

**Development Co-operation Review**

**United Kingdom**

**Pre-print of the DAC Journal 2001,  
Volume 2, No. 4**



## **FOREWORD**

The Development Assistance Committee (DAC) conducts periodic reviews to improve the individual and collective development co-operation efforts of DAC Members. The policies and efforts of individual Members are critically examined approximately once every four years. Five or six programmes are examined annually.

The Peer Review is prepared by a team, consisting of representatives of the Secretariat working with officials from two DAC Members who are designated as examiners. The country under review provides a memorandum setting out the main developments in its policies and programmes. Then the Secretariat and the examiners visit the capital to interview officials, parliamentarians, as well as civil society and NGO representatives of the donor country to obtain a first-hand insight into current issues surrounding the development co-operation efforts of the Member concerned. Field visits assess how Members are implementing the major DAC policies, principles and concerns, and review operations in recipient countries, particularly with regard to poverty reduction, sustainability, gender equality and other aspects of participatory development, and local aid co-ordination.

The Secretariat then prepares a draft report on the Member's development co-operation which is the basis for the DAC review meeting at the OECD. At this meeting senior officials from the Member under review respond to questions posed by DAC Members led by the examiners. These questions are formulated by the Secretariat in association with the examiners. The main discussion points and operational policy recommendations emerging from the review meeting are set out in the Main Findings and Recommendations section of the publication.

This publication contains the Main Findings and Recommendations as agreed by the Development Assistance Committee following its review on 16 October 2001 at the OECD, and the report prepared by the Secretariat in association with the examiners, representing Australia and the European Community, on the development co-operation policies and efforts of the United Kingdom. The report is published on the authority of the Secretary-General of the OECD.

Jean-Claude Faure  
DAC Chairman

## **ACRONYMS**

CDC	Commonwealth Development Corporation
DAC	Development Assistance Committee
DFID	Department for International Development
DTI	Department of Trade and Industry
EBA	Everything But Arms
ECGD	Export Credits and Guarantee Department
EC	European Community
ERT	Emergency Response Team
EU	European Union
FCO	Foreign and Commonwealth Office
GEF	Global Environment Fund
GNI	Gross national income
GNP	Gross national product
HIPCs	Heavily-Indebted Poor Countries
IDA	International Development Association
IMF	International Monetary Fund
NAO	National Audit Office
NGOs	Non-governmental organisations
OCHA	Office for the Co-ordination of Humanitarian Affairs
ODA	Official development assistance
PAM	Poverty Aim Marker
PARC	Performance Assessment Resource Centre
PIMS	Policy Information Marker System
PPA	Partnership Programme Agreement
PRISM	Performance Reporting Information System for Management
PRSPs	Poverty Reduction Strategy Papers
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
VSO	Voluntary Services Overseas

WFP      World Food Programme  
WHO      World Health Organization  
WTO      World Trade Organization

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**Signs used:**

EUR	Euro
GBP	British pound
SDR	Special drawing right
USD	United States dollar
( )	Secretariat estimate in whole or part
-	Nil
0.0	Negligible
..	Not available
...	Not available separately but included in total
n.a.	Not applicable
P	Provisional

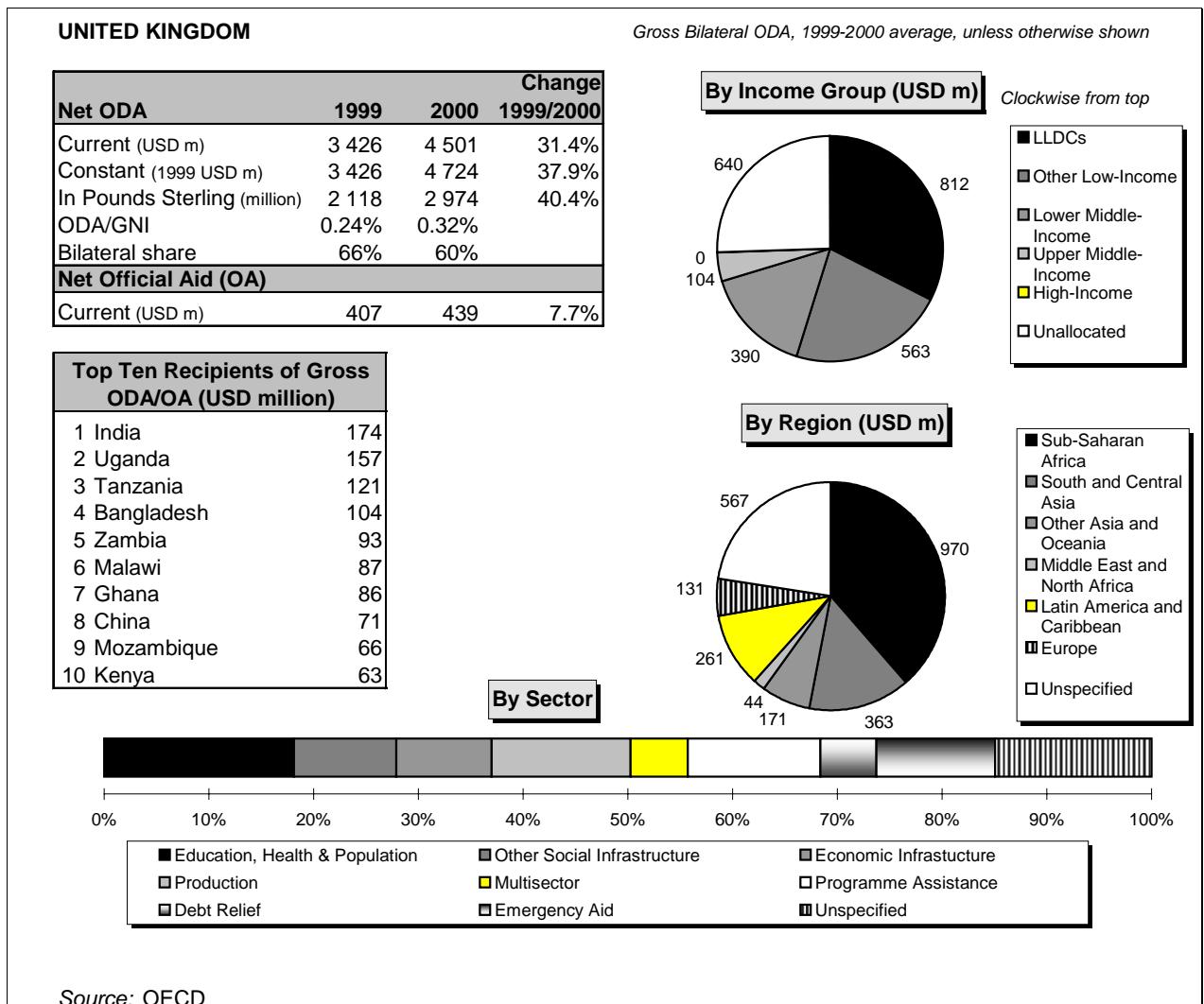
Slight discrepancies in totals are due to rounding

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Exchange rates (GBP per USD):

<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
0.6408	0.6105	0.6036	0.6181	0.6606

## The United Kingdom's aid at a glance



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## DAC'S MAIN FINDINGS AND RECOMMENDATIONS

### **The United Kingdom's development co-operation: new directions and a broader agenda**

Britain's current government, first elected in 1997, has placed development issues high on the political agenda, both at home and abroad. Poverty reduction has become central to the United Kingdom's development co-operation and official development assistance (ODA), which is increasing, is now seen in a larger context of efforts in support of international development. Achieving greater coherence in policies affecting developing countries has become a priority for the government as a whole and is also being pursued internationally, especially within European Union (EU) institutions. Two government White Papers on international development, published in 1997 and 2000, outline the new directions and broader agenda for Britain's development co-operation. The 2000 White Paper addressed the opportunities and risks for development arising from increased globalisation, based on the recognition that the poorest countries could become more marginalised unless greater attention is paid to international economic linkages.

The United Kingdom has fully embraced the partnership approach to development and geared its aid programme around achieving the results-oriented international development targets and millennium development goals, set mostly for 2015. Recognising that no country can achieve unilaterally the objective of eliminating world poverty, the Department for International Development (DFID) has been charged by the British government with fostering international efforts in support of poverty reduction. DFID pursues this mandate by "engaging with and influencing" others in support of developing countries' own efforts to overcome poverty. Among Members of the OECD's Development Assistance Committee (DAC), the United Kingdom has taken a leading role in promoting the development partnership strategy - as articulated in the DAC's 1996 policy statement *Shaping the 21<sup>st</sup> Century: The Contribution of Development Co-operation* - and in mobilising the international development community to work towards achieving the international development targets.

The United Kingdom's development co-operation has gone through a period of substantial transformations since 1997. The recasting of DFID as an autonomous government department has strengthened its capacities to pursue its broader agenda as well as enabled it to play an active role in promoting policy coherence. These efforts have benefited from the strong political leadership provided by the Secretary of State for International Development, a Cabinet-level minister.

As a demonstration of its commitment to reducing world poverty and to reverse the decline in ODA, the British government will raise DFID's departmental expenditure limit to GBP 3.6 billion (approximately USD 5.2 billion) in the 2003/04 financial year, its highest level. The United Kingdom's total net ODA rose to USD 4.5 billion in 2000, the fourth largest programme among DAC Member countries. The United Kingdom's ratio of ODA to gross national income (GNI) was 0.32% in 2000, above the DAC (weighted) average of 0.22% but below the DAC average country effort (unweighted average) of 0.39%. The United Kingdom has pledged to increase its ODA/GNI ratio to 0.33% by 2003/04.

To improve aid effectiveness and maximise development impact, the United Kingdom is delivering an increasing share of its aid in collaboration with other donors through development frameworks in support of partner country-led poverty reduction strategies, most notably Poverty Reduction Strategy Papers (PRSPs). This explains a number of features of the British aid programme including a move away from stand-alone projects, the pooling of bilateral funds and the untying of aid. This means that public support for aid must rest more on its contribution towards achieving development goals rather than aid having a strong national identity. The adaptation of bilateral aid agencies to this evolving context is a topical issue of general concern. The United Kingdom's approach demonstrates that bilateral aid agencies can continue to add value by providing constructive and informed contributions to international policy debates, by providing an additional source of independently commissioned research and by monitoring the implementation of international undertakings. The extent to which the United Kingdom's approach is replicable and can serve as a model for a common approach by bilateral donors is an important question.

### **Recent changes in the United Kingdom's development co-operation**

Since the last DAC Peer Review of the United Kingdom in 1997, a series of adjustments has been made which reinforces the United Kingdom's reputation as a leading donor within the international development community. Many of these changes constitute a significant departure from previous practices and bring the United Kingdom's programme into line with good practices internationally. The objective of the new approaches and ideas has been to make international development efforts more effective. These changes include:

- a) Poverty reduction and a commitment to working to achieve the international development targets have become central to the United Kingdom's development co-operation. The International Development Bill, recently introduced into Parliament, consolidates the poverty reduction objective for Britain's ODA (except in the case of assistance to United Kingdom overseas territories, which have a special position in the United Kingdom's aid programme).
- b) A government White Paper on international development, entitled *Eliminating World Poverty: Making Globalisation Work for the Poor*, was published in December 2000. This White Paper emphasises the need, if globalisation is to work for the poor, for effective governments and strong and reformed international institutions, in addition to strong and vibrant private sectors. It also stresses the importance of donors working collectively.
- c) A more comprehensive approach to promoting policy coherence has been adopted. This is being pursued through strong political leadership, a better use of existing co-ordination mechanisms within the British government and the mobilisation of DFID's experience and analytical capacities in support of this objective.
- d) The United Kingdom has played a key role in promoting and supporting multilateral efforts for the untying of aid, notably the recommendation on untying aid to least-developed countries adopted by the DAC in April 2001. Untying of the British aid programme was facilitated by the abolition of the Aid and Trade Provision, a mixed-credits scheme, in 1997. The government announced in December 2000 its intention to end the tying of all remaining development assistance to the procurement of British goods and services, and implementation of this decision proceeded on schedule with effect from 1 April 2001.

- e) Promoting public awareness of development issues has become a higher priority. DFID has become a more transparent organisation with most of its strategies prepared after consultations with stakeholders, civil society representatives and the public, and disseminated widely.
- f) To translate the United Kingdom's development objectives into policies, a wide range of strategy papers has been developed and published. These include Target Strategy Papers, which analyse the challenge of each international development target and what needs to be done to achieve it, and Institutional Strategy Papers, which cover DFID's partnership with multilateral institutions. The United Kingdom has prepared multi-year Country Strategy Papers for many years and started to publish these in 1998.
- g) DFID is now working more closely with international agencies at different levels and within their governing bodies, but also on co-ordination of policy and performance within selected developing countries. A stronger involvement with international organisations appears to be developing across DFID, based on a more systematic approach to influencing their agenda and assessing their performance.
- h) DFID has adopted a broader approach to working with civil society by targeting a wider range of stakeholders. The funding schemes for supporting activities by non-governmental organisations (NGOs) have been transformed. DFID is engaged more strategically with larger NGOs and is giving more emphasis to the advocacy role of smaller NGOs.
- i) DFID has expanded its representation in the field and established several new country offices with delegated financial authority. Responsibility for managing bilateral development assistance programmes is devolved to large country teams, most of whom are now located in the partner country.
- j) After being reduced for several years, staff levels in DFID have increased significantly. DFID has adopted a thoughtful and strategic approach to employing local staff. This is important for successfully implementing the current decentralisation process, and for achieving a more effective policy dialogue with partner countries and other donors in country.
- k) The role of DFID's Evaluation Department has changed from a primary focus on conducting *ex post* assessments of the impact of projects to a focus on sectoral and thematic studies of strong current relevance. The department is also contributing to efforts within DFID to improve the quality of performance assessment and knowledge management systems. The Evaluation Department has consequently taken on a broader role in sharing lessons learnt.
- l) The current government's objective of improving the delivery of the United Kingdom's public services has reinforced DFID's attention to the development impact of its activities. A set of time-bound and results-oriented performance targets is agreed with the Treasury and laid out in a triennial "Public Service Agreement".

## **Challenges for the United Kingdom's development co-operation**

Fostering enhanced development partnerships points to a need for donors to have strong representation in partner countries and well defined country strategies supporting host-country owned poverty reduction strategies. With the ambitious objectives assigned to its aid programme, the United Kingdom is also encountering a number of specific challenges. Addressing these will help maintain the United Kingdom's leading position within the international development community and contribute to help DFID be more effective in pursuing its engaging and influencing agenda.

The government recognises that a more substantial ODA/GNI performance is necessary to demonstrate the United Kingdom's commitment to tackling world poverty and has reiterated its commitment to the United Nations' ODA/GNI target of 0.7%. Although the United Kingdom is one of the few DAC Members committed to raising its ODA volume and lifting its ODA/GNI ratio, it remains far from reaching this target.

As for other DAC Members, achieving policy coherence is a difficult task and will continue to require constant scrutiny. DFID actively engages other policy communities across the United Kingdom government on policy coherence issues and decision making. The introduction of adequate legislation into Parliament in several areas such as corruption, arms exports and money laundering has not been given high priority but is now included in the legislative programme for 2001/02. Domestic interests remain strong in some areas, such as the process for granting export credits for sensitive projects due to their social and environmental impact. The results achieved in some other areas demonstrate the difficulties with implementing policies that are fully consistent with development objectives, for example in relation to the EU's "Everything but Arms" initiative.

The destination of the United Kingdom's bilateral aid indicates a strong focus on least-developed and other low-income countries, consistent with its stated policy framework. In the context of an expanding ODA budget, DFID needs to make decisions on country and regional allocations taking account of the relative weight given to the number of poor people, the likelihood of achieving the international development targets, the availability of other resource flows and the policy environment. DFID is active in a number of poor countries with weak policy environments and governance concerns, with the objective of supporting forces for positive change and protecting the poorest people. An additional issue is whether more emphasis should be given to drawing out and sharing lessons learnt from these experiences.

The strategies prepared by DFID form part of its engagement and influencing agenda within the international development community. DFID collaborates widely with other donors, for example in international fora and by making its research and experience available to others. There are, however, some perceptions that the United Kingdom, in its pursuit of its influencing agenda, needs to pay more attention to creating a broader sense of ownership among other donors in its alliances around common objectives and priorities. There is consequently scope for DFID to deepen its collaborative approach.

DFID has an ambitious and well-articulated policy framework, primarily focused on the achievement of the international development targets. Providing operational guidance to staff, especially those in the field, is a challenge for DFID. The application of these policies in developing countries with weak policy environments is a further issue. DFID is focussing attention on implementation and is working to develop operational guidance for field offices on the new approaches DFID is adopting to providing development assistance. Policies have to be tested and improved when confronted with operational realities. This underlines the importance of DFID's diversity in approaches in country and a greater sharing of knowledge and experience.

The increasingly sophisticated and ambitious nature with which aid can be provided in support of host country-owned poverty reduction strategies can also increase the challenges associated with raising public awareness of the aims, instruments and approaches associated with a high-impact aid programme. DFID is seeking to widen community involvement in the aid programme by diversifying its contacts beyond NGOs to wider civil society. In doing so, DFID needs to assist smaller organisations to engage on development issues and to meet DFID's criteria for funding.

DFID's monitoring and evaluation systems have evolved significantly in recent years. In many areas of activity, these systems are new and, so far, still not tried and tested. Where systems exist, compliance is an issue as there appears to be little ownership of these processes by DFID staff generally. Another matter for consideration is the institutional independence of *ex post* evaluations, the programme for which is presently determined by a committee comprising members of DFID's senior staff.

In the longer-term, achievement of the international development targets in each developing country will provide a basis for assessing DFID's performance. This is not an easy task due to the difficulties of capturing data on changes in developing countries and establishing the links between those changes and actions by individual donors. Despite systems being put in place to improve performance assessment, it remains a challenge how to reconcile the targets embedded in the three-year timeframe of the Public Service Agreement with DFID's longer-term development objectives.

## **Recommendations**

Based on these findings, the DAC encourages the United Kingdom to:

- a) Increase the rate of growth in ODA, based on recent achievements, and consider setting an ambitious intermediate ODA/GNI target on the way to achieving the United Nations' target of 0.7% of GNI.
- b) In line with recent trends, maintain a strong focus of bilateral ODA on the poorest countries, particularly those with good policy environments, while remaining engaged through appropriate instruments elsewhere.
- c) Continue to seek and develop effective ways of promoting policy coherence, in such areas as trade, environment and conflict reduction, across the United Kingdom government and at European and international levels.
- d) Continue to support partner countries in the development of their own poverty reduction strategies and use these as the basis for future Country Strategy Papers.
- e) Promote opportunities to deepen DFID's collaboration with other donors when preparing Country and Institutional Strategy Papers and in programme implementation.
- f) Maintain an active dialogue with parliamentarians, civil society, the media and the public on the aims and evolving instruments and risks associated with delivering a high-impact aid programme, particularly in view of the ambitious nature of Britain's development co-operation.
- g) Give further consideration to the need to develop operational guidance, particularly for field offices, on implementation of DFID's policies and partnership agenda, relevant to the range of policy environments found in developing countries.

- h) Focus the next generation of bilateral country programmes on addressing the challenges of greater sector focus, the appropriate mix of aid instruments and how best to pursue sustainable capacity building in partner countries. DFID's headquarters should update the guidance it provides to country programme managers to enable them to identify the appropriate mix of instruments, including how to assess and manage the fiduciary risk of direct budget support.
- i) Given the degree of financial authority delegated to offices in main partner countries, consider how DFID can further enhance information flows between field offices and headquarters and ensure that decisions on the appropriate number and mix of advisory resources take account of other donors' capacities already available in each country.
- j) Reinforce DFID's monitoring, evaluation and knowledge management systems by taking steps to promote staff's use of existing systems and by enhancing capacities to assess performance and provide useful action-oriented information; and consider reviewing the degree of institutional independence of *ex post* evaluations.

## **CHAPTER 1**

### **OVERALL FRAMEWORK AND NEW ORIENTATIONS**

#### **The foundations of the United Kingdom's development policy**

The United Kingdom has long-standing and close relations with numerous developing countries in the Caribbean, East and Southern Africa, South and South-East Asia and the Pacific. Many of these countries formed part of the British Empire and since gaining independence, mostly during the 1950s or 1960s, have remained associated with the United Kingdom through their membership of the Commonwealth. Most of these countries have adopted British-style political and legal institutions, some retain the British Monarch as their Head of State. English is often an official language. The importance of this heritage for the United Kingdom is apparent in its aid programme as 14 of its 20 main recipients of bilateral ODA in 1998-99 were members of the Commonwealth or an overseas territory.

In parallel to this process of decolonisation, the United Kingdom's international interests and responsibilities have strengthened through its permanent seat on the Security Council of the United Nations (UN), its participation in the activities of the Group of 7 leading industrialised nations (G7) and its membership of the EU. The United Kingdom's entry into the (then) European Economic Community in 1973 had the double effect of requiring the United Kingdom to abandon its long-standing system of preferential tariffs on imports from Commonwealth countries as well as to take a greater interest in developing countries with historical and cultural ties to other European nations. Nonetheless, despite this wider international engagement, the United Kingdom's ODA when expressed as a share of GNI has been declining in recent decades, from 0.42% in 1979-80 (two-year average) to 0.29% in 1989-90 and 0.28% in 1999-2000.

Britain's current Labour government, first elected in 1997, is committed to giving new priority to tackling global poverty and has placed development issues higher on the political agenda, both at home and abroad. Achieving greater coherence in policies affecting developing countries is a priority for the government as a whole and an application of its principle of "joined-up" government.

The United Kingdom's development co-operation programme has gone through a period of substantial transformations. The Overseas Development Administration - for many years a semi-autonomous agency within the Foreign and Commonwealth Office (FCO) - was recast in 1997 as a separate government department with a highly ambitious mandate. Recognising that no country can achieve unilaterally the objective of eliminating world poverty, DFID is charged with fostering international efforts in support of poverty reduction by "engaging with and influencing" others. While managing a quality aid programme and ensuring a solid ODA/GNI performance are necessary to demonstrate the United Kingdom's commitment to reducing poverty, ODA is now seen in a larger context of efforts in support of international development, especially as a catalyst for change and to mobilise private flows. Since its creation, DFID has been headed by a Secretary of State who has provided strong political

leadership, increased awareness and support for development co-operation at home and used Britain's influence within the international development community to increase support for poverty reduction.

The creation of DFID also triggered the formation in Parliament of an International Development Committee which has actively pursued its role of examining DFID's expenditures, administration and policies within the broader context of the impact of the United Kingdom's policies and practices on developing countries.<sup>1</sup>

Since 1997, the principles of social justice - security for all, access to health and education services, strong social institutions, greater equality and the provision of opportunity - have provided the basis for the United Kingdom's international as well as national policies, including development co-operation. The current government has also set itself the objective of improving the delivery of the United Kingdom's public services and launched a programme to intensify the modernisation of the civil service started by the previous government. As part of this process, each department now agrees a set of time-bound and results-oriented performance targets with the Treasury. These are laid out in triennial "Public Service Agreements". Across the civil service, departments are working to implement evidence-based systems for monitoring their performance. Within DFID, this has led to an increased focus on what works to reduce poverty, a recognition of the need to create a learning environment and greater value being placed on the department's human resources.

The United Kingdom's commitment to tackling global poverty, promoting social justice and achieving performance targets is fully in line with the development partnership strategy adopted by DAC Members in 1996<sup>2</sup>. As a result, the United Kingdom has found great value in adopting the development partnership strategy as the cornerstone for its development co-operation programme and promoting the underlying principles of partnership, ownership, developing country leadership, broad-based participation, development effectiveness and accountability. In particular, the United Kingdom has geared its aid programme around working to achieve the poverty reduction and other results-oriented international development targets set mostly for 2015, and now up-dated in the millennium development goals. The United Kingdom has also championed fuller adoption of the development partnership strategy by other bilateral and multilateral donors and encouraged them to work together more to support developing countries' own efforts to overcome poverty.

### **The government's broad goals for the United Kingdom's development policy**

Two government White Papers spell out how the United Kingdom intends to implement the development partnership strategy: *Eliminating World Poverty: A Challenge for the 21<sup>st</sup> Century* (released in November 1997) and *Eliminating World Poverty: Making Globalisation Work for the Poor* (released in December 2000)<sup>3</sup>. Each White Paper announced new measures and commitments which demonstrate the increased priority the United Kingdom is giving to tackling global poverty and signal breaks with past practices.

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1. Further information on the activities of the International Development Committee are available from the Internet at: <http://www.parliament.uk/commons/selcom/indhome.htm>.
  2. See *Shaping the 21<sup>st</sup> Century: The Contribution of Development Co-operation*.
  3. These White Papers, as well as many of the other DFID publications mentioned in this report, are available from the DFID Internet site at: <http://www.dfid.gov.uk/>

The 1997 White Paper set out four main commitments:

- The over-arching goal for the United Kingdom's development co-operation is the elimination of poverty and the encouragement of pro-poor economic growth. This is to be achieved through creating sustainable livelihoods, promoting human development and conserving the environment, particularly through long-term development partnerships with many of the very poor countries in sub-Saharan Africa and South Asia.
- A multi-faceted approach to building partnerships - with developing countries and especially those poorer countries committed to achieving the international development targets, with other donors and development agencies, and with the private and voluntary sectors and the research community in the United Kingdom.
- Broad consistency with the sustainable development objective in the full range of government policies affecting developing countries (including environment, trade, investment and agriculture policies), particularly in the areas of human rights, conflict prevention and debt reduction.
- Building support for development by increasing public awareness, ensuring resources are only used for poverty reduction and reversing the decline in Britain's ODA spending.

The 1997 White Paper stressed the importance of development funds no longer being used to promote short-term commercial objectives and announced the abolition of the Aid and Trade Provision, a mixed-credits scheme. The White Paper also announced the government's intention to privatise the Commonwealth Development Corporation (CDC) and create a public-private partnership. Promoting public-private partnerships is a method the Labour government is exploring generally to increase investment in public sector activities.

The globalisation White Paper stands alongside and complements the 1997 White Paper, endorsing its policy stance and approach and taking the government's poverty reduction and influencing agenda further. From a recognition that globalisation creates unprecedented opportunities and risks and that the poorest countries could become more marginalised unless greater attention is paid to international economic linkages, the globalisation White Paper included commitments for the United Kingdom government in a range of policy areas: promoting effective government and efficient markets; investing in people and sharing skills and knowledge; harnessing private finance; capturing the gains from trade; tackling global environmental problems; using development assistance more effectively; and strengthening the international system.

The globalisation White Paper announced the government's intention to end the tying of its development assistance to the procurement of British goods and services. The White Paper included the pledge to increase the United Kingdom's ODA as a proportion of GNI to 0.33% by the 2003/04 financial year, and to continue to make progress towards the 0.7% UN target. Finally, it committed the government to introducing a new International Development Bill into Parliament which would consolidate the clear poverty reduction objective for Britain's ODA, except in the case of assistance provided to United Kingdom overseas territories.

These two White Papers provide a solid basis for the United Kingdom's development policy and co-operation, consistent with current good practice in development thinking but ahead of many other donors on the need to address the development issues emerging through increased globalisation. The globalisation White Paper is a timely and impressive document, developed after intensive internal debate and reflecting some of the unresolved and difficult issues which are mobilising and interesting

increasing numbers of people around the world, particularly during major international summits. The policy basis for the United Kingdom's development co-operation has also benefited from being more transparent and authoritative, having been prepared after consultation with stakeholders, civil society representatives and the public and being released as government rather than DFID documents. Poverty reduction and a commitment to working to achieve the international development targets have become central to the United Kingdom's development co-operation. This represents a significant improvement, as the Overseas Development Administration's aims, along with the provisions of the 1980 *Overseas Development and Co-operation Act*, were general enough to allow some activities to be financed for which the primary motive was not contributing to the reduction of poverty.

