UNITED KINGDOM

Development Assistance Committee (DAC)

PEER REVIEW

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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The OECD is a unique forum where the governments of 30 democracies work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

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The Peer Review Process

The DAC conducts periodic reviews of the individual development co-operation efforts of DAC members. The policies and efforts of each member are critically examined approximately once every four years. Five or six programmes are examined annually. The OECD's Development Co-operation Directorate (DCD) provides analytical support and is responsible for developing and maintaining the conceptual framework within which the Peer Reviews are undertaken.

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. A recent innovation is to organise "joint assessments", in which the activities of several members are reviewed in a single field mission.

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.

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with examiners from Italy and the United States for the Peer Review on 31 May 2006.

In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the ***Development Assistance Committee****, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.*

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

Acronyms

ACHU	Africa Conflict and Humanitarian Aid Unit
AfDB	African Development Bank
BOND	British Overseas NGOs for Development
CAFOD	Catholic Fund for Overseas Development
CAP	Country Assistance Plan
CDC	Capital for Development group
CERF	Central Emergency Response Fund
CHAP	Common Humanitarian Action Plan
CHASE	Conflict, Humanitarian and Security Department (DFID)
CSO	Civil Society Organisation
DAC	Development Assistance Committee (OECD)
DDP	Director's Delivery Plans
DFID	Department for International Development
DTI	Department of Trade and Industry
DRC	Democratic Republic of Congo
DRR	Disaster Risk Reduction
EC	European Community
EvD	Evaluation Department (DFID)
EU	European Union
FCO	Foreign and Commonwealth Office
GBS	General budget support
GCPP	Global Conflict Prevention Pool
GEF	Global Environment Facility
GHD	Principles and Good Practice of Humanitarian Donorship
GNI	Gross national income
HIPC	Heavily indebted poor countries
HMT	Her Majesty's Treasury
IDA	International Development Association
IFF	International Finance Facility
IMF	International Monetary Fund
JASZ	Joint Assistance Strategy for Zambia
LDC	Least developed countries
LIC	Low-income country

MDGs	Millennium Development Goals
MEFF	Multilateral Effectiveness Framework
MTEF	Medium Term Expenditure Framework
MIC	Middle-income country
MOD	Ministry of Defence
NDP	National Development Plan
NGO	Non-governmental organisation
OCHA	Office for the Co-ordination of Humanitarian Affairs
ODA	Official development assistance
PCRU	Post Conflict Reconstruction Unit
PIMS	Policy Information Marker System
PMAS	Poverty Monitoring and Analysis System
PRBS	Poverty Reduction Budget Support
PPA	Partnership Programme Agreement
PRISM	Performance Reporting Information System for Management
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSA	Public Service Agreement
RAP	Regional Assistance Plan
UN	United Nations
UN-CAP	Consolidated Appeals Process
UNDP	United Nations Development Programme
VSO	Voluntary Service Overseas
WTO	World Trade Organization

Signs used:

EUR	Euro
GBP	British pound
USD	United States dollar
-	Nil
n.a.	Not applicable

Slight discrepancies in totals are due to rounding

Exchange rates (GBP per USD):

2000	2001	2002	2003	2004
0.6606	0.6943	0.6665	0.6124	0.5457

Aid at a glance

UNITED KINGDOM

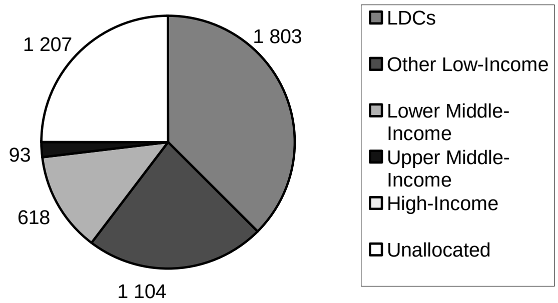
Gross Bilateral ODA, 2003-04 average, unless otherwise shown

Net ODA	2003	2004	Change 2003/04
Current (USD m)	6 282	7 883	25.5%
Constant (2003 USD m)	6 282	6 879	9.5%
In Pounds Sterling (million)	3 847	4 302	11.8%
ODA/GNI	0.34%	0.36%	
Bilateral share	61%	68%	
Net Official Aid (OA)			
Current (USD m)	698	834	19.5%

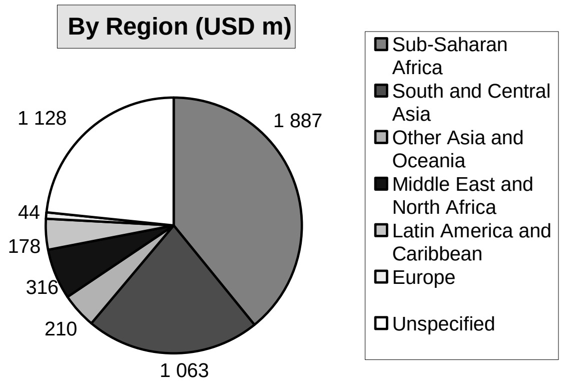
Top Ten Recipients of Gross ODA/OA (USD million)	
1 India	419
2 Bangladesh	267
3 Tanzania	265
4 Iraq	228
5 Ghana	200
6 Zambia	174
7 Congo, Dem. Rep.	162
8 Afghanistan	161
9 Malawi	115
10 South Africa	112

By Income Group (USD m)

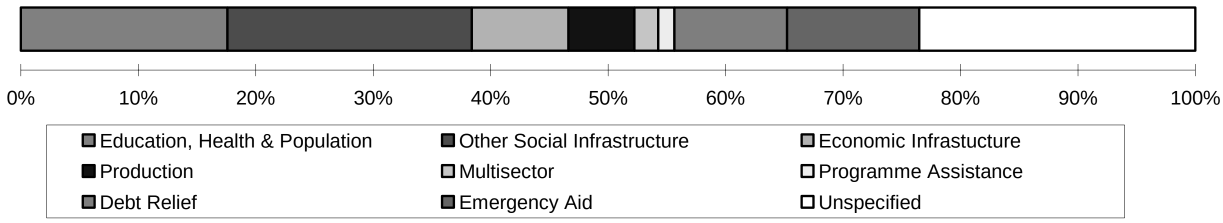
Clockwise from top



By Region (USD m)



By Sector



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DAC MAIN FINDINGS AND RECOMMENDATIONS

Overall framework and new orientations

UK offers a powerful model for development co-operation

The UK is currently seen by many aid practitioners and donors as one of the bilateral models for today's evolving world of development co-operation. The UK Government has made global poverty reduction a national priority. In 1997 it created a freestanding Department for International Development (DFID) with a seat in Cabinet for the Secretary of State for International Development. A strong political alliance was formed with the Prime Minister, the Secretary of State and the Chancellor of the Exchequer that has ensured consistent clarity of vision and the resources required to address this large and complex issue. The bedrock of the current vision is contained in the 2002 International Development Act which provided a clear legislative mandate around poverty reduction (DFID's "ONE" aim) and gave the UK its current strategic orientation on issues of development, not only aid. This has been further refined by DFID at the policy level through a series of regular "White Papers".

This framework has permitted the UK to organise strategically around a lean and well managed **delivery system**. The institutional core of the system is DFID, which has both ministerial (policy and government leadership) and agency (aid delivery, technical expertise) functions. Because it is clearly designated the lead department for combating international poverty, DFID enjoys a well defined, unambiguous relationship with other departments in this area. This permits a unified government approach and coherent policy direction around DFID leadership. DFID's knowledge allows it a position of interdepartmental leadership and has raised the profile of development co-operation. DFID is responsible for almost all ODA, with direct control over some 84% of total disbursements. While development policy is strategically directed from headquarters, DFID views its delivery operations as "country led, decentralised and delegated" through a world-wide network of 67 offices. Operational follow-through on the substantive intent of the International Development Act is provided through a government-wide system of **Public Service Agreements** (PSA), both with respect to DFID and other departments. High calibre and highly motivated staff are also a linchpin of the DFID system.

This coherent and well organised approach to development co-operation has permitted the UK to make good progress against the DAC recommendations of the 2001 Peer Review, including substantial movement towards an ODA/GNI target of 0.7%, a sharper focus on poverty, a stronger framework for efforts of government-wide policy coherence, a proactive collaboration with other donors and improved operational guidelines (the *Blue Book*), headquarters-field relationships, and systems of monitoring and evaluation. DFID has gone through a "golden age" of growth and achievement since 1997, and certainly since the last Peer Review in 2001. It must now consolidate those achievements and prepare for the next growth phase, when performance scrutiny will intensify, both domestically and internationally.

Challenges of doing "more with less"

In spite of the well informed and strategic manner in which the UK has carried out its development co-operation over the last decade, it is already aware that it will face important, simultaneous challenges in the near future. It proposes to more than double its current level of ODA in the next seven years, to deliver its aid better (aid effectiveness, results monitoring) and to move further into more complex and difficult environments for aid delivery (fragile states and situations of conflict). At the same time, it plans to do so with fewer delivery resources (10% reduction in DFID staff numbers and support service costs) as part of the Efficiency Programme 2005-2008. It will be a challenge for the UK to undertake all these tasks while maintaining the quality and innovative character of its aid.

Sustaining leadership and support calls for new tactics

DFID has inspired and endorsed both the Paris Declaration on Aid Effectiveness and the EU Action Plan on Harmonisation. It is now developing a Medium Term Action Plan for **aid effectiveness,** which will emphasise improving the quality of aid, both through international processes and bilateral country programmes. The plan establishes an Action Matrix at the country level, based on Paris Declaration indicators and additional EU and UK commitments. For the moment, implementation of the aid effectiveness agenda is not consistent across all of DFID and the Action Matrix will be an important tool to encourage further improvement in this area. DFID (and all other donors) currently have considerable scope for innovation in favour of greater effectiveness, including immediate opportunities to foster delegated partnerships and other forms of harmonisation.

British strategic interest in promoting more effective approaches to aid includes a role to motivate bilateral and multilateral **donors** to act similarly. DFID frequently uses its own system flexibility to encourage more effective donor behaviour. Initiatives in this area are often highly appreciated by the international community. However, DFID enthusiasm for certain initiatives is not always shared by other partners and British advocacy can be perceived as promoting DFID's own model rather than leading and encouraging complementary donor action. DFID may be paying more attention to the strategy of introducing reform (*e.g*. General Budget Support) than to the tactics needed to effectively implement such reforms. Broader donor receptivity and collaboration could be possible in a more inclusive and empirical environment for partnership. As DFID influences international partners toward common approaches, it should seek to strike a balance between its interest in promoting aid reform and in leading donor harmonization efforts.

It is widely felt that UK development co-operation is at an historic high point of **political and public support**, buttressed by a well thought through and professionally marketed *Communication Strategy*. National dialogue is also flourishing in the current environment, involving a rich assortment of NGO, academic, think tank and other civil society groups. However, DFID is already asking the fundamental question of "how to maintain the momentum?". It realises that success will require an ability to communicate results convincingly and even more simply to "tell the story" of tomorrow's development co-operation. Strategically tailored communications will be needed to report results effectively and to justify involvement in less clearly understood areas, such as expanding engagement in fragile states. Effective communications are also important when aid is suspended in a partner country in the light of serious human rights violations and corruption. Although DFID has issued a policy paper on conditionality and has drafted a statement on implementation, some stakeholder perceptions and expectations of this policy remain unclear. A further clarification of UK's approach to political conditionality in light of recent events (*e.g.* Ethiopia) could also help harmonize donor approaches.

Recommendations

- The challenge for UK development co-operation is how to build from its currently strong base. As DFID tries to deliver more, better aid and under more difficult circumstances, it will need to continue to adjust and adapt its model and invest in a steep learning curve at the country level, while ensuring that its **political leadership** is informed and supportive of these changes.

- As DFID proactively seeks to influence international donors toward common approaches, it needs to strike a balance between its objective of leadership in aid reform and being perceived as promoting its own model. DFID is encouraged to further refine its guidelines to promote broadest possible debate and space for all donors to participate in its pilot efforts on the ground.

- Maintaining current high levels of **public support** for development will be a special challenge. DFID will need to identify and communicate results and "tell the story" to the British public and elected political representatives. Strategically tailored communications will be needed in less clearly understood areas, such as expanding engagement in fragile states or suspending aid in light of serious human rights violations and corruption.

Aid volume and distribution

Strong commitment to scaling up

Over the period 2000-04, ODA **volume** of the United Kingdom increased by 30% in real terms. With USD 7.9 billion disbursed in 2004, the United Kingdom is now the fourth largest donor in volume terms. The **ODA/GNI ratio** rose progressively to attain 0.36% in 2004 and according to preliminary figures, 0.48% in 2005. In 2004, the United Kingdom committed to achieving the 0.7% ODA/GNI target by 2013, backed with a financial "roadmap" agreed to by the Treasury. When implemented, net ODA volume will increase over the 2004 level by 22% (USD 9 602 million) in 2006 and by 85% (USD 14 600 million) in 2010.

Scaling up at this speed will require development aid to remain among the top government expenditure priorities. This is particularly the case given the lower amounts of debt forgiveness in coming years (the high point of debt relief was in 2005 when it represented 34% of total ODA). Since 2000 the United Kingdom has actively promoted **new funding mechanisms**, such as the International Finance Facility proposed in 2003 to rapidly increase support for the MDGs over the period 2006-2015. It has also successfully supported additional debt relief for some countries, including relief of the multilateral debt of Heavily Indebted Poor Countries (HIPC).

In addition to the scaling up issue, DFID emphasises the need for better **aid predictability**. Thanks to three year budget allocations from Treasury, DFID is able to set rolling triennial budgets at the division and department levels and frequently enters into three-year arrangements with its partner countries. DFID is also considering longer-term arrangements with countries committed to poverty reduction and good governance, and has already signed ten-year partnership arrangements with Sierra Leone, Rwanda and Afghanistan. A Resource Allocation Model is used to carry out DFID annual planning, with emphasis on achieving a balance between the improved predictability of DFID support and the flexibility needed to adjust allocations to countries most in need, while allocating resources effectively among Low Income Countries (LIC).

Clear poverty reduction focus

DFID programming is strongly focussed on poverty reduction and closely aligned to the MDGs. Geographically, DFID currently has a PSA target of allocating at least 90% of its bilateral funding for LICs in 2005-08. Within this allocation guideline, DFID plans to emphasize scaled up aid to Africa and Asia, while de-emphasizing aid to Latin America. DFID is encouraged to sustain its strong emphasis on Africa to follow through on its G-8 Presidency and Africa Commission initiatives. Sectorally, DFID does not routinely use targets, but social infrastructure and services accounted for 41% of UK gross disbursements in 2003-04. A growing emphasis is now being placed on the "government and civil society" sub-sector in line with DFID stronger engagement in fragile states, and on basic education in support of the MDGs. DFID benefits from a clear mandate, an ambitious commitment and a strong strategic approach which efficiently drive the entire programme, whether in organisational terms or sector allocation spending. It is important that DFID avoid imposed earmarks which can contradict its ownership approach and undermine effectiveness.

The DFID approach to maintaining this strong poverty reduction focus and maximising its impact includes policy documents (*e.g.* the Middle Income Country policy) and programming tools (*e.g.* the Resource Allocation Model). In coming years, the balance between good performers and fragile states in DFID's portfolio will need to be assessed against the ability to have the greatest impact on poverty reduction while demonstrating results to ensure continued public support. Future needs for humanitarian action will also influence DFID's approach to geographic and sector allocations.

DFID is paying increased attention to the crosscutting "pro-poor growth" agenda and is considering further integration of economic growth and productive sectors into programming for poverty reduction. Over the last decade, support to economic infrastructure and services as a percentage of ODA declined (although it increased in real terms) and in 2003-04 stood below the DAC average; the percentage of ODA going to the production sectors also declined, although the UK position equated with the DAC average in 2003-04. As it addresses pro-poor growth, DFID will need to emphasise its own areas of expertise and comparative advantage and seek complementarity with other donors in line with aid effectiveness principles. DFID should also pursue its efforts to better capture the gender equality dimension in its programme while taking advantage of new aid modalities. This could include widening the ownership of this objective within DFID and more closely aligning DFID's gender agenda and decentralised country office practice.

Contributions to multilateral organisations linked to effectiveness

With about one-third of its ODA disbursed to multilateral organisations, the United Kingdom is an important contributor to that system. DFID has developed a strategic approach to the multilaterals, with individual institutional strategies framing the shape of each partnership. DFID tracks the results of the multilateral institutions through a Multilateral Effectiveness Framework (MEFF). These tools help DFID prioritise its multilateral support and provide the means to allow it to play a leading role within the international community to promote the effectiveness of multilateral aid, in line with its 2005-08 PSA objective. DFID could further capitalize on these tools to develop synergies between multilateral and bilateral channels. At the same time, it will want to keep in mind the multilateral principles when developing specific institutional strategies, allocating non-core resources and assessing multilateral organisations' effectiveness. To this end, strategic assessment tools, such as the MEFF, have the potential to become common frameworks for all donors.

Recommendations

- The DAC welcomes the commitment to reach the 0.7% **ODA/GNI target** by 2013 and reinforces the importance of the United Kingdom being seen to deliver on this commitment. It is encouraged to develop a more comprehensive road map over time on how increases will be spent, including the geographic priorities, the balance between main areas for intervention, bilateral and multilateral channels and the set of delivery instruments.

- The United Kingdom should continue to pursue the geographic **concentration** of its ODA on poor countries and should build further on its progress in focusing on fewer countries. It should also continue to strengthen its strategic approach through a sector focus that reflects its overarching poverty reduction objective and its comparative advantage. Complementarity with other donors could be sought more systematically when shaping DFID allocations.

- Building on its comparative advantage and strong technical expertise, DFID needs to promote pro-poor growth and address gender equality as key vectors to attain the MDGs, in its programmes and through advocacy in international fora.

- In keeping with the Paris Declaration, DFID is encouraged to avoid setting additional aggregate **sector and thematic spending targets**, so as not to undermine partner country ownership and aid effectiveness.

- The UK should seek to improve strategic tools for the **assessment of multilateral performance**, such as the MEFF, and to further maximise their use internally and internationally. While developing a strategic vision for funding of core and non-core multilateral budgets, DFID should take care not to distort multilateral principles.

Promoting policy coherence

UK actively pursues policy coherence for development, but challenges remain

The current government used its first White Paper (1997) to establish the principle that all government policies affecting developing countries should take account of the objectives of sustainable development. A second White Paper (2000) addressed the development impact of non-aid policies and led to a substantial engagement by DFID on trade. In 2002, the International Development Act provided a legislative basis for the whole of government to deal coherently with issues of development. Much of this high level attention to policy coherence has its origins in the strong support afforded by the Prime Minister and the Chancellor of the Exchequer. It permitted the UK to use effectively its dual Presidency of the G-8 and the EU in 2005 to further the development agenda. DFID has moved rapidly to operationalise its leadership in this area. It has found its work greatly facilitated by the strategic positioning of the Secretary of State in the Cabinet and several Cabinet sub-committees (*e.g.* asylum and migration) and by the existence of PSA targets on this topic which are shared among government departments either with DFID leadership or its strong participation. Organisationally, DFID has a strong Policy Division which has proven effective in focusing national and international attention to issues of policy debate and in developing policy guidance that is used across government, within DFID headquarters, and in country offices to achieve development policy coherence. This policy function is instrumental in supporting DFID's leadership at home and abroad.

Significant progress has been made in some areas of policy incoherence to date, including those relating to trade and untying, where DFID has successfully worked particularly at the national and

European levels. DFID could usefully undertake a comprehensive review of its experience of untying, which would be of general interest for the other members of the DAC. A report by the Africa All Party Parliamentary Group in 2005 encouraged greater attention to national approaches concerning corruption, anti-bribery and money laundering. Another recent report from the parliamentary International Development Committee notes in summary that UK work on policy coherence for development has been good, but “could move further and faster”. For example joined-up working on migration has begun to receive greater attention, but there is still more to do in this area. Finally and more specifically, efforts to improve policy coherence toward fragile states also have been noteworthy, although further improvement is challenged by department cultures. In fragile states it is crucial to bridge institutional differences between the local DFID office and the UK Embassy and to build regular communication and effective joint approaches.

Better operationalising policy coherence: priorities, collaboration and delivery

Work on policy coherence for development to date has tended to be **issue-based** and has been raised through a variety of national political channels, NGOs or international campaigns. Given the UK’s recognition of the central role of policy coherence for development success, DFID could more proactively identify its **priorities** so as to better align partners and resources toward addressing high impact policy coherence issues. Current work on the 2006 White Paper is ideally suited to helping define these priority areas.

Such a prioritised agenda for action would have numerous operational benefits. It could facilitate the task of **joining forces** with other departments and would permit a more organised cross-Whitehall identification of lead departments for each issue. DFID has selectively forged effective alliances with FCO and others in London and should consider expanding these links in a manner targeted to priority issues in high payoff areas. Inside DFID, a prioritised agenda could help to establish **lead responsibility** for agenda implementation and help to garner the organisational forces needed to analyse and address the policy issue at hand, including an appropriate role for country offices which draws on their considerable local insight.

DFID recognises that monitoring and reporting of **results** is a cornerstone for the future of all aspects of its development co-operation. Policy coherence actions, given their importance for the overall achievement of results need to be fully integrated into DFID’s results framework. Because policy coherence issues generally go beyond the scope of action of any one bilateral donor, DFID should work with other partners to establish its results monitoring system.

Recommendations

- The UK should articulate a more clearly **prioritised action agenda** for policy coherence for development. DFID should make judicious use of its significant headquarters and field resources in identifying and working on specific policy inconsistencies.

- Policy coherence actions should be fully integrated into DFID’s approach to **results** monitoring and reporting, if at all possible in concert with other similarly motivated international partners.

Aid management and implementation

Scaling up implications for organisation and management

DFID senior management has carefully charted a modern, corporate management approach, including strong corporate values and a logically laid out Corporate Performance Framework, which is intended to be strategic and transparent. At the level of operational procedures, DFID issued in 2005 a 100-page *Blue Book* which sets out the core rules, procedures and systems of the department. Compact and user friendly, the *Blue Book* is one of the best examples of this kind of one-stop, primary reference guide seen in the Development Assistance Committee (DAC) to date.

The comprehensive and logically constructed programming hierarchy found in the Corporate Performance Framework is administratively efficient, simple and transparent. However, a potential disadvantage of this top-down and organised approach is the tension between the strong, centralised directives coming from London and DFID's objectives of country ownership and operational decentralisation. Elements of this tension may be defused as DFID implements its Medium Term Action Plan for aid effectiveness, which should improve the quality and integration of its delivery into those of other partners. Rapid scaling up of UK funding will require flexible application of the current, highly structured system.

Performance system improvements: streamlining and greater results focus

The use of a "Corporate Performance Framework" is a clear indication of DFID management intent to focus on performance as the touchstone of its operational approach. Its logical, bottom-up sequence of feedback actions reflects the performance achieved at each level of aggregation: delivery planning is submitted to routine quarterly, mid-year or annual reviews; business planning is reviewed annually; higher goals are tracked annually.

This carefully laid out approach may, over time, generate more information than needed unless care is taken to clearly articulate policy maker needs and target other specific user needs. As with other DAC member systems, there will be a need to continue simplifying and integrating reporting systems, all of which impose upon the time of field managers. Similarly, the renewed interest in "telling the story" to the British public (rather than simply reporting data) may require rethinking these systems. Increasingly, DFID will want to reflect with its partners on how to support field based, common results systems. Because of DFID's increasingly stronger interest in fragile states, which often are less on track to meet the MDGs and have weaker data, DFID will need to develop performance measurements that demonstrate results in these special environments.

Assuring the best use of high calibre and motivated staff

As with other parts of its system, DFID manages its human resources strategically, as is currently outlined in the document *Our People Strategy 2005-2008*. DFID focuses on the strategic challenges of development co-operation as the starting point of its human resource management, with the aim of ensuring the availability of skills necessary to support DFID corporate objectives. The Strategy situates DFID staff at the centre of its management approach and aims to place them in a work environment of simplified procedures and "people processes" so they may function in a wide range of operating environments (*e.g.* flexi-time, teleworking, teleconferencing). DFID now has the reputation of being one of the UK government's best work environments.

The fast evolving international development agenda (*e.g.* sharing of staff, delegated partnerships, management by results) and the features of future UK development co-operation noted previously

(10% reduction in staff size, doubling of ODA volume, fragile state focus) will require regular review of DFID's skill mix and assignment of personnel. Care will be needed to maintain a diversity of skills that reflects the range of priority interests of the Department.

Based on limited Peer Review exposure to actual field practice, DFID is encouraged to examine the current rate of **staff turnover** which in some cases may undermine effective programme implementation. Other personnel issues that attracted Peer Review attention was the role of the advisor as a "**thinker**" vs. that of a "**doer**", and the ever-present need to use integrated country strategic teams to both shape programmes and implement them. The review team would also encourage staff currently working in headquarters to spend more time visiting the field and country office staff to spend more time out of capital cities. Greater effort should be made in getting key staff closer to the development realities they support. Also DFID should continually assess the optimum balance and size of staff between headquarters and the field and between well-performing and fragile countries.

Assuring aid programme quality and delivery modalities appropriate to country contexts

In parallel with top end programming processes, the structured DFID approach to development has led the Department to produce a very wide range of **policies**, practice papers and other directive materials, some of which are not necessarily linked to field needs or realities. Particularly as DFID becomes more field based and moves closer to an operational approach that involves multiple partners, it will want to review the utility of this type of documentation to ensure that it is not over-investing intellectual resources into an area that is either redundant with other partner efforts or of little relevance to the field. Also, thematic and cross-cutting policy needs to be further mainstreamed in the DFID programme. In an effort to improve the relevance of its policy, DFID already requires that new policy documents contain implementation plans which state their intended value-added and impact. Given the well structured, top down aid programming guidance reflected in policy documents, DFID will want to encourage and assure that their application furthers country ownership and aid effectiveness.

Poverty Reduction Budget Support (PRBS), which includes both general and sector budget support, is seen by DFID as an important means of strengthening partner country ownership and the simplest way for donors to align with government priorities. The UK is considered a champion within the DAC regarding budget support. DFID estimates that over 20% of its bilateral programme consisted of PRBS in 2004 and is growing. Nevertheless, budget support is an area of donor involvement that still is actively debated, the most recent evidence for which is a major joint evaluation on the topic (supported by DFID) concluded this year. It is important that DFID's corporate approach to PRBS be consistently applied in partner countries as part of a range of aid instruments and to avoid the impression that it may always be the preferred instrument. It is encouraged to utilise the results of the 2006 joint evaluation as an opportunity to review how its policy is to be translated to its own country offices, donor partners and recipient countries alike.

In the field, the UK needs to develop a more systematic and strategic approach to local **civil society**, especially given the DFID tendency to work at the high end of development co-operation, particularly at the level of policy dialogue and budget support and frequently with high level government officials. It is vital that such high level dialogue be nourished by a substantive dialogue with the lower levels of the development spectrum, particularly as the UK aims to promote results and real ownership of locally informed poverty reduction programmes.

In the large and growing group of so-called **fragile states**, there is a need to bring greater clarity to the relationships between different policies, units and professional cadres directly or indirectly involved in management of ODA in these countries. This should cover in particular the operational linkages between the Fragile States Team, Conflict, Humanitarian and Security Department (CHASE), Africa Conflict Group, Post Conflict Reconstruction Unit (PCRU), etc, as well as how the humanitarian, conflict and governance advisers relate to each other and to country teams on the fragile states issue.

Recommendations

- DFID should continue to give close consideration to the implications of the **scaling-up of aid** and the rapid and continuing increases in productivity required in a context of reduced administrative and human resources. In doing this, DFID should consider how promising innovations linked to the aid effectiveness agenda, such as extensive use of delegated partnerships, will impact upon DFID's organisation and management.

- Building on **decentralisation**, DFID should make full use of available flexibility in applying the programming guidelines and identifying the better mix of aid modalities, particularly in the fragile states. Implementation of its Medium Term Action Plan for aid effectiveness should be seen as one important step in addressing these issues.

- As DFID seeks to improve its approach to **performance** measurement and reporting, it will need to seek solutions which do not add to the burden and complexity of the existing system. DFID is encouraged to more systematically build on existing **PRS monitoring and evaluation systems** in partner countries. DFID should weigh the benefits and costs of its current system. Because of DFID's stronger focus on **fragile states**, DFID will need to work with others to develop appropriate performance measurement tools in order to demonstrate results.

- In a context of significant scaling up of aid and a future agenda of collective donor aid effectiveness, priority emphasis in **human resource policy** will need to be on implementation, including the extent to which current staff turnover affects continuity and consistency of DFID action in the field. Attention is called to rapidly evolving future staff directions and the need for flexibility and significant advance planning to identify and place critical skills.

- The strong role of DFID in supporting international thinking on development is appreciated. DFID is encouraged to develop closer links between its policy work and aid programmes so as to better translate its **policies** into its decentralised field work and to more strongly integrate the field perspective into central policy design. Such two-way linkages are all the more important to appropriately address the challenges resulting from new aid modalities and scaling up.

- The United Kingdom is encouraged to look at the instrument of General Budget Support in the context of the complementarity of aid instruments, on the basis of country needs, development results, and DFID's comparative advantage, taking full account of the recent joint evaluation of this modality.

- DFID is encouraged to further engage levels of government other than central government, and to develop a strategic approach to engaging with and strengthening local **civil society**. DFID should take steps to keep sight of the grass-roots context as well as to maintain expertise in key sectors.

- In order to promote links in the range of issues covered by work on **fragile states**, notably the issue of conflict prevention, there is need for a comprehensive mapping on the roles and responsibilities of different policy and operational teams within DFID concerning fragile states.

Humanitarian aid

A welcome leadership role in international humanitarian reforms

Clear operational frameworks, an active political leadership and strong organisational set-up have placed the UK as a leader among donors in improving and reforming the international humanitarian aid system and as a main financial contributor to humanitarian action. The UK is one of the largest bilateral donors in humanitarian action and is recognised as a provider of needs-based, flexible and predictable humanitarian support. According to DFID statistics humanitarian disbursements totalled GBP 437 million in 2004/05, equivalent to approximately 10% of its total ODA, which is above DAC average levels. As the volume of UK ODA increases, it should maintain its ability to respond to humanitarian crises on the scale needed.

The UK aims to further improve the capacity of the national and international humanitarian systems. In addition to its own system improvements, it is launching a reform agenda for the humanitarian part of the UN and wants to advance the "Principles and Good Practice of Humanitarian Donorship" (GHD), agreed to in Stockholm in 2003. It was on the UK proposal that the DAC formally endorsed GHD at its High Level Meeting on 5 April 2006. The UK agenda for international humanitarian reform also includes establishing and strengthening the UN Central Emergency Response Fund (CERF), strengthening the UN Common Humanitarian Action Plans and the role of UN Humanitarian Co-ordinators, increasing funding levels for humanitarian aid and disaster risk reduction, and establishing benchmarks for monitoring performance and accountability. Areas of progress include the establishment of pooled humanitarian funding at international (CERF) and country levels (*e.g.* DRC and Sudan).

Strong strategic foundation

The International Development Act outlines the use of humanitarian aid and its relationship to development co-operation efforts. In 2003, the UK endorsed GHD and adopted a national implementation action plan. A comprehensive humanitarian policy was launched in June 2006, covering a framework for humanitarian aid, a policy on disaster risk reduction and humanitarian features of the forthcoming White Paper 2006. The consultation process underlying these framework changes already has promoted a broader understanding of humanitarian issues across government, but further efforts to raise awareness of new policies and of GHD at the field level should be made a priority. Strong linkages with DFID development co-operation planning will be essential both to advance the disaster risk reduction agenda and to engage in new partner countries and fragile states.

