



# Beyond Aid: The Future UK Approach to Development

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## A. Summary

1. This submission focuses on the third part of the Committee's inquiry, considering the underlying government mechanisms needed to support any changes to the UK's future approach to development.
2. Evidence shows DFID is a committed and effective *aid agency* focused strongly on longstanding development challenges such as poverty reduction in low-income countries.<sup>ii</sup> The UK achieved the international target of spending 0.7% GNI on aid in 2013, reaffirming that international development and poverty reduction are of ongoing importance to the country. As a standalone ministry, DFID controlled almost 90% of UK official development assistance (ODA) in 2013/14 and had annual expenditure of £10.1 billion.<sup>iii</sup>
3. The share of ODA in total international development finance flows is declining, which raises questions of how DFID will transition from an *aid agency* to a *development agency*. To say that the development landscape has undergone rapid and fundamental changes in the last decade has become a truism. Developing and emerging economies now drive global growth, with consequent transformations in the poverty map and with new actors expanding on the supply side of development finance. DFID will increasingly find its approaches challenged, both by competition from newer donors at the country level that are able to offer faster, less conditional financing, and by the need for greater and more robust forms of multilateralism at the global level.
4. DFID has recently shifted its strategic focus and priorities,<sup>iv</sup> and it has already conducted a number of internal reviews covering specific operational and policy issues.<sup>v</sup> It must now consider how well its institutional structures, capabilities, competences and ways of working will continue to fit with future development priorities. While DFID has demonstrated clear success in administering and disbursing a sizable aid budget to support direct development results, without a re-assessment of its organisational structure and ways of working, DFID will be faced with the threat of declining relevance.
5. We argue that the UK Government requires a more coherent and compelling institutional approach to dealing with future global development challenges. Re-introduction of Public Service Agreements (or equivalent), a reporting requirement to Parliament on performance on policy coherence and the replacement of the International Development Act with a cross-government Global Development Act, would support better the promotion of a whole-of-government approach to development. A new UK global strategy should articulate clearly the cross-government institutional arrangements and ways of working and it should set out the rationale for retaining or discontinuing DFID as a standalone department.

## B. Introduction

6. **This submission focuses on the third part of the IDC inquiry, addressing the underlying government mechanisms needed to support any changes to the UK’s future approach to development.** It explains briefly how the development landscape has evolved over the last decade and examines the extent to which DFID’s institutional set-up and ways of working will enable it to respond effectively to the changing environment. It reviews how other members of the OECD Development Assistance Committee have altered their organisational arrangements and considers the rationale for an integrated development agency model. Finally, it discusses the future of a standalone DFID.

## C. Implications from a changing development landscape

7. **As the relative importance of aid diminishes, development agencies whose primary purpose is to disburse aid are becoming less relevant.** The role of international development cooperation and the agencies that provide funding for development have always been in evolution. That change has been most dramatic in the last decade. While the past focus was on provision of aid to support social services and basic infrastructure, the spectrum of interventions has become broader and more complex. The international development agenda extends beyond aid to encompass a range of global challenges including climate change, trade, global food security, financial crises and regional security.
8. **While there are differing forecasts for the future location of extreme poverty, it will doubtless persist across the range of country types.** Income and poverty maps are changing, with many low-income countries graduating to middle-income status while fragile states are left further behind. While poverty is expected to decline, even optimistic projections, assuming that countries maintain high growth rates as those observed in the early 2000s, estimate that in 2030 around 5% of the world population will remain below USD 1.25 a day.<sup>vi</sup> About three quarters of the poor are likely to live in fragile states in Sub-Saharan Africa.<sup>vii</sup>
9. **The importance of ODA as a source of development finance is shrinking.**<sup>viii</sup> Developing countries now absorb more foreign direct investment than high-income countries and they are increasingly accessing finance through international capital markets. Financial products and services have also become more sophisticated and diversified. Several developing countries, including in sub-Saharan Africa, have issued bonds as an alternative source of external finance. Lending from emerging economies like China and India to developing countries is steadily increasing and newer actors such as philanthropic organisations and social impact investors are proliferating.<sup>ix</sup>
10. **Motives and objectives for international cooperation are also shifting, exemplified by the focus of post-2015 policy goals on sustainable, climate-compatible development.** Development cooperation is associated increasingly with regional and global challenges alongside economic growth and poverty reduction, and the language of mutual benefit or mutual interest between transmitters and receivers of aid is becoming more prominent. For example, the Dutch Government’s new Development Strategy explicitly combines aid, investment and trade.<sup>x</sup> It comprises three objectives: eradicating extreme poverty, promoting sustainable and inclusive growth, and enhancing the success of Dutch companies abroad. The Government of Canada has taken a similar approach. Development policy is described as ‘a critical instrument for advancing Canada’s long-term prosperity and security’. Canada’s development objectives are pursued through a growing range of multi-faceted mechanisms that include bilateral and multilateral