### **Implementing the broader development goals: the role of DFID**

Within the United Kingdom, DFID has main responsibility for translating the broad goals of the government's White Papers on poverty elimination into appropriate policies and practices. In its activities in developing countries and its partnerships with multilateral agencies, DFID is doing this by pursuing three specific objectives: i) promotion of sustainable livelihoods; ii) better education, health and opportunities for poor people; and iii) protection and better management of the natural and physical environment. Translating these objectives into policies has also resulted in a wide range of strategy papers being developed and published in recent years to guide DFID's activities:

- **Target Strategy Papers:** Since 2000, DFID has developed a strategy for each of the international development targets, as well as for other areas which need to be addressed if the international development targets are to be achieved (human rights, good governance, the water management crisis, urban poverty and HIV/AIDS). Target Strategy Papers analyse the challenge of each target and what needs to be done, including the role for DFID. The intention is that Target Strategy Papers provide input for the preparation of DFID's other strategy papers.
- **Country Strategy Papers:** Since 1998, DFID has published some 60 triennial country strategies. Some regional strategies have also been prepared.
- **Institutional Strategy Papers:** Since 1998, DFID has published nearly 20 triennial strategies covering its partnerships with multilateral institutions.
- **Issues and Briefing Notes:** Some 40 other policy documents have been published on topical themes. Many of these reports are the outcome of research commissioned for or undertaken by DFID's various professional advisory groups.

Through its high-quality strategy papers, DFID is able to contribute to setting the agenda on many current policy issues in the development field. Nonetheless, within DFID itself, "ownership" of these various strategies to a large extent still remains with the area which had prime authorship - the relevant Chief Advisor for the Target Strategy Papers, the regional divisions for the Country Strategy Papers and International Division for the Institutional Strategy Papers. So far, some DFID staff, especially those in the field, have felt that they have lacked sufficient guidance on priorities among these various strategies, especially the Target Strategy Papers. Furthermore, a sensation of "initiative overload" is being reported by some DFID staff and contractors who must translate these policies into practice. The view of some contracted project managers met during a field visit to Nepal to prepare for this review was that too many policies had been developed recently and this was affecting the smooth functioning of their activities. DFID acknowledges that more could be done to build ownership of DFID's large number of strategies across all parts of the programme and that the focus of attention should now be on implementation. The government's focus on improving implementation during its second term in

office is therefore timely for the aid programme. DFID's management is working to clarify priorities between and among strategies as well as develop operational guidance for field offices on the new approaches DFID is adopting to providing development assistance. For example, it recently issued guidance to improve the relationship between DFID's country and sectoral programmes in partner countries. Nonetheless, policies can be tested and improved when confronted with operational realities and this underlines the importance of diversity of approaches in country and greater sharing of knowledge and experience within DFID.

The strategies prepared by DFID form part of its influencing agenda within the international development community. DFID collaborates widely with other donors, for example in international fora and by making its research and experience available to others. DFID also consults widely during the preparation of its own strategies. There are, however, some perceptions that the United Kingdom, in its pursuit of its influencing agenda, needs to pay more attention to creating a broader sense of ownership in its alliances with other donors around common objectives and priorities. There is consequently scope for DFID to deepen its collaborative approach with other development partners. The resultant broader ownership and strengthened alliances would enhance the United Kingdom's influence and improve the results achieved by DFID.

### **Building public support for international development**

Promoting public awareness of development issues was not a priority activity for the former Overseas Development Administration. Since 1997, the labour government has given greater attention to increasing development awareness and DFID's budget allocation for development education has increased ten-fold in three years, to reach GBP 6.5 million in 2001. Improving communication is a high priority generally for the Labour government.

DFID's actions to improve development awareness are focussed on four main target groups: formal education (as the top priority group), the media, business and the trade unions, and churches and faiths. Within the formal education sector, DFID has been able to feed into the on-going reviews of the national curricula in England, Scotland and Wales to ensure that greater attention is given to global issues. The approach being taken with the media, for example through DFID's press office and the quarterly *Developments* magazine<sup>4</sup>, is to focus on raising awareness and understanding of development issues, not promoting DFID or particular DFID activities. This represents a significant break with past practices. The focus on business and the trade unions corresponds to a more general objective for DFID to engage with a broader cross-section of civil society. DFID has been working jointly with individual faiths to adapt a document on the international development targets so that the language and descriptions take account of the particular concerns of each group. The resulting documents have joint authorship and are distributed through the faith's own channels and networks.

To provide the public with information on the United Kingdom's official aid programme, DFID releases a large number of documents and publications<sup>5</sup>. Special efforts are also made to provide information to as wide a group of people as possible. For example, summaries of the 1997 White Paper were distributed in supermarkets and have been translated into nine languages used by ethnic communities living in the United Kingdom.

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4. Available from the Internet at: <http://www.developments.org.uk/>

5. The United Kingdom does not have "freedom of information" legislation which would tend to encourage such a practice.

Opinion polls have consistently shown high levels of support for the United Kingdom helping developing countries but have also shown a generally low level of knowledge or awareness of development issues. Such surveys have tended to be one-off exercises and not suitable for monitoring changes in public opinion over an extended period. To respond to this need for better data, DFID has commissioned annual public opinion surveys of adults, conducted by the Office of National Statistics in July each year since 1999, and of schoolchildren, the first of which was conducted by a private social research company in March 2000 (see Box 1).

#### **Box 1. Findings from public opinion surveys**

The survey of adults in 2000 found that two-thirds of respondents were concerned about poverty in developing countries and thought that it was a moral issue. However, only about one third thought that poverty in developing countries might affect them personally. The commitment of the United Kingdom to poverty reduction was thought to be about right by almost half of all respondents but too low by almost a third. Fewer than one person in ten had heard of the international development targets and only around one person in 100 could mention one international development target. One third of respondents thought that it will be possible to halve poverty levels in developing countries by 2015 while almost two-thirds thought it was either not likely or impossible.

The survey of schoolchildren in 2000 found that eight in ten claimed to know at least something about developing countries and the majority was concerned about the plight of people in poorer countries. There were some indications that schoolchildren understood that international development was more complicated than providing aid. There were clear differences between the views of boys and girls, as well as between younger and older children. As was found in the survey of adults, the vast majority of schoolchildren get their information about developing countries from television news programmes, newspapers and magazines. School lessons were rated lower in the list of sources of information, behind children's television programmes, charities and other television or radio programmes.

The United Kingdom has now adopted a more systematic and long-term approach to promoting and monitoring public awareness. This is in line with good practices adopted by other DAC Members. Nonetheless, as the results from the first round of public opinion surveys shows, a sustained and broad-based effort is required to bring awareness of development issues up to the expressed levels of concern about poverty in developing countries and support for providing development assistance. The increasingly sophisticated and ambitious nature with which aid can be provided in support of host country-owned poverty reduction strategies can also increase the challenges associated with raising public awareness.

## **CHAPTER 2**

### **AID VOLUME, CHANNELS AND ALLOCATIONS**

#### **Official development assistance volume**

In 2000, the United Kingdom's net ODA disbursements rose to USD 4.5 billion, a 38% rise in real terms from the previous year. This brought the United Kingdom from fifth position among DAC Member countries in 1999 to fourth position in 2000. Following the budget freeze imposed by the Labour government during its first two years in office, DFID's departmental expenditure limit will rise to GBP 3.6 billion (approximately USD 5.2 billion) in the 2003/04 financial year, its highest level. This decision reflects the government's commitment to tackling global poverty. Expressed as a share of GNI, British ODA was 0.32% in 2000, above the DAC average of 0.22% but below the DAC average country effort (unweighted average) of 0.39%. The United Kingdom expects its ODA/GNI ratio to increase to 0.33% by 2003/04. (See Annex 1 for statistical information on the United Kingdom's aid programme.)

The United Kingdom's total ODA has fluctuated markedly in recent years, due in part to some exceptional factors. In 1999, recorded ODA was low due to the early deposit in 1998 of promissory notes to the International Development Association (IDA) and slower than envisaged contributions to European Community (EC) programmes. These factors unwound in 2000 and contributed, along with expenditures in response to the Kosovo crisis of around USD 265 million<sup>6</sup>, to the United Kingdom's improved performance that year. Debt relief has also been large in some recent years, representing 8% of total ODA in 1997 and 10% in 1998, before falling again to 3% in 1999 and 2000. The reason for the large amount of debt relief in 1998 was the DAC's decision to switch to reporting on a lumpsum basis, which caused a large amount of backlog reporting to be made that year.

Despite the United Kingdom's strong commitment to the UN target of 0.7% of GNI, no plan has been put in place to achieve this objective. At current rates of growth in its ODA/GNI ratio, 0.01% per year, it will take the United Kingdom four decades to reach 0.7%. The Secretary of State has made strong statements on the need to speed up the budget increase, but even with a doubling of the rate to 0.02% per year, it will still take two decades. An aid programme of 0.7% of GNI would currently imply an ODA total of some USD 10 billion. The Secretary of State is confident that the conditions have been put in place to absorb additional resources of this magnitude, both within DFID as well as by a number of developing countries which can use extra resources to support their ambitious reform programmes.

One particularity of the British aid system is the absence of a predetermined breakdown between bilateral and multilateral assistance. The two channels are increasingly seen on a continuum, sharing the same vision and policy framework. There is, in principle, no preference for either channel as long as it contributes to achieving the international development targets. Nonetheless, past commitments

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6 . This figure includes the United Kingdom's share of EC spending in response to the Kosovo crisis.

continue to influence allocations and this reduces the scope for shifting resource allocations substantially. The multilateral share of British ODA has been comparatively high (according to DAC statistics, around 40% of total ODA<sup>7</sup>), mainly as a result of contributions to the EC. Among multilateral agencies, DFID considers IDA to be the central instrument for policy dialogue and resource transfers to developing countries.

Virtually all bilateral ODA is extended as grants. Small amounts are reported as non-grant ODA (around 5% of total ODA) which include loan disbursements from the remaining pipeline of CDC projects.

DFID's policy is not to report assistance to refugees as ODA and the United Kingdom supports moves in the DAC to discontinue allowing the reporting as ODA of assistance provided to refugees during their first year in donor countries. The United Kingdom is unable to compile statistics on its assistance to refugees in the United Kingdom but it is likely that these expenses are substantial. As a result of the Kosovo crisis, there was a sharp rise in the number of applications from asylum seekers, reaching 71 000 in 1999. The assistance provided to these refugees would significantly increase the United Kingdom's ODA, if it were reported.

### **ODA bilateral channel: policies and allocations**

To address poverty reduction effectively and in a coherent way, the United Kingdom aims to build partnerships with low-income countries containing a large proportion of poor people and, in particular, those with effective governments pursuing high-growth, pro-poor economic and social policies. DFID's Public Service Agreement includes a target to increase resources going to low-income countries. Strengthening partnership with Africa is an objective of the current Labour government. Another important criterion for the United Kingdom is its comparative advantage in being able to make a strategic contribution to poverty reduction.

The United Kingdom does not have an established list of priority countries and resource allocations are heavily influenced by historical connections and long-term commitments. This results in bilateral ODA being concentrated on a relatively stable group of *de facto* priority countries (see Box 2). In 1999-2000, the top 20 recipients of British ODA accounted for 76% of gross ODA disbursements.

The destination of the United Kingdom's bilateral ODA indicates a focus on countries with low levels of *per capita* income and countries in sub-Saharan Africa. In 2000, 77% of bilateral ODA benefited least-developed and other low-income countries, much higher than the DAC average of 59%. Over half the United Kingdom's allocable bilateral ODA was directed to sub-Saharan Africa, well above the DAC average of 29%. In 2000, there was a marked increase in the United Kingdom's ODA to sub-Saharan Africa, which rose from USD 780 million in 1999 to USD 1 124 million in 2000, and to least-developed countries, which went from USD 616 million in 1999 to USD 997 million in 2000. This increase was focussed on eastern and southern Africa. Sahelian countries, which represent a major challenge in terms of achievement of the international development targets, received only USD 9 million of British ODA in 2000. The United Kingdom is withdrawing the support it provides bilaterally to developing countries in the Pacific, despite being isolated islands vulnerable to natural disasters and external shocks and several being least-developed countries.

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7. DFID's records indicate multilateral assistance peaked at 48% of total DFID programme in the mid-1990s and stood at 46% in 2000/01. The difference can be explained by the fact that about 10% of DFID's budget is not ODA (mainly official aid) and the 10% of British ODA which is not under DFID's responsibility consists mainly of bilateral assistance.

### **Box 2. Main beneficiaries of the United Kingdom's ODA**

India has been the largest recipient of British bilateral ODA over the past 20 years with disbursements reaching USD 174 million in 1999-2000 (9% of total gross allocated bilateral ODA). DFID's programme is built around partnerships with the Government of India and a selected number of states with large numbers of poor people and governments committed to poverty reduction (Andhra Pradesh, Madhya Pradesh, Orissa and West Bengal). Three of the current partners are states where DFID's presence was already quite significant. Despite their large and poor populations, partnership arrangements with such states as Uttar Pradesh and Bihar were not considered feasible due to their weak policy environments. In such cases, assistance is confined to working with civil society and selective support through national programmes. Assistance to India is expected to triple by 2003/04.

Other top beneficiaries of British bilateral ODA include: Bangladesh, China, Ghana, Indonesia, Kenya, Malawi, Mozambique, Pakistan, Tanzania, Uganda, Zambia and Zimbabwe (see Table I-4). This list indicates continuity over time in the destination of the United Kingdom's ODA.

DFID recognises the need to remain engaged with countries with weak policy environments and governance concerns. The destination of the United Kingdom's bilateral ODA also indicates significant and on-going programmes adapted to the local circumstances in such countries (e.g. Kenya and Zimbabwe). As part of its commitment to reducing world poverty, DFID should continue to pursue activities in countries with weak policy environments as large numbers of poor people live in such countries and many are among the poorest in the world. Health and environmental concerns provide an additional justification for continuing and expanding activities. For example, due to their high rates of HIV/AIDS, Kenya and Zimbabwe warrant continued support to combat the spreading of the pandemic.

The United Kingdom continues to have special responsibility for its remaining Overseas Territories. The 1997 White Paper reconfirmed that the reasonable assistance needs of Overseas Territories are a first call on the United Kingdom's development co-operation programme. These territories have made good progress towards achieving the international development targets, but remain vulnerable to natural disasters and external shocks. ODA is provided to five territories (in total USD 59 million in 2000): Montserrat, which is suffering from the series of volcanic eruptions that started in 1995 (USD 31 million in 2000); St Helena (USD 18 million); Turks and Caicos Islands (USD 6 million); Anguilla (USD 4 million), and Pitcairn Island<sup>8</sup>. The British Virgin Islands' programme came to an end in 2000 and the Secretary of State is in favour of a graduation process in other territories. DFID's work consists mainly of humanitarian assistance and technical assistance in support of effective planning and management of sustainable economic growth, promotion of transparency and accountability in government and equity and access in the provision of social services. The FCO (as well as other departments) has its own activities which include: i) the Overseas Territory Global Environment Programme (GBP 1.5 million for three years) which is helping territories face the challenge of climate change, loss of bio-diversity and protection of international waters; and ii) the Good Government Fund (GBP 3.2 million per year) which provides support to a cross section of good governance projects. In addition, an inter-ministerial working group has been set up to discuss island economy related issues and provide joint funding for capacity building for harmful tax practices.

8. Not listed on Part I of the DAC List of Aid Recipients.

The sector allocation of the United Kingdom's ODA is driven by the international development targets, which has resulted in an increased focus on health and education. The Prime Minister pledged in 1997 to raise by 50% Britain's bilateral support for basic social services (basic health care, primary education and clean water) in Africa, although the United Kingdom has never made an explicit commitment to the 20/20 Initiative. Since 1997, DFID's new commitments for basic health have amounted to GBP 800 million and for basic education to GBP 600 million. These commitments are expected to continue to grow. According to DAC statistics, the United Kingdom disbursed USD 241 million or 10% of its total bilateral allocable ODA to basic education, basic health and population programmes in 1999-2000. While accounting in this area still has limitations across all DAC Members, this data shows that the United Kingdom is ahead of the DAC average of 5% of allocable bilateral ODA.<sup>9</sup> The United Kingdom has expressed reservations on several occasions over the proliferation of various international funds for specific sectoral purposes. Although these funds have the merit of raising awareness and may mobilise additional resources, there is a risk for donors and partner countries alike not to mainstream their commitments adequately.

Debt relief remains high on the British government's agenda, including for the Chancellor of the Exchequer. The current focus is on accelerating the implementation of the enhanced Heavily-Indebted Poor Countries (HIPC) Initiative. The United Kingdom is one of the major bilateral contributors to the HIPC Trust Fund, pledging USD 221 million<sup>10</sup>. An additional contribution of USD 43 million was made to the International Monetary Fund (IMF) to assist in the delivery of HIPC debt relief in Uganda. The United Kingdom also contributes to the HIPC Capacity Building Programme. Like several other creditors, the United Kingdom has agreed to go beyond international agreements and is ready to provide additional relief to countries that qualify under the HIPC Initiative. HICPs also have debts to Britain's Export Credit and Guarantee Department (ECGD) for an approximate face value of GBP 1.9 billion<sup>11</sup> as well as for approximately GBP 100 million to CDC. These debts will be forgiven once each HIPC reaches its decision point. The United Kingdom has cancelled ODA debts worth GBP 1.2 billion owed by all the poorest countries (not only HICPs).

### **ODA multilateral channel: policies and allocations**

The United Kingdom's objective of engaging with and influencing multilateral development organisations has resulted in a significant change in DFID's way of dealing with multilateral assistance. A stronger sense of interest in international organisations appears to be developing across the department, while in the past there had been a tendency to give prominence to bilateral country programmes. DFID is now working more closely with international agencies at different levels and in their governing bodies, but also on co-ordination of policy and performance within selected developing countries.

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9. An analysis carried out for the World Summit for Social Development in 2000 found that 18% of the United Kingdom's sector allocable bilateral and imputed multilateral ODA targeted basic social sectors in 1997-98, compared to the DAC average of 11%. See the 2000 *Development Co-operation Report*, pages 152 to 156.
10. To date, only a part of this contribution has been paid-in due to internal British procedures which do not authorise "payment in advance of need". In addition to the United Kingdom's bilateral contribution, USD 85 million of the EC's contribution is attributed to the United Kingdom, making a total contribution of USD 306 million.
11. The total outstanding debt of official export credits owed by some 50 developing countries to the United Kingdom amounts to GBP 8.5 billion of which GBP 1.9 billion is owed by HICPs.

DFID has developed a systematic approach to influencing the agenda of multilateral organisations through the production of Institutional Strategy Papers. These are usually prepared for those multilateral agencies for which DFID has lead responsibility and which receive annual funding in excess of GBP 10 million. These strategies outline how DFID intends to promote achievement of the international development targets as the basis for international institutions' activities. Each strategy consists of an assessment of the comparative strengths and weaknesses of the agency, the objectives to be pursued by DFID and DFID's action plan. Common themes include: promoting the international development targets; enhancing the co-operation among international organisations, especially within the UN system, but also in the field of PRSPs and global issues such as HIV/AIDS; and improving effectiveness of the international system as a whole. Strategies are prepared following a consultative process but do not need final agreement from the agency concerned since they are a management tool for DFID, not a joint strategy. In the case of international humanitarian organisations, strategies have taken the form of a more formal agreement with financial resources linked to the implementation of a number of steps towards improved performance. DFID's approach consists of using the strategy preparation process as a basis for substantial dialogue with each agency. To avoid the risk of weakening established communication channels such as the governing bodies, DFID makes its strategy preparation process open.

As part of its influencing agenda, DFID has embarked on a process of assessing performance of international agencies in terms of their contribution to achieving international development targets. An assessment of different UN agencies is being undertaken to identify gaps and overlaps and to assess respective comparative advantages of various agencies. DFID is also co-operating in a comprehensive assessment of UN organisations launched by the Netherlands. At the same time, DFID has demonstrated a strong commitment to supporting institutions in their reform processes with the establishment in 2000 of the International Policy and Performance Fund. The level of resources was initially set at GBP 17 million for the first year and was fully allocated to eight institutions committed to improving their effectiveness<sup>12</sup>. The allocation for the following years was not maintained at the same level as an outcome of the last budget spending round, a highly competitive process.

Synergies between multilateral and bilateral channels are increasing as Institutional Strategy Papers are internalised across DFID. The United Kingdom aims to rely on evidence from the field to assess and monitor performance of international agencies. Institutional Strategy Papers provide a useful action plan in this respect with clearer division of responsibilities among DFID's International Division, advisory groups and country teams. Advisors and country teams are consulted selectively on issues related to the international financial institutions and UN agencies, and country managers have been mandated to work more closely with the EC at the field level. There have been some interesting examples of multi-bilateral assistance, which is under the responsibility of country teams. For example, DFID is proposing to provide subsidies to soften the terms of World Bank social sector lending in China and is considering a similar approach with the Asian Development Bank in India.

Contributions to the EC represent between one quarter and one fifth of the United Kingdom's total ODA<sup>13</sup>. There has recently been a renewed commitment to EC aid activities on the basis of reforms undertaken in 2000 and of the new commission's tighter focus on poorer countries.

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12 . These agencies are UNICEF (the largest beneficiary), UNDP, WHO, UNIDO, OCHA, WFP, the International Committee of the Red Cross and the International Federation of Red Cross and Red Crescent Societies.

13 . 30% of DFID's budget, for the same reasons given previously.

British authorities have indicated that there may be scope for the multilateral channel to absorb additional resources in future: a possible further increase in the United Kingdom's share at the next IDA replenishment, which already went up from 6.15% to 7.3% in the 12<sup>th</sup> replenishment<sup>14</sup>; a 50% increase in contributions to the Global Environment Fund (GEF) (as part of the overall increase in support for global environmental initiatives that the United Kingdom is advocating); and a rise in contributions to UN agencies, provided performance improves.

### **Non-governmental organisations**

DFID has adopted a broader approach to working with civil society and is trying to move beyond traditional development NGOs by targeting faith-based groups, trade unions, academic institutions and professional associations. According to DFID records, a total of GBP 195 million, or about 8% of DFID's total programme, was provided to British NGOs and other civil society groups in 1999/00 through different funding sources (e.g. core funding schemes, the conflict and humanitarian programme as well as various research and advisor's programmes). In addition, DFID also provides support to NGOs based outside of the United Kingdom and to NGOs working as part of larger government-to-government programmes although figures on this support are not available. The United Kingdom's core funding system for NGO activities went through a major transformation in 1999 and now relies on two main mechanisms: the Partnership Programme Agreement (PPA) and the Civil Society Challenge Fund. Another funding scheme available to civil society groups is the Development Awareness Fund which covers both DFID's own activities to build public support for development and those of civil society organisations. It is one of the fastest growing budget items, increasing from GBP 1.5 million in 1998/99 to GBP 6.5 million in 2001/02. A large part of DFID's budget for civil society (GBP 28 million in 1999/00) consists of subsidies to five volunteer sending agencies which supports some 2 700 volunteers in over 80 countries. In contrast to most other major British NGOs, these organisations depend heavily on their support from DFID. These various civil society schemes are managed by the recently renamed Civil Society Department whose mandate is to help ensure coherence and co-ordination on civil society issues across DFID and influence the civil society policies of other development agencies.

Partnership Programme Agreements replace the previous block grant funding mechanism. They have been introduced to provide a more strategic way of allocating resources on a multi-year basis, based on an agreement linking funding with jointly agreed strategic outcomes and indicators of achievement. In addition, PPAs offer a good communication channel on development issues and may also constitute a useful tool to develop synergies between NGO activities and country programmes. Steps in this direction have already been made in East Africa. Eligibility criteria include the applicant's experience, capability and congruence with DIFD's objectives. So far, agreements worth GBP 150 million for the next three years have been signed with 11 major NGOs and volunteer sending organisations<sup>15</sup>. The process is still at an early stage and is expected to evolve over time. Organisations involved in the process have expressed their satisfaction with this opportunity for greater and substantive dialogue with DFID, which has been described as the first opportunity of this kind. NGOs identify as the real value added of PPAs the focus on accountability, support for monitoring and evaluation and feedback on performance.

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14. This made the United Kingdom, jointly with France, the 4<sup>th</sup> largest contributor to IDA.

15. These are: ActionAid, OXFAM, Save the Children (United Kingdom), Christian Aid, CAFOD, CIIR/ICD and WWF; and VSO, Skillshare Africa, International Service and British Executive Service Overseas.

The Civil Society Challenge Fund, which replaces the Joint Funding Scheme, was established to promote initiatives by British civil society groups aiming at not only tackling poverty in developing countries but playing a vital role in empowering poor people. Priority is currently given to initiatives which seek to enhance the capability of poor and excluded people to participate in public policy formulation at local, national or international levels, as well as initiatives which build relationships with "non-traditional" partners in developing countries (e.g. trade unions or advocacy and human rights monitoring groups). Funding of up to GBP 250 000 can be provided (with the requirement of matching funds) on a competitive basis, over a period of up to five years. In 2000, GBP 4 million was allocated to support 100 initiatives. The performance of the Fund will be reviewed annually and a major review will be carried out after five years to assess progress in meeting objectives.

The PPA approach is in line with good practices adopted by a number of other DAC Members who have also found value in having an intermediary funding mechanism between individual project support and multi-annual block grants. NGOs have expressed their concerns about the reduction of core funding for smaller organisations under the new system. DFID should consequently ensure that it has sufficient mechanisms to support civil society organisations with a role to play in promoting development. An on-going challenge is how to strengthen the role of civil society in partner countries.



## CHAPTER 3

### MAIN THEMES AND CROSS-CUTTING ISSUES

#### **Poverty reduction**

DFID's strategic framework and operational practice track closely the DAC's recently adopted *Guidelines on Poverty Reduction*. DFID has been working on a parallel basis to elaborate its own poverty reduction strategy. Within the DAC, the United Kingdom is among the most progressive in attempting to address poverty reduction issues systematically. Some key features include:

- *Overall strategic orientation*: By embracing the concept of sustainable development, DFID's strategy for achieving its overarching poverty reduction objective has moved beyond a "welfare and satisfying basic needs" approach. The globalisation White Paper broadened the notion of development-related issues. As a result, trade policy, private sector development and conflict prevention are now integral parts of the poverty reduction agenda. The United Kingdom's ambitions also go beyond aid delivery to ensuring that its policies are coherent and contribute to sustainable development.
- *Engaging with others*: DFID has embarked on an ambitious influencing agenda and is encouraging multilateral institutions to focus more on reducing poverty and achieving the international development targets. DFID has been advocating that the EC increase its focus on poorer countries and that the World Bank increase the focus of its activities in middle-income countries on poor people. DFID is also building alliances with "like-minded" bilateral donors, such as in the Utstein group with Germany, the Netherlands and Norway. Finally, DFID has renewed its efforts to involve other actors in the United Kingdom by working to build partnerships with civil society groups and private businesses.
- *Ownership and partnership*: The importance of stronger partner-country ownership of development plans and programmes and the need for a new basis for its partnerships are integrated into the United Kingdom's programme. Further decentralisation to individual country offices with a high level of devolved responsibility improves DFID's capacity to form partnerships with developing countries and enhances its capacity to tailor strategic priorities to local contexts. In terms of aid implementation, DFID is increasingly using and actively promoting sector-wide approaches and direct budget support. Country-led poverty strategies, in particular PRSPs, may be used as a framework for DFID's own country strategy and programming processes. Such an orientation requires an understanding and acceptance of the risks involved and adjustments to DFID's own internal accounting and auditing systems which nonetheless must comply with British civil service requirements. DFID intends to use PRSPs as building blocks for its next generation of country strategies.

- *Aid volume and allocation:* DFID can expect steady increases in its budget to address its commitments and help pursue its ambitious agenda. The introduction of a multi-year planning system has increased transparency to partners about financial commitments. Based on an internal assessment of an allocation of ODA likely to have the strongest effect on achieving the international development targets, DFID increased its focus on South Asia and allocated more resources to India where one third of poor people in the world live.
- *Human resources:* DFID's strength in comprehensively addressing poverty reduction comes from its large number of highly qualified and dedicated staff. Staff turnover within DFID is low, which contributes to maintaining institutional memory. The specificity of DFID is the existence of "advisors" in a variety of professional disciplines who function in a multi-disciplinary way. Their interaction with other staff is facilitated by their deployment across headquarters and to field offices. DFID can also complement its in-house capacities with external expertise available through a large number of "resource centres" (see Chapter 5).

An indication of DFID's tighter focus on poverty reduction is that some activities no longer in line with DFID's strategic approach have been phased out. There are cases of infrastructure project proposals being turned down despite expectations by the partner country, based on previous activities that had been funded through the Aid and Trade Provision. A major reorientation has taken place in China, where the pre-1997 programme was largely funded from the Aid and Trade Provision in more developed areas of the country. British support is now mainly directed at poverty-linked programmes in the Western provinces which are among the poorest in the country. In Nepal, an assessment was made of the strategic fit of existing projects to determine whether they help, hinder or are neutral in terms of feeding into higher-level objectives. Projects not in line with country strategy objectives are being phased out.

