what tends to happen if the funds are being disbursed more slowly than you expect is you delay the next replenishment, so you do not top them up. If they turned out never to need the money, yes, there would be a claim. The effect of that would be to reduce the amount. It would be negative ODA, I suppose, but it would reduce the amount of new cash that would otherwise be needed in a non-ODA-target world, so it would be of some benefit to the taxpayer. That is basically how the system works. Have I left anything out?

Q41 Fabian Hamilton: One thing I forgot to mention when we were talking earlier about financial years and so on is that we were quite surprised that it was not until the spring of 2013 that you had detailed forecasts for your calendar-year spending, and then you had to add additional activities in at very short notice to hit the ODA target. I just wonder why you do not prepare forecasts at the start of the calendar year and what you are doing to improve your forecasting.

Richard Calvert: The point that the NAO flagged up is that we ask all our finance managers around the business and spending teams to put in place month-by-month profiles of their spend at the start of the financial year. That is not to say we have no plans for that financial year until they do that, but that gives us the detailed month-by-month profiling. Obviously, by that point, we know what we have spent in the first three months of the calendar year. If you think about the ODA equation, you are taking the first calendar quarter which, by the time you get to the spring you know, and then you are looking at the month-by-month profile.

We could ask people to do month-by-month profiling further ahead, but there is a point where you lose the value of that. Doing month-by-month profiling for too far a period ahead is not really worth doing. You can certainly ask people to do sensible overall financial year projections two or three years out but, once you get to saying, “What are you going to spend in September, October or January?” you need to be getting towards the financial year to do that sensibly.

What that enabled us to do was, around May/June, take a really good look at both what we knew we had spent in the first few months of the calendar year and the detailed month-by-month projections, and then take some decisions that, as the NAO report acknowledges, were properly taken decisions, using all our proper business processes.

It is also worth coming back to the fact that 2013 was the year when the big scale-up happened. If you look at the 2014 experience with managing ODA, because we had reached that level, it was more about maintaining a steady level of programme. Actually in lots of respects, the challenges in 2014 were around constraining expenditure and having to make choices between competing areas of spend in 2014. As we get into that trend of continued 0.7% delivery, the challenge becomes a little bit different.

Mark Lowcock: Chair, a number of members of the Committee have drawn reference to the DAC peer review report, which touches on this point. Do you mind if I quote on this one short paragraph, because it is very germane to the direction of this set of questions? What they say is: “DFID has planned well how to strengthen capabilities and systems to disburse the scaled-up budget efficiently and effectively. It anticipates future needs to make sure the Department is fit for purpose, in both the short and longer term. This strategic approach has translated into continuous improvement processes, which have enabled DFID to maintain its high profile and reputation.”

It is absolutely not our position that we have got everything right. I am sure we are continuing to learn lessons all the way through, as we manage this larger budget, but it is fair to observe that outsiders who have looked at this have basically said that we have done quite a good job in managing the scale-up and what we need to do is keep doing a good job.

Chair: The Committee accepts that. You will appreciate that we are probing in more detail, as to whether there are more things that can be done, done differently or better. It is not a criticism of the overall; it is things like the role of small contractors and whether or not there could be differences that we are trying to tease out.

Q42 Fiona Bruce: Good morning, gentlemen. You have reformed your programme management processes in 2013. How are you measuring that this has improved effectiveness on delivery? I am particularly interested in the fact that you have appointed a senior responsible officer—about 200—for every programme. How are you assessing how that is increasing effectiveness?

Richard Calvert: This is a set of changes that go quite deep in terms of the way we organise the Department. There is a set of things that we are doing in terms of changing the rules and changing some of the basics, but what is much more important here is trying to achieve a change in some of the culture and ways of working in the Department. There are some aspects of this programme of work that are relatively easy to measure; there are some that are going to be much more difficult to put hard measurements around. Let me go through the sorts of things we are looking at in each case.

