

International Development Committee

Oral evidence: [DFID's Annual Report 2015-2016](#),
HC 686

Tuesday 8 November 2016

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Members present: Stephen Twigg (Chair); Fiona Bruce; Pauline Latham; Jeremy Lefroy; Wendy Morton; Albert Owen

Questions 1 - 101

Witnesses

Mark Lowcock, Permanent Secretary; and Joy Hutcheon, Director General, Finance and Corporate Performance, DFID

Examination of Witnesses

Mark Lowcock, Permanent Secretary; and Joy Hutcheon, Director General, Finance and Corporate Performance, DFID

Q1 Chair: Good morning. Can I welcome our two witnesses from DFID? Because of business in the Chamber, my aim is to run this for about an hour and a half. We have roughly 20 questions that we want to cover, so we will try to be succinct; if you can match us that is super. I will start us off with the Civil Society Partnership Review, which was published last Friday. With the partnership arrangements ending, are you able to tell us if the level of funding to CSOs is now likely to be reduced or stay roughly the same?

Mark Lowcock: Good morning, everybody. We have not set a total budget figure for funding for civil society from all the sources available in the Department, because the central funds, which are the ones the Secretary of State announced the new arrangements for on Friday, are just a small proportion of the total funding civil society gets from the Department. As you know, Chair, that total has been growing significantly over recent years. The PPAs have been replaced by the new scheme, as you know. We published total figures for the central schemes in the departmental report earlier in the year. The Secretary of State has not adjusted those at this stage.

For some of the individual schemes the Government made a pledge to increase in its manifesto, such as aid direct, aid match and so on, the funds are going up. The Government also made a pledge to triple the size of the International Citizen Service scheme. With the new scheme, for which, as the Secretary of State said when she launched the review, the first round will be the beginning of next year, we will find our way a little bit. But that is really quite a small proportion of the totality of funding available to civil society from the Department.

Q2 Chair: Can you tell us a bit more about the new scheme, UK Aid Connect, and how that will work? In particular, would CSOs potentially be able to apply for core funding through that or not?

Mark Lowcock: One of the outcomes of the review is that the Government wanted to move away from core funding of civil society organisations, to provide an incentive for them properly to generate their overhead from the main ways in which they get access to funds from the Department. We are going to find our way a little bit on UK Aid Connect, but the idea is that there will be a series of calls on particular areas that the Government want to prioritise. We will want to encourage civil society organisations to collaborate with each other in making propositions to us under that. The idea is not that it is replacing the un-earmarked funding that was available in the PPAs, because it is intended to tackle identified issues and problems.

Q3 Chair: Who will be able to apply for that money? Could it be private contractors, would it have to be led by civil society or is that still to be



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determined?

Mark Lowcock: These will be grants. It is very, very unusual for us to give a grant to a for-profit organisation, for obvious reasons. I do not think we have absolutely barred them from making a proposition to us. If I am wrong about that, I will correct myself in writing to you. The intention is for this to be for the non-profit sector.

Q4 **Chair:** As you will know, one of the issues that the Committee has raised for a long time is access to funds for smaller civil society organisations, both those based here but also particularly those based in the global south. It sounds as though the direction of travel is in that direction. Can you tell us a little more about that?

Mark Lowcock: A lot of the ways in which civil society organisations in the global south access DFID money for development, which is British taxpayers' money, is through the country network of the Department and through the humanitarian system. Sometimes, they join up in alliances and collaborations with British-registered charities to apply for the central schemes. There are registration requirements to access the central schemes. They do get some access, indirectly, through those.

One of the things the Government were trying to do in strengthening UK Aid Direct was provide more opportunities for smaller organisations in general, whether northern or southern, to access smaller sums of money from the Department. As you know, the Department has never felt it particularly had a comparative advantage in providing the smallest grants, compared to, say, Comic Relief or other organisations, which specialise in the very small grants. That is to do with the fact that we have a large budget to run and a limited number of people. Our comparative advantage is at the large end of the spectrum.

Q5 **Chair:** Could a small organisation based in DRC or Nigeria be a direct beneficiary of UK Aid Direct?

Mark Lowcock: I will have to double-check, unless Joy knows the answer to this. I think they need to be a British-registered charity. I am sorry I do not know the answer to that. I will correct myself if I am wrong.

Chair: Thank you very much.

Q6 **Pauline Latham:** In the first year that the UK met the 0.7% development spending target, 40% of the Department's spending occurred in November and December, with as much as 47% of multilateral aid spending occurring at the very end of the year. What changes has the Department made to its planning and forecasting process so that the money is spent more evenly across the year?

Mark Lowcock: You are right. The first year we were doing the 0.7%, we were used to running on the financial year, not on the calendar year, and that was a significant adjustment. As I reported to you in February, in answer to Mrs Bruce's question on this, we have made progress year-on-year. For the 2015 year, the peak months were, if I am not



wrong, April, July, September and October. The very end of the year, November and December, was smaller. My expectation is that, for the 2016 year, the peak months will be similar. They will be earlier in the year. That reflects both the multilateral payments and the rest of the programme.

Q7 Pauline Latham: The Secretary of State has told this Committee that she will honour the statutory 0.7% development spending targets, but the media seem to have got a mixed message. What difference is there, if any, in DFID's approach to meeting 0.7% under this new Secretary of State?

Mark Lowcock: The instructions the Secretary of State has given me and the Department are to hit the 0.7% target. I have not seen any difference in the instructions that we are being given. That does not surprise me, because Parliament put the 0.7% policy onto the statute books last year. I have not seen any difference in that.

Q8 Pauline Latham: What preparations has DFID put in place to monitor increased ODA spending across other Departments in its management of the 0.7%? I know DFID has been working with other Government Departments to advise on ODA spending. How confident are you that a primary emphasis on poverty reduction is being maintained? Do you have a process for monitoring the ODA spend across-Government Departments to make sure that the 0.7% is not underspent or overspent?

Mark Lowcock: There are a number of points there. First, the way the Government as a whole try to manage the 0.7% is to make sure that there are more good uses for the money all the time than there is money available. One of the things the Secretary of State has said to us is, "Drive out the lower quality spend. Make sure there is not waste. Do not have a tolerance for poor-quality expenditure." That means we have to have plenty of other uses of money when something falls away or there is a problem somewhere.

On the cross-government point, the Treasury has set in place new arrangements, which Joy participates in for the Department, so she can perhaps say a little more about that, for how we manage cross-government. Every Government Department relying for its ODA spend on the 2002 Act has, as a matter of law, to satisfy themselves that the effect of their expenditure will be to reduce poverty. Some Government Departments do not rely on that legislation, as I think you are aware; they have other legislative bases. The Government have been absolutely clear, including in the November 2015 aid strategy, that value for money, quality and transparency are to be big drivers, whatever the legislative base.

On monitoring, again, Joy might add to this, but essentially there is a regular process of monitoring, which is run both by the Treasury and us feeding into them. As a practical matter, given that the Department this year accounts for 75% to 80% of the total, when there are late in-year adjustments to be made, the Treasury's eyes swivel first in our direction,



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because we have more levers to use than other Government Departments.

That share will fall as the spending review progresses, down to 72% by the fourth year. At that point, our eyes will be swivelling back towards the Treasury, because we will not have the same degree of control. The system that is being put in place now to do that monitoring, which Joy can speak to, will become more important as we get closer to that point.

Joy Hutcheon: There is a senior officials group, co-chaired by us and the Treasury, which looks both at implementation of the UK aid strategy and whether ODA spend is supporting that strategy, and at the spending forecasts that Departments are making. It met last week. We are now following up at finance director-level with Departments, to understand whether their forecasts are going to be firm or not. I have a team that is at the moment in weekly or daily contact with its counterparts in other Departments. Those relationships are very well developed, but there is quite a lot of new spend starting up, so there is uncertainty as to how that spend will develop. They are ramping up those relationships and monitoring very intensively this year.

Q9 **Pauline Latham:** Which Departments actually spend ODA money?

Joy Hutcheon: There is a cross-government fund that we monitor carefully. The Foreign Office, the Home Office, BIS, Department of Health and DECC would be the primary Departments.

Mark Lowcock: There is a little bit of DEFRA, a little bit of the MOD and a little bit of the Home Office.

Q10 **Albert Owen:** As to the mixed messages in the media, it is not helpful for you as a Department when you, alongside the Secretary of State, are very clear with us, as the scrutiny committee, answering questions about ODA and the 0.7%, and yet we get this continuous media drive to say that this is not the case. Do you have a rebuttal unit in the Department? How do you deal with it?

Mark Lowcock: Neither the Secretary of State nor the Department control what newspapers write, obviously. We have a communications function. We are about to announce a new director of communications, because our previous director, James Helm, who was with us for a few years after a long career with the BBC, got poached to go and do a different job. We will be announcing a new director shortly. The Secretary of State is interested in how the communications function works. We have got the Government Communications Service to come in and have a look at our strengths and areas for improvement. We will see whether there are particular things to address, maybe picking up the point you are making.