A number of challenges are nonetheless also apparent for DFID:

- *Poverty focus:* Decisions on country and regional allocations are based on the number of poor people, the likelihood of achieving the international development targets, the availability of other resource flows and the policy environment. Making assessments in relation to some of these criteria can require fine judgements and there are difficulties associated with assigning relative weights to each criterion. With its expanding budget, DFID needs to address these challenges carefully. In line with recent trends, the United Kingdom should maintain a strong focus of bilateral ODA on the poorest countries, particularly those with good policy environments, while remaining engaged through appropriate instruments elsewhere. Some other areas also deserve additional analysis to increase the poverty reduction impact of activities, such as the links between environmental degradation and poverty or the promotion of private sector in poor countries.
- *Ownership trade-offs:* Many of the poorest countries lack the capacity to take full advantage of the kind of help offered by DFID and some other donors in the framework of sector-wide approaches and direct budget support. In such countries, DFID is seeking to find effective ways to design capacity building mechanisms and alternative means for improving service delivery. Another concern is the balance between DFID's high quality standards and partners' ability to respond in terms of pace and priorities. An on-going issue is how best to operate in poor performing countries and the approach to partnership

to adopt in these contexts. DFID has accumulated considerable and useful operational experience which merits recording, to ensure that lessons learnt can be shared.

- *Organisational adjustments:* Adjustments to various operational systems within DFID are required, for example: financial reporting of direct budget support; improving the quality and speed of feedback from evaluations; and improving the measurement of the impact of aid.
- *Knowledge management:* DFID still needs to bridge the gap between its ambitious and well-articulated policy framework and guidance to staff on how to deliver that agenda. Advisors play a key role but face the dilemma of how to disseminate new approaches throughout the department without overloading colleagues with requests for additional information or policy and operational requirements. DFID could make greater use of the substantial and useful knowledge and experience on operational realities and country settings of its administrators and country programme managers. Monitoring and evaluation systems currently suffer from a number of weaknesses and poor compliance (see Chapter 5) and this hampers effective sharing of lessons learnt and experience. A study of knowledge management is currently underway in DFID.

## **Specific approaches to poverty reduction**

### ***Basic social services***

In both the health and education sectors, DFID has a growing pipeline of activities and funding. These activities are increasingly carried out in support of partner-led sector policies and co-ordinated with other donors. In the future, DFID's support will consist of longer-term flexible funding, channelled through partner government's own systems where this is possible. While DFID's strategic focus is on the achievement of the international development targets, its approach increasingly involves wider support to comprehensive sectoral plans in order to ensure that governments take a broad and coherent approach to the health and education sectors. Internationally, DFID will contribute to the design of debt relief agreements that will enable partner governments to increase their spending on basic social services, within PRSPs. Water supply and sanitation and urban infrastructure are critical for the achievement of the health-related international development targets and so DFID has also prepared Target Strategy Papers for these areas.

### ***Health***

The Target Strategy Paper *Better Health for Poor People* outlines DFID's approach in this sector, which focuses on: addressing the priority health issues of poor people and strengthening their access to care, services and products; creating strong, effective health systems; promoting a more effective global response to HIV/AIDS; and supporting the necessary social, political and physical environments for healthier living. DFID's policy is implemented both through supporting global efforts and strengthening health-care systems in developing countries. The focus is on poorest countries with involvement in middle-income countries limited to high leverage technical assistance aimed at reallocating domestic resources to achieve greater health equity. This framework integrates the recognition of the strategic contribution of health to poverty reduction and reflects the need for collective action within DFID, which is no longer narrowly limited to the health sector.

Health is an area which attests to DFID's growing use of interdisciplinary teamwork, particularly for HIV/AIDS. Because of the epidemic's threat to overall development, HIV/AIDS has emerged within DFID as an overarching challenge requiring a multi-sectoral response across the department. A Target Strategy Paper *HIV/AIDS Strategy* was published in May 2001 and provides a framework for strengthening the multi-sectoral approach and mainstreaming HIV prevention activities into all DFID activities but particularly in the health, education and livelihood sectors.

### *Education*

DFID's policy framework for education is set out in the Target Strategy Paper *Challenge of Universal Primary Education*. DFID's three-fold strategy is focussed on international and country activities and knowledge and research programmes. At the international level, DFID is contributing to the development and co-ordination of international commitments, policies and programmes designed to achieve "Education for All", in line with the commitment of the Dakar Framework for Action. At the country level, priority is given to improving access to and quality of primary education in those sub-Saharan African and South Asian countries committed to achieving universal primary education and gender equality. Knowledge and research programmes emphasise cross-cutting issues such as HIV/AIDS, conflict and environment in order to contribute to learning lessons, sharing experiences and monitoring progress.

While DFID is increasing its commitment to education, particularly at the basic and primary levels, it is also looking at ways of promoting broader skills development. A wide-range of innovative and alternative approaches is being tested outside of formal education systems, in order to increase distance-learning opportunities and reach marginalised children. DFID's support for higher education scholarship schemes has been reviewed and adjusted with the aim of enhancing their contribution to the provision of key skills for development and capacity-building for skills training in poorer countries.

Literacy is emerging as another cross-cutting issue within DFID programmes. Literacy is seen as more than an education-related issue and needs to be integrated into wider development approaches. Increasing access to information allows people to achieve a more satisfying life, carry out responsibilities more effectively and challenge inequities from existing socialisation systems. Literacy consequently provides opportunities and is a prerequisite for a better life politically, culturally, socially and economically. The commitment was made at the World Education Forum in Dakar to achieve a 50% improvement in the levels of adult literacy, especially for women in the 16-24 age group. Despite a long tradition of literacy work, particularly in Asia, and significant support from agencies, overall impact seems to have been variable, with not enough attention being paid to the kinds of literacy people perceive to be relevant to their daily lives.

### *Gender*

The 1997 White Paper reaffirmed the United Kingdom's commitment to put concerns about gender equality into the mainstream of development, making women's empowerment a precondition for poverty eradication. This policy commitment has translated into action as shown by the doubling of the proportion of spending aimed at promoting gender equality in the second half of the 1990s, reaching 46% of total bilateral commitments in 1998/99. DFID's strategy is outlined in the Target Strategy Paper *Poverty Elimination and the Empowerment of Women* published in September 2000. A major shift in priority was introduced with the indication that DFID's future work would concentrate on supporting fundamental changes in policy, laws and attitudes. This is based on one of the key

lessons from donor experience that fundamental change can only be achieved through interventions which focus on major policy reforms, changes to laws and regulations, the reallocation of financial resources and the promotion of changes in attitude through public debate. Successful examples of such support include DFID's contribution to the participatory poverty assessment methods which feed the views of the poor, including women, into national policy making and the Commonwealth Secretariat's Gender Budget Initiative, where public spending is analysed according to how benefits will be shared by women and men. In addition to increased support to partners in developing countries and stronger collaboration with other international partners, DFID will continue to strengthen its own capacity through improved research and knowledge development, information support and skills development.

Perceptions within DFID are that efforts to mainstream gender have been quite effective. A study commissioned by the Social Development Department<sup>16</sup> concluded that projects using participatory approaches were the most successful in addressing gender equality. It also showed that there was still a tendency to assume that gender equality would automatically be promoted by directing resources to women while not enough consideration was given to power inequalities in gender relations. The role of social development advisors in promoting gender equality was found to be uneven, depending on their involvement in the project as managers or technical experts. Finally, despite a strong commitment and awareness across the department, some resistance remains based on the argument that promoting gender may interfere in the culture of partner countries.

### ***Sustainable livelihoods***

To address the concern that traditional development activities may not be reaching the extremely poor, DFID has adopted and operationalised approaches based on sustainable livelihoods. Such approaches bring a new way of thinking about the priorities for development and promote development that builds on the strengths of poor people (rather than their needs). The objective is to improve poor people's opportunities to escape from poverty through improved production, economic well-being and an ability to withstand short-term adversity (illness, unemployment or poor harvest). The underpinning principles include the need for poverty-focussed activities to be people-centred, responsive and participatory, conducted in partnership, multi-level and sustainable. DFID is collaborating with a number of other development agencies, mainly in the UN system, and helped establish an interactive website to promote lesson learning and development of good practices (see [www.livelihoods.org](http://www.livelihoods.org)). The main challenge for DFID remains to integrate livelihood approaches into those parts of the department which are not concerned with natural resource management. There is a particular concern about how to promote a livelihoods approach in social sectors which have adopted sector-wide approaches. The value of these grassroots-oriented approaches for overall policy on poverty reduction has yet to be determined. DFID has therefore commissioned a study on how sustainable livelihood approaches can best contribute to poverty reduction strategies at country level.

### ***Environment***

The protection and better management of the natural and physical environment is central to the British approach to poverty reduction. The United Kingdom has developed a strong interest and expertise in environmental issues and how they relate to poverty, but a more systematic approach is needed. In this context, DFID is planning to take actions at three levels: assist the poor tackle environmental problems that directly impact on their livelihoods; address the environmental degradation caused by other groups but which impacts on the livelihoods of the poor; and assist in strengthening the policy and

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16. *Promoting Equality Between Women and Men*, SD SCOPE Paper No 2, January 2000.

institutional environmental management framework in ways that benefit the poor. DFID is committed to the achievement of the sustainable development international development target through its bilateral programmes and its relationships with multilateral institutions. The key focus of DFID's work is within the PRSP framework providing support to partner governments to bring into PRSPs key programmes contributing to poverty reduction such as environment or HIV/AIDS which are currently not central to or weakly developed in existing documents. DFID also promotes policy coherence, both across the British government and within the EU, in particular by ensuring that policies on international trade, labour standards, investment and intellectual property rights are consistent with the environmental interests of developing countries.

Work with partners at the country level focuses on: analysis of the links between environmental degradation and poverty; promotion of sustainable development principles; integration of environmental concerns into sector-wide programmes; support to civil society, private sector and knowledge and research programmes that reduce poverty by better environmental management; reform of environment-related institutions and policies; increase in country benefits from global conventions; and environment, conflict and disaster prevention. The three international priorities pursued by DFID are: ensure that the principles of sustainability (as set out in national strategies for sustainable development) are fully taken into account in PRSPs; encourage efforts towards more systematic work on green accounting; and ensure that the Clean Development Mechanism is agreed and brought into operation as soon as possible. Actions taken consist of strengthening the sharing of experience and lessons with country partners and other donors, promoting the convergence of country-led frameworks and supporting global environmental funding mechanisms.

Despite the high priority attached to environment issues, shortcomings are apparent in DFID's programmes. An evaluation review<sup>17</sup> concluded that environment as a potential development opportunity (rather than a risk to be minimised and mitigated) has not been fully mainstreamed across bilateral programmes. The full integration of the environment within bilateral strategies, the design of monitorable performance targets and the issue of whether to centralise or mainstream responsibility for promoting and monitoring environmental performance were identified as key challenges. The need for a stronger cross-sectoral collaboration and joint approaches among the different advisory groups was also pointed out as a way of addressing some of these challenges. Recent efforts to promote environmental mainstreaming include a range of training programmes and guidance provided by environment advisors. DFID considers that there is now a high level of awareness on the importance of environmental mainstreaming although there remains some uncertainty about the way to do this in practice.

### ***Governance***

DFID's policy on good governance is driven by the concern to make government work for poor people. Despite the absence of a quantitative governance international development target, governance is seen as instrumental for the achievement of international development targets. A strategy paper on this theme was released for consultation in June 2000 but has yet to be finalised. Another strategy paper had already been published in October 2000 setting out the importance of incorporating human rights considerations for achieving the international development targets. In the past, most of DFID's efforts went into improving the efficiency of government through civil service and fiscal reform, policing, local government and privatising public enterprises. The scope of the proposed approach goes beyond the traditional concepts of democracy, rule of law and good governance and provides a

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17. *Environmental Evaluation Synthesis Study: Environment: Mainstreamed or Sidelined?*, DFID, January 2000.

framework for the mainstreaming of governance. DFID has identified seven key capabilities required for governments to be more responsive to the needs of poor people and meet the international development targets: political systems providing opportunities for all people; macro-economic stability and promotion of private investment and trade; pro-poor policy framework; provision of effective basic services; access to justice; national security; and fight against corruption. DFID's bilateral actions will focus on poorer developing and transition countries which have the greatest difficulties in improving the quality of their government and need more support. However, DFID does not see the need to support work on governance in each country programme and therefore envisages increasing its co-operation with other agencies which have greater competence in some areas.

### ***Remaining challenges in mainstreaming cross-cutting issues***

In the approach adopted by DFID, it is the responsibility of staff at all levels to ensure the integration of cross-cutting issues into their work. Such an approach has the advantage of ensuring broad endorsement, but also entails a risk of dilution. DAC experience suggests that policy intentions may fail to translate into practice in the absence of adequate technical expertise, financial and human resources, follow-up and management support. Some advisor groups have been assigned lead responsibility for specific issues although it is not always clear what this responsibility implies or what mandate it gives to the specific advisor group. The situation is further complicated by responsibility for poverty reduction being shared between the economists and social development advisors, while gender is one of the many responsibilities assigned to the social development advisors.

In addition, it is not apparent whether advisor groups or country managers are ultimately accountable for progress in mainstreaming. The former are responsible and have a comparative advantage in terms of strategic approach and substantive knowledge while the latter are responsible for overall programme implementation. This tension is not great in reality as advisors and country managers work closely together in the field. Advisors have a role to play in providing support for change processes and are responsible for organising training in their respective areas of expertise. However, staff training is increasingly focussed on process rather than content, with priority currently being given to negotiation and other skills which enhance staff capacity to take part in DFID's influencing agenda. Some advisor groups have a budget available to fund studies which can be used to promote mainstreaming efforts within DFID. This is the case in the Environment Policy Department.

DFID's experience in gender and environment suggests the need for a clearer action plan to ensure that policy commitments translate into implementation with specific procedures and targets, as well as designated roles and responsibilities for promotion, implementation and monitoring. The increasing use of sector-wide approaches or PRSPs for aid delivery provides greater scope for mainstreaming cross-cutting issues. The PRSP experience in a number of countries indicates, however, that much remains to be done to integrate gender and environment concerns fully. Given its support for the process, DFID should pursue its efforts in this respect, with particular attention to the need to find ways to work effectively with other partners in the policy dialogue occurring in the countries concerned.

The sustainable livelihood advisors have prepared a list of key principles for successful mainstreaming which are also valid in most other areas. The first requirement is to avoid imposition of new approaches, which should not be perceived as imposed by headquarters. Consistency is necessary in adapting to change. New initiatives should rely, whenever possible, on existing mechanisms and introduce light conceptual frameworks focusing on core principles. Skill development is necessary for mainstreaming to happen and space for learning must be provided, including the flexibility for a

learning-by-doing approach. Building understanding and facilitating collaboration are important for sharing new approaches and face-to-face interaction remains important.

### **Conflict prevention and emergency assistance**

The United Kingdom's two White Papers on eliminating world poverty refer explicitly to conflict prevention as crucial to poverty reduction. Security is a high priority on the British development agenda and the United Kingdom is playing an active and innovative role in this area. DFID works within the general framework of a policy statement released in 1999 entitled *Conflict Reduction and Humanitarian Assistance*. The following four priorities are pursued: i) small arms reduction, particularly through British and EU export licensing mechanisms; ii) reform of the UN system (in particular, the implementation of the recommendations of the Brahimi report on peacekeeping); iii) security sector reform; and iv) mainstreaming conflict prevention into development interventions.

To address issues which were traditionally not part of the development agenda, DFID has expanded its Conflict and Humanitarian Affairs Department and hired new staff with diverse backgrounds related to these new areas. DFID also relies on the expertise of a resource centre, the Centre for Defence Studies at King's College London.

The United Kingdom launched a more systematic approach to conflict prevention in 2000 with the establishment of two separate pooled funds for conflict, one for Africa and the other for the rest of the world. These pools are funded from the aid, foreign affairs and defence budgets, with some additional funding from the Treasury. These funds are jointly programmed in support of conflict prevention initiatives and share a common Public Service Agreement target. Such pooled funds strengthen co-ordination and policy coherence and, from DFID's point of view, enables it to have a broader impact. There are, however, trade-offs in terms of flexibility or programming and speed of response. Given the scope of these funds, the amount of ODA-eligible expenditures may not be the same as the value of DFID's contribution.

### ***Mainstreaming conflict prevention***

To improve the analysis of the impact of conflicts on development programmes, DFID has been developing conflict impact assessments through a number of case studies. Lessons learnt have been drawn together to form the basis of internal guidelines on conflict assessment. Such an assessment was carried out in Nepal in 2000 and led to the formation of a "Peace Support Group" which is conducting joint work looking into the impact of the conflict on poverty reduction and human rights and proposing an action plan of practical areas where donors can support Nepalese efforts to address the impact of the conflict.

DFID is breaking new ground in co-operating with the private sector (in particular, the mining industry) on conflict assessment. An international conference took place in London in 2000 to address corporate involvement in conflict prevention which brought together 120 participants, over half from the business community, including both headquarters staff and field managers posted in conflict zones. The purpose was to launch a debate on the more positive role that business can play in preventing conflict as ownership and exploitation of natural resources have often been the cause of violent conflicts and human rights abuses.<sup>18</sup>

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18 . Findings are available in the "Business & Peace Conference Final Report", DFID and FCO, London, May 2000.

### ***Security sector reform***

The United Kingdom recognises the importance of security sector reform in developing countries because of the implications for conflict prevention. The existence of large, repressive and undemocratic security sectors often constitutes one of the principal obstacles to progress in developing countries. DFID also recognises that there is a high risk associated with mainstreaming the sensitive issues of security sector management and military expenditure into its programmes. However, the risk may be greater not to address these challenges.

Reforming the security sector is particularly important in post-conflict countries where it is crucial to address the reintegration of large numbers of demobilised soldiers into civilian life. Sierra Leone is one example which illustrates the costs of not engaging sufficiently early and proactively. British authorities are convinced that much human suffering and damage to infrastructure could have been avoided by a quicker and more determined international effort to support the restructuring of security forces. The United Kingdom is now involved in Sierra Leone through a joint DFID, FCO and Ministry of Defence programme which includes assistance for the training of the new Sierra Leone army. DFID contributes on the issues of governance, human rights promotion and post-conflict reconstruction.

### ***Humanitarian assistance***

DFID's Conflict and Humanitarian Affairs Department benefits from a high level of delegated authority which allows it to function efficiently and without political pressure. Resources are allocated on a needs basis, "impartially but not neutral" in the sense that DFID also tries to address the causes of conflicts. About 10-15% of DFID's emergency funds are held back for capacity building to respond to future disasters. If an emergency situation is facing under-funding, additional funds can be obtained from conditional reserves both within DFID and the Treasury. DFID is increasingly pre-positioning assistance with international organisations on the basis of partnership agreements in the form of Institutional Strategy Papers.

While DFID retains responsibility for strategic direction, overall quality control and financial and political accountability, it relies on the services of the Emergency Response Team (ERT) for field support for humanitarian operations and short-term expertise to international humanitarian organisations. ERT personnel can be deployed with six hours' notice and a range of other specialists can be made available within twelve hours. Other donors, UN humanitarian agencies and the EC's Humanitarian Aid Office (ECHO) have expressed an interest in exploring the feasibility for using ERT's services and/or replicating the ERT model.

### ***Private sector development***

The recognition that the private sector is the main driving force for economic growth is present in DFID's strategic framework. Despite considerable debate about the contribution of the private sector to poverty alleviation, DFID, like many other DAC Members, is still struggling with how to promote the private sector in developing countries. The dilemma is to find a middle ground between providing support for the creation of an enabling environment and direct support to private entities which does not create market distortions. DFID recently created two departments under the responsibility of the Chief Economist to pursue this agenda: the Private Sector Policy Department (which replaced the Business Partnership Department) and the Enterprise Development Department. DFID's enterprise development strategy aims to: i) improve the legal and regulatory enabling environment for enterprise; ii) develop financial markets, institutions and instruments to support enterprise development (in particular for micro and small and medium-scale enterprise); and iii) address constraints in

management, technologies and market knowledge. Nonetheless, in DFID's bilateral country programmes, more attention could be focussed, beyond enterprise development, on the identification of priority private sector actions where the involvement of the local private sector is crucial for sustainable rural development or the delivery of social services.

The 1997 White Paper set the basis for DFID's partnership with the British business sector and DIFD provides support to a number of public-private initiatives aimed at promoting responsible business behaviour in areas such as labour standards, corruption, human rights, conflict, environment, local economic impact and investment. This is in line with the DAC *Orientations for Development Co-operation in Support of Private Sector Development*.

The CDC has been one of the main instruments for the United Kingdom to invest in the private sector in developing countries. Following the decision to enlarge CDC's resource base by privatising it and turning it into a public-private partnership, CDC went through a major change process, was renamed CDC Capital Partners and was transformed into a public limited company making equity investments. A new code of business principles was adopted together with a new investment policy which requires that 70% of all investments be in poor countries, with at least 50% in sub-Saharan Africa and South Asia (over a five-year period). This requirement will be difficult to achieve due to the lack of good investment opportunities in these regions. Results for 2000 are not promising: sub-Saharan Africa and South Asia accounted for respectively 20% and 7% of total new investments. Whether CDC can achieve its dual goal of delivering development impacts by investing in sustainable and socially responsible projects while also being profitable enough to achieve the high financial returns required by private investors is still to be demonstrated. There is consequently a risk that CDC will look for more attractive investment opportunities than in its traditional areas of intervention. There is some evidence that this is already happening as the value of CDC's portfolio in the agribusiness sector fell by 35% in 2000 while most recent investments have been in sectors which do not benefit the vast majority of poor people in developing countries.

The Africa Private Infrastructure Financing Facility was launched in 2001 to attract private finance into infrastructure in sub-Saharan African countries. The facility will reduce the risk to investors by using grant money to leverage loans from participating banks. Sweden and Switzerland have joined. The Business Linkages Challenge Fund was also launched in early 2001 to support enterprises in developing countries in their efforts to form linkages with domestic and international partners. It will facilitate knowledge transfer and improve access to the information and markets necessary to compete in a global economy.

The Ethical Trading Initiative was set up in December 1997 with the aim of encouraging companies to work constructively with their suppliers to improve the labour conditions under which their products are made. Standards promoted by the Ethical Trading Initiative come from the Core Convention of the International Labour Organisation. The initiative, which involves the private sector, NGOs and Trade Unions, is independent of government but received start-up funding from DFID. So far, more than 200 companies have adopted ethical corporate codes of conduct but implementation is still to be fully assessed. The initiative nevertheless remains notable for its contribution to testing approaches for promoting ethical guidelines.<sup>19</sup>

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19 . Further information on the Ethical Trading Initiative is available from the Internet at: [www.ethicaltrade.org](http://www.ethicaltrade.org)

## **CHAPTER 4**

### **POLICY COHERENCE**

#### **The United Kingdom's approach to policy coherence**

Achieving coherence in policies affecting developing countries is a priority for the United Kingdom government. To promote greater coherence, the United Kingdom has adopted a three-pronged approach: i) strong political leadership, ii) a better use of existing co-ordination mechanisms within government; and iii) the mobilisation of DFID's experience and analytical capacities to bring new perspectives to debates on topical issues.

The 1997 White Paper established the principle underpinning policy coherence that the full range of government policies affecting developing countries should take account of the objective of sustainable development. The subsequent globalisation White Paper brought coherence to the forefront, stressing the importance of systematically integrating a development perspective into Britain's overall international policy. The stated objective is to focus on the challenges of globalisation and define a policy agenda for managing the process in a way that reduces poverty. The White Papers also announced specific initiatives to enhance policy coherence, some of which are discussed later in this chapter. The White Papers were produced through an extensive process of inter-departmental consultations and provide a strong basis for government departments to work together.

The “upgrading” of the former Overseas Development Administration into DFID as a separate department with its Secretary of State a member of cabinet was significant for promoting coherence. It enabled the Secretary of State and DFID to take a full part in existing co-ordination mechanisms on an equal footing with others. This raised the level at which difficult issues could be debated and eventually resolved. The Secretary of State for International Development became a member of the Ministerial Committee on Foreign Affairs and Defence as well as two Cabinet sub-committees on conflict and EU trade policy. She also participates in ministerial committees chaired by some other ministers. In addition, to strengthen co-ordination mechanisms for development and review overall progress in promoting coherence, an Inter-departmental Working Group on Development was created, chaired by the Secretary of State for International Development and including a dozen departments whose policies impact upon development, normally represented by a junior minister. DFID itself now takes full part in inter-departmental co-ordination mechanisms at an official level, rather than, as in the past, having its views integrated into the position the FCO would bring to these fora.

DFID benefits from knowledge and experience of development issues and developing countries unknown to many other British government departments. This puts DFID in a privileged position as it can consistently promote the development agenda within government while being proactive on a selective basis. This is true even in areas where DFID is not the lead department, such as a trade policy, as it has produced extensive analyses on the subject.

The extent of analytical capacity available within DFID is demonstrated by the range of views it has expressed on issues as diverse as intellectual property rights and the mobility of people. This has been possible because of the creation within DFID of a department to focus on international economic policy. This department was subsequently split into two departments dealing respectively with international trade and the private sector. DFID has launched a number of initiatives aimed at promoting responsible business behaviour (covering areas such as labour standards, corruption, human rights, conflict, environment, local economic impact and investment) (see Chapter 3). As a result, new business principles were adopted by CDC Capital Partners and ECGD. The National Health Service, which has had to recruit qualified medical personnel from abroad, has developed a set of ethical guidelines which rule out recruitment if this will effect a country's healthcare services in terms of skill drain (although the net effect should also take account of the impact of remittances).

DFID's efforts to mainstream policy coherence include strengthening links with multilateral organisations and capacity development programmes that enable developing countries better prepare for and participate in international negotiations on trade, investment and other key issues. The United Kingdom continues to play a key role internationally in pushing forward debt relief and a pro-poor trade agenda. The Prime Minister has been raising development issues in such fora as G7 summits while the Chancellor of the Exchequer has been promoting development concerns within international financial institutions. Such actions have been important for building support domestically and encouraging a wide range of government departments to focus on the development implications of their work.

Nonetheless, achieving policy coherence remains difficult and requires constant scrutiny and an active engagement by DFID. Comparative DAC experience would suggest that making progress on internalising the key messages of the globalisation White Paper across government and having other departments develop a real sense of ownership of the poverty reduction agenda is a challenge which needs to be pursued patiently but relentlessly. As in the past, the key challenge for DFID continues to be to ensure that the necessary change occurs in attitude in other government departments and avoid a situation where DFID is too far ahead of the others. DFID has been able to link with other departments through established mechanisms and bring its knowledge and experience to promote development. However, the value added of the Inter-departmental Working Group on Development is still to be clearly established as few other departments participate at ministerial level and meetings may be too infrequent. Increasing staff interchanges between departments could help promote a deeper understanding of the issues faced by individual departments as well as broaden the base of people knowledgeable about development challenges.

The process of achieving policy coherence also suggests that outcomes will ultimately be influenced by the relative weight of vested interests and may not always be in favour of development. Delays have occurred in the introduction of adequate legislation into Parliament in several areas such as corruption<sup>20</sup>, arms exports (see below) and money laundering<sup>21</sup>. Other examples are presented in the

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20 . The United Kingdom intends to introduce legislation to meet its commitments under the OECD Convention on the Bribery of Foreign Public Officials in International Business Transactions during the legislative session 2001/02.

21 . The Abacha case in 2000 revealed weaknesses in the controls against money-laundering in a number of banks operating in the United Kingdom and legislative loopholes for relevant British authorities to help Nigerian authorities trace public funds looted by the country's former leader. The United Kingdom published draft legislation (the Proceeds of Crime Bill) in March 2001, which will strengthen money laundering controls and simplify arrangements for providing mutual legal assistance. The Bill is included in the legislative programme for 2001/02.

following sections which show that domestic interests are strong and the results achieved have not always been fully consistent with the objective of sustainable development.

