

## MEMORANDUM

**To:** UK International Development Select Committee

**From:** Owen Barder and Alex Evans<sup>1</sup>

**Date:** 5 September 2014

**Subject:** Future UK Development Policy

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### Summary

1. Next year will see the Department for International Development's 18<sup>th</sup> birthday. But it is by no means certain that DFID will still exist for its 21<sup>st</sup>. The international trend, after all, is towards merging development and foreign ministries. Now, DFID's own status is under question. It is not hard to imagine a scenario after the next election in which a Prime Minister decides to square political commitment to 0.7% with hostile backbench opinion on aid spending by merging it back into the Foreign Office.
2. In this note we begin by taking stock of the changing nature of the development challenge. If, as seems likely, governments agree a new objective of the eradication of absolute poverty by 2030, then three key tasks – helping fragile states (or parts of states), inclusive growth in middle-income countries, and tackling global trends and transboundary risks that matter for development – will be especially important.
3. While spending is needed on all three tasks, none of them is primarily about aid. Instead, development will increasingly be about non-aid policies – whether:
  - *Within countries*, for example working on peacebuilding or security sector reform in fragile states, or supporting domestic resource mobilisation or helping design social protection systems in middle income countries;
  - *Internationally* – especially negotiating cooperative international frameworks in areas from tax cooperation to managing shared environmental commons like transboundary watercourses or the climate; or
  - *At home in the UK* – including the effect on fragile states of UK policies in areas like arms sales, drug prohibition, peacekeeping deployments, and tax havens; the effect on middle-income countries of UK policies on trade, subsidies, migration, remittance costs, technology, and intellectual property; and the effect on global risks of its

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policies in areas from infectious disease, capital adequacy, and money laundering to the impact on poor people of its emissions and consumption patterns.

4. For DFID to contribute to the third of these challenges, we argue, it has to be able to influence cross-Whitehall debates – something it can only do effectively if it has Cabinet and departmental status.
5. Were DFID to be folded back into the Foreign Office, future Ministers of State for Development would not be included in cross-departmental write-rounds. Their analysis would not be sought. They would lack the media profile and political clout of a Secretary of State. They would probably not attend Cabinet or its subcommittees, and even if they did, they would lack the status to put up a real challenge on wider policy decisions outside of their core area. And they would find their access to other policymakers around the world much diminished.
6. They would, in fact, find themselves in much the same situation as their US counterpart, the Administrator of USAID: running a foreign assistance program but excluded from most of the key decisions relevant to development outcomes. For all these reasons, we believe, DFID *should* remain an independent department.

### **The changing development challenge**

7. The nature of the development challenge is shifting. If the MDGs were mainly about service delivery in relatively high-performing low-income countries, eradicating absolute poverty by 2030 entails making progress on a much broader front – above all in three key areas listed above and described in greater detail below.
8. First, **fragile states (or parts of states)**. By 2030, absolute poverty will be increasingly concentrated in fragile environments – a category that will include most of the world’s dwindling number of low-income countries, but also many middle-income countries (or regions within them).<sup>i</sup> All five of 2014’s highest fatality conflicts so far are in middle-income countries; many other MICs are affected by violence ranging from rural insurgencies to endemic urban violence that blurs the line between organised crime and conflict.<sup>ii</sup>
9. Second, **inclusive growth in middle-income countries**, where growing GDP per capita often conceals underlying challenges like rising inequality, weak social protection provision, creaking urban infrastructures, environmental degradation, and rising expectations that less capable or accountable governments will struggle to meet. (It’s no coincidence that so many protest hotspots since 2011 – Turkey, Egypt, Brazil, Bulgaria, Thailand, Ukraine, or Pakistan to name a few – are MICs.)<sup>iii</sup> For international actors, the challenge will be twofold:
  - Building on the MDG agenda by helping higher performing but lower income MICs to diversify their sources of finance for development – whether through domestic resource mobilisation, FDI, commercial debt, remittances, and so on – and access know-how and technology.