Q11 **Albert Owen:** Am I hearing, from your answer there, that it is because of a lack of strategy in communications?

Mark Lowcock: No, I do not think that is the case. It is absolutely the case that, in my experience, each incoming Secretary of State has a



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particularly different view on how best to handle the communications aspect of the job. Of course, my current Secretary of State herself is a media communications professional. She is deeply, deeply knowledgeable about these issues. She has some things she wants the Department to get a bit better at. That means we need to build the capability in the Department to enable us to do that.

Q12 Albert Owen: I understand the mechanics, but, since I have been in this House, where there is a newspaper report, there is always a departmental statement at the end of it. There did not appear to be in these stories. From that, we can take it that that is what the Department's view is.

Mark Lowcock: I have had previously to confess that I am not as assiduous a reader of newspaper stories as maybe I ought to be. I do not know what you are referring to there, Mr Owen.

Q13 Albert Owen: I am referring to regular *Mail on Sunday* reports about ODA being changed in its definition and going into trade, etc.

Mark Lowcock: I do not see all those reports. Normally, and certainly if we are approached, the Department will provide a comment. Whether the newspaper runs the comment is not something we control.

Albert Owen: I do not expect you to control it, but I do expect clarity of message.

Q14 Chair: An example where there was clarity of message, but which deeply worried us, was when we published our anti-corruption report. There was a newspaper suggestion that the Department had rejected the report. Do you know what happened?

Mark Lowcock: I do not remember that case, Chair. When was that?

Q15 Chair: Two weeks ago.

Mark Lowcock: I will have to look at that.

Q16 Chair: Could you look at that and write back to us on it?

Mark Lowcock: We owe you a reply on the report. I have not seen the draft reply. As a matter of course, they would all come through me, to make sure I am satisfied that Ministers want the Department to take on actions and responsibilities to follow up your recommendations so we can do that.

Chair: If you could, please write to us on it, because what you have just described is of course the way that it is meant to work. We were very concerned that, for some reason, a newspaper had carried a story suggesting that, literally on the day of the publication of our report, it had already been rejected. I realise that it was not actually being rejected, but the suggestion was that somehow the Department was rejecting our report.

Q17 Jeremy Lefroy: Not only that, Chair, but the report of the newspaper was entirely erroneous and false about the tenor of the report, to the



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extent that the Chair, Fiona Bruce and I wrote to one of the newspapers to make it quite clear that this had been grossly misreported and was very, very poor journalism. It was very important that the Department should have backed up the Committee, even if you did not particularly like everything that was said in it.

Mark Lowcock: Let me look at that case. As you know, the *Financial Times* wrote an editorial two or three weeks ago, which the Secretary of State thought was erroneous and misrepresented the Government's policy and her intention. The following day, she got them to publish a letter. The general principle that newspapers sometimes report stuff that is wrong or that we do not like is obviously one we are familiar with. This case, to be honest, I had not caught, and I will now follow it up.

Q18 **Chair:** Thank you very much indeed. Can I move on to the changes in the accounting arrangements, which have the effect of looking at GNI in a different way? We understand that the effect of that will be that the amount needing to be spent to fulfil 0.7% in the current year will be around £1 billion more than it would have been under the previous arrangements. Can you tell us what the Department is doing to prepare for this?

Mark Lowcock: I think, Chair, this is the first question you asked me in February, when we had the discussion on the Annual Report. At that stage, we had just had the spending review. The Government had set the ODA budget, including the Department's budget, for the four years of the spending review, on the basis of the projected GNI on the new methodology. There was notice that the methodology was changing, and the Government had been clear about how they would reflect the new GNI methodology in setting the ODA budget. If you like, the changes to how GNI was calculated were baked in from the spending review.

Because there were some things previously happening in the economy that were not being recorded in GNI, the size of the economy, and therefore the ODA required to hit 0.7%, was estimated to have grown. Later this month, we will have revision to all the GNI numbers, which the Chancellor will announce in the Autumn Statement, based on the assessment the OBR makes. My general experience is that forecasts on the size of economy go up and down as time passes. It would be plausible to expect, if the trajectory for GNI is changing, that that will have an implication on the ODA required to hit 0.7%. Coming back to your question, we baked in the change in methodology as part of the last spending review.

Q19 **Chair:** You are confident that you are able to spend the additional money effectively, in the rather short timeframe you have to plan for this.

Mark Lowcock: The adjustments arising from the methodology are progressive over time. There were not big cliff edges or anything. It is a challenge to manage the budget to hit 0.7% right on every year. My previous Secretary of State used to describe it as landing a helicopter on



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a handkerchief, except that the handkerchief was moving and it kept moving after you had landed it. It is an intrinsically difficult thing to do. All I would say is that the track record of the Department, since 2013 when we have been doing this, has been pretty good.

Joy Hutcheon: This also goes to the questions that Mrs Latham asked about ODA spend by other Government Departments. DFID's budget has largely stayed flat from last year to this year. The reason it has been able to do that, while other Departments are spending a bigger proportion of ODA, is because of the increase in the total ODA pot, because of GNI.

Q20 **Albert Owen:** The proportion of aid spent through DFID's bilateral programme has increased by 4% since 2010-2011. Do you expect this trend to continue? What are you looking to achieve by increasing the proportion of the budget you spend bilaterally?

Mark Lowcock: Again, this is a question that the Committee has asked in previous years. I think you may have been worried that the multilateral share was getting a bit big, and that the reason was that the Department did not have the capacity to manage things ourselves directly. You are exactly right. The core multilateral share has fallen somewhat, by about four percentage points. Indeed, what we call the "multi-bi", the share of the bilateral that goes in earmarked grants to multilateral agencies, has fallen as well. That means we are making greater use of other delivery partners. That is what the Committee has been encouraging us to do, over a period.

It is a little difficult for me to forecast exactly what the trend will be into the medium term, which I think is your question. I can tell you that, in order to achieve everything in the Government's manifesto, which is very heavily reliant on the bilateral development programme, we will need to have a very substantial bilateral programme. Since achieving the manifesto objectives is essentially the first call on the use of the budget, that will speak to a continuing substantial bilateral programme.

Q21 **Albert Owen:** Spending on refugees and humanitarian assistance has increased dramatically as well. Has this impacted on the bilateral programme?

Mark Lowcock: Indeed it has. It has roughly doubled over the last five years or so. That tells you something about the state of the world. There is a real spike in the caseload. It is at all-time high levels. Over those five years, the budget has grown. It is not that there have been lots of other things we have had to cut, but a lot of the growth has been absorbed by these big new crises around the world.

Q22 **Wendy Morton:** Good morning. When the Secretary of State met with the World Bank last month, she challenged the organisation's funding to more developed nations such as Brazil, India and China. The Secretary of State said she is "challenging the Bank to focus its support on those who need it most". How do you assure yourself that your multilateral funds, including those to the World Bank, are being used for the purposes intended?



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Mark Lowcock: Yes, she did say that. That bit of the World Bank's lending programme is the so-called IBRD. There is another chunk, called IDA, which must go only to the poorest countries. The IBRD budget is the largest part of the World Bank and is financed by capital being paid in by shareholders. That capital is used to borrow on the capital markets and then lent on to developing countries. The paid-in capital comes from the departmental budget.

It is a great frustration to us that nearly half of that IBRD lending goes to countries above the World Bank's declared graduation threshold. In our view, the taxpayer-underwritten lending of that sort should obviously be focused on countries below the graduation threshold, but on the lower-middle-income countries. The World Bank has agreed that there needs to be a significant shift towards the lower-middle income countries. That conclusion was agreed following the Secretary of State's powerful interventions at the World Bank annual meetings. That is something we will want to track and follow.

The president of the World Bank is due in town again next week. This will be on the agenda. I know it is on the Secretary of State's agenda with him. The issue, as you imply, carries across into other agencies as well. The Secretary of State definitely wants to put more energy behind a redirection of aid resources to the poorest countries.

Q23 **Wendy Morton:** A lot of the world's humanitarian focus at the moment is on the Middle East and, rightly so, on Syria in particular, a country which, up until the conflict, we could describe as a middle-income country. Is that having any impact on this IBRD budget? Is that causing any distortion? Is there an impact on that budget?

Mark Lowcock: The Secretary of State has been arguing that, when countries have a real crisis like that, organisations like the World Bank should be among the array of organisations coming to their help. At the Syria conference that we hosted here in London in February, one of the big things we achieved was agreement that the international financial institutions needed to play a stronger role in helping countries deal with the refugee burden.

In the past, if you are a country like Jordan or Lebanon, the only money you have available from the World Bank is at relatively high interest rates. We advocated that, particularly for Jordan, but also potentially for Lebanon, there should be slightly cheaper money available to help them deal with the refugee burden.