### **The challenge of policy coherence: some examples**

#### ***Trade policy***

The initiatives of the United Kingdom in the trade policy area aim at achieving greater policy coherence and promoting the use of trade to reduce poverty. They derive from the globalisation White Paper and the concern that poor countries should also benefit from globalisation. The main objectives are to promote greater participation in international trade by poor people and poor countries and increase the benefits and minimise the costs of international trade for the poor. Support for greater access and hence open trade does not, however, mean unregulated trade. For open trade to work for the poor, an effective multilateral trading system is needed which takes account of the interests of developing countries. The United Kingdom is therefore actively promoting a development agenda at this level. The British government has also been pushing for the next round of multilateral trade negotiations to be a development round with a pro-poor agenda including improved access to developed country markets for products in which developing countries enjoy comparative advantage and a readiness to address developing countries' concerns about implementation of the Uruguay Round agreements. At the same time, the United Kingdom is supportive of the EU position which aims at expanding the trade agenda to address issues related to labour, environment, investment and competition with the aim of agreeing new rules which would support development. However, developing countries are concerned about their ability to cope with a broad agenda and are often more concerned about agriculture, textiles and implementing existing agreements. There is consequently a tension to manage between trade and development agendas.

Following the failure of the Seattle Ministerial Conference to launch a new round of trade negotiations, the United Kingdom has given more weight to promoting the needs of developing countries. This requires reforms of the World Trade Organisation (WTO) and the rules-based system and further reduction in the inequities of the existing international trading system (notably in the areas of agriculture, textiles and anti-dumping). The United Kingdom supported the establishment of the Advisory Centre on WTO Law which will help developing countries better exercise their rights. The British government also established in 2001 a Commission on Intellectual Property Rights to examine how current global intellectual property arrangements impact on the poor (see Box 3).

DFID does not limit its efforts to influencing the global trade agenda. It considers that it is equally important to enable developing countries to participate effectively in the WTO and the international trading system. Building trade policy capacity is essential if poor countries are to protect and promote their interests in a new trade round. This explains why DFID is planning to double its support in this area from GBP 15 million in recent years to GBP 30 million over the next three years. This is done in a way to mainstream trade in the development strategies of partner countries, in line with the recently approved DAC *Guidelines on Capacity Development for Trade in the New Global Context*. As part of this increased effort, DFID launched a new Africa Trade and Poverty Programme which provides technical support for capacity building in trade policy formulation and negotiation and is launching a programme to enhance understanding of trade issues among programme managers.

The United Kingdom has been a traditional advocate of free trade and the globalisation White Paper provides a strong commitment to reduce barriers to trade. Securing support within the British government for the EU's "Everything But Arms" (EBA) Initiative was, however, not a

straight-forward process and required a thorough internal consultation process. In principle, all departments were ready to support the EBA proposal to allow free access for all imports except arms from least-developed countries even though the domestic sugar industry strongly opposed the proposal. At the same time, the United Kingdom was involved in the reform of the EU sugar regime and pointed out that EBA needed to be made consistent with other EU negotiations underway with the aim of protecting the interests of the EU's traditional developing country suppliers which benefit from the Sugar Protocol and the Special Preferential Sugar arrangements. Lobbying in the United Kingdom, as well as in other European countries, was one of the factors which made the EC submit a scaled-down proposal with a transition period for the imports of sugar, rice and bananas. Oxfam made a useful contribution to the EU-wide debate by commissioning research on the possible impacts of EBA<sup>22</sup>. One of the findings indicated that the claim of the threat of EBA for United Kingdom sugar beet producers was over-stated. This example shows that achieving policy coherence remains difficult when it goes against domestic vested interests. DFID should nonetheless continue to produce timely and high quality research and policy input that can have an impact in changing the balance between these interests.

### Box 3. Commission on Intellectual Property Rights

The objective of the Commission is to come up with a better understanding of intellectual property rules and practices so that they can take greater account of the interests of developing countries. The Commission will rely to the extent possible on data and information already collected, which will limit the need for undertaking new studies. The consultation process will include: i) visits to selected developing countries (including Brazil, China, India, Kenya and South Africa); ii) discussions with international *fora* such as the WTO, UNCTAD, OECD and EU; and iii) on-line activities.

The Commission's final recommendations should address the following issues: i) how national intellectual property regimes should best be designed to benefit developing countries; ii) how the international framework of rules and agreements might be improved and developed; and iii) the broader policy framework (including competition policy and law) in developing countries relevant to the regulation of intellectual property rights. The Commission will focus its analysis on the following nine areas: i) intellectual property rights, technology and development; ii) pharmaceuticals and vaccines; iii) genetic resources, gene-based inventions and agriculture; iv) traditional knowledge and folklore; v) intellectual property rights, the internet and copyright; vi) national intellectual property rights legislation in developing countries; vii) trade-related intellectual rights and the international framework; viii) process and constitutional issues in international intellectual property rule making; and ix) institutional issues for intellectual property rights regimes in developing countries.

This is a welcome but ambitious programme, facing a tight time frame with final reporting due in June 2002. The challenge remains whether the Commission, composed of six personalities of high international reputation and mixed background but set up under the sole initiative of the British government, will meet its ambition of reaching an international audience and forge broad consensus. Another challenge will be to link with other stakeholders in a timely fashion, particularly with regards to developing countries.

22 . See Christopher Stevens and Jane Kennan, *The Impact of the EU's "Everything but Arms" Proposal: A Report to OXFAM* available from the Internet at: <http://www.oxfam.org.uk/policy/papers/eba.htm>.

### ***Export controls***

The United Kingdom is a major arms exporter. The reform of British arms export controls has long been overdue and the serious flaws in the existing system were well documented in the 1996 Scott Report on the *Export of Defence Equipment and Dual-Use Goods to Iraq*. A White Paper on Strategic Export Controls was subsequently released in 1998. The government has stated that the United Kingdom will no longer supply arms which will be used for internal repression or external aggression<sup>23</sup> where they will have a negative impact on sustainable development, in line with the 1998 EU Code of Conduct on the export of arms. DFID is responsible within the United Kingdom government for assessing the impact of arms export licences on sustainable development of recipient countries. At the international level, the United Kingdom was a strong promoter of the EU Code of Conduct. At the UN conference on Illicit Trade in Small Arms in July 2001, the United Kingdom reiterated its support for more transparency in the official trade in firearms and a reduction in total volume and flow of firearms in the world. Despite this good will, the government has been slow in making progress towards introducing its own legislation<sup>24</sup> to improve parliamentary scrutiny of military export controls, set out the purpose of restrictions and regulate arms brokering and trafficking. NGOs, with the support of public opinion<sup>25</sup>, have been pushing for new legislation to enhance the effectiveness and extend the scope of government controls over the arms trade..

Another indication of the difficulties of mainstreaming development concerns across government is the more recent case of whether to grant an export licence for an air traffic control system for Tanzania, a country currently receiving USD 50 to 100 million annually in debt relief as part of the HIPC initiative. The proposed British system is comparatively expensive and considered state-of-the-art. The Bretton Woods institutions and Oxfam have raised concerns over the impact on its debt burden if Tanzania were to buy the British system. The British government will take a decision after the Government of Tanzania has completed a review and the IMF Board has determined whether this purchase is in line with Tanzania's Poverty Reduction and Growth Facility.

### ***Export credit and guarantees***

A major review of ECGD was carried out in 1999/2000. The objective was to define ECGD's future role in light of the challenges of the 21<sup>st</sup> century. One concern addressed was the relationship between ECGD's activities and the United Kingdom's wider objectives, notably in the area of sustainable development, human rights and good governance. The review led to the adoption in December 2000 of new business principles which address the concerns of sustainable development (including environmental and social impacts), human rights, debt sustainability, transparency and business integrity. The challenge will be to ensure that the business principles are effectively put into practice. Further adjustment of internal assessment systems will be needed for ECGD to implement its new

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23 . According to the *Strategic Export Controls Annual Report 2000* published by the FCO, export licences for military equipment were approved by DTI for some countries which have internal conflicts, have been criticised over their human rights records or may be involved in external aggression. However, the information presented in this report does not allow for an informed judgement to be made on how the guidelines are being applied.

24 . The Export Control Bill was finally introduced in the House of Commons on 26<sup>th</sup> June 2001.

25 . According to an opinion poll conducted in 2000, 87% of the public is in favour of tighter controls. In addition, 77% think the government has not done enough to stop the sale of arms to governments which abuse human rights.

mission. A new Advisory Council with a more broadly based representation was established in early 2001 to review ECGD performance against its business principles.

ECDG has put in place a screening process to ensure all applications for support take account of the environmental and social impacts of goods and projects, consistent with good practice in other export credit agencies, as well as potential human rights implications. Because of its commitment to debt relief and the contribution of export credits to the debt burden, the United Kingdom has been implementing the principle of using export credits only to support productive expenditure in poor countries since 1997. The screening process in the case of IDA-eligible countries also needs to ensure that activities supported by export credits do not contribute to the creation of unsustainable debt burden. It is too early to judge the effectiveness of the new screening process for export credits.

British advocacy efforts were a useful contribution towards the adoption by the OECD Working Party on Export Credits and Credit Guarantees in July 2001 of a statement of principles designed to discourage the provision of officially supported export credits for unproductive expenditures in HIPC's. So far, there is no agreement on a definition of what constitutes "unproductive expenditure", but Members agree to report and review annually transactions to HIPC's.

The on-going controversy in the United Kingdom (as well as some other European countries) about the Ilisu hydroelectric dam in Turkey and the proposed support to a British construction company constitutes a test of policy coherence. In Parliament, both the International Trade Committee and the International Development Committee in their reports on the project urged DTI to have an early debate on sensitive projects of this type, rather than in the wake of decision-making. They also raised questions on the role of different government departments. This indicates that mainstreaming the development agenda across the government is an on-going task which will continue to deserve due attention. DFID and the FCO do not have the power of veto on export credits although they are consulted on sensitive cases. The International Development Committee has suggested a more systematic role for DFID in the screening process of projects in countries eligible for ODA.

### **Aid untying**

The United Kingdom provided strong political leadership and support for the agreement reached at the DAC High Level Meeting in April 2001 on untying aid to least-developed countries. At the European level, the United Kingdom is continuing to push for an EU-wide untying of Member States' bilateral aid. When launching the globalisation White Paper, the government announced its intention to untie all development assistance, with effect from 1 April 2001. This decision, which builds on similar unilateral moves by some other DAC Members, was taken to give a further push to slow progress at the multilateral level and to improve the effectiveness of DFID assistance. This initiative builds on previous progress towards untying - British authorities estimate that approximately two-thirds of DFID's development assistance had already been untied and the most difficult case politically had already been dealt with when the Aid and Trade Provision was abolished in 1997. At that time, an in-depth review of untying had concluded that unilateral untying of the British aid programme would have only a marginal impact on the British economy.

Implementation of Britain's untying decision proceeded on schedule for the direct provision of goods and services. Contracts above the EU general procurement threshold of SDR 130 000 (approximately EUR 94 000) are now let according to EU procedures for international competitive bidding. A more streamlined procedure has been adopted for contracts below this threshold. Decisions have now also been made on how the principles of untying will be carried through to DFID's non-commercial activities. Grants to research institutions and scholarships administered within country programmes will be untied. The United Kingdom's support for the Commonwealth Scholarship and Fellowship Plan is part of a Commonwealth-wide programme and access to it will remain restricted to Commonwealth countries. DFID grants to NGOs are themselves untied and can be used for the purchase of goods or services from the best value source. Part of the rationale for assistance is building awareness and support for development within the United Kingdom; discussions are continuing on whether non-United Kingdom NGOs will be eligible to bid for support from central budgets, in addition to DFID's direct support to civil society in partner countries.



## **CHAPTER 5**

### **DFID'S OVERALL ORGANISATION, STAFFING AND MANAGEMENT SYSTEMS**

In contrast to most other DAC Members, management and responsibility for the United Kingdom's development co-operation is concentrated in a separate government department dedicated to this function and which disburses the vast majority of the United Kingdom's ODA. Other sources of British ODA include the FCO (which implements some projects, makes some multilateral contributions and, since 1999, provides a grant-in-aid to the British Council for its core financing), the Treasury (which funds some debt relief and makes some multilateral contributions) and the Home Office (which makes some contributions to UN agencies). Aside from its ODA activities, DFID funds some official aid activities and the costs associated with Britain's continuing but diminishing responsibility for paying colonial service and dependants' pensions (around 27 000 pensions are currently paid).

#### **Management of vision and strategy**

DFID's staffing and organisational structure are evolving to respond to the challenges emerging from the government's two White Papers on eliminating world poverty, and from management reforms being introduced across the British civil service. Increased decentralisation to country offices has occurred, coupled with more United Kingdom-based staff being posted to the field or seconded to international organisations. More staff have been hired locally in developing countries, including in more senior positions. The skill requirements for staff have changed with a greater emphasis on negotiating and influencing capacities. This has had implications for recruitment policies and practices, and staff management.

A "strategic cascade" has been developed at DFID headquarters which aims to clarify the hierarchical relationship between the various strategies which guide DFID's activities. Starting with the government's two White Papers and DFID's Target Strategy Papers with their 15-to-20 year horizon, the cascade leads down to the Country and Institutional Strategy Papers and the Programme Partnership Agreements with their three-to-four year horizon.

Overall policy and resource plans are outlined in DFID's triennial Medium-Term Framework and for individual staff members in their Annual Performance and Development Plan. Performance against country programmes' objectives is monitored annually in Annual Plan and Performance Reviews while the published Departmental Report looks back at DFID's achievements over the previous year. Departmental performance on a triennial basis is measured against the Public Service Agreement which DFID negotiates with the Treasury.

DFID's strategy papers are prepared following internal consultations and with input from major stakeholders, representatives of civil society organisations and the public. Draft versions of some of DFID's major strategy papers have been posted on the Internet with an invitation to make comments

and suggestions. Country Strategy Papers are discussed with bilateral partners while the multilateral agency concerned is consulted during the preparation of its Institutional Strategy Paper. Some NGO representatives have found the receptiveness of DFID to external ideas variable. The department appears less open to alternative suggestions when DFID has substantial direct experience backed up by research. On the other hand, it appears open and appreciative of the comments it receives when the department is moving into new areas of activity.

### **DFID's overall structure for development co-operation**

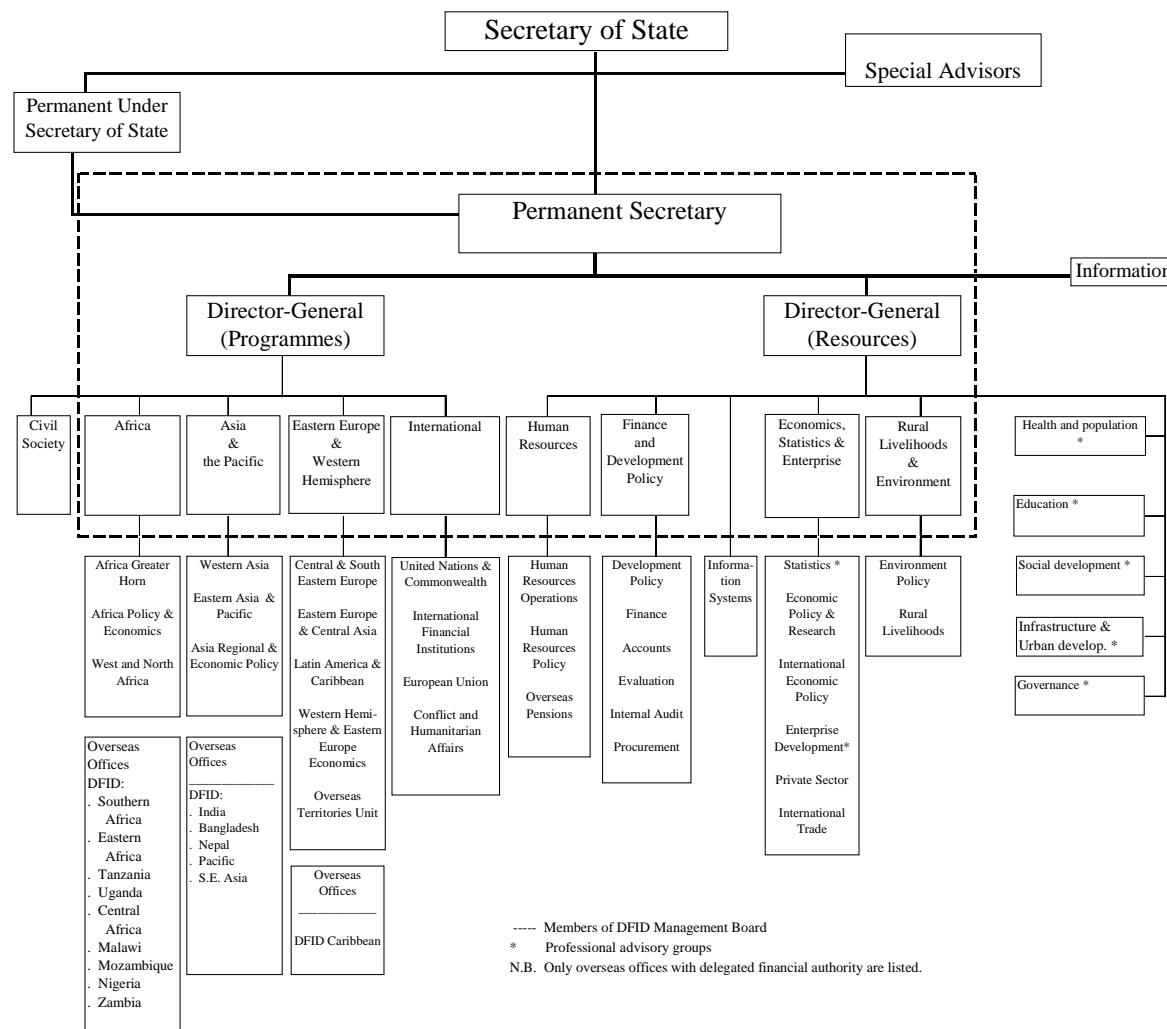
At the political level, DFID is headed by the Secretary of State for International Development, assisted by a junior minister (the Parliamentary Under-Secretary of State) and a Spokesperson in the House of Lords.

The civil service management structure at DFID consists of a permanent secretary and two directors-general, one responsible for bilateral and multilateral programmes and the other for resources (see Chart 1). Below the executive level, DFID has a matrix structure with six directors, responsible for various geographical regions, multilateral assistance, human resources or finance and development policy, and nine chief advisors who lead teams of professional advisors in the areas of economics, education, enterprise, governance, health and population, infrastructure and urban development, natural resources, social development and statistics. The Chief Economist and Chief Natural Resources Advisor also have substantial line management responsibilities and have the title of director as well.

The Management Board comprises DFID's permanent secretary, directors-general and directors as well as two non-executive members, a representative of the Cabinet Office and a DFID Director on special leave. This senior management committee was recently created to address strategic policy and management issues and to monitor DFID's performance against the international development targets and its Public Service Agreement. To complement the Management Board's work, the Development Committee reviews each major country programme every two years by focusing on achievements against strategic objectives and is responsible for developing, assessing and up-dating DFID's range of strategy papers. Other sub-committees of the Management Board cover Finance and Audit, Human Resources and Knowledge and Communications.

DFID's various headquarter departments and 15 country and regional offices abroad are staffed by managers and administrators complemented by advisors from DFID's professional groups. Each department or overseas office reports, directly or indirectly, to a director at headquarters who, collectively, manage the bulk of the department's financial resources. Nonetheless, the chief advisors also have considerable influence as they are responsible for the recruitment, deployment, promotion, professional training and career development of the advisors in their team. They also have funds for conducting research related to their areas of expertise which is used to help develop policies and inform thinking within DFID.

### **Chart 1. Department for International Development**



Source: DFID (as of September 2001).

Since 1981, DFID's headquarters has been split between London, where the majority of DFID's core policy work is carried out, and East Kilbride, which manages the bulk of DFID's programme service functions including contracting, recruitment, accounting and statistics. The British government pursued a policy during the late 1970s/early 1980s to move some government departments out of London, to reduce costs and spread jobs throughout the United Kingdom. The decision to build an office for some 500 staff in East Kilbride was made in this context. Initially, many posts were relatively junior and administrative in nature, with a number related to the payment of overseas pensions, a much larger operation at that time. Since 1981, a number of posts have been moved from London to East Kilbride. A review conducted in 1998, designed to increase opportunities for staff in East Kilbride, led to the transfer of around 40 positions there from London, including some policy positions. As a result, the Evaluation, Information Systems, Civil Society and Procurement Departments have now been entirely or partially moved to East Kilbride, to join the Human Resources, Finance, Internal Audit and Overseas Pensions Departments. While these moves may enhance synergies within the East Kilbride office, this is at the expense of synergies in the London office. Clearly, synergies would be maximised by locating all headquarters staff together. From an office accommodation perspective, there is a significant cost advantage in locating staff in East Kilbride rather than London, and it is generally easier to fill more junior posts in East Kilbride where the cost of living is less than in London. The split headquarters generates extra costs due to increased travel and in terms of operational efficiency and efforts to build and maintain a single corporate culture. New developments in communications technology are helping to minimise these.

DFID also contracts universities and other service providers, on a renewable medium-term basis, to supply expertise and additional resources as and when required. An example of such a "resource centre" was the Emergency Response Team. Another example is the Private Sector Policy Department's resource centre which can provide advice on socially responsible development. DFID is currently setting up an Economists' Resource Centre to meet the growing demand for economic advice and expertise within the department. Resource centres also exist to undertake research and supply expert advice to DFID's various professional advisory groups, although the funds allocated to the different groups for this purpose is uneven and does not reflect current strategic priorities. Resource centres provide DFID with a substantial source of complementary capacity to its own in-house resources.

### **Staffing and personnel management**

After being reduced for several years, staff levels in DFID have started to grow again. In December 2000, DFID had a total staff of 2 259 - 827 in London, 465 in East Kilbride, 543 United Kingdom-based staff serving overseas (of whom 440 were on fixed-term contracts) and 424 other staff abroad appointed directly in country.

DFID operates an equal opportunities policy in relation to all aspects of its recruitment and employment practices. In 2000, 47% of DFID's United Kingdom-based staff were female, 10% were from ethnic minorities and 2% declared themselves disabled. Women occupied 17% of Senior Civil Service positions. DFID has produced an action plan for progress on diversity which includes targets until 2005 for the representation of women, ethnic minorities and staff with disabilities. Increasing diversity among Senior Civil Service staff should be possible as many of DFID's current senior staff retire over the next five to ten years.

Some 400 DFID staff are professional advisors, many of whom are posted to DFID offices abroad. DFID's advisors are professionals in their field but are also expected to have wider skills to enable them to maximise the impact of their contribution. Advisors may move across to administrative or managerial positions during the course of their career, subsequently staying there or moving back to an advisor's position. Administrators or managers may also join a professional advisory group, although this occurs less frequently. Each professional advisor group organises its own training activities and for some subjects, such as governance, they organise training for other DFID staff delivered by a resource centre. Each group of advisors holds an annual retreat to share experiences and discuss issues of common concern.

With DFID's objective to support fewer projects, and an increasing proportion of ODA being provided through sector-wide programmes or as general budget support, there has been some internal debate whether DFID will continue to need as many advisors as it currently has in country offices and whether the selection of professional groups will remain appropriate in all countries. It has been decided that each overseas office does not necessarily have to include representatives of each main professional group. An internal review of the management and staffing structure at DFID's Nepal office addressed this issue. The recruitment process for advisors is now placing greater emphasis on candidates' influencing and negotiating skills and wider policy capability.

Recruitment practices at DFID reflect the importance of the department being able to attract high quality staff with a wide range of skills. DFID is able to recruit staff at entry level or mid-career, as well as for specific jobs on a fixed-term basis. For many posts, DFID can recruit from a wide range of nationalities<sup>26</sup> and DFID advises that there are plans to reduce nationality restrictions further in all but a small number of senior positions. DFID is popular among young graduates as it receives the most nominations from those "Fast Stream" candidates who express a preference for a particular Home Civil Service Department (there is a separate recruitment process for the Diplomatic Service).

Retaining and developing high quality staff is a priority for DFID. In 1998, DFID embarked on a process to gain "Investor in People"<sup>27</sup> accreditation, a requirement for all government departments. This process acted as a catalyst for consultations on effective management which brought out the need for the department to put as much value on the importance of managing people as on intellectual and policy skills. In response, staff development activities are now accorded a much higher priority and more closely linked to departmental objectives. A management development programme has been introduced, for both senior and junior managers, which provides staff with the opportunity to develop the behavioural skills needed for effective staff management. Training programmes are available for all staff in the key areas of poverty awareness, governance, basic economics, negotiating and influencing. DFID received its "Investor in People" accreditation in 2000.

Other British civil service personnel practices are also being introduced in DFID. The department's 57 Senior Civil Service staff have been placed on open-ended contracts. The performance of all DFID staff is reviewed annually and all pay increases are now performance based.

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26. For many DFID posts, candidates can be a national of a Member State of the European Economic Area, a Commonwealth citizen with an established right to live and work in the United Kingdom or a refugee as defined by the 1951 UN Convention on Refugees.
  27. Information on the "Investor in People" standard is available from the Internet at: <http://www.iipuk.co.uk/>

## **Financial management**

All government departments are required to have an internal audit function to help assure Parliament, the media and the public that a department is making its best efforts to achieve value from taxpayers' money. DFID's Internal Audit Department provides an assurance to the permanent secretary that DFID's systems of control are sound and enable DFID to meet its objectives efficiently, effectively and economically. The Internal Audit Department carries out a programme of reviews over a four-year cycle, makes recommendations on how to improve systems and provides advice on risks and controls when new systems are being developed. As with other government departments, the National Audit Office (NAO) fulfils the role of external auditor for DFID and certifies its annual financial statements.

In compliance with the government's resource (accrual) accounting and budgeting initiative, DFID produced its first set of resource accounts for the 1999/2000 financial year. DFID's budget estimates were produced on a resource basis for the first time in 2000, covering the 2001/02 financial year. Future planning and decision making in DFID will be based on the information provided through resource accounting and budgeting. Full adoption of resource accounting principles will provide DFID with a clearer indication of the full costs associated with activities and so better enable it to gauge their efficiency.

Administrative expenses incurred by DFID to manage and implement the United Kingdom's development co-operation programme are paid from its "running costs" budget while aid activities are financed from "programme funds". Nonetheless, DFID finances some administrative expenses from programme funds as well, including the costs of advisors stationed in the field, funding for resource centres, some travel by advisors and the salaries of staff employed at DFID on contract. This practice started in Bangladesh where it was successfully argued, and the Treasury accepted, that a professional advisor not only shaped the aid programme but had a broader role of transferring expertise, especially in relation to the partner government. From this point of view, the advisor was analogous to a technical assistant and so could legitimately be financed from programme funds. This argument is all the more valid today as one of the functions of advisors stationed in the field is to engage with and influence others to support poverty reduction and the achievement of the international development targets. While some other DAC Members also finance administrative expenses from programme funds, DFID has pushed this practice far.

Financial management poses challenges for DFID in its efforts to improve the effectiveness of its development co-operation while conforming to British civil service requirements. One example concerns fiduciary requirements when providing direct budget support (see Chapter 6). However, more generally, the issue remains as to how flexibly DFID can apply Treasury and NAO standards to maximise development impact and minimise partners' transaction costs.

## **Information and knowledge management**

DFID is taking a more strategic approach to knowledge management. Traditionally, information and knowledge have mostly been held by individuals and shared through informal and unmanaged networks. A study in 2000 found that knowledge was becoming DFID's core product as well as its core resource. Priority should therefore be given to establishing the right environment and culture for sharing knowledge within DFID by promoting collaboration, sharing and openness and setting up appropriate incentives to encourage new behaviour. The study recommended creating managed learning networks and improving communications systems for knowledge sharing. DFID is responding to this challenge by improving communications technology, endeavouring to get as many offices abroad as possible fully and seamlessly integrated into DFID systems and setting up systems to

facilitate the sharing of knowledge. A new group has been given the responsibility of improving DFID's approach to knowledge sharing, including sharing examples of good practice.

DFID relies on high-quality information and communications systems to support the global communications and knowledge sharing it needs to achieve its objectives. Most staff now have access to the DFID Intranet, although in some overseas offices this can be adversely affected by the availability and speed of the local Internet service provider. Ensuring offices abroad have access to DFID's documents and systems is a challenge accentuated by decentralisation and DFID is addressing this in its current programme to upgrade its information and communications technology. This programme includes, in a joint project with FCO, satellite and broad bandwidth links being installed in DFID's offices abroad to allow fast and reliable data communications and multi-link video-conferencing with up to eight locations. High bandwidth fibre-optic networks are also being installed in DFID's offices in the United Kingdom.