Need for institutional clarity

DFID's position as a separate ministry with a strong legislative mandate is an operational advantage and strengthens the foundations and systems for principled humanitarian aid. The particularly active role played by the Secretary of State has reinforced the overall reform agenda. Management of humanitarian aid is located in DFID and centralised in two key units; the Conflict, Humanitarian and Security Department (CHASE) in the UN, Conflict and Humanitarian Division, and in a specialised unit (Africa Conflict and Humanitarian Aid Unit - ACHU) in Africa Division. CHASE is responsible for policy development, monitoring and operational support and ACHU for humanitarian programmes at the regional and country level. The potentially overlapping mandates of CHASE and ACHU can cause difficulties for interaction with field offices and their respective responsibilities could be clarified further. The core strength of DFID's humanitarian system is the strategic use (and the competence of) its humanitarian and livelihood advisors. The use of national/regional policy advisors is crucial for effective management of protracted and structural humanitarian emergencies. Given the importance of human resources for humanitarian action and the high expectations currently raised in this area, DFID will need to maintain and further develop its expertise in this area.

Humanitarian affairs require efficient inter-ministerial co-ordination across government. Other key ministries directly or indirectly involved in humanitarian action include the Foreign and Commonwealth Office (FCO), the Ministry of Defence (MOD) and the Cabinet Office. The roles and communications between DFID, FCO and MOD around fragile states and civil-military interaction need to be clarified. Priority should be given to defining roles and responsibilities and reaching consensus on how to maximise the protection of civilians.

Recommendations

- The new **humanitarian policy** should further strengthen the role of DFID in the provision of needs-based and principled humanitarian aid and improve coherence across Whitehall. Greater clarity regarding objectives and operational priority setting is needed when providing development and humanitarian aid in complex emergencies.

- **Awareness-raising** of the new humanitarian policy framework and on GHD at field level should be made a priority.

- Greater **operational clarity** between FCO, DFID and MOD is needed on how to maximise the protection of civilians and on approaches in fragile states.

SECRETARIAT REPORT

Chapter 1

Strategic Foundations and New Orientations

Strategic foundations of British development co-operation

The origins of national development co-operation

The United Kingdom has historical relationships with numerous developing countries around the world, particularly as part of the former British Empire. Following independence most of these countries remained associated with the UK through membership in the Commonwealth of Nations. The continuing importance of this historical precedent for today's British development co-operation is reflected in the fact that two-thirds of the twenty top recipients of its British bilateral official development assistance (ODA) in 2003-04 were members of the Commonwealth.

In parallel with the evolution of the Commonwealth, the United Kingdom's international interests and responsibilities have grown through its participation in the United Nations Security Council, the Group of 8 (G8) leading industrialised nations and the European Union (EU), among others. Over the last several years, the UK has used development co-operation as a platform for its interest in global activism.

The United Kingdom's organisational approach to development co-operation was given a fundamental overhaul in 1997 with the first election of the current Labour government. At that point British official development action was the responsibility of the Overseas Development Administration, a semi-autonomous agency attached to the Foreign and Commonwealth Office (FCO). It was then transformed into a freestanding ministry, the **Department for International Development** (DFID), with a clear mandate to tackle global poverty both by managing a quality aid programme and by "engaging with and influencing" other international partners. This commitment was directly influenced by the 1996 DAC development partnership strategy "*Shaping the 21st Century*". The DFID mandate and many of the post-1997 actions noted below permitted DFID to move beyond a focus on aid alone, to a focus on the broader objective of development.

A substantial "joining up" of government since 1997

A "joining up" of government on issues of development co-operation has taken place since 1997 and is an approach which is now largely supported by all British political parties and the majority of civil society. It was the result of an unambiguous political agenda and a well managed delivery mechanism, key elements of which are noted below.

The changes in UK development co-operation operation since 1997 are a testimony to the importance of strong political **leadership**, greatly aided by the attribution of a seat in Cabinet to the Secretary of State for International Development. The substantive leadership of DFID in its area of competence is now essentially uncontested due to the political alliance that has been built over the last ten years among the Prime Minister, the Secretary of State for International Development and the Chancellor of the Exchequer (Minister of Finance).

At the level of legislation, on 17 June 2002 parliament passed an **International Development Act** which replaced the outdated 1980 text. The Act provided a clear legislative mandate around poverty reduction (DFID's "ONE aim") and gave UK development co-operation its current strategic orientation on issues of development, not only aid. The Act governs the conditions under which the UK can give development or humanitarian aid, the forms it can take and its terms. For the first time, it reflects in law the centrality of poverty elimination for DFID and interdicts the use of development assistance for other purposes, including the tying of bilateral aid to procurement contracts for British companies. Because it has been designated the lead ministry for carrying out this legal mandate, DFID enjoys an unambiguous relationship with other ministries, and this greatly facilitates its ability to influence cross government thinking on development policy. The Act has been a cornerstone in the substantial improvement in the UK approach to international development since 1997.

Operational follow through on the substantive intent of the International Development Act is provided through a mandatory government wide system of **Public Service Agreements** (PSA), both with respect to DFID and other ministries with development responsibilities (Box 1). As deemed appropriate, DFID shares PSA targets with other ministries. More specific operational aspects of the PSA are raised in Chapter 5.

Box 1. The DFID Public Service Agreement

DFID's current key aims and objectives were first set out in its Public Service Agreement 2003-2006 and are translated into the new (overlapping) PSA covering 2005-08. The overall aim of DFID's Public Service Agreement is "the elimination of poverty in particular through achievement by 2015 of the Millennium Development Goals". The MDGs are its long-term targets and 2008 is now DFID's interim benchmark to track progress towards that objective.

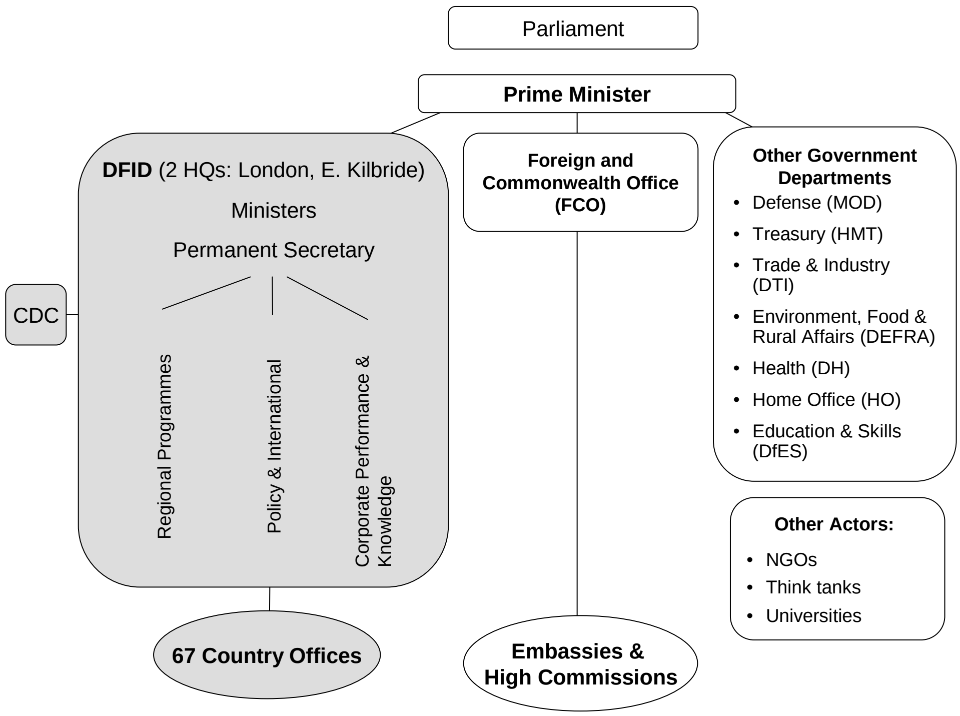
The Secretary of State for International Development is publicly accountable for delivery of the department's PSA. Within DFID, its Management Board has a collective responsibility for delivery. Directors are individually accountable for their objectives and targets and through their Delivery Plans delegate responsibility to the teams in their divisions. This process works its way into the individual annual work plans of each DFID employee. As such, all DFID employees are in part responsible for delivering the Public Service Agreement and the MDGs.

Associated with DFID's PSA is a Technical Note which describes how progress against each of the PSA targets will be assessed and measured. Where appropriate, it includes the statistical methodologies to be applied, sources of data and baselines.

The clarity of the 2002 legislation also has made it possible to better structure the specific priorities of UK development policy. These policies are generally written down by DFID to ensure that staff and external partners have a clear understanding of their content. Most important to the overall direction of UK policy since 1997 has been two "**White Papers**" (1997, 2000) which will be augmented by a third in 2006. (This is, therefore, an excellent moment for the DAC Peer Review to complement DFID analysis in the review of its strategic priorities.) Policy coherence among ministries of UK government is ensured at the highest level by government wide-guidance contained in the International Development Act and by subsequent operational encouragement in the individual ministerial Public Service Agreements, as well as personal leadership at the senior levels of the system (Chapter 4).

The strong and clearly defined framework for development co-operation in the UK has permitted an **institutional structure** that is centralised at the level of headquarters (Chapter 5). The institutional core of the larger system is DFID, which has both a **ministerial function** (policy and government leadership) and an **agency function** (aid delivery and technical expertise). DFID estimates that it is effectively responsible for almost all ODA, with direct control over 84% of total disbursements (Chapter 2). At the same time, DFID views its operations as "country led, decentralised and delegated" around its network of 67 field offices. The key national actors in the larger UK development co-operation system are noted in Figure 1. An interesting feature of DFID organisation is that it has functioned since 1981 with "dual headquarters" in London and East Kilbride, Scotland.

Figure 1. The U.K. Development Co-operation System



Progress since the 2001 Peer Review recommendations

The United Kingdom has made considerable progress in directly addressing the DAC recommendations from the 2001 Peer Review, all of which are further detailed in this Peer Review. Annex A contains a summary of the main recommendations and the status of the UK response to date. Key actions that have responded positively to the DAC recommendations include:

- A commitment to reach the **0.7%** ODA/GNI target by 2013 (Chapter 2).
- An official mandatory objective to focus on the **poorest countries** (written into the DFID Public Service Agreement). DFID will allocate 90% of UK bilateral ODA to low-income countries (LICs) by 2006 (Chapter 2).

- In support of **poverty reduction strategies (PRS)**, DFID now regularly supports country PRS approaches and builds its own Country Assistance Plans (CAPs) around them. This is also monitored in the PSA (Chapters 5 and 6).
- New DFID strategies take into account **other donor** collaboration, and opportunities for in-country harmonisation and alignment are taken jointly with other donors wherever possible (Chapter 6).
- Updated and simplified **operational guidance** in the form of a comprehensive "Blue Book" in 2005 (Chapter 5).
- Continued upgrading of the quality of the relationship between **headquarters and the field**, including the appointment of an internal communications manager in 2004 and communications officers in most country offices (Chapters 5 and 6).
- Regular upgrading of the quality of **monitoring and evaluation** since the previous Peer Review, including a new Portfolio Quality Strategy and significant rejuvenation of the Evaluation Department (Chapter 5).

A small number of DAC recommendations remain partially outstanding and are also explored in subsequent chapters of the Peer Review. These include the need to persist in prioritising DFID's sector and country focus (Chapter 2), to ensure the full translation of policies at the field level (Chapter 3), to continue to support policy coherence for development objectives (Chapter 4) and to enhance its development dialogue in the UK, in order to deepen public support for development, particularly as the UK works to "scale up' its aid (Chapter 1).

A development co-operation model?

The UK is currently seen by many aid practitioners and donors as one of the bilateral models for today's evolving world of development co-operation. The UK Government has an active interest in maintaining this image since it has PSA objectives which call upon it to encourage greater effectiveness in the other multilateral and bilateral aid systems. This seems to have instilled DFID staff with a special interest in forming partnerships with other international donors, including those at the level of the DAC. DFID's multiple initiatives are generally highly appreciated by the donor community when they encourage more efficient approaches among donors (Chapters 3, 5, 6 and Annex C).

While this leadership is seen in most contexts as helpful, it also can give rise to a certain concern. Donors who do not support select DFID themes with the same degree of enthusiasm (*e.g.* budget support) or whose political leadership is not yet comfortable with the international effectiveness agenda can find their field missions inadvertently labelled by others as less than fully collaborative. In this sense, DFID may be perceived as "long on strategy, short on tactics" when working in these partnerships. In the spirit of that partnership, DFID is encouraged to further refine its guidelines to promote broadest possible debate and space for all donors to participate in its pilot efforts on the ground (Chapter 6).

Public awareness

The current status of public support

Nurtured by top British government leadership and highlighted by several newsworthy international events in 2005 (Indian Ocean Tsunami, G-8 meeting in Gleneagles, Live 8, EU presidency) it is generally felt today that UK development co-operation is at an historic "high point" of political and public support. Also unprecedented today is the cross party agreement in parliament in favour of UK engagement in development, an attitude buttressed directly by strong public support. Independent public opinion surveys commissioned by DFID since 1999 report that over 70% of the British adult population support development co-operation. A 2005 Eurobarometer poll registered similar levels of support in the UK, but suggested that this broad-based support also tends to be shallow and highly influenced by international events. Irrespective of the popularity of development co-operation to date, the UK government cannot be complacent on this topic should it wish such support to continue in the future.

Public awareness building

DFID's public awareness building is shaped by a well defined *Communication Strategy* (DFID, 2005a), the leadership for which is provided by a 70-person Information and Civil Society Department which simultaneously deals with the press, the DFID website, public enquiries, public education, communication and funding for NGOs. The Communication Strategy pursues three priorities: (i) external communications in the UK and internationally; (ii) internal communication within DFID; and (iii) communication for development. DFID sees these three areas of communication to be closely interlinked and therefore need to be joined up in a common strategy. By assembling both quantitative and qualitative evidence, DFID has identified four distinct audiences and has targeted action for each:

- **Actively engaged** (5%) – a main target audience which is addressed through the DFID website, DFID "e-news" bulletins, "Developments" magazine and specialised publications (*e.g.* "Trade matters – in the fight against world poverty").

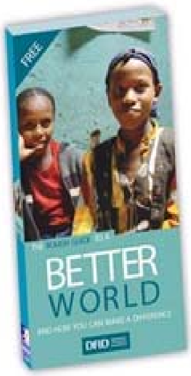
- **Passively engaged** (25%) – addressed by public information campaigns supported by commercially popular intermediaries (*e.g.* Starbucks; Topshop; Financial Times) who distributed the "Rough Guide" (Box 2) and by NGO partners.

- **Passively disengaged** (40%) – addressed through numerous British NGO groups and through development education in schools.

- **Actively disengaged** (30%) – addressed by neutralising the more critical perspectives of this heterogeneous group (focus on targeted, positive images and news items of development, including development world interviews and first hand reporting).

Such specific identification of target groups has permitted DFID to better differentiate messages, marketing approaches and the relative emphasis to place on each group. This professional and well organised effort benefits from annual funding of GBP 10 million. The bulk of these funds is invested in public education through NGOs, regional development education centres and support to national and regional education authorities.

Box 2. The Rough Guide



A good example of DFID's creative approach to awareness-building was to fund a user friendly guide to making the world a better place for its poorest inhabitants. The "*Guide to a Better World*" was launched in 2004, in partnership with the well known British travel publisher *Rough Guides*. The Guide covers the issues and the challenges of development and explains how individuals can become involved through activism, ethical shopping and tourism, giving to charity and volunteer work.

The Guide has proven to be popular. To date, 5.5 million copies have been distributed free of charge through UK Post Offices and through partnership with business and the media. An advertising campaign targeted the *Live 8* concerts in London and Edinburgh. Requests for bulk copies continue to be received from groups across civil society, such as churches, scouts and guides, schools and charities.

In the post-2005 era, DFID leadership is already asking the fundamental question of "how to maintain the momentum" of national support for development. Success in this area will require the ability to communicate results and more simply to "tell the story", with future public and political support potentially hanging in the balance. DFID is encouraged to make optimum use of its existing communications and marketing skills as it focuses on the need to maintain public interest. The targeted approach used in the *Communications Strategy* holds the promise of a more efficient expenditure of funds in the future, while avoiding the need to overemphasise technical reporting issues that distract from the objective of satisfying the needs of political and public client groups. Success in this area will be of special interest to the other members of the DAC who are similarly engaged in the scaling up agenda. DFID also is encouraged to strengthen attempts (communications strategy, implementation follow up) to join forces with other departments, especially the FCO. In the case of fragile states, analysis suggests the need for a targeted communication strategy aimed at the British public and parliament to make clear the rationale for scaling up in countries where serious human rights' violations and high levels of corruption are often a reality (Chapter 3).

Looking forward: The challenge of doing "more with less"

In spite of the well informed and strategic manner in which the UK has carried out its development co-operation over the last decade, it is already aware that it will face some important, simultaneous challenges in the near future. It proposes to more than double its current level of aid in the next few years (0.7% target in 2013), to deliver its aid better (aid effectiveness agenda, results monitoring) and to move into countries with more complex and difficult environments for aid delivery (fragile states, conflict). At the same time, it plans do so with fewer staff (10% reduction in DFID staff over the next three years) and regularly expected constraints on its administrative operating funds. It will be a challenge for DFID to undertake all of these tasks while maintaining the quality and innovative character of its aid. DFID recognises this challenge and is approaching it constructively.

DFID has gone through a "golden age" of growth and achievement since 1997, and certainly since the last Peer Review in 2001. It must now consolidate those achievements and prepare for the next growth phase, when performance scrutiny will intensify, both domestically and internationally. The task will not be easy. Subsequent chapters of this Peer Review identify a number of related challenges and perspectives worthy of DFID attention.

Future considerations

The challenge for UK development co-operation is how to build from its currently strong base. Within that context:

- Important system changes may be required as DFID tries to deliver more aid, better and in more difficult circumstances, while administrative resources remain limited. It will need to ensure that **political leadership** continues to be kept fully informed and is supportive of these future changes.

- Maintaining the momentum of current high levels of **national support** for development will be a special challenge. DFID will need to focus on its ability to identify and communicate results and to "tell the story" to the UK public at large and the political representatives it elects. In the context of fragile states, it can be expected that specially targeted communication strategies will be needed to outline the rationale for scaling up in these countries.

- As DFID proactively seeks to influence international donors toward common approaches, it needs to strike a balance between its objective of leadership in aid reform and being perceived as promoting its own model. It is encouraged to review options for improved **tactics of engagement** in this area.

Chapter 2

ODA Volume, Channels and Allocation

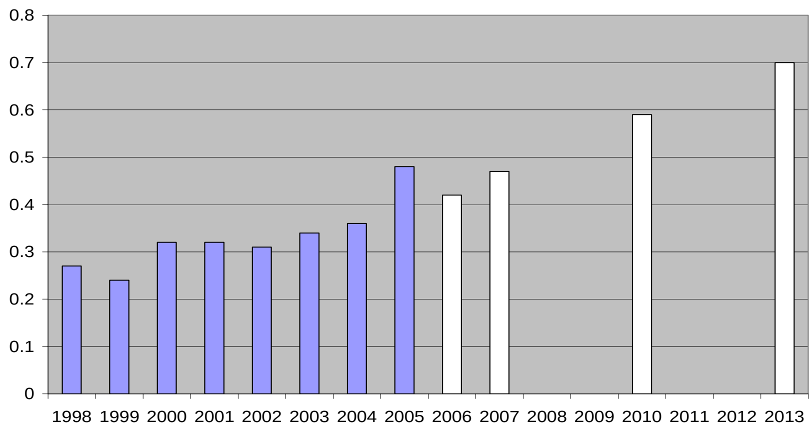
Overall official development assistance

A visible and rapidly expanding ODA programme

In 2004, the United Kingdom's net ODA disbursements increased by 9.5% in real terms to reach USD 7.9 billion, representing 0.36% of its Gross National Income (GNI). This brought the United Kingdom from fifth position among DAC member countries to fourth in terms of **aid volume**. Preliminary data for 2005 suggest a further sharp rise in ODA, mainly due to debt relief for Iraq and Nigeria. The bulk of the UK aid effort is channelled through DFID. This includes bilateral and multilateral aid from DFID funds, which represented 84% of total UK ODA in 2004. The remaining 16% includes non-DFID debt relief, Capital for Development Group (CDC)[1] investments and contributions from other government departments to CSOs, expenditure by other government departments, British Council and the Global Conflict Pool (DFID, 2005b).

The **ODA/GNI ratio** followed a positive trend since the last Peer Review and rose progressively to 0.36% in 2004 and according to preliminary data, 0.48% in 2005. Over 2000-04, the UK's ODA volume increased by 30% in real terms. This positive trend reversed the previous decade of declining ODA/GNI ratios and allowed the United Kingdom to exceed the previous high ratio of 0.32% reached in 1991 (Table and Chart B.1). UK ODA is above the DAC average of 0.26% but lags behind the DAC average country effort (unweighted average) of 0.42%.

Figure 2. Past and future trends of the UK ODA/GNI ratio



Source: DFID

1. The Capital for Development Group (CDC) replaced the former Commonwealth Development Corporation in 1999 (Chapter 3). CDC is wholly owned by DFID.

The UK plan for scaling up

In July 2004, the United Kingdom made a commitment to achieve the **0.7% ODA/GNI target** by 2013, and for the first time, the Chancellor of the Exchequer set a timetable with specific milestones to meet this objective (Figure 2). These targets exceed the EU Barcelona commitment of 0.33% by 2006 and the May 2005 EU Council agreement of 0.51% by 2010 and 0.7% by 2015. Based on the above targets, the UK's net ODA volume will reach USD 9.6 billion in 2006 and 14.6 billion in 2010 (at constant 2004 prices), representing real increases of 22% and 85% respectively when compared to 2004. The *New Public Spending Plans 2005-08* show DFID expenditures up by an average of 9.2% per year in real terms over the triennium, consistent with the goal of 0.7% by 2013 (HMT, 2004).

The commitment to achieve the 0.7% target is shared by all the main political parties and widely supported by British civil society. Such political will is all the more important given the fiscal situation and a general slowdown in economic growth (OECD/EDRC, 2005). Another factor to be borne in mind is that the amount of ODA devoted to debt treatment, the rise in which has boosted ODA figures, is likely to fall after 2005 (see below). This will mean mobilising additional budgetary resources in a context of stronger pressure to decrease public spending.

As part of its preparations for scaling up, since 2000 the United Kingdom has actively promoted **new funding mechanisms** within the international community. In January 2003, it launched a proposal for an International Finance Facility (IFF), as a means of rapidly increasing the flow of aid in support of the MDGs over the period 2006 to 2015. The IFF would raise funds on the private capital market through bond issues secured against legally-binding donor pledges and use these funds to increase aid disbursements. It would be largely additional to current ODA flows, since ODA is attributed to donors when they make payments, not when IFF disburses. The timing and scale of the IFF is still to be determined. A pilot International Finance Facility for Immunisation (IFFIm) is underway with a USD 4 billion budget over ten years. The UK is committed to providing GBP 1.4 billion over 15-20 years for the IFFIm.

DFID also has to address the huge challenge of efficiently managing an increased volume of aid with fewer human and administrative resources. As with other UK government departments, it is required to find significant savings in its administration costs, including reducing its staff numbers and its support service costs by 10% between 2005 and 2008. This effort, which is flagged in the *New Public Spending Plans 2005-08*, is part of the UK Government Efficiency Programme, which aims to achieve GBP 21.5 billion in annual efficiency gains by 2007/08. The shift toward increased general budget support is one part of DFID's response to the challenge of scaling up in this field (below and Chapter 6).

The bilateral channel: policies and allocations

Approximately two-thirds of British ODA is disbursed bilaterally, 95% of it in grant form. While DFID provides only grants, CDC, a company wholly owned by DFID, which invests in the private sector in developing countries, provides equity financing and concessional loans to companies in these countries. Other bilateral trends include an increasing use of budget support and a declining use of technical co-operation (Chapter 6).

Geographic allocation: strong focus on low income countries (LICs)

DFID's 2003-06 PSA set as an explicit objective an increase from 78% to 90% in the proportion of DFID's bilateral programme going to l**ow income countries**. This objective is reinforced in the DFID 2005-08 PSA, with a sixth target of "at least" 90% of DFID's bilateral funding for LICs. Some

81% of country-specific bilateral expenditure in 2004 went to LICs, compared to 73% in 2000. This places the UK well above the DAC member country average of 55% of ODA going to LICs. It is worth noting that 51% of UK bilateral ODA went to LDCs[2] and 53% went to sub-Saharan Africa in 2004 (Table B.3). This increased concentration of aid on poor countries reflects the 1997 reorientation of aid policy toward global poverty reduction and the poorest countries. While it focuses on poor countries, DFID plans to increase its involvement in **fragile or "orphan" states**, many of which are less on track to meet the MDGs. In 2004/05, 29% of its bilateral country allocated programme was spent in fragile states (Chapter 3). In the coming years, DFID will need to find the adequate balance between maintaining attention to the good performers and tackling the fragile states, in order to ensure lasting development results and continued quality portfolio (and public support).

The 90% LIC spending target is not without consequences. In 2004 (DFID, 2004a), DFID elaborated an approach to working in and graduating from **Middle Income Countries (MIC)**. For the bilateral programme, the MIC strategy leads DFID to concentrate on sub-groups that are most important for the achievement of the MDGs and where its assistance can add value to the wider international effort. It means accelerated graduation in some countries, medium-term graduation in others and a greater focus on regional and more strategic approaches. Such a strategy is all the more important since, in October 2003, the UK announced its commitments to reconstruction in Iraq would reduce aid allocations to other MICs. Aid programmes in more than 20 countries were affected, and bilateral ODA to some countries completely withdrawn (Anguilla, Croatia, Honduras, Macedonia and Peru), and spending in others (Bolivia, Jamaica and South Africa) reduced.[3] Such rapid withdrawal could put at risk progress made toward MDGs by these countries and since those affected could be some of their poorest populations. DFID's new strategy may give the means to reinforce the poverty reduction objective as the main driver for ODA allocations to MICs.

The **Resource Allocation Model** is another tool set up by DFID in its effort to allocate resources effectively among LICs (Box 3). This tool helps DFID to carry out its annual resource allocation round which, thanks to three-year budget allocations from Treasury, sets rolling triennial budgets at divisional and departmental level. In doing so, DFID tries to achieve a balance between improved predictability in its support to partner countries and the flexibility needed to adjust allocations to countries most in need. It could be useful to examine to what extent the Resource Allocation Model can help to push further DFID's ongoing efforts toward geographic concentration.

The concentration of the United Kingdom's programme has increased over the last decade, with the total number of partner countries decreasing from 146 to 119 between 1993-94 and 2003-04, and the share of bilateral aid received by the top 20 recipients increasing from 69% to 80% in the same period. However, the programme is still dispersed geographically and sharper focus could be used to increase the impact of UK ODA. While DFID has withdrawn from several countries, it has opened new offices in countries such as Pakistan and the Democratic Republic of Congo (DRC), the latter an under-aided fragile state. With 16 African countries receiving as a group 89% of DFID funds for Africa,[4] the United Kingdom could re-examine the impact of its new and still modest aid programmes

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2. This is above the DAC average of 33% while, with 0.14% of its GNI allocated to LDCs, the United Kingdom's performance is just under the UN goal of 0.15%.

3. Meanwhile UK total bilateral gross public expenditure to Iraq increased from GBP 9 million to GBP 55 million between 2000/01 and 2004/05 - added to a GBP 110 million humanitarian aid programme in 2003/04. In May 2005, the agreed DFID funding to Iraq, including multilateral organisations, amounted to GBP 391 million (DFID, 2005d).

4. These are the African countries where DFID monitors progress against its PSA objectives: DRC, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mozambique, Nigeria, Rwanda, Sierra Leone, South

in countries such as Burkina Faso or Benin, in relation with other donors' involvement, and explore further delegated co-operation in these countries. A more consolidated approach between the different official British sources should be considered in this respect (*e.g.* with the British Council which operates in 110 countries with a slightly different geographic focus). The UK could also build on DFID's experience of replacing a series of small country programmes under a regional framework (Central America, Central Asia and South Caucasus).

Box 3. A "Resource Allocation Model" to maximise DFID impact on poverty reduction

DFID has set up a model to inform its allocation of bilateral programme spending among the low-income countries (LICs) in which it intends to have a spending programme. The Resource Allocation Model analyses a set of objective data on each country and generates theoretical programme resource budgets for bilateral country programmes, with a view to indicate how to allocate bilateral aid among countries in such a way to maximise its impact on poverty reduction. Allocations suggested by the model are intended only as a starting point for decision making, which are also influenced by other considerations - such as the availability of finance from non-aid sources or the UK potential contribution to overall aid effectiveness in specific countries - while still sticking to the same basic principle of maximising impact on poverty reduction. Finally, allocations are considered in tandem with directors' delivery plans, and then ministers make final judgements.

Two different features are taken into account for each country: (i) the extent of poverty, which is measured mainly by its per capita income level and population size, but also with some allowance for the speed with which it is moving towards MDG targets - the allocations to countries with below-average progress towards the MDGs being increased; and (ii) the likely effectiveness of aid in reducing poverty. The latter is measured on the basis of the World Bank Country Policy and Institutional Assessment (CPIA), with allowance for vulnerability to economic shocks, as measured by the Economic Vulnerability Index (EVI) of the European Development Fund (EDF) – the allocations to countries with above-average vulnerability being increased.

In addition to these two criteria, the model takes into account the amount of aid each country is likely to receive from other donors, and suggests a particular way of allowing for the activities of other donors. To make the calculations transparent, the results table is laid out on a step-by-step basis, showing how each of the ingredients of the model contributes to its final allocation. It is to be noted that India, because of its huge size, has its allocation fixed separately by the Management Board.

Source: DFID, A guide to DFID's Resource Allocation Model, 2005.

The UK aid programme's focus on **Africa** will remain high in the coming years consistent with the orientations of the 2005 UK twin presidencies of the EU and the G8. DFID's programme in **Asia** also remains important. Its funding for Asia increased from 27% to 33% of bilateral ODA between 2000 and 2004 and is expected to increase by 55% between 2003-04 and 2007-08 (DFID, 2005c). India is by far the largest bilateral programme recipient (representing 12% of the total bilateral ODA), followed by Bangladesh. The rationale for this continuing importance of Asia is the emphasis put on reaching poor people - versus poor countries - to attain the MDGs: even if the proportion of people living in poverty is lower in South Asia than in sub-Saharan Africa, there are more poor people living there than in the whole of Africa. DFID should further consider how to achieve the right balance in light of the development capacity of respective countries and their ability to be on track to meet any of the MDGs by 2015. This re-assessment could also take into account DFID's ability to effectively reach those affected by poverty in each country.

Africa, Sudan, Tanzania, Uganda, Zambia and Zimbabwe. In Asia, there are nine PSA countries: Afghanistan, Bangladesh, Cambodia, China, India, Indonesia, Nepal, Pakistan and Vietnam.

Sector allocations closely linked to the MDGs

The trend of the UK's bilateral aid sector distribution reflects the increased focus on poverty reduction since 1997. It indicates a stronger orientation towards social infrastructure and services, which accounted for 41% of the UK gross disbursements in 2003-04. The sub-sector "government and civil society" is the major beneficiary, receiving 47% of the disbursements allocated to the social infrastructure and services sector. This reflects the sharp increase of this sub-sector, which rose from 5% of the total UK disbursements in 1998-99 to 19% in 2003-04, in line with DFID stronger engagement in fragile states. A greater emphasis is also placed on basic education, in order to support the MDGs. For the same reason, DFID's poverty reduction budget-support provided as sector budget-support is often earmarked to health or education sectors. Over the last decade, support to economic infrastructure and services and to production sectors has steadily declined and is now below the DAC average (Table B.5).

A **Policy Information Marker System** (PIMS) has been developed by DFID to show the extent to which development activities target specific policy areas – in particular those focused on different MDGs. The PIMS includes 13 markers,[5] which are scored according to which policy areas are targeted either as a principal or significant objective. All bilateral spending commitments over GBP 100 000 (accounting for over 90% of DFID's expenditure) are required to be marked under the PIMS. According to this system, nearly six out of ten programmes have good governance as a principal or significant objective (Table 1).