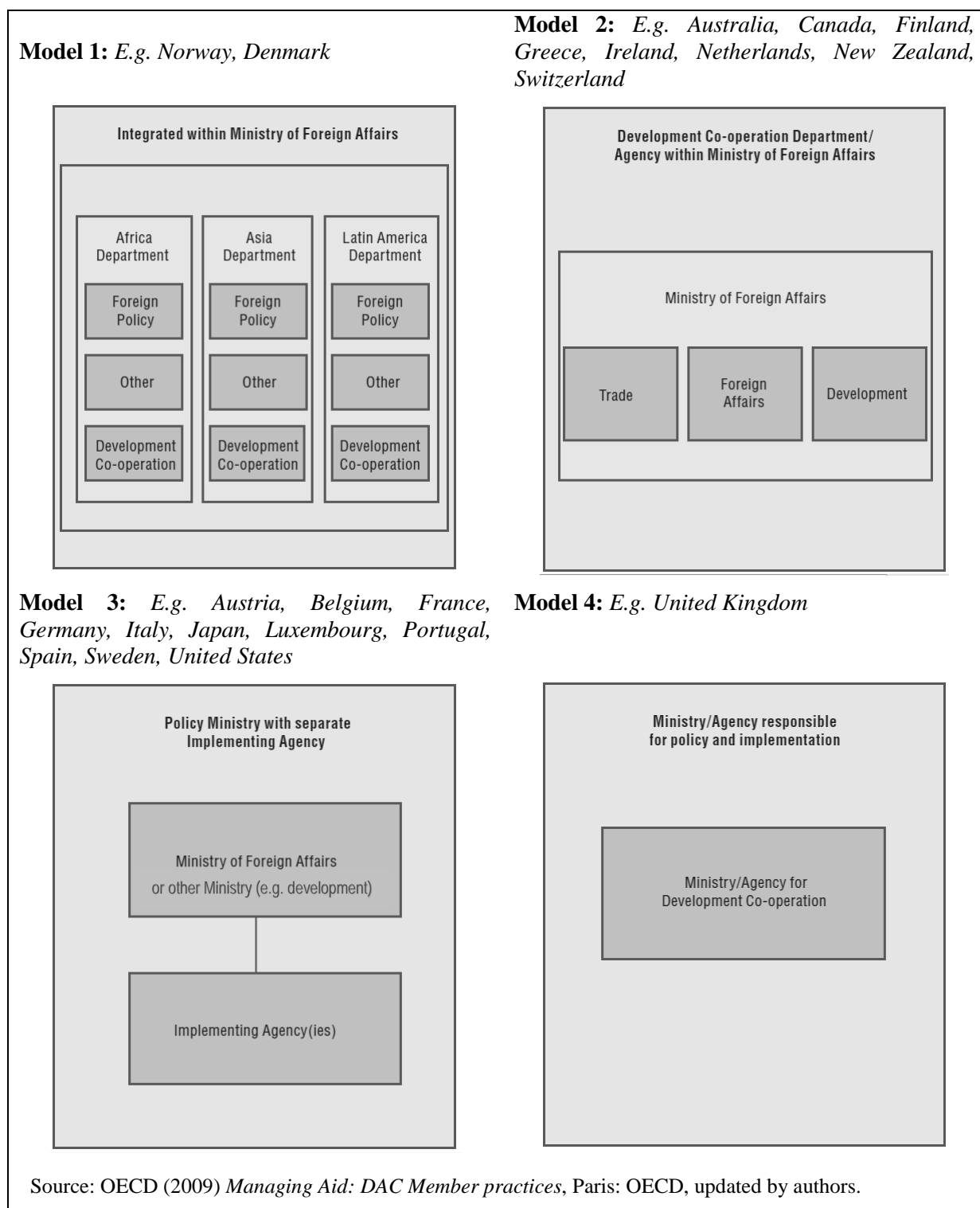
relationships in the areas of trade and commercial interests and engagement with Canadian actors such as the private sector.<sup>xi</sup>

