CAFOD SUBMISSION TO THE IDC INQUIRY ON DFID'S USE OF CONTRACTORS

CAFOD is the official aid agency of the Catholic Church in England and Wales and part of Caritas Internationalis. Our work is informed by the views and priorities of our partners and our understanding of Catholic Social Teaching.

EXECUTIVE SUMMARY

The UK Government is using an increasingly complex array of mechanisms to spend climate and development finance, using a variety of contractors and intermediaries, including businesses, private equity firms, and NGOs. The results have been mixed, and development and climate protection impact has often been hard to assess due to the nature of the contracts, the length of the projects or in some cases the early stages of many of the projects.

This submission focuses specifically on the questions:

- **How effective are DFID's procurement, contract management, risk management and programme management processes in achieving value for money and effective long-term development?**
- **How could these processes be improved?**

Recommendations:

1. Before increasing the use of contractors and public private partnerships (PPPs) to try and meet climate and development targets, DFID needs to evaluate properly what has worked and what hasn't to date, and understand why.

To do this they need to learn from existing mechanisms such as the Climate Public Private Partnership (CP3), and from the Commonwealth Development Corporation (CDC) and Private Infrastructure Development Group (PIDG)'s use of intermediaries to deliver sustainable development programmes.

2. If contractors are to be used effectively to implement both the Sustainable Development Goals (SDGs) and the Paris Agreement, donors need to develop clearer guidance and principles on how contracts will be awarded and results measured. Donor agencies must maintain responsibility for ensuring sustainable development impacts and not contract out the results.

DFID should develop clear sustainable development criteria to assess the impacts of all of their development and climate finance invested through intermediaries. They should also support global efforts, such as UN Financing For Development and the UN Development Cooperation Forum, to develop clear monitoring and accountability criteria for all types of finance that goes through intermediaries or contractors.

3. There is a need for improved monitoring and evaluation of project impacts and for more transparent contracting processes and reporting to ensure accountability. Building on the UK's transformative commitment to apply open contracting principles to government contracts (in the 4th Open Government Partnership National Action Plan 2016-18), DFID should develop pilot projects to apply open contracting principles to development and climate finance, as a way of meeting the objective of ensuring "citizens can see a clear public record of how government money is spent on public contracts and with what results."[1]

1. Understanding the scale of investment required

1.1 The Sustainable Development Goals (SDGs) and Paris Agreement on climate change represent a significant political commitment to shift away from a dependency on fossil fuels to more sustainable and

[1] UK Open Government National Action Plan 2016-18 (May 2016)

efficient energy systems globally and more generally towards an era of development that recognises the need to respect and protect environmental limits. They also broaden the previous focus of tackling poverty to include leaving no-one behind and tackling inequality.

1.2 Implementing the SDGs and the Paris Agreement is likely to require significant additional financial investment – although estimates of this vary widely. UNCTAD estimates that approximately $5 trillion annually is needed to meet the SDGs, of which there is a current shortfall of $2-3 trillion.[2] Additionally, governments have made climate finance commitments of $100 billion a year by 2020.

1.3 Existing global estimates of the costs for climate change adaptation in developing countries range between US$70 billion and US$100 billion a year globally by 2050.[3] A fifth of the world's population still has no access to electricity and an estimated US$ 55 billion per year is needed to meet demand and achieve the commitment to universal access by 2030.[4]

1.4 However, the New Climate Economy estimates that a low carbon transition across the global economy could be achieved with only 5% more upfront investment from 2015-30. Institutions such as the IMF point out the gains from phasing out the billions currently spent subsidising fossil fuels, estimated by the IMF to cost US$5.3 trillion (6.5% of global GDP) in 2015. The net revenue gain from eliminating energy subsidies is projected at US$1.8 trillion (2.2% of global GDP), as well as reducing deaths related to fossil-fuel emissions by over 50% and fossil-fuel related carbon emissions by over 20%.[5]

1.5 Donor governments and global institutions are increasingly looking at using public finance to leverage private sector investment as a way of plugging this finance gap. DFID's spending on loans, equity and guarantees jumped from £68m in 2012-13 to a forecast £580m in 2015-16.[6] It is important to consider these kind of contractual relationships as well as more straightforward development programme models. Whatever the scale of the financing gap, Overseas Development Assistance (ODA) will continue to be vital for the poorest and most marginalised communities. It is therefore essential to ensure that where public finance is used to mobilise additional resources through the private sector its deployment has clear poverty reducing impacts and makes the maximum contribution towards sustainable development.

