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BRITISH AID AFTER THE COMPREHENSIVE SPENDING REVIEW 2007: WHERE NEXT FOR DEVELOPMENT SPENDING?

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THE LABOUR GOVERNMENT'S COMMITMENT TO DEVELOPMENT: HOW IT AROSE

The Comprehensive Spending Reviews from 1998 to 2007

One of the first things the Labour party did when it took over from the Conservatives in 1997 was to carry out what it called a Comprehensive Spending Review (CSR) (1). In political terms it was a way of marking time, because in the 1997 election campaign it had tied its own hands by promising to stick to the Conservatives' spending plans for its first two years in office. But in policy terms, the CSR report delivered the goods, heralding dramatically higher spending and investment. They were directed mainly at education and health, but international development also gained, with a whopping 28% real terms increase in its budget over the next three years. There was also a strategic reorientation across government, which for DFID meant a new focus on the poorest people in the poorest countries. The CSR also set up a regime of Public Service Agreements, performance contracts for each government department which would be monitored by the Treasury.

In 2005 the Treasury announced a second CSR. Again the politics is important. With Tony Blair having announced that he will resign in 2007, the new CSR (originally scheduled to report in 2006, but now conveniently delayed to 2007) will give his successor a new mandate, and the chance to convince jaded voters that even after ten years of Labour in power, Britain has a new government, bang up to date and bursting with reforming energy. But policy-wise the CSR is a second opportunity for a fundamental review of government priorities, just as there was in 1998, and not least in international development.

This paper contributes to that review by suggesting what the Department for International Development (DFID) should do differently – and also what should stay the same. In short, its message is that British aid spending should maintain its focus on the Millennium Development Goals (MDGs), but balance it with respect for poor countries' freedom to set their own priorities, and with expanded commitments to work on climate change and fair trade.

Government and public commitment to aid

The Labour government's support for poor countries, mostly in Africa and Asia, has been remarkable in a number of ways. If political commitment is about putting your money where your mouth is, then there is a sense in which this government has been more committed to the welfare of poor countries than to education, health, law and order or any single issue in its own backyard. The commitment was already there in the 1998 CSR, and it has been maintained: real terms increases of 6.2, 8.1 and 9.2 per cent respectively following the Spending Reviews of 2000, 2002 and 2004. The Department for International Development (DFID)'s budget will increase to more than £5.3 billion a year in 2007-08 compared to £3.8 billion in 2004-05, the highest percentage increase of any government department.

But what is equally remarkable is how popular this particular use of taxpayers' money has been. The equality agenda of Labour-led local authorities in the 1980s ran ahead of public opinion and contributed to the downfall of many of them, but this even more utopian social experiment enjoys considerable public support, and to some extent follows behind it. That was dramatically evident in the Make Poverty History campaign in 2005, when thousands marched round Edinburgh Castle in the run-up to the G8 Summit at Gleneagles and the 'Live 8' pop concerts were watched by millions more on TV. With the major parties in all four countries of the United Kingdom united on the importance of development aid, and with Gordon Brown - looking certain to be Britain's next prime minister at the time of writing - if anything even more personally committed to development than Tony Blair, the political climate will tolerate high or even higher spending, at least while the economy remains buoyant.

How we got here

This is one area of the public sector, in other words, where the government has plenty of room to manoeuvre. Still, even a Comprehensive Spending Review is not a policy 'year zero': aid policy after it will be in the light of what went before. So how did we get to where we are now?

In international development, the 1980s and early 1990s were the period of the 'Washington consensus' (2), when the decisive development actors, notably the Washington-based International Monetary Fund (IMF) and the World Bank, came to believe that development's overriding goal should be economic growth, from which all other good things would follow. Also, since nationalised industries were seen to have underperformed, delivering growth was to be the job of the private sector. The job of government was mostly to act as 'watchman', maintaining law and order by all means, particularly property rights, possibly also providing some 'safety net' social services, but otherwise keeping out of the wealth creators' way.

If government in the rich countries was 'the problem, not the solution', as Ronald Reagan had famously declared in his first Inaugural Address, then Third World governments with their perceived corruption, 'rent-seeking' and general inefficiency were a very big problem indeed. This was a view that left little room for traditional development assistance, which had centred on government-to-government aid. It duly declined, with more of what was left bypassing governments to go straight to the burgeoning NGO sector.