First, in terms of some of the very specific things we want to do and we can track, we said we wanted to have SROs in place for all of our programmes by the end of December, and that is the case. We have all those SROs in place. We have over 200 who have been through a three-day training programme to really understand how we see the SRO role taking shape. More broadly, we have over 200 staff now who have gone through a formal programme management accreditation. We have many more going through programme management training. In terms of the basic capability and definition of roles, there are lots of things that are quite clear and measurable.

Then there is a much softer set of issues around the Department recognising programme management as a core specialism of the Department. You will know from your visits to country offices that we have lots of people in DFID who are professionals in particular sectors. Lots of those people are involved in programme management, but they see themselves, first and foremost, as an economist or health adviser or whatever. Then there would be other people in the office who are dealing with programme management.

What we are trying to say to the organisation is that actually this is not about either/or. Managing good programmes and being a really strong programme manager is something that most people in DFID should aspire to. Most of our staff in DFID are, one way or another, managing programmes and that specialism needs to be recognised as a skill set that people build up, alongside all their other skills and capabilities. That is a really important message.

We also want people to feel that they have clear responsibility and accountability. Again, you will know from your visits to DFID country offices that, like any big organisation, people can feel that there are uncertainties around where responsibility and accountability lie, and where decision-making lies. One of the things we are trying to achieve, particularly through the SRO process, is to say that, for every programme, there is a very clear individual who has a set of responsibilities and accountabilities. That does not mean to say that they have absolutely all the decision-making responsibility around a programme or that they should not consult anyone else, but we want a really clear sense of where accountability for a programme lies.

Ultimately, how do we measure the success of this? We should be measuring success in terms of whether the strength of our portfolio continues to grow over the period ahead. We mentioned earlier the processes we have for portfolio measurement and tracking. We have a set of processes through the quality assurance unit for measuring the quality of business cases, which tracks the strength of those businesses cases over time, and then of course we have a set of external scrutiny bodies, which will be looking at how the overall capability of the Department grows, not least ICAI, which has already had an initial look at this. There is a set of quite specific measures we can put in place, some of which are things I said at the beginning, but we should not be lulled into thinking that that is really what success here is all about. What success with this initiative is all about really is some of those longer-term changes in departmental culture and behaviour.

Q43 Fiona Bruce: Talking about those, are you seeing that staff are spending less time on design and more time on delivering results and perhaps more time on implementation of projects? Have you done any assessment of that?

Mark Lowcock: We are absolutely seeing a switch in effort from the pre-approval processes to the post-approval. One of the measures of that is much better compliance rates in the last few months with the core processes after approval, so annual reviews and project completion reports. A year or two ago, we had a major backlog of those. That has largely been got rid of now.

What we are also seeing is a lot more attention by managers to how well their bit of the portfolio is performing, which reflects the fact that the departmental board, which the Secretary of State chairs every quarter, and the management committee, which I chair every month, look at the data and asks questions: the total portfolio score is this; in region X, it is that; what is the reason for the difference? Why has this particular project got a lower score in this review than it did in the last one? For the poorly scoring projects, we list them all in the information that goes to Ministers and top management. That is having a significant effect you can see on how people are spending their time. In that sense, we are starting to see the impact that we are trying to see.

Q44 Fiona Bruce: Again, these are early days, but have you received any feedback from partners, perhaps some small NGOs, on increased effectiveness of delivery as a result of this change?

Mark Lowcock: It would be fair to say that we have feedback at this stage, so that people can see we are working harder at these processes. They are seeing the effort on the processes. The Committee has heard before that lots of implementing organisations thought we had been—“draconian” is slightly too strong a word—certainly very energetic on results delivery, over the last two or three years. That has been a big push, so they are seeing those things start to come through. We think that the good time to measure the real impact of all these processes, building of skills and trying to change the culture on the quality of the portfolio is the second half of next year, when all of this will have bedded down and each project will have been through more of a cycle. That would be a good moment to know better what impact we have really made, including what partners say then.

Q45 Fiona Bruce: You will be able to measure that.

Mark Lowcock: We will have a lot of data on that.

Q46 Fiona Bruce: I will come back to results delivery in a moment, but I have one specific question about business case guidance. Adam Smith tells us that DFID business case guidance remains too complicated and does not do enough to reduce incentives to gold-plate business cases. How would you respond to them?