The Syria case is a bit different, because the IFIs are not working in Syria at the moment. Syria's per capita income now, because of the appalling destruction of the country by the Assad regime and its allies, is way below the IBRD threshold. They will need a lot of assistance when we hopefully get to the recovery phase. The IFIs will have to play their role on that. I do not think Syria will be in the position to access a lot of market-priced money, initially. It will need more concessional money.

Q24 **Chair:** The Secretary of State has talked about performance agreements



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with multilaterals. Can you tell us a little bit more about that?

Mark Lowcock: The first one that she negotiated, which we are very encouraged by the detailed follow-up on, was with the Global Fund to Fight AIDS, TB and Malaria. As you know, she decided that we would allocate part of our £1.1 billion contribution to the replenishment, about £200 million, to be available on the basis of performance. We think that is a useful thing to do. Most of the replenishments of core funding for the multilaterals have on the one side an agenda for improving the organisation, new priorities and things that are going to get better, alongside the funding agreement.

For the African Development Fund replenishment and the World Bank IDA replenishment, which are being negotiated at the moment, we are advocating a lot of reform proposals or things we want to be different. I am sure the Secretary of State and Ministers will want to take account of progress on what gets agreed on that, before they decide the UK's financial contribution.

Q25 **Chair:** Can we expect more detail on this on the Multilateral Aid Review?

Mark Lowcock: Yes. It is, by the way, my ambition to come here one day and not have to cause you to ask me when they will be published, because we will have done it.

Q26 **Chair:** You are anticipating my next question.

Mark Lowcock: The point of it is to identify areas for improvement. We have done that in the analytical work. I would expect that to be set out in the final report.

Q27 **Chair:** Newspaper reports suggest we might suggest expect the MAR next week. You do not read newspapers, so you do not know.

Mark Lowcock: I have already told you I am a very poor reader of newspapers.

Albert Owen: You need to start.

Q28 **Pauline Latham:** Use of promissory notes payable to multilaterals has more than doubled since 2012, from £2.6 billion to £5.6 billion in 2016. Do you expect this to continue?

Mark Lowcock: This is something I have kept an eye on. I think Helen Grant has left the Committee, but she asked me about this in February. In fact, there was a £2 billion deposit of new notes in 2015-2016, as opposed to £2.1 billion in the previous year. The encashment period for notes has been gradually extended. That means that the outstanding balance has gone up a little bit. As I think I have said to the Committee before, from our point of view the use of promissory notes is financially efficient, because it minimises the rate at which we need to hand the cash over, while maximising the preparedness of the programmes for which the cash is used.

The basic point is that, if you are the global fund, you will not sign up to, say, a five-year programme to provide antiretrovirals to a country, unless



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you have the money. The British Government do not want to give you bank notes for the five years' worth. We want to make a promise that, if you do the programme, we will meet our share of the costs. That is what the promissory note does. The reason the balances have risen a bit is essentially because the duration of those promises has been extended, which picks up, again, something Mr Lefroy asked me last time: would it not be a good thing if we had more extended promises? That is sort of what is happening.

- Q29 Pauline Latham:** You said £2.1 billion, but only £1 billion has been cashed against notes previously issued. Why is there such a large difference in year between the amounts of the new notes issued and the amounts cashed against the promissory notes that were previously issued? Is it an effective way to deliver aid if it takes multilateral organisations so long to cash them?

Mark Lowcock: The reason it is extended is because the encashment period has grown. There could be bad reasons for that, but there could be good reasons. A bad reason could be the one you have just alluded to, that they faff around, do not get their act together and take forever to build the road, or whatever it is. A good reason, on the other hand, would be because, picking up Mr Lefroy's previous argument, they are making longer-term commitments.

If you are somebody who needs antiretrovirals, you really would like confidence that the provider financing them is going to do that for a long time. A lot of the greater use of promissory notes is to provide promises of those sorts. As long as the balance is going up because good long-term promises are being made, rather than these organisations faffing around and not getting their act together, I am more comfortable.

- Q30 Pauline Latham:** When we say we have given so much to the global fund, and everybody says how wonderful DFID is, it is actually not that wonderful, because it is over such a long period of time.

Mark Lowcock: Of course, the cash also goes out of the door over a period, but you are right to say that people seem to pay less attention, other than you, because you are raising the question with me, to the drawdown of the cash. People pay attention to the deposit of the note.

To be honest with you, it is just an accounting principle. It is just a convention that the Treasury and the NAO have decided we need to use for these notes. It would be a jolly good thing if people paid more attention to the period over which the actual cash is drawn down, because that is the time that people who intend to be the beneficiaries actually get the benefit.

- Q31 Pauline Latham:** Is it legitimate to say, "Well, we have said we will pay £5 million on this project"—or £20 million, or whatever—when it is not spent for three years? In accounting terms, it is spent in that year, but actually you still have it.

Mark Lowcock: It is the accounting principle.



Q32 Pauline Latham: I am not suggesting you are doing anything wrong. It just seems a bit strange that we are saying, "Isn't it great? DFID is spending so much on this", but actually it is not.

Mark Lowcock: I would be in favour of more attention being paid, by others than you, because you are doing so, to the rate at which the cash is drawn down, and then an intelligent scrutiny of whether it is good or poor that the balance is rising. I am happy to put into the public domain the rate at which the cash is being drawn down from our notes. We should be transparent about that.

I am not in favour of organisations saying, "I want the cash now", and just holding onto it. I have spent a lot of the last five years driving down the unnecessary liquidity in these organisations. They want the British taxpayer to hand over the banknotes now, so that they can sit on them for years on end, regardless of whether they are using them or not. The basic concept of the promissory note is one that is very efficient for the taxpayer and, if it is used well, is good for development.

Jeremy Lefroy: I entirely agree that promissory notes are much better than handing cash over and it sitting in an account. I have two questions. First, nearly half the amount at 31 March 2016 and, in fact, half the amount at 31 March 2015 was IDA. In fact, IDA has gone up. Yet, at the moment, IDA is looking for the 18th replenishment. I declare an interest, as chair of the Parliamentary Network on the World Bank and the IMF. That is obviously a World Bank subsidiary. It seems to me that, at £2.5 billion, which is up from £2.3 billion, this figure is quite stubbornly high. Yet you and the Secretary of State are being asked at the moment to commit further funds for the next three years.

In general, I believe the IDA is an excellent organisation; I have been very supportive of it. But it seems to me that, at the moment, it is not using the funds that it has already been given. Are these long-term programmes that have been instituted in the last three or four years, for which, as you rightly say, we will not hand over the money until it is necessary? That sticks out like a sore thumb, frankly. I would have expected, coming to the end of an IDA three-year period, the figure to be quite low. Obviously, there would still be some commitments there, but since it is coming back to the donors I would have expected perhaps £1 billion, not £2.5 billion.

Mark Lowcock: Let me say two things in response to that. First, there are some quite technical issues around liquidity management in IDA, which play into the cash holdings. Maybe I could write to the Committee, just providing a bit more information on that. It is probably too technical to go into here. I am not sure I can remember all the detail either. Liquidity management is one thing that is going on.

Secondly, we think it would be good for the world if the World Bank was a bit faster in turning commitments made to it into projects and contracts: roads being built, children going into school or power stations being built. The lapse time between identifying something and somebody's life being



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changed at the end of the project being delivered is too long.

One of the things that Finance Ministers, particularly from Africa, say to me most often about the World Bank is that it would be good if it was a bit faster, slicker, more agile and client-responsive. To the degree that what is happening with liquidity balances being built up arises from that problem, we are in exactly the same place.

- Q33 **Jeremy Lefroy:** We are meeting Dr Kim next week and we will pose that very question to him. It seems to me, if you are approaching donors and saying, as they are saying, "We need \$60 billion-plus over the next three years", there must be some shovel-ready, as the former Chancellor would have said, projects and programmes that are available, even if the money is not going to be committed immediately, but which can be instituted fairly quickly.

Mark Lowcock: Yes.

- Q34 **Jeremy Lefroy:** We provide promissory notes for, for instance, the German development corporation, KfW. That is fine. Are there any promissory notes the other way round? DFID undertakes quite a lot of work on behalf of other donors. Do they provide us with promissory notes for that? What is the value of those promissory notes on the other side to us?

Mark Lowcock: I had a quick look at this because, again, you asked me this before. We are not in receipt of any promissory notes, I think I am right in saying. When we do things on behalf of others, they pay us in cash, as we require the cash.

- Q35 **Jeremy Lefroy:** Even if they are long-term programmes, for which commitments have been entered into.

Mark Lowcock: It is a fair point whether we are right to trust people to pay their bills. We have not, in my experience, had an occasion where we have agreed to do something for somebody and they have not paid the bill.

- Q36 **Chair:** Can I move us on to the cross-government funds? As a first open question, what is the Department's experience so far of the process of bidding for money, particularly from the Prosperity Fund and the CSSF?

