Submission to the International Development Committee inquiry
Beyond Aid: The Future UK Approach to Development

5 September 2014 Written evidence submitted by the World Development Movement

About the World Development Movement

1. The World Development Movement (WDM) campaigns against the root causes of poverty and inequality. Working in solidarity with activists around the world, we oppose injustice and challenge the policies and institutions which keep poor people poor. We research and promote positive alternatives that put the rights of poor communities before the interests of big business. WDM is a democratic membership organisation of individuals and local groups.

2. WDM has a long history of promoting the responsible use of UK development assistance. Most famously, in the 1994 Pergau Dam case, WDM won a case in the High Court against the Foreign and Commonwealth Office disputing the use of aid linked to the purchase of military equipment by the Malaysian government. This was effectively the end of explicitly ‘tied aid’ in the UK, a principle that was strengthened by the 2002 International Development Act which also prohibited aid being tied to broader economic change in the recipient country.

3. WDM has always focussed on the importance of broader structural causes of poverty. We do not believe that aid is the answer to the problem of global injustice. This is why we are currently campaigning on a broad range of issues including the need for a more equitable food system, climate justice and a fairer system of international trade instead of damaging deals like the EU-US Transatlantic Trade and Investment Partnership.

Executive Summary

4. The UK government’s approach to development needs to reach beyond aid and focus on combating the underlying root causes of poverty. However, there is a need for government policy to transcend the simplistic notion of development merely being about reducing poverty through economic growth. This means a greater focus on inequality and social justice as well as a deeper understanding of how wider UK government policy in areas such as trade, climate policy and financial regulation can negate the work of the Department for International Development.
5. **Wider UK government policy must not undermine development goals.** Aid, while not insignificant, is only a small part of the development picture. Unless the underlying injustices of the global economic system are corrected, aid can only serve as a palliative at best or, at worst, actually serve to perpetuate systemic injustice. For example, a recent study by Health Poverty Action has shown that financial flows into Africa (including development assistance) of $138 billion are dwarfed by the $192 billion that is extracted from Africa in multinational profits, tax evasion and the cost of adapting to climate change.\(^1\) If DFID is to go ‘beyond aid’ and tackle the root causes of this injustice, there indeed must be greater coherence between DFID and other government departments. But this must manifest itself as development impact criteria being applied to wider government policy rather than DFID’s work being defined by the interests of other government departments.

6. **The UK government must review its recent focus on private sector development.** Many current initiatives DFID is supporting such as the New Alliance for Food Security and Nutrition and the Africa Enterprise Challenge Fund are effectively subsidising market entry for multinational companies rather than supporting local SMEs.

**Response**

**The coherence of policies which affect development**

**DFID’s model of development**

7. There needs to be a reassessment of what DFID’s (and the UK government as a whole) considers to be sustainable development. There is a worrying trend within government thinking towards seeing GDP growth as synonymous with development and as an end in itself, ignoring other factors such as income inequality. This can be seen in the language used by ministers and in official documentation. For example, in one 2013 speech, Justine Greening used the word ‘growth’ 15 times and the word ‘business’ 16 times while failing to mention inequality once.\(^2\)

8. Development is far more complex than simply GDP growth. Development envisages the existence of truly democratic institutions that are accountable to their populations rather than being in thrall to private business interests. Truly sustainable development also requires a more egalitarian society in which poorer communities have equal rights. Development is also more than ‘reducing extreme poverty’. It is also about control and accountability. Communities must have influence and control over the decisions that affect them and their environment. If people are involved in the process of improving their lives, this is far more likely to lead to positive development outcomes than through a top-down, growth-at-all-costs approach. By adopting a more nuanced vision of development, the UK can make a more effective contribution to combating global poverty, both through aid and wider non-aid government policy.