Richard Calvert: This is one of the things that the smart rules were really addressing. I would say that criticism would have been valid before the smart rules. I do not know exactly when it comes from, but the smart rules process has hugely simplified the guidance on business cases and given much more responsibility and accountability on SROs to decide how detailed they want their business case to be and whether they want to invest much more in particular aspects of that. I would challenge back to say look at the smart rules approach to business cases. If Adam Smith still thinks it is too complicated, then we will look at that, but I would be a little bit surprised.

Q47 Fiona Bruce: Turning to payment by results now, which you have begun using, the Secretary of State has said she wants to see “rigorous, independent, comparable evaluations in place”. DFID’s 2014 policy paper says there have been few good evaluations of the payment by results programmes. What evidence do you have to support PBR as a default option?

Mark Lowcock: We do have a growing number of cases that we can point to that expose the generic lessons. The paper is coming to the departmental board this week. We have a really interesting case of a payment by results programme in the area of water and sanitation, where we essentially have three consortia, each led by a group of NGOs, which are being paid as and when they deliver the agreed results. Actually, results performance on that is very impressive so far. Perhaps I will send you the case study. It is a one-page case study and it is quite interesting.

That case also throws up some of the generic things you have to think about. Firstly, some of the organisations that we are working with are themselves a bit cash-constrained, so you have to avoid putting them in an untenable position by holding back money if the results are not absolutely perfectly done, because it is not in our interest to put people out of business for good but not brilliant performance, so there is that cash management issue.

There is an issue about whether you accidentally create distortions through the way you develop the contract or set the contract for the results delivery.

The payment by results concept is trying to get away from the predominant previous basis for contracting, which is that you basically pay people according to the amount of time they spend on something, which is the other end of the spectrum. What we have been trying to do in our PBR contracting is to strike an appropriate balance between incentivising a stronger focus on results, but recognising that sometimes, through no fault of the implementing organisation, things take a bit longer than they were expecting to or other problems arise. We are trying to strike a balance there.

It is the case that we are in a learning phase and that is what the Secretary of State has said. We want a larger number of examples, because otherwise we will not generate enough evidence. We will take a balanced approach to this because, if we overdo it, then some of the distortions and problems that have been pointed out by the National Council for Voluntary Organisations, which has looked at this across domestic spending, will hit us as well, unless we manage it in an intelligent way. That is what we want to do.

I was very struck that a lot of the evidence you had this year—I think there were 12 or 13 submissions you had this year, for this report—were in this area. We are digesting all that. We do want to have more examples, because no one will ever know whether this works well as a modality or not unless you try it on a bigger scale. We want our examples to be thoughtful, balanced and intelligently managed.

Q48 Fiona Bruce: Did you carry out pilot exercises before embarking on it?

Mark Lowcock: Yes. Effectively, what we are doing in the programmes we have at the moment is a range of pilot exercises. We started some in Rwanda and Ethiopia two or three years ago. Mostly they were Government to Government. The way we are writing our contracts for the commercial sector, we are trying more regularly to get a results element into contracts as well, but we have very few contracts where the only thing that determines the payment is the final delivery of the result. Normally, the results bit of the payment is part of a wider set of arrangements under the contract, and we are doing that deliberately because we are aware of the risks and potential distortions.

Q49 Fiona Bruce: Do you think some of this boils down to a resistance to change?

Mark Lowcock: There is a bit of that, yes. We are deliberately trying to change the incentives. We are trying to give people a stronger incentive to deliver as much as possible. It is quite important to say that most of the organisations we work with are staffed by people who are just as passionate as we are about doing a great job. There is no implied criticism here, but there is a belief that, in the same way that we think our own staff will deliver more if we are clearer about what the results we are aiming for are, that applies to our partner organisations as well.

Q50 Fiona Bruce: Absolutely. What about the issue of payment by results focusing on output targets, perhaps because they are more easily measured, rather than outcomes? How are you addressing that balance?