Since 1993, most bilateral projects and programmes with a commitment value of GBP 100 000 or more have been attributed a policy marker which is recorded in the Policy Information Marker System (PIMS)<sup>28</sup>. This system was reviewed at the end of 1997 to determine how it could better reflect DFID's new objectives. As a result, an extended version of PIMS was introduced in 1998 with each project and programme also being attributed a code reflecting the predominant means by which it addresses poverty elimination - the Poverty Aim Marker (PAM)<sup>29</sup> - and an indication of which of DFID's three main objectives is predominantly targeted - the Policy Objective Marker (POM)<sup>30</sup>. Today, the PIMS includes some 34 markers. Many of these reflect the international development targets. DFID is currently undertaking a review of its statistical information systems in order to address issues such as better mapping to the international development targets, the introduction of resource accounting and only one purpose code being attributed to a project or programme, even when it is large and contains diverse components.

To respond to DFID's need for better information on outputs and outcomes, the Performance Reporting Information System for Management (PRISM) was introduced in 2000. PRISM incorporates information which already exists in other DFID systems but also requires additional information from programme managers, especially performance data and lessons learnt. To encourage programme managers to use PRISM and provide these data, PRISM can generate the forms used when undertaking output-to-performance and other reviews of projects and programmes with many of the input fields already completed. PRISM allows DFID managers to compile and analyse project and programme information at an aggregate level, for example by country, by sector or by PIMS marker. This information was previously unavailable through corporate information systems. PRISM is also a means for sharing information throughout DFID and contains access to some 12 000 documents and

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- 28 . Among the various categories of bilateral expenditure excluded from PIMS marking are scholarships and other sectoral programmes not readily allocable by PIMS category, volunteers and budgetary aid commitments where there are no policy commitments (e.g. debt relief).
- 29 . According to DFID's *Statistics on International Development - 2000 Edition*, 20% of DFID's PIMS-marked bilateral commitments in 1999/2000 were "enabling actions" which support the policies and context for poverty reduction, 46% were "inclusive actions" which improve opportunities and services generally and 33% were actions focussed on the rights, interests and needs of the poor.
- 30 . According to DFID's *Statistics on International Development - 2000 Edition*, 32% of DFID's PIMS-marked bilateral commitments in 1999/2000 mainly supported policies and actions which promote sustainable livelihoods, 59% mainly supported better education, health and opportunities for poor people and 9% mainly supported protection and better management of the natural and physical environment.

information on more than 30 000 projects and programmes. A search facility is incorporated. PRISM's information sharing function is currently hampered by the system not yet being available or used in all DFID offices abroad. Ultimately, the success of PRISM will rely on operational staff perceiving it as a useful tool which enables them to do their jobs better and more efficiently, rather than a tool of senior management.

### **Monitoring, performance assessment and evaluation**

Responsibility for monitoring DFID's bilateral projects and programmes is mostly devolved to staff in the field. Contractors and project staff (i.e. non-DFID staff) are responsible for preparing project reports comparing implementation with expected results at the activity and output levels of the logical framework. DFID advisors stationed in the field focus on performance at the output and purpose levels. Output-to-Purpose Reviews may be planned as an integral part of a project or conducted if considered useful or necessary. These are normally contracted out. Annual project scoring at the output and purpose levels and Project Completion Reports should be prepared for all projects with a value of GBP 500 000 or more.

Since 2000, a system of performance reviews at the country level has been put in place. The format and timing of these reviews vary. The key documents supporting this process are the Country Strategy Paper, Annual Plan and Performance Reviews and a more substantial end-of-cycle review which can feed into the preparation of a new Country Strategy Paper. Regional divisions maintain on-going responsibility for reviewing the monitorability of Country Strategy Papers and providing guidance on performance measurement and reporting requirements.

A new system of Institutional Performance Reviews has recently been introduced to follow up on DFID's Institutional Strategy Papers. The proposal is to conduct annual progress reviews, focusing on implementation of the action plan from the Institutional Strategy Paper, accompanied by end-of-cycle impact reviews, which can also feed into the preparation of new Institutional Strategy Papers.

Monitoring and evaluation of cofinancing arrangements with NGOs varies. Basic reporting and accounting requirements have been established for all projects supported through the Civil Society Challenge Fund. More sophisticated monitoring and evaluation arrangements are included in the Partnership Programme Agreements DFID has negotiated with major United Kingdom development NGOs. Although individual details differ, DFID will participate in NGOs' own reviews, following which NGOs will produce a report which includes an assessment of performance against objectives, performance in terms of agreed joint actions and a plan for specific joint activities during the following year. An independent external evaluation is planned during the first six months of the final year of each partnership agreement.

DFID's Public Service Agreements are supplemented by a Service Delivery Agreement, which explain how DFID will deliver its Public Service Agreement targets, and Technical Notes, which describe how progress will be measured. The requirement for departments to prepare Public Service Agreements emerged out of the Comprehensive Spending Review carried out by the British government in 1998. Like other departments, DFID is working to refine these agreements as tools for assessing performance (see Box 4).

#### **Box 4. Assessing DFID's performance**

In the longer-term, achievement of the international development targets in each developing country will provide a basis for assessing DFID's performance. However, making assessments will not be straight-forward due to the difficulties of capturing data on changes in developing countries and establishing the links between those changes and actions by individual donors.

Developing countries themselves will measure achievement of the international development targets but many lack timely, comparable and comprehensive data. The United Kingdom has taken a leading position to respond to the challenge of improving statistical capacity in developing countries. DFID has been providing the bulk of the funding for the PARIS21 Secretariat, a consortium set up in 1999 to help develop well-managed and appropriately resourced statistical systems in developing countries<sup>31</sup>. It also has a small team of Statistics Advisors whose role includes building statistical capacity in developing countries. These efforts contribute towards improving developing countries' capacity to make more informed decisions about the allocation of scarce resources. Without greater attention from other donors, however, they will only result in marginal improvements in their ability to measure achievement of the international development targets.

Establishing the linkages between an individual donor's inputs and real world results is a complex and difficult issue. The aim of DFID's Public Service Agreement is to work around this issue by providing a coherent and logical basis for DFID to assess its own contribution towards reaching the international development targets, as part of the combined effort by the international development community. The Public Service Agreement has consequently become an instrument for DFID to assess the shorter-term impact of its activities on the path towards achieving its longer-term objectives.

DFID's first Public Service Agreement (1999 to 2002) was closely linked to the international development targets and mostly related to outcomes in the United Kingdom's top 30 development partners. Targets adopted included reducing under-5 mortality, reducing maternal mortality and agreeing a national strategy for sustainable development.

A second Public Service Agreement (2001 to 2004) introduced some changes. The targets related to maternal mortality and raising real *per capita* GNI were dropped due to persistent measurement difficulties. To strengthen the connection between DFID's actions and outcomes in developing countries, education targets are limited to the top 10 recipients of DFID education support and health targets are limited to the top 10 recipients of DFID health care assistance. The range of DFID activities linked to a target was broadened.

From a performance assessment perspective, a number of concerns can be raised. Several targets relate to inputs rather than outcomes (e.g. increase the percentage of DFID's bilateral programme going to poor countries or increase the percentage of EC development assistance going to poor countries). The education and health targets are achieved if average performance across countries improves significantly, rather than significant improvement occurring in individual countries.

Other more general concerns can also be raised. Parts of the DFID programme remain outside the Public Service Agreement targets and, as a result, DFID staff generally have little ownership of these objectives and the targets have little strategic impact on operations. Public Service Agreement targets need to pose a challenge for DFID but they should be more modest as they also need to be achievable within a two-to-three year timeframe and limited to outcomes which DFID itself can achieve. Finally, as achieving outcomes can be difficult in developing countries, the targets should recognise that successes cannot always be expected. For example, it is better to seek positive results in eight out of ten countries than to seek an average increase in ten countries.

31. Further information on the PARIS21 Consortium is available from the Internet at: <http://www.paris21.org/>

The role of DFID's Evaluation Department is changing substantially. Whereas five years ago its primary focus was conducting *ex post* assessments of the impact of projects, the department has taken on a broader role to increase its relevance and is focusing more on topical sectoral and thematic studies and sharing lessons learnt. The department's key responsibilities now include:

- Improving quality at entry, by providing input on performance measurement for project proposals as well as when programmes are being set up or during their mid-term review.
- Synthesising lessons learnt across DFID and establishing linkages between disparate activities.
- Contributing to assessments of Country, Institutional and Target Strategy Papers.
- Contributing to the development of DFID performance assessment systems such as PRISM.
- Participating in joint evaluations, such as supporting the Netherlands' work on partner-led evaluations.

The Evaluation Department has also shifted its emphasis from conducting evaluation work in-house towards the management of studies contracted out to external consultants. To do this effectively, DFID needs ready access to a substantial source of external consultants familiar with both development practices and DFID's approach to development issues. To respond to this need, DFID recently established the Performance Assessment Resource Centre (PARC) to provide support to DFID staff and partners on performance assessment and evaluation. The PARC has been initially established for three years during which time it is expected to expand its client base and become self sufficient. The PARC's service agreement will be reviewed annually and the final review will consider DFID's options for continuing or terminating core financial support to the PARC.

DFID's evaluation reports are made widely available. Nonetheless, the Evaluation Department is aware that it can take considerable time for published reports to be released and that DFID staff do not always have sufficient time to read large evaluation reports. The Evaluation Department is consequently taking a more proactive approach to sharing lessons learnt by organising workshops, in the United Kingdom and abroad, to present the findings from completed evaluations and sometimes from evaluations in progress. It is also using DFID's internal Performance Assessment Network, whose main role is to support the development of new systems and techniques to improve performance management, as a vehicle for sharing knowledge.

Output-to-Purpose Reviews and Project Completion Reports are submitted to DFID's Evaluation Department which should use them to produce synthesis reports and draw out key findings and lessons learnt. However, annual project scoring is done for only one project in four and the quality and quantity of Project Completion Reports prepared is described as unsatisfactory, perhaps due to staff perceiving little value in preparing these reports. One consequence of this situation is that the Evaluation Department will no longer produce an annual synthesis report and will concentrate its efforts instead on a new Development Effectiveness Report which will be submitted to DFID's Management Board. This new report will draw on a wide range of performance and evaluation evidence and provide a comprehensive assessment of corporate progress.

Although DFID's monitoring and evaluation systems have evolved significantly in recent years and are now closer in line to good practices adopted by other DAC Members, a number of concerns remain. In most areas of activity, DFID's monitoring systems are new and, so far, still not tried and tested. Where systems exist, compliance is an issue as there appears to be little ownership of these processes by DFID staff generally. Staff throughout DFID appear to have little ownership of DFID's

Public Service Agreement as a useful or important measure of the impact for their work. The recent decision to move the Evaluation Department from London to East Kilbride had a heavy cost in the short term as all but one of its 11 staff chose not to move to Scotland. In the longer term, the Evaluation Department's physical isolation from DFID's policy and senior staff creates an extra challenge for the department as it tries to take on a broader and more strategic role.

Impartiality and independence of the evaluation function is another area of concern. It is DFID itself which monitors its own performance against its Public Service Agreement targets. DFID's evaluation function is separated from the line management responsible for planning and managing development assistance, as recommended in the DAC's *Principles for the Evaluation of Development Assistance*. However, the Evaluation Department's independence could be better achieved by increasing its autonomy from the Development Committee which authorises a three-year programme of evaluation studies based on proposals prepared by the Evaluation Department. With a view to ensuring relevance, the Evaluation Department prepares its proposals following wide consultation within DFID and with development partners. In addition, the Evaluation Department could be established as an independent office reporting for administrative purposes only to the Secretary of State, the Parliamentary Under-Secretary of State or the Permanent Secretary.

As well as its role as external auditor, NAO conducts value-for-money audits which examine the economy, efficiency and effectiveness of publicly funded programmes and activities. Since 1996, the NAO has conducted one value-for-money audit relating to development co-operation covering the humanitarian assistance provided by DFID in response to the Kosovo emergency<sup>32</sup>. This audit was conducted in parallel to an audit of British armed services contribution to the NATO operation in Kosovo. This subject was chosen because DFID has been involved in several major humanitarian interventions and there are large risks associated with these types of activities. The audit found that DFID had made a major contribution to easing the humanitarian crisis arising from the problems in Kosovo but there were lessons for the future in the way DFID plans for emergencies and manages its relationships with key suppliers, including the ERT and air charter firms.

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32. See *Emergency Aid: The Kosovo Crisis*, National Audit Office, 26 May 2000 available from the Internet at: [http://www.nao.gov.uk/publications/nao\\_reports/9900495.pdf](http://www.nao.gov.uk/publications/nao_reports/9900495.pdf)



## **CHAPTER 6**

### **COUNTRY OPERATIONS**

Country operation issues draw on field visits by the DAC review team to Nepal in February 2001 (see Annex II) and to Mozambique in September 2001 (see Annex III).

#### **Country strategies and programming**

DFID prepares Country Strategy Papers for all partners receiving ODA or official aid, except those only benefiting from the Small Grants Programme managed by the local British embassy or high commission. As a result, more than 60 country strategies have now been published, even for countries where DFID's bilateral programme is comparatively modest in size. Regional strategies have also been published for Central America, the Baltic States, Central Asia and South Caucuses and the Pacific.

DFID's Country Strategy Papers set out how it aims to contribute to achieving the international development targets in a particular country and include objectives against which progress can be assessed. Each strategy normally includes six sections: i) the challenge; ii) partnerships; iii) current United Kingdom development portfolio; iv) future United Kingdom development strategy; v) implementing the new development strategy; and vi) programme resources.

Where possible, DFID's country strategies are linked to wider partner-led processes, such as the Comprehensive Development Framework and PRSPs. While country strategies are designed in consultation with partner governments, the United Kingdom does not attach as much importance as some other donors to ensuring a high degree of ownership is held by the partner government. Similarly, when compared to some other donors, the United Kingdom does not closely engage with other donors with a view to reinforcing shared messages. DFID's strategy preparation processes could consequently be used more to build consensus on objectives and priorities with partner governments and as a means to increase the United Kingdom's influence on and engagement with others.

With DFID's high level of managerial responsibility devolved to the field, the degree to which DFID's various strategies, targets and objectives are intended to influence or modify country programme activities remains unclear. DFID staff abroad may be involved in the development of strategies based on their experiences in the field, but this can be one input among a large number and the resulting strategy may be of only minor use or application in a particular country context. In Nepal, according to internal DFID documentation<sup>33</sup>, the DFID office has found it difficult to link relatively low-level activities at the country level to DFID's high-level strategic objectives. As a result, it has been developing "change models" which set out the DFID Nepal office's understanding of the processes required to move towards effective pro-poor development in Nepal. This should enable DFID to assess

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33 . See: *DFID Nepal – Annual Plan and Performance Review, 2000*.

more rigorously how its investments contribute to these processes. DFID's social development advisors in Africa met recently to discuss how to translate policy guidance into operations in their specific contexts where PRSPs, sector-wide approaches and basket funding arrangements are common. A review of 13 DFID Country Strategy Papers conducted in 1999 also found a general problem of "the missing middle" i.e. a lack of clarification of what the intended linkages were between overall goals and DFID-supported activities<sup>34</sup>.

DFID's Country Strategy Papers provide a strategic framework within which programmes are developed. To provide guidance on an annual basis, Annual Plan and Performance Reviews have been prepared for some of DFID's bilateral country programmes since 2000, and, by serving this purpose, are an important complement to the Country Strategy Paper. These annual plans are more up-to-date, frank and informative than the country strategies and form the basis for internal resource allocation decisions. Nonetheless, the plans are not published or necessarily shared with partner governments, although they may be discussed in draft form with major stakeholders in country. Another factor that can limit the operational relevance of country strategies is that most predate the preparation of DFID's various target and other strategy papers which have been designed to provide input when preparing country strategies. This issue will resolve itself in time and the "second generation" of published Country Strategy Papers takes account of recent policy developments within DFID.

The DFID Mozambique office is now starting the process of preparing a new Country Strategy Paper for the period 2002-05. It is assessing what has changed within Mozambique since the Country Strategy Paper was published for the first time in 1998, most notably the adoption of a national poverty reduction strategy, and taking account of policy developments within DFID and the wider development agenda. The DAC review team that visited Mozambique in early September 2001 identified a number of challenges that will need to be addressed by the country office in Mozambique (see Box 5).

### **Sector programmes and budget support**

The United Kingdom believes that too much development assistance has been used to fund isolated, donor-led projects rather than helping partner governments to implement long-term poverty reduction programmes. The view of the United Kingdom is also that reducing support for stand-alone projects and increasing support for sector-wide reforms will improve the effectiveness of development assistance. When a partner has good policies in place, donors should move more towards providing direct budget support, backed up by targeted and strategic technical assistance. The United Kingdom now provides substantial amounts of ODA as direct budget support (see Box 6). Direct budget support may be provided to a partner government's general budget or for a designated sector. Where a partner government has good policies but its financial management systems need further strengthening, donor funds may be pooled but managed separately from the partner's own funds. Donors should also help partner governments strengthen their planning, financial management and procurement systems so as to be able to provide the necessary assurances to donors, and to donors' Parliaments and publics. This is a useful complement to other efforts to increase the understanding by Parliament, the media and the public of the aims, instruments and risks associated with delivering an ambitious, high-impact aid programme.

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34 . Other issues identified in this review included wide variation in the extent of poverty analysis, less than half reporting progress towards the international development targets and few paying attention to assessing the effectiveness of DFID's influencing activities or donor co-ordination. See David Booth and Howard White, *How Can Country Strategies be a more Effective Tool for Poverty Reduction? Issues from a Review of the "New" CSPs.*

### **Box 5. Mozambique: Challenges for the new Country Strategy Paper**

- **Strategic selectivity:** Against the background of the high number of projects and programmes currently under implementation, it is important to ensure that the new Country Strategy Paper focuses selectively on a few PRSP strategic areas that i) strengthen the government's policies aimed at ensuring that pro-poor growth is pursued through sound fiscal, monetary and structural policies and ii) are complementary to other donors' efforts. It will also be important to determine the extent to which, and in what way, the United Kingdom continues a specific engagement with the province of Zambezia. There is a strong case for maintaining such region-specific engagement in order to ground dialogue and co-operation with central agencies at the macroeconomic and sector levels.
- **Exit strategy and sustainability:** An appropriate "exit strategy" should be defined as quickly as possible together with the government and other donors for some of the most strategic ongoing projects (e.g. Customs Reform; Feeder Roads in Zambezia; etc.). Such a strategy should ensure the sustainability of the important results achieved and the linkage with relevant policies and reforms in the judiciary and police, as well as road rehabilitation areas.
- **Meeting DFID's fiduciary requirements:** Against the background of acknowledged weakness in budgetary planning management and reporting, there is a need to define specifically the "Mozambique fiduciary country risk" for budgetary and sector support arrangements. This assessment has to balance DFID's common standard of effectiveness and accountability and the potential developmental benefits. While it is difficult to quantify levels of risk, and even more difficult to make objective assessments of risk acceptability, a more explicit process of risk assessment would provide a higher degree of security for both of the governments concerned. A decision could also be necessary on a higher level of fiduciary risk by analysing whether i) the expected developmental benefits justify the additional risk; ii) temporary safeguards can be put in place to address critical weaknesses that have been identified; and iii) the government has sufficient commitment to bring standards of public financial management and accountability to a reasonable and acceptable level. All this will require regular risk assessment and monitoring on the basis of explicit parameters.
- **Long-term commitments:** As programme aid is becoming increasingly important in DFID's programme in Mozambique, financial commitments will have to become more predictable and multi-annual (a three-to-four year cycle would seem reasonable). While such a move is consistent with the need to ensure greater predictability of donor flows, it should be designed in a way to avoid creating a sense of entitlement and endanger the primacy of aid effectiveness. Moreover, it could undermine mobilisation of domestic resources. Such potential difficulties and challenges need to be analysed in the new Country Strategy Paper.
- **Macroeconomic support:** The recent banking crisis and lessons learnt from it illustrate the kind of macroeconomic challenges that both HIPC countries and donors face in the context of PRSP and macroeconomic support. Donors that provide budget support are interested in the efficiency of the entire state budget, since their assistance is highly fungible and provided on a basis of confidence. Future DFID involvement in the strategic area of fiscal policy and management, as well as the possible future support to the creation of an independent Revenue Authority, could be helpful in addressing the fiscal challenge in a systemic and sustainable way.

*"continued"*

- **Sector-wide approaches:** Mozambique's and other countries' experience shows that context-aware, carefully designed, well consulted and incremental sector approaches and schemes seem to stand better chances of success than over-ambitious and top-down schemes. With its open and pragmatic approach, DFID Mozambique seems to be well positioned to constructively influence, under the leadership of the government and together with other local partners, the design of evolutionary and flexible sector-wide approaches that are well aligned with the government-led PRSP. There appears to be scope for greater sharing of experience and approaches between the various sector-specific donor/government groups working to develop or implement sector-wide approaches, particularly as regards procedural harmonisation, and the United Kingdom is well placed to take a lead in this regard.
- **Technical assistance:** There is scope in the new Country Strategy Paper to introduce a more relevant and effective form of technical assistance that responds to real needs, is under the responsibility of the government, is untied and has recruitment procedures that are rational, transparent, accountable and compatible with civil service structures. In particular, pooling of funds could be beneficial to the host public sector when it is integrated as possible into its functioning and, in the long run, it is suitable for absorption into mainstream settings. Special and targeted technical assistance efforts in the social ministries - where planning and implementation capacity is weak and additional financial resources through PRSPs and sector-wide approaches must be accompanied by a more effective use of resources - could be a priority.
- **DFID country office:** The very specific country and institutional knowledge of DFID's (expatriate) staff needs to be further enhanced as the programme expands over the coming years. There is room for increased use of experienced local staff, bearing in mind the need to avoid "poaching" government capacity.
- **Donor co-ordination:** DFID Mozambique is very actively involved in many relevant donor co-ordination efforts and mechanisms. Selected co-financing arrangements with other donor agencies could be a meaningful option for lowering transaction costs related to the supervision and monitoring of operational activities.
- **Non-bilateral assistance:** The activities of the DFID office in Maputo could be further strengthened in this area, in particular with regard to the monitoring and evaluation of centrally-funded United Kingdom NGOs, as well as co-operation with selected and effective organisations in the UN system.

#### **Box 6. Recent examples of direct budget support from the United Kingdom**

- **Bangladesh Health and Population Sector Programme:** GBP 25 million over five years. Three other bilateral donors participate. Pooled funds cofinance an agreed Programme Implementation Plan which supports an evolving sector-wide approach.
- **Ghana Programme Aid:** GBP 40 million over 2 years. Linked to Ghana's Poverty Reduction and Growth Facility with the IMF. DFID's funds are disbursed into Ghana's Consolidated Fund as reimbursement against teachers' salaries.
- **Malawi Programme Aid:** GBP 75 million over 3 years. Three other bilateral donors participate. Decisions on disbursements are based on judgement by international financial institutions of progress in implementing economic reforms and the absence of concerns about corruption. DFID's funds are linked to the reimbursement of multilateral debt repayments.
- **Mozambique Programme Aid:** GBP 40 million over 3 years. Six other bilateral donors participate. Donors monitor budget execution through quarterly budget execution reports. DFID's funds provided against spending on the central civil service payroll.
- **Rwanda Budget Support:** GBP 42 million over 3 years. Linked to Rwanda's Poverty Reduction and Growth Facility with the IMF. Provided as reimbursements against salaries and allowances for teachers and civil servants.
- **Rwanda Education Sector Support:** GBP 21 million over 3 years. Linked to the development of a sector-wide approach for the education sector.
- **Tanzania Budget Support:** GBP 135 million over 3 years. Seven other donors participate.
- **Uganda Budget Support:** GBP 60 million over 3 years. After the initial disbursement, further disbursements are dependent on progress made. Notional earmarking to specific programmes and disbursed against actual non-education pro-poor public expenditure.

A topical issue for DFID is the fiduciary requirement for “reasonable assurance” that its aid funds are “used for their intended purpose” when it provides direct budget support. The possible higher level of fiduciary risk associated with providing direct budget support can be justified by the anticipated greater development impact. Fiduciary risk has to be addressed in relation to the partner government’s spending. Donors consequently need to assess the likelihood that their aid funds will be used for their intended purpose. This should be based on: a) a thorough and independent assessment of the partner government’s public expenditure management, with a commitment from the partner government to address any serious weaknesses revealed; and b) the likelihood of achieving the desired outcomes, as measured by the partner government’s pro-poor policy commitments and progress towards achieving the international development targets. Donors should also monitor the partner government’s performance to ensure that expectations are being met and that funds already supplied have been used for their intended purposes.

Where DFID provides direct budget support for a designated sector, its funds are notionally earmarked to large and relatively easily verified categories of partner governments' expenditure, such as teachers' salaries, which DFID's disbursements are regarded to reimburse. The main argument to justify this practice is that it makes it easier for DFID to respond to domestic criticisms if problems of poor financial management, particularly corruption, emerge in countries to which DFID is providing direct budget support. However, this argument is increasingly untenable as a basis for a common donor approach as it would lead to competition between donors to nominate the few large and verifiable categories of partner governments' expenditure. Furthermore, the fungibility of funds means that earmarking is meaningless in practice.

DFID is currently reviewing its practice of earmarking funds. DFID, with the endorsement of the Treasury and the NAO, should step up its efforts to make Parliamentarians, the media and the public more aware of the greater poverty reduction impact which the United Kingdom expects to achieve through direct budget support, when the fiduciary risks have been assessed as acceptable and without disguising the fact that all development activities involve risks which need to be appropriately managed and assumed. DFID is already moving in this direction as it is promoting the use of outcomes in terms of the international development targets to measure the success of direct budget support.

The issue of how to deliver aid with a substantial poverty reduction impact when the pre-conditions for direct budget support are not yet in place is a challenge for the United Kingdom. DFID varies its approach and aid instruments in such contexts, as compared to programmes in countries with more propitious environments for development. For example, direct budget support is not provided and programmes may not be provided through government channels. In Kenya and Zimbabwe, DFID has developed both high and low-case scenarios. Due to prevailing governance concerns, activities are currently following the low-case scenarios. In Nepal, DFID is responding to this challenge in various ways:

- Opening a country office in Kathmandu with an advisor from each of DFID's seven main professional groups. As these staff do not have day-to-day project management responsibilities, they have been able to devote considerable time to engaging with and influencing others, to promote the objective of inclusive sector-wide programmes.
- Reorienting stand-alone projects to take on a more programmatic approach, by addressing broader and related issues through complementary activities and by feeding into and supporting reforms at a sub-sectoral level, on the incremental pathway towards the adoption of a sector-wide approach.
- Contributing to building capacity in key sectoral ministries and helping to improve the national government's financial management and accountability mechanisms.

## **Organisation, management and staffing issues**

### ***DFID's presence in the field***

A notable feature of DFID's organisational structure is that responsibility for managing bilateral development assistance programmes is devolved to country teams, most of whom are now located in offices in the field. In the 1970s, DFID opened "development divisions" with regional responsibilities mainly for project implementation in the Caribbean, East and Central Africa and South-East Asia. During the 1980s, these offices became involved with setting strategies as well. During the 1990s, using communications facilities becoming available through information technology, DFID transferred

additional responsibilities to its development divisions - such as preparing briefings, drafting speeches, responding to Parliamentary questions and preparing correspondence - which eliminated the need to maintain country desks at headquarters. During the 1990s, a development division was opened in South Africa as well as country offices in Bangladesh and India. (In other countries, DFID bases some staff at the local British embassy or high commission.)

Implementing DFID's influencing objective has led DFID to revise its representation in the field by decentralising its development divisions to individual country offices with staff stationed in the country to which they are assigned, rather than commuting frequently from a neighbouring country and relying on telephone calls, faxes and e-mails to communicate at other times. Since 1997, DFID has established several country offices with delegated financial authority, including in Tanzania and Uganda (which report to the Kenya office as a regional hub), Nepal (which reports to the Bangladesh office), Malawi and Mozambique (which report to the Zimbabwe office as a regional hub) and Nigeria (which reports to DFID headquarters). A number of state offices have also been established in India while the regional office in the Pacific is due to close in 2002. Other country offices may be opened in the near future.