Table 1. Policy and MDG focus of DFID's PIMS marked bilateral expenditure by aid type 2004/05

MDG	PIMS marker	% against each goal respectively
Goal 1	Eradicate extreme poverty and hunger	35%
Goal 2	Achieve universal primary education	29%
Goal 3	Promote gender equality and empower women	32%
Goal 4	Reduce child mortality	35%
Goal 5	Improve maternal health	22%
Goal 6	Combat HIV/AIDS, malaria and other diseases	37%
Goal 7	Ensure environmental sustainability	31%
Other	Human rights and empowerment /	30%
	Good Governance	56%

Source: DFID, 2005b, Table 20

Despite the stronger focus on social infrastructure and service delivery, DFID is involved in a wide range of sectors. In a given partner country, it could consider focusing on fewer sectors where it can strengthen its comparative advantage, and adopting a more specialised approach. In doing this, DFID could think about further building on its strong economic expertise, policy advisory capacity and experience in supporting central core government functions, such as public financial management, to reinforce its analytical approach to the cross-cutting growth agenda. This could allow DFID to be more engaged in helping to build up the capacities of actors involved in the development and implementation of pro-poor growth programmes in partner countries. Such strategic approaches to sector allocation could lead to increased complementarity within the donor community, consistently with the aid effectiveness agenda set out in the Paris Declaration and strongly supported by DFID.

5. Including three markers for MDGs 6 and 7 and two markers for the section "other".

With 12% of its bilateral ODA and USD 544 million devoted to emergency and distress relief in 2003-04, the United Kingdom is a major actor in **humanitarian aid**, a topic which is further detailed in Chapter 3 and Annex C. In Africa, 19% of the UK bilateral aid is humanitarian assistance. Approximately 75% of DFID's humanitarian aid is spent bilaterally and 25% multilaterally. DFID disbursed USD 150 million to respond to the December 2004 Indian Ocean tsunami disaster, with nearly this entire amount for emergency aid.

The UK has strongly supported the Heavily Indebted Poor Countries (HIPC) initiative as well as additional **debt relief** for poor countries and targeted support for those that have suffered external shocks. In September 2004, the UK announced a new initiative calling for relief of the multilateral debt of HIPCs and other low-income International Development Association (IDA)-only countries with robust public expenditure management systems. The next year at Gleneagles, the G8 agreed a proposal to cancel 100% of outstanding debts of eligible HPICs to the IMF, IDA and African Development Fund, and to provide additional resources to ensure that the financing capacity of the IFIs is not reduced. The UK continues to go beyond this engagement, paying its share of qualifying non-HIPCs' debt servicing to IDA and the African Development Bank (AfDB). Debt relief increased from a 3% share in UK ODA in 2000 to 8% in 2001 and 12% in 2002, and after a drop in 2003 (2%) attained 10% in 2004 (Table B.2). In 2005, net debt relief grants jumped to a remarkably high 34% of the British ODA, mainly due to Iraqi and Nigeria debt forgiveness. Almost all of the UK ODA increase that year can be attributed to these two major debt relief operations. However, according to DAC Secretariat estimates, the impact of action relating to debt is likely to decrease significantly after 2005.

British CSOs: Benefiting from increased private and public funding

The UK benefits from a strong network of civil society organisations (CSOs).[6] According to BOND (the British NGO umbrella), the annual total spending of the 300 UK based voluntary organisations working in international development and development education amounted to GBP 1.37 billion in 2005 (BOND, 2006). 2005 was a year of unprecedented generosity, due to the response to the Indian Ocean Tsunami, but also to other humanitarian emergencies (*i.e.* Sudan and the Kashmir earthquake). For instance, the Catholic Fund for Overseas Development's (CAFOD) income jumped to GBP 47 million – an increase of 65% from the previous year; Christian Aid's income was a third more than in 2003-04; and donations and gifts to Save the Children rose from GBP 34 million to GBP 45 million.

While government departments other than DFID provide funding to CSOs, total DFID expenditure through UK CSOs has increased in the last few years and amounted to GBP 233 million in 2004/05, of which 39% disbursed for humanitarian action (DFID, 2005b). This increase will be pursued in the coming years, as indicated by the Secretary of State for International Development, who announced a GBP 20 million increase in development aid funding through UK CSOs in 2006.

DFID funds some 180 UK-based CSOs, but its support is mainly focused on a small number of those benefiting from a Partnership Programme Agreement (PPA) or involved in the implementation of humanitarian assistance programmes. In 2004/05, DFID's ten most important CSO partners received 88% of the total. DFID also provides funding to non-British CSOs. In 2004/05 DFID channelled GBP 328 million to all CSOs, compared with GBP 114 million in 2000/01. British CSOs rely mainly on private donations - VSO (Voluntary Service Overseas) being an exception in this respect receiving 75% of its funding from a partnership agreement with DFID. Most British CSOs

6. CSOs, neither state nor family organisations, include UK-based, non profit organisations (NGOs, faith-based groups and community-based groups) as well as trade unions.

encountered during the Peer Review expressed the opinion that they do not wish to receive major increases in ODA as a result of the scaling up process, if it implies compromising their independence.

The multilateral channel: Policies and allocations

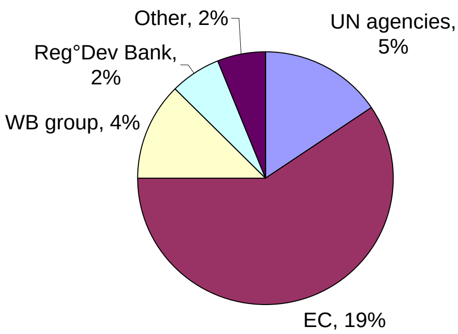
Since 2000 and in line with its PSA objectives, DFID has worked with multilateral partners to deliver key development outcomes to increase the poverty focus of multilateral agencies and to enhance their effectiveness. In the context of scaling up of aid, DFID is scheduling large increases of aid channelled through the multilaterals. It is a strong case for a growing multilateral system, providing it continues to improve its ability to deliver more and better aid, more debt relief and a more favourable trade environment.

An important contributor to multilateral organisations

Almost one-third of UK ODA was disbursed to multilateral organisations in 2004 (Table B.2), putting it above the DAC average of 27%. The share of the UK multilateral ODA has fallen in recent years, although its value in constant terms has been fairly stable, amounting to USD 2.26 billion in 2004 (in constant 2003 terms).

DFID funds more than 30 multilateral organisations. The European Community (EC) is by far the largest recipient, composing 20% of total gross ODA disbursements in 2004, of which more than one-third was allocated to the European Development Fund. Contributions to UN agencies are divided equally between core contributions to UN bodies and the funding of specific development activities. The AfDB takes over half of the funding allocated to Regional Development Banks. Among support to other multilaterals and public-private partnerships, DFID provides funding to Commonwealth development activities and to Global Funds and Partnerships, including the Global Environment Facility (GEF), the Global Fund to Fight AIDS, TB and Malaria (GFATM), the Public Private Infrastructure Advisory Facility (PPIAF), and the Global Alliance for Vaccines and Immunisation (GAVI). This large number of recipients may point to the need for DFID to review its strategic priorities in the multilateral arena, with an eye to greater focus and concentration of its funding.

Figure 3. UK multilateral ODA Main recipients
(Share of total ODA - 2003-04 average)



DFID's partnerships with multilaterals are framed by **institutional strategies**, which set out how DFID aims to contribute to achieving its White Paper objectives in partnership with each of the institutions concerned. Joint objectives are defined, which cover policy issues, internal performance and specific targets for improved results. Progress towards these joint objectives is monitored through an annual review of the strategy. Institutional strategies are normally produced every three years, through a consultative process involving the institutions themselves and a range of civil society and other contracts. DFID should clarify the link between these institutional strategies and its Multilateral Effectiveness Framework (MEFF) and could explore further how these institutional strategies can help to develop synergies between multilateral and bilateral channels at the country level. At the same time, it will want to keep in mind the multilateral principles when developing "bilateral" institutional strategies, allocating non-core resources and assessing multilateral organisations' effectiveness.

DFID's international leadership role to promote effectiveness of multilateral aid

DFID's fourth 2005-08 PSA objective is to "increase the impact of the international system in reducing poverty, preventing conflict and responding effectively to conflict and humanitarian crisis", with a specific target on improving effectiveness of the international system, including a clear reference to the **European Community**. The UK development priority of its EU presidency has notably been to secure decisions related to poverty reduction, HIV/AIDS, development in Africa and revision of the EC's Development Policy to improve aid effectiveness. More generally, during 2005, the Prime Minister took the opportunity offered by the UK twin presidencies of the EU and the G8 to push forward the agenda on Africa. DFID remains committed to working with the European Commission, European Parliament and other Member States to press for continued improvement of aid provided through the European Community. It will take the opportunity of the negotiations on the next Financial Perspective (2007-2013) to push for further reforms, notably a simplified budget structure and a transparent resource allocation system based on needs and performance.

With respect to the **United Nations** (UN), DFID works with an expanding group of like-minded donors to help promote improvements to the way in which the UN delivers development assistance. DFID uses its influence in the Executive Boards of the World Bank and the International Monetary Fund (IMF), to ensure that the Bretton Woods institutions draw on their strengths, while maintaining a strong focus on poverty and responding efficiently to the needs of developing countries. DFID staff also liaises closely with World Bank staff in the countries where both institutions operate. In 2004, the 14^{th} replenishment of the IDA was also an opportunity for DFID to use its position as IDA's second largest donor – the UK's basic pledge of GBP 1.43 billion represented an increase of 59% over the comparable IDA 13^{th} replenishment figure – to ensure that IDA's impact on poverty reduction continues to be strengthened.[7] The same approach is pursued with the Regional Development Banks, DFID taking the opportunity of negotiations on each replenishment (African and Asian Development Funds in 2004) to promote reforms toward enhanced aid effectiveness. DFID also encourages the Commonwealth Secretariat to increasingly focus its development activities on the MDGs.

DFID gives great importance to **assessing and monitoring the effectiveness of the multilateral organisations** that it supports. During 2004, it assessed 23 multilateral agencies through its MEFF (Box 4). In addition DFID participated in the Multilateral Organisations Performance Assessment Network (MOPAN), which is a joint bilateral initiative aimed at assessing the partnership behaviour of multilaterals at country level. In 2004 it assessed the performance of UNDP, FAO and the AfDB. Given the emphasis on the MEFF and other work done in this area, it is key for DFID to improve the way these tools are used internally and, more broadly, to demonstrate how DFID and the international community can build on their results. In this respect, it is worthwhile noting that the MEFF

7. DFID's new institutional strategy with the World Bank was set out in 2004. Objectives in this strategy include a stronger role for poor countries in the World Bank's management and operations, greater clarity on how the World Bank's projects and programmes will help poor people tangibly and stronger focus on alignment on partner countries' national poverty reduction strategies.

methodology and a results analysis were shared with other DAC members following the 2005 DAC HLM as part of an external dissemination plan. This positive move will help to harmonise the methodology of such approaches among donors and could usefully form the basis for more systematically joining up with other bilaterals in order to avoid duplication of similar initiatives.

Box 4. Assessing the organisational effectiveness of the multilaterals: the MEFF

Target 3 of DFID's PSA 2003-2006 is the "improved effectiveness of the international system". This target has driven DFID advocacy for institutional reforms amongst multilaterals over recent years. It also led DFID to set up a **Multilateral Effectiveness Framework** (MEFF) in 2003-04 for assessing and monitoring the organisational effectiveness of the multilaterals it funds centrally.

The main objectives of the MEFF are to provide: (i) information to strengthen DFID's accountability under its PSA objectives; (ii) inputs to DFID's institutional strategies for engagement with multilaterals; and (iii) inputs for future financing decisions. While not directly looking at the results achieved by the multilaterals in developing countries, the MEFF focuses on how these organisations organise themselves to improve their internal performance, using a results-based management approach. It assesses effectiveness in terms of the results focus of multilateral organisational systems, looking at the eight following systems: corporate governance; corporate strategy; resource management; operational management; quality assurance; staff management; monitoring, evaluation and lesson learning; and reporting of results. Each of these systems is assessed against their focus on internal performance; country-level results; and partnerships with governments and other international organisations.

In 2004, DFID assessed five multilateral development banks, 12 UN organisations, five humanitarian agencies and the European Commission through the MEFF lens. This exercise enhanced DFID's understanding of the organisations and, while acknowledging differences in the path of reform between agencies, identified common weaknesses, notably with respect to working more closely with national strategies, systems and procedures; systematic monitoring of results and impact at country level; and reporting on the results achieved.

MEFF results are used by DFID as criteria for decisions on funding allocations, as an input for designing DFID institutional strategies with multilaterals and in order to track progress on its PSA objective. Regarding the funding issue, effectiveness is only one of DFID's criteria. Other criteria include its vision regarding the appropriate role and size of the multilateral in the overall international architecture, the multilaterals relevance for poverty reduction, MDGs or humanitarian assistance, or DFID's current strategy for financial support. The role of MEFF can vary from one of quality assurance to one which helps target discretionary spending. It can also result in DFID providing additional support to strengthen a perceived weakness. MEFF results and tracking indicators are also incorporated into DFID Institutional strategies process. However, the link between the MEFF and the institutional strategies is still not clear and can lead to confusion for some agencies that have experienced parallel discussions on these two instruments. Need for improvement also has been noted in relation to reporting against the PSA objective.

Source: "DFID's assessment of Multilateral Effectiveness – an overview of results"; and "The MEFF methodology: A review of DFID's Multilateral Effectiveness Framework"; both by Alison Scott, International Division Advisory Department, DFID; March 2005.

The UK tries more broadly to stimulate international discussion on the **international architecture** implications of "scaling up", building on the 2003 DFID paper on aid architecture. This paper calls for independent regulation, clear division of labour between the different actors, an enhanced role for the European Community, a UN organised around three clusters (humanitarian, development and environment), predictable and flexible financing and more choice for partners. DFID pushes forward this agenda in all relevant international forums, as illustrated by its pro-active contribution for the OECD-DAC/World Bank meeting "Scaling Up for Results" of December 2005.

Future considerations

- The DAC looks to the United Kingdom to deliver on its political commitment to reach the 0.7% ODA/GNI target by 2013. The UK is encouraged to develop a **comprehensive roadmap** over time on how increases will be spent, including the geographic and sector allocations, the balance between bilateral and multilateral channels and the set of delivery instruments.

- In order to maximize the impact of its bilateral co-operation on **poverty reduction**, the United Kingdom is invited to pursue the geographic concentration of its ODA on poor countries. While the DAC welcomes a stronger focus on fragile states (often less on track to meet the MDGs), DFID will need to seek a balance between these states and the good performing countries in order to demonstrate results and to generate continued public support.

- The UK needs to strengthen its strategic approach through a **sector focus** that reflects its overarching poverty reduction objective, including the governance and growth components. While being aligned on partner country strategies, DFID's strategic approach to sectors should be built on DFID's comparative advantages (*e.g.* poverty analysis, social service delivery, governance, public financial management and economic development policy).

- Given its goal of promoting an effective international system, the UK is encouraged to improve the **Multilateral Effectiveness Framework** and further maximise its use both internally and internationally, notably to enhance consistency between its multilateral and bilateral co-operation. DFID should continue to develop a strategic vision for funding of core or non-core multilateral budgets and take care to avoid the risk of "bilateralising" the multilaterals. At the international level, DFID should reinforce its co-operation with other bilaterals in order to avoid duplication with other multilateral assessment initiatives.

Chapter 3

Sector Priorities and Special Issues

Poverty eradication as the overarching goal and the MDGs as the main vehicle

The 2002 International Development Act establishes poverty reduction as the overarching purpose of British development assistance, either by "…furthering sustainable development in one or more countries outside the United Kingdom" or by "…improving the welfare of the population of one or more such countries". DFID PSA 2003-06 and 2005-08 directly derive from the International Development Act and are strongly focused on achievement of the MDGs. PSA targets one and two are set up to measure progress towards the MDGs in 16 key countries in Africa and in 9 key countries in Asia (Annex D). The PSA maps directly onto DFID's organisational structure, so that the focus on the MDGs drives DFID work at every level (Chapter 5). This clear mandate and high level strategic vision provide DFID with a strong focus, while allowing the organisation to work in a decentralised way and through teams organised around objectives rather than on a sector basis.

A strong thematic approach

Three main areas for action and advocacy: Human development, governance and growth

Since 2000, DFID PSA targets relating to primary health care and school enrolment in Africa and Asia have led to a strong focus of the development programme on **basic social services**. According to DAC statistics, the UK ODA allocated to basic social services increased from 25% of its total sector-allocable ODA in 1999-2000 to 32% in 2003-04, the highest percentage among DAC members. Spending on health care has more than doubled since 1998-99 and the two spending targets for Education and HIV/AIDS[8] will represent a further increase in these social sectors. In coming years, **governance**, including public financial management, may become more important in DFID's portfolio, given its importance to poverty reduction, the aid effectiveness agenda with related increased GBS, and DFID's stronger involvement in fragile states. In the context of scaling up, DFID's strong advocacy towards a pro-poor **growth** agenda may lead to increased aid volumes in support of a favourable environment for investment. The main message of the DFID policy paper "from commitment to action: human development and growth" is the importance of promoting both human development and economic growth since there is a two-way relationship between the two. "Economic growth is crucial for making sustained progress towards the MDGs, for reducing income poverty, for improving human development outcomes and for providing the basis for continued progress. The MDGs on health and education cannot be achieved by focusing solely on interventions aimed at those two sectors" (DFID, 2005e). This two-way linkage also leads DFID to develop and advocate for a multisectoral approach to deliver health or education outcomes.

Thematic policy papers, complemented by practice papers, are common practice in DFID and greatly shape its operations. Policy papers often adopt broad perspectives that match DFID's ambitious vision and can cover a wide range of issues, including sectors (education, health or

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8. DFID will disburse GBP 1.5 billion in HIV/AIDS and GBP 1.4 billion in education in the period from 2005/06 to 2007/08.

agriculture), modalities (conditionality, capacity building or country-led approaches) or cross-cutting issues (migration, social exclusion or poverty monitoring systems). DFID's ability to manage both bilateral and multilateral aid permits it to integrate two channels when dealing with sector or cross-cutting issues such as HIV/AIDS. The combination of analysis and resource availability also contributes to greater impact of DFID action and advocacy in international forums and in partner countries. However, full translation of policies at the field level can remain an ever present challenge, as noted below in the policy areas of gender, pro-poor growth and fragile states.

Gender equality: Renewed efforts to better match policy and practice

DFID has gained a good **reputation** over the past 15 years for its gender policies and for its record in implementation. In September 2000, DFID published *Poverty Elimination and the Empowerment of Women*, which sets out an ambitious strategy for promoting gender equality throughout its activities. A gender manual providing guidelines and tools was designed in 2002 to encourage gender mainstreaming both within DFID and developing countries. A gender PIMS marker was developed for DFID internal monitoring system, covering all DFID commitments valued above GBP 100 000. DFID is strongly involved in the DAC Network on Gender Equality, where it provides significant expertise. DFID is also the lead donor to the UN Development Fund for Women (UNIFEM).

However, as has been the case for other DAC members, DFID often has noted its disappointment in the **results** of its efforts to mainstream gender. While gender training was mandatory for all DFID staff until 1998, evidence showed uneven implementation of gender guidance in DFID projects in the field and even resistance among staff on this issue. Indeed, DAC data suggests that DFID underperforms in gender equality. This contrasts with its long-standing leadership role in the area (OECD, 2005c). DFID is convinced of the need for renewed emphasis on gender equality, especially given its importance for stimulating growth, tackling insecurity and achieving the MDGs. DFID is also aware of the risk of further losing the momentum, and is to be given credit for its frankness in the way it is addressing this issue. Since 2003, DFID has been working hard on the current challenges to identify i) what should be done differently and better, and ii) how to take advantage of new aid modalities and scaling up. The creation of the post of a senior gender and rights adviser in the Policy division in 2003 signalled its commitment and led to a series of actions (stock taking exercise focused on gender in Country Assistance Plans and Poverty Reduction Strategies; local assessments on gender issues in changing aid modalities). A full evaluation of DFID's gender equality work is now underway which will form the basis for a new strategy.

DFID recognises that new aid **modalities** in support of local Poverty Reduction Strategy can create opportunities for gender equality at a macro policy level and lead to better ownership of gender issues by partner countries. DFID is considering how to address the potential dangers of GBS when gender equality dimensions are missing from the PRSP, or even if the gender equality dimension is present but lacks the guarantees that translate it into budget allocations. It is also reflecting on the difficulties of tracking gender results and impact under such new modalities. DFID has been responsive in sharing the lessons learnt from its gender experience, as illustrated by its lead role in the DAC GenderNet work on "Gender and New Aid instruments".

With a management framework that already mainstreams the gender dimension, DFID will need to concentrate on incentives to help achieve its objective on gender equality. This should include widening the ownership of this objective within DFID and more closely aligning DFID's gender agenda with decentralised country office practice. To this end, the gender dimension should be integrated at a higher level in DFID policy and international direction and across the regional divisions. The position of DFID senior gender advisor could be strengthened and the role/profile/portfolio of staff partly working as gender advisors could be reconsidered.[9] DFID should also take steps to ensure its gender related technical capacity and expertise remains strong and consider how to re-establish mandatory staff training on gender equality. It should as well consider adapting its monitoring framework to track gender activities and impact when providing budget support - notably through ensuring availability of sex disaggregated data in PRS monitoring framework.

A stronger focus on private sector development as the engine of economic growth

The UK recognises that the encouragement of economic growth which benefits the poor is essential for the elimination of poverty and achievement of the MDGs. The 1997 White Paper emphasised the key role that a well-governed state can play in facilitating economic growth and in making markets work better for the poor. In 2005 the DFID policy paper "Working with the Private Sector" (DFID, 2005f) asserted that achievement of the MDGs depends on increased incomes for the poor and improved access to health and education. Most recently, the Secretary of State's consultation process for the 2006 White Paper began with a speech focused on growth and poverty reduction and the creation of more and better jobs in developing countries (Benn H., 2006). He stressed the importance of private sector development, saying that "by ignoring job creation and growth, poor countries will be relying on aid indefinitely". DFID's approach to working with the private sector is in line with recent DAC guidance and is built around three **objectives**: i) improve the environment for business and investment; ii) strengthen the capacity of firms to access and compete in markets through increased access to services; and iii) improve the impact of growth on the poor by encouraging corporate social responsibility and increasing poor people's access to services and technology. DFID aims to act as a catalyst and facilitator, rather than intervening directly in market operations, so as to minimise market distortions, to emphasise marked-based business and to encourage local ownership and long-term sustainable impact.

DFID promotes private sector development through a **variety of approaches**.

- It works with a range of bilateral and multilateral development agencies through **joint programmes** aiming to encourage private investment in poor countries and to address constraints to investment in infrastructure and basic services. For example, DFID is part of the Private Infrastructure Development Group (PIDG), a multi-donor organisation constituted in 2002 to provide financial, practical and strategic support to encourage private infrastructure investment in developing countries.

- DFID has been instrumental in setting up a number of independent **trusts** for financial sector development, such as the FinMark trust, which was established in 2002 with the aim of increasing the access of poor people in southern Africa to financial services. Following the emphasis given by the Commission for Africa and G8 discussions on private enterprise as a prime engine of development, the United Kingdom has been a strong advocate of and provided significant start-up funding for the new Investment Climate Facility for Africa. The facility is an independent trust led and managed by the private sector that aims to foster the emergence of more business-friendly policies, laws and regulations and to strengthen the institutions that administer these.

9. Four staff currently have responsibility for gender work in DFID headquarters. They work within the unit covering gender, social exclusion and human rights. In addition, over sixty social development advisors, mainly located in field offices, provide technical advisory resources on gender issues.

- Since 2000, DFID has launched several business-focused "**Challenge Funds"** which allocate resources and involve private sector representatives in their decision-making boards. These include the Financial Sector Deepening Challenge Fund (FDCF) and the Business Linkages Challenge Fund (BLCF), a GBP 15 million grant scheme aimed to encourage private sector organisations to develop commercially viable financial services and business linkages that benefit the poor in developing countries. DFID has also been taking a leading role in setting up the USD 100 million multi-donor Africa Enterprise Challenge Fund. This seven-year initiative, which is to be launched in November 2006, aims to stimulate pro-poor growth and create employment in Africa, through grants offered on a competitive basis to private companies to test innovative business models allowing greater participation of the poor.

- Through the provision of **expertise and funding**, DFID has supported a number of initiatives in international fora in recent years that have pushed forward the analysis of how growth reduces poverty and how to promote private sector development. These notably include participating actively in the work of the DAC Network on Poverty Reduction on promoting pro-poor growth and contributing to the multi-donor "Operationalising Pro-Poor Growth Research Program". DFID continues to be an active member of the Donor Committee for Enterprise Development.

- The **CDC Group** is the government's instrument for investing in the private sector in developing countries, with the aim of maximising the creation and growth of viable businesses in these countries. It has a portfolio of investments valued at over GBP 1.1 billion, and is required to make 70% of new investments in poorer developing countries and 50% in sub-Saharan Africa or South Asia. In 2004, the UK government completed a radical restructuring of CDC, with a view to enhancing its capacity to mobilise third-party investment in poor countries. As a result, CDC's investments are now principally contracted out through fund management companies.

CDC's restructuring illustrates DFID's new emphasis on **involving the private sector** to support developing countries poverty reduction efforts. This trend is accompanied by advocacy to promote competition in developing countries. At the same time, DFID finances a series of evaluations and case studies to ensure that the benefit of public-private collaboration for populations afflicted by poverty is maximised.

In contrast to this policy emphasis and as was already noted in Chapter 2, ODA allocated to economic infrastructure/services and the production sectors is decreasing and low compared to the DAC average. In the context of scaling up, therefore, the United Kingdom may wish to consider expanding further its support for private sector development. It could encourage its developing country partners to integrate private sector development into their national development frameworks. It could help build up the capacities of the state, the private sector and civil society in these countries to identify country and sector specific constraints to private sector development and to engage in reform processes that will lower costs, reduce risks and improve competition. When providing direct support to firms, for example through challenge funds, DFID should ensure that it avoids distorting markets and leads to sustainable outcomes by focusing on the causes of market failures. DFID can also evaluate in some of its main partner countries the cumulative impact of its various activities on increasing private investment and creating jobs, and use these findings to shape future interventions. DFID should continue work to increase poor people's access to financial, labour, land and other markets and give high priority to addressing constraints faced by the domestic private sector, both formal and informal, and to increase their capacity to respond to new opportunities and expand business relationships with foreign investors.

Fragile states, situations of conflict and humanitarian aid

Fragile states have considerable significance for DFID's worldwide portfolio of aid programmes. Roughly 30% of DFID programmes are located in fragile states, of which roughly a third is disbursed as humanitarian aid. In addition, more than half of UK's bilateral programmes in LICs are in fragile states (21 of 38). The UK sees the challenge posed by fragile states as one of international stability and poverty reduction. Fragile states as defined by the UK represent 14% of the world's population, but account for more than 30% of the people living under 1 USD a day. DFID sees these states, which they define as countries that cannot and/or will not deliver basic services to their people, as significantly reducing the likelihood of the world meeting the Millennium Development Goals.

The UK government has been among the leaders in promoting effective international engagement in fragile states.[10] Since 2001, it has been actively engaged in gathering and refining good practice in this area as well as joining others in getting this issue recognised. DFID has taken a series of concrete actions to review the way it works in these environments, developed a policy and made commitments aiming at improved development effectiveness in fragile states. DFID thereby tries to address the challenges it faces in the way it operates and in some cases by scaling up engagement, in fragile states.

Foundations of UK policy for fragile states

DFID's wide-ranging work on governance, conflict prevention and peace building provides the background for its strategic approaches to fragile states. In January 2005, DFID produced a policy document entitled "Why We Need to Work More Effectively in Fragile States" (DFID, 2005g), outlining its priorities and implications for the Department and the UK government as a whole. The Fragile States Policy highlights a certain number of commitments DFID will make to work differently from 2005 onwards. These commitments include:

- Review aid allocations to fragile states.
- Commit to longer-term framework agreements *e.g.* ten-year partnerships.
- Increase the number of DFID staff working on fragile states.
- Promote greater coherence by strengthening Whitehall systems and responses to ensure policies work together.
- Increase common analysis between departments.
- Develop a better understanding of the causes of fragility and linking action of early warning mechanisms; and addressing the relationship between humanitarian and development aid.
- Continue to work with international partners such as the OECD-DAC, World Bank, UN and others to improve policy and co-ordination in fragile states.

10. DFID is currently chair of the OECD DAC's Conflict Prevention and Development Network (CPDC) and co-chairs the Fragile States Group (FSG). In January 2005, the UK government hosted a Senior Level Forum on Development Effectiveness in Fragile States co-convened by the European Commission, the OECD, the UN, and the World Bank. As a result of this Forum, the OECD was asked to develop a set of "Principles for Good International Engagement in Fragile States" (OECD, 2005a).

Moving from policy to implementation

As part of its commitment to co-operate with international partners to improve policy and co-ordination in fragile states, DFID has been actively engaged in piloting the draft "Piloting the Principles for Good International Engagement in Fragile States" in Nepal, Yemen and Somalia (OECD, 2005a). Indications from the Peer Review field mission to Nepal point to a high level of appreciation from the donor community for UK's leadership role in taking issues of state fragility forward and encouraging behaviour change both from the government and from the international community. Addressing Nepal's conflict and fragility is challenging DFID's delivery model and requiring adjustments in its field operations (Box 9 in Chapter 6).

Internally, DFID's Fragile States Team has been working with colleagues to develop an implementation plan that ensures follow through on its fragile states policy. Part of this plan includes training for DFID country staff working in fragile states. This training will serve to deepen understanding of the draft OECD Principles and provides a context for problem solving on real programming issues faced by the country teams. As DFID's policy team moves toward increased dialogue with its operational country teams on these issues, a challenge will be to ensure that policy commitments are translated into concrete programming options and instruments adapted to the specific needs of these states, for example, good practice on delivering basic services in fragile states.

Aid approaches to state fragility cover a wide range of issues including questions of state building, governance, human rights, aid effectiveness, and synchronisation with humanitarian action. Since a good number of fragile states are conflict prone, work on this issue also includes bringing together existing tools and strategies for conflict prevention and peace building as well as security issues, such as Security System Reform (SSR). Therefore, to implement the policy on fragile states a significant number of operational and policy units within DFID will need to play an active role. A challenge will be to bring greater clarity to the relationships between the different policy and operational units as well as professional cadres (*e.g.* Governance and Conflict advisers) who are all directly or indirectly involved in the management of ODA in fragile states. These units include the Fragile States Team, Security and Development Team, The Conflict, Humanitarian and Security Department (CHASE), Post Conflict Reconstruction Units (PCRU), the Africa Conflict Group and various Fragile State country teams.

DFID has come a long way very quickly from largely being identified as a good performer donor to a leading proponent of engagement in fragile states. Some of the consequences of this rapid development are disconnects between policy and operational communities where roles and divisions of labour are still being clarified. In particular, the absence of a DFID conflict policy has meant that coverage of conflict prevention issues have not been fully integrated into the mainstream of the fragile states work.[11] This may point to the need for a more comprehensive mapping and an operational framework which can clearly explain how different policy and operational teams interact with each other on the issue of state fragility.

Towards greater and more predictable resources to fragile states

In the context of the scaling up of aid, DFID has decided to follow through on the commitment made in its policy on fragile states and review the way aid is allocated to these states. Over the next three years, three-fifths of additional resources for Africa Division will be spent on populous fragile states (DRC, Nigeria, and Ethiopia). DFID is active in tackling the issues of "aid orphans" and supports the development of an initiative on monitoring resource flows to fragile states that promotes

11. DFID is currently planning the development of a policy on conflict over the course of 2006.

the transparency and accountability of resource flows. Also of importance to the issue of orphans, is DFID's own resource allocation process, which includes criteria on vulnerability to external economic shocks, progress on MDGs and other donor flows (Box 3 in Chapter 2). DFID policy toward increased aid predictability, while aimed at all countries and not only at fragile states, can help address fragility and is in line with the draft OECD Principles on Engagement in Fragile States (Chapter 6).