That view was already changing when Labour came to power, for four reasons:

- *Politics and the electoral cycle*. Centrist or leftish governments were taking over or already in office in France, Germany and the US around the same time.
- *The experience of structural adjustment* sponsored by the World Bank and IMF, and seen to have failed to produce significant growth in most developing countries (or, equally importantly, in most of central and eastern Europe after the fall of the Berlin Wall).
- *Ideas*, and in particular the emergence of a human development paradigm sponsored by the United Nations. It put measures of well-being, especially education and health, alongside income measures. Economic growth might not be enough on its own. There could be 'bad growth' which increased the gap between rich and poor. When the new paradigm was taken up by NGOs refusing to be confined to the low-cost development service provider role which conservative governments had earmarked for them, it influenced the Jubilee Debt Campaign at national level, and internationally became the basis just after Labour came to power for the UN Millennium Declaration and the Millennium Development Goals (MDGs).
- *The strategic management model*, a seductive soft technology borrowed from the private sector. Its apparatus of time-bound numerical outcome indicators was used to give utopian aspirations a tough veneer.

Thus in line with Labour's traditional socialist beliefs, poverty eradication was the single goal of the new government's first White Paper in 1997 (3). Economic growth remained central, just as it was in the Washington consensus, but it now had to be 'pro-poor'. However, as the MDGs built up a head of steam, the goal broadened to encompass education, health and gender equality as well as income poverty. To compensate for this 'mission creep', the goal also sharpened in strategic management terms: advancing the MDGs became the be-all and end-all of government policy, expressed in DFID's admirably succinct (less than two pages) Public Service Agreement (PSA) with the Treasury for the period 2005-8.

Box 1 DFID Public Service Agreement 2005-8

AIM: Eliminate poverty in poorer countries, in particular through achievement by 2015 of the Millennium Development Goals:

TARGET 1: Progress towards the MDGs in 16 key countries in Africa, demonstrated by:
1) A reduction of 4 percentage points in the proportion of people living in poverty across the entire region, against the 1999 baseline
2) An increase in primary school enrolment by 18 percentage points and an increase in the ratio of girls to boys enrolled in primary school by 5 percentage points, both against their year 2000 baseline
3) a reduction in under-5 mortality rates for girls and boys by 8 per 1000 live births, against the year 2000 baseline; and an increase in proportion of births assisted by skilled birth attendants by 11 percentage points, against the year 2000 baseline
4) A reduction in the proportion of 15-24 year old pregnant women with HIV
5) Enhanced partnership at the country and regional level, especially through the G8, to increase the effectiveness of aid and ensure that international policies support African development

TARGET 2:[1] Progress towards the MDGs in 16 key countries in Asia
TARGET 3: Improved effectiveness of the multilateral system
TARGET 4: Ensure that the EU secures significant reductions in EU and world trade barriers by 2008 ([joint target with Department of Trade and Industry [DTI])
TARGET 5: By 2007/08, improved effectiveness of UK and international support for conflict prevention (joint target with the Foreign Office [FCO] and Ministry of Defence [MOD])
TARGET 6: 90% of DFID's bilateral programme going to low-income countries; and achieve a sustained increase in the index of DFID's bilateral projects evaluated as successful.

DEVELOPMENT SPENDING AFTER THE CSR: WHAT SHOULD CONTINUE, AND WHAT SHOULD CHANGE

Emerging priorities

Now the trouble with the strategic management model is that strategies are never set in cement: managers have to adjust to Harold Macmillan's 'events, dear boy, events'. We learnt that from the Canadian management guru Henry Mintzberg (4), but politicians like Macmillan knew it in their bones all along (and it was Harold Wilson who said that 'A week is a long time in politics'). So we should not be surprised that only half-way through the current PSA, two new priorities have already popped up. The first is governance. It was highlighted by the report of Tony Blair's Africa Commission (5), and it was duly the subject of DFID's latest White Paper (6). It ratified the PSA obligations, but it also added objectives for state capability, responsiveness and accountability, and vowed to make British aid conditional on developing countries' commitment to fighting corruption.

We can expect governance, along with security (a barely acknowledged but effective post-Iraq priority), to be part of the post-CSR picture. Also, with Tony Blair having already declared his intention to resign at time or writing, we can expect the CSR to reflect the priorities of the new prime minister (we are assuming that will be Gordon Brown). Mr Brown showed his hand in a speech in 2005, which announced that Britain would write off its 10% share of Africa's debts to the World Bank, press for fair trade terms for developing countries, help African countries upgrade their infrastructure – physical facilities like roads, but also institutions - underwrite free primary education for every child and support health care. He has continued to emphasise education in speeches and interviews.