With greater decentralisation, the role for the former development divisions is evolving. For the moment, their role as regards country offices is not clearly defined. For example, in Nepal, the Head of the DFID office reports to the Director for Asia and the Pacific in London via the Head of the DFID Bangladesh office. However, for most practical purposes, the Bangladesh office has few responsibilities and the Head of DFID Nepal works directly to the Director for Asia and the Pacific. DFID also promotes linkages between offices in each region, for example, to encourage the sharing of experiences and lessons learnt. At the same time, the span of control of DFID's geographic Directors in London has in effect expanded, as has their role in promoting complementary approaches across their programmes. To respond to these additional demands, the offices of DFID's geographic Directors in London have been reinforced by strengthening the Regional Policy Units which act as the offices of Regional Directors. A flattening of DFID's field structure would consequently appear possible and could be investigated.

A second issue regarding further decentralisation relates to the choice of staff to be stationed in each country office, particularly where DFID has comparatively small programmes. When the DFID office opened in Nepal in April 1999 there were 13 United Kingdom-based staff - a Head, a Deputy Head, seven advisors and four administrators - as well as 30 local administrative staff. Establishing a large office had a positive impact in the Nepalese context as it prompted the local donor community to reassess some practices that had been unquestioned for many years. However, in hindsight, this structure may not have been appropriate, a conclusion confirmed by the Head of DFID Nepal asking for a review of the office's management and staffing structure after only seven months of operations. As DFID moves to a larger number of country offices, a model for stationing a more limited number of advisors needs to be found based on an analysis of sectoral expertise already available in the country. For example, DFID advisors in the field might cover more than one specialist area or they might also be available to operate in surrounding countries. Alternatively DFID might hire more advisors locally or rely on other donors' in-country expertise.

### ***Employment of locally recruited staff***

DFID offices in developing countries recruit directly a large number of staff including some professionals who are required to meet the same standards as professionals recruited in the United Kingdom. DFID has adopted a thoughtful and strategic approach to its locally employed staff. DFID's policy on "staff appointed in country" stresses the importance of locally employed staff being given

opportunities to progress within the department and potentially play a more substantial role in the management of DFID. As well as training programmes, DFID's career development opportunities for locally employed staff include being able to be posted to a DFID office in another country or to headquarters.

Developing countries do not have large pools of qualified people available to undertake the type of work DFID requires and these people could be valuable assets within partner governments' own administrations. While DFID should continue to offer challenging and rewarding employment opportunities for people from developing countries, potentially helping to build skills and capacities, care needs to be taken to ensure that this is not inadvertently contributing to partner countries' administrations having difficulties recruiting the people they need to support development within their own country.

### ***Field presence of other United Kingdom aid-related organisations***

In most developing and transition countries, the local British embassy or high commission manages a Small Grants Scheme financed by DFID which funds development projects consistent with DFID's strategic objectives. Aside from the increasing number of DFID offices now to be found in developing countries, offices may also be maintained in the field by some of the other channels of the United Kingdom's ODA - CDC Capital Partners, the British Council and VSO. As with other donors, the United Kingdom should ensure that its various ODA channels in the field complement each other and operate coherently, and do not contribute needlessly to increasing the number of development actors present in developing countries.

### **Aid co-ordination and working with other donors**

As part of DFID's influencing and engagement agenda, the United Kingdom is placing greater emphasis on working with other donors, including at the field level. DFID's strong presence in the field enables the United Kingdom to take a leading and often pro-active role within the local donor community. The United Kingdom participates actively in aid co-ordination *fora* such as consultative group meetings, specialised sector groups, including as lead donor or chair, and joint evaluations or reviews.

The field visit to Nepal demonstrated the impact that DFID has been able to have by stationing a substantial number of experienced and committed development professionals in the field. DFID has played a catalytic role within the local donor community by chairing sectoral groups on governance and forestry, by playing a leading role in co-ordinating actions such as joint reviews on health and decentralisation, by providing, along with other donors, support to the Nepalese in the preparation of their PRSP and by arranging seminars in Nepal by international development experts.

The Utstein Group's objectives include strengthening donor co-ordination in the field. Initiatives in this direction were foreshadowed in Tanzania, following a visit to that country by the four Utstein ministers in 2000. In Nepal, DFID intends to strengthen policy and sector-wide working during 2001, based on the Utstein approach.

Since the 1992 Treaty on European Union, the Council of Ministers has adopted several resolutions stressing the importance of effective co-ordination of development assistance efforts by EU Member States and the EC so as to reinforce their coherence and complementarity. The field visit to Nepal found that strengthening or promoting co-ordination at the EU level - either between individual

Member States and the EC or among the 15 Member States and the EC - was not a priority for DFID at that time due to the size of the EC's programme in Nepal<sup>35</sup> and the absence of a delegated EC office. DFID advises, however, that the situation in Nepal is an isolated case and that co-ordination mechanisms between DFID and the EC, and among EU Member States, are functioning well in other developing countries and DFID participates in these processes fully and actively. This was a finding from the field visit to Mozambique.

A lingering issue for the United Kingdom following the creation of DFID relates to representation in donor co-ordination meetings and *fora* which address issues related to development and developing countries. For example, when the heads of EU Member States' diplomatic missions meet monthly, some Member States are represented by people from their aid agency, while other Member States including the United Kingdom are represented by their ambassador. Such situations can work effectively where the local British head of mission is knowledgeable and experienced in development co-operation issues and works in close association with the head of the local DFID office.

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35. Net ODA disbursements by the EC to Nepal totalled USD 8 million in 1997, USD 4 million in 1998 and USD 10 million in 1999.

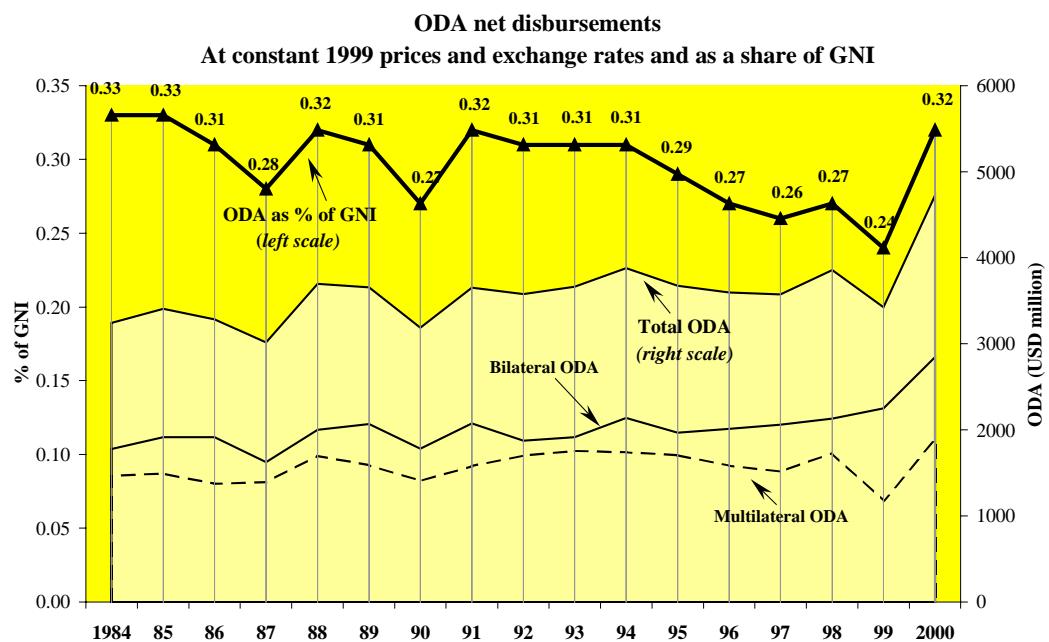


**ANNEX I**  
**STATISTICS OF AID AND OTHER FLOWS**

**Table I-1. Total financial flows**  
USD million at current prices and exchange rates

United Kingdom	Net disbursements						
	1984-85	1989-90	1996	1997	1998	1999	2000
<b>Total official flows</b>	<b>1 907</b>	<b>3 286</b>	<b>3 642</b>	<b>3 656</b>	<b>4 243</b>	<b>3 810</b>	<b>4 872</b>
Official development assistance	1 480	2 612	3 199	3 433	3 864	3 426	4 501
Bilateral	822	1 468	1 790	1 979	2 132	2 249	2 710
Multilateral	658	1 144	1 409	1 454	1 732	1 178	1 792
Official aid	n.a.	129	362	337	435	407	439
Bilateral		86	134	140	121	98	88
Multilateral		44	228	197	313	309	350
Other official flows	427	544	81	- 114	- 55	- 24	- 67
Bilateral	427	544	81	- 114	- 55	- 24	- 67
Multilateral	-	-	-	-	-	-	-
<b>Grants by NGOs</b>	<b>154</b>	<b>295</b>	<b>395</b>	<b>336</b>	<b>413</b>	<b>485</b>	<b>543</b>
<b>Private flows at market terms</b>	<b>1 586</b>	<b>4 547</b>	<b>23 657</b>	<b>28 485</b>	<b>10 766</b>	<b>11 093</b>	<b>1 940</b>
Bilateral: <i>of which</i>	1 586	4 547	23 657	28 485	10 766	11 093	1 940
Direct investment	2 101	4 233	7 751	12 685	12 700	16 007	-1 211
Export credits	262	1 906	286	-	390	62	-1 135
Multilateral	-	-	-	-	-	-	-
<b>Total flows</b>	<b>3 647</b>	<b>8 127</b>	<b>27 694</b>	<b>32 476</b>	<b>15 423</b>	<b>15 388</b>	<b>7 355</b>
<i>for reference:</i>							
ODA (at constant 1999 \$ million)	3 325	3 424	3 596	3 573	3 859	3 426	4 724
ODA (as a % of GNI)	0.33	0.31	0.28	0.32	0.31	0.27	0.32
Total flows (as a % of GNI) (a)	0.82	0.89	1.93	1.50	0.86	1.05	0.50

a. To countries eligible for ODA.



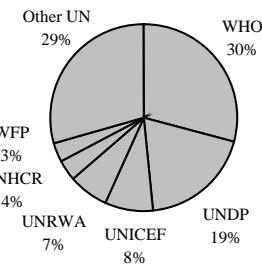
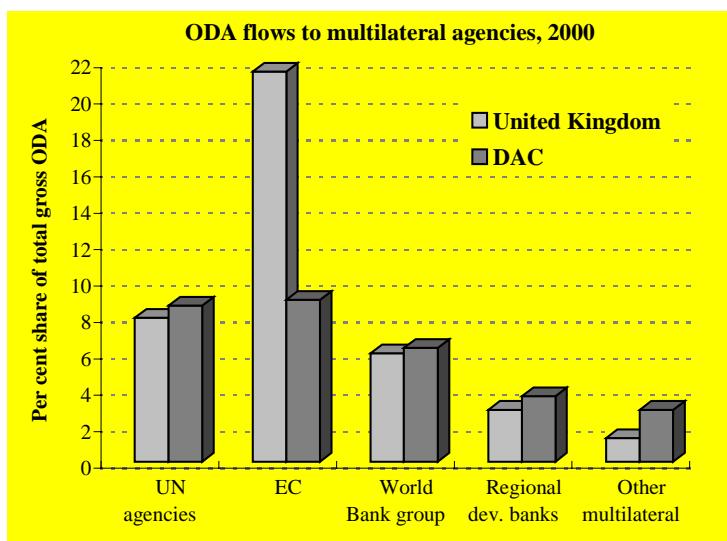
Source: OECD.

Table I-2. ODA by main categories

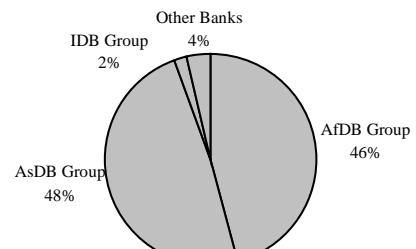
United Kingdom	Constant 1999 USD million					Disbursements					Total DAC 2000%
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000	
	2 136	2 142	2 486	2 256	2 895	57	58	59	66	61	70
<b>Gross Bilateral ODA</b>											
<i>Grants</i>	<b>2 004</b>	<b>2 005</b>	<b>2 325</b>	<b>2 067</b>	<b>2 690</b>	<b>54</b>	<b>55</b>	<b>55</b>	<b>60</b>	<b>56</b>	<b>55</b>
Project and programme aid	432	281	428	428	770	12	8	10	12	16	13
Technical co-operation	955	930	726	667	719	26	25	17	19	15	21
Developmental food aid	-	-	-	-	-	-	-	-	-	-	2
Emergency and distress relief	219	171	187	223	361	6	5	4	7	8	6
Action relating to debt	91	307	422	113	163	2	8	10	3	3	4
Administrative costs	147	153	226	243	238	4	4	5	7	5	5
Other grants	161	162	338	392	438	4	4	8	11	9	4
<i>Non-grant bilateral ODA</i>	<b>132</b>	<b>137</b>	<b>160</b>	<b>189</b>	<b>205</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>6</b>	<b>4</b>	<b>15</b>
New development lending	9	3	39	-	32	0	0	1	-	1	14
Debt rescheduling	-	-	-	-	-	-	-	-	-	-	0
Acquisition of equity and other	124	135	121	189	173	3	4	3	6	4	1
<b>Gross Multilateral ODA</b>	<b>1 587</b>	<b>1 521</b>	<b>1 737</b>	<b>1 178</b>	<b>1 882</b>	<b>43</b>	<b>42</b>	<b>41</b>	<b>34</b>	<b>39</b>	<b>30</b>
UN agencies	236	219	283	242	377	6	6	7	7	8	9
EC	795	747	842	819	1 023	21	20	20	24	21	9
World Bank group	375	328	441	3	284	10	9	10	0	6	6
Regional development banks (a)	65	115	87	34	136	2	3	2	1	3	4
Other multilateral	116	112	84	79	61	3	3	2	2	1	3
<b>Total gross ODA</b>	<b>3 723</b>	<b>3 663</b>	<b>4 223</b>	<b>3 434</b>	<b>4 777</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Repayments and debt cancellation</b>	<b>- 127</b>	<b>- 90</b>	<b>- 364</b>	<b>- 8</b>	<b>- 53</b>						
<b>Total net ODA</b>	<b>3 596</b>	<b>3 573</b>	<b>3 859</b>	<b>3 426</b>	<b>4 724</b>						
<i>For reference:</i>											
<i>ODA to and channelled through NGOs</i>	84	91	132	144	230						
<i>Associated financing (b)</i>	73	68	65	56	44						

a Excluding EBRD.

b. ODA grants and loans in associated financing packages.



Contributions to Regional Development Banks (1999-2000 Average)

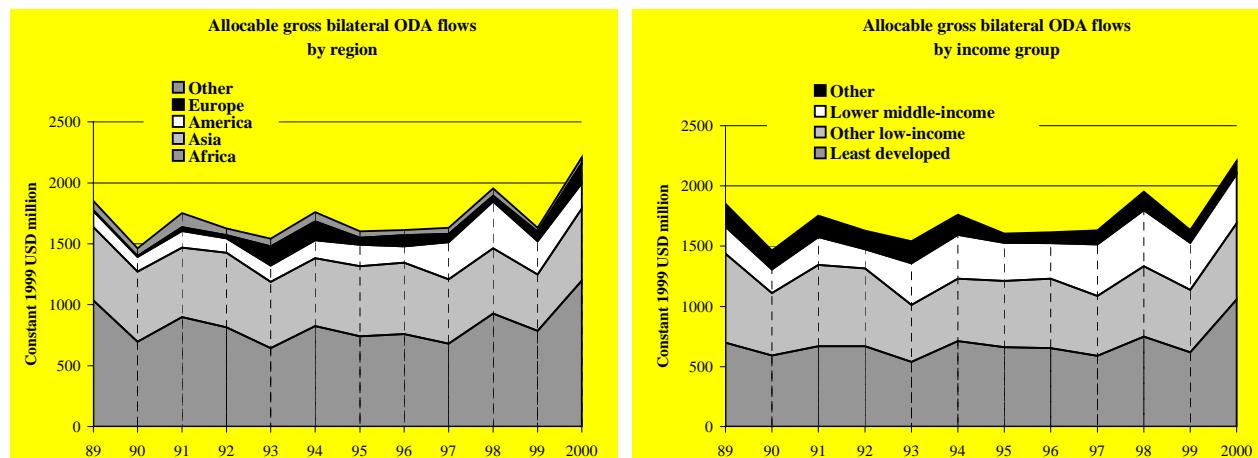


Source: OECD.

**Table I-3. Bilateral ODA allocable by region and income group**

United Kingdom	Constant 1999 USD million					Gross disbursements				
	Constant 1999 USD million					Per cent share				
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000
<b>Africa</b>	759	680	926	786	1 198	47	42	47	48	54
Sub-Saharan Africa	747	669	907	780	1 193	46	41	46	48	54
North Africa	12	11	19	6	5	1	1	1	0	0
<b>Asia</b>	587	528	539	463	592	36	32	28	28	27
South and Central Asia	428	378	411	335	410	27	23	21	21	19
Far East	159	150	128	127	182	10	9	7	8	8
<b>America</b>	133	306	384	275	207	8	19	20	17	9
North and Central America	80	98	249	175	118	5	6	13	11	5
South America	53	207	135	100	88	3	13	7	6	4
<b>Middle East</b>	40	47	59	32	47	2	3	3	2	2
<b>Oceania (a)</b>	-	-	-	-	-	-	-	-	-	2
<b>Europe</b>	94	69	46	77	165	6	4	2	5	7
<b>Total bilateral allocable</b>	<b>1 613</b>	<b>1 631</b>	<b>1 954</b>	<b>1 633</b>	<b>2 209</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Least developed</b>	652	587	750	616	1 058	40	36	38	38	48
<b>Other low-income</b>	578	500	583	522	633	36	31	30	32	29
<b>Lower middle-income</b>	294	427	465	391	407	18	26	24	24	18
<b>Upper middle-income</b>	84	114	154	102	110	5	7	8	6	5
<b>High-income</b>	2	2	1	-1	0	0	0	0	0	0
<b>More advanced developing countries</b>	2	2	2	3	-	0	0	0	0	-
<i>For reference:</i>										
<i>Total bilateral</i>	2 136	2 142	2 486	2 256	2 895	100	100	100	100	100
<i>of which: Unallocated</i>	523	511	531	623	687	24	24	21	28	24

(a) No geographical distribution available for Oceania. Between 1996 and 2000, gross ODA disbursements from the United Kingdom to Oceania ranged between USD 7 million and USD 22 million per year.



Source: OECD.

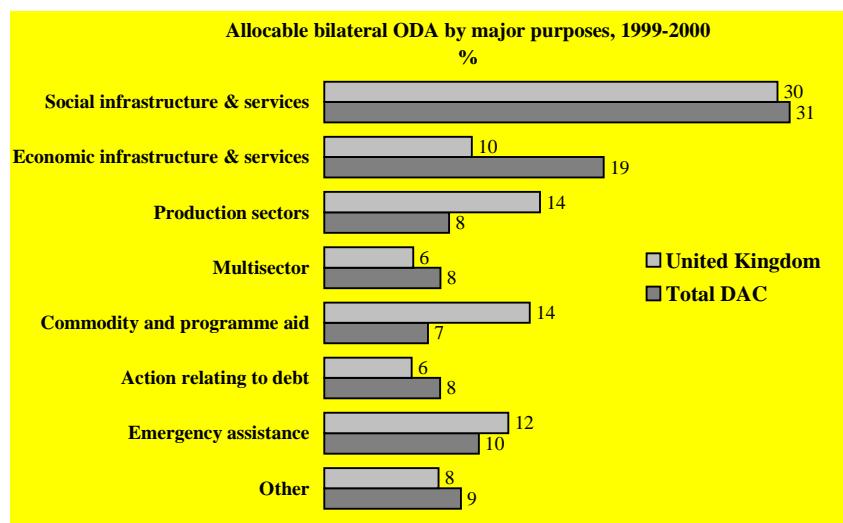
**Table I-4. Main recipients of bilateral ODA**

United Kingdom			1989-90			1994-95			1999-2000			<i>Gross disbursements, two-year averages</i>			
	Current USD million	Constant 1999 USD mn.	Per cent share		Current USD million	Constant 1999 USD mn.	Per cent share		Current USD million	Constant 1999 USD mn.	Per cent share		Current USD million	Constant 1999 USD mn.	Per cent share
India	138	180	11	India	151	177	11	India	174	179	9				
Bangladesh	93	121	7	Zambia	79	94	6	Uganda	157	162	8				
Kenya	77	102	6	Bangladesh	72	85	5	Tanzania	121	124	6				
Nigeria	64	88	5	Sts Ex-Yugoslavia unsp.	68	81	5	Bangladesh	104	107	6				
Malawi	56	74	4	Uganda	60	70	4	Zambia	93	96	5				
<b>Top 5 recipients</b>	<b>428</b>	<b>565</b>	<b>34</b>	<b>Top 5 recipients</b>	<b>430</b>	<b>508</b>	<b>30</b>	<b>Top 5 recipients</b>	<b>648</b>	<b>668</b>	<b>35</b>				
Pakistan	55	71	4	Malawi	55	65	4	Malawi	87	89	5				
Ghana	53	72	4	Indonesia	48	57	3	Ghana	86	88	5				
Tanzania	46	62	4	Pakistan	48	57	3	China	71	73	4				
Sudan	45	59	4	China	47	56	3	Mozambique	66	68	4				
Mozambique	41	53	3	Zimbabwe	44	52	3	Kenya	63	65	3				
<b>Top 10 recipients</b>	<b>668</b>	<b>883</b>	<b>53</b>	<b>Top 10 recipients</b>	<b>673</b>	<b>794</b>	<b>47</b>	<b>Top 10 recipients</b>	<b>1 022</b>	<b>1 052</b>	<b>55</b>				
Uganda	38	51	3	Kenya	44	52	3	Sts Ex-Yugoslavia unsp.	63	65	3				
Zambia	37	48	3	Ethiopia	43	51	3	South Africa	56	57	3				
St. Helena	35	47	3	Rwanda	40	47	3	Sierra Leone	43	44	2				
China	30	39	2	Mozambique	39	46	3	Indonesia	42	43	2				
Sri Lanka	29	38	2	Tanzania	37	44	3	Rwanda	40	41	2				
<b>Top 15 recipients</b>	<b>837</b>	<b>1 106</b>	<b>66</b>	<b>Top 15 recipients</b>	<b>876</b>	<b>1 034</b>	<b>62</b>	<b>Top 15 recipients</b>	<b>1 265</b>	<b>1 303</b>	<b>68</b>				
Ethiopia	28	36	2	Bolivia	30	44	2	Montserrat	36	36	2				
Nepal	27	36	2	Ghana	29	34	2	Pakistan	32	32	2				
Malaysia	25	31	2	Nepal	25	35	2	Bolivia	30	30	2				
Zimbabwe	24	32	2	South Africa	24	29	2	Zimbabwe	26	27	1				
Indonesia	22	29	2	Angola	23	28	2	Guyana	26	27	1				
<b>Top 20 recipients</b>	<b>963</b>	<b>1 269</b>	<b>76</b>	<b>Top 20 recipients</b>	<b>1 007</b>	<b>1 205</b>	<b>71</b>	<b>Top 20 recipients</b>	<b>1 414</b>	<b>1 455</b>	<b>76</b>				
<b>Total (132 recipients)</b>	<b>1 260</b>	<b>1 658</b>	<b>100</b>	<b>Total (148 recipients)</b>	<b>1 424</b>	<b>1 682</b>	<b>100</b>	<b>Total (131 recipients)</b>	<b>1 869</b>	<b>1 921</b>	<b>100</b>				
Unallocated	354	458		Unallocated	431	509		Unallocated	638	655					
<b>Total bilateral gross</b>	<b>1 614</b>	<b>2 116</b>		<b>Total bilateral gross</b>	<b>1 855</b>	<b>2 191</b>		<b>Total bilateral gross</b>	<b>2 507</b>	<b>2 576</b>					

Source : OECD.

**Table I-5. Bilateral ODA by major purposes**  
at current prices and exchange rates

United Kingdom	Disbursements, two-year averages					
	1989-90		1994-95		1999-2000	
	USD million	Per cent	USD million	Per cent	USD million	Per cent
<b>Social infrastructure &amp; services</b>	<b>470</b>	<b>28</b>	<b>475</b>	<b>30</b>	<b>699</b>	<b>30</b>
Education	224	13	174	11	194	8
of which: basic education	-	-	-	-	69	3
Health	69	4	87	5	179	8
of which: basic health	-	-	-	-	92	4
Population programmes	1	0	29	2	80	3
Water supply & sanitation	63	4	41	3	50	2
Government & civil society	55	3	98	6	100	4
Other social infrastructure & services	58	3	46	3	95	4
<b>Economic infrastructure &amp; services</b>	<b>430</b>	<b>26</b>	<b>244</b>	<b>15</b>	<b>227</b>	<b>10</b>
Transport & storage	155	9	63	4	76	3
Communications	40	2	9	1	11	0
Energy	217	13	125	8	92	4
Banking & financial services	2	0	15	1	41	2
Business & other services	16	1	33	2	7	0
<b>Production sectors</b>	<b>302</b>	<b>18</b>	<b>232</b>	<b>15</b>	<b>332</b>	<b>14</b>
Agriculture, forestry & fishing	199	12	161	10	193	8
Industry, mining & construction	98	6	57	4	131	6
Trade & tourism	4	0	14	1	8	0
Other	0	0	-	-	0	0
<b>Multisector</b>	<b>-</b>	<b>-</b>	<b>31</b>	<b>2</b>	<b>137</b>	<b>6</b>
<b>Commodity and programme aid</b>	<b>255</b>	<b>15</b>	<b>217</b>	<b>14</b>	<b>317</b>	<b>14</b>
Action relating to debt	67	4	38	2	134	6
Emergency assistance	35	2	249	16	284	12
Administrative costs of donors	89	5	106	7	175	8
Core support to NGOs	31	2	3	0	1	0
<b>Total bilateral allocable</b>	<b>1 678</b>	<b>100</b>	<b>1 596</b>	<b>100</b>	<b>2 306</b>	<b>100</b>
<i>For reference:</i>						
Total bilateral	1 849	62	1 716	54	2 504	63
of which: Unallocated	171	6	120	4	197	5
Total multilateral	1 145	38	1 464	46	1 485	37
<b>Total ODA</b>	<b>2 994</b>	<b>100</b>	<b>3 181</b>	<b>100</b>	<b>3 989</b>	<b>100</b>



Source: OECD.