Although DFID is required to reduce its staff numbers between 2005 and 2008, it has made a commitment in its policy on fragile states to increase staff working on these country programmes. The rationale behind this commitment is that operating in fragile environments often requires higher transaction and management costs than in better performing countries where the UK aims to increase allocations through GBS. Already, three new offices have been established in fragile states: DRC, Sudan and Sierra Leone.

In light of commitments to scale up resources, increased staff, and making longer engagement plans, a future challenge for DFID will be to develop appropriate tools and instruments to be used in fragile states scenarios. As observed in Ethiopia, it is evident that DFID's preferred model of engagement, poverty reduction budget support (PRBS), is not always a viable option. Yet the pressure to disburse large increases of aid will remain. In addition, given the high risk nature of investments in these states, more thought will have to be given to adapting results monitoring tools and expectations to reflect the reality of operating in fragile states. Another challenge will be to explain the rationale for these increases to the British public and to parliament when serious human rights violations and high levels of corruption are often a reality in these countries. It is important to ensure that the public understands that results in fragile states often take time and that set backs will occur.

Whole of government approach to fragile states

The UK government has improved whole-of-government approaches in fragile states; with a particular focus on conflict affected states. Efforts have included: i) the creation of inter-departmental co-ordination instruments, ii) changes in organisational management and coordination and iii) new funding instruments that promote greater interaction across government departments. These efforts are aimed at improving the UK government's coherence, in particular in fragile states where the unintended consequences of incoherent policies can be high.

In terms of inter-departmental co-ordination, lessons indicate that having ongoing dialogue and common analysis across government departments is a helpful way to increase coherence, bridge cultural differences, and settle possible disputes. In terms of organisational management and co-ordination an interesting whole-of-government model has been the creation of a joint DFID-FCO team on Sudan (Box 6 in Chapter 4). Although it is somewhat early to judge its effectiveness, this could be a useful model for other country teams dealing with conflict and immediate post-conflict situations. In Nepal a common country analysis and regular inter-departmental discussions have been beneficial to increase coherence. In 2003, the Nepal Group was created to serve as a cross government co-ordination body which brings together Asia Directors from the three D's (Defence-Development-Diplomacy). The Nepal Group has a common strategy and holds meetings at regular intervals. In the field, meetings between the 3Ds take place on a weekly basis.

In 2004, the Post Conflict Reconstruction Unit (PCRU), a joint DFID/FCO/MOD initiative, was set up to improve the UK government's capacity to deal with post-conflict stabilisation as a response to the challenges posed by Iraq and other conflicts. The PCRU is a cross departmental team with staff from DFID, FCO and the MOD. Although the PCRU is still striving to find its exact role, its supporters argue that it has the potential to fill the crucial gap between the military actors and practical civilian capabilities which are needed to stabilise immediate post-conflict situations.

The UK government is well known for its establishment of a Global Conflict Prevention Pool (GCPP) and as well as its African Conflict Prevention Pool (ACPP). These pools are aimed at increasing joined up activities across DFID-FCO-MOD for conflict prevention, SSR – an area where DFID is at the fore in developing new approaches in general - and Disarmament Demobilisation and Reintegration (DDR) activities. A recent internal review indicates that most projects financed through the pools are working well and encourage co-operation between departments while establishing good practice in fragile states (*e.g.* Sierra Leone, Liberia, Sudan and Angola). However, some point out that the pools limit their strategic impact by taking a project approach and risk being perceived as yet another funding source creating competition by not encouraging joint implementation at field level. The lack of integrated teams from across government directly impacts on both policy coherence and the potential impact of the conflict pools. Activities funded have also primarily been used for post-conflict activities while not significantly focusing on conflict prevention. Indeed, more than half of the GCPP funds have gone to post-conflict activities, namely in Iraq and Afghanistan. A challenge for the future of the pools will be to further strengthen joined-up work including on performance measurement. It will also be important to ensure a strong focus on conflict prevention and peace building activities, such as work on conflict-sensitive development approaches and on critical areas such as SSR.

Despite demonstrable progress to improve whole-of-government approaches, further coherence across government departments remain challenged by departmental cultures. Continued co-ordination across departments, inter-departmental co-ordination such as the Nepal Group or joint-up approaches such as the Sudan Unit, can help reduce misunderstandings, bridge cultural gaps and help resolve disputes. In the field, and specifically in fragile states, it is also crucial to bridge institutional cultural differences between DFID and the UK Embassy and to establish constant communication and effective joint working. It is important to ensure that lack of geographic co-location is not an obstacle to this end. In Nepal, this was an added obstacle to closer co-ordination until fairly recently.

Fragile states and dealing with complex emergencies

The UK has improved coherence regarding engagement in fragile states allowing for closer relations across Whitehall. Nevertheless, synchronising its fragile states policy with humanitarian aid will pose an additional and specific challenge to this approach. The policy statement on engagement in fragile states set a long-term objective of assisting in building legitimate and effective state institutions. However, in complex emergencies where governments are responsible for massive human rights violations, in the short term, the only way of ensuring vital service delivery may be outside state structures. Humanitarian action, with a restricted objective to save lives, alleviate suffering and maintain human dignity, will by necessity remain a key component of engagement in fragile states.

Humanitarian aid should be based on humanitarian principles (humanity, impartiality, neutrality and independence) as emphasised in DFID's humanitarian policy. The UK's approach to state building in complex emergencies will require measures that reconcile humanitarian imperatives with development concerns or there is a risk that these principles can be compromised. Opportunities to identify complementary approaches may exist in states with legitimate governments which are willing but lack the capacity to fulfil their core functions. Such situations could provide opportunities to successfully link humanitarian approaches to longer term state-building. A more complete review of UK humanitarian aid is contained in Annex C.

Future considerations

- DFID benefits from a clear mandate, an ambitious commitment and a strong strategic approach which efficiently drive the entire programme, whether in organizational terms or sector allocation spending. This should permit DFID to avoid imposed **sector earmarks** which can contradict the ownership approach and undermine aid effectiveness.

- The leading role of DFID in supporting the international community thinking on key thematic issues for development is appreciated. While continuing to provide high level expertise and analytical work, DFID is encouraged to look at ways to develop closer link between its policy work and its aid programmes. This would allow a better translation of **policies** at the field level in the context of a decentralised agency, as well as a stronger integration of field perspective in DFID policy work. Such two-way linkages are all the more important to appropriately address the challenges resulting from new aid modalities and scaling up.

- Building on its comparative advantage and strong technical expertise, DFID is invited to pursue its work to better address and promote **gender equality** and **pro-poor growth** as key vectors to attain the MDGs, in its programmes and through advocacy in international forums.

- In order to promote links in the range of issues covered and implied by work on **fragile states**, notably the issue of conflict prevention, there is a need to conduct a comprehensive mapping on the roles and responsibilities of different policy and operational teams regarding the issue of fragile states within DFID. This should cover in particular the operational linkages between the Fragile States Team, CHASE, Africa Conflict Group, PCRU, etc, as well as how the humanitarian, conflict and governance advisers relate to each other and to country teams on the fragile states issue.

- DFID is encouraged to focus its attention on the internal dissemination of its practical **programming options** and instruments adapted to the specific needs of fragile states and on sharing of information on best practice for advising country teams. It could consider providing more latitude to field missions to make adjustments to their programmes and delivery model.

Chapter 4

Policy coherence for development

Britain's support for a growing international consensus

The OECD and its members recognise that in order to make a lasting impact on poverty in developing countries, coherent and complementary policies are needed in the economic, social and environmental fields. For several years, the United Kingdom has had an explicit objective of working within the DAC and other international forums (*e.g.* Africa Partners Forum, G-8, Commission for Africa) to promote policy coherence among international development partners. From the point of view of policy, the UK views broad-based partnerships that include policy coherence for development as a principle avenue to achieving the MDGs. As a European Union Member State, the United Kingdom has long realised that it also can act at the community level, given European Commission jurisdiction in certain areas of government action (Box 5). The UK has used this influence, alone and through strategic alliances, through its participation in various European institutions.

Box 5. Policy coherence within the European Union

Within the European Union, the principal of coherence in development assistance policies is enshrined in the 2002 Maastricht Treaty. Institutional mechanisms have subsequently been adapted for this purpose, including the amalgamation, under the abbreviated name RELEX, of two of the various directorates involved in the EU's external relations. In 2005 the Council adopted a Commission communication on Policy Coherence for Development, which commits the EU to promote and enhance this concept and invites the Commission to produce a biennial report on Policy Coherence for Development.

Because the EU is such a powerful trading block, the topic of market access is an area where policy formulation has taken account of the consequences for developing countries. The "Everything but Arms" initiative adopted in 2001 was intended to eliminate most EU quotas and tariffs for exports from LDCs and actions to overcome non-tariff barriers are growing in importance, as other obstacles to trade disappear. European policies, such as the Common Agricultural Policy, can also have significant repercussions on developing countries. There is evidence to show that subsidised production of this kind also gives rise to unfair competition on local markets in developing countries where farming is the main source of livelihood for most of the population. The EU is pursuing negotiations to reform the Common Agricultural Policy in order, *inter alia*, to reduce the trade distortions it causes.

A tradition of "joined up" government in the UK

A high level of national agreement

The current government used its first White Paper (1997) to establish the principle that all government policies affecting developing countries should take account of the objectives of sustainable development. This was reinforced in the second White Paper (2000), which addressed the development impact of non-aid policies and particularly led to a substantially increased engagement by DFID on trade. In 2002, the International Development Act provided a legislative basis for the whole of government to deal coherently with issues of development. Finally, policy coherence for development is likely to figure in the new White Paper expected later this year. Much of this high level attention to policy coherence finds its origins in the strong support afforded by the Prime Minister and Chancellor of the Exchequer.

DFID leadership

DFID has moved rapidly to institutionalise its mandate in this area. The strategic positioning of the Secretary of State for International Development in the Cabinet and several selected Cabinet sub-committees (*e.g.* Asylum and Migration) facilitates progress in this respect. As is noted below, DFID has used its high level mandate to join up the whole of UK government development policy in a more coherent manner. The current locus of responsibility for DFID policy coherence action is in its Policy Division, primarily in the Donor Policy and Partnership Team, as augmented by others in the Division and elsewhere. Policy coherence is a topic that tends to be issue driven and is not strategically managed by any single co-ordinator within the Department.

In DFID's cross-government efforts, relations with the Foreign and Commonwealth Office (FCO) are particularly important and considerable progress has been made over the past three years in strengthening this working relationship. A DFID-FCO Closer Working Action Plan was agreed to in 2003 and is used as a framework for encouragement and monitoring joint action. There is daily interaction between ministers, senior managers and desk officers of the two departments, both in London and abroad. Where it makes business sense to co-locate overseas, the two departments do so, while maintaining their own separate administrative relationships (Chapters 5 and 6). One example of a successful working relationship for activities of the two departments in Sudan is noted in Box 6.

Box 6. "Joined up" government in practice: the Sudan Unit

The joint FCO-DFID Sudan Unit is unique in the UK government. Originally established in 2002 to integrate UK support for the peace process, it continued after the subsequent Comprehensive Peace Agreement because of its utility to both departments. The Unit is intended to be a one-stop-shop for political, development and humanitarian policy on Sudan, and reports to both the Foreign Secretary and the Secretary of State for International Development. The team – drawn from both government departments - brings together expertise on foreign and development policy. The British Embassy and DFID office in Khartoum are an extended part of the Unit. Given its good understanding of Sudan, the Unit is able to brief "mission commanders/stakeholders" and ensure the UK's funding and personnel are targeted in the most effective areas.

This integrated approach has proven extremely useful in the Sudan context, where political, humanitarian and development issues are closely linked (*e.g.* the humanitarian crisis in Darfur which affected the peace agreement). DFID has benefited from FCO political analysis and reciprocally has delivered aid in support of the peace process. The Sudan Unit is regarded in London circles as "joined up" government at its best. It won a Public Servant of the Year Award in 2004.

The Sudan Unit's philosophy is one of working with others, both within Whitehall (where it plays a central role in coordinating UK policy towards Sudan), the International Community (for example through the establishment of the Sudan Contact Group, which the UK currently chairs) and other stakeholders (*e.g.* NGOs, parliamentarians, the media). The creation of the Unit has increased the UK's ability to deal quickly with a range of issues - be they peace talks, tackling human rights, military/security requirements, providing for IDPs, debt relief, donor co-ordination, health and education.

In its operations, the UK effectively uses joint PSA targets, themselves linked to departmental spending plans, to promote closer working across government. This includes joint delivery plans and identification of specific responsibilities. DFID currently has joint PSA targets on conflict prevention and post-conflict reconstruction (with FCO and MOD), reduction in EU and world trade barriers (with DTI), and sub targets on debt relief and improvements in the international system (with Treasury).

Finally, numerous joint operational mechanisms have been established to promote more specifically targeted collaboration between DFID and other ministries, notably specialised teams.

Most UK observers agree that progress on the different cases of policy incoherence is being made, while all recognise that challenges remain, as evidenced by the fact that the UK was ranked tenth in the 2005 Center for Global Development (CGD) "Comprehensive Development Index". This was due in part to the CGD analysis of limited British success in policy coherence areas such as security (arms sales to undemocratic governments) or migration (British borders are relatively closed to immigrants from poor countries). A 2005 report by the Africa All Party Parliamentary Group[12] encouraged greater attention to national approaches concerning corruption, anti-bribery and money laundering.[13] A 2004 report from the House of Commons Select Committee on International Development[14] also concludes in its summary that "The UK's direction of travel towards policy coherence for development is good, but the government and Whitehall could move further and faster." The following section touches upon three illustrative areas of policy coherence debate within the United Kingdom, two of which seem to have been successfully addressed in recent years and one which requires additional attention.

Illustrative issues of UK policy coherence

Examples of success: trade and aid untying

Initiatives made by the United Kingdom in the **trade policy** area aim at achieving greater policy coherence and promoting the use of trade to reduce poverty. Key positions of the UK government in this area are spelled out in a Department of Trade and Investment (DTI) led Trade and Investment White Paper, produced in 2004 after several years of collaboration with DFID and other ministries (and with direct support from the Prime Minister). The White Paper sets out a vision of the world trading system which is "fair as well as free". The Paper builds from the theme that globalisation represents both an opportunity for the UK to gain in terms of productivity, growth and jobs and an opportunity to integrate developing countries into the global economy on a fair basis, "lifting millions out of poverty." The Paper lays out a strategy for addressing this win-win approach which includes multiple actions at the level of the UK, the EU and elsewhere in the international community.

DFID has followed up on this policy statement with a variety of proactive public awareness messages, perhaps one of the most effective being its user-friendly publication "Trade matters – In the fight against world poverty". This and other public messages categorically state a UK government position of being committed to working to end world poverty and, with public support, will "push for a fairer deal for the poorest countries." In the field, the UK provides selective support to local advocates of developing world perspectives in the broader trade debate, for example, that provided to the Zambian Minister of Commerce (Chapter 6) who is a leading voice in the developing world on this topic.

The United Kingdom provided strong political leadership and support both for the 2001 DAC Recommendation on **Untying** ODA to Least Developed Countries, and for the 2005 decision of the European Community on access to EC external assistance. These moves are viewed by DFID as

12. "How Joined up is Whitehall?", Africa All Party Parliamentary Group, March 2005.

13. Also highlighted in the current findings of the OECD/DAC Working Group on Bribery in International Business Transactions.

14. "The Commission for Africa and Policy Coherence for Development: First do no harm", House of Commons, International Development Committee, 7 December 2004.

significant actions to improve the effectiveness of its aid. The UK has officially untied all of its ODA since April 2001, a policy which became a legal requirement following enactment of the 2002 International Development Act. The UK since has encouraged other donors to do similarly, primarily through the international contexts offered by the DAC and the EU. The UK is only one of three DAC donors to totally untie its aid, although most donors and the development community at large recognise its developmental logic. Because of the advanced status of British untying efforts and its broader interest in sharing this experience, the DAC invites DFID to undertake a comprehensive study of the impacts of its untying experience in terms of cost-effectiveness, better non price factors, reduced transaction costs, local ownership, promotion of the local economy and employment, sustainability and aid harmonisation. In addition, the visible UK presence in many of its aid recipient countries should permit it to incorporate the perspectives of recipients in this review.

More to be done: Migration and development

It is generally admitted that national and international coherence between migration and development policies can assist individual nations such as the United Kingdom to manage its migration more effectively while harnessing the benefits of migration as part of a national strategy in favour of poverty reduction in the developing world. The World Bank *Global Economic Prospects 2006* report suggests that if the increase in migrant workers in high income countries is sufficiently large to raise the labour force by 3% by 2025, its impact would be to increase global real income by USD 356 billion with gains for all parties, much of it to new migrants and people in developing countries.

In the United Kingdom, as with many industrialised countries, the topic of immigration is controversial. It is politically inspired by public concern over the current, rapid increase in immigrants, including illegal immigrants, and as fuelled by security concerns related to foreign inspired terrorism. The government's immigration ministry, the Home Office, produced its five-year strategy for asylum and immigration early in 2005. Entitled "Controlling our borders: Making migration work for Britain" the strategy is basically organised around national interest considerations. The Prime Minister notes at the outset of the strategy that immigration has long existed in Britain and has been a major factor to the nation's growth. The challenge, he asserts is "…immigration where it is in the country's interests and preventing it where it is not." In support of this political objective, the Home Office strategy focuses on the controls and methods of enforcement. One controversial measure is a "points system" which is intended to help select skilled immigrants but which development specialists point out can have negative impacts on the developing world (*e.g*. phasing out low skill migration outside the EU; encouraging "brain drain" of the skilled, often health care workers[15] and teachers).

A major 2004 report on migration and development produced by the House of Commons International Development Committee[16] urged greater policy coherence across government in addressing the challenge of immigration and suggested that DFID has an important role to play in identifying the development implications of migration policies, especially their impact on poverty

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15. According to the International Labour Organisation in 2002 more than half of the country's fully registered doctors were trained abroad and two-thirds were from outside the European Economic area. Between January 2002 and March 2003, there were almost 13 000 overseas-trained nurses registered in comparison to around 18 000 trained in the UK. These migration flows of health workers continue despite the code of conduct on ethical recruitment introduced in 2001 by the Department of Health. Insufficient human resources for health have been identified as one of the main constraint jeopardising progress toward achieving the MDGs.

16. "Migration and Development: How to make migration work for poverty reduction", House of Commons, International Development Committee, June 2004.

reduction. The report noted the "…lack of joined up thinking at national and international levels" and tasks DFID with introducing developmental analysis into the national debate. It criticised the fact that DFID was not represented at either the Prime Minister's "summit" on immigration (April 2004), or at the immigration stock taking exercise held one month later. This type of political comment helped DFID to obtain a seat at the migration policy table.

The last three years have witnessed increasing DFID activity in the area of migration and development, with vocal support from parliament, other members of government and civil society. DFID views its work on migration as important both to its development work at the developing country level and to its support for inter-departmental discussions and for more balanced public debate. It has played an increasingly active role in interdepartmental discussions on migration and development and sought opportunities to work closely with the Home Office. In December 2005, DFID produced a draft policy statement on migration and poverty reduction,[17] with the aim of "…increasing the benefits and reducing the risks of migration for poor people and developing countries". The draft was agreed to by other UK Government departments at the ministerial level and has gone through a period of public consultation. DFID points out that migration helps individuals and their families increase income, learn new skills, improve their social status, build up assets and improve their quality of life. For communities in developing countries it can relieve labour market and political pressures, result in significant beneficial remittances for local development (Box 7), increase trade and financial investment from abroad and induce support from migrant communities (technology transfer, tourism, charitable activities). To maximise benefits and reduce the risks, DFID proposes to address a range of core migration perspectives: (i) planning for internal mobility; (ii) opportunities for legal migration where consistent with labour market needs; (iii) circulation of highly skilled migrants; (iv) migrant access to their rights and entitlements; (v) low cost and secure mechanisms for sending and investing remittances in poor communities; (vi) support for positive activities of the migrant diaspora in the UK and (vii) effective migration management at the regional and international level.

Box 7. Linking migration, remittances and development

Estimates for total remittances sent from the UK to developing countries vary, but the most reliable estimate would appear to be GBP 2.3 billion in 2001. Put into perspective, this pool of funds which is directly remitted to poor families in developing countries represents a large complementary flow to total British ODA. Migrants frequently find it difficult to send earnings to family and friends in their home country. DFID commissioned a sample survey (Bangladesh, China, Ghana, India, Kenya, Nigeria) to review remittance costs, speed, ease of use and ID requirements to explore possible approaches to facilitating this important source of personal development funding. The results have been made available online (www.sendmoneyhome.org) to help others make informed decisions. Since the website was established in March 2005 it has received over 30 000 hits. In addition, almost half a million country-specific leaflets have been distributed in the six communities in the UK represented in the survey sample.

The Home Office, FCO and DFID also have recently produced a "Single Migration Narrative" which attempts to lay out the perspectives of each in a more coherent way and proposes to serve as a platform for joint efforts into the future. Again this received ministerial endorsement. The joining up of UK policy in this area has now begun. Nevertheless, there is still concern that "…today's debate on the role of migration and development is at a similar stage to that on trade and development some ten years earlier".

17. "Moving out of Poverty – Making Migration Work Better for Poor People", DFID, December 2005.

Moving further and faster: Promoting additional policy coherence in the UK

Identifying priorities

Despite the front line role played by DFID and the UK government priority in promoting further policy coherence for development, it also is generally recognised that more could be done. The previously mentioned report from the House of Commons Select Committee on International Development asserts that more progress is needed in recognising, understanding, specifying and assessing policy coherence issues in order to modify objectives and policies in favour of more coherence. Policy coherence issues identified to date have tended to be *ad hoc* issues raised through a variety of national political channels, NGOs, or international campaigns. To the extent that the UK recognises the central role of policy coherence to development success, DFID needs to more proactively identify its **priorities** in this area so as to better align partners and resources toward needed solutions. Current work on the 2006 White Paper would seem ideally suited to help define priority areas. Indeed, in an effort to reach out to the multiple voices in favour of greater coherence, the Secretary of State for International Development initiated a broad based public consultation on the content of the new White Paper in his 2006 document "Eliminating World Poverty: A Consultation Document". Based on early DFID brainstorming on a plausible range of themes, the Secretary undertook a series of six well publicised speeches[18] on these forward looking topics and set up feedback mechanisms (including a web site forum) to incite greater interest and participation. The DAC encourages the UK government to make maximum use of this period of public consultation to establish a prioritised agenda of policy coherence issues, around which it can establish a clear action plan.

Pursue the joining up of government

With strong political leadership at the top and specific PSA operational objectives below, the UK government has found an approach to policy coherence for development which has instilled a greater sense of system discipline around key themes. Nevertheless, for the more domestically oriented departments to pursue policy coherence for development with the same enthusiasm as DFID can be a challenge. The identification of priorities noted above will facilitate the task of joining forces with other departments. In a future plan of action around these priorities, experience has shown that it is important to identify the lead department for each issue and to decide on the level of involvement of DFID as a partner. A close ally in this effort will be the FCO and DFID should continue to work to develop an active, structured relationship with it, in London or the field. DFID also will need to reinforce further its ties to less traditional partners such as the Home Office (migration, anti-bribery). DFID success in this effort is of interest to other DAC members with a similar interest and they would appreciate being regularly informed.

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18. (i) "Growth and poverty reduction? Creating more and better jobs in poor countries", at the New Economics Foundation (January 2006), (ii) "Humanitarian reform and conflict issues", at the United Nations/New York (January 2006), (iii) "Governance and development", at the Royal African Society and the Centre for African Policy and Peace Strategy (February 2006), (iv) "Public services - education, health, user fees, social protection" (February 2006) at the Public Service Union, (v) "Policies beyond aid – trade, climate change, transparency", (February 2006) at Chatham House with British Overseas NGOs for Development, (vi) "International architecture for development", (March 2006) at the Overseas Development Institute with the All Party Parliamentary Group on Overseas Development.

Better organise inside DFID, identify leadership, share analysis

Current organisation of policy coherence inside DFID, essentially through the Donor Policy and Partnership Team within the Policy Division, appears inadequate in relation to DFID ambitions. Especially in a future scenario of a prioritised and better planned policy coherence agenda, it would seem important for DFID to establish clearly designated **lead responsibility** for implementing the agenda, in concert with other parts of DFID organisation and elsewhere. A second organisational challenge, under any operational scenario, is finding an approach which more systematically introduces the **field perspective** into the UK policy coherence agenda. DFID's extensive field presence may represent a major strength which has yet to be fully exploited in the area of policy coherence and could be a topic of specific discussion between headquarters and the field.

The alignment of **analytical resources** against policy coherence issues also will be facilitated by a prioritised agenda. DFID policy coherence leaders can then use their authority and resources to reach out to the widest possible range of specialists, including academic or advocacy groups outside government, or elsewhere in the international community, to bring relevant attention to the issues. Specialised networks, such as the previously mentioned EC informal network or individual donors with complementary resources for policy coherence analysis (*e.g.* Sweden, Netherlands) are also effective allies. An inventory of the analysis already pursued by actors outside the UK would be useful background for the preparation of White Paper commentary on this topic.

Monitoring results

DFID has fully recognised that appropriate monitoring and reporting of **results** is an important area of development for the full range of its development co-operation. Given their importance to the achievement of UK development objectives, policy coherence actions need to be fully integrated into that performance-based framework. Here too, such a task would be made easier if pursued in the context of a prioritised and planned agenda for action. Since results in many, if not most, policy coherence actions require collective action by a range of development partners, it would seem reasonable (and more credible) to harness the energies of all actors at this level.

Future considerations

- The UK should develop a more clearly **prioritised and planned action agenda** for policy coherence for development. It should make judicious use of its significant field resources in collecting data and providing evidence of these priorities. Lead responsibility for co-ordination of the agenda of priorities should be clearly identified, both across Whitehall and within DFID.

- Policy coherence actions should be fully integrated into DFID's approach to **results** monitoring and reporting, if at all possible in concert with other similarly motivated international partners.

Chapter 5

Organisation and management

Organisation

Centralised in Whitehall, delegated to the field

In contrast to most DAC members, responsibility for United Kingdom development co-operation since the creation of DFID in 1997 is almost entirely located in a separate Cabinet level department with a clear legislative mandate for poverty reduction. While this empowers DFID to take charge and to administratively streamline Britain's contribution to international development co-operation, it also places a major responsibility on the department to work closely and collaboratively with the numerous other parts of UK government administration with a strong interest or involvement in the topic.

The broad organisational contours of UK development co-operation are conceptually simple and have already been noted in Figure 1. The locus of leadership for all poverty reduction aspects of UK government development co-operation, both bilateral and multilateral, is centralised in the **Department for International Development**. DFID is represented in the Cabinet by its Secretary of State for International Development and in the House of Commons by a Parliamentary Under-Secretary of State. Primary responsibility for technical themes is shared between the two ministers by mutual agreement. The senior civil servant in DFID is the Permanent Secretary, assisted by three Director-Generals: (i) Division for Regional Programmes (geographic desks); (ii) Division for Policy and International (policy, IFIs, UN); (iii) Division for Corporate Performance and Knowledge Sharing (finance and corporate performance, human resources, knowledge and communications). The Director-Generals themselves supervise a total of nine sub units (Figure 2), with staff split between headquarters in London and East Kilbride, Scotland.

DFID staff work through a fairly complex web of teams; meetings are set up according to need (intra-department, cross-department, cross-headquarters, headquarters-field) and include links to outside specialists as well. Links among London, East Kilbride and overseas offices are facilitated by a sophisticated videoconferencing system. The deliberate structuring of operational relationships in this manner serves the purpose of breaking down bureaucratic boundaries and refocusing staff time on resolution of the issues at hand.

A **Management Board**, composed of the Permanent Secretary, the three directors-general and two non-executive directors[19] provide strategic direction to the management of DFID performance and the achievement of the PSA, and ensure that DFID financial resources and staff are allocated and managed effectively. The Management Board is supported by three committees: (i) Development Committee, chaired by the D-G for Policy and International, (ii) Finance and Audit Committee, chaired by one of the non-Executive Board members and (iii) Human Resources committee, chaired

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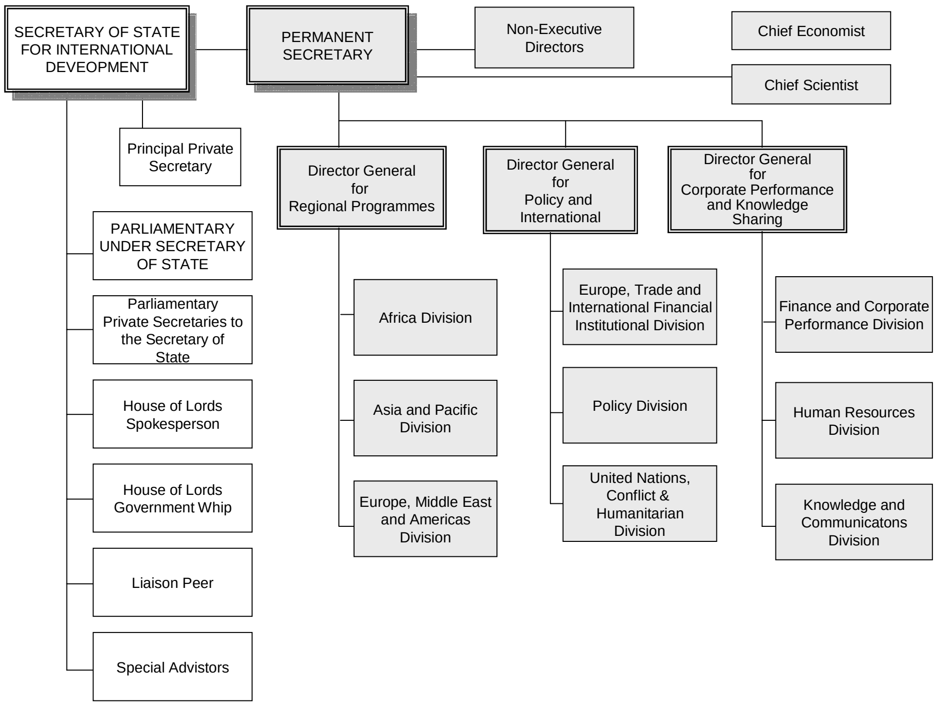
19. The two non-executive directors (one private sector, one senior civil servant from outside DFID) provide an external perspective on DFID's work, while understanding DFID's mode of functionnig as an organisation.

by the D-G for Corporate Performance and Knowledge Sharing.[20] The cohesiveness of the management board has resulted in clear strategic direction for DFID programmes. Because of the major importance of this Board for overall DFID performance, it would seem important to ensure, to the extent possible, that its membership is multidisciplinary and that its deliberations are informed by field perspectives.

Figure 4. DFID Simplified Organisation Chart



Source: DFID, September 2005.

Based on its business principle of "closeness to the client", DFID has continued its emphasis on operational **decentralisation** to the field since the last Peer Review and now locates one half of its staff resources in the 67 overseas offices located there. Country offices benefit from substantial delegated authority and are responsible for delivering the DFID PSA in that country. Delegated responsibilities include production of the CAP (which requires London review), full authority to implement the CAP, planning monitoring and reporting, ensuring cohesion with national strategies and systems, promoting coherent UK policy and taking appropriate actions if programme objectives require attention. The Head of Office is delegated financial authority up to GBP 7.5 million per action. Increasingly, the role of headquarters staff is defined in support of its field offices and so as to maintain appropriate levels of field-headquarters dialogue.