11. **The sweep of the new policy agenda poses both strategic and operational challenges for development agencies such as DFID.** The rise of middle-income countries and the variable geometry of international alliances and partnerships have made the distinction between providers and recipients less relevant. Many contemporary challenges – such as climate change and trade – will require global and local collective action more than financial aid. Money *per se* is not the main problem or solution, especially in more fragile states.
12. **In summary, DFID has long-standing expertise and relationships in aid delivery, but will find its current advantage increasingly challenged. Competition will come from newer donors at the country level that are able to offer faster, less conditional financing, and from the need for greater and more robust forms of multilateralism at the global level. It will also require different capabilities and ways of working to move from disbursement of aid as the primary function towards brokering of global action and the transfer of knowledge.**

#### **D. Comparative models of development agency structure**

13. **There is a range of institutional designs for development agencies.** These arrangements are not static over time. Governments tend to reform the configuration of their development agencies to reflect major changes in strategic orientation and policy priorities, and often in response to decisions about the political salience of international development assistance. That factor appears to explain the emerging preference for integrated institutional models.
14. **Development agencies in OECD DAC countries may be categorised by four institutional models** (see Figure 1).<sup>xii</sup>
  - Development cooperation is *integrated in the Ministry of Foreign Affairs (MFA)* that takes the lead and is responsible for policy and implementation.
  - Development cooperation is *managed by a department or an agency within the MFA* which leads and is responsible for policy and implementation.
  - *A ministry has overall responsibility for policy and a separate executing agency is responsible for its implementation.*
  - *A ministry or agency (other than the MFA) is responsible for both policy and implementation* – the UK example.

**Figure 1: Institutional models for development cooperation agencies in OECD DAC countries**



15. **Development cooperation agencies are now closely linked with foreign affairs ministries in most DAC countries** (see Box 1). That approach is typified by Models 2 and 3. The streamlining of development cooperation across policy areas within a Ministry of Foreign Affairs (Model 1) and the existence of a ministry dedicated to development cooperation (Model 4) stand out as exceptions. The UK is an example of the latter.

16. **Shifts between institutional models continue to occur in both directions.** In 2013, Australia and Canada moved from having an executive agency responsible for development policy and implementation (Model 4) to a department within another ministry (Model 2). The stated objective in each case was to make development assistance more coherent and efficient by bringing it under the purview of foreign affairs. Even when the institutional separation has increased, there remains a close connection through vertical oversight. Italy is a very recent example of this directional shift from Model 2 to an implementation agency (Model 3). Perceptions vary about the merits of these different changes. The reforms in Australia and Canada were criticised by civil society for aligning foreign aid with commercial self-interest,<sup>xiii</sup> but they have been received positively in the Italian case.<sup>xiv</sup>
17. **Cross-government responsibility for development cooperation policy is a common approach to promoting coherence and addressing multiple objectives.** The rationale for this approach in Ireland is to generate greater awareness and to motivate strong commitment to international development objectives across the government. Those were also the stated reform motivations of the governments in the Netherlands in the mid-1990s and Sweden in 2003. The most recent OECD DAC peer review for Sweden concluded that thanks to the implementation of all three building blocks for policy coherence (i.e. policy statements, co-ordination mechanisms and reporting systems), Sweden has an effective whole-of-government approach that ensures policy coherence for development.<sup>xv</sup>