**Table I-6. Comparative aid performance**

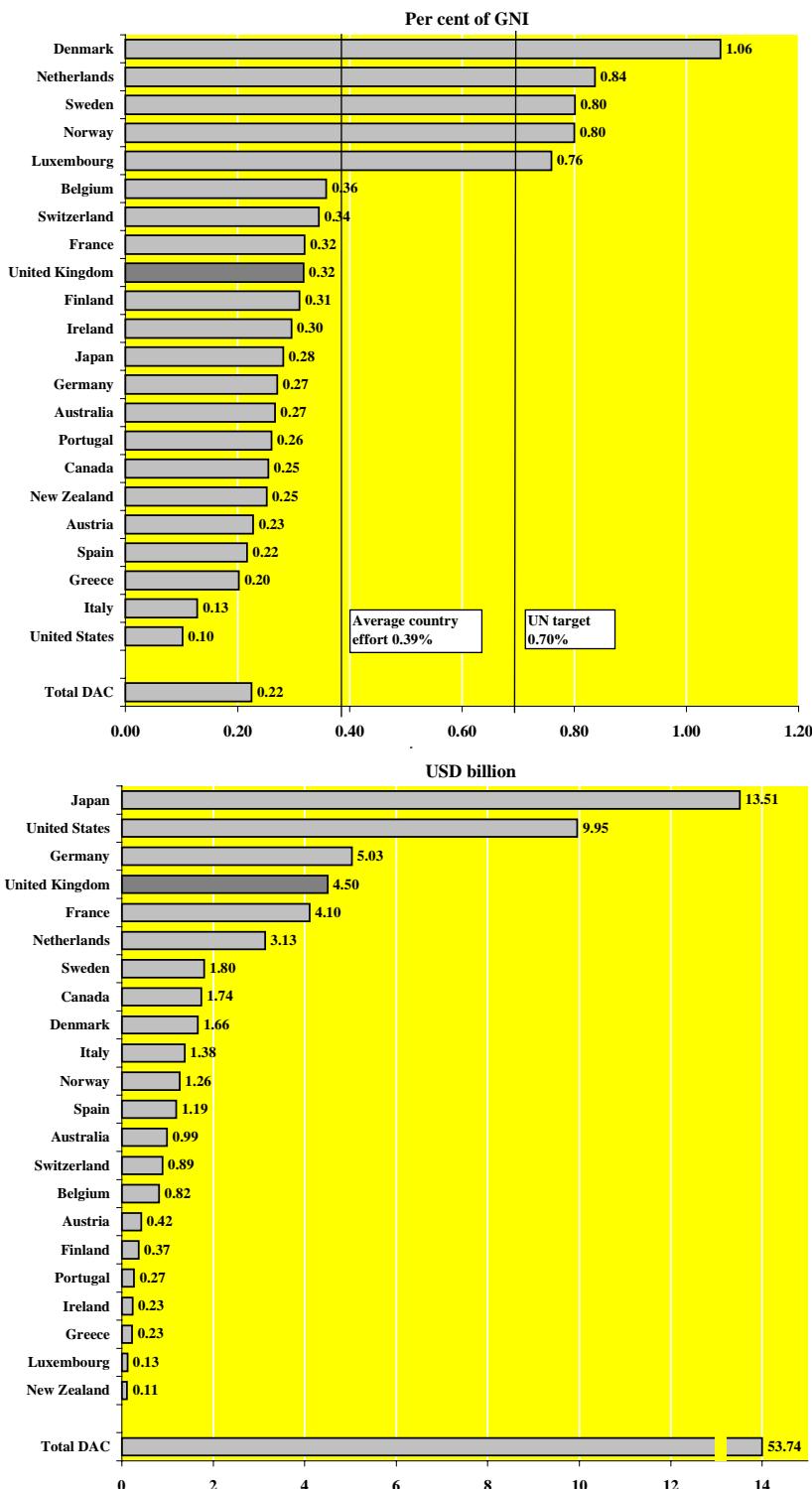
	Net disbursements											
	Official development assistance			Grant element of ODA (commitments) 2000	Share of multilateral aid				ODA to LLDCs Bilateral and through multilateral agencies 2000		Official aid	
	2000		94-95 to 99-00 Ave. annual % change in real terms		% of ODA (a)	2000 % of ODA (b)	2000 % of GNI (c)	% of ODA (b)	% of GNI (c)	2000 % of ODA	2000 % of GNI	
	USD million	% of GNI								USD million	% of GNI	
Australia	987	0.27	-0.7	100.0	23.2	0.06	0.06	21.1	0.06	8	0.00	
Austria	423	0.23	-4.1	96.1	39.3	18.8	0.09	0.04	23.2	0.05	187	0.10
Belgium	820	0.36	2.0	99.4	41.8	18.5	0.15	0.07	25.0	0.09	74	0.03
Canada	1 744	0.25	-4.1	100.0	33.5	0.09	0.09	16.8	0.04	165	0.02	
Denmark	1 664	1.06	4.3	100.0	38.5	32.9	0.41	0.35	32.1	0.34	189	0.12
Finland	371	0.31	6.1	100.0	41.5	27.8	0.13	0.09	29.0	0.09	58	0.05
France	4 105	0.32	-7.3	96.6	31.1	11.8	0.10	0.04	24.0	0.08	1 657	0.13
Germany	5 030	0.27	-1.9	97.9	46.6	21.9	0.13	0.06	23.3	0.06	647	0.03
Greece	226	0.20	..	..	56.2	13.0	0.11	0.03	7.8	0.02	12	0.01
Ireland	235	0.30	13.2	100.0	34.1	14.2	0.10	0.04	47.7	0.14	-	-
Italy	1 376	0.13	-5.5	98.5	72.6	26.3	0.09	0.03	26.7	0.03	406	0.04
Japan	13 508	0.28	3.9	87.6	27.7	0.08	0.08	15.2	0.04	- 54	0.00	
Luxembourg	126	0.76	18.0	100.0	26.3	14.5	0.20	0.11	32.3	0.24	2	0.01
Netherlands	3 135	0.84	5.5	100.0	28.5	21.0	0.24	0.18	24.9	0.21	301	0.08
New Zealand	113	0.25	4.9	100.0	25.0	0.06	0.06	24.1	0.06	0	0.00	
Norway	1 264	0.80	2.1	99.8	26.1	0.21	0.21	33.2	0.27	27	0.02	
Portugal	271	0.26	0.9	99.1	34.0	12.0	0.09	0.03	43.2	0.11	27	0.03
Spain	1 195	0.22	1.5	92.2	39.7	10.2	0.09	0.02	11.5	0.02	12	0.00
Sweden	1 799	0.80	1.3	99.5	31.0	26.4	0.25	0.21	29.1	0.23	122	0.05
Switzerland	890	0.34	2.1	100.0	29.5	0.10	0.10	29.7	0.10	58	0.02	
<b>United Kingdom</b>	<b>4 501</b>	<b>0.32</b>	<b>1.5</b>	<b>100.0</b>	<b>39.8</b>	<b>18.1</b>	<b>0.13</b>	<b>0.06</b>	<b>30.9</b>	<b>0.10</b>	<b>439</b>	<b>0.03</b>
United States	9 955	0.10	0.2	100.0	25.6	0.03	0.03	19.5	0.02	2 506	0.03	
<b>Total DAC</b>	<b>53 737</b>	<b>0.22</b>	<b>0.4</b>	<b>96.0</b>	<b>32.9</b>	<b>23.7</b>	<b>0.07</b>	<b>0.05</b>	<b>22.0</b>	<b>0.05</b>	<b>6 844</b>	<b>0.03</b>
Memo: Average country effort	0.39											

Notes:

- a. Excluding debt reorganisation.
- b. Including European Community.
- c. Excluding European Community.
- .. Data not available.

Source: OECD.

**Figure I-1. Net ODA from DAC countries in 2000**



Source: OECD.

## **ANNEX II**

### **THE UNITED KINGDOM'S AID PROGRAMME IN NEPAL**

#### **Introduction**

As part of the DAC peer review of the United Kingdom's development co-operation policies and programmes, a team of representatives of the examiners (Australia and the European Community) and the OECD Secretariat visited Nepal from 26 February to 2 March 2001. Meetings took place with Nepalese officials at national and district levels, DFID staff, project managers, representatives of NGOs, members of DFID's "Peer Reference Group" (see below) and other donors. Visits were made to a selection of DFID-supported activities in the Eastern and Far-Western Regions.

The United Kingdom provided USD 27 million of net ODA to Nepal in 1998-99 (two-year average) and was the fourth largest donor after the Asian Development Bank (AsDB) (net ODA of USD 75 million), Japan (USD 61 million) and the World Bank (USD 43 million). Nepal was the 21st largest recipient of British ODA in 1998-99.

#### **Overview of the national context and main challenges for development**

Nepal is a land-locked country with a forbidding terrain, harsh climatic conditions and a culturally diverse population. Geographically, the country divides in three: i) the plains, with 47% of the population in 1991 (the time of the last population census) and fertile land that can support the production of a wide range of cash crops; ii) the hills, with 46% of the population comprising hills rising to 2 700 metres interspersed with large fertile valleys; and iii) the mountain region, with 7% of the population and where only about 2% of the land is suitable for cultivation. There are also three important divisions within Nepalese society: i) between hill/mountain and plains people; ii) between high caste Hindu and ethnic/tribal groups that have traditionally enjoyed a high degree of autonomy from the state; and iii) between high caste and low caste Hindu groups, including *dalits* (untouchables).

With a gross national product (GNP) *per capita* of USD 220 in 1999, Nepal is among the 15 poorest countries in the world in income poverty terms. About half Nepal's 23.4 million people live on less than USD 1 a day. Poverty is greater in rural areas, particularly in high-altitude and less accessible regions and among lower castes and ethnic minorities. Social indicators resemble the worst in sub-Saharan Africa. In 1998, life expectancy at birth was 57.6 years for women and 58.1 years for men. The maternal mortality rate was estimated at 540 per 100 000 live births. The infant mortality rate was 77 per 1 000 live births and the under-five mortality rate was 107 per 1 000 live births. The illiteracy rate was 77% for women and 42% for men. Nepal ranked 144 out 174 on the human development index of the United Nations Development Programme (UNDP).

Reducing poverty is a stated objective for the Nepalese government. The government's Ninth Plan (1998 to 2002) includes the ambitious target of reducing the proportion of people living below the

national poverty line from 42% in 1996 to 32% by 2002 and to 10% by 2017. To achieve this, a three-pronged approach has been adopted: i) foster an enabling environment that promotes growth, employment and income; ii) ensure effective delivery of basic goods and services to the poor, including education, health and safe drinking water; and iii) implement targeted programmes for the development of special areas, regions, communities and social groups. The Ninth Plan is complemented by the Agricultural Perspective Plan (1997 to 2017), which constitutes the main basis for increasing production, providing food security and increasing employment and income, and by the Local Self-governance Act, which aims to operationalise the goal of decentralisation.

The prospects for reducing poverty in Nepal appear mixed. On the one hand, the World Bank's Country Assistance Strategy (1999 to 2001) concludes that sustained income growth, especially among the rural poor, is possible due to such assets as: agricultural land able to support higher output; people, especially women, accustomed to hard work; access on preferential terms to the large and growing market in India; a massive hydropower export potential; and tourism. On the other hand, sustained growth will only be achieved if greater attention is paid to such challenges as:

- **Population growth:** At the current growth rate (2.5% annually), the population will double within 30 years, leading to a likely fall in *per capita* income and an increase in the number of poor people.
- **Political instability and Maoist insurgency:** A revolution in 1990 led to multi-party democratic elections in May 1991, the first for three decades. While democracy has progressed, instability has characterised national politics. This instability has tended to focus the attention of politicians on short-term manoeuvrings and led to increasing politicisation of the public sector. Since 1996, rebels have waged an increasingly sophisticated campaign against the ruling elite, mobilising support from the growing numbers of marginalised people by exploiting the government's inability to develop more socially inclusive policies and programmes. Initially confined to six districts, mainly in the west, insurgency activities have now been reported in 66 of Nepal's 75 districts. More than 1 600 people have been killed in more than 46 districts. Government officers, particularly the police, have pulled out of some parts of the country or withdrawn to district capitals. Some development activities have been adversely affected, compounding internal tensions as evidenced by the recent assassinations in the royal family.
- **Corruption:** Perceived to be widespread, corruption contributes to misallocation of government resources, delays in decision making and rapid turnover in the public sector. Revenue collection and public expenditure management are also generally seen to be weak.
- **Poor implementation:** The World Bank's analysis is that the Ninth Plan runs the same risks as past plans which have lacked a clear government commitment to their implementation and well defined implementation strategies. DFID's view is that a combination of policy reform, improved agricultural productivity and attention to gender and rural/urban inequalities is required if Nepal is to reach the international development targets. While policy statements to support such change have been adopted, experience has shown that progress is undermined by poor performance in implementation.

Nepal has received large and sustained inflows of foreign assistance. Total net ODA in 1998-99 amounted to USD 374 million, 8% of GNP or USD 16 per capita. The aid "industry" also has a long tradition in Nepal, with more than 100 international NGOs present and thousands of local NGOs registered with the Social Welfare Council and district governments across the country (one estimate puts the number of local NGOs at 15 000). The donor community acknowledges that aid to Nepal

should have produced more results, particularly among the most disadvantaged, and that results achieved have not always been sustainable. This recognition has led to changes in approach and greater efforts to improve the effectiveness of aid. For example, the Nepalese government is reconvening Consultative Group-type forums, preparing a PRSP which will facilitate aid co-ordination and engaging more regularly with donors at the sub-sectoral and sometimes sectoral levels. It is also producing a Foreign Aid Policy that redefines its relationship with donors, including international NGOs. For its part, DFID has established a full country office in Nepal with a managerial and administrative staff of 40, including seven United Kingdom-based advisors in various specialist areas whose main role is to engage with and influence others in order to promote inclusive sector-wide programmes. DFID has also shifted the basis of its programme from development administration to development management by placing greater emphasis on impact rather than inputs, on local solutions rather than external expert prescriptions, on recipient-led rather than donor-led approaches and on programmes rather than projects.

## **The United Kingdom's development co-operation in Nepal**

### *The strategic context*

The United Kingdom and Nepal have a long and close relationship due to Britain's former colonial links with most other countries in South Asia and because Nepalese serve in the British Army. The two countries established diplomatic relations in 1816. Britain, India, France and the United States were the only countries with which Nepal maintained foreign relations when it first established democracy in 1951. The total value of trade between Britain and Nepal is balanced and increasing, with Nepal exporting garments, carpets and handicrafts and importing machinery, electrical goods, medicines and goods made of gold and silver. There are eight Nepalese-British joint ventures operating.

A strong link between the two countries exists because of the "Gurkhas". In response to a series of boundary disputes and raids, the then (British) East India Company declared war on Nepal in 1814. As part of the peace agreement negotiated in 1815, Nepalese could volunteer to serve as soldiers with the British and have been doing so ever since. The number of "Gurkhas" in British regiments peaked at around 100 000 during the First World War and 112 000 during the Second World War. Today, 3 400 Gurkhas are serving in the British Army. British Gurkhas Nepal, an organisation of the British Army, is tasked with supporting serving Gurkhas and their dependants. An NGO, the Gurkha Welfare Trust, was established in Britain in 1969 to provide financial, medical and community aid to alleviate hardship and distress among Gurkha ex-servicemen and their dependants in Nepal. In recent years, there has been some controversy in Britain, rising to ministerial level, over the pension entitlements of Gurkha ex-servicemen and their widows and dependants.

A stepping up in the United Kingdom's relations with Nepal can be detected since the election of the Labour Party in 1997. In addition to a visit by the Secretary of State for International Development in 1998 and the establishment of the DFID country office the following year, the first-ever visit by a Secretary of State for Foreign and Commonwealth Affairs took place in 2000. This visit demonstrated Britain's desire to increase trade and investment and to expand personal contacts, as a complement to its development assistance, which should also increase. Nevertheless, due to Nepal's poor progress with implementing reforms and the low absorptive capacity of Nepalese government institutions and civil society, DFID has found it difficult to develop quality new pro-poor investments in the present circumstances and so has revised down its forward investment plans.

### ***Channels for the United Kingdom's development co-operation***

The United Kingdom has provided ODA to Nepal since the 1960s, particularly for road construction and maintenance and for forestry management. Traditionally, donors have concentrated their programmes geographically and, until recent years, the United Kingdom's activities concentrated mainly in the east of the country, one area from where Gurkhas have been recruited. While the east is not the poorest region in Nepal and Britain's activities previously tended to target poor communities rather than poor people, the forestry and transport sectors are two priority areas for poverty reduction in Nepal and poor people have benefited from these activities. For example, in the seven hill districts where the forestry project operated, the number of Forest User Groups has increased substantially leading to more sustainable forest management practices and livelihood benefits such as funds generated for micro-credit schemes and investments by local communities. Other long-standing aid activities include funding for volunteers, NGOs and small projects and tertiary scholarships for study in the United Kingdom.

Today, most of the United Kingdom's development co-operation channels operate in Nepal, with the exception of CDC Capital Partners. Aside from the DFID country programme, by far the largest single component, the other British aid channels in Nepal are:

- The **British Embassy** manages a Small Grants Scheme financed by DFID which funds small-scale development projects, particularly those focusing on improving human rights or protecting the environment.
- The stated purpose of the **British Council**, the United Kingdom's international organisation for educational and cultural relations, is to enhance the reputation of the United Kingdom as a valued partner. The Council receives a grant-in-aid from the FCO and earns income from a range of sources including managing development and training contracts.
- **Voluntary Service Overseas (VSO)**, an NGO which receives a large share of its funding from DFID, supports 74 volunteers, mostly in the education sector.
- Various other **NGOs** receive co-financing through funding windows managed by DFID headquarters (some also receive funding from the DFID country programme).

At a strategic level, coherence among these channels is pursued through various mechanisms which operate either in Nepal or the United Kingdom. To promote complementarity between the embassy's Small Grants Scheme and the DFID country programme, the DFID office in Nepal agree on the scheme's Review and Forward Plan, which sets out the objectives and focus for the scheme. The DFID Nepal office is consulted on the formulation of the objectives for the British Embassy and these in turn are used when the British Council agrees its annual forward objectives with the British Ambassador. VSO, along with several other large NGOs, recently completed negotiation of a Partnership Programme Agreement with DFID headquarter's Civil Society Department which sets out the overall framework for DFID's work with each organisation. At an operational level, these other channels can play a role in the implementation of the DFID country programme. For example, the British Council manages implementation of DFID's District Health Programme while VSO receives direct funding from the DFID country programme for work in secondary education. Nonetheless, the DAC review team did not gain first-hand experience of the activities of these other channels during its visit and so was not able to make an assessment of them.

### ***Policy focus of the DFID programme***

A wide range of policy documents guide DFID's activities in Nepal - the government's 1997 and 2000 White Papers on eliminating world poverty, specific strategies for achieving the international development targets, strategies and briefing notes on a wide range of topics and the triennial country strategy paper, the latest of which was published in 1998 (until recently, only a summary of country strategy papers was published).

The 1998 Nepal Country Strategy Paper ([http://www.dfid.gov.uk/public/what/pdf/nepal\\_csp.pdf](http://www.dfid.gov.uk/public/what/pdf/nepal_csp.pdf)) was prepared following a process of consultations in both the United Kingdom and Nepal. It identifies the main causes of poverty as access and physical constraints, human capacity, governance and patronage. The strategy acknowledges that even though the United Kingdom has been successful in implementing its portfolio, its impact at a strategic level has been limited. In particular, it has not succeeded in breaking the vicious cycle which exists between disempowered communities and the poor performance of government in delivering services and implementing key policies. To correct this and address the main causes of poverty, DFID will focus on i) better governance; ii) more co-ordinated approaches to human development; iii) strengthened approaches to rural livelihoods; iv) better physical access in remote areas; and v) building pressure for change through better awareness and more empowered communities. Nepalese authorities confirmed that DFID's strategy supports Nepal's own development objectives.

Since 2000, DFID has also prepared an internal Annual Plan and Performance Review which is more up-to-date, frank and informative than the country strategy and proposes course-correcting actions for the country programme. The plan is prepared following discussions with project managers and a local Peer Reference Group which includes representatives from the Nepalese government and opposition parties, civil society, the private sector and the donor community. The draft plan is discussed with representatives of other British institutions in Nepal.

### ***Main characteristics of the DFID country programme***

The DFID portfolio has gone through a period of transition following the release of the 1997 White Paper and the establishment of the DFID country office. An assessment has been made of the strategic fit of existing projects to determine whether they help, hinder or are neutral in terms of feeding into achieving higher-level objectives. As the DFID Nepal office has found difficulties with linking relatively low-level activities at the country level to high-level strategic objectives, "change models" have been developed which break down into their constituent parts the Country Strategy Paper objectives. Projects not in line with these objectives are being phased out. The portfolio has then been reviewed to determine the impact of continuing projects on the required transformational processes highlighted as necessary through the development of change models. New programmes and activities have also begun.

The current DFID portfolio (see Appendix 1) contains 23 activities in three strategic areas: i) improving governance, ii) improving human development through better health, better education and better water services and iii) improving opportunities for rural livelihoods. DFID expects all projects to achieve their purpose either partly or fully. For the most part, DFID's projects and programmes are delivered through Nepalese structures and in collaboration with other donors.

The **Enabling State Programme (ESP)** is an example of the new generation of DFID activities which adopt a long-term perspective and a process approach to addressing the underlying causes of poverty. The programme design was based on a consultative process with representatives of the government, the public service, civil society institutions and other actors. Although relatively long, this process has

increased the potential for Nepalese ownership of the programme, which is crucial for its success. The ESP aims to help influential Nepalese encourage key decision makers to want better governance and so achieve the pro-poor governance necessary for wide-spread poverty reduction. The programme is being implemented in two four-year stages, as part of a four-stage change model in governance. Stage one focuses on better practical understanding and consists of discrete activities, each with its own achievable results and some impact on improving pro-poor governance. Ideas are currently being solicited from Nepalese for potential projects in the area of pro-poor governance. Projects identified may then be funded through the ESP, perhaps with co-financing from other donors, or by the Nepalese themselves. For the purposes of the ESP, this process should help identify a critical mass of change advocates who, in stage two, can persuade key decision makers that change is in their own interest as well as raise the costs of not changing, for example through media pressure or by mobilising civil society. Stages three and four of the change model would then exploit the new-found desire for change through support for major reforms and contribute to improvements in a new environment of pro-poor governance. The details of how the ESP will support change advocates' subsequent efforts to influence decision makers will be determined towards the end of the first stage of the programme. (Further information on the ESP is available from the Internet at:<http://www.esp-nepal.com/index.htm>)

The **Safer Motherhood Project** is an example of how DFID Nepal is seeking to move towards a sub-sectoral approach that will support overall reform at the sectoral level by building on and expanding a stand-alone bilateral project. The project analyses and addresses the factors that constrain women's access to quality emergency obstetrics care. These factors include both the quality of health systems and the social, cultural and physical constraints that prevent women from seeking timely medical support for complications during pregnancy. In providing support to improve medical services, the project has adopted a "whole-hospital approach" covering training, facilities and management systems. The interventions therefore impact on the overall quality of hospital management and care, beyond emergency obstetrics treatment. The work on access issues at community level involves mobilising resources for actions whose impact goes beyond health service delivery, addressing gender and equity issues. The major strategic differences between Phase I and the new phase of implementation are: i) a shift from opportunistic ways of working at national policy and programme level to a more structured and strategic approach; ii) a transition from focussing exclusively on comprehensive emergency obstetric care to one which seeks to address needs by supporting basic emergency obstetric and midwifery care at facility and community level and; iii) exploring mechanisms at district and community levels to institutionalise "access" interventions piloted during Phase I. The project is scaling up from working in three districts under Phase I to nine districts under Phase II, all but one of which are located in the West and Mid-West Regions, two of the less developed in Nepal. Safe motherhood is an area in which sub-sectoral programming could develop on the incremental pathway towards a sector-wide approach to health. Progress has already been made on developing a Medium-Term Strategic Plan for the health sector. Through this project, DFID is able to disseminate experience gained from working in poor districts and so influence implementation of national strategic plans and policy formulation.

The **Livelihoods and Forestry Programme** is an example of re-orienting an existing activity to increase its impact on poverty reduction and promote transformational change. The programme is moving from a focus on forests to a focus on sustainable livelihoods for poor rural people. While area-based activities in the east continue to be supported, new area-based activities are commencing in districts in the poorer Mid and Far-Western Regions. A more active approach to managing community forests is also being promoted, using forestry as an entry point for improving livelihoods by making use of the existing network of Forestry User Groups, especially those that have built up the social capital of the poor, to address broader poverty reduction issues. At the same time, and so as to encourage two-way linkages between policy and practice, a second component at the national level

will work to promote a sector-wide approach by government and donors by responding to demands for policy development or piloting inclusive forest management approaches.

The approach adopted by DFID in Nepal is to promote and support moves away from donors implementing individual bilateral projects to investment in government-led sector reform programmes. Implementing pooled-fund arrangements necessitates the good functioning of financial management and other systems at the centre of government. While several other donors support a basket-funding arrangement for the Basic Primary Education Programme, Nepal currently has no sector-wide programmes. Such programmes may be difficult to put in place in Nepal due to slow progress with implementing reforms and weak public expenditure management. DFID has a project which aims to improve systems within the Ministry of Finance and several other donors are active in this area as well. To ensure the necessary pre-conditions for sector-wide approaches are ready prior to the first sector programmes being put in place, building capacity and systems at the centre of government should remain a high priority for DFID as well as other donors aiming to participate in pooled-fund arrangements.

The DFID engagement and influencing agenda, and the resource of advisors stationed in-country, means that the impact of the DFID country programme goes beyond the results achieved through its project and programme activities. DFID has the time and staff capacity to play a catalytic role within the local donor community and does this in various ways, for example by chairing sub-sectoral or sectoral groups (e.g. on governance and forestry), by playing a leading role in co-ordinating actions, such as joint reviews (e.g. on health and decentralisation), by providing support to the Nepalese in the preparation of their PRSP, and by arranging seminars in Nepal by international development experts.

An example of DFID's catalytic role relates to the Maoist insurgency. In May 2000, DFID's Conflict and Humanitarian Affairs Department undertook an assessment of the conflict as a development issue and the analysis prepared was made widely available. This was the first time a donor analysis of the conflict had been put into the public domain. The process involved discussions within the donor community in Nepal as well as with the local British Embassy and British Gurkhas Nepal. Importantly, this process contributed to the building up by a broad range of stakeholders of shared views and a common level of awareness and concern about the conflict. The assessment is based on a methodology being developed within DFID which aims to mainstream conflict concerns in country programming, identifying key challenges for the work of development aid agencies. The assessment had the desirable effect of promoting discussion of the development consequences of the conflict. The final report also provided the basis for the formation of a donors' "Peace Support Group", chaired by the UNDP, which is conducting joint work looking into the impact of the conflict on poverty reduction and human rights and proposing an action plan of practical areas where donors can support Nepalese efforts to address the impact of the conflict.

## **Management of the DFID programme**

### *Management structures*

Under the responsibility of DFID's Director for Asia and the Pacific located in London, management of the DFID country programme in Nepal is decentralised to the field. There is no country desk at DFID headquarters backing up the Nepal programme. Such an arrangement is made possible through extensive use of information technology, regular travel by DFID staff and the stationing of a critical mass of qualified and experienced development professionals in the field operating collegially. The quality, utility and accessibility of DFID's information technology systems are consequently vital for DFID to function well. DFID is continuing to up-grade its information technology systems through expanding satellite linkages and video conferencing facilities.

The Head of DFID's office in Nepal is able to approve projects with a value of up to GBP 3 million (approximately USD 4.5 million). As the Head of DFID Nepal is not a Senior Civil Service position, the Head formally reports through the Head of DFID's Bangladesh office (a Senior Civil Servant) to the Director for Asia and the Pacific. However, for most practical purposes, the Bangladesh office has few responsibilities and the Head of DFID Nepal works directly with the Director for Asia and the Pacific. Nonetheless, closer co-operation and interaction between DFID field offices in Asia is being encouraged. Within this context, the DFID Nepal office organised in December 2000 a multi-disciplinary meeting on the theme of "Literacy for Livelihoods" which attracted people from various DFID offices, the World Bank and some United Nations agencies.

Until March 1999, the Nepal programme was managed from DFID's regional office in Bangkok, with support provided in Kathmandu by the Development Section in the British Embassy, a British Aid Project Support Office and a Financial Adviser's Office. The DFID Nepal office was created by absorbing these three offices and placing them under the responsibility of a management team of United Kingdom-based DFID staff. The merger of the three offices appears to have been managed successfully.

The DFID office in Nepal has quickly established itself as an open and collaborative partner whose advisors are appreciated as a resource available for the Nepalese government, other donors and NGOs. Establishing the office had a positive impact locally as it prompted the local donor community to reassess some practices and arrangements that had been unquestioned for many years. Some other donors initially had concerns about DFID creating a large office with a strong contingent of in-country development personnel. However, DFID appears to have managed this process sensitively, respecting the established role and place of other donors and giving priority to focusing on niches where other donors are not active and where it can add value and make a difference.

The Nepal office was established with one advisor from each of DFID's main professional groups - economics, education, governance, health and population, infrastructure, rural livelihoods and social development - even though the importance of each area varied in the portfolio of activities inherited. For example, DFID does not participate in the Basic Primary Education Programme and considers the prospects for a sector-wide approach for the education sector to be poor. The office's original structure was determined by an internal review, which foresaw that some changes may be needed after about two years of operations.

Despite the positive impact that establishing a large office with substantial professional personnel had in the Nepalese context, in hindsight this structure may not have been appropriate, a conclusion confirmed by the fact that the Head of DFID Nepal asked for a review of the office's management and staffing structure after only seven months of operations. The subsequent review found that there were too many management layers and that it was unlikely that each of DFID's main professional groups would need to be represented in the medium to long term. It also found that DFID's engagement agenda requires skills such as negotiating, influencing and learning which will become an important feature of all senior positions, whether they be of an advisory or administrative nature. The review endorsed the "core team" approach being used in the Nepal office, whereby a designated advisor, together with a maximum of two others, devise strategies for influencing and engaging with government and other donors in order to develop sectoral programmes focussed on strategic poverty reduction objectives. The aim with these core teams is that the lead advisor should consider issues beyond their own discipline, calling on colleagues' expertise as required. The review concluded that, within the following few years, DFID Nepal should be able to reduce to around four advisors, focussed on the main country strategy goals. This would nonetheless be dependent on the pace of overall reform in Nepal and the openness of other donors to sharing advisory resources and to allowing out-sourcing of DFID advisors.

