Written evidence submitted by the British Overseas Aid Group

The British Overseas Aid Group is a working group of international development charities comprised of ActionAid, CAFOD, Christian Aid, Oxfam and Save the Children.

This submission will focus on DFID’s new focus on economic development, the role of the private sector and aid effectiveness principles.

Recommendations:

- The UK must continue to use its position and influence to improve global coordination on issues of importance to developing countries and to ensure that the voices of women and men living in poverty are heard at the highest level.

- DFID should remain a standalone department, with the increased ability to scrutinise other departments’ policies, in relation to poverty reduction, as per the 2002 International Development Act.

- The Cabinet Office should appoint an official to oversee policy coherence for international development, across all government departments, with oversight from DFID.

- BOAG recommend that DFID need a definition of inclusive and sustainable growth and they should work with BOAG and other agencies to adequately capture this complex concept.

- BOAG recommend that DFID’s focus on private sector development should be de-linked from the promotion of UK business.

- DFID should instead develop its approach to identifying how best to make use of, and build the capacity of, local firms and systems in the country or region in which they are working. All DFID contracts should be open to tender from companies of all nationalities, with a specific emphasis on using local firms.

- BOAG strongly recommend that DFID build on the recent progress in transparency by ensuring that all UK aid, whether spent directly or channelled through funds and bodies such as CDC, PIDG and or through public-private partnerships, is subject to full transparency, including clear guidelines on the use of tax havens for channelling investments.

- DFID needs to take immediate action to address the rapidly deteriorating aid effectiveness performance across its full project portfolio. There should be clear guidance and training for staff, and clear incentives for staff at both central and regional levels to adhere to aid effectiveness principles.
The Future of DFID

1. The UK has a long history of global leadership in international aid and development policy. It has played a pivotal role in the aid effectiveness agenda, untying aid, promoting the use of country systems through budget support, leading the way on transparency and helping to drive international action on aid effectiveness through co-chairing the Global Partnership for Effective Development Cooperation (GPEDC). In 2013, it became the first G7 country to reach the 0.7% target, illustrating to other donor countries that this goal is feasible with sufficient political will, even during difficult economic times.

2. DFID’s budget has been scaled up rapidly to meet the 0.7% target. Its 2011-15 planning and resourcing cycle is soon to come to an end and discussion on its future strategic orientation – including its contribution to the Sustainable Development Goals (SDGs) agenda – is underway.

3. The future UK approach to development will be inevitably shaped by the post-2015 sustainable development agenda, due to be agreed by world leaders in September 2015. This is likely to require a number of shifts and there will be particular challenges around ‘universality’ and delivering the three dimensions of sustainable development – social, environmental and economic. DFID will have to review its own priorities in light of any new goals and targets, and ensure that there is cross-Whitehall coordination to deliver agreed action.

4. This is against the backdrop of the worldwide recession and an overseas aid has been under attack from some groups. The focus of UK aid is also changing. An increasing emphasis on the role of the private sector and an integration of aid within a broader spectrum of development cooperation partnerships with developing countries including trade and technology transfer is a trend which is likely to continue.

5. The UK must continue to use its position and influence to improve global coordination on issues of importance to developing countries and to ensure that the voices of the poor are heard at the highest level.
6. BOAG recommend that DFID should remain a standalone department with full cabinet status. This will allow the Secretary of State to most effectively have oversight of all government policies and be able ensure policy coherence for international development and poverty reduction purposes. Further, a standalone DFID reaffirms the UK’s political commitment to tackling poverty, as per the 2002 International Development Act (IDA).

7. We expect the International Development Committee to make a clear statement in support of the continuation of DFID as a standalone department in their forthcoming report. The loss of DFID would have a real impact on the world’s poorest and most marginalised people.

8. A stand-alone department ensures that the UK has a more effective, coherent and systematic approach to development, including tackling the root or structural causes of poverty, which has made the UK a global leader on development.

9. DFID is the only government department with the explicit mandate to reduce poverty in developing countries. Its loss would leave UK development assistance more vulnerable to being used to advance narrow or short term political agendas, rather than having a clear, long term and strategic focus on the needs of the world’s poorest and most marginalised people.

10. An example of this leadership is in improving aid transparency and pushing to improve the transparency of other development finance flows which has come almost entirely from DFID. It highlights the political commitment of the UK government to tackling poverty.

11. BOAG do acknowledge that, increasingly, major decisions which affect poor and vulnerable people around the world are being made in other government departments; this means DFID should have oversight of such policies and subject them to a poverty alleviation test. All relevant departments (DFID, DECC, DEFRA, Treasury, BIS, UKTI, FCO and MoD) should share a coherent strategic policy framework to ensure government interventions across the board promote complementary policies to support poor and vulnerable countries and groups. For example, in the IDC’s 2012 Report on Tax in Developing Countries it recommended HMG the UK should require all new tax rules and treaties with cross-border effect to be subject to “spillover analysis” of their effects on the public finances of
developing countries. Such an approach is backed by the IMF, OECD and United Nations and World Bank.