9. There are many examples where adherence to the simplistic growth-at-all-costs model has resulted in no benefits, or even negative development impacts, for local people. A World Bank sponsored coal power station in Mundra in Gujurat, whose major development ‘benefit’ is powering a special economic zone for big business,\(^3\) is being strongly opposed by local people.\(^4\)
In Kenya, CDC funding has gone to a luxury residential property development which will provide few benefits to the poor aside from a few low paying jobs.5

The risks of private sector focussed development

10. The increasing focus of DFID on promoting private sector-led approaches has raised concerns that DFID’s agenda is being set with the interests of large multinational businesses in mind. The justification for many projects such as those mentioned in paragraph 9 is often that they will create jobs and economic growth through boosting the private sector. However, the reality is often that the main beneficiaries of the private sector centred, growth-focussed model are international multinationals, not local SMEs.

11. **UK development assistance should not be subsidising entry into potentially lucrative new markets by multinational or British companies.** The New Alliance for Food Security and Nutrition is one such scheme that appears to be doing just that, helping major agribusiness multinationals such as Nestle, Unilever and Monsanto enter African markets.6 Some firms such as Diageo are also getting money directly from the Africa Enterprise Challenge Fund to help develop their businesses in Africa.7 We believe this to be an inappropriate use of development aid money which, if it must be spent to support the private sector, should be supporting local SMEs, not huge multinationals.

12. **UK aid must not be spent on pursuing the privatisation of public services.** DFID’s Nigeria Infrastructure Advisory Facility project involves support for Nigeria’s privatisation of its electricity network, which the Nigerian government admits was “flawed”.8 Since privatisation took place in September 2013, the electricity supply has actually deteriorated9 while tariffs are rising fast.10 Privatisation has done nothing to improve the country’s dire energy access situation. Despite being one of the most energy rich countries in the world, half of the population - approximately 80 million people – have no access to electricity.11

13. **DFID must also exercise greater discretion in selecting contractors and consultants for outsourced work.** Great caution should be exercised before employing organisations such as Adam Smith International that openly espouse an ideologically free market agenda that may not match the needs of aid beneficiaries. There is also a risk of unwise procurement decisions being perceived as a subtle form of policy conditionality by recipients. DFID would almost certainly not engage the services of an openly Marxist or Anarchist organisation for the provision of technical assistance (if it did so the beneficiaries might assume that they would be expected to adopt a certain set of policies in order to receive the assistance). This level of caution should also apply for organisations with an overly free-market ideological ethos.

14. **Private sector development must not come at the expense of basic labour rights.** In Bangladesh, DFID supported the World Bank Bangladesh Private Sector Development project which is supporting the setup of special economic zones in Bangladesh. The ILO has criticized existing zones (called ‘export processing zones’) for severely restricting the right to trade union membership.12
15. The use of private sector financial intermediaries and private equity funds in development can also raise serious problems in terms of transparency where the involvement of private capital leads to the non-disclosure of information on the basis of commercial confidentiality. The Climate Public Private Partnership (CP3) is an example of a project that will be overwhelmingly spent through a range of financial intermediaries.

16. Finally, it is impossible to support sustainable local business without supporting attempts by governments to implement industrial policies. Governments must have policy options to protect and support local business and agriculture from competition with multinational enterprises. This requires a re-thinking of trade and investment agreements, which too often tie the hands of governments when it comes to industrial policy. Without such policy frameworks at their disposal, ‘support for the private sector’ will too often mean ‘support for the expansion of multinational enterprise’.

Targeting of DFID aid

17. We increasingly live in a world of poor people in rich countries. As economic growth takes off in many developing countries, bringing riches to a select few, many poor people are still not seeing the dividends of economic growth in their own lives. There are now 14,800 millionaires in India but a third of the country still lives in extreme poverty on under $1.25 a day. This indicates that while support needs to be given to the poorest countries, a more nuanced vision of what development means is needed to truly fight poverty globally.

18. For many years DFID rightly continued to support poor communities in middle income countries like India, eschewing the simplistic vision of aid as charity given to ‘poor countries’. Now there are signs that this is changing with a focus shifting to boosting economic growth to the detriment of other development indicators. But pursuit of economic growth as a first priority is precisely how these countries became so unequal in the first place. It is impossible to pursue a more equal form of growth without learning what is going wrong in the dozens of countries experiencing rapidly rising inequality (e.g. in Nigeria and Mozambique, as just two examples, high growth rates are combined with rising inequality.)