- Helping the poor people who are being left behind in middle-income countries – through a mixture of influencing in country (e.g. promoting social protection), improvements in the global policy environment, and, in some cases, direct service provision where the government can't or won't step in.
10. Third, **the global trends that matter for poverty**. Future development prospects will increasingly be shaped by transboundary risks and global public goods – from tax cooperation to illicit flows, from trade to financial stability, and from intellectual property regimes to global mechanisms for tackling infectious disease. Perhaps most of all, poor people will be affected by environmental stresses – climate change, biodiversity loss, competition for land and water, and the effect of these trends on livelihoods, prices for food and other basic goods, and conflict risk.
  11. These three challenges share many traits. None of them was a focus area for the Millennium Development Goals, but all of them will be decisive in shaping the outlook for international development from now on. All will be addressed primarily at national level, but with important roles in each case for international assistance and cooperation. All involve far-reaching, very political, often messy processes of political and structural change, usually in the absence of an established playbook for how to go about them. And none of them is primarily about aid.

### **Show me the money**

12. This is not to say that there is no longer a role for aid and other forms of international public finance; on the contrary, they remain critical in each of the three areas just discussed.
13. In fragile states, two kinds of interventions that we know to be effective – humanitarian assistance and multilateral peacekeeping – are expensive, and the systems that provide them heavily overstretched. The costs of both are likely to increase in the coming years.
14. In middle-income countries, meanwhile, aid is still warranted in many cases (even if total aid spending is currently skewed too far towards MICs, given their opportunities to access alternative sources of finance for development) – for instance, where it leverages in other finance, builds indigenous know-how, tackles humanitarian emergencies like Syria or Iraq, or provides basic services to marginalised populations who would otherwise be neglected.
15. And at global level, finally, international public finance is needed for areas like vaccine production and distribution, agricultural R&D, rainforest and ocean conservation, or climate mitigation. Right now, financing for global public goods is a fraction of what the world spends on poverty: in 2012, the total was around \$12 billion (less than a tenth of total ODA in that year), of which three quarters was for UN peacekeeping alone.<sup>iv</sup>
16. All this means that there continues to be a strong case for expanding the overall international public finance envelope. True, 0.7% may indeed be a four decade old anachronism that remains arbitrarily set, as its critics charge.<sup>v</sup> But a revised and updated costing of aid spending might well come out higher than 0.7% - especially once the costs of climate change mitigation and adaptation are taken into account.

17. However, prospects for increasing the total amount that OECD countries spend on international public finance – through ODA, climate finance, and so on – appear to be limited over the next year. While it is essential to keep the pressure up in public, development advocates may privately need to think in terms of a two front campaign, in which:

- In the short term, the major push is on improving the share of more concessional forms of aid that goes to the destinations least able to raise finance from sources like foreign direct investment, portfolio equity, remittances, or tax and savings: in other words, the most marginalised people within least developed countries (LDCs) and global public goods.<sup>vi</sup>
- In the longer term, international public finance becomes less based on discretionary flows. While so-called ‘innovative flows’ have so far been modest, developing countries and their allies have long been missing a huge trick by not demanding fair shares for all countries of a global emissions budget – which is not only essential for a comprehensive solution to climate change, but which would also (through emissions trading) create a major new source of finance for development that would nonetheless drastically reduce compliance costs for high emitters.<sup>vii</sup>

#### **Aid and beyond: in developing countries**

18. So spending does matter. But at the same time, the UK’s work in developing countries around the world is about much more than just its money – and any ‘beyond aid’ agenda worth the name will apply as much to the UK’s partnerships with individual countries as to policy coherence in Whitehall. In each case, DFID needs *enough* people, and the *right* people. DFID staff are not an overhead cost to be squeezed: an effective beyond aid agenda depends on influencing – and hence people – more than on money.

19. Spending money on emergency relief or peace support operations cannot build lasting peace or accountable governance in fragile states, for example. Only long term, endogenous change can do that. For international actors to support these gradual, messy processes of transition and transformation, what matters is deep local knowledge, together with expertise in areas like mediation, peacebuilding, security sector reform, or rule of law.