So that is what Labour has done and has said it will do: more work to advance the MDGs, focusing on priorities in education and health supported by a stronger physical and institutional infrastructure But is it on the right track? There are perhaps three issues that the CSR should address:

- The MDGs: big push, or lots of tiny pushes?

[1] Because of pressure of space we have provided detail only on Target 1.

- To whom should aid spending be accountable?
- Climate change and trade

Achieving the MDGs

No one disputes the desirability of goals like ending child poverty by 2015. But how realistic are they? The American economist and former World Bank official William Easterly (8) has trenchantly argued that 'The utopian (MDG) agenda has led to collective responsibility for multiple goals for each (aid) agency, one of the worst incentive systems invented since mankind started walking upright.' Aid agencies, he believes, would do better to concentrate on obvious goods like vaccines and food supplements, and seek out other piecemeal solutions at country level.

Certainly some readers scanning the grandiose ambitions of the PSA might be tempted to mutter, 'If wishes were horses, then beggars would ride.' But those who favour the 'big push', like the American economist Jeffrey Sachs (7) and others grouped around the UN, argue that ambitious goals galvanise efforts. They also point to the runaway economic growth in Asia, particularly China and India, that is lifting millions out of poverty there. With the mega-countries of Asia taken care of, the line goes, we can focus on sub-Saharan Africa and the few remaining outlier countries which the UN estimates are not on track to achieve the MDGs (9).

Nor do ambitious goals have to be at the expense of local, piecemeal solutions. In fact, Sachs is sometimes caricatured as having an obsession with such homely initiatives as using impregnated bed nets to combat malaria. So there is room for prioritising and even opportunism in the choice of initiatives that Britain's limited aid resources should be spent on. Gordon Brown's declarations on education, health and infrastructure, and country-level initiatives like support in Malawi for free anti-retroviral treatment for HIV/AIDS and salary top-ups for health workers, show that the government recognises this. Of course the wrong priorities could still be chosen. With the very first MDG target - halving the number of people living on less than a dollar a day – it is growth that has put Asia on track. But growth, the number one priority in the Washington consensus era, seems to have been pushed to DFID's margins, relegated in the main to support for what other agencies are doing (6).

All in all, the MDGs should stay at the centre of British aid policy. The jury is still out on whether they can be achieved in Africa by 2015, and we may end up having to retreat from them, sadder and wiser - but not now. Switching from the MDG-led approach would also be stop-go policymaking at its worst, and would damage British credibility with the First and Third World governments that Britain has been incessantly lecturing on this subject. In aid policy it is mostly the boring virtues of perseverance and patience that we need at the moment, not attention-grabbing new initiatives.

Accountable to whom?

However, there is still a problem with the way that DFID is working towards the MDGs. The point of public service agreements is to make government departments accountable to the Treasury and to citizens. But making the MDGs the centrepiece of DFID's PSA makes DFID accountable for something it has no jurisdiction over, and for which it is developing country governments that are meant to be responsible. To the extent that DFID makes itself accountable for poverty in developing countries, developing countries cease to be accountable themselves. DFID is ready to share responsibility for two of its six PSA targets with the DTI, FCO and MoD but not, apparently, with developing country governments.

And yet DFID's governance White Paper (6) is all about making developing country governments more accountable to their own citizens. Moreover, as a signatory to the 2005 Paris Declaration on Aid Effectiveness (10), DFID is also committed to respecting developing country leadership and ownership, and basing its aid on its partners' own national development strategies.

In response to this concern, DFID could point out that its partners have all committed themselves to the MDGs, and that it is now allowing governments more freedom by giving more of its aid through general 'budget support' rather than donor-controlled projects. So they have, and so it has. But Britain committed itself likewise in 1970 to spending 0.7% of GDP on aid, which did not stop aid spending from dwindling in relative terms while the Conservatives were in power after 1979. In the same way, developing country governments, increasingly democratic as we should remember, have their own real priorities which may not be the ones they pay lip-service to. Moreover, budget support arguably just adjusts donors' grip on the aid purse strings. It is still conditional on donors' approval, particularly the IMF's, of the overall shape of government policy. Donors like DFID can still ventriloquise government policy in order to do the things they want to do. But that is not what developing country ownership was supposed to be about.