12. Most importantly, DFID should become explicitly responsible for holding other departments to account for the impact of their activity on global policy, and civil society should be able to hold DFID accountable in this role. This could mean a Cabinet Official would be appointed to overseas policy coherence for international development, across all government departments, with oversight from DFID.

13. BOAG agencies have identified opportunities for greater policy coherence across government, for example through work with BIS on mandatory corporate reporting and on global supply chains, and the expectations set out in the FCO-BIS Action plan on Business and Human Rights regarding human rights due diligence.

**DFID and the Private Sector**

14. Economic growth remains the central focus for DFID’s strategy to reducing poverty. DFID is placing an increasing emphasis on the Private Sector as the means to achieve growth and restructuring internally to reflect this.

15. However, focussing on economic growth alone will not address poverty, especially in a context of increasing economic inequality, unemployment, environmental degradation, natural resource depletion and climate change. As a 2009 Christian Aid report highlights: “ultimately, growth can play a major role in improving the lives of the poorest people, but only if we get it right”. It is important that we look at the quality, the drivers of that growth and the impacts it is having on people’s lives, particularly on the poorest and most marginalised. The relationship between growth, jobs and poverty reduction is not automatic.

For instance:

- Africa has experienced a decade of growth, but this has been jobless growth. Job creation (3% p.a.) has trailed far behind GDP growth (5.4% p.a.) and even farther behind export growth (18.5% p.a.) (African Development Bank)

- Nearly 30 per cent of all workers in the world – more than 910 million – are living with their families below the US$2 a day poverty line (ILO)
16. Like DFID, NGOs recognise that the private sector has a role in tackling poverty. **BOAG believes that a vibrant, thriving, and responsible business sector is crucial for achieving the inclusive economic growth and sustainable development that is needed for global poverty reduction.** However, a well-funded state and strong regulatory framework is critical to ensure that a private sector develops which promotes, rather than hinders genuine development. The state also has an important role in providing public services to alleviate women’s unpaid care burden, allowing women to become economically active and helping to ensure that women-run small businesses can grow.

17. Drawing on our experience and learning in a range of countries and sectors, we believe business can make its greatest contribution to poverty reduction by:

- Generating decent employment opportunities for women and men, including marginalised and poor people, and paying them a fair wage
- Supporting the removal of structural barriers to women’s participation - in the context of an enterprise’s own operations and through work with suppliers and business partners
- Enabling people living in poverty to gain access to goods, markets, services, skills and credit, and to manage risks such as volatile food prices and climate change
- Locating value-added processing in developing countries to help diversify economies and catalyse transformative and sustainable growth
- Developing innovations to address human and sustainable development challenges
- Being fully transparent and paying taxes that contribute to financing essential services for all
- Respecting human rights and promoting environmental sustainability.

18. BOAG agencies have long recognised the important role of responsible business in poverty reduction as seen, for example, by the role of CAFOD, Christian Aid and Oxfam in establishing the FairTrade Foundation in 1992. The agencies played an important part in the creation of multi-stakeholder initiatives such as the Ethical Trading Initiative in 1998 and the Extractive Industries Transparency Initiative in 2003. BOAG agencies are engaging collaboratively with multinational companies, sometimes in formal partnerships, to actively encourage and support responsible behaviour and investment.
19. In linking working with the private sector to encouraging economic growth for poverty reduction, the type of growth DFID talk of matters; this must be inclusive growth. DFID’s recently published Economic Development Strategic Framework (EDSF) relies too heavily on the underpinning assumption that prioritising economic growth will necessarily deliver poverty reduction, and insufficient attention is paid to the type of growth or to the distribution of the benefits of growth. Growth does not necessarily lead to poverty reduction and growth alone will not be fast and inclusive enough to end extreme poverty by 2030 – current best-case scenarios leave over 100 million people in extreme poverty in 2030 and a far larger number than that still very poor by any reasonable definition. In addition, current growth models based on fossil fuel consumption are not fit for purpose in the face of a changing climate.

20. BOAG recommend that DFID need a definition of inclusive and sustainable growth and they should work with BOAG and other agencies to adequately capture this complex concept. Growth must have broader objectives than increasing income and GDP and require governments to proactively work to achieve those objectives, rather than assuming that positive outcomes will automatically come through growth. This growth should translate into gains in human development and increased well-being and must benefit and allow the economic participation of all groups, including the most marginalised. Growth cannot be divorced from issues of sustainability, including the sustainable use of natural resources and climate protection. In addition, reducing inequality must be treated as an important outcome of economic policy in its own right.