## **Monitoring, evaluation and results**

“Project Completion Reports” and “Output-to-Purpose” reviews are the main tools used in-country for assessing project performance. Project Completion Reports are required for all projects costing GBP 500 000 or more. Output-to-Purpose Reviews have more of a course-correcting function. One or more reviews may be planned as an integral part of a project or conducted if considered useful or necessary for a project. Logical frameworks are prepared for all projects and reporting in terms of the logical framework is an integral part of these reports and reviews. Another important aspect is recording lessons learnt although the processes for disseminating these can improve as the Nepal office was not yet using DFID’s PRISM system at the time the DAC review team visited.

Several Output-to-Project Reviews conducted on projects related to improving opportunities for rural livelihoods have highlighted the limited impact which DFID projects have had on reaching the extreme poor. In other cases, real improvements have been brought about in the livelihoods of many poor people but the impact on the performance of key institutions had not been significant. Conversely, some projects, such as the Hill Agricultural Research Project, had successfully created momentum for change in policy and institutions but the down-stream impact of this on people’s livelihoods will take longer to assess.

Evaluations of projects organised by DFID headquarter’s Evaluation Department may also be conducted where a major activity comes to completion, where important systemic issues are addressed or as part of a multi-country thematic study. An evaluation of the Secondary Education Development Project, issued in November 2000, is the only evaluation of DFID activities in Nepal conducted since 1996. This project, jointly funded by DFID, the AsDB and the Nepalese government, was the major source of project support to secondary education in Nepal over the period 1993 to 2001. The evaluation was conducted jointly by British and Nepalese consultants who rated the project “successful”. Among the more general lessons learnt were the importance of adopting a programme approach to project management for all future projects, in spite of the difficulties and delays which may occur at the initial stage, as well as the importance of implementing projects on a more decentralised model.

The Nepal office has analysed how it can contribute to achieving the international development targets, including through applying the action points presented in DFID’s target strategy papers. While acknowledging that overall progress towards the international development targets needs to be kept in view, DFID Nepal has found that the targets by themselves are not a useful measure of the impact of its activities on an annual basis, nor do they indicate whether the right activities are being undertaken. The change models which the Nepal office has developed set out the processes required to move towards pro-poor development in Nepal. These are being used to enable DFID Nepal to assess more rigorously how its investments contribute to these processes, and so impact on poverty reduction (the work on the Enabling State Programme is an example of how the change model approach impacts on programming).

The British government’s 1998 Comprehensive Spending Review resulted in DFID setting performance targets which were published in DFID’s Public Service Agreement 1999-2002. For most of the targets set, performance is measured in the United Kingdom’s top 30 development co-operation partners, a group which includes Nepal. The subsequent Comprehensive Spending Review conducted in 2000 resulted in a new set of Public Service Agreement targets for DFID for the period 2001 to 2004. These place particular emphasis on measuring performance in the top ten recipients of DFID education support and the top ten recipients of DFID health care assistance, groups which do not include Nepal. However, another target relates to integrating social, economic and environmental aspects of sustainable development into poverty reduction programmes and Nepal is a target country

for integrating national strategies on sustainable development into national poverty reduction strategies. Despite the limited impact which the Nepal country programme consequently has on achieving DFID's second set of Public Service Agreement targets, the Nepal office has prepared a table analysing the Nepal programme in terms of DFID's targets for 2001 to 2004.

### **Partnership and approaches to co-ordination**

Although critical of many aspects of donor practices in Nepal, the Ministry of Finance considers DFID to be one of a few donors with whom it can generally work efficiently and harmoniously. DFID's programmes are appreciated for being sustainable, as they are designed not to be too expensive for Nepalese counterparts, and there is a high degree of Nepalese ownership of DFID activities. DFID sets a valuable example in changed behaviour by a donor and is able to play a strategic role within the donor community. The development expertise provided by DFID's team of advisors is an asset which complements the governments' own resources and is useful for disseminating information and ideas to civil society.

Collaborating with other donors is a particular aim for DFID Nepal and these efforts are widely appreciated. DFID is seen as being interested in forming partnerships and is ready to take a long-term approach and to experiment in order to achieve results that have a greater impact on poverty reduction. DFID is also seen as able to take a leadership role, when requested and appropriate, and ready to take up sensitive issues, such as human rights and governance. As part of the Utstein initiative, DFID is working to strengthen its collaboration with Germany, the Netherlands and Norway who are valuable partners for the United Kingdom in promoting sector-wide approaches in Nepal.

Strengthening collaboration with the EC is not a priority for DFID at this time, due to the size of the Community's programme and the absence of a delegated EC office<sup>36</sup>. Donors from EU Member States have decided not to set up separate EU co-ordination mechanisms for development co-operation and so meet at general donor co-ordination *fora*. British civil service practices may also inhibit increased collaboration between DFID and other EU Member States' aid administrations as co-ordination among EU Member States - on development co-operation as well as other issues - occurs formerly at the head of mission level and Britain is usually represented by its Ambassador or another staff member from the British Embassy, with only moderate participation or involvement by DFID.

### **Main findings**

**The DFID Nepal office.** Establishing an office in Nepal has had a positive impact within the local donor community, enabling DFID to take a leadership role. DFID has managed this process sensitively and established itself as a valued and valuable partner for the Nepalese government, NGOs and other donors. This good performance is in part attributable to the qualities of the first group of United Kingdom-based staff posted to Kathmandu and will be tested as these staff start to be replaced. With DFID's increased emphasis on engaging with and influencing others, the value and importance of an in-country presence was stressed by project managers, other donors and government and NGO partners, some of whom expressed the view that it was difficult to imagine DFID pursuing this agenda while continuing to manage the programme from Bangkok.

**Staffing.** The DFID office in Nepal has an impressive deployment of experienced and committed development staff. The stationing of seven advisors without day-to-day project management responsibilities has contributed to the successful launch of the office in Nepal. However, as DFID

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36. Net ODA disbursements by the EC to Nepal totalled USD 8 million in 1997, USD 4 million in 1998 and USD 10 million in 1999.

moves from field offices with regional responsibilities to a larger number of country offices, a model for stationing a more limited number of advisors needs to be found, for example by advisors covering more than one specialist area or also being able to intervene in surrounding countries, by hiring advisors locally or by DFID relying on other donors' in-country expertise. This issue has far-reaching ramifications for how DFID is staffed and structured, in Nepal and elsewhere, as well as for recruitment, career development and quality control within each advisory group.

**Decentralisation.** DFID has one of the more decentralised structures among DAC Members and a high degree of delegated responsibility. Decentralising from regional to country offices is conducive to improving the effectiveness of development assistance, particularly in a poor policy implementation environment, and so the United Kingdom could have improved the quality of its country programme by opening an office in Nepal several years earlier. An increased number of decentralised offices also creates extra challenges for DFID as a learning organisation, which DFID is continuing to address through substantial investments in information and communications technology.

**Policy framework.** In recent years, DFID has produced a wide range of policies and other documents to guide its development co-operation programmes. Some DFID project managers and other partners are finding DFID's policy evolution has been occurring too rapidly for the smooth functioning of their activities. The DFID office in Nepal has also found it difficult to link relatively low-level activities to high-level strategic objectives. As the Nepal office cannot be alone in attempting to address these issues, more sharing of experience across DFID offices would be valuable and should be encouraged. Increased two-way linkages between the field and headquarters may also be useful in DFID to bring policy and practice closer together.

**Redirecting the DFID portfolio.** To increase the poverty reduction focus of the DFID's portfolio, activities have been redirected towards poorer regions of the country and towards increased engagement at the policy level. This two-pronged approach ensures that some benefits flow through to the poor in the short term while recognising that a series of more fundamental and long-term changes will be required to have a substantial impact on reducing poverty in Nepal. DFID's new activities are more clearly focussed on the underlying causes of poverty, such as improving governance, although more linkages could also be made to activities which support basic education, especially for girls. Given the linkages between development in Nepal and trends in the rest of South Asia, greater efforts could also be made to integrate DFID activities within the region.

**Sharing lessons learnt.** Through its programme in Nepal, DFID demonstrates that it is ready to make a long-term commitment and accept the risks associated with pursuing activities in a poor policy implementation environment. The lessons learnt by DFID Nepal are consequently valuable for other DFID staff, and other donors. While the sharing of lessons learnt currently occurs through informal exchanges of information and via various networks, DFID is developing more formalised arrangements for recording and sharing lessons learnt which DFID staff in Nepal should also take advantage of. DFID's Evaluation Department could have paid greater attention to activities in Nepal in recent years, which would have increased the opportunity for others to learn from experiences gained in DFID's Nepal programme.

**Monitoring and evaluation.** DFID has well-developed systems for monitoring and measuring the strategic impact of project activities and many process projects contain discrete activities with defined, achievable and monitorable results. The deployment of a critical mass of development experts to the field means that DFID can rely on the judgement of its staff to monitor the outputs and outcomes of process projects. However, it remains to be determined whether these mechanisms will remain sufficient for monitoring DFID's influencing and engagement agenda and other interventions at the programme level or whether complementary systems will be required.

**Reducing the administrative burden on the host government.** Most of the United Kingdom's development co-operation channels operate in Nepal. Nepalese authorities deplore the large number of development partners with which they need to work and stress the difficulties implicit in attempting to co-ordinate and keep abreast of all the activities of each partner. For its part, the United Kingdom could go some way towards easing this load by joining up and integrating activities wherever possible and presenting its development partners with a single representative for the United Kingdom's officially funded development activities.

**Addressing key challenges.** Nepal faces daunting development challenges and the impact of results achieved can be eroded because of corruption, insurgency activities and rapid population growth. The United Kingdom has played a useful catalytic role by carrying out analyses, promoting discussions and raising awareness of the development aspects of the Maoist conflict. This issue is of such critical importance for development prospects in Nepal that there is a need to move quickly from analysis to action, by the United Kingdom as well as other donors. With the continuing worsening of the conflict, it would be a useful precaution for each donor to determine in advance up to what point they are prepared to persevere with implementing their development programmes in Nepal.

## APPENDIX 1

### **DFID projects and programmes in Nepal**

#### **Improving governance:**

- *Enabling State Programme* (budget of GBP 19.5 million) which aims to build up a critical mass of key Nepalese players with a practical understanding of pro-poor governance areas.
- *Financial Management Programme* (GBP 4.6 million) which aims to assist the Nepalese government improve its fiscal management system.
- *Participatory Learning and Advisory Project* (GBP 2.5 million) which aims to strengthen the capacity of NGOs and other civil society organisations to work with the poor and the disadvantaged.

#### **Improving human development through better health, education and water services:**

- *District Health Project* (GBP 3.7 million) which aims to improve health service delivery and utilisation in selected districts in replicable ways.
- *Safer Motherhood Project* (GBP 3.6 million) which aims to improve maternal health through improved services and the development of a system for managing these services at district level.
- *Secondary Education Development Project* (GBP 5.5 million) which aims to improve the quality and efficiency of secondary schools.
- *Community Literacy Project* (GBP 1.9 million) which aims to enhance communications and access to information in community interest groups.
- *Gurkha Welfare Trust Project* (GBP 7.9 million) which aims to promote the effective management and use of water supplies in selected hill village communities.
- *Far and Mid-West Rural Water Supply Project* (GBP 2.7 million) which aims to promote the effective management and use of water supplies in selected hill village communities.
- *Reproductive Health Project* (GBP 11 million) which aims to allow men and women greater reproductive choice through provision of contraceptives.

- *HIV/AIDS Programme* (GBP 1.6 million) which aims to contain the HIV/AIDS epidemic among female sex workers, their clients and intravenous drug users through targeted risk and harm reduction interventions.
- *TB Programme* (GBP 5.4 million) which aims to provide effective diagnostic and treatment facilities for all patients with TB, within existing primary health care services.
- *Integrated Poverty Project* (GBP 1.5 million) which aims to build the capacity of women and men in 5 000 poorest households in the project area to achieve sustainable, secure livelihoods.
- *Achham Livelihoods Programme* (GBP 2.1 million) which aims to improve livelihood security for households in Achham, with an emphasis on the most marginalised women and men.

#### **Improving opportunities for rural livelihoods:**

- *Hill Agricultural Research Project* (GBP 11.6 million) which supports demand-led agricultural research.
- *Eastern Regional Road Improvement Project* (GBP 9.9 million) which aims to strengthen the maintenance capacity of the Department of Roads and fund the rehabilitation of existing roads.
- *Bridge Construction and Improvement Project* (GBP 3.7 million) which aims to ensure all-year use of two key roads by improving the maintenance skills of the Department of Roads and strengthening private sector skills in bridge design and construction.
- *Seeds Sector Support Project* (GBP 3.6 million) which aims to bring benefits to disadvantaged men and women farmers by enabling the seed industry to expand and operate on a more commercial basis.
- *Livelihoods and Forestry Project* (GBP 18.6 million) which aims to enhance the assets of rural communities through more equitable, efficient and sustainable use of forestry resources.
- *Tourism Policy for Poverty Alleviation Project* (GBP 2.9 million) which aims to contribute to the review and formulation of policy and strategic planning for sustainable tourism development which are pro-poor, pro-environment, pro-women and pro-rural communities.
- *Rural Access Programme* (GBP 33.3 million) which aims to improve poor people's access to the goods and services that they value in targeted hill areas.
- *Kamaiya Food Security Project* (GBP 0.8 million) which aims to enable Kamaiyas (bonded labourers) to improve their access to food and self help sustainably.
- *Support for Helvetas Programme* (GBP 2.9 million) which aims to provide people with better access to livelihoods, markets and basic services as well as the knowledge and capacity required to make the best use of these.

## ANNEX III

### DFID PROGRAMME IN MOZAMBIQUE: MAIN FEATURES AND RESULTS

The United Kingdom has been working with Mozambique to reduce the levels of poverty since before the 1992 peace agreement. Assistance in the earliest stages came mainly in the form of funding for infrastructure repair and rehabilitation and emergency food aid, as well as support to various NGOs. After the peace agreement, and the first democratic elections in 1994, the United Kingdom expanded its development programme. By 1997, the programme had grown to USD 29 million a year. The main focus was in Zambezia Province, with a significant rural livelihoods programme. In 1998, Britain's Secretary of State for International Development visited the country and announced a doubling of the United Kingdom development commitment to Mozambique. Since then, DFID has been working to implement that commitment, with expenditure in 2001-02 currently forecast at around USD 60 million. To improve both the effectiveness and quality of the relationship with Mozambique as well as deliver this increase in programme size, responsibility for DFID's programme moved in June 2001 from the regional office in Zimbabwe to a well-staffed country office in Maputo, with substantial responsibility delegated to the Head of the country office.

- *Improving economic and financial management.* Although management of the country's economy is sound by regional standards, Mozambique nevertheless faces formidable challenges in continuing to achieve rapid economic growth that is both balanced and benefits poor people. DFID is providing approximately USD 15 million per year to the central budget through a Common Mechanism arrangement, in partnership with a consortium of eight other donors and the government. This consortium holds regular discussions with the Ministry of Planning and Finance on economic and budgetary management, and DFID is providing technical assistance designed to strengthen the budget planning process. Moreover, the United Kingdom worked with the international community to bring about the review of the HIPC initiative to provide faster, wider and deeper debt relief and for debt relief to be linked to the national strategy for poverty reduction (PRSP). Meanwhile, all aid debts owed to the United Kingdom were cancelled many years ago and complete relief has also been provided for Mozambique's export credit debts to the United Kingdom. One of the key goals of DFID is to improve Mozambique's access to markets by helping the private sector - in particular small and medium-sized enterprises - and giving poor people choices.
- *More effective and efficient public service.* At the heart of its efforts to reduce poverty, the government is committed to improving the delivery of public services. Many reforms have already started and DFID has been assisting with a number of these, including a large customs reform programme, run - at the request of the Mozambique government - by the British organisation Crown Agents. This programme has introduced modern working systems and trained customs staff to provide a more efficient and effective service, which is important for business development as well as for raising government income. Moreover, DFID is supporting the development of the Government

of Mozambique's strategy for public service reform. The issues covered include dealing with corruption, making services closer to their users, increasing staff pay and improving financial management.

- *Promoting sustainable rural livelihoods.* DFID is helping to fund initiatives in the following areas: financing and managing sustainable rural road networks; preventing and mitigating HIV/AIDS in roads and other rural development programmes; encouraging private investment in key areas for alleviation of rural poverty, especially agro-processing; ensuring security of land tenure and simplifying procedures for access to land; better management of forest resources to provide sustainable benefits for the nation and for local communities; restructuring government services to provide an improved enabling environment to support agricultural production and marketing; and strengthening civil society organisations to be better partners in policy making and implementation. Recent practical outputs of this programme have included: nearly 1 000 km of rural roads rehabilitated, creating access to markets and social services for isolated communities; and providing over 100 000 person days of employment for poor rural women and men on the roads. This has helped to kick-start the rural economy.
- *Improved quality and quantity of health and education.* DFID provides support to the enhancement of access, equity and quality for the health sector. This includes capacity building and institutional development interventions, direct budget support for the purchase of medicines through non-project assistance mechanisms as well as flexible support to the development of a sector-wide approach to health sector planning and programming. Direct assistance to service delivery organisations outside government is also provided. DFID has acted early to incorporate HIV/AIDS prevention and impact mitigation activities in all its projects. In addition, it has finalised a package of support to the National Aids Council and key ministries aimed at strengthening their capacity to anticipate the impact of the pandemic and respond strategically to it. At the national level, DFID works with others to ensure that poverty reduction targets take account of the AIDS pandemic and that increasing resources are mobilised in the fight against HIV/AIDS. DFID supports the Ministry of Education in several ways. Together with other donors, DFID is negotiating a broad-ranging package of institutional support and development to enable the Ministry to take the lead in achieving the government's educational goals. DFID supports the extension of access through distance learning programmes for children who cannot access regular schooling as well as for teachers. Moreover, DFID will provide assistance with enhancing overall financial management capacity, including activity-based budgeting and financial reporting, ensuring that it is consistent both with developments in other sectors and reforms being introduced by the Ministry of Planning and Finance.
- *Emergency support.* As events demonstrated dramatically in 2000 and 2001, Mozambique is vulnerable to disasters. In both cases the United Kingdom provided fast and wide-ranging support to the Mozambique government, the UN system, and NGOs. In 2000, the British government's response covered a broad range of needs and cost over USD 50 million. DFID is spending USD 15 million on the long-term reconstruction of roads. Britain's support during the 2001 floods covered similar areas: helicopters, logisticians, shelter, health facilities and food. Between the two floods, DFID was able to offer support through the UN system to the government in drawing up national contingency plans. As a result, when the floods hit in 2001, the government had clear and agreed plans of action and was able to put these to work immediately. Planning and management of natural disasters has now become a top government priority.

## **PRESS RELEASE - THE UNITED KINGDOM'S DEVELOPMENT CO-OPERATION: CHALLENGES FOR A LEADING DONOR**

British authorities have succeeded in putting development issues high on the political agenda, both at home and abroad. Poverty reduction is central to the United Kingdom's development co-operation, as expressed in its commitment to the International Development Targets and Millennium Development Goals. The United Kingdom has taken a leading role in promoting a partnership approach to development, as articulated in *Shaping the 21<sup>st</sup> Century: The Contribution of Development Co-operation*, the policy statement released by the OECD's Development Assistance Committee (DAC) in 1996.

The United Kingdom's Official Development Assistance (ODA) rose to USD 4.5 billion in 2000, the fourth largest programme among Member countries of the DAC, and is now integrated in the overall effort to support international development. More coherence in policies affecting developing countries is a government-wide priority and is also being pursued internationally, especially with other Member States within European Union (EU) institutions. New directions for Britain's development co-operation were outlined in *Eliminating World Poverty: Making Globalisation Work for the Poor*, the government White Paper published in 2000. This document addresses the opportunities and risks for development arising from increased globalisation, given that the poorest countries could become more marginalised unless greater attention is paid to international economic linkages. It also recognises that no country can eliminate world poverty alone, and so the Department for International Development (DFID) is fostering international efforts by "engaging with and influencing" others in support of developing countries' own effort to overcome poverty.

The British government is committed to reversing the decline in its ODA and will raise DFID's departmental expenditure limit to GBP 3.6 billion (approximately USD 5.2 billion) in the 2003/04 financial year, its highest level. The United Kingdom's ratio of ODA to gross national income (GNI) was 0.32% in 2000, above the DAC (weighted) average of 0.22% but below the DAC average country effort (unweighted average) of 0.39%. The United Kingdom has pledged to increase its ODA/GNI ratio to 0.33% by 2003/04 and reiterated its commitment to the United Nations' ODA/GNI target of 0.7%.

The DAC reviewed the United Kingdom's development co-operation policies and programmes on 16 October 2001 and welcomed the substantial changes which have been made to the British aid programme since the last DAC Peer Review in 1997. These changes include: the poverty reduction objective being consolidated in legislation governing the aid programme; a more comprehensive approach being adopted to promote policy coherence; the untying of development aid to the procurement of British goods and services; a closer involvement with selected multilateral agencies; and a broader and more strategic approach to working with civil society. These ambitious objectives raise a number of challenges. The DAC Chairman, Mr. Jean-Claude Faure, summarised the Committee's recommendations to the United Kingdom to address these challenges:

- a) Increase the rate of growth in ODA, based on recent achievements, and consider setting an ambitious intermediate ODA/GNI target on the way to achieving the United Nations' target of 0.7% of GNI.
- b) In line with recent trends, maintain a strong focus of bilateral ODA on the poorest countries, particularly those with good policy environments, while remaining engaged through appropriate instruments elsewhere.
- c) Continue to seek and develop effective ways of promoting policy coherence, in such areas as trade, environment and conflict reduction, across the United Kingdom government and at European and international levels.
- d) Continue to support partner countries in the development of their own poverty reduction strategies and use these as the basis for future Country Strategy Papers.
- e) Promote opportunities to deepen DFID's collaboration with other donors when preparing Country and Institutional Strategy Papers and in programme implementation.
- f) Maintain an active dialogue with parliamentarians, civil society, the media and the public on the aims and evolving instruments and risks associated with delivering a high-impact aid programme, particularly in view of the ambitious nature of Britain's development co-operation.
- g) Give further consideration to the need to develop operational guidance, particularly for field offices, on implementation of DFID's policies and partnership agenda, relevant to the range of policy environments found in developing countries.
- h) Focus the next generation of bilateral country programmes on addressing the challenges of greater sector focus, the appropriate mix of aid instruments and how best to pursue sustainable capacity building in partner countries.
  - i) Given the degree of delegated financial authority to offices in main partner countries, consider how DFID can further enhance information flows between field offices and headquarters and ensure that decisions on the appropriate number and mix of advisory resources take account of other donors' capacities already available in each country.
  - j) Reinforce DFID's monitoring, evaluation and knowledge management systems by taking steps to promote staff's use of existing systems and by enhancing capacities to assess performance and provide useful action-oriented information; and consider reviewing the degree of institutional independence of *ex post* evaluations.

During the review, the United Kingdom delegation was led by Sir John Vereker, Permanent Secretary, Department for International Development. The examiners were Australia and the European Community.

## **DESCRIPTION OF KEY TERMS**

*The following brief descriptions of the main development co-operation terms used in this publication are provided for general background information. Full definitions of these and other related terms can be found in the "Glossary of Key Terms and Concepts" published in the DAC's annual Development Co-operation Report.*

**ASSOCIATED FINANCING:** The combination of OFFICIAL DEVELOPMENT ASSISTANCE, whether GRANTS or LOANS, with any other funding to form finance packages.

**DAC (DEVELOPMENT ASSISTANCE COMMITTEE):** The committee of the OECD which deals with development co-operation matters. A description of its aims and a list of its Members are given at the front of this volume.

**DAC LIST OF AID RECIPIENTS:** A two-part List of Aid Recipients was introduced by the DAC with effect from 1 January 1994. Part I of the List is presented in the following categories (the word "countries" includes territories):

**LLDCs:** Least Developed Countries. Group established by the United Nations. To be classified as an LLDC, countries must fall below thresholds established for income, economic diversification and social development. The DAC list is updated immediately to reflect any change in the LLDC group.

**Other LICs:** Other Low-Income Countries. Includes all non-LLDC countries with per capita GNI less than USD 760 in 1998 (World Bank Atlas basis).

**LMICs:** Lower Middle-Income Countries, i.e. with GNI per capita (World Bank Atlas basis) between USD 761 and USD 3 030 in 1998. LLDCs which are also LMICs are only shown as LLDCs – not as LMICs.

**UMICs:** Upper Middle-Income Countries, i.e. with GNI per capita (World Bank Atlas basis) between USD 3 031 and USD 9 360 in 1998.

**HICs:** High-Income Countries, i.e. with GNI per capita (World Bank Atlas basis) more than USD 9 360 in 1998.

Part II of the List comprises "Countries in Transition". These comprise: i) more advanced Central and Eastern European Countries and New Independent States of the former Soviet Union; and ii) more advanced developing countries.

**DEBT REORGANISATION:** Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, rescheduling or refinancing.

**DISBURSEMENT:** The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. They may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (less any repayments of LOAN principal during the same period).

**EXPORT CREDITS:** LOANS for the purpose of trade and which are not represented by a negotiable financial instrument. Frequently these LOANS bear interest at a rate subsidised by the government of the creditor country as a means of promoting exports.

**GRANTS:** Transfers made in cash, goods or services for which no repayment is required.

**GRANT ELEMENT:** Reflects the **financial terms** of a commitment: interest rate, maturity and grace period (i.e. the interval to the first repayment of principal). The grant element is nil for a LOAN carrying an interest rate of 10%; it is 100% for a GRANT; and it lies between these two limits for a LOAN at less than 10% interest.

**LOANS:** Transfers for which repayment is required. Data on **net loans** include deductions for repayments of principal (but not payment of interest) on earlier loans.

**OFFICIAL AID:** Flows which meet the conditions of eligibility for inclusion in OFFICIAL DEVELOPMENT ASSISTANCE, except that the recipients are on Part II of the DAC LIST OF AID RECIPIENTS.

**OFFICIAL DEVELOPMENT ASSISTANCE (ODA):** GRANTS or LOANS to countries and territories on Part I of the DAC LIST OF AID RECIPIENTS (developing countries) provided by the official sector with the promotion of economic development and welfare as the main objective and which are at concessional financial terms (if a LOAN, having a GRANT ELEMENT of at least 25%).

**OTHER OFFICIAL FLOWS (OOF):** Transactions by the official sector with countries on the DAC LIST OF AID RECIPIENTS which do not meet the conditions for eligibility as OFFICIAL DEVELOPMENT ASSISTANCE or OFFICIAL AID.

**PARTIALLY UNTIED AID:** OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services must be procured in the donor country or among a restricted group of other countries, which must however include substantially all recipient countries.

**PRIVATE FLOWS:** Consist of the following flows at market terms financed out of private sector resources:

**Direct investment:** Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC LIST OF AID RECIPIENTS. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

**Bilateral portfolio investment:** Includes bank lending, and the purchase of shares, bonds and real estate.

**Multilateral portfolio investment:** This covers the transactions of the private non-bank and bank sector in the securities issued by multilateral institutions.

**Private export credits:** See EXPORT CREDITS.

**TECHNICAL CO-OPERATION:** Includes both i) GRANTS to nationals of recipient countries receiving education or training at home or abroad, and ii) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries.

**TIED AID:** Official GRANTS or LOANS where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all recipient countries.

**UNTIED AID:** OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services may be fully and freely procured in substantially all countries.

**VOLUME:** Unless otherwise stated, data are expressed in current United States dollars. Data in national currencies are converted into dollars using annual average exchange rates. To give a truer idea of the volume of flows over time, some data are presented in **constant prices and exchange rates**, with a reference year specified. This means that adjustment has been made to cover both inflation between the year in question and the reference year, and changes in the exchange rate between the currency concerned and the United States dollar over the same period.