There is a real contradiction, in fact, between doing the democratic thing and the developmental thing in many countries; or, to put it another way, between being accountable to British citizens, with all our fickle preferences, and to developing country citizens via their governments. Keeping everyone happy by finessing the contradiction will be at the expense of producing development programmes that collapse as soon as the donor withdraws, as they have so often done in the past.

The solution is to recognise that aid is a special case of accountability. DFID cannot ignore its accountability to UK citizens. The thousands if not millions who were mobilised by the Make Poverty History campaign would be betrayed if the government walked away from the MDGs, whatever individual African governments might think of them. But accountability to British people has to be reconciled with the principle of developing country leadership, so that accountability is shared with people in developing countries – and their governments in particular: DFID should not be in the business of hand-picking congenial partners among NGOs, trade unions and civil society.

In practice, shared accountability means:

1. *Being more rigorous in pursuing DFID's self-imposed accountability for the MDGs.* Despite DFID's tough-seeming PSA regime, the House of Commons Select Committee on International Development (11) noted that 'Where targets

are not on course, there is often no specific information in the Departmental Report 2006 of the remedial action that DFID is taking').

2. *Combining the MDG commitment in DFID's next PSA with a new commitment to respecting the priorities of its country partners.* DFID's country-level staff should have greater discretion to support initiatives that are worthwhile on countries' own terms (there will be an even greater premium on those staff being steeped in the reality of those countries to avoid such support from degenerating into a slush fund). At a global level that will give DFID a slightly incoherent grab-bag of activities. But this messiness will be the sign that DFID is really prepared (perhaps for the first time?) to take country ownership to its logical conclusion. That may well do as much for good governance in poor countries as anything else that DFID can put its hand to.

Climate change and trade

There are two areas, though, where refining the existing agenda isn't enough: climate change and trade. They are also areas where the problem of developing country ownership doesn't arise because it is mostly our own mess, not poor countries', that we will be cleaning up. With the environment, that is because 'the most vulnerable – the poorest countries and populations – will suffer earliest and most, even though they have contributed least to the causes of climate change', as the Government's Stern Report noted (12). We did not understand the threat of climate change to the environment so well when the MDGs were drawn up. Even the UN's MDG progress report of 2005 (9) worked its way through forest and species loss before dispatching global warming in a single paragraph. That lack of awareness explains climate change's relatively low profile in DFID's work.

Trade is the other area where business as usual won't do, and where again it is mostly up to us to act. DFID already has a joint target with DTI for improving trade terms in the current PSA (Box 1 above). But with the World Trade Organisation's 'Doha Round' suspended acrimoniously in July last year while protective quotas (for example, for Bangladesh's garments industry) are disappearing and adverse or punitive terms of trade for developing countries persist, more needs doing.

Primary responsibility for action on climate change and fair trade should stay with the Department for Environment, Food and Rural Affairs (DEFRA) and the DTI respectively. But alleviating the impact of climate change on poor countries needs to become a central DFID role, for which DFID's Global and Local Environment Team as currently constituted may not be adequate. And subject to the success or otherwise of attempts to revive the Doha Round (we should know the outcome by Easter), DFID's International Trade Department needs an expanded role to promote the developing country trading interest, both in Whitehall and internationally.

THE WAY AHEAD: KEEP THE MDGs, PUT PARTNERS IN THE DRIVING SEAT, DO MORE ON CLIMATE CHANGE AND TRADE

This short article has not been able to cover everything. We have not been able to talk about DFID's continuing work in influencing international bodies like the EU and the World Bank where so much of Britain's money is spent these days (Gordon Brown was in India calling for the World Bank's reform as we wrote this chapter). We have done no more than assume that Britain's historically high spending on aid will and should continue, as an expression of our moral responsibility towards our fellow human beings, and also our enlightened self-interest, even though we have not been able to look at the evaluation evidence for British aid effectiveness. Likewise, we only have space to hope that Britain will come to terms with its real or imagined enemies in Muslim countries, putting an end to the contamination of aid by national security, which has produced cynicism, if not anger about Britain's international role. (For example, most new aid money in 2005 went to Afghanistan and to Iraq, where £9 million was handed to Control Risks Group [13], a British company whose website includes 'executive close protection' among its specialisms.) But we have managed to cover what we see as two fundamental priorities for DFID's new PSA. Briefly, they are:

- Maintaining the emphasis on the MDGs and monitoring DFID's contribution to them more closely, while balancing that emphasis with respect for poor countries' freedom to determine their own priorities
- Giving DFID an expanded role in dealing with climate change and fair trade

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