Mark Lowcock: I cannot remember the numbers, but last year the Department accessed quite a lot of money from the CSSF. I can write to you on last year's numbers. This year, again, we are bidding into the CSSF, mostly for the big crisis areas: the Middle East and parts of Africa in particular. This is the first year of the Prosperity Fund. I think there is just £50 million in the Prosperity Fund for this year. A lot of the bidding process going on at the moment is for the four-year period.

I can tell you that we feel the Department is being quite successful in accessing that, but I am not sure Ministers have made announcements on it. Maybe I can check what has been finally signed off and we can confirm to you is agreed across-Government and can therefore be put into the public domain.



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Q37 **Chair:** Specifically on the CSSF, am I right that the Department's contribution to CSSF is going to increase very dramatically through this Parliament, from around 9% to 90% of the entire fund by 2020?

Mark Lowcock: That is a misunderstanding of where the Treasury puts the funds to sit ahead of the bidding process. The SRO for the CSSF is the National Security Adviser in the Cabinet Office. The Cabinet Office, for long historical reasons, has never had a large budget sitting on its accounts. We were asked whether we could effectively have the CSSF on the DFID baseline ahead of the bidding process. The Foreign Office has been the largest share. Then, as Ministers take decisions on what to allocate, it will move across to the baseline of the Department winning whatever share. To the extent that we win bids, it will stay on our baseline.

Q38 **Chair:** It has no implications for the rest of DFID's budget.

Mark Lowcock: No.

Q39 **Chair:** How are you finding the CSSF compared to the Conflict Pool? Are there differences? Are there concerns?

Mark Lowcock: My own view is informed by audit work that my internal auditors, the Foreign Office internal auditors and the MoD internal auditors have done. As tends to happen, as these funds get a bit more mature, people get more used to them, the processes get better, the governance gets better and the monitoring evaluation improves, the system generally works better. That is the experience, I would say, on the CSSF. I am not saying that everything goes swimmingly, or there are not some things that can be improved, because there are. It is definitely easier, once you have a system up and running, to make it work well than when you are in the early stages of putting it all together.

Q40 **Jeremy Lefroy:** DFID is injecting £735 million into CDC's capital. The Annual Report notes that CDC investments are allowing companies to grow and create better and more inclusive jobs where capital is otherwise in short supply. Do you, as the Department, monitor the effectiveness of CDC's investments in alleviating poverty, given that that money is supposed ultimately to be about alleviating poverty?

Mark Lowcock: First, let me say that CDC is a British success story. It is by far the most concentrated of the development finance institutions in the poorest, most challenging markets. It has repeatedly exceeded the financial return that we have had for it. CDC invests in 1,300 businesses, which provides a million jobs. Those businesses last year paid \$2.6 billion in tax. Every year, there are more jobs created and the business is growing. It is successful.

We set an investment policy for CDC. The Secretary of State is currently going through a process of reviewing that, to set the new investment policy for the period ahead. What we are looking for from CDC is development impact, for which the most important metric is job creation. We have a quite structured governance system for checking in with CDC



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on what they are investing in, how it is going and what the performance is.

It is a PLC, and it is important that it operates in a commercial way. The Department does not interfere in investment decisions. Probably the worst period in CDC's history was the period when civil servants were trying to double-guess the next investment to be made. We do not do that. You will get a chance to have an independent perspective on what I said to you, and CDC's performance, very soon. The NAO is just completing a value-for-money study on CDC, which will look at exactly these sets of issues.

- Q41 **Jeremy Lefroy:** As I understand it, CDC is also managing on your behalf more development capital that might not meet even CDC's criteria. Is that the case and how much is involved?

Mark Lowcock: Yes, that is the case. The CDC has a target return of 3.5% on its balance sheet, basically. Some things have been identified, which would be good things to do, that the board would not feel it is prudent to take on under the main balance sheet.

Two or three years ago, we established a £75 million impact fund to find those riskier, softer propositions, with a high development impact, but maybe greater risk of not generating the investment return. I can write to you with more detail about this. So far, we have been encouraged by the experience of them having available that sort of money, where the return requirement is not so high, as it were. It may well be that it would be sensible to use that positive experience as time passes and give them a bit more of that kind of resource.

- Q42 **Jeremy Lefroy:** In inquiries on previous Annual Reports, we have suggested the idea of a development bank, which would come between DFID and CDC. In effect, you are to some extent using CDC as a mini-development bank by managing those funds. Would that be a fair characterisation?

Mark Lowcock: I think it would be. Some people mean different things to you, if I may say so, by a "development bank". Some people mean something like KfW in Germany, which is providing sovereign loans as well. CDC is not in the sovereign lending business, but it is doing pretty much everything else that a development bank would do, yes.

- Q43 **Jeremy Lefroy:** On the non-fiscal capital, which is basically the kind of investment that we have just been talking about, but including loans as well, contributions to multilateral development banks are expected to go up from £100 million in 2013 to £1 billion this year. Will a lot of that £1 billion be managed through CDC, or are you managing quite a lot on your own balance sheet? If so, do you have the capacity to do that?

Mark Lowcock: There are two main uses of the non-fiscal capital. The first is to capitalise CDC, including the £735 million that we announced last year and was being deposited last year and this year. The second is to provide extremely cheap loans to the international financial



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institutions. I said there were two main uses. A very small amount is used in other ways, for example to provide a bit of development capital to the Private Infrastructure Development Group to make one or two quite small investments in India. The PIDG and the India investments are on our balance sheet.

We are very unlikely to grow the bit of development capital that we manage directly from the Department's balance sheet. Why would we, when we have CDC, which has the capabilities and the expertise, and which we pay to do that for us?

Q44 Jeremy Lefroy: Finally, can I ask about PIDG? I put down a written question to ask for the list of investments made by PIDG over the last five or six years. It was an impressive list. A lot of extremely valuable projects have been instituted through it.

However, one question I raised was this: are these projects being advised to, for instance, the Department for Business and, indeed, to UK Trade & Investment, so that UK companies are aware that they are going on? For instance, there may be capital equipment, supplies or consultancy required. They should be in a position to bid for those. We are not talking here about tied aid. We are saying, "Here are projects that the British taxpayer has been involved in. UK companies should be aware of them, so that they are able to bid for them." Is there any work going on between DFID and other Departments, particularly UKTI and the new Department for International Trade, to ensure that UK companies are bidding for the business that is available?

Mark Lowcock: I certainly hope there is. We support British Expertise, the umbrella group that tries to feed information across the whole of the business community and commercial sector about aid-funded opportunities. One thing it does is to go around all the multilaterals and generate information on the pipeline.

PIDG is a multilateral, although one with a high burden share for the UK. It is an advantage to UK suppliers that PIDG is effectively largely London-based. One thing I do know is that they access a lot of professional services from UK businesses that win tenders and bids to provide legal, financial, accounting and other advice. I will check whether there is more we could do to publicise contract and other opportunities to the commercial sector arising from PIDG's portfolio.

Q45 Jeremy Lefroy: And, indeed, any other such organisations where it is not tied aid but there is an opportunity for British business to take part.

Mark Lowcock: Yes, absolutely. The Government want to have the best-quality bids, especially British bids but from everywhere, into every multilateral pot. That is one of the best ways of driving better value for money, getting more impact and maximising improvement in the lives of the intended beneficiaries.

Q46 Jeremy Lefroy: Could I suggest that perhaps this information be made available to colleagues across the House, so that if there are companies



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in their own constituency they can say, "Look, here is a website or here is a place where you can access the opportunities that are available"?

Mark Lowcock: Yes.

Q47 **Albert Owen:** What have you done to reduce DFID's administration expenditure by £8 million in the year 2015-16?

Joy Hutcheon: You are right: it fell from £110 million to £102 million, from 2014-2015 to 2015-2016. That was very largely because of the fact that our depreciation charge dropped when we transferred assets to the Foreign Office, under One HMG. We also made some savings on travel costs.

Q48 **Albert Owen:** How can you effectively manage such a large budget and reduced admin resources, as well as ensuring value for money, which the Secretary of State has highlighted?

Joy Hutcheon: Our total operating costs are made up of an admin budget and a frontline delivery budget, which is what pays the costs of our staff overseas. In reducing our admin budget, we have been very much looking at corporate support. We made a lot of savings on estates. We are looking at our telephony. We are looking at things like cloud storage.

At the same time, we are having a conversation with the Treasury about slightly increasing the percentage of our total operating costs to our programme, so that we can intensify the staff we have overseas.

Q49 **Albert Owen:** You mentioned One HMG and the transfer of assets to the FCO. What do these include? Can you give us a flavour? There are some £40.4 million of assets transferred.

Joy Hutcheon: It was mainly buildings. It was mainly residential accommodation that our staff were in, or some office buildings when we did the co-locations. About £32 million was land and buildings. £4 million was furniture and fittings, within the buildings. There was £2 million on vehicles. We have some buildings under construction in Nepal, which were £1.5 million. Then there was about 600k on IT.

