OECD Development Assistance Committee

PEER REVIEW

UNITED KINGDOM

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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 programmes of each member are critically examined approximately once every four or five years. Five members are examined annually. The OECD's Development Co-operation Directorate 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.

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 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 Spain and Sweden for the Peer Review on 20 April 2010.

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, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

ACRONYMS

AAA	Accra Agenda for Action
AEAD	Aid Effectiveness and Accountability Department (DFID)
APPG	All Party Parliamentary Group
ARIES	Activities Reporting Information E-System
BIS	Department for Business, Innovation and Skills (formerly Department for Business, Enterprise and Regulatory Reform)
CDC	CDC Group plc (formerly Commonwealth Development Corporation)
CERF	Central Emergency Response Fund
CGD	Centre for Global Development
CHASE	Conflict, Humanitarian and Security Department
CPIA	Country Policy and Institutional Assessment (World Bank)
CPRC	Country Planning Review Committee
CSO	Civil society organisation
CSR	Comprehensive Spending Review
DAC	Development Assistance Committee of the Organisation for Economic Co-operation and Development
DBERR	Department of Business, Enterprise and Regulatory Reform
DBS	Direct budget support
DCMS	Department for Culture, Media and Sport
DECC	Department of Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
DFID	Department for International Development
DPA	Development Partnership Arrangement
DPAF	Donor Performance Assessment Framework (Rwanda)
DPF	Divisional Performance Frameworks
DRR	Disaster Risk Reduction
DSO	Departmental Strategic Objective
ECGD	Export Credit Guarantee Department
EDPRS	Economic Development and Poverty Reduction Strategy (Rwanda)
FCO	Foreign and Commonwealth Office
FY	Financial year
GEAP	Gender Equality Action Plan

GHD	Good Humanitarian Donorship initiative
GNI	Gross national income
HCS	Home Civil Service
HMG	Her Majesty's Government
HMT	Her Majesty's Treasury
IACDI	Independent Advisory Committee on Development Effectiveness
IATI	International Aid Transparency Initiative
ICRC	International Committee of the Red Cross
IDC	International Development Committee
IFI	International financial institution
IHP	International Health Partnership
IMF	International Monetary Fund
INCAF	International Network on Conflict and Fragility
LIC	Low income country
MDG	Millennium Development Goal
MIC	Middle income country
MOD	Ministry of Defence
MOPAN	Multilateral Organisations Performance Assessment Network
MTEF	Medium Term Expenditure Framework
NAO	National Audit Office
NGO	Non-governmental organisation
OCHA	United Nations Office for the Co-ordination of Humanitarian Affairs
ODA	Official development assistance
PAC	Public Accounts Committee
PFM	Public financial management
PPA	Partnership Programme Agreement
PRSP	Poverty reduction strategy paper
PSA	Public Service Agreement
TC	Technical co-operation
UN	United Nations
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund

UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
WFP	World Food Programme

Signs used:

GBP	Pound Sterling
EUR	Euro
USD	United States Dollar
( )	Secretariat estimate in whole or part
-	(Nil)
0.0	Negligible
..	Not available
…	Not available separately, but included in total
n.a.	Not applicable

Slight discrepancies in totals are due to rounding.

Exchange rates (GBP per USD):