20. In these contexts, the skills that DFID will need include expert knowledge of specific countries and their politics, history, and culture – built up through longer-term postings, language skills, and specialisms in specific regions; skills in specialist areas related to political transitions; and the ability to operate across disciplinary boundaries (humanitarian, mediation, military, institutional, development), as the best UN SRSGs can.

21. Similarly, while aid has a role to play in middle-income countries, it will only ever be a drop in the ocean of total financing (already, aid accounts for just 0.3% of the average MIC’s GDP).<sup>viii</sup> Where there is much more to do is in areas like helping broker private sector investment, building capacity for domestic resource mobilisation, catalysing change in key policy areas like extractives transparency, using public finances to improve market

outcomes, or helping to develop and promulgate new economic growth models that include more emphasis on social protection, redistribution, and inclusion.

22. Here, what DFID needs most from its staff is the capacity to broker partnerships, understand how to support and promote enabling environments for private sector-led growth, tackle market failures, and bring knowledge of emerging approaches around the world to policy areas ranging from social protection to green growth and climate resilience. Experience of project finance and how to secure it will be *especially* important.
23. Finally, while money is also needed for global public goods and transboundary risk management, the real work here too is about areas other than aid. Above all, the biggest deficit is in global governance rather than global finance – with a huge amount to be done in negotiating cooperative international frameworks in areas from tax cooperation to managing shared environmental commons like transboundary watercourses or the atmosphere.
24. At international level, DFID needs not just technical expertise in areas like trade, tax, and climate change, but also the more subtle and hard-to-recruit-for skillset of thought leadership and ideas-based advocacy. This will in turn depend on a more open culture with more recruitment of outsiders, as well as DFID being willing to do more of its thinking in the open (as it already does in some areas, e.g. the post-2015 agenda).
25. As well as having the right people and the right skills, DFID also needs to be willing to innovate. Helping fragile states, supporting inclusive economies in MICs, and providing thought leadership on global issues are all areas that will entail different approaches to those used for DFID's core business during the MDG era. In its approach to spending, then, DFID needs to act more like a venture capitalist and less like a wholesale banker: spending smaller sums on higher risk projects, and being willing to accept the possibility of failure in return for sometimes achieving success in new ways.
26. To be sure, this requirement is in tension with the government's limited risk appetite – which is understandable, given the UK public's limited support for aid and the potential media backlash on projects that don't work. Yet the best argument for the UK to spend as much as it does on aid is for that aid to be spent effectively – and this requires ministers and officials to be willing to experiment, and to make the case for why it is necessary to do so.
27. Most of all, DFID's approach in countries needs to be based on real understanding of endogenous drivers of change, and a long term view. Countries are complex adaptive systems, after all, and any attempt to change them will involve a high degree of uncertainty and unpredictability, *especially* for outside actors. To assume that spending money will generate a given result flies in the face of this basic truth.
28. Instead, DFID country offices need to base their programme on a real attempt to understand what is really driving change in the country and its political economy, a willingness to experiment and learn, and an intention to work with the grain of these processes of change to effect pro-poor outcomes. But this kind of approach can easily come into tension with

pressure from headquarters to disburse money in a predictable fashion – and corporate incentives too often favour the latter.