19. Instead of merely targeting the countries with the lowest level of GDP with private sector focussed programmes designed to boost growth, DFID should make more complex judgements and also consider what expertise and experience the UK has to offer. For example, can we help India build its own version of the NHS? Can we help Nigeria adopt environmental regulation that will protect its people from pollution caused by the oil industry?

20. Naturally of course, the bulk of the UK’s aid budget will go to the lowest income countries. In these places, the priority should be to support the development of public services and access to energy, water and food rather than attracting investment from multinationals.

Non-aid government policy

21. It is encouraging that the International Development Committee is considering the impact of broader UK government policy on development priorities. We believe that in recent years the UK
government has allowed its non-aid policies to undermine the aims of development assistance. We explore three examples of this below.

Financial sector regulation.

22. There needs to be a greater understanding of the role the UK has on development as a major financial centre. The current lax regulatory environment has led to London becoming a centre for financial activities that actively impede development.

23. Increasingly short-term and speculative financial ‘investments’ have a major impact on developing country government’s ability to protect their people. The Latin American debt crisis, cause of massive impoverishment in the 1980s, was caused by irresponsible bank lending. In 1997, currency and property speculation fuelled the collapse of several South-East Asian economies, throwing millions of people out of their jobs. But high frequency, high risk financial activity has increased enormously since 1997, while investment agreements have left countries less able to protect themselves through capital controls. The British government and international institutions we have an important role in, have regularly opposed use of capital controls, and have consistently opposed a financial transactions tax which could help limit speculative activity.

24. Financialised activity also impacts on the lives of millions of people through commodity markets. We have conducted work on speculative activity in food markets. This year the European Union finally passed legislation which we hope will dampen down the impact of speculative activity by increasing transparency and setting limits on speculative activity. The British government was the most implacably opposed to this legislation, and won concessions which will make the final regulation less effective. This is completely at odds with a genuine development policy.

25. London has become one of the world’s leading centres for extractives companies that are doing significant harm in development countries. Foreign companies with dubious human rights and corporate governance records such as the Indonesian coal firm Bumi (now Asia Resources Minerals) have been welcomed onto the London Stock Exchange. A recent report by the Indonesian civil society network JATAM revealed that Bumi’s coal mines in Borneo have polluted rivers to 18 times the acceptable level and displaced local indigenous people from their land. Similar abuses have been reported relating to the activities of many other UK listed firms including Vedanta and GCM Resources.

26. For this reason, the UK government (led by the Department for Business, Innovation and Skills) needs to adopt and implement social, environmental and climate criteria for listing on UK stock exchanges to ensure that companies with negative human rights or environmental records are unable to access the benefits that a London listing brings.

UK energy and climate change policy

27. The UK has so far failed to reduce its emissions fast enough to prevent dangerous climate change. Climate change hits the poorest hardest so the UK must reduce emissions to avoid
increased drought, flooding and rising sea levels wiping out development gains. The
government’s announced push for more natural gas generation capacity and exploitation of
shale gas reserves mean that this is unlikely to happen unless there is a sharp change in policy.
The UK government needs to cancel plans to explore for shale gas in the UK and rule out any
new coal, oil or gas fired power stations.

28. The UK government must, alongside other Annex I countries, commit to rapid and legally
binding reductions in carbon emissions of at least 60 per cent by 2030 at the 2015 UNFCCC
Conference of the Parties in Paris.

29. At an international level, the UK has lobbied for the UN Green Climate Fund to resemble the
World Bank’s discredited Climate Investment Funds (CIFs). The CIFs, despite having been created
in 2008, have failed to disburse more than a tiny fraction of the money allocated to it by
governments. The CIFs operate in a top-down way that gives little power to recipient countries
to control the process and have been criticised for disbursing too much money as loans not
grants, which is adding to the debt burden of countries such as Grenada that are already highly
indebted. This is incompatible with genuine development. The UK should stop promoting a
private sector led model for the UN Green Climate Fund and commit to providing its fair share
of the $100 billion a year promised for climate adaptation and mitigation.

30. All climate finance contributions to multilateral donor institutions such as the new UN Green
Climate Fund must be in the form of grants not loans or capital grants (which must be disbursed
as loans). Bilateral climate finance and development assistance must continue to be disbursed as
grants not loans.