2. What are the challenges? Learning from the UK's Climate Public Private Partnership (CP3)

2.1 DFID uses hundreds of contractors each year. ICAI's analysis has focussed on contractor programme delivery.[7] We believe the committee should include broader definitions of 'contractor' in its analysis of DFID's procurement, contract management, risk management and programme management processes in achieving value for money and effective long-term development. Evaluating the use of contractors should consider the growth of different PPP models and investment mechanisms which DFID is using.

2.2 Despite increasing amounts of ODA being used to leverage private finance, many private public investment mechanisms apply less stringent transparency and accountability requirements. It is also much more difficult to track the poverty reducing and development impacts of this new and increasingly complex array of public-private finance mechanisms. Money is often channelled through intermediaries, such as private equity firms, who often report more on money disbursed or raised than on the sustainable development impacts of investments made.

2.3 Delivering climate and development finance presents numerous challenges:

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[2] UNCTAD, cited by UNDESA, (July 2015), https://www.un.org/development/desa/en/news/financing/final-push-for-ffd3.html
[3] UNEP, (2014), The Adaptation Gap, http://www.unep.org/climatechange/adaptation/gapreport2014/portals/50270/pdf/AGR_FULL_REPORT.pdf
[4] Africa Progress Panel Report 2015, http://www.africaprogresspanel.org/publications/policy-papers/2015-africa-progress-report/ and UN Sustainable Energy for All, http://www.se4all.org/about-us/government-recognition/
[5] IMF, 2015. http://www.imf.org/external/pubs/ft/survey/so/2015/NEW070215A.htm
[6] ICAI, (May 2015), Business in Development, http://icai.independent.gov.uk/reports/business-in-development/ , p5, 25
[7] ICAI (May 2013) DFID's use of contractors to deliver aid programmes

- **Ensuring results when delivering at scale**. Making sure that UK Aid that is channelled through various government departments and other institutions works for the poorest communities and the environment.
- **Ensuring transparency and accountability**, especially when aid is delivered through multilateral donors or first/second order intermediaries[8] so that aid ends up where it is intended and none is lost due to corrupt practices
- **Maintaining public confidence** that UK Aid delivered both bilaterally and multilaterally is value for money, is going where it should be and making a difference to those who need it most.

2.4 The UK government's Climate Public Private Partnership (CP3) is a case in point. Set up in 2011, CP3 is an innovative fund that seeks to focus exclusively on promoting low carbon development. The UK government (via DFID and DECC) has invested £130.5 million of ODA, aiming to raise an additional £6.7 billion from other sources. Research by CAFOD into CP3 found that[9]:

i. CP3 as a new financing mechanism could play a vital role by shaping sustainable development criteria that donor governments and commercial actors could use to make investment decisions enhancing delivery of the SDGs and Paris Agreement.
ii. CP3 delegates power to private equity funds to make investment decisions and collect information, making it is hard to assess whether CP3 is meeting its objectives or to track where the money is going and what the impacts of its investments are.
iii. CP3 has started investing before a monitoring and evaluation framework has been finalised. As projects have a 12-15 year duration, it is difficult to change their objectives and indicators once they have started
iv. Information about CP3 investments is not readily accessible in the public domain. For example, there is no information regarding the terms and conditions of the partnerships or the costs, benefits and risks of investments.
v. Overall, the departments responsible for disbursing aid through CP3 need to maintain responsibility for quality control of investments and not delegate responsibility to intermediaries.

2.5 Before continuing to increase the use of contractors and PPPs to try and meet climate and development targets, DFID needs to take a hard look at what has worked and what hasn't. To do this they also need to evaluate and learn from existing mechanisms such as the Climate Public Private Partnership (CP3), and from the Commonwealth Development Corporation (CDC) and Private Infrastructure Development Group (PIDG)'s use of intermediaries to deliver sustainable development impacts.