### **Aid and beyond: the UK dimension**

29. The other half of a beyond aid approach to development is the policies and behaviour of the UK government and citizens. This touches on a huge number of policy areas – from the effect on fragile states of UK policies in areas like arms sales, drug prohibition, peacekeeping deployments, and tax havens; to the effect on middle-income countries of British policies on trade, subsidies, migration, remittance costs, technology, and intellectual property; and the effect on global risks of its policies in areas from infectious disease and capital adequacy ratios to bribery and money laundering.
30. Perhaps most important is the global impact of UK consumption patterns. The world as a whole emits and consumes far beyond sustainable levels. If the global economy is to be brought back within safe environmental limits *and* poor people are also to improve their standard of living, then the only way to square the circle is for developed world consumers to impose a smaller burden on the world's finite resources, and live within their fair shares of environmental space.
31. This is not to say there are limits to growth, or that humanity is headed for some dire Malthusian dystopia. It is easily possible to imagine a future in which, within just a few decades, technological innovation ushers in a post-scarcity age. But that will only happen under economic policies that, for now, most countries – including the UK – are avoiding, above all making the price of goods and services tell the truth about their environmental impact. Until then, hard-edged distributional questions about access to natural resources and environmental commons will continue to become more acute, especially for those who rely on them most: poor people.
32. So how can the UK start moving towards a more development-sensitive approach across these disparate policy areas? There are two answers to that question: one about what happens in DFID, and the other about what happens across Whitehall.
33. Start with Whitehall. Many development advocates like to argue for 'policy coherence for development', under which policymaking in all the areas mentioned above would be conducted with development in mind as a key priority.
34. But while *we* may all regard it as self-evident that areas like poverty and climate change should be the top priorities in Britain's global policy, there is also the complicating factor that many other lobbies feel that *their* concerns – maximising UK growth or exports, avoiding additional regulation on the City, selling Typhoons to emerging economies, avoiding further immigration into the UK, and so on – deserve pre-eminence.
35. In reality, Britain *has* no global policy. No one government department leads on foreign policy any more (whatever the Foreign and Commonwealth may like to tell itself). Instead, each department has become used to leading on its own slice of international policy – the

Home Office on migration, Treasury on all things financial, DECC on global climate policy, BIS on trade, and so on.

36. So before development advocates can win the argument that UK's global policies should be coherent for development, they must first win the argument that the UK's policies need to be more coherent, period. This should be possible: for if development prospects are more and more determined by transboundary risks, the fact that the UK is still coping with the legacy of the financial crisis six years on shows that the same point holds true at home as well.
37. So development advocates should start by allying with other interest groups to win the argument that a serious debate is needed on the coherence of UK foreign and domestic policies. Once that debate is underway, they can then make the case that issues like poverty, climate, and sustainability deserve to figure highly on the UK's first statement of its global priorities, for three reasons:
  - First, because action on many of these issues is in the interest of the overwhelming majority of British people, even though in each case change may be opposed by a powerful and vocal minority; (examples include market access, more aggressive steps to mitigate climate change, better policies on intellectual property and innovation, improved collection of taxes, and ending agricultural subsidies).
  - Second, because these things help people in other countries, which is indirectly good in the long run for Britain: as their economies grow and prosperity spreads, so they are more likely to trade with us, less likely to be sources of terror and disease, more likely to contribute to global public goods, and less likely to engage in uncontrolled migration; and
  - Third, because it's the right thing to do to help our fellow human beings.
38. This would then create the basis for development and related priorities to be taken into account in domestic policy. In the first instance, this might be through requiring a development impact assessment for all policy decisions in areas like those listed in paragraphs 25 and 26 above.
39. In some cases, this could be quantitative, for example using cost-benefit analysis to calculate the development opportunity cost of the UK's share of the Common Agricultural Policy. More ambitiously, a coherent statement of UK global policy aims that emphasised sustainability would also create a platform from which major gaps in UK policy – for example, the fact that its tax regime imposes high costs on employing people but low costs on unsustainable consumption patterns that then impact poor people– could be identified and addressed.