DFID co-ordinates across Whitehall with a variety of **other government departments**, but particularly the Foreign and Commonwealth Office (FCO), the Treasury (HMT), the Ministry of Defence (MOD), the Department of Trade and Industry (DTI), the Department of Environment, Food

20. While DFID totally owns CDC Group (the UK government's instrument for investing in the private sector in developing countries), CDC has its own board of directors and DFID has no involvement in, or responsibility for CDC day-to-day decision making.

and Rural Affairs (DEFRA), and the Department of Health (DH). The rationale for co-ordination among ministries can relate to *ad hoc* issues or topics of common interest, but frequently they relate to areas where the ministries have a common action built into their respective PSA objectives. In the field, the most common relationship is with the local British Embassy or High Commission in the case of Commonwealth countries.

A policy of "two headquarters"

An organisational particularity of UK development co-operation of interest to the DAC is the DFID "two headquarters" concept which allows for the sharing of system management between offices in London and East Kilbride, Scotland - two locations over 1 000 kilometres apart. In 1981 most programme service functions (contracting, recruitment, accounting, statistics) were moved to East Kilbride as part of a broader government policy of reducing costs and delocalising civil service jobs out of London. Currently, DFID estimates that the cost of an employee in East Kilbride is one-fifth of that in London and almost 40% of overall DFID headquarter jobs now are located there. Evaluations of this policy over the last 25 years have pointed out the merits (cost savings; quality of life) and drawbacks (lessened ability to communicate in a team setting; difficulty in attracting professionals out of London; tendency to create a "dual culture") of the approach.

DFID leadership is satisfied with the current policy and intends to continue its efforts to build up organisational structures in East Kilbride and to locate more senior officials there. This decision is driven in part by cost saving considerations, but also relates to a deliberate policy of offering staff a choice of work locations. The opportunity to relocate to Scotland is one step that has been taken by senior management to retain highly qualified staff who wish to work for DFID in the UK but not in increasingly expensive south-east England. As communication technology and transportation improve, the logic of this approach becomes proportionately more appealing. Virtually all headquarters jobs now can be undertaken from either location. Although it has taken several difficult years to reach this point, it now can be reasonably asserted that a two headquarters approach works to the satisfaction of most DFID managers and staff. Because the concept of relocation is of interest to other DAC members, it is useful for DFID to share the results of this organisational experiment.

A rich assortment of non-government actors

There is an impressive range of civil society in the UK (Community Service Organisations, foundations, academic and private groups) that are involved in development issues or actions, undoubtedly drawing strength from the major public and political consensus over the importance of development already described in Chapter 1. DFID recognises the importance of their role, particularly in terms of its overarching objective of poverty reduction. Because of the very wide range of CSO relationships, DFID has set up a Co-ordination and Coherence Team which serves as a central source of CSO guidance to all parts of the DFID system and identifies best practices. DFID also supports the work of BOND (British Overseas NGOs for Development), which was created in 1993 as an umbrella organisation for UK based development CSOs. BOND membership currently includes some 300 CSOs.

In 1998 a series of reports from independent and political groups led to the publication of a "Compact" which sets mutually acceptable ground rules for relations between government and the voluntary and community sector. In 2005, DFID produced its own statement on how the "Compact" is implemented. In it, DFID notes its historically strong working relationship with CSOs, from which it concludes that there are three main reasons for official supporting these organisations:

- Their role in helping build vibrant civil societies in the developing world which can constructively challenge local decision makers and give poor people a voice in local processes.

- Their comparative advantage in delivering services to the poor and humanitarian assistance.
- Their role in improving British public awareness and understanding of international development.

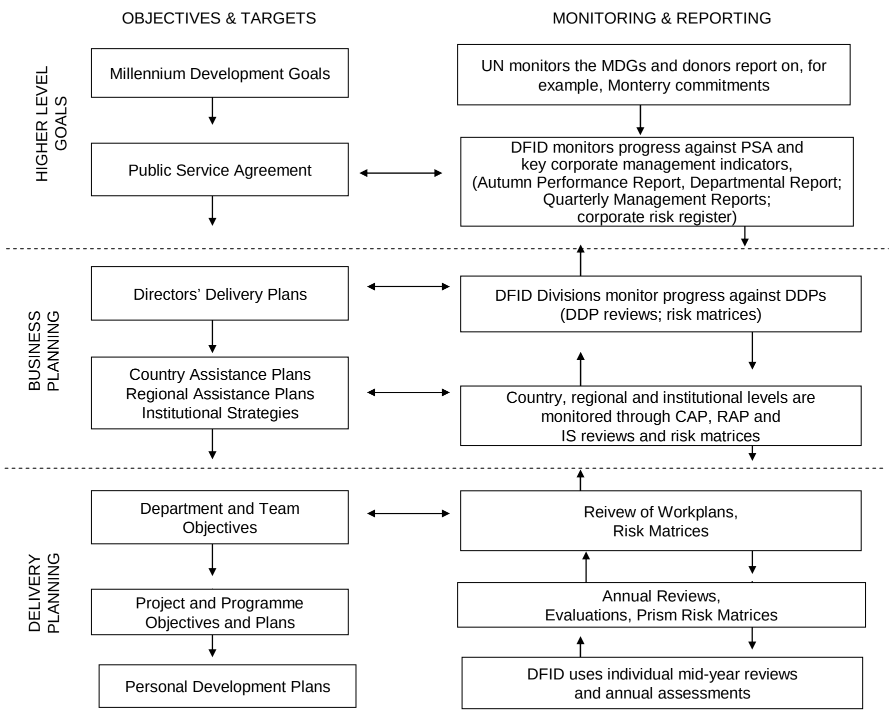
Management: How to do more with less?

Overall DFID management philosophy and strategy

Since the founding of the Ministry of Overseas Development in 1964, the United Kingdom has had 42 years of experience in managing aid. With the establishment of DFID in 1997, its leadership used this experience to progressively put in place a corporate management philosophy that strives to be strategic and transparent. DFID has carefully charted an overall approach to provide quality assurance over its bilateral investment cycle, which integrates external actors such as the National Audit Office and its own Internal Audit Department. Within this context, DFID stresses the importance of its overall corporate **values**: (i) ambition and determination to eliminate poverty; (ii) diversity of the workforce and its need for an appropriate balance between work and private life; (iii) effective team work; (iv) listening, learning and creativity; (v) knowledge and professionalism.

The core of the DFID management system is contained in its ***Corporate Performance Framework***, noted in Figure 3. While conceptually simple, this Framework is only the starting point in the complete understanding DFID's management approach. It is the primary point of reference used below to describe the DFID corporate model. The strategic nature of the Framework and its conceptual simplicity make it a useful tool for creating a team perspective in a context of otherwise widely scattered team members (London-E. Kilbride, HQ-field, proactive work with other British and international partners). This was corroborated in the field visits described in Chapter 6.

Figure 5. DFID Corporate Performance Framework



Source: DFID

It is understandable that a USD 7 billion public organisation can require a wide range of operational procedures. So as to make these processes as simple as possible, DFID created in 2005 the ***Blue Book***, an innovative essential guide to the rules and tools of the organisation. The *Blue Book* sets out the core rules, procedures and systems for DFID operations that most staff is expected to know. These practices are updated as guidance evolves. The *Blue Book* represents a significant rationalisation and streamlining of predecessor manuals and guidelines. In a very compact (100 pages) and user friendly manner, it explains DFID mandatory requirements while providing useful links and references for the remaining support materials of interest to each area. The *Blue Book* has become the one-stop, primary reference document for the effective functioning of DFID's large and highly decentralised operations. It is among the best examples seen in the DAC to date.

A topic of some internal debate within the DFID system relates to the cultural practices that the Department is undergoing as it moves from a reflective and policy oriented organisation, to one with an increasingly focussed orientation to efficiency and effectiveness. Recent management trends toward somewhat more directive decision making, less meeting and discussion and more convergent action around the tasks of implementing policy appears to confront, in the view of some, the parts of the corporate values which traditionally emphasise listening and group behaviour. DFID leadership is sensitive to this issue and considers institutional cultural change to be one of its important future challenges.

Top–down: The programme management side of the Framework

The left side of the *Corporate Performance Framework* contains the theoretical hierarchy of actions that move the DFID organisation from the **higher level goals** of its enabling legislation and the international MDGs down through its **business planning** and ultimately to **delivery planning**, including individual annual work plans of DFID staff. The distance between these two extremes is considerable and the operational linkages sometimes tenuous, but the organisational end result of this simple Framework is a sense of clarity of vision that motivates DFID staff.

Higher level goals: Because the MDGs and the International Development Act are both highest level and long-term aspects of its vision, the substantive and more operational level of DFID programming begins at the level of its ***Public Service Agreement*** for corporate DFID performance over a three year time frame. The current PSA covers the period 2005-08 and is built around one aim, six objectives and six targets (Annex D). Three of the targets are shared with other government departments. This PSA has been deliberately designed as an update of the previous 2003-06 version, so as to provide continuity in DFID programming while updating target measurements. Core PSA objectives are expected to survive several cycles, plausibly through 2010 or 2015. It also permits each division, department, team and individual to set targets that relate to the ultimate achievement of PSA objectives (and ultimately the MDGs).

In parallel with top-end programming processes, the organised DFID approach to development has caused the department to produce a very wide range of **policies**, "practice" papers and other directive material. Some of these policy statements can be driven by high level political guidance which may not have special relevance to field reality. Particularly as DFID becomes more pragmatically field based and as it moves closer to an operational approach that involves multiple partners, it will want to review the full extent of this type of top-down documentation, both to ensure that it is not over investing intellectual resources into an area that is redundant with other partner efforts or of little relevance to the field. The 2006 White Paper should help to provide additional clarity for DFID's key policy priorities and should be used to tighten the current London based policy agenda. To encourage greater policy relevance, DFID now requires that all policy documents contain implementation plans which state their intended utility and impact.

Business planning: The translation of the PSA into more explicit business planning is made at the level of the **Director's Delivery Plan**, required every three years. These rolling plans better define how the resources allocated by the Secretary of State and the Management Board will be used to deliver PSA targets and include indicators of success and an analysis of the risks that may affect progress. The **Country Assistance Plans**[21] are cyclical, 3-5 year business plans that set out how DFID aims to contribute to the achievement of the MDGs in various countries and are required to flow from the local country Poverty Reduction Strategy. The CAP lays down how DFID will work as part of the international development effort to support a country's strategy for reducing poverty, and includes a framework for annual assessment of DFID's performance in implementing the plan.

Delivery planning: Finally, at the level of development assistance delivery, staff complete and implement office, project and personal plans which can be reviewed and reported annually. Properly organised, they are intended to be a priority management tool at the country level, while permitting regular monitoring and learning by headquarters in relation to actual delivery operations. In line with its growing interest in policy implementation, DFID leadership perceives some of its most important management changes since the last Peer Review taking place in its business and delivery planning systems. DFID is among the donor leaders in testing more effective field-based delivery approaches, including what seems to be an immediately operational concept of delegated partnerships. Based on discussions with members of parliament, however, it would appear that the UK is politically limited in its ability to carry these operationally appealing partnerships very far.

From an administrative efficiency point of view, DFID appears to have a comprehensive, yet fairly simple and transparent approach to its programming. A disadvantage of this top-down and organised approach is a potential tension between strong, centralised directives coming from London and the UK objectives of country ownership and DFID's own operational decentralisation. That tension can be even stronger in the case of fragile states (Chapter 3). DFID is encouraged to regularly review the extent to which the evolving agenda of international aid effectiveness may suggest that this approach is top heavy and merits further reform. DFID leadership should remain in close touch with its field operations to ensure that future system adjustments are optimally in line with field realities and in close touch with political leadership to ensure that is able to make the more important system reforms.

Bottom-up: The performance feedback side of the Framework

To the extent that each aspect of its top-down, cascaded programming approach is critical to its strategy for DFID operations, it is logical to establish a bottom up sequence of actions that provide performance reporting that is aggregated back up the system. The programming sequence noted above therefore is mirrored by a sequence of performance actions from bottom to top. All aspects of the **delivery planning** noted above are submitted to routine quarterly, mid-year or annual reviews. As for **business planning**, both the CAP and Director Delivery Plans are reviewed annually. The CAP is monitored in headquarters annually and a major review is undertaken every three to four years. Director Delivery Plans are reviewed annually by the Management Board. Finally, at the level of the **higher goals**, the PSA tracks progress and permits reassessment of policy decisions and financial commitments in light of performance. The Secretary of State is publicly accountable for delivery of the PSA, but within DFID the Management Board has a collective responsibility for delivery. Progress

21. Depending on the frame of reference, this level of strategy can apply to the country level (the *CAP*), the regional level (a *Regional Assistance Plan*), or to the level of a specific institution (the *Institutional Strategy*). Such strategies are only produced for annual programmes of a value over GBP 20 million.

in implementing the PSA objectives is published twice-annually in the Department Report (April) and the Autumn Performance Report (December) and submitted to Parliament.[22]

DFID uses a number of analytical tools to monitor performance. 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 allows DFID managers to compile and analyse project and programme information at an aggregate level, for example by country, by sector or by special marker. It is also a means for sharing information throughout the system and includes information on more than 34 000 projects and programmes. All projects and programmes over an approved commitment of GBP 1 million must be reviewed and scored annually through this system. Current planning to integrate PRISM into a more integrated, corporate approach (ARIES)[23] is under construction for 2007.

DFID functions in a **risky** environment and recognises that risks must be taken if the Department's ambitious development outcomes are to be achieved. Risk matrices are now used at all levels to assess the key risks of achieving objectives. Risk ratings must also be included when PRISM entries are scored, as the "Value for Money" PSA targeting requires DFID to assess the success of projects/programmes in relation to risk. DFID was ranked by the Treasury as first among all government departments in 2005 for financial procedures and systems, including financial management and planning, quality of information provided to the Treasury and working relationship with it, delivery planning and risk planning.

Much has happened since the previous Peer Review to strengthen DFID's approach to **evaluation**. Organisationally, evaluation and monitoring functions have been separated with responsibility for the former placed in a new "Knowledge" division. The Evaluation Department (EvD) is undergoing a process of rejuvenation which includes additional administrative and programme resources. The Department now contains 20 staff and a richer skill mix, and has more direct linkages to senior management and DFID decision making. The EvD work programme has been prioritised in more operationally useful ways to evaluate corporate experience on such topics as general budget support, technical co-operation, HIV and gender. Country programmes are also a major topic for the Department, which undertakes 4-5 per year with a focus on aid effectiveness and accountability. Future issues already noted by EvD include the role and relationship between EvD, the other departments and the field and the way in which EvD's quick turnaround delivery schedule may in some ways conflict with the evaluation quality standards set by the DAC.

The DFID performance monitoring approach is logical and well defined. Less clear, however, are:

- The extent to which this system can provide the types of **results** information that increasingly will be demanded by parliament and the public at large. As impressive as current systems may be, simply reporting broad results is not sufficient and there continues

22. Parliament is currently preparing a bill entitled "The International Development Reporting and Transparency Bill" which will require government to provide an annual report on specific targets of British development co-operation, including detailed expenditure information and progress towards the MDGs.

23. ARIES (Activities Reporting Information E-System) attempts to free up staff time so they can focus on PSA targets. It will rationalise and integrate several generic activities across DFID, including financial accounting, project data bases, statistical and management reporting, budgeting and expenditure forecasting and procurement. It will replace most of DFID's current systems (PRISM, CODA, MIS, CMS). For example, DFID reports that there currently are 16 different systems and hundreds of spreadsheets used to capture financial information.

to be a need to better link results to programme management. The more persistent political issue of “how to tell the story” will undoubtedly require a type of results reporting that goes beyond data driven approaches and will need to be carefully thought out so as to avoid generating unnecessary and time-consuming additional reporting requirements.

- Simultaneously, it is recognised that there may be utility in further simplifying and integrating these field-based reporting systems (more optimal allocation of resources) while ensuring that all country offices are compliant with DFID systems. It may be worthwhile at this stage of performance monitoring to assess the benefits relative to the costs of what is already an ambitious system.
- As donor interest in the joint field approaches evolves, DFID specialists realise that they need to help support capacity building for common results systems. This will require additional effort to reach out to other donors and partners.
- Finally, DFID will need to continue to reflect on the issue of how all this feedback is translated into “knowledge management” that can be helpful to UK development co-operation and the efforts of its partners. Administratively, the Knowledge Division has a cross cutting facilitating role in this area, although it is not responsible for corporate monitoring. It can be expected that the Division will help to better focus corporate attention to the issues of joining up the various threads of performance feedback into one system that could best inform the collective decisions of DFID and its partners.

A “people” approach to human resource management

DFID uses a clearly stated and strategic approach to human resource management, which is summarised in its document *Our People Strategy 2005-2008* (Box 8). Drawing from its analysis of current challenges for development co-operation, both at the general level (*e.g.* growing divide North-South, off track MDGs, security and extremism, trade) and at the level of DFID (*e.g.* growing budget and political capital, engagement in fragile states, harmonisation), the Human Resources Division works closely with other parts of the DFID system as a matter of policy (“the Golden Thread”) to ensure the availability of the skills necessary to DFID corporate objectives. A particular strength in this respect is the Department’s high calibre, highly motivated staff, complemented by simplified operations and flexible “people processes” which permit professionals to function efficiently in a wide range of operating environments (*e.g.*, flexi-time, teleworking, teleconferencing). DFID now has the reputation within the UK government as one of its best civil service work environments.

Box 8. Relating development substance to DFID personnel

DFID’s strategy for human resource management *Our People Strategy 2005-2008* was produced in 2005 after an extended dialogue with staff and other relevant partners. Like most other aspects of DFID management, it is framed in the context of the DFID’s overarching mission of poverty reduction and further specified through reference to the DFID PSA and the Department values. The *Strategy* notes at the outset that among main resources for achieving these goals is “most importantly the skills, experience and knowledge of our people.”

The *Strategy* notes Management Board intent to monitor progress against human resource goals of each Division Delivery Plan and to hold leaders and managers accountable for collective performance. The *Strategy* makes clear the respective roles of the Management Board, top managers, Heads of Profession, the HR Director, Line Managers and individual staff. Each of the four *Strategy* goals is defined in measurable terms (“Where we want to be…”, “What we need to do…”, key success measures, a 2005 baseline and the 2008 targets).

DFID’s four human resource high level goals are: (i) To demonstrate excellence in the leadership and management of people. (ii) To support all staff in their continual professional development and performance improvement. (iii) To provide all staff with a healthy, safe workplace, in which diversity is a recognised asset. (iv) To use efficient and effective people processes to support DFID business delivery.

DFID world wide staff totals 2 853 (Table 2), of which two-thirds are in the category of "Home Civil Servants" and the remaining one-third in the category of "Staff Appointed in Country" (local staff recruited in the field). DFID's staff total has almost doubled since its creation in 1997 and the current level is the high water mark. Over the course of the next three years this level will be reduced by 10% in compliance with current government-wide targets for overall civil service streamlining. DFID expects to carry out its head count reduction in four ways: (i) improving technology and business processes (*e.g.* accounting, human resource management), (ii) rationalising overseas programmes (better alignment with poor countries, graduation from small programmes and MICs), (iii) selected local office reorganisation and streamlining, and (iv) innovating with more effective aid instruments. It is remarkable to note that 7% of DFID Home Civil Servants are on secondment. The loss in staff capacity this represents is compensated for by a similar number of incoming secondments from other parts of the UK government and bilateral or multilateral donors. It is interesting to note how far DFID has taken the secondment process - not only exposing (and influencing) its own staff to other parts of the international development system, but also diversifying its own organisational perspective and locating the best staff to "get the job done" (two out of three of its own Director Generals are "on loan" from the International Bank for Reconstruction and Development and IMF respectively!).

Table 2. DFID staff as of August 2005

1.	**Total Staff**		**2 853**
	Home civil servants (HCS)	1 893	
	Staff appointed in country (SAIC)	960	
2.	**By work location**		
	In the UK		**1 460**
	a) London HQ	909	
	b) East Kilbride HQ	551	
	Overseas		**1 393**
	a) Africa	659	
	b) Asia	537	
	c) Europe, Americas, etc.	197	
3.	**Secondments to external organisations**		**135**
	a) International Development Organisations	90	
	b) Other UK central government departments	38	
	c) Other (local Gov't, NGOs, private sector)	7	

Source : DFID

International and British development agendas have been characterised by a regular process of change. To adjust to this environment, DFID needs co-ordinated strategic planning and a system ability to renew the internal skill mix flexibly and to assign staff relatively quickly. In addition to the head count reductions noted above, DFID can already anticipate a number of human resource challenges on the horizon. The doubling of aid by 2010, expectations of greater engagement in the more difficult fragile state environment and the donor trend toward more effective field approaches (*e.g.* sharing of staff among donors, delegated partnerships, management by results) are indications that staff requirements could shift significantly. Domestically, the ultimate impact of the 10% reduction and the current DFID desire to move additional staff from London to East Kilbride are other factors to consider. Based on the short exposure of the current Peer Review to the complex and long-term issues of human resource management, it is suggested that DFID continue to review the following human resource policies:

- Current **staff turnover** in the field appeared to the Peer Review team to be too rapid to sustain the DFID model of engaged leadership based on profound field understanding. Home civil servants should aim to serve minimum 3-4 year cycles while in the field. A rapid turnover was also observed in headquarters and may suggest that this is a structural issue, perhaps due to DFID incentives for personal advancement. Finally, having local staff in the field already is recognised as a tremendous asset and the number of professional SAIC employees is expected to increase. However, the current local personnel policy (as is true for many international donors) also fails to offer them incentives to remain within the DFID system.

- The role of the "**advisor**" (DFID sector specialist) within the overall DFID approach appears to merit further review, especially as DFID implements staff reductions and seeks new, more efficient approaches to field operations. Past DFID review on this topic led to a decision to adjust the recruitment process so as to place greater emphasis on management and negotiating skills and wider policy capability. In some cases, it can appear that delivery teams are composed of "thinkers" and "doers". In the field, advisors need routinely to be integrated fully into local strategic teams, including the more operationally specific tasks of implementation. In headquarters, advisors need to see themselves sharing operational roles, for example in relation to the policy implementation plans.

Future considerations

- DFID should continue to give close consideration to the **implications** of the scaling up of aid in order to adapt its structure, while reducing its administrative and human resources. In doing this, DFID should consider how promising innovations linked to the aid effectiveness agenda, such as extensive use of delegated partnerships, will impact upon DFID organisation and management. This will require conceptual clarity on the part of DFID and strong support from UK political leadership.
- DFID has developed a well structured and disciplined approach to aid **programming**. It needs to pursue its review of the extent to which this top-down approach may conflict with its own objectives relating to local ownership and aid effectiveness. Further flexibility in applying the programming guidelines appear desirable, particularly in difficult implementation environments such as the fragile states.
- As DFID seeks to improve upon its approach to **performance** measurement and reporting, it will need to take care to seek solutions which do not unnecessarily add to the burden and complexity of the existing system. This should include simultaneous consultation with its country offices that supply the results information and with the domestic constituencies that require it.
- DFID is encouraged to more systematically build on existing **PRS monitoring and evaluation systems** in partner countries. It could further encourage collaborative efforts among the donor community in order to strengthen national capacity in this area. To this end, DFID could consider investing more in a common system at the country level. DFID should weigh the benefits and costs of its current system.
- DFID **human resource management** policy and practice is among the most strategic found in the DAC. Attention is called to rapidly evolving future staff directions and the need for flexibility and significant advance planning to identify and place critical skills. In a context of significant scaling up of aid and a future agenda of collective donor aid effectiveness, priority emphasis in human resource policy will need to be on implementation, including the extent to which current staff turnover affects continuity and consistency of DFID action in the field.

Chapter 6

Field Operations

Country context and key Peer Review messages

The findings and conclusions on the UK development co-operation contained in this chapter were influenced by field visits to Nepal (7-11 November 2005) and Zambia (20-24 February 2006).[24] The key observations summarised in Boxes 9 and 10 are the highlights presented by the DAC Peer Review team upon departure from each country.

Context: Nepal

Nepal is the poorest country in South Asia with a per capita GDP of USD 237. Since 1996, it has experienced a political struggle between the Nepalese government and a Maoist rebel movement which has undermined past economic progress and resulted in widespread human rights abuses and over 13 000 deaths, many of them civilians. Deep seated poverty, social inequality, poor governance and discrimination have fuelled the conflict. Over the last decade the Maoist movement has come to effectively control the majority of the countryside. At the same time, the Nepalese monarchy has regularly compromised the development of democracy and the rule of law. In February 2005, the King dismissed the Prime Minister, declared a state of emergency and assumed direct rule. Following the re-establishment of parliament in May 2006, the challenge is now to build the basis for a lasting peace. The principal challenge now facing this country of 25 million people is to restore democracy and build the basis for a lasting peace by directly addressing the causes of the conflict and supporting a development process aimed at reducing poverty and social exclusion.

Since 2002, the government's involvement in promoting aid effectiveness has resulted in a technically sound PRSP complemented by an Immediate Action Plan, a Medium Term Expenditure Framework (MTEF) and a Poverty Monitoring and Analysis System (PMAS). Mechanisms for donor co-ordination are also in place. However, a number of constraints undermine PRSP implementation, notably: i) the current lack of legitimacy of government and willingness of bilateral partners to associate closely with it; ii) the limited ability of the government to deliver services in the rural areas as a result of the insurgency; and iii) under spending by government in social sectors, inefficiencies in its judicial and financial systems, and bureaucratic inertia.

Context: Zambia

Zambia is one of the poorest countries in the world, ranking 166 out of 177 in terms of human development index. Some 68% of Zambia's 10.76 million citizens live below the national poverty line and maternal mortality, deaths from HIV/AIDS, and malnutrition have been rising over the last few years. However, Zambia has seen four per cent growth in recent years and has the potential for future growth and development. Recent reviews show progress in a number of areas: decline of poverty and child mortality rates, stabilisation of HIV infection rates (16% of the population between the age of 15 and 49), improved enrolment in primary education and increased immunisation coverage. The country has identified potential areas of future growth. Good fiscal discipline has helped to restore

24. A three-day mission to Malawi to assess DFID humanitarian aid programme was organised in the context of the visit to Zambia. Information on this visit is contained in Annex C.

macroeconomic stability. Implementation of the 2002-05 PRSP remains patchy, the budget is not linked to it, and there is still no comprehensive system for identifying the poverty impact of expenditures across the budget. However, the government is committed to improving the public financial management system and has taken significant steps to this end, with the introduction of the Activity Based Budgeting in 2004 and the Medium Term Expenditure Framework. Zambia is finalising its 5th National Development Plan (NDP) for 2006-11, which will take the place of the PRSP framework and can be a key tool for poverty reduction. Zambia reached HIPC Completion Point in April 2005 and will therefore benefit from some USD 6.5 billion of debt forgiveness. Budgetary resources that would have been required to service external debts will now be available to the government (approximately USD 100 million per annum over the next three years) for poverty reduction expenditures.

In 2002, the launch of the PRSP provided a vehicle for donors to align with government policies. In March 2002, a group of like-minded bilateral donors signed a groundbreaking Harmonisation in Practice (HIP) framework with the Ministry of Finance and National Planning. This led to a broader harmonisation agreement signed in April 2004, and which now includes most of the key bilateral and multilateral donors as signatories. Under this agreement, signatories agreed to mission-free periods, joint missions and working towards joint decision making. It also has been agreed to design, with the Zambian government, a Joint Assistance Strategy for Zambia (JASZ) that will provide a single country strategy for all partners, will identify how each intends to support the NDP and will designate a lead donor for each of the twenty sector advisory groups. JASZ should be completed soon after the launch of the NDP in July 2006.

Box 9. Observations from Nepal

- UK playing positive development role and promoting the **aid effectiveness agenda**. Intellectual leadership; good understanding of the challenges in a fragile state environment through leading the piloting of OECD Principles; a commitment to promoting government ownership to the extent possible.
- DFID/Nepal creatively and pragmatically **adapting to realities of working in fragile states**. Realistically reviewing its CAP; scaling back; adopting a more cautious approach to budget support; using diverse implementation modalities, with an increased emphasis on district and community level activities; with the creation of the Risk Management Office (RMO) in collaboration with GTZ, DFID is ensuring greater conflict sensitive development support to its activities.
- DFID is also working with the main international partners in Nepal to apply the “Basic Operating Guidelines (BOG)” which aim to ensure that development assistance is focused on basic needs and not seen as contributing to conflict. The BOG’s are consistent with the International Red Cross and Red Crescent Movement’s Code of Conduct.

However, effectively addressing conflict and fragility may imply **further field adjustments** in the following operational dimensions, challenging the DFID delivery model:

- **Policy coherence**: Given importance of conflict mediation and social inclusion, UK foreign policy and development perspectives should continue to be synchronized and co-ordinated among DFID-Embassy-MOD.
- **Programming**: Strong programme emphasis toward conflict prevention, state capacity building, and civil society strengthening is critical. At the district level it may be possible to better link up with district level officials to enhance synergy and prepare future decentralisation.
- **Implementation**: Links between policies and implementation could be strengthened further; a more strategic approach towards NGO/CSOs could be usefully developed with other partners and increased communication ensured with district level government officials when basic services are delivered through non-state actors.
- **Internal organisation**: Examine the role of advisors with an eye to strengthening linkages between “thinkers and doers” and further strengthen team work through greater focus on implementation and the districts.
- **Results management**: DFID uses additional monitoring systems to compensate for weak government capacity. Monitoring Framework places a major burden on the Country Office. DFID needs to continue to help strengthen the government’s monitoring system and keep in mind the longer term objective of ownership.

Box 10. Observations from Zambia

- **A leading donor**: Strategically organised office; dedicated, capable staff. DFID at the forefront of policy dialogue.
- While DFID is committed to Zambian leadership, broad based **ownership** remains a challenge. DFID could consider reviewing the scope and pace towards GBS and should continue to build the management capacity of the GOZ.
- DFID works closely with other donors on the **harmonisation and alignment agenda**. To avoid leaving others behind or dividing the donor community, it could adopt a more donor inclusive approach by stressing partnership over leadership. It could rely more on multilaterals based on their comparative advantage.
- **General Budget Support**: GBS in Zambia is a useful instrument in terms of alignment and ownership, but perhaps less certain in terms of poverty reduction because of structural poverty issues, weak civil society and parliamentary oversight, and national capacity limitations. Public expenditure patterns yet are not strongly pro-poor and linkages to the districts are weak. DFID sees GBS at the top of the hierarchy of instruments, but others see it as one of a set of complementary actions. Since the government needs time to adapt given its weak capacity, some partners believe that going too fast could put at risk the entire GBS process.
- The expansion of the scope of the current common **Performance Assessment Framework** for GBS to include all donors merits DFID attention to reduce transaction costs.
- DFID policy work could be better linked with **implementation and results**. Greater staff exposure to conditions in districts and closer relationships with civil society groups engaged at the community level. Empirical information is needed for both results management and results reporting to London
- The UK provides timely and flexible funding for local **food crises**. It plays important role in reforming the humanitarian system and conventional approaches (linkages between poverty/vulnerability and chronic/acute food insecurity; strategic approaches making food security a development objective; alternative and complementary mechanisms in delivering humanitarian aid).

United Kingdom's field organisation and management

Local structure and management of country offices

Both DFID offices in Nepal and Zambia have **Country Assistance Plans** (CAPs) that are closely aligned to national PRSP strategies, and CAP outcome teams have been set up for each key sector. The DFID office in Zambia is very strategically organised around operational CAP objectives. In Nepal, following a 2004 restructuring and consolidation of the programme administration teams, DFID is organised around five CAP pillars taken directly from the PRSP, each pillar being headed by an adviser and covering a number of specific projects/programmes. However, these pillars may be too general to be operational and two (governance and peace-building) are cross-cutting. DFID Nepal is reviewing its CAP in light of the deepening conflict and governance crisis, which should result in adjustments.