Mark Lowcock: That is a very good point. A lot of the cases we have, including the water sector one I referred to, are basically output targets. There are some cases we have that

you might think of as being a bit more outcome. I cannot remember if it is the Rwanda or Ethiopia education sector, but there is one where the payments are about learning outcomes from schools—exam success basically—so that is more outcome, as opposed to more output ones, but most of what we are doing is a bit more output-based, because it is more under the control of the project. These things have to be things that are controllable by the project, if they are going to carry credibility.

Q51 Fiona Bruce: “Improved completion of education, measured by sitting key grade exams”. It is interesting, though, how it often is possible to distil objectives into fairly smart targets, and it is almost a practice and a discipline, within an organisation, that needs to be learned.

Mark Lowcock: I completely agree with that. That is exactly where we are coming from.

Fiona Bruce: That is a journey that you are on.

Mark Lowcock: Completely.

Q52 Fiona Bruce: Another risk we have found is that other Departments have found that PBR carries an increased risk that contractors may be over-reporting results. ICAI has found an instance of this occurring with DFID contractors in its nutrition report. How are you making sure that you manage that risk so that you monitor the data?

Mark Lowcock: This is one of the distortions you need to be careful about. People respond to incentives. In a way that creates a helpful incentive on us. We are aware of that risk, so that means we have an incentive to make a better effort really to look at the data that is being reported to us, to assess its credibility, to satisfy ourselves that it is legitimate. Those are all good things for us to want to do more of. Clearly, that would be fraud, if people over-claim and get paid on the basis of that. That would be a very serious matter and we would take that very seriously.

Q53 Fabian Hamilton: Concern has been expressed to us about the high churn of staff in post, especially in some of the fragile states, which I think we have already mentioned. I am just wondering what you are doing to address this. Are the postings actually getting longer? Can you send us actual data, both in general and particularly for those fragile states? We have received evidence also of a number of skills gaps, and I wondered what the key skills and capabilities that you now need are to develop your workforce. Finally, how do you respond to the recommendations of the “Beyond Aid” report, if you have had a chance to look at it? Sorry, a number of questions all in one there.

Mark Lowcock: There are three big areas there, Mr Hamilton. On staff churn, firstly, there is a statistical increase in staff churn simply because the organisation used to be 2,500 and it is now 3,000. The churn numbers have gone up as well, because we have this fantastic new graduate placement scheme. You bring 50 young people in each year for a year, so by definition they largely come out at the end of the year, so that makes the data higher.

We are not concerned in general about a retention problem for the Department. If anything, we are pleased that people will come and work for us a while, then land great jobs in other places, normally still working on development and making a big difference.

We think that is a healthy thing to happen because it creates opportunities for other people to move up the system. In that sense, we are not deeply concerned about the churn issue.

In terms of within a country team, there is a big difference between the fragile and the non-fragile, which is essentially about whether people can have their family with them while they are on their posting. For places where people cannot have their family with them, the tour lengths are shorter and that is a policy. That is deliberate. It is not just for family reasons, but because the stresses and pressures of being in a place where there are large threats to your personal security make it wise to turn people over.

One thing we have got better at, which we have talked to the Committee about once or twice before, is if somebody has been say to Afghanistan for a tour, let us use the skills they have learned in their next job. They might do a London-based job on Afghanistan next and then we have lots of cases where people have gone to do a second tour in Afghanistan. We are harvesting the knowledge people get. Our Director, Pauline Hayes, who does that region has been working on that region on and off for nearly 10 years, and that means that, as she has taken on more senior responsible jobs, she has all that hinterland and background on a relevant set of countries that she can deploy on it.

On skills, the biggest increase in the capacity of the Department, over the last three or four years—the net growth of about 500 people in the Department—has been in the 11 or 12 advisory cadres. We have had a big increase in particular in the economic capability, the governance capability, health, humanitarian and a range of other skills areas. There are one or two areas where it remains hard to hire the calibre and numbers we would like, and they typically tend to be in expensive niche disciplines for difficult places. Sometimes, it is not as easy as we would like it to be to get another couple of public finance specialists to go and work in Kabul. That is a difficult combination of things to get at an adequate rate. We have created a new professional entry system into the Department to train more younger people for those shortage areas so I hope, over time, that problem will recede to some degree, but it is the case that there are one or two areas that remain a challenge for us.