## What is DFID for?

40. This brings us, finally, to the question of DFID's role in driving policy coherence – and to the larger question which the International Development Committee has raised of whether it still makes sense for DFID to be an independent department in its own right.
41. DFID is very good at what it does on the ground in partner countries. But as the global trend towards integrating foreign and development ministries shows, that is not in itself a sufficient rationale for DFID to remain independent.
42. There is also a strong argument that, in countries like Norway and Denmark, policy coherence has actually been improved by bringing development and foreign policy together. However, commitment to development is deeply embedded in the political culture of these countries – both of which have been giving more than 0.7% of their national income to aid since the 1970s. Here in Britain, by contrast, commitment to development is much more recent and still contested.
43. Where Cabinet and departmental status *is* necessary for DFID, then, is in making a difference to cross-Whitehall debates.<sup>ix</sup> In a scenario in which DFID were brought back into the Foreign Office, future Ministers of State for Development would not be included in cross-departmental write-rounds. Their analysis would not be sought. They would lack the media profile and political clout of a Secretary of State. They would probably not attend Cabinet or its subcommittees, and even if they did, they would lack the status to put up a real challenge on wider policy decisions outside of their core area. They would find their access to other policymakers around the world much diminished.
44. They would, in fact, find themselves in much the same situation as their US counterpart, the Administrator of USAID: running a foreign assistance program but excluded from most of the key decisions relevant to development outcomes. For all these reasons, DFID *should* remain an independent department.
45. Until the 2010 election, DFID excelled at playing the role of global thought leader – staking out real leadership positions on agendas like climate change, trade, and conflict prevention, and influencing on them both internationally and within Whitehall. It has also often intervened usefully to help prevent bad decisions – such as aerial spraying of toxic chemicals as part of the UK's counter-narcotics strategy in Afghanistan, or creating 'zones of protection' in developing countries to which failed asylum seekers from third countries would be returned.
46. Since 2010, by contrast, it has been hard to make out much evidence of DFID playing this role. In part this may be because DFID has focused mainly on securing and defending a substantial increase in the aid budget. This has potentially eroded the case for DFID as a separate Cabinet department, leaving it vulnerable to being remerged with the Foreign Office after the next election. And while it would clearly make no sense to argue for DFID to continue to exist purely for the sake of it, the fact is that DFID's voice *is* needed in Whitehall and internationally.

47. A plurality of perspectives on global issues is healthy for British government, and a vital antidote to groupthink. DFID has an especially valuable perspective, given its technical expertise, country knowledge, and the fact that its long term view works in favour of Britain's long term economic interests as well as those of developing countries. The Foreign Office has often struggled with global issues, preferring to remain in its comfort of bilateral relationship management, hard security issues, international organisation sponsorship, and consular assistance.
48. Above all, DFID needs to be understood not as an organisation that argues for the interests of poor people against the British national interest, but as an organisation that argues for things that *are* in British interests – both directly, and because they contribute to long-term global prosperity which in turn benefits Britain.
49. At the same time, it is equally important to be clear that working more closely with the rest of government is a two way street: one that involves using DFID's resources in ways that help to promote HMG's broader policy agenda, consistent with its poverty reduction mission, and using that broader policy agenda to promote DFID objectives. Both are things that should happen much more than they currently do.
50. So policymakers and other influencers – in government, in Parliament (especially the IDC), and in the wider policy community – should be pushing for DFID to play a bigger role in development policy, and resist the temptation to retreat to a less controversial space centred on aid administration.

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<sup>i</sup> Alex Evans and David Steven (2013). *The Future is Not Good Enough: Business As Usual After 2015*. Technical paper for the UN High-level Panel on the Post-2015 Development Agenda.

<sup>ii</sup> The five highest fatality conflicts so far this year are Syria, Iraq, Nigeria, north west Pakistan, and Ukraine.

<sup>iii</sup> See for example Paul Mason (2011), "Twenty reasons why it's kicking off everywhere", BBC Newsnight blog, 5 February 2011.

<sup>iv</sup> Nancy Birdsall and Benjamin Leo (2011). *Find Me the Money: Financing climate and other global public goods*. Washington DC: Center for Global Development.

<sup>v</sup> Todd Moss and Michael Clemens (2005). *Ghost of 0.7%: Origins and Relevance of the International Aid Target*. Center for Global Development Working Paper 68.

<sup>vi</sup> Some LDCs are now calling for 50% of total aid flows to be spent on LDCs; others, for OECD countries to honour their long-standing promise to spend at least 0.15% of GNI on LDCs. (At the last count, the UK spends 0.19% of its GNI on LDCs, or 33% of its total ODA spend.)

<sup>vii</sup> This is the subject of a forthcoming Center for Global Development paper by Owen Barder, Alex Evans, and Alice Lépissier .

<sup>viii</sup> Romilly Greenhill and Annalisa Prizzon (2012). *Who Foots the Bill? What new trends in development finance mean for the post-MDGs*. ODI Working Paper 360. London: Overseas Development Institute.

<sup>ix</sup> For a description of the evolution of DFID's mandate and role within government, see Owen Barder (2005). *Reforming Development Assistance: Lessons from the UK Experience*. Center for Global Development Working Paper 70.