The approach to **internal co-ordination** of these fairly complex programmes appears leaner in Zambia than in Nepal. The DFID office in Zambia is tightly organised around a sequence of targeted weekly meetings (policy; CAP outcomes and cross-cutting themes; management; local staff) aimed at promoting a team environment. DFID Nepal management structure comprises three main forums, which meet monthly (strategic direction; programme management; office management). Their work is informed by other forums: the five CAP pillar teams, the risk management forum, and the communication forum. Particularly in the crisis situation in Nepal, DFID may wish to consider consolidating further its internal structures, while strengthening the broader concept of one UK team.

In both Nepal (Embassy) and Zambia (High Commission), weekly meetings are held with DFID's counterparts from the FCO and other local **UK official representatives**. Such meetings and other *ad hoc* opportunities for collaboration help prevent the administratively parallel DFID and FCO relationships with London from leading to divergence of opinion in partner countries. In Zambia, the co-location of DFID within the High Commission facilitates a close working relationship, while in Nepal separately located DFID and embassy offices are compensated by regular co-ordinating meetings in Kathmandu and London. Both DFID and the FCO should continue to pursue efforts at joining up at the local level, particularly in politically sensitive environments, such as that of Nepal.

DFID offices in Nepal and Zambia both benefit from committed and talented **staff**. The Nepal office currently makes use of 10 UK based staff and 44 local staff for a GBP 30 million portfolio. Zambia has somewhat fewer staff (11 UK based staff and 23 local staff) for a similarly sized, GBP 35 million programme. DFID Nepal is now reducing its overall staff levels by 40% from its September 2004 baseline (12.5 UK based staff and 74 SAIC). The leaner Zambian office managed to avoid staff reductions. It notes that its increased use of GBS so far has not lessened its staffing responsibilities but has led to adjustments in its skills mix. "Advisers" (9 in Nepal; 8 in Zambia) appear able to better link their policy level activities with implementation in Zambia than in Nepal. In both countries, it was felt that DFID staff (both UK and local) need more contact with districts and local communities and that they should interact more with NGO partners and civil society to verify poverty reduction impact and understand local perceptions. Finally, as part of DFID's broader efforts at donor harmonisation in Zambia, it is expected that creative staff sharing agreements may be developed over the course of the upcoming year and could lead to opportunities that reduce DFID human resource costs locally.

Three special and related issues on field staff policy were noted in the context of the country visits. First, with respect to UK based staff, DFID policy incentives gave the impression of favouring internal staff **mobility** and relatively short-term posting cycles. Based on experience from elsewhere in the DAC, and as the UK increasingly focuses on poorer and more difficult countries, where it wishes to play a leadership role among local partners, it is felt that DFID should consider encouraging longer cycles for its overseas staff, both for the sake of local effectiveness as for institutional memory. Secondly, even though **local professional staff** in Nepal and Zambia benefit from open contracts and can now be posted at senior level, current policy in the personnel system does not offer a career enhancement that will permit DFID to retain this staff over the longer term. To the extent that DFID values local professional staff, it would seem appropriate to review and better define the incentives it is prepared to offer this group. Clearly in both the case of Nepal and of Zambia, local staff is crucial to the effective implementation of DFID programmes and represent important institutional memory as UK staff move on to their next assignment. Four SAIC staff members are advisers in Nepal and several are team leaders in Nepal and Zambia. Thirdly, it will be important for DFID to ensure that the current GBS emphasis does not lead to reduction in advisers in DFID priority sectors.

Decentralisation in practice

DFID country offices benefit from substantial delegated authority, each head of office being responsible for delivering DFID's PSA in its country (Chapter 5). However in a sensitive political situation, such as in Nepal following the February 2005 takeover of government by the King, decisions are taken in close consultation with DFID headquarters and ministers. In this case, the ministers decided in March 2005 that there should be comprehensive review of the Nepal portfolio by July 2005. The review was undertaken by the DFID Nepal office in close consultation with DFID senior management and other interested UK government departments. Review recommendations were submitted to DFID ministers. Ministers have been consulted on a case-by-case basis on all financial aid payments.

Country programming and implementation: "Aid effectiveness" in practice

The Zambia and Nepal examples appear to be representative of broader DFID field practice, particularly in implementing the Paris Declaration on Aid Effectiveness. DFID has expressed its commitment to aid effectiveness from the highest level so as to strongly influence field implementation.

Aid effectiveness: From advocacy to mainstreamed implementation

DFID plays a leading role in promoting aid effectiveness and harmonisation in international discussions, including with respect to fragile states. DFID endorsed the Paris Declaration in 2005 and signed up to the EU Action Plan on Harmonisation in November 2004. DFID is committed to supporting the international effort to achieve more and better aid, through i) a policy framework on aid effectiveness; ii) improved aid programme delivery and iii) reform in the multilateral system. A **Medium-Term Action Plan** on aid effectiveness is under development and will emphasise the importance of DFID focussing on improved quality of aid, both in international processes and through country programmes (Box 11). The plan establishes an Action Matrix at the country level, based on Paris Declaration indicators and additional EU and UK commitments.[25] It aims at integrating DFID reporting with international and country level reporting. In addition to an Action Matrix at the regional level, it also sets up a matrix at the international and corporate levels to identify actions needed in support of implementation in the field.

Box 11. DFID's Medium Term Action Plan on aid effectiveness

DFID's 2006 Medium Term Action Plan sets out the following set of actions, including commitments beyond those of the Paris Declaration:

i) Improve aid architecture in support of poverty reduction, including: reform of the PRSP process; strengthen developing country participation; better match global and vertical funds with national plans and systems.

ii) Match aid with country priorities and systems: reform DFID use of conditionality; increase UK aid predictability; increase use of country budget processes, financial management and procurement systems; develop joint assessments of system quality and increase use of national monitoring frameworks; strengthen the capacity of partner governments.

iii) Improve the way donors work together: develop common donor frameworks; reduce the number of missions, develop joint approaches to country programming; promote increased sharing of staff, use of joint offices and development of common procedures and better support division of labour among donors.

iv) Strengthen donor accountability: encourage country led processes for monitoring progress against indicators agreed in Paris and contribute to global monitoring and evaluation through the DAC.

v) Work more effectively in fragile states.

vi) Improve the performance of the multilateral agencies.

vii) Strengthen corporate support: improve monitoring and reporting on aid effectiveness, ensure DFID staff has the skills to improve aid effectiveness, improve the aid effectiveness evidence base and support cutting-edge policy on aid effectiveness.

Source: DFID, 2005h

25. DFID supports the development of an EU framework for joint programming and capacity building assistance, proposes to avoid establishing new Project implementation units and aims to halve the number of unco-ordinated missions by 2010.

DFID is anxious to translate international commitments on aid effectiveness into its country programmes. In Nepal and Zambia DFID is seen as a leader in implementing the aid effectiveness agenda in its different dimensions.[26] Its degree of decentralisation, when added to its strong field staff, is an asset in this respect. However, it is also clear that the extent of implementation is not consistent yet across all of DFID. DFID is therefore invited to use an Action Matrix at the country level to further mainstream country-led approaches within policy work and reporting, including country learning and staff training.

The UK country strategy and programming

Ownership: Promoting country-led approaches and rethinking aid conditionality

DFID is moving forward with country led approaches to poverty reduction through an increased emphasis on the PRSP. It has also developed a new approach to conditionality whereby it will only use conditions to ensure that aid is used effectively and for the purpose intended. Agreed benchmarks for measuring progress on the reduction of poverty will be the basis for both sides to be accountable to their citizens, rather than policy conditions set by donors (DFID/HMT, 2005). In its aid relationships, the UK is guided by five principles: i) developing country ownership; ii) participatory and evidence-based policy making; iii) predictability; iv) harmonisation and v) transparency and accountability. An effective aid partnership should be based on a shared commitment to three objectives: i) reducing poverty and achieving the MDGs; ii) respecting human rights and other international obligations; and iii) strengthening financial management and accountability, and reducing the risks of funds being misused through weak administration or corruption.

According to the 2005 UK policy paper on **conditionality** mentioned above, the UK should not make its aid conditional on specific policy decisions by partner governments or attempt to impose policy choices on them (including in sensitive areas such as privatisation or trade liberalisation). Instead, it should agree with partners how aid will contribute to poverty reduction in a manner that can be sustained over the long term, and agree benchmarks to show what progress is being made. In doing so, the UK aims to support county-led development whilst also maintaining accountability to the UK parliament and public, and ensuring that aid is used effectively. The new policy needs to be further specified and disseminated to effectively address this dilemma and ensure even implementation in partner countries. The examining team found different perspectives on the policy conditionality issue in the two visited partner countries, among the UK actors as well as within the donor community. A greater clarity is all the more important since British stakeholders are divided on this issue, with parliament favouring conditionality to ensure that aid is used effectively and CSOs raising concerns about specific conditionalities. A note published by DFID in January 2006 titled “Implementing DFID’s conditionality policy” will help provide this additional clarity.

The policy paper states that the circumstances in which the UK will consider reducing or interrupting aid are therefore a break with the above three-fold commitment. Two recent cases illustrate this new policy: i) in Nepal, DFID decided to withdraw its support to Nepal police, prison services and the Prime minister’s office following the King’s dismissal of the government in February 2005; ii) in Ethiopia, in June 2005 the UK put on hold a proposed increase in GBS from GBP 30 million to GBP 50 million; in November 2005, along with all other budget support donors, the UK suspended all GBS. Both actions were a result of concerns about declining governance and the Government of Ethiopia’s commitment to human rights. In order to ensure that poor people did not

26. According to the 2004 Report on the performance of programme aid partners in Mozambique, DFID was ranked as the best performer among the 16 donors assessed there with regard to aid predictability, transparency, portfolio, alignment, capacity building and administrative burden (T. Killick, 2005).

suffer as a result, the UK has increased its financial allocation to the Productive Safety Net Programme and, together with other donors, is preparing a new programme of financial support for basic services to be delivered at the local level with increased monitoring and accountability. Common donor agreement is important in such politically charged contexts in order to bring a coherent message to government authorities. This means that the UK needs to consult with the local donor community (and especially the EC and EU members) before any withdrawal decision. This is all the more important in countries where DFID is the lead donor.

Locally, DFID needs to be cautious that the high intellectual input and substantial resources it brings to the table does not contradict its approach to local ownership. As was seen in the Zambia, the risk of using short-term technical assistance to fill the gaps resulting from weak national capacity and leadership exists. While this is done to facilitate a national process, it actually can weaken it by putting too much pressure on the partner government, undermining the spirit of the ownership objective.

The challenge of alignment

DFID has made progress toward alignment in the countries visited through the use of CAPs that are developed on the basis of the national **PRSP** and with DFID annual reporting done on progress against national poverty indicators/outcomes and the related targets in the DFID PSA. The share of DFID assistance that relates directly to PRS processes has significantly increased since 2000 and reached 90-100% in many African countries in 2003 (ODI, 2004). In addition, all UK development assistance became fully untied on 1 April 2001. This was confirmed by the 2002 Act which made it illegal for UK aid to be tied to the use of British goods and services. Even if its impact remains weak compared to the UK overall aid budget,[27] in terms of extending aid untying coverage, UK leadership is commendable.

In order to support alignment principles and to promote national priorities from the bottom up, DFID tries to avoid setting **sector spending targets**. Such targets only exist in HIV/AIDS, education and water. It will be important for DFID to maintain policies which allow country-level flexibility and limit the risk of top-down allocations. More generally, forward motion toward alignment requires the reconciliation of long-term approaches necessary to country-led development with the short-term need to demonstrate results and progress. A targeted communication strategy at the DFID corporate level that explains the benefits of country-led development and how public concerns (*e.g.* fiduciary risks) are addressed will help to allay such tensions. DFID will also need to develop a more flexible approach in supporting country-led development in fragile states or in countries where capacity is generally extremely weak (Chapter 3).

Supporting mutual accountability and predictability

DFID is committed to provide aid on a transparent and predictable medium-term basis and frequently uses **three-year arrangements** already. DFID is considering the financial management adjustments required to provide information to recipients on disbursement plans for the coming fiscal year at a time and in the form needed for the coming fiscal year and to disburse poverty reduction budget support (PRBS) in the first six months of the partner's financial year. It is also considering adopting, wherever possible, rolling multi-year PRBS arrangements, such as the 2005 three-year budget support commitment to Tanzania totalling GBP 300 million, and developing longer-term arrangements with countries committed to poverty reduction and good governance. Ten year partnership arrangements were signed with Sierra Leone in 2002, Rwanda and Afghanistan in 2006.

27. The 666 new contracts drawn up from central office in 2005 amounted to GBP 200 million; 20% of these contracts were gained by local suppliers in developing countries.

Aid modalities: Adjusting to alignment and harmonisation

DFID relies on a mix of aid instruments to deliver its programme, from general and sector budget support, sector support in a sector-wide approach to direct support, with decreasing numbers of stand alone projects, increased pooling of funds and support to CSOs. DFID recognises that the appropriate mix of aid instruments is context specific and that it may be possible to work through government systems in some countries. In others, however it may need to be more directly involved at decentralised or local community levels wherever government lacks public financial management or is unable to effectively deliver basic services. Where governments are committed to improve public financial management, DFID prefers to work through government systems in order to reinforce their capacity and therefore favours sector or general budget support. Where conditions are seen as appropriate, the trend is aimed to increase the share of PRBS, as illustrated in Zambia (Box 12).

A leading role in promoting budget support

The UK increasingly uses programmatic approaches. This move has involved the provision of more Poverty Reduction Budget Support (PRBS),[28] which is seen by DFID as the ultimate recognition of partner country ownership and the simplest way for donors to align with government priorities. It is seen, when circumstances are appropriate, as the aid instrument most likely to help to build the accountability and capability of the state and an efficient way to scale up and to transfer resources rapidly. The UK is already a champion within the DAC regarding PRBS. DFID estimates that 20.4% of its bilateral programme was provided through PRBS in 2004, compared to a DAC average of 2.5% for its member countries. In Mozambique, Ethiopia, Rwanda and Tanzania, more than 73% of DFID country programme expenditure is provided through PRBS.

Box 12. DFID use of general budget support in Zambia

In Zambia DFID expects to deliver nearly 60% of its ODA (totalling GBP35-40 million) in direct budget support by 2007. It considers GBS to be at the top of the hierarchy of aid instruments.

In giving this prominence to GBS, DFID recognizes it is taking a calculated risk. The Government of the Republic of Zambia's financial management system, while improving, remains relatively weak, including the Ministry of Finance capacity to release budgeted amounts in a timely fashion. Line ministries also have severe capacity limitations on their ability to execute their allocated budget. Corruption is still a risk. DFID wishes to test whether GBS can be effectively used in Zambia, while serving as an incentive to better government performance and in the hopes of encouraging other donors to follow suit.

Other donors use budget support at the sector level, and DFID like-minded donors are progressively using GBS. Most donors in Zambia see GBS as a complementary instrument and are not ready to move their portfolios beyond about 25% to GBS, preferring to maintain a mix of instruments, including sector budget support, that are better suited to their perceptions about Zambia's readiness for GBS and local needs for basic capacity building.

In country feedback suggested that DFID's position as champion of budget support (and basket sector funding) may be having the unintended effect of dividing donors into an "in" group and the "outliers". If so, it can risk undermining donor harmony, aid effectiveness and development results. DFID recognition of variable geometry for development co-operation and its efforts to "make space under the tent" for less similar donors can help assure complementary and greater development effectiveness.

To remain credible, GBS needs to be associated with regularly improving country level development trends and outcomes. If the trends and outcomes are negative, GBS will also suffer and it could lead to donor disenchantment with this important aid instrument.

28. Budget support provided under PRBS can be either general (known as GBS) or sector-specific. Earmarked PRBS (sector budget support) accounts for some 15% to 30% of DFID total PRBS depending on the years.

Extended budget support requires that other **donors** engage themselves in this aid modality and DFID promotes a harmonised approach, through proactive involvement of its country offices in dialogue with partners (governments, civil society and other donors). DFID's strong analytical capacity proves to be very useful in supporting the macro-economic and technical related aspects of the donor-recipient dialogue and is therefore a vehicle to its advocacy, as illustrated in Zambia. At the international level, DFID Policy Division is strongly involved as well in the global debate on aid modalities and since 2001 highly committed to gather more evidence on the effectiveness of PRBS. DFID supported a joint evaluation of budget support in Tanzania which concluded that budget support has made a major contribution in terms of macro-economic management, resource availability to the budget and public financial management systems (ODI, 2005a). DFID also led in 2005-06 a joint OECD evaluation of GBS in seven countries.

According to its 2004 PRBS policy, DFID now uses budget support explicitly to link the provision of financial aid to the partner government's commitment to poverty reduction (DFID, 2004b). The appropriateness of circumstances are therefore assessed against whether i) the country's planned budget priorities support poverty reduction, ii) there is commitment to making the administrative, technical and financial systems robust and reliable, so that funds help to reduce poverty effectively; and iii) the provision of PRBS will produce significant benefits relative to other forms of aid delivery. Before a decision is taken to provide PRBS, DFID makes a comprehensive **assessment of fiduciary risk**. DFID's 2004 policy on managing fiduciary risk sets out a recommended approach which has been agreed by the National Audit Office, and is complemented by an operational guidance note designed to help country office staff involved in fiduciary risk assessments and public financial management and accountability reform programmes (DFID, 2004c). This guidance should allow DFID to effectively identify the risks relating to PFM and macroeconomic problems as well as capacity problems. In addition, lessons learned have led DFID to include public financial management strengthening alongside budget support programmes.

More generally, DFID acknowledges the **limits and risks of PRBS**. Its 2004 policy paper draws from a preliminary comparison of actual outcomes of PRBS to suggest that: i) some of the benefits are medium term, rather than immediate; ii) few of the expected benefits (local ownership; alignment; harmonisation) are automatic and complementary measures (technical assistance and policy dialogue) are needed; iii) donors pursue a variety of objectives through budget support, and improved co-ordination would improve impact; and iv) PRBS is so far less predictable than expected. The UK experience indeed shows that GBS is vulnerable to political governance events, remains risky and does not automatically result in improved public financial management and strong impact on poverty reduction, as illustrated recently in Uganda.[29] As a consequence, while country office forecasts lead DFID to expect that the share of PRBS in its portfolio will increase from 21% of total country programme expenditure in 2003-04 to 30% in 2005-06, DFID prudently does not want to set a PRBS fixed target in terms of percentage of the UK bilateral ODA.

However, it is important that DFID's corporate approach to GBS be consistently applied in partner countries as part of a range of aid instruments available and avoid signalling or implying that it is always the preferred instrument. There may be the potential for competing objectives: on the one hand, GBS is a way to both comply with the alignment and harmonisation agenda and address DFID

29. In December 2005, the United Kingdom decided to reduce PRBS to Uganda by GBP 15 million and to use the money to help the United Nations provide humanitarian assistance in Northern Uganda. The decision came after an economic and governance assessment raised concerns over the government's commitment to an effective political transition and the significant overrun on public administration expenditure.

internal challenge of increasing its volume of aid with less resources. On the other hand, GBS includes a fiduciary risk since its underlying hypothesis – that more predictable funding, together with more sustained policy dialogue in support of a PRS and a MTEF creates a virtuous circle – is not always confirmed. DFID is encouraged to utilize the results of the Joint evaluation of GBS to consider how its policy is translated in partner countries.[30] It should ensure that its guidance gives to each DFID office enough flexibility to identify the right mix of aid modalities under each specific context and assure that PRBS is only used in the appropriate circumstances. In partner countries, DFID should also take steps to address the risk of losing sight of the local, grass-roots context and thereby focusing on results without due respect to local conditions, when being more engaged in GBS. Finally, DFID could also develop a more tactical approach when promoting GBS among the donor community, recognising the relevance of different ways of engaging in sector support, while looking for a harmonised performance assessment framework with donors engaged in GBS, including the European Commission.

Capacity development and technical co-operation

Capacity is critical to making aid more effective and absorbing larger amounts of aid, since it is at the heart of the closely interrelated strands of achieving the MDGs, implementing the Paris Declaration and scaling up of aid. The need for supporting sustainable capacity development is recognised by DFID as crucial. In reforming technical co-operation, DFID supports the following: i) procurement reform by partner governments, to enable them to procure untied goods and services using their own systems; ii) strengthening of efforts to improve donor coordination - DFID is increasingly pooling its funding for technical assistance with other donors, as is already the case in Ethiopia; and iii) only funding international consultants when there is a clear demand from partner countries for this, and there are no nationals in the public service who could provide the service effectively at a lower cost.

UK technical co-operation has decreased over the last five years and accounts for 9% of its ODA in 2004, compared to 21% for average DAC members (Table B.2). Policy work is ongoing on how to deliver better and more transparent technical co-operation to promote longer term state building. DFID notably recognises that while technical assistance as part of a GBS package has positive effects, it will need to work at decentralised levels to match service needs. DFID still has a strong leadership role in defining and providing technical assistance, which may contradict partner country ownership and hamper national capacity building. This is an area where DFID could make faster progress. In addition, while DFID's policy is in line with most of the capacity development good practices identified by the DAC (OECD, 2005b), the UK should focus its attention on the area relating to policy coherence, since retaining and unleashing existing capacities in developing countries is a priority. It is therefore crucial to design coherent strategies for making use of the diaspora and for reducing developing countries' brain drain (Chapter 4). It will also require further thinking on how to mainstream capacity development throughout the programme.

An active role in promoting harmonisation among donors

In many countries, DFID is working with others to develop joint country assistance strategies. This is the case with ADB in Nepal, while in Zambia the Harmonisation in Practice initiative led by the Nordic Plus Group of donors (Norway, Finland, Sweden, Denmark, the Netherlands, Ireland and the UK) has led to the development of a donor wide joint assistance strategy. In Nepal, common basic operating guidelines were developed and agreed by ten main donor agencies. New ways of joint

30. According to the preliminary findings of the joint evaluation of GBS 1994-2004, the Malawi case illustrates that it may be inappropriate to provide GBS to a government that lacks budget discipline and fails to reform its macroeconomic policies.

working and innovative practice are being developed, through multi-donor trust funds, joint partnerships, joint donor offices (Indonesia, Sudan), share of sector specialist staff (Ghana, Rwanda) or delegated co-operation. For instance in Malawi, DFID gives money to USAID to support programmes for its democracy and governance activities and is channelling Dutch funds into the education sector. In Rwanda, DFID's country office provides assistance for education on behalf of SIDA, the Swedish government's development agency.

Further to its leading role in promoting joint analytical frameworks, and in the light of its commitment to design an EU framework for joint programming, DFID should re-examine the status of its own country strategy work in order to ensure full harmonisation and avoid any duplication of analytical work. It could build on the experience gained in Zambia in developing the donors' Joint Assistance Strategy, which is to take the place of DFID CAP. DFID could also strengthen the trend toward delegated co-operation, as a step further toward harmonisation and as a response to its budget constraint.

Monitoring and evaluation/management for results

Each country office has to report through the DFID standard monitoring system. As part of DFID's Project Cycle Management, regular reviews of programmes and projects, including budgetary support and SWAps are undertaken, mainly for a project with a value of GBP 1 million or more. These are mainly annual reviews, which assess progress in delivering the outputs, and projects completion reporting. Project officers are responsible to ensure that these mandatory reviews are carried out, required information are completed, and scoring is done and fed into PRISM, once approved by the Head of Office. PRISM then allows country programme managers to get an overview of the relative success of the larger programmes in their portfolio and the areas of higher risk. More attention should be given to attribution and direct results of the UK programme, in order to allow convincing feedback on the impact of these funds, which will be crucial to sustain public and political support required in the context of scaling up.

In Nepal, due to the context, an additional reporting system was set up by the office, with a CAP monitoring framework made up of three key components: i) conflict impact monitoring; ii) livelihoods and social inclusion monitoring; and iii) context monitoring (including a risk matrix). Even though it may be worthwhile to go beyond standard CAP results reporting in this context, the current framework is costly and time consuming, and seems heavy in the context of weak data and weak government counterpart. It appears as well in Nepal that there is a need to further link results to programme management approach and content, and to strengthen feedback to implementation. While DFID is committed to help build the national PMAS in Nepal, much remains to be done to align DFID reporting with partner country performance assessment and monitoring frameworks. DFID could further benefit from its technical capacity available in country to develop a more collective effort toward harmonisation of monitoring and reporting requirements among donors.

Future considerations

- DFID is invited to continue the trend towards more focused country offices. Building on its high level of **decentralisation**, DFID is encouraged to continue to be flexible in allowing each country to identify the better mix of aid modalities, taking into account each specific context.

- DFID is invited to clarify its policy **conditionality** and to reinforce its communication strategy on the benefits of **GBS** and the fiduciary risks. It is encouraged to build on the lessons learned from the joint evaluation of GBS to re-examine the translation of its policy in partner countries, and, as necessary, adapt further its related guidance note, in order to ensure that GBS appropriately serves both DFID promotion of ownership and predictability as well as its poverty reduction objective.

- DFID is encouraged to not only focus on central finance and planning ministries, but also to engage with sector authorities and lower levels of government. To do so, DFID is encouraged to maintain appropriate expertise in its priority sectors. It is also suggested that DFID reinforce its strategic approach to **civil society** in country to ensure active local oversight of central level actions.

- In light of its commitment to the Paris Declaration, DFID should implement its **Medium-Term Action Plan** and mainstream it throughout its operations.

Annex A

The 2001 DAC Peer Review and UK Achievements

Key Issues	Recommendation Expressed in 2001	Achievement since 2001
ODA	Sustain efforts to increase the size of its ODA. Consider setting a 0.7% target.	In 2004 a commitment was made to achieve 0.7% by 2013.
Focus on poorest countries	Maintain a strong focus on poorest countries, particularly with good policy environments, while remaining engaged elsewhere with appropriate instruments.	In 2004/5 some 83% of bilateral ODA went to LICs and that number is targeted to reach 90% by 2006. DFID produced a MIC Strategy in 2005 and has a programme for graduation of some MICs.
Policy coherence	Continue to promote policy coherence in such areas as trade, environment and conflict reduction, across government and at European and international levels.	2002 International Development Act mandates coherent, government-wide action in favour of development. Progress has been made in areas of trade and conflict prevention, with strong support from government leadership. DFID recognises that more can be done in this area.
Poverty reduction strategy	Continue to support partner countries in developing their own poverty reduction strategies and use these as the future basis of UK Country Strategy Papers.	DFID has supported PRSs in 30 countries. Its new generation Country Assistance Plans are built around the local PRS. Performance in this area is monitored under Pubic Service Agreement Target 3.
Donor collaboration	Promote opportunities to deepen DFID collaboration with other donors when preparing Country and Institutional Strategy Papers and in programme implementation.	The new generation of CAPs/RAPs take explicit account of other donors. Where possible, DFID increasingly develops joint assistance strategies. DFID pro-actively supports local donor harmonisation where possible.
Development dialogue	Maintain and active dialogues 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.	DFID developed in 2004 a comprehensive Communication Strategy. It does regular polling of opinion since 1999. It collaborates strategically with parliament and civil society and has enjoyed considerable success. 2005 is considered the “high water mark” of development popularity in the UK.
Operational guidance	Give further consideration to the need to develop operational guidance, particularly for field offices, on implementation of DFID policies and the partnership agenda.	DFID produced comprehensive guidance in 2005 (“Blue Book”) which simplifies and explains all aspects of DFID operations. It will be followed up in 2006 with a set of Good Practice examples.

Country programmes	Focus the next generation of bilateral country programmes on the challenges of a greater sector focus, the appropriate mix of aid instruments and how best to pursue sustainable capacity building in partner countries.	Addressed in DFID's business planning and CAP systems. Capacity building is a Policy Division key theme. Instrument choice is a country-by-country choice, based on a corporate menu available to all. Specific training is provided to staff through "Tools for effective development" course.
Headquarters-field relationship	Given the degree of financial authority delegated to offices in partner countries, consider how DFID can further enhance information flows between field offices and headquarters and ensure that decisions on the number and mix of resources take account of other donor capacity.	Directors, in their annual Delivery Plans, retain oversight of resource deployment and take strategic decisions on the roles of the officers in the field. The corporate performance framework links the PSA to individual work plans and helps ensure deployment of resources according to objectives. CAPs take account of other donors in country. DFID appointed an Internal Communications Manager in 2004 and the majority of countries offices have a dedicated communications officer.
Monitoring and evaluation	Reinforce DFID monitoring, evaluation and knowledge management systems by promoting use of existing systems and by enhancing capacities to assess performance and provide useful action-oriented information. Consider reviewing the degree of institutional independence of *ex post* evaluations.	A Portfolio Quality Strategy is being finalised with the aim of further improving portfolio management and monitoring. The last 4 years have witnessed considerable strengthening of DFID's evaluation capacities and outputs. The National Audit Office carries out regular independent evaluations of DFID's performance.

Annex B

OECD/DAC Standard Suite of Tables

Table B.1. Total financial flows

USD million at current prices and exchange rates

Net disbursements

United Kingdom	1988-89	1993-94	2000	2001	2002	2003	2004
Total official flows	**3 007**	**3 429**	**4 872**	**5 062**	**5 415**	**7 030**	**8 562**
Official development assistance	**2 616**	**3 059**	**4 501**	**4 579**	**4 924**	**6 282**	**7 883**
Bilateral	1 446	1 643	2 710	2 622	3 506	3 861	5 339
Multilateral	1 169	1 416	1 792	1 957	1 419	2 421	2 544
Official aid	**-**	**289**	**439**	**461**	**494**	**698**	**834**
Bilateral	-	92	88	87	88	72	70
Multilateral	-	197	350	374	407	626	764
Other official flows	**391**	**82**	**- 67**	**23**	**- 4**	**50**	**- 155**
Bilateral	391	82	- 67	23	- 4	50	- 155
Multilateral	-	-	-	-	-	-	-
Grants by NGOs	**251**	**517**	**543**	**331**	**359**	**394**	**394**
Private flows at market terms	**3 621**	**6 221**	**2 344**	**11 488**	**6 156**	**20 521**	**39 471**
Bilateral: *of which*	3 621	6 221	2 344	11 488	6 156	20 521	39 471
Direct investment	3 860	5 411	- 807	17 645	3 778	8 908	17 620
Export credits	1 169	- 290	-1 582	- 628	-1 342	- 650	- 622
Multilateral	-	-	-	-	-	-	-
Total flows	**6 879**	**10 167**	**7 760**	**16 881**	**11 929**	**27 945**	**48 427**
for reference:							
ODA (at constant 2003 USD million)	*4 075*	*4 188*	*5 278*	*5 519*	*5 522*	*6 282*	*6 879*
ODA (as a % of GNI)	*0.32*	*0.31*	*0.32*	*0.32*	*0.31*	*0.34*	*0.36*
Total flows (as a % of GNI) (a)	*0.83*	*0.98*	*0.72*	*0.67*	*0.48*	*1.01*	*1.24*

a. To countries eligible for ODA.