3. Transparency and Accountability: Applying open contracting principles to all of DFID's partnerships

3.1 Contractors often have a poor track record of transparency, especially when dealing with financial intermediaries. Yet there is already recognition among actors in the UK that this is an essential part of building public trust.[10] Open contracting principles of transparency, accountability and participation already apply to UK government procurement. The recently published Open Government Partnership UK National Action Plan has committed the government to publishing the beneficial owners of companies who bid on central government contracts and to apply open contracting principles to these contracts. The same approach must be applied to all contracts that cover disbursement of climate and development finance through contractors and intermediaries.

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[8] See recent report by PAC on UK's humanitarian crisis budget.
[9] Investing in Our Future: Making the UK's climate public-private partnership fir for purpose (CAFOD, 2015). http://cafod.org.uk/content/download/24315/174594/version/1/file/Investing%20in%20our%20future.pdf
[10] NAO (Spring 2016) Government Commercial and Contracting: an overview of the NAO's work.

3.2 Contracts that disburse ODA should be publicly accessible, and their terms and conditions should set out clearly how the costs, risks and benefits of each project are shared between donor governments, private investors, recipient governments and local communities. All investments need to show proven additionality and value for money.

3.3 Such contracts should require funds, sub-funds and investee companies to disclose to open data standards: to report disaggregated project-by-project financial and non-financial data; the company structures used to make each investment; and the beneficial owner of each vehicle/entity used to finance a project.

3.4 In addition, public funds should only be channelled through private sector actors who are committed to upholding human rights principles and standards, as well as prioritising sustainable and low-carbon development principles across all their operations.

3.5 It is encouraging that the UK has shown a clear commitment to open contracting through its OGP National Action Plan (2016-18). However, the UK has the opportunity to go further and:

i. Include an unambiguous public transparency and disclosure clause in all public contracts, setting a baseline for disclosure by contractors, including proactive disclosure of beneficial ownership;
ii. Implement the Open Contracting Data Disclosure Standard;
iii. Apply open contacting principles to all climate and development finance, including funds channelled via intermediaries. This could be done initially through pilot projects, applying open contracting principles to a selection of investments using UK bilateral funding as well as multilateral funds.

4. Delivering sustainable development results

4.1 There is a major risk when ODA is spent through contractors and other intermediaries whose main priority and expertise may not reside in poverty alleviation or low-carbon development. Such intermediaries and mechanisms may also apply different measurements of success that are not poverty reduction or development impact focussed. A 2014 World Bank review of PPPs found that the main measure of 'success' is profitability – other factors are rarely considered.[11]

4.2 It is essential that contractors have clearly defined results frameworks that focus on delivering sustainable low-carbon development and poverty reduction impacts, and do not limit themselves to results frameworks that consist of a narrow set of economic or efficiency outcomes such as a broad measure of job creation, profitability, rate or return, additionality or speed of disbursement.

4.3 Donor governments need to stay in the driving seat and take a more active approach on results management; not delegating responsibility to intermediaries, especially where there may be differing priorities.

4.4 More work is needed to ensure value for money and a focus on delivering development impacts. Existing safeguards have not always been effectively implemented, and there are too many cases where investments have resulted in negative impacts, such as dams displacing communities, fragile ecosystems being damaged or negative environmental impacts of operations on rivers, agricultural and grazing land.[12]

4.5 All projects that involve contractors should apply the following sustainable development principles, both in the process of project and programme design and development as well as in any monitoring and accountability mechanisms:

[11] http://ieg.worldbankgroup.org/evaluations/world-bank-group-support-ppp
[12] https://www.oxfam.org/en/research/suffering-others