UK trade policy and export promotion

31. The mainstream discourse within the UK on international trade negotiations has focussed on the
perceived benefits of boosting UK economic growth through lower tariff and non-tariff barriers
to trade. Much less focus has been given to the development significance of the UK’s stance
both at the WTO and in bilateral trade negotiations. Fully open markets in the developing world
may be good for multinational companies, but they are not always the best solution for the
poor. Governments must be allowed to make policy decisions based on the individual
circumstances of their countries rather than be forced to open their markets through
international trade deals.

32. The reality is that trade and investment agreements do have a major effect on development in
poorer countries. Often, this effect is negative. The inclusion of Investor-State Dispute
Settlement (ISDS) clauses in bilateral investment treaties has led to companies claiming huge
compensation payments for legitimate public policy decisions made by developing countries. For
example, Veolia is using ISDS to take Egypt to international arbitration for increasing the
minimum wage, and Argentina has been taken to tribunal by dozens of companies for freezing
energy and water prices. In these cases and others, the UK’s support for the inclusion of ISDS in
international investment agreements is undermining the UK’s commitment to sustainable
development.
33. The UK is also a major supporter of the Transatlantic Trade and Investment Partnership (TTIP) between the US and the EU. A study has shown that developing countries are likely to lose out if TTIP is approved, with countries in Latin America losing as much as 2.8 per cent of GDP and sub-Saharan Africa losing 2.1 per cent. In order to avoid the worst of the economic fallout arising from being ‘shut out’ of the US and EU markets, developing countries will have to apply TTIP standards and follow rules of trade that they had no part in formulating and which were designed to support the interests of EU and US business. This is unfair and could be a severe impediment to development in these countries. The UK should immediately halt negotiations on TTIP in favour of a more equitable global trade deal that accounts for the interests of developing and impoverished countries.

34. The UK’s promotion of export industries through UK Export Finance has also contradicted the UK’s international development agenda. UK Export Finance has supported oil drilling projects and arms deals in the past. The UK should apply development finance criteria to all projects supported by UK Export Finance and halt UKEF support for all high carbon or defence sector companies.

The underlying government mechanisms needed to support any changes

35. We agree that continued cross departmental coordination between DFID and other UK government departments is an important way to ensure policy coherence across government. We also believe that DFID needs to continue to exist as a standalone department to ensure its independence.

36. However, the extent to which the current relationship between DFID and other government departments truly adds value to the UK’s contribution to international development is unclear. Recent statements by ministers about ensuring that aid serves UK national and business interests suggest that it is DFID that is increasingly being expected to serve wider government priorities rather than a situation in which other departments are required to factor in the development implications of government policy.

37. The development implications of wider government policy in areas like foreign policy, defence, agriculture and energy need to be considered as a matter of standard procedure. At times this may mean that difficult questions need to be asked. This would mean, for example, applying development criteria to projects being given guarantees by UK Export Finance or considering the negative development impact of the UK’s laissez-faire approach to financial regulation that allows UK-listed companies to invest in projects that set back development.

38. In order to ensure that development priorities are taken into account across government policymaking, we believe that DFID needs to move away from seeing itself as an aid agency and take a more proactive ‘watchdog’ role within government.

39. We also have concerns about the Aid-Funded Business Service run by UK Trade and Investment. The large increase in the service’s budget at a time of cuts to overall public spending points to a
worrying trend towards an expectation that UK business should profit from aid spending. **The UK government should divert resources from the Aid-Funded Business Service towards ensuring that local contractors in recipient countries have a better chance of winning DFID procurement contracts.**

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13. For example, the use of private equity funds contributed to a situation in which corrupt Nigerian politician James Ibori was able to embezzle millions of pounds of money from the CDC. See: [http://jubileedebt.org.uk/press-release/uk-development-fund-implicated-money-laundering-investigation](http://jubileedebt.org.uk/press-release/uk-development-fund-implicated-money-laundering-investigation)
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20. Full list of cases can be seen on [http://www.italaw.com/](http://www.italaw.com/)
22. For example see: [http://www.thetimes.co.uk/sto/news/Politics/article1347395.ece](http://www.thetimes.co.uk/sto/news/Politics/article1347395.ece)