Q50 **Albert Owen:** Staff numbers have also been reduced over the period 2014-15 to 2015-16, by some 7%. Even though this is a good achievement, staff costs have risen by 3%, from £156 million to £160 million. Why have these reductions in staff numbers not translated into reductions in staff costs?

Joy Hutcheon: On the staff numbers, we lost about 200 staff, most of whom transferred to the Foreign Office under One HMG. Some of them left because we were removing duplication in the system. They were all relatively junior staff overseas. They were our least well paid staff.

At the same time, we had a 1% increase on the pay bill, which has happened year-on-year. We had some significant increases in our cost-of-living allowances and overseas pay bill, because of sterling depreciation over the period. We also had some increases in our hardship



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allowances, as we brought those into line with the Foreign Office under One HMG. That was a one-off increase. Those netted out in a slight increase in our costs.

Q51 **Albert Owen:** This is a phenomenon for one year only, you believe.

Joy Hutcheon: We are watching the sterling depreciation. Our pay will continue to increase at 1% per year, but we will not have that one-off step change in hardship costs.

Q52 **Albert Owen:** You have explained that. We understand that DFID in-country posts no longer have a dedicated human resources staff, and that all posts are now required to use a centralised UK-based HR service, raising concerns about welfare and support for in-country staff. What is the Department doing to ensure that this centralised service is able to offer a complete support service to staff and managers, especially in relation to local and cultural issues?

Joy Hutcheon: When we surveyed what we had in country offices before One HMG, we thought, "Well, are we transferring this to the Foreign Office? Are we keeping it ourselves? If we are keeping it ourselves, how are we going to do it?" We felt there was a better way of providing HR support. We were not going to transfer it to the Foreign Office.

We found that we had some staff in country offices at the most junior level who were doing a mix of admin and some HR functions. We took about 14 of them out, equating to about half a post in each office, and created two hubs, in Pretoria and in Delhi, with more senior professionally qualified HR staff. They now provide the support out to the country offices.

Q53 **Albert Owen:** Do they have the experience, though, on the ground? I think that is the point.

Joy Hutcheon: They all visited each office as they started. We track this very carefully. Our HR business partners are in contact with country offices every week through a weekly videoconference. We have a local staff advisory group, which meets quarterly, and we get feedback on how it is going from them every quarter. Some of the feedback we have had is that they like the consistency and the professionalism. Sometimes, sensitive issues are easier to deal with with somebody who is not in the office politics. It is not always the case that a very, very junior member of local staff is precisely the right person to be advising on a sensitive cultural issue. You want all the local staff in an office to contribute on that sensitive issue, but we have had feedback that it is useful to have an HR professional who is outside the office.

Q54 **Albert Owen:** I want to make one observation. You have mentioned junior staff on a number of occasions. Your junior staff are your senior staff of the future. You will have to retrain if you are going to get rid of all your junior tiers. Do you have a concern about that?

Joy Hutcheon: It is unlikely that our junior staff in those jobs in country



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offices will train to become HR professionals.

- Q55 **Albert Owen:** I am not linking that. I am making a very general observation on how, in three responses you have given to me now, you said about getting rid of junior staff. I am worried for the future, for DFID, in the delivery of its projects. If you get rid of all the junior staff, you will have to bring in expertise from outside in the future, and the cost could be more.

Mark Lowcock: Absolutely. I am concerned about that as well, which is why we have started up a new apprenticeship scheme. We brought, in the first year, 15 fast-track and regular apprentices into our operations hub in East Kilbride. We are hiring again this year. That goes alongside the young graduates we bring in. It is the case that, as with lots of organisations, some of the more routine admin work that lower-paid staff have done has been automated away, but we are finding that those people have lots of skills. We can develop them to do other, higher value-added roles, especially on the programme side.

You are absolutely right that the leadership today has a responsibility to make sure that we are building the future leadership, by bringing enough younger people in and giving them experience, starting at the entry level and then all the way through the organisation, to take on more senior positions. You are absolutely right about that.

- Q56 **Wendy Morton:** I wanted to go back to One HMG. You mentioned a depreciation charge. I get the benefits of consolidation, but you say that some of the savings were achieved due to transfer of assets to FCO and One HMG, and the subsequent deprecation charge had dropped because of that. Is there not an argument to say that you have saved, but that depreciation charge has gone into somebody else's budget? Overall, I would question whether there is a saving or not to the taxpayer.

Joy Hutcheon: You are absolutely right. The transfer of that charge will be represented in the annual charges that we are paying for an office to keep staff on the programme. Because we made the change, that is what got showed as a one-off drop in our admin savings.

- Q57 **Chair:** Can I now ask some specific questions on the patterns of projected expenditure in particular countries and regions? To start with, there are a couple of countries where there are decreases in projected expenditure that slightly raise eyebrows. Yemen is one. Unless I am misunderstanding, the amount that the Department is planning to spend in Yemen reduces. The same is true for South Sudan and Somalia. Is that correct, or am I misunderstanding the table?

Mark Lowcock: No, you are correctly understanding the table. For the 2016-2017 years onwards, we have carved out in total about 5% of the budget into effectively a reserve, to deploy into crises as they emerge.

The outturn in Yemen, to take your example, in the 2015-2016 year was £90 million. We budgeted for £72 million in February, when we did these numbers, because we were hoping, at that stage, that the humanitarian



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crisis would ease somewhat. As it happens, we all know it has not eased; it has got worse. Our current projection is that we will need £100 million this year for Yemen, so more than last year. We will find the difference between £72 million and £100 million from, among other places, the £200 million reserve that we displayed in the very bottom line of the table from which the figures I think you are quoting come.

South Sudan is a slightly different case, because the issue there, as we may have said before, is what access there is for the humanitarian system, given the absolutely atrocious behaviour of the warring parties against their own citizens and against the international aid system. There are appalling acts being committed against UN agencies and staff and others, which unfortunately is having the effect of making it harder to get aid in and provide support. We would like to be doing more, but we will have to see what is possible.

The issue on Somalia is a similar one, but the level of humanitarian need also varies from year to year. There was an El Niño effect for last year. We are hoping they will be coming out of that for the 2016-2017 and 2017-2018 years, as other countries in their region recover as well. If we need to do more on the humanitarian side in Somalia, then we have budgetary provision to do that.

Q58 **Chair:** I noticed another one: Iraq.

Mark Lowcock: Of course, when we did these numbers, we were not expecting the spike in humanitarian need in Iraq. As you know, Ministers have made substantial announcements for it, and not just on the humanitarian need either. I think you are aware that the Secretary of State put down a written ministerial statement that we would basically provide a guarantee for an increase in World Bank budget support to Iraq of £300 million.

What I would say, as a generic point on these numbers, is that we always expect, when we budget, that these numbers will change, because the world changes. Ministers expect the Department to have good ways of meeting new needs, without doing lots of damage to ongoing programmes. We have tried to develop the capability to do that.

Q59 **Chair:** Can I ask you about some of the increases? Some of them are unsurprising: Syria, Jordan and Pakistan. Can you tell us what the increase in the Caribbean is about?

Mark Lowcock: The former Prime Minister and his colleagues, including the former Secretary of State, decided that we had been underinvesting in the development of Caribbean countries and that we should redress that. When he went at the end of last year to the Caribbean, he made an announcement of a £300 million infrastructure programme over five years for the Caribbean. That is what is reflected in these numbers.

Q60 **Chair:** Are you able to tell us more about the breakdown of that between countries? Perhaps you could write to us.

Mark Lowcock: We can write to you on that, yes.



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Q61 **Chair:** I have just one more question on an increase. The “Asian regional team and other” expenditure is anticipated to rise from £72.4 million to £217 million across the two years. Can you tell us what that is about?

Mark Lowcock: I confess to a degree of sleight of hand in this. At the time we put these numbers down, Ministers had not decided what level of support they wanted to provide to Afghanistan into the future. We parked a lot of money in that line, while they took the time to decide. If you look at the Afghanistan number, in fact, you will see that it is much lower than the previous year. That is because they wanted to decide the level of support for Afghanistan in the light of the credibility of the reform commitments made by the Afghan Government.

Q62 **Chair:** That makes sense, thank you. Can you tell us when the individual country reviews will be published?

Mark Lowcock: I would expect that to be alongside, not before, the BAR.

Q63 **Chair:** Does “not before” mean not after as well; i.e. will it definitely be at the same time?

Mark Lowcock: I cannot promise exactly what that will be, because we will have to see how it pans out. The BAR is basically an aggregation of all the country things we are planning to do. They are part of the same total.

Q64 **Chair:** You are going to hate me, but when are we expecting the BAR?

Mark Lowcock: I cannot improve on my previous answer.

Q65 **Chair:** Would I be right in anticipating that it will be after the MAR?

Mark Lowcock: Not necessarily.

Q66 **Fiona Bruce:** As a reminder, it is over a year since the SDGs were published. Shortly after that, a Minister in the House said that the in-country plans were being reviewed in the light of the SDGs. Do you have reviews of the plans, in the light of the SDGs, or is this still awaited? A year is a long time, when they were obviously of such global importance.