21. DFID’s EDSF and focus on economic growth as the principal poverty reduction mechanism also has raised potential issues of tying aid. While UK aid remains formally untied, there is a very strong emphasis throughout DFID strategy documents on promoting UK businesses. For example, the EDSF says that the UK wishes to “bring to bear the potential UK business can contribute to economic development. UK aid will remain untied, but we will join up UK efforts where we can simultaneously promote poverty reduction and UK growth” (DFID 2014b:2). They further note that “We are working to benefit poverty reduction and UK interests, within the terms of the International Development Act and our OECD commitments on aid untying” (2014:19.) [emphasis added.]
22. BOAG recommend that DFID’s focus on private sector development should be de-linked from the promotion of UK business. This will be critical for protecting and fulfilling DFID’s poverty reduction mandate and ensuring that all economic growth and private sector work focuses on the needs of poor and marginalised communities. DFID should instead develop its approach to identifying how best to make use and build the capacity of local firms and systems in the country or region in which they are working. All DFID contracts should be open to tender from companies of all nationalities, with a specific emphasis on using local firms. Tenders should be advertised in ways that make it likely that firms from different countries, including local and regional firms, will apply. This includes using local newspapers, business associations etc. to advertise tenders.

23. We are also concerned that DFID’s approach to funding UK businesses to implement economic development programmes requires a much more nuanced approach to ownership and supporting the poor and marginalised, i.e. – they must recognise that i) priorities of poor and marginalised will not necessarily be addressed/recognised by elite actors who may be influential in project design and implementation; ii) significant power dynamics in market systems need to be addressed if poor and marginalised are to benefit from market driven interventions; iii) structural barriers to the economic participation of the poor and marginalised, notably women’s unpaid care burden, need to be addressed through measures going beyond access to credit. DFID should focus on supporting micro, small and medium enterprises (MSMEs), including those in the informal sector, as MSMEs provide the majority of employment and GDP in developing countries.iv

24. At an absolute minimum, businesses enjoying DFID support to improve livelihoods in developing countries should be expected to conduct and report human rights due diligence throughout their operations and supply chains, as per the FCO/BIS Action Plan on Business and Human Rights.

Aid Transparency

25. It’s important to pay credit to the leadership and very significant progress DFID has made on the issue of aid transparency, DFID is clearly a world leader and agenda-setter on this issue. DFID was one of the founding agencies of IATI and has been amongst its most active sponsors and funders internationally.
26. It should however be noted that aid UK transparency efforts apply to DFID’s own activities and there is still limited transparency about activities it sub-contracts to others especially private companies. In addition, the Foreign and Commonwealth Office and Ministry of Defence, two of the other main agencies managing aid spending, were assessed as performing “poorly” and “very poorly” respectively in PWYF’s 2013 Aid Transparency Index (PWYF 2014).

27. BOAG strongly recommend that DFID build on the recent progress in transparency by ensuring that all UK aid, whether spent directly or channelled through funds and bodies such as CDC, PIDG and or through public-private partnerships, is subject to full transparency, including clear guidelines on the use of tax havens for channelling investments. DFID should also radically improve efforts to measure and monitor private sector development (PSD) spending, by creating a separate category for PSD within its financial management system and by improving reporting on the volumes, channels and instruments of spending on PSD. This should also apply to any other government departments spending ODA; these departments should be as transparent as DFID.

Aid Effectiveness

28. Greater policy coherence must move towards the right kind of coherence. For development and poverty reduction outcomes, policy coherence that ensures that policies are in line with the UK’s commitments to aid and development effectiveness in Paris and Busan. This means that DFID should ensure that all aid channelled through DFID and other government departments adheres to these commitments, supporting developing countries’ ownership of their own development processes. Further as development goes Beyond Aid, DFID should ensure that all development efforts (including non-aid policies) follow the Busan commitments on development effectiveness.

29. DFID should play a leading role in ensuring that poverty eradication is central to the UK’s approach to development and this should not be undermined by more immediate UK national economic or political interests.

30. DFID needs to take immediate action to address the rapidly deteriorating aid effectiveness performance across its full project portfolio. There should be clear guidance and training for
staff, and clear incentives for staff at both central and regional levels to adhere to aid effectiveness principles. This could include, for example, including targets on aid effectiveness within individual, departmental or divisional performance frameworks. Staff should also be clearly incentivised to monitor and report on aid effectiveness performance.

31. DFID’s private sector development work should integrate aid effectiveness principles much more strongly. All those leading PSD projects, whether those projects are implemented through DFID or channelled through funds and bodies such as CDC, PIDG and or through public-private partnerships, should be required to specific how they are meeting the Paris, Accra and Busan aid effectiveness targets and principles before projects are approved.

32. BOAG believe that effective aid should reduce dependency. DFID should continue to work with others towards a cross-governmental focus on actions (both in the UK and in other countries) that increase the tax revenues taken in developing countries, which can have a significant multiplier effect in terms of impact on poverty reduction.

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