#### **Box 1: Recent institutional reforms for selected development agencies**

- In the mid-1990s, the *Netherlands* adopted a new institutional arrangement to redistribute responsibilities among ministries and to enhance coordination between sector ministries and the Ministry of Foreign Affairs. It was supported by changes in the budget so that all spending on international cooperation was consolidated in a budget coordinated by the Ministry of Foreign Affairs but tapped by all relevant government entities.<sup>xvi</sup>
- In *Sweden*, the Parliament adopted a Policy for Global Development (PGD) in 2003 putting policy coherence for development at the heart of Sweden's development cooperation policy. Ministries from all policy areas have a shared responsibility to implement the PGD and the Department for Development Policy at the MFA provides overall coordination.<sup>xvii</sup>
- A change of government also drove reforms in *Canada* in March 2013. There, the Ministry of Foreign Affairs absorbed both the Department for Trade and the Canadian development agency (CIDA) to become the Department of Foreign Affairs, Trade and Development.<sup>xviii</sup>
- In *Australia*, the Ministry of Foreign Affairs and Trade absorbed the government agency responsible for managing Australia's development assistance (AusAID) in October 2013 when a new government took office.
- *Italy* has very recently created a national development agency (AICS) inspired by similar structures in other European countries. This agency will operate under the direction of the Inter-ministerial Committee for Economic Cooperation and Development chaired by the Prime Minister and comprising the Minister and Deputy Minister of Foreign Affairs, and the Ministers of Economy, Environment, Defence and Development. Italy's revised development cooperation law establishes the position of a Deputy Minister for Development Cooperation within the Ministry of Foreign Affairs. The same ministry will change its name to the Ministry of Foreign Affairs and International Cooperation.

18. **In summary, development cooperation is not limited to aid in most countries and it forms part of a country's wider external action. An effective whole-of-government approach**

requires a clear cross-government strategy and a strong coordinating role by the Ministry of Foreign Affairs. This position is often reflected in an institutional set-up where development cooperation is managed by a department or an agency within the Ministry of Foreign Affairs.

## E. Performance of the UK model and approach

19. **The UK development agency model is now unique among DAC member countries.** It has a standalone department responsible for international development issues with a cabinet-level minister who is responsible for the design and the implementation of the government's development policy. The most recent DFID annual report considers the role of these two factors in influencing UK policies and the support they provide to make non-aid policies more development-friendly.<sup>xix</sup> It makes the case for the benefits of a standalone apex development ministry. Three points are central to the argument:

*'First, having a separate department with a remit to pursue poverty reduction is important. DFID has a remit to provide analysis and advice about the impact of UK policies on poverty reduction, to complement its spending.'*

*'Second, the Secretary of State for International Development, as a Cabinet Minister, is consulted on the full range of government policies that might impact on development.'*

*'Third, the Secretary of State's membership of the National Security Council (NSC) and DFID ministers' membership of other specific Cabinet sub-committees, complemented by cross-departmental groups at official level ... enable the government to take a comprehensive and strategic approach to a series of policy issues that are critical to international development.'*

20. **Evidence on whether this approach to development policy coherence worked in practice is encouraging but not conclusive.** In its 2012 mid-term review of the UK,<sup>xx</sup> the OECD DAC described the policy coherence instruments in place as *'a bottom-up approach linking with government priorities on concrete areas such as trade, stability and conflict, where joint units focus on achieving common results'*. However, the review concluded that *'while these appear as effective whole-of-government mechanisms to address specific challenges, there is still work to do to get other departments such as the FCO and Defence to the same level as DFID regarding the developmental approach, in particular on results, transparency and gender equality'*. Other European donors including Finland, France, Germany, Luxembourg, the Netherlands, Spain and Sweden, are required to report regularly to their governments and/or Parliaments on their performance on policy coherence for development.

21. **Public Service Agreements made a positive contribution to effective cross-government engagement on development** (see Box 2). A review in 2013 by the National Audit Office on the process of integration across government was critical of government's decision to move away from the institutionalised whole-of-government approach: *'Until 2010, there were coordinating mechanisms such as cross-cutting Public Service Agreements, but these disappeared as government priorities changed. Since then, while some parts of the centre of government have an interest in integration, none of them has explicit responsibility for supporting integrated working, particularly for frontline services'*.<sup>xxi</sup>



## Box 2. Functioning of Public Service Agreements<sup>xxii</sup>

Public service agreements (PSAs) were introduced in the 1998 Comprehensive Spending Review (CSR) as a means of galvanising UK public service delivery. In its 2007 CSR, the UK government identified 30 new PSAs setting out the government's key priorities in the current spending period (2008-2011). They were, in essence, a contract between the UK government and citizens on what government departments will deliver.

Each PSA had a lead department responsible for driving and coordinating delivery, supported by other government departments. DFID led on PSA 29 (Poverty Reduction) with the following delivery partners: FCO, Defra, DECC and HMT. DFID was a delivery partner for PSA 30 (Conflict) led by the FCO and PSA 27 (Climate Change) led by DECC and made a contribution to PSA 26 (Counter Terrorism) and PSA 3 (Migration) led by the Home Office. PSAs served as important mechanisms for high level coordination across departments.