ODA net disbursements
At constant 2003 prices and exchange rates and as a share of GNI

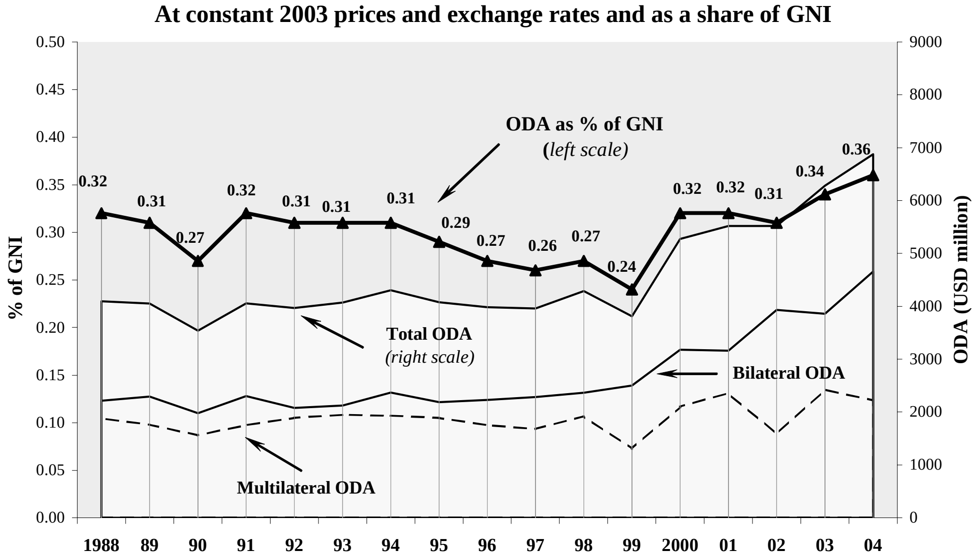


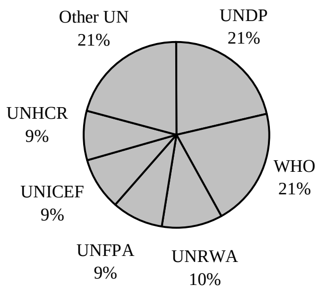
Table B.2. ODA by main categories

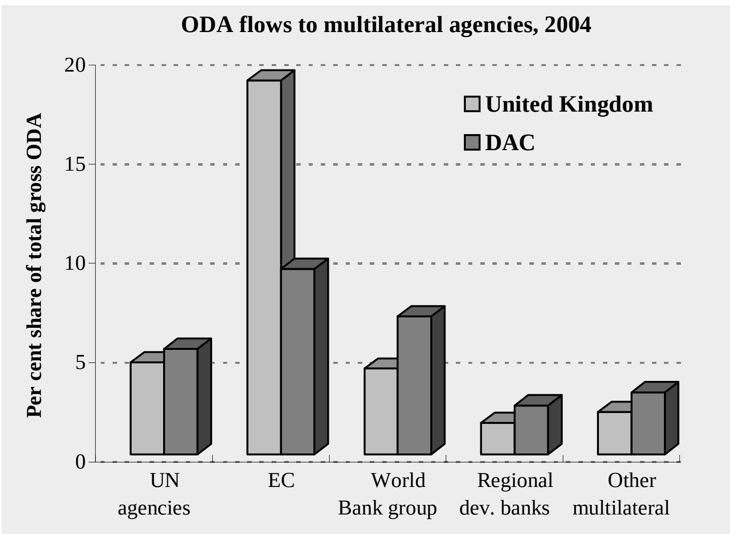
Disbursements

United Kingdom	Constant 2003 USD million					Per cent share of gross disbursements					Total DAC
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	2004%
Gross Bilateral ODA	**3 235**	**3 305**	**4 051**	**4 030**	**4 904**	**61**	**58**	**71**	**62**	**68**	**73**
Grants	***3 006***	***3 185***	***3 795***	***3 576***	***4 572***	***56***	***56***	***67***	***55***	***64***	***63***
Project and programme aid	861	641	838	884	1 266	16	11	15	14	18	16
Technical co-operation	803	932	980	993	655	15	16	17	15	9	21
Developmental food aid	-	-	-	-	-	-	-	-	-	-	1
Emergency and distress relief	404	310	449	565	456	8	5	8	9	6	8
Action relating to debt	182	451	681	130	693	3	8	12	2	10	8
Administrative costs	266	347	313	464	443	5	6	6	7	6	4
Other grants	490	505	534	540	1 058	9	9	9	8	15	4
Non-grant bilateral ODA	***229***	***119***	***256***	***454***	***332***	***4***	***2***	***5***	***7***	***5***	***10***
New development lending	36	12	7	167	70	1	0	0	3	1	**9**
Debt rescheduling	-	-	-	-	-	-	-	-	-	-	**1**
Acquisition of equity and other	193	107	249	288	262	4	2	4	4	4	**1**
Gross Multilateral ODA	**2 102**	**2 392**	**1 637**	**2 461**	**2 256**	**39**	**42**	**29**	**38**	**32**	**27**
UN agencies	421	420	356	346	332	8	7	6	5	5	5
EC	1 143	993	1 037	1 078	1 348	21	17	18	17	19	9
World Bank group	317	677	66	770	309	6	12	1	12	4	7
Regional development banks (a)	152	98	115	129	114	3	2	2	2	2	2
Other multilateral	69	205	62	138	153	1	4	1	2	2	3
Total gross ODA	**5 337**	**5 697**	**5 688**	**6 491**	**7 160**	**100**	**100**	**100**	**100**	**100**	**100**
Repayments and debt cancellation	**- 59**	**- 178**	**- 167**	**- 209**	**- 282**						
Total net ODA	**5 278**	**5 519**	**5 522**	**6 282**	**6 879**						
For reference:											
ODA to and channelled through NGOs	*257*	*486*	*597*	*575*	*977*						
Associated financing (b)	*49*	*41*	*32*	*27*	*17*						

a Excluding EBRD.
b. ODA grants and loans in associated financing packages.

Contributions to UN Agencies (2003-04 Average)





Contributions to Regional Development Banks (2003-04 Average)

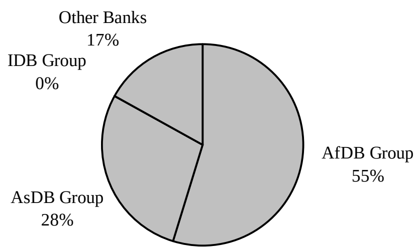
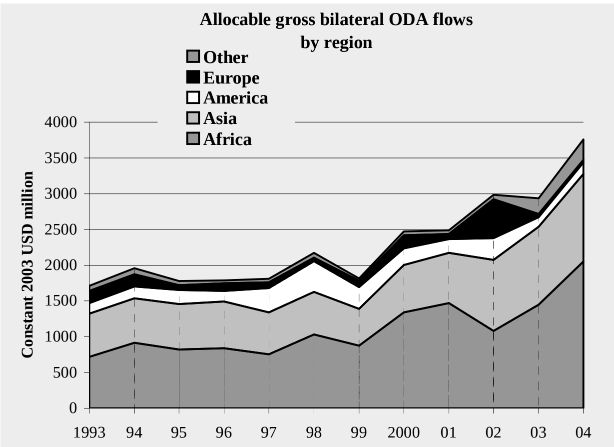


Table B.3. Bilateral ODA allocable by region and income group

Gross disbursements

United Kingdom	Constant 2003 USD million					Per cent share					Total DAC
	2000	**2001**	**2002**	**2003**	**2004**	**2000**	**2001**	**2002**	**2003**	**2004**	**2004%**
Africa	1 338	1 469	1 080	1 446	2 048	54	59	36	49	55	**40**
Sub-Saharan Africa	1 333	1 465	1 066	1 442	1 980	54	59	36	49	53	**34**
North Africa	5	5	14	4	68	0	0	0	0	2	**6**
Asia	662	703	992	1 092	1 229	27	28	33	37	33	**30**
South and Central Asia	458	541	818	941	1 035	19	22	27	32	28	**14**
Far East	204	162	174	151	195	8	7	6	5	5	**17**
America	231	191	303	135	158	9	8	10	5	4	**12**
North and Central America	132	85	152	88	73	5	3	5	3	2	**6**
South America	99	105	151	47	84	4	4	5	2	2	**7**
Middle East	52	54	60	219	285	2	2	2	7	8	**12**
Oceania	-	-	-	-	-	-	-	-	-	-	**1**
Europe	184	71	550	43	34	7	3	18	1	1	**4**
Total bilateral allocable by country	**2 468**	**2 488**	**2 984**	**2 936**	**3 755**	**100**	**100**	**100**	**100**	**100**	**100**
Least developed	1 204	1 349	992	1 402	1 923	49	54	33	48	51	**33**
Other low-income	589	625	915	923	1 121	24	25	31	31	30	**22**
Lower middle-income	538	412	968	512	634	22	17	32	17	17	**41**
Upper middle-income	136	102	108	99	77	6	4	4	3	2	**4**
High-income	-	-	-	-	-	-	-	-	-	-	**0**
More advanced developing countries	0	0	0	-	-	0	0	0	-	-	**-**
For reference:											
Total bilateral	3 235	3 305	4 051	4 030	4 904	*100*	*100*	*100*	*100*	*100*	***100***
of which: Unallocated	*767*	*817*	*1 067*	*1 095*	*1 149*	*24*	*25*	*26*	*27*	*23*	***24***



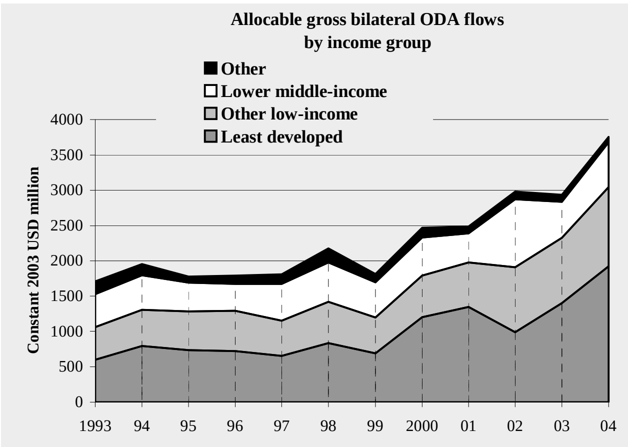


Table B.4. Main recipients of bilateral ODA

Gross disbursements, two-year averages

United Kingdom	1993-94				1998-99				2003-04		
	Current USD million	Constant 2003 USD mn.	Per cent share		Current USD million	Constant 2003 USD mn.	Per cent share		Current USD million	Constant 2003 USD mn.	Per cent share
India	122	167	9	India	170	189	9	India	419	388	12
Sts Ex-Yugoslavia unsp.	98	134	7	Tanzania	124	137	7	Bangladesh	267	250	7
Bangladesh	70	96	5	Bangladesh	102	114	6	Tanzania	265	251	7
Zambia	60	82	4	Uganda	101	112	6	Iraq	228	210	6
Uganda	53	73	4	Ghana	87	97	5	Ghana	200	183	6
Top 5 recipients	**404**	**553**	**30**	**Top 5 recipients**	**584**	**649**	**33**	**Top 5 recipients**	**1 378**	**1 282**	**38**
Kenya	48	65	4	Zambia	77	86	4	Zambia	174	156	5
Mozambique	45	61	3	Malawi	67	75	4	Congo, Dem. Rep.	162	143	4
China	45	61	3	South Africa	59	66	3	Afghanistan	161	147	4
Tanzania	42	58	3	China	57	64	3	Malawi	115	108	3
Malawi	42	57	3	Mozambique	55	61	3	South Africa	112	106	3
Top 10 recipients	**625**	**855**	**47**	**Top 10 recipients**	**900**	**1 000**	**50**	**Top 10 recipients**	**2 102**	**1 941**	**58**
Pakistan	38	53	3	Kenya	54	60	3	Pakistan	112	105	3
Indonesia	38	51	3	Montserrat	53	59	3	Uganda	106	99	3
Ghana	37	51	3	Guyana	52	58	3	Ethiopia	105	96	3
Malaysia	32	44	2	Pakistan	44	49	2	Nigeria	84	76	2
Zimbabwe	31	42	2	Indonesia	41	45	2	Sudan	75	67	2
Top 15 recipients	**801**	**1 096**	**60**	**Top 15 recipients**	**1 143**	**1 270**	**64**	**Top 15 recipients**	**2 584**	**2 385**	**71**
Ethiopia	30	41	2	Jamaica	38	42	2	Kenya	70	66	2
Turkey	24	32	2	Zimbabwe	37	41	2	Mozambique	65	61	2
Rwanda	23	31	2	Belize	31	34	2	China	64	59	2
South Africa	22	30	2	Sts Ex-Yugoslavia unsp.	30	34	2	Nepal	59	55	2
Sudan	21	29	2	Bolivia	28	31	2	Sierra Leone	58	54	2
Top 20 recipients	**920**	**1 259**	**69**	**Top 20 recipients**	**1 307**	**1 452**	**73**	**Top 20 recipients**	**2 900**	**2 680**	**80**
Total (146 recipients)	**1 339**	**1 833**	**100**	**Total (132 recipients)**	**1 795**	**1 994**	**100**	**Total (119 recipients)**	**3 619**	**3 345**	**100**
Unallocated	412	564		Unallocated	577	642		Unallocated	1 206	1 122	
Total bilateral gross	**1 751**	**2 397**		**Total bilateral gross**	**2 372**	**2 636**		**Total bilateral gross**	**4 825**	**4 467**	

Table B.5. Bilateral ODA by major purposes

at current prices and exchange rates

Gross disbursements - Two-year averages

United Kingdom	1993-94		1998-99		2003-04		2003-04
	USD million	Per cent	USD million	Per cent	USD million	Per cent	Total DAC per cent
Social infrastructure & services	**472**	**30**	**674**	**32**	**1 853**	**41**	**35**
Education	190	12	196	9	399	9	9
of which: basic education	-	-	51	2	277	6	2
Health	77	5	133	6	283	6	4
of which: basic health	-	-	63	3	97	2	2
Population & reproductive health	25	2	80	4	166	4	3
Water supply & sanitation	47	3	56	3	30	1	4
Government & civil society	115	7	112	5	866	19	11
Other social infrastructure & services	18	1	96	4	108	2	4
Economic infrastructure & services	**232**	**15**	**273**	**13**	**398**	**9**	**13**
Transport & storage	45	3	86	4	106	2	4
Communications	7	0	15	1	4	0	1
Energy	127	8	100	5	174	4	6
Banking & financial services	5	0	67	3	48	1	1
Business & other services	49	3	5	0	66	1	1
Production sectors	**240**	**15**	**297**	**14**	**271**	**6**	**6**
Agriculture, forestry & fishing	150	9	194	9	196	4	3
Industry, mining & construction	68	4	93	4	54	1	2
Trade & tourism	22	1	10	0	21	0	0
Other	-	-	0	0	-	-	0
Multisector	**-**	**-**	**71**	**3**	**98**	**2**	**8**
Commodity and programme aid	**242**	**15**	**182**	**9**	**66**	**1**	**4**
Action relating to debt	**64**	**4**	**276**	**13**	**462**	**10**	**17**
Emergency assistance & reconstruction	**224**	**14**	**195**	**9**	**544**	**12**	**9**
Administrative costs of donors	**107**	**7**	**158**	**7**	**486**	**11**	**5**
Core support to NGOs	**10**	**1**	**2**	**0**	**349**	**8**	**2**
Total bilateral allocable	**1 591**	**100**	**2 128**	**100**	**4 526**	**100**	**100**
For reference:							
Total bilateral	*1 668*	*54*	*2 368*	*62*	*4 825*	*66*	*76*
of which: Unallocated	*77*	*3*	*241*	*6*	*300*	*4*	*2*
Total multilateral	*1 419*	*46*	*1 458*	*38*	*2 523*	*34*	*24*
Total ODA	***3 087***	***100***	***3 827***	***100***	***7 348***	***100***	***100***

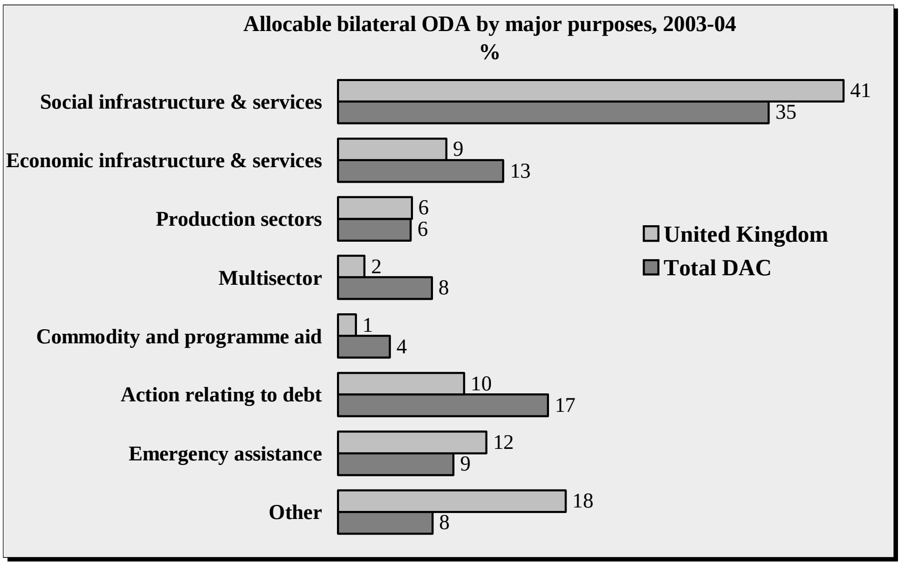


Table B.6. Comparative aid performance

Net disbursements

	Official development assistance 2004		98-99 to 03-04 Ave. annual % change in real terms	Grant element of ODA (commitments) 2004	Share of multilateral aid 2004				ODA to LDCs Bilateral and through multilateral agencies 2004		Official aid 2004	
					% of ODA		% of GNI					
	USD million	% of GNI		% (a)	(b)	(c)	(b)	(c)	% of ODA	% of GNI	USD million	% of GNI
Australia	1 460	0.25	1.7	100.0	18.5		0.05		23.9	0.06	10	0.00
Austria	678	0.23	1.0	100.0	48.0	18.5	0.11	0.04	24.8	0.06	260	0.09
Belgium	1 463	0.41	11.4	99.8	38.3	15.5	0.16	0.06	44.1	0.18	190	0.05
Canada	2 599	0.27	1.7	100.0	23.4		0.06		27.0	0.07	93	0.01
Denmark	2 037	0.85	-2.0	100.0	41.0	32.2	0.35	0.27	36.1	0.31	140	0.06
Finland	655	0.35	5.0	99.8	44.8	24.5	0.16	0.09	23.3	0.08	92	0.05
France	8 473	0.41	3.3	95.4	34.3	12.3	0.14	0.05	37.4	0.15	2 358	0.11
Germany	7 534	0.28	2.5	96.3	49.3	24.3	0.14	0.07	30.7	0.08	1 434	0.05
Greece	465	0.23	12.2	100.0	34.6	3.7	0.08	0.01	14.1	0.03	131	0.06
Ireland	607	0.39	13.5	100.0	32.6	17.3	0.13	0.07	53.1	0.21	3	0.00
Italy	2 462	0.15	-0.6	99.6	71.4	23.2	0.11	0.03	32.0	0.05	664	0.04
Japan	8 906	0.19	-4.7	88.8	33.6		0.06		18.9	0.04	121	0.00
Luxembourg	236	0.83	8.8	100.0	27.4	18.7	0.23	0.16	36.9	0.31	15	0.05
Netherlands	4 204	0.73	0.7	100.0	36.5	27.4	0.27	0.20	34.6	0.25	222	0.04
New Zealand	212	0.23	1.7	100.0	25.0		0.06		30.9	0.07	1	0.00
Norway	2 199	0.87	2.5	100.0	30.1		0.26		38.1	0.33	45	0.02
Portugal	1 031	0.63	13.8	87.1	15.4	4.5	0.10	0.03	85.1	0.53	62	0.04
Spain	2 437	0.24	4.0	97.5	42.5	16.8	0.10	0.04	17.4	0.04	15	0.00
Sweden	2 722	0.78	7.0	100.0	23.7	15.5	0.18	0.12	28.0	0.22	123	0.04
Switzerland	1 545	0.41	4.7	100.0	23.2		0.10		25.8	0.11	100	0.03
United Kingdom	7 883	0.36	10.2	100.0	32.3	12.9	0.12	0.05	37.9	0.14	834	0.04
United States	19 705	0.17	12.7	99.9	17.5		0.03		22.9	0.04	1 605	0.01
Total DAC	79 512	0.26	4.3	97.5	31.6	20.4	0.08	0.05	29.5	0.08	8 519	0.03
Memo: Average country effort		0.42										

Notes:

a. Excluding debt reorganisation.

b. Including EC.

c. Excluding EC.

.. Data not available.

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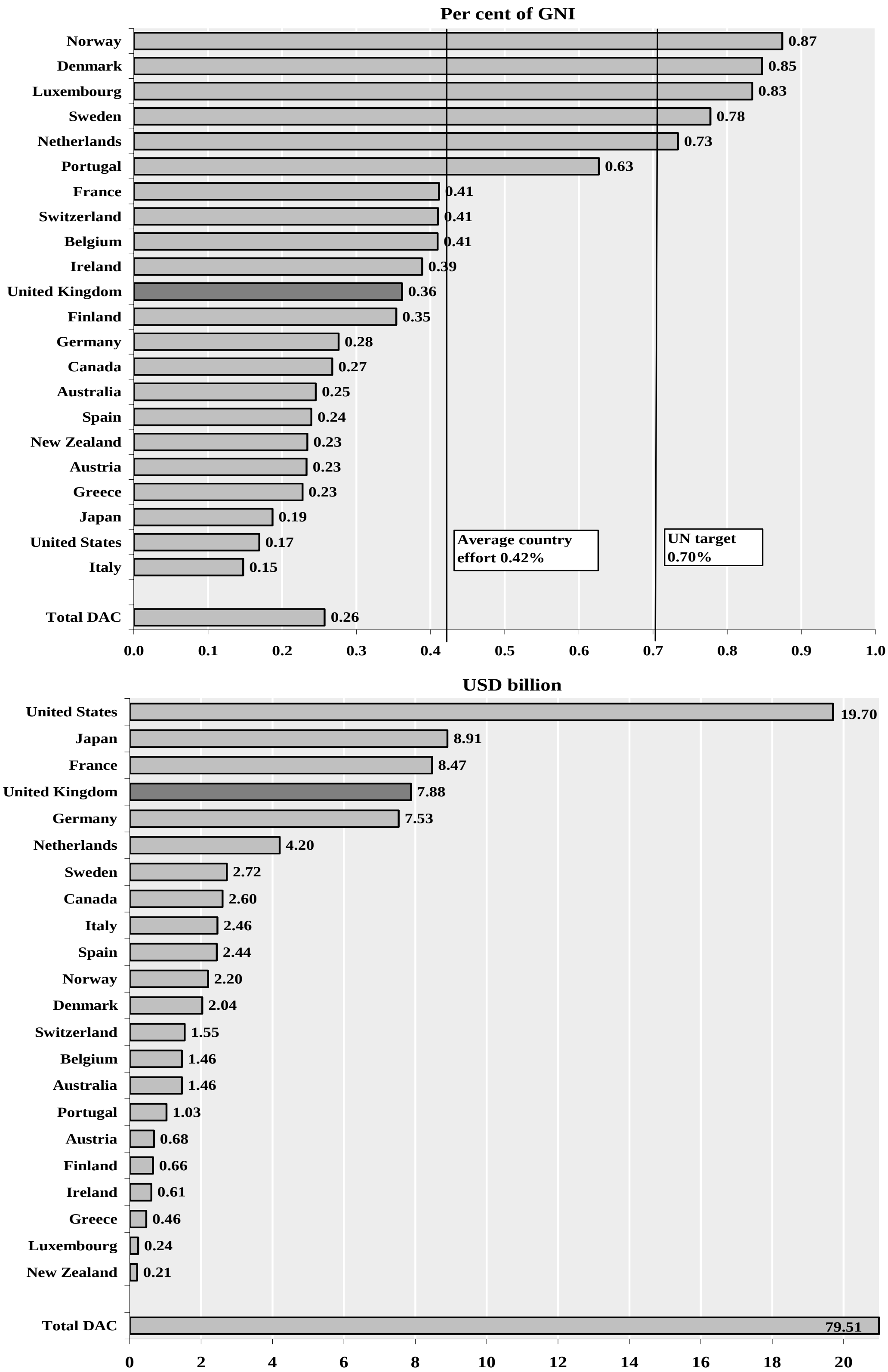
Graph B.1. Net ODA from DAC countries in 2004



Annex C

Assessment of the United Kingdom's Humanitarian Aid

This annex assesses the United Kingdom's humanitarian aid in accordance with the *Assessment Framework for Coverage of Humanitarian Action in DAC Peer Reviews* based on the Principles and Good Practice of Humanitarian Donorship (GHD). The annex covers six areas: i) humanitarian polices and principles; ii) organisation and management; iii) volume and distribution; iv) policy coherence; v) crosscutting and emerging issues; and vi) future considerations.

Humanitarian policies and principles

The role and location of humanitarian aid in the ODA system

Humanitarian action plays an important role in the UK's ODA structure which is reflected in funding, policies and management attention. As a result of its clear mission statement, active political leadership and strong organisational set-up, the UK has become a global leader in improving and reforming the international humanitarian aid system and a main contributor in financing humanitarian action. Recent speeches on humanitarian issues by the Secretary of State for International Development underline this leadership role and humanitarian aid is likely to feature as a component in the 2006 White Paper.

The UK's International Development Act constitutes the central legislation for the use of humanitarian aid and outlines its relationship to development co-operation. Political priority given to humanitarian issues, along with management awareness, have highlighted the need to better synchronise humanitarian aid and development co-operation. Although humanitarian aid is not required to deliver on objectives of poverty reduction or sustainable development, there is a clear recognition of how humanitarian issues relate to the MDGs, in particular the target to halve extreme poverty by 2015. The UK views natural disasters and complex emergencies as fundamental challenges to progress on development, which is further reflected through policy statements on security and development, engagement in fragile states and disaster risk reduction (DFID, 2004d; DFID, 2005j; DFID, 2005k). DFID also views humanitarian aid in the light of the Paris Declaration on Aid Effectiveness and its medium term action plan on aid effectiveness includes the humanitarian reform initiative (DFID, 2005h).

DFID is responsible for ODA appropriations for humanitarian purposes which are used for prevention and preparedness, emergency response and recovery measures in line with GHD. Since the last Peer Review, the UK has embarked on an ambitious agenda to further improve the capacity of the national and international system to respond more appropriately to emergencies. This includes updating and broadening its policy framework, launching a reform agenda for the humanitarian part of the UN, and advancing the GHD.

Establishing a framework for principled humanitarian aid

The UK has a strong strategic approach to humanitarian issues. Since 1999, the UK has operated its humanitarian aid under a formal policy.[31] Based on experience from implementation of this policy and external evaluations, the UK launched a process to further strengthen its frameworks for humanitarian aid. In 2003, it endorsed the "*Principles and Good Practice of Humanitarian Donorship*" (GHD) and shortly after adopted a national implementation action plan. In 2005-06, after a wide consultation process involving both Whitehall and implementing partners, DFID developed and adopted a new comprehensive humanitarian policy updating previous policies and standards. This new policy is based on GHD and reflects the changing scale, nature and complexity of contemporary emergencies while placing them in a political context.

Responding to the increasing frequency and impact of natural disasters has caused the UK to take a strategic approach to Disaster Risk Reduction (DRR). The 1997 White Paper on development recognised poverty-related vulnerability to natural and man-made disasters and committed DFID to incorporate disaster preparedness and prevention in development programming. In 2004 DFID commissioned a scoping study on DRR to examine the effect of natural disasters on poor populations, development and progress towards the MDGs. This study highlighted how disasters are often rooted in development failures and why development co-operation tends to overlook disaster prevention. DFID subsequently developed a DRR policy and implementation plan which was adopted by DFID's Development Committee in November 2005. The Committee concluded that, although there is a need to increase focus on risk reduction, this work stream should not be mandatory for all country offices but focused on the most disaster-prone countries. The DRR, along with the humanitarian aspects of the DFID 2006 White Paper and the new comprehensive humanitarian policy, soon will be reviewed by Parliament as one overall policy framework for humanitarian action (Box 13).

Box 13. DFID's policy framework for humanitarian action

During 2006, DFID will develop and adopt a new policy framework for its involvement in humanitarian action. This framework has three distinct components; the 2006 White Paper; the humanitarian policy; and the separate policy for disaster risk reduction (DDR).

The **2006 White Paper** will focus on poverty reduction and include perspectives on how the international system can be reformed to deliver on humanitarian action and security in developing countries, and prevent conflict and state fragility.

The **comprehensive humanitarian policy,** "*Saving lives relieving suffering, protecting dignity*", focuses on three policy goals: i) improving the effectiveness of humanitarian response; ii) respecting GHD and delivering adequate, predictable and flexible funding according to need, and iii) reducing risk and extreme vulnerability.

The policy is based on the four core principles of humanitarian action; humanity; impartiality; neutrality and independence. The policy recognizes mandates of implementing agencies and systems for efficient co-ordination and places special emphasis on strengthening needs assessments and the provision of predictable and appropriate funding. It also outlines positions on specific issues such as the role of the military in humanitarian action, food aid and new modalities such as pooled funding. Strengthening the legal and political protection of civilians and the principle of the responsibility to protect is recognized as a specific area of priority.

The **Disaster Risk Reduction** policy paper is an overview on the relationship between poverty, growing vulnerability and exposure to disasters. It outlines the rationale for investments in DDR and defines areas of engagement. DDR is addressed by integrating disaster preparedness and mitigation measures into development co-operation programming. The policy identifies three areas of engagement: i) support to global disaster risk reduction efforts (the UN and implementation of the 2005 Hyogo Framework for Action); ii) support to DRR efforts at country and regional level through prioritizing of existing country aid frameworks; and iii) using emergency response as a vehicle to address vulnerability.

31. DFID policy on *Conflict reduction and humanitarian assistance* which included its "*Principles for a New Humanitarism*".

Implementation of this new policy framework will further strengthen principled aid and coherence across Whitehall. DFID policies on humanitarian aid and DRR provide an excellent and comprehensive approach to prevention, preparedness and emergency response. However, some aspects, such as issues of transition and recovery may need further attention. The UK is encouraged to follow through on implementing the new policies, including the national GHD-implementation plan. Finally, the recent consultation process has helped promote a broader understanding of humanitarian issues at HQ level but efforts to raise awareness of the new policy and on GHD at field level now should be made a priority.

Advocating and supporting reform of the international humanitarian system

The UK is one of the main providers of humanitarian aid and a key actor in terms of reforming the global humanitarian system. The UK works together with like-minded donors to advocate reforms in the international humanitarian aid architecture. The UK has set a six point agenda:

1. Establish the UN Central Emergency Response Fund (CERF).
2. Empower UN Humanitarian Co-ordinators at country level.
3. Strengthen the development of Common Humanitarian Action Plans (CHAP) and arrangements for pooled funding at country level.
4. Establish benchmarks for monitoring performance and accountability.
5. Increase funding levels to tackle forgotten emergencies.
6. Increase allocations for DRR.

The UK already has successfully contributed to the establishment of the CERF.[32] Other areas of progress include the establishment of pooled humanitarian funding in the Democratic Republic of Congo and in Sudan. As the UK pursues this reform agenda it will be crucial to work in close co-operation with other donors. The UK should make special efforts to engage with donors outside the "like-minded" group. Monitoring and supporting multilateral effectiveness will remain a specific challenge. (see section on "DFID's international leadership role to promote effectiveness of multilateral aid" in Chapter 2).

Addressing collective donor performance - advancing GHD

The UK recognises the pivotal role of donors in providing timely, flexible and needs-based funding and therefore the importance of collectively improving donor performance. Since 2005, the UK has chaired the implementation group for GHD. The group has developed a joint work plan which focuses on:

- Identifying priorities for good donor practice at field level.
- Increasing adequate, flexible and predictable funding.
- Strengthening the monitoring of official aid flows.
- Harmonising reporting to donors.
- Monitoring the effect of the GHD initiative on humanitarian policy and practice.

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32. The CERF is administered by the UN-USG Emergency Relief Coordinator and aims to ensure a more predictable and timely response to humanitarian emergencies. The target is USD 500 million and the UK is the largest contributor, having pledged USD 70 million.

- Achieving greater coherence between donors in protracted crises.
- Increasing awareness and support for GHD among donors and NGOs.

Many of these GHD objectives coincide with the UK humanitarian reform agenda and DFID will need to avoid the perception that it is pursuing its own issues under a GHD label. Although much of the GHD agenda relates to issues at headquarter level (funding principles), more effort is needed to bring it to the field level. Here too, engagement with donors outside the like-minded group will be essential to achieve results at country level.