On the “Beyond Aid” report, the Government will reply. It is a comprehensive report. The issues you have raised are an extremely important and complex set of issues. We do need to think about them. I was very struck about the point you make about thinking beyond the Department about all the institutions there are in the UK. You partly make the point about Government—engaging a wider variety of Government organisations—but you also make the point that there are a lot of other institutions beyond Government—corporate, wider public sector, standard-setting bodies, universities and civil society. The Secretary of State basically said the same thing to you when she gave evidence on this. This is something that she thinks is an important area for us to explore more fully, so the Ministers will want to respond, including addressing that set of issues, when the Government provides its reply to the report.

Q54 Fabian Hamilton: You mentioned cross-departmental working. A very good example of that was the way you managed to work with other Departments over the Ebola crisis. Should you do more of that sort of thing? For example, do you have the right skills in your workforce to be able to work across the different Departments? Do they have the right knowledge set?

Mark Lowcock: One of the other ways in which the capacity of the Department has grown over the last few years has been because we have brought quite a lot of people in from other Government Departments. More of our own people are going and doing stints in

other Government Departments. Moazzam Malik, who you will know, is currently Britain's Ambassador in Indonesia, on loan from us to the Foreign Office. We have lots of colleagues who are broadening their skills in that kind of way. The woman who is going to be the Deputy Ambassador in Cairo we are lending to the Foreign Office as well, and it needs to be two-way. We bring people in and circulate around the whole system.

Across Government, I am on the Civil Service Board, so I have a wider responsibility for this. One of the things that the civil service is trying to do is build the generic skills needed for a modern civil service and working cross-Government is a big part of that. Digital actually is another big part of that. We are aware of changing skills needs and thinking about what we will be asked to do in future and making sure we have the right capabilities in the Department to be able to do it.

Q55 Fabian Hamilton: Will the nature of the work of DFID become more labour-intensive, do you think, or less?

Mark Lowcock: That is a really interesting question. Some of the things that we will be doing more of are core to what we do at the moment, relationships for example. We have quite a lot of people whose job is to manage effectively relationships with big partner organisations. The skills for being effective in influencing the World Bank or the UN Development Programme arguably are comparable to the skills for being effective advocates across Government. In other areas, maybe we will not need the same level of skills. Lots of things that we have traditionally done internally are automatable these days, so certainly there is another transformation phase in our corporate services and a join-up in lots of those, a join-up across Government as well in lots of those. There may be some skills there we need to a lesser degree in the future.

Richard Calvert: I think you are about to go on a country visit to Nepal. One of the other things that goes back to this question of working across Government is the efforts at country level, through the One HMG programme, to make sure that all the Government agencies and Departments represented in a particular country are working together, not just on the nuts and bolts of corporate services, but on a clear country strategy and using joint teams. I am sure that this is something that you start to pick up in your country visits, but that country-level work is just as important as getting the joined-up policy-making in Whitehall.

Chair: I am supposed to be addressing CPA delegates at half past 11, but there are some more questions to get to.

Q56 Jeremy Lefroy: Very briefly, because there are DFID questions as well at 11.30, one of the key roles increasingly for DFID staff is to work or at least to engage with politicians locally, which may not be a skill set that some are particularly used to. What do you do to help them with that? If you are talking about areas such as the private sector, health and education, it is key to be involving not just civil servants, but also local politicians.

Mark Lowcock: That is an area where effective joint working with the Foreign Office is important, because for the Foreign Office skill set, particularly heads of mission, that is their stock in trade: being influential with those kinds of counterparts. What I would say is that for our more senior advisory professionals, that is the kind of thing we hire them to be good at, because a lot of the programmes we are doing require quite complex negotiations

up to ministerial level and with parliamentarians often, with counterparts. That is something we try to develop, both through formal development programmes we get people to go on, but also through mentoring, coaching and line management support. I am sure we do not always get it right, but it is something we recognise people need to be good at.