The PSAs were considered to help foster closer links and reinforce coherence between aid, foreign policy and defence. This allowed DFID to engage in a broader set of issues and to play a more influential role in central government decision making.

22. **Reviews of cross-government initiatives in the conflict and security sector reveal mixed evidence on performance.** The DFID business plan lists this sector as a priority for coordinated action with other government departments.<sup>xxiii</sup> One example is the joint Conflict Pool with the Foreign Office and the Ministry of Defence. Assessments of the effectiveness of the Conflict Pool are mixed. The Independent Commission for Aid Impact (ICAI) gave it an amber-red score in a review and concluded that the conflict pool '*struggled to demonstrate strategic impact*'. Reasons cited were the lack of a clear strategic framework and robust funding model, cumbersome arrangements around its governance and management, and limited capacity for measuring results.<sup>xxiv</sup> By contrast, a concurrent National Audit Office review concluded that the Conflict Pool functions well and is an example to be followed more widely across Whitehall.<sup>xxv</sup>
23. **The legislative framework for UK development assistance does not adequately facilitate policy coherence across government.** The International Development Act of 2002 applies specifically to DFID and not to the whole government's development assistance policy. DFID disbursed 88% of the UK's ODA in 2012/13, with the remaining 12% covered by other government departments. Those departments are not covered by the 2002 Act and are under no obligation to align their spending with the objective of reducing poverty. This could become problematic if a greater share of ODA is spent through other departments. The central objective of development policy would risk being diluted and the weight of DFID would be weakened.<sup>xxvi</sup>
24. **In summary, the role of DFID in facilitating other UK Government departments has diminished, in particular since 2010 when Public Service Agreements were abolished. The current legislative framework could hinder policy coherence for development if government priorities move away from poverty eradication. Re-introduction of Public Service Agreements (or equivalent), a reporting requirement to Parliament on performance on policy coherence and the replacement of the International Development Act with a cross-government Global Development Act, would support better the promotion of a whole-of-government approach to development in the UK.**

## F. Recommendations on the future of DFID

25. **The sweep of the global development agenda is very broad in terms of the policy coordination challenges it poses for development agencies.** The UK Government will have to

develop new thinking about the objectives of international development and new ways of working to support that engagement. This should be done by starting with the purpose and priorities and then thinking through the institutional arrangements best suited to address them. We offer three illustrative scenarios.<sup>xxvii</sup>

- *National problems to which the answer is primarily money* (for example, basic social services and humanitarian emergencies) would need a traditional aid spending ministry – an efficient disbursing of ODA – facing reduced demand on the one hand and, on the other, increased competition from new kinds of business models and new forms of finance.<sup>xxviii</sup>
- *National problems to which the answer is not money*, but rather thinking and working politically, convening and brokering solutions, would need a new kind of approach that offers more expertise and less pressure to spend. The agency would take the form of a broker and manager of ODA and ODA-like funds, concentrating on financial issues, but with a stronger focus on partnerships and innovative thinking with the private sector and with non-traditional donors.<sup>xxix</sup>
- *Collective action problems among governments* (for example, tax havens or climate change) and issues of policy coherence within governments (trade policy, migration) would need a network approach across government departments focused on deal-making and brokering across government and internationally, providing a unique perspective and resources (financial and non-financial) on the issues that shape global well-being and prosperity.

26. **In summary, DFID has demonstrated clear success as an efficient aid agency, administering and disbursing a sizable aid budget to support direct development results. As the relative importance of ODA diminishes, DFID will be faced with the threat of declining relevance. The UK Government requires a new and compelling vision for dealing with the global development priorities of the future. More coherent cross-government working, more agile institutional capability and new competencies in brokering development solutions will be the hallmarks of an effective UK development agency. A new vision should also set out explicitly the case for retaining or discontinuing DFID as a standalone international development ministry.**



