

**Adam Smith International Written Evidence to the International Development
Committee inquiry into the Effectiveness of UK Aid**

1.Introduction

1.1 Adam Smith International (ASI) is a global advisory company that works locally to transform lives by making economies stronger, societies more stable, and governments more effective. ASI has worked with multiple UK Government departments over the past three decades to deliver on their international development and foreign policy objectives around the world. It is for this reason that we are contributing to this review.

1.2 Since 2015, ASI has been an Employee Owned Trust, owned by its employees and established under model rules created by the UK Government to advance employee-ownership of British businesses.

1.3 In 2019 ASI was certified as a B Corporation, proving its credentials as a company that demonstrates a balance of profit and purpose by meeting the highest standards of social and environmental performance, transparency, and legal accountability.

2.The definition and administration of UK aid - who should be responsible, and accountable, for targeting and spending aid?

2.1 ASI supports a smooth, functioning cross-government approach to aid that enhances UK interests in an efficient and transparent manner while drawing on the strengths of multiple departments. Doing so will support HMG's international objectives, and will assist HMG's supply partners to become even more efficient and effective.

2.2 Collaboration between the different departments delivering international development projects across the government has improved, for example the common management approaches taken by DFID and the FCO's Joint Funds Unit or collaboration between DFID and BEIS in delivering International Climate Finance Overseas.

2.3 The move away from reviewing these departments in isolation, through the new mechanism of the Integrated Security, Defence and Foreign Policy Review has the potential to further strengthen the approach to policy making, reduce silo working and duplicating of objectives, and make more rational expenditure decisions across the board.

2.4 The integrated review also provides a much needed opportunity to increase the scrutiny over the large amounts of the aid budget that DFID provides to multilateral institutions over which it doesn't have the same accountability and control as it does over private and NGO suppliers. The review may also wish to consider interrogating the incentives of spending departments for selecting multilaterals over bilateral partners and the impact this has on achieving Britain's national interests.

2.5 It is hard to pinpoint the definitions the UK government uses in its design and administration of UK aid. Since this is an area where pejorative language in public discourse abounds, this lack of clarity is problematic and leads not only to avoidable communications problems, but also to more fundamental problems in guaranteeing rational expenditure and in adequately assessing results.

2.6 The UK government may need to increase its focus on ascribing adequate long-term aims and objectives to the "Global Britain" narrative. To date, its approach to foreign

policy has been mixed, which in turn has sometimes impacted DFID's ability to align its programmes to its four strategic objectives. Although there have been no shortage of strategy documents attempting to address this, the result is still muddled, and the UK Government as a whole has yet to adequately define this area of policy.

2.7 This problem is less obvious in the FCO, since their funds are clearly defined in their short-term time frame and structure (CSSF in support of fragile states and conflict zones, and the Prosperity Fund in support of middle-income countries). As a result of this clearer strategy and structure, the FCO (through FCAS) often forms more mature, pragmatic, and trusting relationships with suppliers that cover policy, risk as well as programme matters, and has allowed for frank exchanges at multiple levels.

2.8 DFID does work well to long-term aims but without further outlining of our national objectives and a more clearly defined foreign policy across the Government, even the best long-term planning will face challenges in finding the organisational structure required to guarantee results.

2.9 These structural issues accentuate an inherent difficulty in the approach to overseas assistance faced by all aid agencies, namely the natural division between the short-term requirements of immediate humanitarian aid, and the long-term objectives of international economic, social and governance development.

2.10 It is beneficial that aid expenditure under DFID's mandate has a degree of independence from short-term political imperatives in foreign, defence and trade policy. But it is still imperative that this longer-term outlook is guided by better defined thematic and country specific priorities.

2.11 At present, there is not enough clarity of who guides the definitions that determine the targeting of UK aid, and therefore of who all the different areas of development work undertaken across Whitehall should ultimately be accountable to.

2.12 Within DFID, this lack of clarity can affect the design and implementation of programmes, due to a more risk averse culture that has developed in recent years.

3. How effective and transparent is the UK aid spent by the Department for International Development (DFID) compared to aid allocated to other Government departments and to the cross-Government funds?

3.1 Within Whitehall DFID has unmatched expertise, programme machinery and global networks. Among its advantages are its range of expertise in themes and geographies, the extent of research it does into projects, the depth of design, and the emphasis on learning and doing no harm. It displays flexibility and maturity about reform and change, learning from programmes and reviews, and thinking and working politically.

3.2 DFID has much for other Whitehall departments to learn with regards to delivering aid projects - how to plan, design, manage and learn from aid delivery.

3.3 DFID's investments in Supplier Relationship Management (SRM) are most welcome. Nonetheless, DFID could, in turn, learn from the working relationships the FCO and other departments have with their suppliers, both in the international development sector and in UK public procurement more widely. While the 2017 Supplier Review brought about a number of necessary changes, it has unfortunately weakened the spirit

of partnership between DFID and its suppliers that characterised the past. This is detrimental to programme delivery, making it harder to manage risk, navigate political economy, and build momentum, and needs to be reversed to improve UK aid effectiveness.