Organisation and management

The humanitarian management and advisory system

DFID's position as a separate ministry with a strong legislative mandate is an operational advantage and strengthens the foundations and systems for principled humanitarian aid. Humanitarian aid is managed by two key units, the Conflict, Humanitarian and Security Department (CHASE) and the Africa Conflict and Humanitarian Aid Unit (ACHU), both located in DFID London headquarters. Other ministries directly or indirectly involved in humanitarian action include the Foreign and Commonwealth Office (FCO), the Ministry of Defence (MOD), the Cabinet Office and UK diplomatic missions.

CHASE is part of the UN, Conflict and Humanitarian Division and has a staff of 52. CHASE is organised in four specialised teams: i) humanitarian policy; ii) humanitarian response and risk reduction; iii) conflict; and iv) security and justice. These teams handle policy development, monitoring and support in the following areas:

- Emergency response preparedness and contingency planning arrangements.
- Disaster and vulnerability initiatives.
- Use of military assets for humanitarian work.
- Conflict prevention and resolution.
- Refugee and forced migration issues.
- Human rights in conflict situations.

CHASE is also responsible for rapid onset emergencies. Its Operation Team (CHAD-OT) has standby capacity at DFID headquarters and can deploy expertise in logistics, search and rescue, health, nutrition, water and sanitation, and shelter and engineering. CHAD-OT personnel may also be supplemented by contracted humanitarian experts. Regional departments play a crucial role in this context and it is important that CHASE and regional divisions work closely to ensure shared analysis and planning.

In addition to its funding system for emergency response, CHASE also operates a Conflict and Humanitarian Fund for Civil Society Organisations specialised in preventing and addressing the impact of conflict and/or natural disasters. The funds' guidelines outline priority areas for humanitarian action and DRR projects and programmes.

CHASE also has the mandate and capacity to deploy teams to make or verify needs assessments. This task may be conducted also by country offices and for this purpose a guide for responding to rapid onset emergencies has been developed (DFID, 2003). It outlines the role of missions in supporting an effective and efficient humanitarian response and provides an overview of the UK's response system including key actors and forms for disaster assessment.

ACHU is a specialised unit of the Africa Division, responsible for humanitarian programmes at regional and country level. It is the only humanitarian unit in the geographic departments of DFID and manages the increasing demand to meet humanitarian needs in Africa. ACHU has a staff of 10 in three regional desks (West Africa, eastern and central Africa, and southern Africa). The unit also addresses issues related to armed conflict. CHASE and ACHU's complementary mandates can be confusing for field posts. Clarity of guidelines and responsibilities for their operations is therefore important. A co-ordinating mechanism between the two units has been established which provides for regular consultation. The role of disaster risk reduction programming, both in terms of mainstreaming and specific activities, is one area which appears to merit further clarification.

Humanitarian affairs require efficient inter-ministerial co-ordination across Whitehall, most explicitly with the FCO and the Ministry of Defence (MOD). This co-ordination is key to continuously improving the effectiveness of humanitarian action. Work to formalise roles among all actors is underway and an inter-ministerial memorandum of understanding on civil-military relationships will be developed soon. Nevertheless, roles and communications between DFID, FCO and MOD could still improve, in particular around fragile states and civil-military interaction. Defining roles and responsibilities and reaching consensus on how to operationalise the right to protection merit further attention. DFID cannot be expected to deliver on this alone.

Transition situations pose specific challenges synchronising humanitarian aid and development co-operation. Although there is no detailed course of action on how to link recovery approaches with development co-operation, DFID has often played an important role in this area, at country level, in complex emergencies and natural disasters. In protracted emergencies DFID relies on its decentralised country teams to provide humanitarian aid; this creates opportunities for better synchronisation between humanitarian and development co-operation efforts. Longer financial frameworks have been applied for transition situations *e.g.* ten-year partnership arrangements were signed with Sierra Leone in 2002, Rwanda in 2005 and Afghanistan in 2006.

While the policy dimension of humanitarian aid in DFID is well developed, the core strength of its humanitarian system remains the strategic use and competence of its staff, particularly its humanitarian and livelihood advisors. However, managing increasing internal and external expectations in the area of humanitarian aid will be a challenge in the context of current reductions in staff. The new policy framework recognises that effective decision making requires the capacity to make informed judgements. DFID should take care to maintain and develop strong humanitarian departments. Access to development co-operation planning will be essential both in terms of advancing the DRR agenda but also when engaging in new partner countries (*e.g*. DRC); preparing comprehensive development approaches in fragile states (*e.g.* Sudan) or in managing transitions (*e.g.* Afghanistan). The use of national/regional and policy advisors will be crucial for effective measures addressing protracted and structural humanitarian emergencies.

At regional and national level, the role of humanitarian and livelihood advisors has proved instrumental both in terms of developing corporate thinking and moving from policy to practice. Advisors in field posts, with reinforced support at regional and headquarters level, have been crucial in improving effectiveness and efficiency of humanitarian aid in general, in particular when addressing predictable and slow onset emergencies in Africa. The use and deployment of regional advisors could be further explored. DFID could consider evaluating their impact, in order to learn from this approach and to further strengthen the role of national and regional advisors.

Country operations

The level of decentralisation within the DFID system is also reflected in its humanitarian aid programming and there is a high degree of delegation to the field. To strengthen a needs-based approach and promote harmonisation and alignment in complex emergencies the UK has developed national and regional humanitarian programmes, often taking account of the UN Common Humanitarian Action Plans (UN-CHAPS). The UK has played an instrumental role in launching new humanitarian aid modalities such as pooled funding at country level to further strengthen harmonised approaches to humanitarian aid.

An important feature of DFID's humanitarian programme is its broad-based long-term approach to food security. Responding to cyclical and slow onset food crisis led the UK to rethink its modes of engagement and complement humanitarian response with a broader approach to livelihoods. This broadened approach includes support to country-owned and managed disaster risk reduction approaches (Box 14).

Box 14. Responding to food insecurity in southern Africa

Six SADC countries (Lesotho, Malawi, Mozambique, Swaziland, Zambia and Zimbabwe) have been affected by a cyclical food crisis triggered by short-term climatic factors, development failure and longer-term increase in vulnerability. Other underlying factors include declining government capacity to deliver basic services; failed growth and economic reforms; persistent widespread poverty; HIV/AIDS; agricultural stagnation; poor transport infrastructure; and erratic food security policies. Emergencies have been contained by massive but costly humanitarian operations and coping mechanisms and delivery systems have developed at regional and national level. Crises are likely to reoccur in the region unless the underlying causes can be tackled through longer-term measures. Donor challenges include: i) scaling up alternatives to food aid as a response to structural and predictable food insecurity; ii) improved and institutionalized approaches to needs assessment to guide responses and targeting; iii) capacity development of national governments to initiate and/or expand social protection programmes.

The UK is viewed as an important provider of timely and flexible funding responding to humanitarian needs in the region. A review was conducted in 2003 evaluating its GBP 120 million response; and the findings focused on the requirement to improve needs assessments and monitoring and logistics, and to consider longer-term transition to sustainable livelihoods. Food aid is recognised as a vital modality when tackling humanitarian needs, but attention paid to complementary measures addressing the negative impact of food aid, such as market distortions, and breaking the cycle of dependence has increased. Through strong field posts and effective use of humanitarian and livelihood advisors, new approaches were developed for disaster risk reduction including "safety nets" and cash transfers. There have also been efforts to move away from relief for predictable chronic hunger to meeting needs with stable multi-annual resources delivered through national governments in conjunction with humanitarian relief. DFID's attention to food insecurity is also part of the G8 action plan to combat famine in Africa, following MDG 1 which focuses on food insecurity. Since 2005, DFID has committed an additional GBP 67 million to the southern Africa crisis. The main bilateral recipients are Zimbabwe (GBP 40 million) and Malawi (GBP 20 million).

A view from Malawi: Malawi is one of the poorest countries in the world and the most densely populated country dependent on rain-fed agriculture. Despite large investments through development co-operation, vulnerability to food shocks has increased and households are increasingly unable to manage even minor shocks. In 2005/6, almost 50% of the population were at risk when exposed to crop failure, high staple food prices, low cash crop returns and limited employment opportunities. An estimated one-third of the population needs assistance to meet their food needs. Deepened vulnerability results from macro-economic mismanagement, weather-related production short-falls, demographic pressures and the impact of HIV/AIDS. The 2001-03 crisis demonstrated that Malawi's national disaster management system lacked institutional capacity to manage an adequate response and a joint programme was launched by government, donors and implementing agencies and NGOs. Although only a temporary set-up, this remains a core mechanism for co-ordination and programming.

In 2005/06, DFID provided GBP 21.38 million in humanitarian response. Of this GBP 18.38 million (86%) was made available from reallocations of DFID's Malawi country programme and an additional GBP 3 million was allocated from DFID's Africa Humanitarian Reserve. DFID recognises food insecurity in Malawi as a chronic and largely predictable problem and has consequently engaged at a policy level to strengthen the Government's capacity. Macro-economic stability and growth are two key strategic objectives. DFID has responded by using two complementary methods; through distribution of free seeds and fertilizers to improve production and/or through food/cash provided free or through public works programmes. Although successful in many areas it has been insufficient to improve longer-term food security and humanitarian relief is still needed.

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To provide a cost-effective humanitarian food aid response DIFD decided to challenge the conventional and multilateral approach by establishing a Government Voucher Scheme (through which the Government manages around 45% of the food distribution) as a complement to World Food Programme (WFP) distribution. WFP is responsible for the remaining part covering the most severely affected areas. Although this approach has been controversial and criticised for a bilateralisation of multilateral operations, DFID's consistency in following through on delivery has been successful and resulted in estimated savings of about USD 30 million. It has allowed Malawi to distribute an extra 70 000 tons of food and develop a country-led relief operation. This in turn also underlines the necessity of addressing fiscal discipline, accountability and transparency.

The new approach of "safety nets" means providing a system of predictable free or conditional transfers through public work schemes. Safety nets are developed within a government-led framework consistent with the country's poverty reduction and growth strategy. DFID's view is that direct transfers will deliver against other MDGs (*e.g.* health and education targets) and boost agricultural growth and market development. Capacity constraints to government leadership led DFID to invest in capacity development at national and regional level. Management of this approach within DFID allows for oversight of both humanitarian and developmental aid, contributing to coherence in aid programming.

The UK plays a key role at national and multilateral level addressing food insecurity in southern Africa and has successfully challenged conventional responses to food crisis, both in terms of improving efficiency and effectiveness in food aid delivery and by supporting complementary approaches. Nevertheless, DFID must beware of the risk of bilateralisation of multilateral aid delivery and be cautious not to drive a DFID approach by using a government label. Issues remain how to build on these experiences to ensure systemic improvement. The "safety nets" allow for donor alignment and create opportunities for harmonisation. A strategic approach to other donors will be crucial to mobilise support for capacity development. Experiences from the Government Voucher Scheme should be evaluated and observations conveyed to the humanitarian reform agenda and DFID's work on multilateral effectiveness. Cash transfers will only work where market structures are available and systems for real-time evaluations will be needed to monitor impact and make adjustments. A humanitarian approach will be necessary until which time strengthening the government's relief capacity will remain an issue. The regional dimension of the UK's approach could be further developed.

Promoting learning and accountability

Humanitarian aid is not directly reflected in the DFID Public Service Agreement (see main text, Chapter 1), however, DFID has included targets related to GHD. These include improved funding levels of the UN Consolidated Appeals Process (UN-CAP), application of UN needs assessments methodology and 100% evaluation coverage of emergencies. The National Audit Office (NAO) scrutinises public spending on behalf of parliament. A report was commissioned in 2003 to assess the effectiveness of DFID's relief measures, the integration of emergency response into development initiatives and approaches to disaster risk reduction (NAO, 2003). The report concluded that DFID operated a well functioning system but made recommendations in the areas of management, linking relief to development and DRR and prevention work. DFID has responded to most of these recommendations but work should continue in the areas of inter-ministerial co-ordination and approaches to transition. To meet the terms of its 100% evaluation coverage of emergencies DFID will have to conduct more joint donor evaluations. DFID should also consider further developing its use of real time evaluations, especially in programmes on food security.

The UK has moved to strengthen accountability and transparency in its humanitarian programme. Internal reporting systems for humanitarian aid are transparent and all humanitarian funding is reported through the 14 point facts system of the European Union and the OCHA Financial Tracking System. As Chair of the GHD-Implementation group it is also active in ongoing initiatives to improve DAC statistical reporting.

Volume and distribution

An important donor - in terms of volume and implementation

According to UN data, the UK was the third largest bilateral contributor to humanitarian action in 2005 (OCHA, 2005a). DFID is recognised as a provider of needs-based, flexible and predictable humanitarian funding. According to DFID statistics humanitarian disbursements totalled GBP 437 million in 2004/05, equivalent to approximately 10% of its total ODA.

According to DAC data, "emergency and distress relief" totalled USD 456 million, accounting for 6% of the UK's total ODA in 2004. Since 1996, the UK has reported on average 6.4% of its total ODA for emergency and distress relief. The highest percentage (9%) of emergency and distress relief of total ODA was recorded in 2003. The UK does not include expenditures for assistance to refugees in their first 12 months stay in a developed country when reporting on ODA. Disbursements on humanitarian aid decreased from USD 565 million in 2003 to USD 456 million in 2004.

Data provided by UN-OCHA's Financial Tracking System shows that the UK contributed 4.3% (USD 530 million) of global humanitarian funding in 2005 (OCHA, 2005a). The UK also increased its support to the UN Consolidated Inter-Agency Appeal (UN-CAP) from USD 97 million in 2000 to USD 233 million in 2005, making the UK the third largest CAP donor in 2005 (OCHA, 2005b, 2005c). The UK also contributes approximately 20% of the budget of the European Community Humanitarian Aid department (ECHO). However, considering its national capacity and ODA levels, the UK's contribution to financing humanitarian action could be further reinforced. As the UK moves towards scaling up ODA in line with its EU commitment, the present share of humanitarian aid should remain consistent, assuming a similar level of need for humanitarian action.

The UK recognises the need to broaden international burden sharing in terms of financing humanitarian action. It has successfully managed to develop support for the Central Emergency Response Fund (CERF) which ensures a more predictable and timely response to humanitarian crises. A strategic engagement with DAC donors who have agreed to scale up ODA would provide a useful approach to mobilise further resources for humanitarian action. To better inform the national public on how to make contributions more efficient, DFID have also published and widely distributed a brochure with information on humanitarian aid and implementing agencies (DFID, 2005l).

Principles for humanitarian aid allocations

DFID takes a strong stand on needs-based impartial funding. Policies state that needs assessments should be the primary instrument in defining the scale and type of intervention and to identify appropriate measures for delivery and implementation. DFID applies this primary principle overall, however the UK's allocations of funds for Iraq 2003/04 posed a serious departure from this principle (see next section on Policy Coherence).

DFID views needs assessments as fundamental for both the effective and efficient targeting and design of response, and for monitoring implementation and measuring impact. Through internal and external research DFID recognises that humanitarian response seldom directly reflects humanitarian needs. Internal analysis of its emergency allocations indicates that contributions to European emergencies have been five times higher than for emergencies in Africa. This problem is not specific to the UK but illustrates a broader problem of uneven response, partly as a consequence of the lack of uniform standards in collecting and analysing humanitarian needs. DFID has reacted to this issue and has stepped up measures for quality needs assessments (Box 15). Another core principle for DFID humanitarian aid is “do-no-harm” to avoid negative or unintended impact of humanitarian aid on armed conflicts or development efforts.

Box 15. Taking a regional approach: Improving needs assessments in the SADC region

Following concerns over how needs assessments were conducted and how nutrition data was used in southern Africa, DFID launched and supported initiatives to strengthen local, national and regional capacities for needs assessments. Needs assessments are often based on a set of indicators: the Under 5 Mortality Rate, Crude Death Rate and Global Acute Malnutrition. Capacity to collect and verify information has, however, been neglected.

DFID played an instrumental role in establishing the Southern Africa Regional Hunger & Vulnerability Programme (RHVP) aiming to strengthen food security, social protection and vulnerability analysis in the SADC region by improving national government capacities to initiate or expand social protection programmes. Support includes systems to institutionalise vulnerability assessment and analysis of social protection policies, as well as complementary investigative work to identify and improve understanding of new approaches to hunger and vulnerability. DFID is engaged in RHVP through direct support and through consultations by its regionally-based humanitarian and livelihood advisors.

When deciding on an appropriate humanitarian response, the UK’s primary partners are the UN system and the ICRC/IFRC. Consequently, to effectively tackle issues of unpredictable, uneven and inadequate funding, the UK approach is to strengthen overall systems rather than develop specific principles to ensure funding to all UN-CAP’s or Flash Appeals. This was the rationale for launching the UN-CERF and reflected in the large UK contribution to the fund.

When responding to the 2004 Indian Ocean Tsunami, DFID used contingency funds and additional funding received through the Treasury. Additional funding was used to ensure that it would not divert funding for other emergencies. According to DFID data, disbursements related to the Tsunami response amounted to GBP 48 million, 14% of UK’s bilateral humanitarian aid in 2005. Of the UK’s total commitment for the Tsunami, 87% had been spent nine months after the disaster.

Distribution and channels

According to data provided by DFID, total humanitarian allocations amounted to GBP 344 million, of which 60% was allocated to 10 countries. The top ten bilateral humanitarian recipients in respective order were: Sudan, Bangladesh, DRC, Iraq, Zimbabwe, Uganda, Afghanistan, Ethiopia, Liberia, and Kenya. There has been a steep rise in humanitarian spending in Africa over the past five years. Of DFID’s total bilateral disbursements in Africa 19% are humanitarian and the Africa programme accounts for approximately half of DFID’s total humanitarian spending. This reflects not only humanitarian needs but also increasing involvement in fragile and failed states. A large proportion of African humanitarian expenditure is viewed as “predictable” and around two-thirds of DFID’s humanitarian expenditure in Africa is conflict related.

The UK has stepped up its work to strengthen the capacity of affected countries and communities to prevent, prepare, mitigate and respond to emergencies in line with GHD. In addition to launching a new policy, DFID has committed to allocate 10% of its contributions for natural disasters response to risk reduction measures. Allocations to fund multilateral disaster risk reduction agencies are also intended to be increased.

Traditionally approximately 60% of DFID’s humanitarian aid appropriations are allocated through multilateral agencies. Forty per cent is distributed bilaterally, of which roughly 20% is channelled through NGOs. DFID operates its support to implementing agencies and NGOs through partnership agreements that are shaped by separate Institutional Strategy Papers. Multi-year funding arrangements are possible and four year plans have been developed with major humanitarian agencies.

Humanitarian aid is one key area in DFID's overall partnership with civil society. There has been a 50% increase in funding for civil society since 1997. In 2004/05, DFID channelled GBP 91 million in humanitarian aid through civil society. NGOs hold a strong position in implementing humanitarian aid and, as for other donors, the UK will need to consider ways to tackle increasing proliferation of NGOs and ensure that partners adhere to an agreed code of conduct and standards.[33] Harmonised reporting requirements could be further developed to simplify management procedures.

A special feature in the UK system is the Disasters Emergency Committee (DEC) an independent umbrella organisation representing 13 of the leading UK humanitarian aid agencies.[34] It was established in 1963 and today forms an alliance of the UK's aid, corporate, public and broadcasting sectors with the aim to provide effective co-ordination and co-operation between UK based implementing agencies. To raise public and corporate funds for humanitarian purposes it works through a common appeal mechanism through the media. Member agencies adhere to a set of standards in disaster response ("Sphere") and monitoring and independent evaluations are commissioned by the DEC Secretariat.

Policy coherence

Relationship to conflict prevention, peace-building and fragile states

The UK has been a leader in promoting effective engagement in fragile states and in developing conflict prevention approaches. The UK has improved its coherence regarding engagement in fragile states allowing for closer relations across Whitehall. Important progress includes the establishment of joint teams and interdepartmental working groups and the introduction of common conflict prevention strategies. However, greater clarity on operational priority setting remains an issue, and providing development assistance in complex emergencies poses specific challenges to this approach. It should be noted that approximately 30% of DFID disbursements in fragile states are for humanitarian objectives.

The UK's policy framework for humanitarian aid emphasises that humanitarian action should be based on humanitarian principles. While humanitarian aid can be used to promote protection of civilians, separate mechanisms and modalities have been developed for conflict management purposes. DFID recognises the need to distinguish between humanitarian aid and actions related to conflict management. Political action is seen as instrumental to the prevention and mitigation of complex emergencies. Complex emergencies require that donors reconcile, as far as possible, humanitarian imperatives and development concerns. While "fragile states" approaches set an objective of building legitimate and effective state institutions, humanitarian action is to be neutral, independent and impartial. In the context of a protracted crisis, caused or exacerbated by armed

33. *The Code of Conduct: Principles of Conduct for The International Red Cross and Red Crescent Movement and NGOs in Disaster Response Programmes,* and *The Sphere Project: Humanitarian Charter and Minimum Standards in Disaster Response*

34. DEC members include: ActionAid, British Red Cross, CAFOD, CARE International UK, Christian Aid, Concern, Help the Aged, Islamic Relief, Merlin, Oxfam, Save the Children, Tearfund and World Vision.

conflict, humanitarian action with a restricted objective to save lives, alleviate suffering and maintain human dignity will remain a key mode of engagement.

Humanitarian aid must be sensitive to potential negative impact on sustainable development and undermining local and national capacity. Opportunities to identify complementary approaches to humanitarian aid may exist in states with legitimate governments which are willing, but who lack the capacity, to fulfil core functions. Such situations provide prospects to successfully link humanitarian approaches to more sustainable and state building approaches, *e.g.* as in the case of addressing chronic food insecurity (Box 14). Limitations become obvious when state authorities are unwilling to deal with or recognise humanitarian needs, and/or are responsible for atrocities. Humanitarian action may be the only way of ensuring delivery of vital services outside state structures in complex emergencies.

The UK will need to further develop its position and guidance on how to engage in state building while providing humanitarian aid in complex emergencies. Greater operational clarity between MOD, FCO and DFID is also needed in the interface of protection measures and its approaches to fragile states.

The role of the military in delivering humanitarian aid

The UK respects the 1994 Guidelines on the Use of Military and Civil Defence Assets in Disaster Relief and the 2003 Guidelines on the Use of Military and Civil Defence Assets to Support UN Humanitarian Activities in Complex Emergencies.

The UK also respects the primary position of civilian organisations in implementing humanitarian action and strives to use impartial civilian organisations for this purpose. There is no common Whitehall policy concerning civil-military co-operation but, when needed, such issues are co-ordinated through inter-ministerial consultations on an *ad hoc* basis. DFID has however been requested to provide humanitarian aid associated with British military interventions, most noticeably in Afghanistan, Iraq and Kosovo. In the case of Iraq over GBP 160 million was allocated and approved by DFID for humanitarian and reconstruction purposes. From a humanitarian view this raises questions in terms of proportionality, efficiency and independence of such response.

Complications arise for DFID’s mandate to provide principled humanitarian aid when the UK is part of the conflict such as in Iraq and Afghanistan. MOD operations include actions designed to improve operational security through civil engagement, so called “hearts-and-minds operations”, which may compromise humanitarian principles and undermine humanitarian objectives, even if funded through different, non-ODA appropriations. The UK should take care to ensure the protection of humanitarian principles in such operations. There is clear awareness of the complexity of this issue and co-operation across Whitehall has improved. While DFID’s policy on humanitarian aid recognises the risks of compromising humanitarian principles, the FCO and MOD could further define their respective roles in civil-military operations and develop procedures designed to clarify such operations and protect the principles. A joint ministerial evaluation of civil–military interaction could be undertaken for this purpose.

Cross-cutting and emerging issues

Promoting standards and enhancing implementation: DFID participates actively in donor co-ordination initiatives and groups of implementing agencies which advance international co-ordination issues. The UK supports and recognises the role of the UN in leading and co-ordinating humanitarian action. It is the leading financial contributor to OCHA and has indicated that this funding is to increase. The UK also supports the efforts and the mandate conferred upon the ICRC. The UK is the third largest contributor to ICRC and IFRC, both of which are supported through four year partnership arrangements.

Involvement of beneficiaries: UK's approach to ensure adequate involvement of beneficiaries in the design, implementation, monitoring and evaluation of its humanitarian activities is not clear and at field level it is recognised that this issue will have to be addressed to further strengthen capacity building and advance the design of needs based response.

Developing benchmarks monitoring collective impact: In 2005 DFID launched work on developing benchmarks to better monitor collective performance and measure impact of humanitarian action. The objective is to establish a system capable of providing impartial and timely analysis on health, mortality and nutrition status of populations of humanitarian concern. Such a system should allow for comparisons of trends over time within a crisis and between different emergencies. This initiative will provide a useful reference for learning and identifies good practices that could be shared with the DAC.

Future considerations

- The new humanitarian policy should, when adopted with a plan for implementation, further strengthen the role of DFID in the provision of needs-based and principled humanitarian aid. Greater clarity regarding objectives and operational priority setting is needed when providing development and humanitarian aid in complex emergencies. While innovative and complementary approaches are being tested, humanitarian perspectives and principles must be ensued and respected. Priority should be given to improving field level understanding of the humanitarian policy framework and GHD.

- As the UK ODA increases, DFID should maintain its ability to respond to humanitarian crises on the scale needed.

- Joint assessments and effectiveness monitoring of multilateral humanitarian organisations, including special mechanisms such as the CERF, are needed as the UK pursues its international humanitarian reform agenda. It will be crucial to work in close co-operation with other donors taking care to avoid bilateralisation of its multilateral support. Special efforts should be made to engage with donors outside the "like-minded" group. The role of Disaster Risk Reduction programming, both in terms of mainstreaming and specific activities, could be further clarified.

- Reaching the 100% evaluation of humanitarian programmes will place high demands on DFID's evaluation capacity. Broader approaches to joint evaluations and real-time evaluations should be considered to reach this target.

Annex D

DFID PUBLIC SERVICE AGREEMENT – 2005-2008

AIM: Eliminate poverty in poorer countries in particular through achievement by 2015 of the Millennium Development Goals:
a. Eradication of extreme poverty and hunger b. Achievement of universal primary education c. Promotion of gender equality and empowerment of women d. Reduced child mortality e. Improved maternal health f. Combating HIV/AIDS, malaria and other diseases g. Ensuring environmental sustainability h. A global partnership for development
Objective I: Reduce poverty in sub-Saharan Africa **Target 1: Progress towards the MDGs in 16 key countries in Africa, demonstrated by:**
➢ A reduction of 4 percentage points in the proportion of people living in poverty across the entire region, against the 1999 baseline; ➢ An increase in primary school enrolment by 18 percentage points and an increase in the ratio of girls to boys enrolled in primary school by 5 percentage points, both against their year 2000 baseline; ➢ A reduction in under-5 mortality rates for girls and boys by 8 per 1000 live births, against the year 2000 baseline; and an increase in proportion of births assisted by skilled birth attendants by 11 percentage points, against the year 2000 baseline; ➢ A reduction in the proportion of 15-24 year old pregnant women with HIV; ➢ Enhanced partnership at the country and regional level, especially through the G8, to increase the effectiveness of aid and ensure that international policies support African development.
Objective II: Reduce Poverty in Asia **Target 2: Progress towards the MDGs in 4 key countries in Asia, demonstrated by:**
➢ A reduction in the proportion of people living in poverty of 5 percentage points in East Asia and the Pacific, and of 8 percentage points in South Asia, both against the 1999 baseline; ➢ An increase in net primary school enrolment by 8 percentage points and an increase in the ratio of girls to boys by 5 percentage points, both against their year 2000 baseline; ➢ A reduction in under-5 mortality rates for girls and boys by 24 per 1000 live births and an increase of 15 percentage points in the proportion of births assisted by skilled birth attendants, both against their year 2000 baseline; ➢ Prevalence rates of HIV infection in vulnerable groups being below 5%; a tuberculosis case detection rate above 70%; and a tuberculosis cure treatment rate greater than 85%.

Objective III: Reduce poverty in Europe, Central Asia, Latin America, the Caribbean, the Middle East and North Africa.

Objective IV: Increase the impact of the international system in reducing poverty, preventing conflict and responding effectively to conflict and humanitarian crises.

Target 3: Improved effectiveness of the multilateral system, as demonstrated by:

- A greater impact of EC external programmes on poverty reduction and working for agreement to increase the proportion of EC ODA to Low Income Countries from its 2000 baseline figure of 38% to 70% by 2008;
- Ensuring that 90% of all eligible HIPC countries committed to poverty reduction that have reached Decision Point by end 2005, receive irrevocable debt relief by end 2008 [Joint with HMT];
- International partners are working effectively with poor countries to make progress towards the United Nations 2015 Millennium Development Goals [Joint with HMT];
- Improved effectiveness of United Nations agencies and the humanitarian aid system.

Target 4: Ensure that the EU secures significant reductions in EU and world trade barriers by 2008 leading to improved opportunities for developing countries and a more competitive Europe. [Joint target with DTI]

Target 5: By 2007/08, improved effectiveness of UK and international support for conflict prevention, through addressing long-term structural causes of conflict, managing regional and national tension and violence, and supporting post-conflict reconstruction, where the UK can make a significant contribution, in particular Africa, Asia, the Balkans and the Middle East. [Joint target with FCO and MOD]

Objective V: Develop, support and promote policy that assists poverty reduction and the achievement of the MDGs.

Objective VI: **Improve the impact and effectiveness of DFID's bilateral programme.**

Target 6: Ensure that the proportion of DFID's bilateral programme going to low-income countries is at least 90% and achieve a sustained increase in the index of DFID's bilateral projects evaluated as successful.

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.[35]

ASSOCIATED FINANCING: The combination of official development assistance, whether grants or loans, with other official or private funding to form finance packages.

AVERAGE COUNTRY EFFORT: The unweighted average ODA/GNI ratio of DAC members, *i.e.* the average of the ratios themselves, not the ratio of total ODA to total GNI (cf. ODA/GNI ratio).

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: The DAC uses a List of Aid Recipients which it revises every three years. From 1 January 2000, Part I of the List is presented in the following categories (the word "countries" includes territories):

> **LDCs**: Least Developed Countries. Group established by the United Nations. To be classified as an LDC, 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 LDC group.
>
> **Other LICs**: Other Low-Income Countries. Includes all non-LDC countries with per capita GNI USD 745 or less in 2001 (World Bank Atlas basis).
>
> **LMICs**: Lower Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 746 and USD 2 975 in 2001. LDCs which are also LMICs are only shown as LDCs – not as LMICs.
>
> **UMICs**: Upper Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 2 976 and USD 9 205 in 2001.
>
> **HICs**: High-Income Countries, *i.e.* with GNI per capita (Atlas basis) more than USD 9 206 in 2001.

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 (ALSO RESTRUCTURING): Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, or rescheduling or refinancing.

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.

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

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35. For a full description of these terms, see the *Development Co-operation Report 2005*, Volume 7, No. 1.

EXPORT CREDITS: Loans for the purpose of trade and which are not represented by a negotiable instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.

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 (interval to the first repayment of capital). It measures the concessionality of a LOAN, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. This rate was selected as a proxy for the marginal efficiency of domestic investment, *i.e.* an indication of the opportunity cost to the donor of making the funds available. Thus, 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 loan flows include deductions for repayments of principal (but not payment of interest) on earlier loans.

OFFICIAL AID (OA): 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) and multilateral agencies active in development that are: undertaken by the official sector; with the promotion of economic development and welfare as the main objective; at concessional financial terms (if a loan, having a grant element of at least 25%).

ODA/GNI RATIO: To compare members' ODA efforts, it is useful to show them as a share of gross national income (GNI). "Total DAC" ODA/GNI is the sum of members' ODA divided by the sum of the GNI, *i.e*. the weighted ODA/GNI ratio of DAC members (cf. Average country effort).

OTHER OFFICIAL FLOWS (OOF): Developmentally relevant 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.

TECHNICAL CO-OPERATION: Includes both a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and b) 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 aid recipient countries.

VOLUME (real terms): The flow data are expressed in United States dollars (USD). 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 in the donor's currency between the year in question and the reference year, and changes in the exchange rate between that currency and the United States dollar over the same period.

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