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- <sup>i</sup> All are researchers at the Overseas Development Institute. The submission represents the contributions of named individuals, not an institutional position of ODI. Correspondence to Mikaela Gavas ([m.gavas@odi.org](mailto:m.gavas@odi.org))
- <sup>ii</sup> [Hashmi, N., Birdsall, N. and H. Kharas \(2014\) 'The Quality of Official Development Assistance 2014', \*Briefs\*, Washington: Center for Global Development and Brookings Institution, 2014.](#)
- <sup>iii</sup> [DFID \(2014\) Department for International Development Annual Report and Accounts 2013–14.](#)
- <sup>iv</sup> [Killick, T \(2014\) DFID's new aid strategy - the big silence, ODI Development Progress blog, 14 May 2014](#)
- <sup>v</sup> For example: the [DFID Improvement Plan \(2013\)](#), the [Review the programme management \(2013\)](#) and the 'Future Fit' initiative (2013).
- <sup>vi</sup> Basu, K. (2013) 'Shared Prosperity and the Mitigation of Poverty - In Practice and in Precept', *Policy Research Working Paper 6700*, Washington D.C.: World Bank.
- <sup>vii</sup> Kharas, H. and A. Rogerson (2012) *Horizon 2025: Creative Destruction in the Aid Industry*, London: ODI.
- <sup>viii</sup> [OECD \(2013\) "The Where" of Development Finance: Towards Better Targeting of Concessional Finance, DCD/DAC\(2013\)29, Paris: OECD.](#)
- <sup>ix</sup> Greenhill, R., Prizzon, A. and A. Rogerson (2013) 'The age of choice: developing countries in the new aid landscape - A synthesis report', *ODI Working Paper 364*, London:ODI.
- <sup>x</sup> The Netherlands (2013) *A world to gain: A New Agenda for Aid, Trade and Investment*, Government of the Netherlands.
- <sup>xi</sup> Government of Canada (2013) Jobs Growth and Long-Term Prosperity, Economic Action Plan 2013.
- <sup>xii</sup> [OECD \(2009\) \*Managing Aid: DAC Member practices\*, Paris: OECD.](#)
- <sup>xiii</sup> [The Guardian \(2014\) 'Aid mergers in Australia and Canada could hit poor regions, warn experts', \*Guardian development network\*, Yojana Sharma, Thursday 8 May 2014.](#)
- <sup>xiv</sup> [CONCORD \(2014\) Italian Council of Ministers approves new law on development cooperation.](#)
- <sup>xv</sup> [OECD DAC \(2013\) Sweden Peer Review, Paris: OECD.](#)
- <sup>xvi</sup> Netherlands Ministry of Foreign Affairs (1995) *The Foreign Policy of the Netherlands: A Review*, The Hague.
- <sup>xvii</sup> [Trocaire \(2013\) 'Achieving Policy Coherence for Development through a Whole of Government Approach', \*Briefing paper\*, September 2013.](#)
- <sup>xviii</sup> [ODI \(2014\) Designing the development agency of the future – Draft, April 2014.](#)
- <sup>xix</sup> [DFID \(2014\) Department for International Development Annual Report and Accounts 2013–14.](#)
- <sup>xx</sup> [OECD-DAC \(2012\) UK Mid-term Review, Development Co-operation Directorate, Paris: OECD](#)
- <sup>xxi</sup> [NAO \(2013\) Integration across government, March 2013.](#)
- <sup>xxii</sup> See: [DFID \(2009\) Eliminating World Poverty: Building our Common Future, July 2009](#) and [OECD \(2010\) Development Assistance Committee Peer Review: The United Kingdom, Paris: OECD.](#)
- <sup>xxiii</sup> [DFID \(2011\) Business Plan 2011-2015.](#)
- <sup>xxiv</sup> [ICAI \(2012\) Evaluation of the Inter-Departmental Conflict Pool, Report 12, July 2012.](#)
- <sup>xxv</sup> [NAO \(2012\) Review of the Conflict Pool, March 2012, National Audit Office.](#)
- <sup>xxvi</sup> [GMF and ODI \(2009\) 'The Impact of US and UK Legislatures on Aid Delivery', \*Economic Policy Paper Series 09\*, July 2009.](#)
- <sup>xxvii</sup> Adapted from [Green, D. \(2014\) 'What's the future role and structure of aid and aid donors? Some options', \*From Poverty to Power Blog\*, 9 April 2014.](#)
- <sup>xxviii</sup> Rogerson, A. (2012) 'The policy and institutional response to development challenges: forging new partnerships', in *Inclusive and sustainable development: challenges, opportunities, policies and partnerships*, paper prepared for the International High Level Conference to mark DANIDA's 50th Anniversary: 'Development policy in a changing world', September 2012.
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