Q57 Jeremy Lefroy: The second question really follows on from that; it is about language skills. The Foreign Office has reopened the language centre. It places a great importance on that. It is equally important for DFID. We have raised this before; I wondered what progress has been made in terms of language skills for DFID staff.

Mark Lowcock: The Secretary of State wrote, after you raised it with her on 11 December, a couple of weeks ago on this. Last time I looked at this, we had 1,300 staff out of 3,000 in the Department with recorded spoken language skills, half of them fully proficient, across 46 languages. There absolutely is an issue with some rarer languages, especially in a number of African countries. There it is the case that we are quite reliant on our local professionals to help us really understand the context, but we are encouraging the UK-based staff, when they go to take up postings, to invest in their own language skills for a whole variety of reasons. It is not that we necessarily expect them all to get completely proficient, but it does help them learn more about the local society. We think that is a valuable thing to do.

Jeremy Lefroy: I think we would just urge you to continue that work, because it is vital.

Q58 Chair: We saw that we benefited very much from the language skills of one of the Foreign Office officials in Burma. It would have been good to have somebody of that capacity in the DFID team. He was very good indeed.

A question on the bits of ODA that are not within the Department, especially the Conflict Pool and its successor: there have been a number of criticisms, including by ICAI, that that spending is much less transparent than that which is controlled by the Department. I have heard from a variety of different quarters concerns that people are not at all sure what the Conflict Pool is doing and what its new incarnation is going to be. One assumes it is about conflict prevention, but again people on the “Parliamentary Strengthening” inquiry were told that they did not seem to think that parliamentary strengthening had a role to play in conflict prevention, which the Committee would take very strong issue with. Are you able to give any indication?

Mark Lowcock: I do not agree with that point, if that point was made to you. I obviously do not agree with that. The role of the shared pool has grown, in fact. It is now the Conflict, Stability and Security Fund. That is deliberate, expanding its role. I would be very happy to send you details on the range of things that are in the pipeline and the approved strategies for the 2015-16 year. I have to say, personally, that this is an area where I would welcome more external scrutiny. Let us all have a look at how well this works in practice. I have asked my head of internal audit to work with his colleagues in the Foreign Office and the MOD to do a collective piece of work, before we get up and running properly with the new articulation of the Conflict Pool, and I would really welcome others having a look at it as well, because that would make sure we find all the problems and address them.

Q59 Chair: It seems to me that it is urgent, because people who thought they were or should be engaged with this are saying they really do not know what their engagement is going to be or what it is suppose to be. That is not a good position. For this amount of money, people need to know what it is doing.

Mark Lowcock: Quite so, and if there are any cases you are able to give me offline, I will look into them. This whole thing should sensibly be looked at in the round: £1 billion a year is a lot of money.

Q60 Chair: The implication is that it is somewhat outside your control, because it is not DFID spending.

Mark Lowcock: The Conflict Pool is a mixture of ODA and non-ODA. The ODA starts on our baseline, but gets allocated then to the Department that is running the project. There is a cross-Government approach to setting the strategies and choosing the projects, so a lot of the decisions are not just DFID's, but we are party to a cross-Government strategy-setting and decision-making process. My core point is, if there are concerns, please somebody have a look at them and we will benefit from the scrutiny.

Q61 Chair: There are concerns. Thank you very much for that. As you will appreciate, we are leaving this evening for our last visit of the Parliament. Obviously, you have had a significant year where we have achieved targets and you have managed a huge increase in the budget. I hope you can appreciate the Committee's concerns and interests and, in particular, the staffing and management point. It is not that you are not getting the money spent effectively, but is the constraint on staff time and administration limiting perhaps some of the options and the opportunities for some of the other players? Many people would look and say an increasing aid budget is an opportunity for more institutions to get involved and the Committee would very much like to see that the Department was trying to help that happen.

Mark Lowcock: Thank you very much. This is an important annual occasion for us. You always give us an important new set of things to think about. You know a lot about this and so we take what you say particularly seriously. Thank you very much indeed. We will follow up on all those points.