3.4 The Supplier Review also led to fundamental changes in the composition of the DFID supplier market. The commercial viability of suppliers has been severely affected by this, resulting in some going into administration, others being bought by larger, foreign owned companies, and others simply choosing to exit the DFID market. Sadly, very few British owned and headquartered companies remain. Recent changes brought about by the Cabinet Office's COVID Supplier Review have reversed many of the changes, albeit on a temporary a basis, and have been universally welcomed by suppliers of all sizes.

3.5 Recent changes to procurement within DFID have been of mixed success. Although we of course appreciate the need for value for money and cost effectiveness in procurement, it has been our experience that in splitting the assessment of procurement responses between financial and technical considerations, too often in its decision making DFID placed far greater weighting on financial considerations over technical expertise and quality, which in our opinion will have an impact on aid efficacy in the long run.

3.6 Programmes benefit from engagement with senior officials and ministers alongside engagement with more junior and inexperienced staff, but too often suppliers feel they are cut out of any thought leadership the department is undertaking, and therefore lack an outlet to provide expertise to long term policy making.

3.7 In Whitehall, DFID, the FCO and other departments where relevant could be more closely aligned for the sake of informed policy and planning and development effectiveness. Particularly for political economy and policy purposes, there should also be more interaction in-country between DFID and the FCO, and it is to be hoped that the integrated review will address these personnel hierarchy issues faced in diplomatic missions around the world.

4. How should the national interest be defined, and what weight should it be given, in relation to targeting UK aid?

4.1 The national interest is too often implied to mean the nation's financial interests, which gives rise to allegations of the UK government seeking to have British business profiteer from aid to developing nations, or that the UK government is only interested in providing aid if there is a net benefit to the UK economy.

4.2 In reality, the national interest covers, or should cover, three areas; our national values, our national security, and our national trade and investment interests. Although this is often recognised as being the case by the governments in the countries in which we work, it is sometimes unclear that the UK Government recognises this, or is able to adequately articulate this in a coherent manner, which has sometimes led to alienation of developing nations in which the UK is working.

4.3 The "Global Britain" narrative of the past several years, which, although ill-defined, has at certain points sought to recast the UK as "a great trading nation once more" after the UK leaves the EU. This has played into this idea that the national interest is financial,

and the UK government has not done enough to emphasise the other two fundamental components of the national interest.

4.4 There have been moments where the national values element has been attempted to be defined, but it has usually been done poorly and the UK government has often been accused of seeking to impose “British” values, in a post-colonial sense, on the developing world.

4.5 These criticisms have therefore masked the good work being done by the international facing departments in supporting our national values as part of our national interest in international development, particularly with regard to the UK’s focus on combatting extremism and building security resilience, our peacekeeping work, the UK’s work supporting religious freedom and tolerance, in supporting a free media and safety for journalists around the world, in combatting climate change and corruption, in encouraging the sustainable economic development of some of the world’s poorest countries, and the UK’s commitment to supporting education, particularly of girls, around the world.

4.6 For example in Pakistan, ASI is working with UK Aid to support girls’ education in in the province of Khyber-Paktunkwa, a province battered by terrorism, and known for Taliban attacks on the Army Public School in 2014, and on Malala Yousafzai. Aid from foreign countries has exacerbated the widespread local view that girls’ education is a ‘Western agenda’. Whilst these conditions make it difficult for aid workers/contractors to operate in the province, it points more than ever to the necessity of such development programmes.

4.7 If we take the national interest to be these three areas combined, then they should be at the heart of targeting UK aid.

4.8 But there are risks that the short-term prioritisation of national interest can undermine good development practice, for example in single issue security concerns or single project investment opportunities. It is therefore imperative that any involvement of our “national interest” in international development is supported by the well designed, rigorously scrutinised, and well-organised and streamlined development of the thematic and geographic strategies for international development that we have previously outlined as crucial to the efficacy of UK aid.

4.9 The short-term immediacy of the CSSF and Prosperity Fund lend themselves better to more overt political objectives, but this approach may not be in “the national interest” in the long-term, since aid expenditure defined in terms of political or financial interest can invite resistance from recipient governments and thereby be less effective.

4.10 It is harder to influence national interest through aid given to multinational organisations than through bilateral funding given the UK government’s lower level of control over the eventual destination or use of such funds. If the national interest were to be well defined and better planned for long-term development rather than short-term political or financial objectives, it is possible that it would be easier for the UK government to better judge the efficacy of its funding of multinational organisations, which in turn may lead to a recalibration of the expenditure of these funds on these organisations.

4.11 If the “national interest” were to be satisfactorily codified with broad based support into our international development objectives, it is possible that UK government and Parliamentary scrutiny of our engagement with these multinational organisations would be easier and more effective.

5.How is official development assistance defined, administered and targeted elsewhere in the world?

5.1 We would recommend that in the course of their investigations, the committee look at the definition, administration and targeting of official development assistance of the following international agencies: USAID, DFAT, The European Commission, Sida, GIZ.