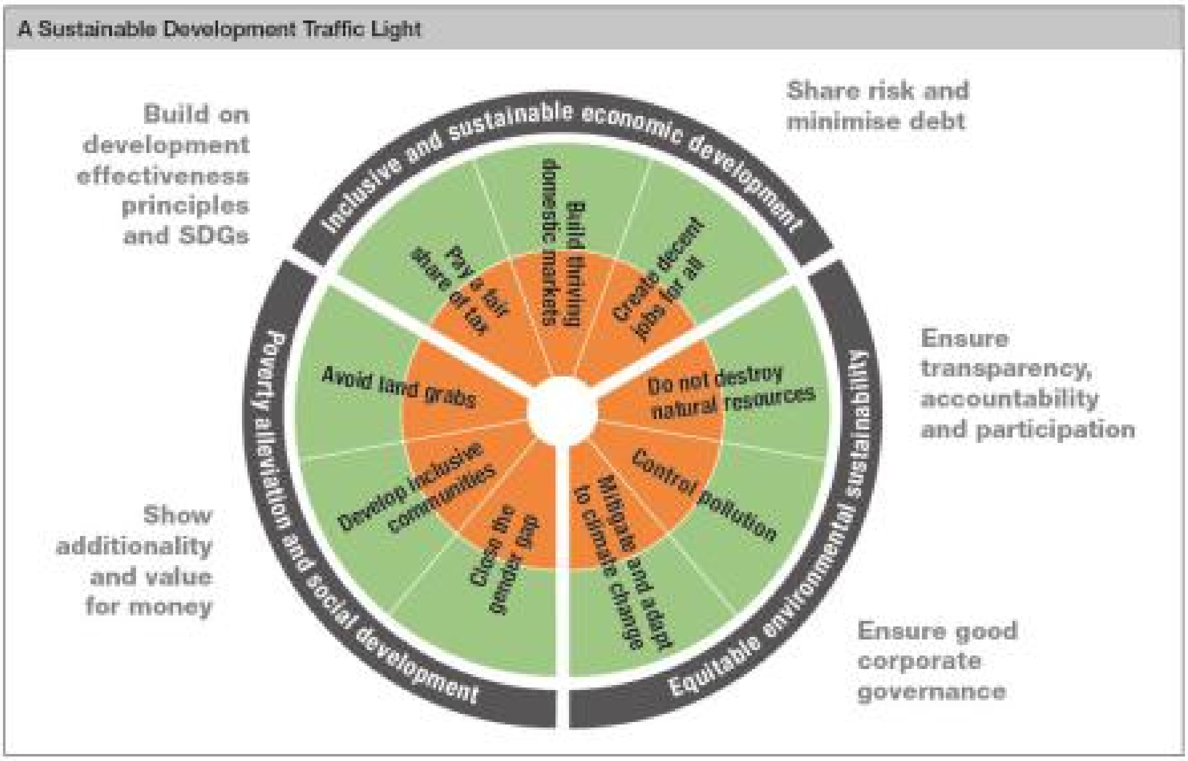

Fig. 1[13]

4.6 DFID must also improve its monitoring and evaluation of the potential development impacts of projects undertaken by contractors, beyond their immediate outputs. It is important to look at maximising the sustainable development and poverty reducing benefits that a project could bring, going beyond a baseline of simply ensuring that interventions do no harm, to maximize social and environmental co-benefits.[14]

4.7 Significant improvements are needed to systematically identify and address the potential impacts on all dimensions of poverty and vulnerability of projects supported e.g. there should be standards in place to improve gender inequality, and to secure women and vulnerable communities' access to, and control over, land. Projects should avoid land grabs and help develop inclusive economic development by communities e.g. through infrastructure provision that enhances access to essential services by poor communities.

4.8 Much more could be done to promote a positive contribution by investment funds and PPPs to promoting environmental sustainability. For instance, mechanisms for pollution control, waste management and for mitigating and adapting to climate change should be transferred to vulnerable or poorer communities. In addition, projects must have clear safeguards against negative impacts such as destroying eco-systems and depleting natural resource bases, and promote sustainable management of eco-systems and/or the restoration of degraded ecosystems. Projects should also aim to minimise greenhouse gas emissions in line with low-carbon development pathways, for instance by promoting access to sustainable and efficient energy systems and actively contributing to increasing the resilience of communities.[15]

4.9 To this end, DFID should work with its contractors to develop a clear set of sustainable development criteria that would apply to all projects in the design, implementation and monitoring phases. They should also support international efforts to agree sustainable development criteria for the use of intermediaries and contractors. Paragraph 48 of the Addis Ababa Action Agenda committed governments to "hold inclusive, open and transparent discussion when developing and adopting guidelines and

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[13] CAFOD et al (2015) "Delivering sustainable development: A principles approach to public-private finance"
[14] For further information see Kate Raworth, Sarah Wykes and Steve Bass (Oct 2014) 'Securing Social Justice in Green Economies' available at: http://cafod.org.uk/content/download/21761/152259/version/2/file/printFruitcoverGE.pdf
[15] Ibid

documentation for the use of PPPs" and UN Development Cooperation Forum is developing a monitoring framework for blended finance, as well as private and philanthropic finance.