Mark Lowcock: The Government tried to describe, in their evidence to you for your SDG Committee report, in the aid strategy and in the single departmental plan, which is published earlier in the year, how we intend to use the SDGs as a means of helping prioritise the use of the departmental budget. In truth, it is a bit more complicated than the MDGs, because there are 17 goals and 169 targets. That is not such a clear prioritisation framework as having the eight MDGs.

Pretty much everything we do is under the SDG framework, because it is so broad. There is clearly a whole range of areas which are particularly prioritised. SDG 1 is clearly heavily prioritised. The goals around education, health and improving the opportunities for women and girls are heavily prioritised. Goal 16, on governance, peace and security, is heavily prioritised. There are then some others, such as oceans and a



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number of others, which we have not, as the UK, prioritised to the same degree in the past. We will need to work through exactly what we want to do on some of those.

We will continue to provide information in the Annual Report on what we are doing in each country that is relevant to the SDGs and MDGs, as we have done for a numbers of years and which, I hope, people find useful. Working through in full detail exactly what we will and will not be able to do under the SDG framework is the work of more than a few months.

Q67 Fiona Bruce: We look forward to seeing what is in the in-country plans against the SDGs. Thank you. Can I turn now to your increased work in fragile and conflict-affected states, which you have said is a continuation of what DFID has already been doing for some time? The Committee is interested to know what lessons you have learnt from that focus, as you scale up further towards the 50% figure.

Joy Hutcheon: It would be fair to say that, in achieving the 30% target, we have learnt about working in fragile states across probably every aspect of our operating model. We talked three weeks ago about where DFID has got to in its progress on risk. We have learnt an enormous amount about handling risk in fragile states. We have the new risk framework, as you know. We are articulating our risk appetite more clearly for the staff who work in fragile states. We have built awareness and understanding of the need to identify, assess, mitigate and then monitor. I said to you three weeks ago that we think we want to improve on the monitoring, as we step up further in fragile states.

We have expanded our internal audit function and moved it to a risk-based audit function. We have learnt a lot more about the sorts of frameworks that staff are able to operate in in fragile states, which enable them to understand both the things they have to do and where they are able to be flexible and adaptive. That was reflected in the Smart Rules. We are doing more work to think about how to give staff confidence to programme in an adaptive way, while staying within that framework. We have introduced the senior responsible officer role for each programme, which identifies the person who is responsible for making that set of judgements.

We have learnt a lot about how to staff our fragile state offices; about the importance of flexibility and agility in moving our staff around Departments; about the importance of understanding and having better information about people's experience and capability; and about better workforce planning.

We have put a lot of effort in the last two years into improving our workforce planning, so that we can understand who we are going to need where. I think we have learnt about and improved on cross-Whitehall working in fragile states. We have learnt a lot and are still learning about how to work with our suppliers in fragile states, particularly the contracted suppliers that we are managing relationships with, and the need to make more progress in how we are working through



multilaterals. I am sorry that that is a long list, but it is across the start to finish of how we work.

Q68 Fiona Bruce: Can I just touch on one area, which is the increased risk of working in fragile and conflict-affected states where there is corruption? There are two aspects to my question, really. One is that, when we saw you last month, you told us that there was approximately 11p in every £1,000 of aid lost to fraud or corruption. We are going to be interested to hear how you will mitigate that, given the increased work in these areas.

I am also interested to know how DFID is seeking to help Governments in countries where you are working where corruption is clearly a very big issue. This was emphasised to two of us when we were in Washington recently. A number of parliamentary representatives from countries said it is a major, major issue. Those countries do not have the capacity and governance to tackle it themselves. How is DFID going about helping them? Interestingly, it is something that has been emphasised in ICAI's latest report on tackling tax avoidance and evasion.

Joy Hutcheon: You are right. We talked three weeks ago about the measures that we have in place to handle fiduciary risk in fragile states. We were encouraged that ICAI found that we had strong measures to manage the risk to our direct spend. We have taken the challenge on needing to step up how we are thinking of managing our spend through multilaterals. The Secretary of State is very keen that we pursue that.

In terms of our own spend and how we are going to keep that 11p where it is or reduce it, it is about making sure that we design safeguards into programmes and that we have very tight financial controls and monitoring frameworks. It is about clarity with our suppliers as to what we are expecting from them, where we are transferring risk to them and how we are going to approach loss recovery if that risk crystallises. We will continue to be clear about our zero-tolerance approach, which means not that we pretend there is no risk, but that, if that risk does ever crystallise, we are clear that we will always act on it, respond and seek to recover our losses.

In terms of how we are supporting Governments, you will know that, after the Prime Minister's Anti-Corruption Summit last year, we have an interim HMG plan. The Government are developing a further plan, which will be published this autumn. We already do a lot of work in-country, supporting Governments on their own oversight mechanisms and on their own accountability.

We see the opportunity, following that summit, to work more coherently across-Government, identifying all the levers that the UK Government can pull, both to support Governments that are already trying to address corruption and also to encourage Governments that may not be doing some of the things they ought to do. Alongside the very good work that DFID already does in-country on a technical level, we can step up the way we are collaborating across HMG in both of those scenarios.



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Q69 Jeremy Lefroy: Following on from Fiona's question, why are there no disclosures on reported or recovered fraud in the Department's accounts? I think in 2012-2013 there were some disclosures, but we do not have any details of the amounts and the reasons.

Joy Hutcheon: As you say, we have disclosed the 61 losses in this Annual Report. We took out the list of country disclosures after 2012-2013, as a result of a cross-Government streamlining process that was driven by the Treasury. That is no longer in our Annual Report, but we have published it on our website. If you look in the "about us" section of the DFID website, you will find the list for 2015-2016 of confirmed losses by country.

Q70 Jeremy Lefroy: Does it go into detail on those losses?

Joy Hutcheon: There is no narrative. There is the equivalent information that there was in the 2012-2013 Annual Report.

Q71 Jeremy Lefroy: Considering the high profile that is given to the tackling of fraud and corruption, do you not think it would make sense to highlight the examples of where you have detected and dealt with it, to show that that is in fact a priority?

Mark Lowcock: I am very happy to have a look at that. One of the things that I can tell you about is the hierarchy of cases and how we deal with them. We get lots of reports of possible problems. In quite a high proportion of those reports, it turns out when we look at it that there is not a problem. Then there is the next subset, which are those cases where there is a problem, but we do not have a loss to recover. That is also quite a high proportion.

The category then is those cases where there is a loss. There are 61 cases, as Joy says, listed on the website where there is a loss. The next thing we do is recover the losses. We have a good track record on recovering losses. We list in the thing on the website all the cases where there is effectively a zero net loss, because we have got full recovery.

Then we have the final category, which are those cases where there is a fraud, we have not fully recovered it and so there is a net loss. Again, they are recorded. The net is that roughly £1 million figure for 2015-2016, which is a much higher number than we would like. We strain every sinew to drive it to the lowest possible level, including doing everything we can to recover our losses.

Q72 Jeremy Lefroy: I would ask you to consider perhaps putting that information in the report, given its importance.

Mark Lowcock: The Treasury governs what we can put in the report, but we can certainly look at whether there is more we can put on the website, which we have a bit more freedom over.

Q73 Wendy Morton: I wanted to move on to responding to crises. In the Annual Report, you have highlighted that you responded to an unusually large number of crises in 2015-2016. I think we would recognise that. The aid strategy and spending review established a £500 million



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cross-Government crisis reserve. How is this enabling more effective responses to crises and how is the funding allocated?

Mark Lowcock: £200 million of the reserve is parked in a pot, as we have recorded in the Annual Report, which is the first port of call if there is a crisis somewhere for which we need to do a response bigger than we anticipated earlier. Quite a lot of what is in the budget from the beginning of the financial year is crisis response, because we know that we are unfortunately going to be dealing with the Syria crisis inside Syria, Lebanon, Jordan and Iraq for some years. We know that now, so we budget for that.

In respect of the £200 million, we have an in-year process, as new problems emerge, which they did, as you said earlier, in Iraq, where we say, "Look, there is a bigger problem here. We need to find some resources to contribute to our share of tackling it." The first port of call is the £200 million crisis reserve.

We are also used, in the Department, to dealing with some crises or sets of crises that require a bigger response than is available from that little pot of money. When we did the Ebola response, as a lot of you will recall, we had to carve out a lot of money from all round the Department to mobilise a really big response.

The remainder of the £500 million is basically £300 million that we have uses for, and which is in the budgets for the countries and the multilaterals, but which we know, if the crisis burden is such that the £200 million is exhausted, we will be able to release. The main use of the £300 million is it clarifies the degree of intent and recognition across the whole Department: "Yes, we have set you, DFID Kenya, this budget, but just be aware that if things go a bit more pear-shaped in South Sudan, we may have to re-phase some of the things you are doing, in order to help out a bit more in South Sudan." That is really the value of the £300 million.

Q74 **Wendy Morton:** You make a point about having uses for the £300 million that you can draw upon. Given that crises are uncertain by their very nature, is there a tendency for this to mean that, towards the end of the year, any money that has not been spent out of that £300 million is suddenly spent and leads to a rapid spending of DFID budget?

Mark Lowcock: We have tried really hard not to be in that position. The success we have had in avoiding being in that position goes back to the first question from Mrs Latham. If it were the case that we still had a big spike in expenditure in either December or March, you would be rightly on my case a lot more heavily about what is going on here. In fact, we have been able to reduce that bunching problem. If it turns out that we overestimate the level of unexpected crises, we always have a lot of other uses for money that we can do. We can inoculate more babies than we were going to, provide more antiretrovirals than we were going to or accelerate the delivery of some other programme.



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In the Department, we are trying all the time to spend exactly the sum of money you vote to us, but also to be able to free up some money if a new problem happens or go faster with some programme if the crisis is not as bad as we thought it was going to be. We are trying to do all those things at the same time.

Joy Hutcheon: You are absolutely right about the risk. That is why the £500 million pot is split into a bit that is sitting there and a bit that is programmed until we need it.

Q75 **Wendy Morton:** Coming back to crises, do you now have a comprehensive set of criteria to decide how and when to exit from a crisis? It is one thing to go in, but the coming out can be something very different.

Mark Lowcock: Yes. As you are probably aware, the Public Accounts Committee looked at this issue, following the NAO's report on our response to crises. That is one of things it said to us. We are trying to be a lot more explicit about that. This is not an area where the smartest approach is to have a really rigid set of rules. The smartest approach is to have a goal of exit, but to be pragmatic on how and exactly when you exit and what the tidying-up arrangements are.

If I take the case of the Nepal earthquake last year, we have reinvested, at the end of the crisis response phase, in that facility at Kathmandu Airport, which was the first and only facility available to get aid goods through the airport, which we had put in place when the earthquake hit. We thought it was a good idea, having found its utility in the earthquake response, to build its capability a bit more as part of the end phase of the response to the last earthquake. Everyone knows that, unfortunately, it is possible in future that there could be other earthquakes in Kathmandu.

We try to think carefully about the lessons learnt from a particular crisis, in order to do the exit in the most responsible way, not just for that problem but potentially for the next one.

Q76 **Pauline Latham:** Can you tell me if you have made an assessment of the impact of programmes that have now closed as a result of the previous BAR?

Mark Lowcock: We write a project completion report on every programme that closes. We give it a score, and we track that score. That tells us the extent to which, at the end of its life, each investment has been successful or not. They also contribute to the goals that the Government had set for the period. We are tracking, for example, in an education programme, whether it has made its intended contribution to the commitment the Government made in the last Parliament to finance a basic education for 11 million girls and boys.

We do both those two things for every project, essentially. Then we periodically look across the whole of a portfolio in a sector, or sometimes by country, and try to learn the generic lessons.

Joy Hutcheon: I think you possibly mean the countries we have exited



from.

Mark Lowcock: Sorry, I misunderstood your question. I beg your pardon.

Joy Hutcheon: We try to be careful about the word "exit", because when we use the word "exit" it focuses everybody on a closure of a programme and laying off staff.

Q77 **Pauline Latham:** It does not mean we have not stopped spending money, though.

Joy Hutcheon: We are tending to use language around "transition", because we are almost always transitioning to something. Sometimes it is to a different relationship with DFID; sometimes it is to a different relationship with HMG, as in Vietnam. The programme since the last BAR we have formally closed is the Vietnam programme. We had a very careful process with the Vietnamese of evaluating our 20-year relationship. We had an independent evaluation. They, as partners in this, had their own independent evaluation.

I went out, and we had an event where we presented those evaluations, shared the lessons with the rest of the development community and did a formal handing-on of the baton to the ambassador to signify that, while DFID would not be there any more, the relationship would continue.

Q78 **Pauline Latham:** If we are looking at Iraq, the humanitarian situation has declined since the end of DFID's bilateral programme in 2012. Is there any case for restarting bilateral support, given the increased emphasis we now have on fragile states?

Mark Lowcock: That is something that Ministers are looking at at the moment. Two things have happened in Iraq. First, because of the dramatic reduction in the oil price, Iraq's economic situation has become more parlous, which is one of the reasons why we and others have come to their aid, in our case through the loan guarantee the Secretary of State has announced.

The other thing is the emergence of Daesh/IS, the need to deal with them and the humanitarian consequences of that process and programme. Once we have dealt with that, handled humanitarian consequences and got through the stabilisation phase, I am sure it will be a question that Ministers will want to think about. Are there other things that the UK wants to help with in Iraq into the medium term? Through various of the cross-Government funds, there has been quite a lot going on already, but it is a reasonable question that I am sure Ministers will want to come to. Is there anything else that DFID in the medium term should do?

Q79 **Pauline Latham:** Can we come on to the deteriorating humanitarian situation in Burundi? In July, former Minister Nick Hurd said that he had significant resources being deployed in Burundi, particularly through the EU, but he could not, at that point, see an argument for revisiting the bilateral arrangement that ended back in 2012. Given the terrible



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situation there and the impact of Brexit on our development work through the EU, are you reconsidering your decision to end bilateral aid to Burundi?

Mark Lowcock: That is something that Ministers will need to think about as they finalise the BAR and the forward allocations. Because we have not got to the stage of finalising those, I am not in a position to answer that at the moment.

Q80 **Pauline Latham:** We commented some years ago about the reduction in aid to India. What lessons has the Department learnt from its programmes in India and how can it apply these to other countries?

Joy Hutcheon: India is, of course, a country where we have transitioned very deliberately to a new relationship. As we have wound down our results delivery programmes in India, we have had a very conscious process of learning lessons out of those and transmitting them across our professional cadres into other parts of the organisation. We have done some work supporting programmes in India, working with programmes in other countries, to very directly translate that knowledge from programme to programme.

India has also for a long time been a knowledge powerhouse for DFID. We have learnt lessons in India that we have taken out. We quite often flex staff from India into other programmes to go and do some real-time lesson learning. We have had a big effort in a number of ways to make sure that we have taken those final lessons, but we are also taking a lot of lessons out of India about ways to transition to new relationships.

India will continue to be that sort of knowledge base for the organisation, in terms of thinking about, as other countries move out of poverty and into a new relationship with us, the best ways to do that and to support that.

Q81 **Pauline Latham:** How many staff do we still have in India, then?

Mark Lowcock: There are about 40, doing a mixture of things, including some things for other Government Departments. It has come down quite a lot. Some of the development capital things Mr Lefroy was asking about earlier are a bit more resource-intensive, to be honest, because they are on your balance sheet and you need to know what they are worth all the time. We have an important team looking after that, as well as teams looking after the technical assistance programmes and some things other Government Departments are doing. We will get you the exact numbers, but it is about 40.

Q82 **Chair:** Do you expect that to go down in the next couple of years, or is 40 about what it is going to stay at?

Mark Lowcock: To be honest, it depends a bit on how much other Government Departments ask us to do things for them. On some of the cross-Government funds, there is a DFID capability, which other Government Departments are very keen to plug into. As Joy was saying earlier, having some regional capability for programmatic but also



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support services is useful. Some of our south Asia staff, for example, work on our global IT network, including some in Delhi. The numbers reflect that as well.

Joy Hutcheon: I do not think those are in the 40 figure. The 40 are on the India programme, and then we have our helpdesk that operates during the night, while our UK helpdesk is out of operation.

Q83 **Albert Owen:** My colleague mentioned Brexit. I am sure, when you come before a Select Committee in the House, you expect to be asked questions on Brexit, so I am going to ask two now, before I rush off. What has been the impact of the Brexit vote on the Department's exposure to currency risk, for investments other than sterling? Can the Department put a monetary value on this?

Mark Lowcock: About 7% of our bills are paid in foreign currency. It is quite modest, in terms of the direct foreign currency risk. Of course, what we can buy with the pound in lots of the countries where we operate is reduced as a result of the depreciation of sterling. That means the cost of achieving the goal that we provide better water and sanitation for 60 million people potentially could get a bit higher, and we have to factor that into our budget allocations.

Q84 **Albert Owen:** Does the Treasury reimburse any additional cost, because of fluctuation, when you are trying to meet your 0.7% target?

Mark Lowcock: The 0.7% is set against the size of the economy in sterling. They do not, no.

Q85 **Albert Owen:** What you are saying, for clarity, is that it is not a huge impact because it is such a low percentage, at 7% of foreign currency use. When it comes to future planning, there could be a bigger impact, because of the lower cost of the pound.

Mark Lowcock: My observation is that currencies rise and fall over time.

Q86 **Albert Owen:** We are talking about a significant drop.

Mark Lowcock: It was a significant drop in a short period. On the other hand, the pound has been at not very different levels against the euro at various other points in the last 10 years or so. Were this to be the sustained level, it would make it more expensive for us to achieve some of the things in the manifesto, and we would have to adjust other things as a result to deliver those commitments.

Q87 **Albert Owen:** The Secretary of State described our future relations with the EU as "a case of the art of the possible". Is there scope for continued contributions to EU institutions earmarked for development?

Mark Lowcock: That is one of the things to be addressed through the negotiation on departing from the EU. I do not think there is any irrevocable prohibition on that from either side, technically or legally. It would be possible to put in place arrangements to do that. Whether the UK Government decide they want to make that proposal, and then



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whether the other side of the negotiation is interested in that, is a matter that will play out.

- Q88 **Albert Owen:** I understand nobody is going to give us a running commentary on negotiations. I fully understand that. Can I just ask you a very general question, then? What opportunities does leaving the EU present to the Department?

Mark Lowcock: The biggest opportunity is that the UK will be able to manage its own trade relations with a very large number of countries. By number, the greatest proportion of them are developing countries. Depending on exactly the arrangements we reach with the EU, we will potentially be able to work out what access we want to offer developing country exporters into the UK market, and likewise what kind of access we want for the UK into their markets. That is probably the single biggest area, over time, but it depends heavily on the detail of the agreement we reach with the EU.

The other significant area is that, unless we take a decision, consistent with your last question, to keep investing in the EU's own development programmes, there will be some resources freed up. There will be a decision about how to use those resources.

- Q89 **Albert Owen:** Prior to the referendum decision, what influence did the UK have on how the EU aid budget and in particular the European Development Fund was spent? How has the referendum decision impacted the UK's influence?

Mark Lowcock: The UK is still a member of the EU. We continue to do all the things we were doing in the management committees and the decision-making processes before the referendum. Decisions in Europe are influenced by the European Parliament, the Commission, the other institutions and then 28 member states in the Council. We were a voice in all that.

Most people have always recognised that the UK has a lot to offer on development. In our experience, our ideas have always been listened to carefully. I was in Brussels a month or so ago, talking about some of these issues, and I still detect an interest in our ideas and view.

- Q90 **Albert Owen:** You have not noticed any difference, since the referendum. That was the specific question.

Mark Lowcock: Of course, there are some differences, as people work through the consequences. It is not the case that people have lost all interest in the UK's views on development or how to work with others to solve development problems or engage in humanitarian crises.

- Q91 **Albert Owen:** We are not pulling back now in any way, shape or form.

Mark Lowcock: No. As the Prime Minister has said, we are fully engaged, as a member of the EU, and we will be until we leave.

- Q92 **Jeremy Lefroy:** I will return to a point Joy mentioned about Vietnam, and this goes to an issue that we have raised on several occasions. I was



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very pleased to hear that you had had a 20-year view of our work in Vietnam, but could we not apply that to live programmes? We have said in the past we often do not know what we were doing 5, 10 or 15 years ago in countries where we have ongoing programmes. Could I suggest the same approach, to looking back at the impact of UK development aid, in countries where we continue to have programmes, not just in those where we closed them?

Mark Lowcock: It is a really interesting idea. Through the evaluation work programme, we sometimes take a long view. But let me take away the thought that we pick, say, one or two countries and we have a deep historical look back into the things we have done in them over a long period, what we have learnt and whether we are catching all the things that we should be catching. Let me consult the Secretary of State on whether we should do something like that.

Joy Hutcheon: There are some other examples of where we have done that. In Nepal, when we moved out of eastern Nepal, where we had been working for a long time and felt that we should move some resource up into the west, which was poorer, we evaluated our longstanding relationship of more than a decade in eastern Nepal, partly to understand what we had achieved but partly to transfer those lessons as we transferred resource. We do do it.

Q93 **Jeremy Lefroy:** Where things are ongoing, not where programmes have closed or are being moved.

Joy Hutcheon: Yes.

Mark Lowcock: It is a very good point. Let me ask about it.

Q94 **Chair:** Let me take you back to the line of questioning that Albert was pursuing, on post-referendum trade. There is both an opportunity here, in development terms, particularly for the poorest countries, and the potential for this to look like going back to tied aid, which of course is not allowed under the International Development Act. Can you tell us what advice you are giving to the Secretary of State on the use of ODA for facilitating trade?

Mark Lowcock: The Secretary of State has been absolutely clear, including in her letter to the *Financial Times*, that the Government are not reintroducing tied aid. The composition of the Department's programmes to facilitate trade and help countries trade more effectively is quite broad. We do quite a lot on customs, institutions and border management. We do quite a lot on the enabling environment for the private sector too, for example to help countries meet the standards required for export into European markets.

We do quite a lot on increasing infrastructure, such as making the ports work better. When she was in Kenya a fortnight ago, the Secretary of State went down to Mombasa port and saw some of the incredibly impactful stuff we have done dramatically to reduce the transit time through Mombasa port, with enormous benefits for trade in the region



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and more broadly. We do quite a lot of that kind of thing.

One of the really important areas of work we are engaged in as well is property rights, land rights and contract enforcement. Those kinds of things give traders and investors confidence that, if you are a foreign investor or a foreign business wanting to engage in a country, if the property rights and contracts work properly, you will have more confidence to do that. The things the Department does in that space are valuable as well. There is a range. We could give you a longer list, but there is quite a lot.

- Q95 **Chair:** We have seen similar programmes in some of the countries we have visited, including Nigeria. Is there a risk that the imperative to make trade agreements with middle-income countries might mean that DFID is focusing less on the poorest countries, particularly in sub-Saharan Africa, and more back to countries like India, because that is where there is potentially a more lucrative trade agreement, from a UK point of view?

Mark Lowcock: The forward budget that we presented in the Annual Report, which is still the planning assumption Ministers have asked us to work through, has a very heavy concentration in Africa and the poorest countries of south Asia.

- Q96 **Chair:** There is no sense that Brexit and the need for new trade agreements might change that.

Mark Lowcock: No one has given me instructions to that effect, no.

- Q97 **Chair:** You have experience going back to when DFID did not exist, and ODA was part of the Foreign Office. Do you want to say something about how you see the relationship panning out between DFID and the new Department for International Trade?

Mark Lowcock: We have seconded quite a lot of staff over to DIT. We have offered to help them with various things. They have a massive agenda, to build a capability to run the UK's trade policy, which is what their job will be once we have left the EU. We are working very closely with them.

- Q98 **Chair:** Will DFID have a specific role, as trade agreements are being discussed? Will DFID be round the table alongside other Departments?

Mark Lowcock: If their trade agreements are with developing countries, DFID will have a very important role, because a lot of the relevant expertise on those countries is in the Department.

Chair: Thank you.

- Q99 **Fiona Bruce:** I would like to ask about Rwanda. It is a country in which DFID has invested quite a lot of aid over the last several years, and which I understand now is being looked to by many other countries across Africa as a model of development and momentum. I am interested to know whether, as a result of the momentum that is now occurring within Rwanda and from Rwanda itself, whether you are going to review the



amount and the degree of aid that is put into Rwanda in future.

Mark Lowcock: Mr Wharton, the Parliamentary Under-Secretary, was in Rwanda a few weeks ago. The Rwandese have made a lot of progress on many issues: reducing poverty, growing the economy, becoming more attractive to investors and so on. They held a very important environmental conference in Kigali recently, because they have built the facilities and the links to be able to do that. The ultimate goal for the Department is no longer to be needed to the same degree in Rwanda. They have made quite a lot of progress and are a bit more self-reliant and self-sufficient. That is a good thing. We have reflected that in the forward budgeting.

There is something about how other countries learn from the Rwandan experience, not all of which is uniformly positive, of course. There are human rights concerns and other concerns about freedoms, which British Ministers have raised repeatedly. The development journey has an economic component, as well as governance, human rights and a variety of other components. The UK Government are clear that it would be good to see progress on some of the other dimensions in Rwanda, and we are willing to help with that.

Q100 **Fiona Bruce:** It is something that you are looking at, in terms of lessons to be learnt, perhaps.

Mark Lowcock: Yes. How many lessons are directly applicable from Rwanda to other countries needs to be thought through carefully. Their starting point, after the genocide in 1994 and 1995, was a very extreme one. What they have been able to do, in terms of reducing poverty, stabilising the country and growing the economy, is unquestionably extremely impressive. But they also have some other challenges to make progress on.

Q101 **Jeremy Lefroy:** Could I suggest that it may be one of the countries you look at, in terms of a 20-year view? It is pretty much 20 years.

Mark Lowcock: Yes.

Chair: Can I thank you both very much for coming today and giving evidence? These sessions are immensely helpful to our work. There are a number of issues, which we are going to pursue, where you have promised written further evidence, and thank you for that. We look forward to seeing you again soon. I think we are seeing you, Permanent Secretary, with the Secretary of State next month, where will be looking at the various reviews and other aspects on allocation of resources. Thank you very much indeed.