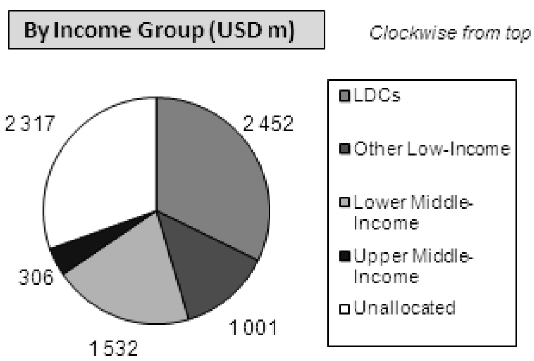
2006	2007	2008
0.5434	0.4997	0.5527

United Kingdom's aid at a glance

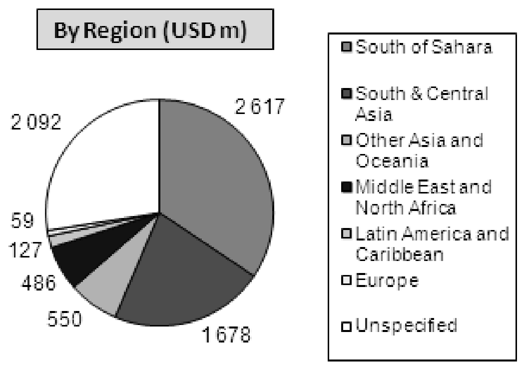
UNITED KINGDOM

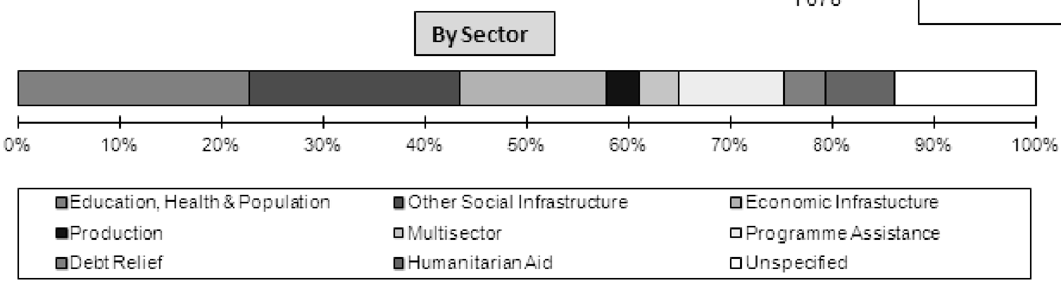
Gross Bilateral ODA, 2007-08 average, unless otherwise shown

Net ODA	2007	2008	Change 2007/08
Current (USD m)	9 849	11 500	16.8%
Constant (2007 USD m)	9 849	12 315	25.0%
In Pounds Sterling (million)	4 921	6 356	29.2%
ODA/GNI	0.35%	0.43%	
Bilateral share	57%	64%	



Top Ten Recipients of Gross ODA (USD million)	
1 India	700
2 Iraq	350
3 Afghanistan	296
4 Nigeria	275
5 Ethiopia	273
6 Bangladesh	249
7 Tanzania	243
8 Pakistan	229
9 Sudan	203
10 China	201
Memo: Share of gross bilateral ODA	
Top 5 recipients	25%
Top 10 recipients	40%
Top 20 recipients	57%





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An international development leader in times of global crisis

The United Kingdom (UK) is a recognised international leader in development. This is the result of clear vision, consistent political leadership, strong human resource and financial capacity, and continued commitment to the 2013 target of providing 0.7% of its gross national income (GNI) as official development assistance (ODA). The UK is effective in seizing opportunities to promote development in a wider arena; for example, at the London G20 summit in 2009 it advocated for a strong development focus in the international response to the global economic crisis. It has taken a lead in a number of critical areas such as aid effectiveness, engagement in fragile states, humanitarian assistance and the reform of the international aid system. As a result, the UK is in many ways seen as a model by other donors. This gives the UK a special responsibility.

Staying committed to poverty reduction while broadening the policy agenda

The UK development co-operation programme benefits from a solid legal basis – the *International Development Act 2002* clearly stipulates poverty reduction to be the purpose of development assistance. The clarity of its poverty reduction focus has been a powerful asset for the UK aid programme in past years. Meanwhile, the two most recent white papers (2006 and 2009) have progressively expanded the policy framework for development co-operation and adopted a comprehensive approach which goes beyond the aid agenda to address new global challenges. The 2009 white paper sets four key priorities: (i) achieving sustainable growth in the poorest countries; (ii) combating climate change; (iii) supporting conflict prevention and fragile states; and (iv) reinforcing the international aid system's efficiency and effectiveness. However, the cumulative pledges made in the successive white papers (the "We will" commitments), combined with the objectives of the various public service agreements (PSAs) creates a complex array of priorities for DFID.[1] While broadening the development agenda, the UK will need to maintain a clear vision and mandate for its aid programme. To achieve this, DFID should

1. The PSAs spanning 2008-2011 set seven strategic objectives for DFID: (i) promote good governance, economic growth, trade and access to basic services; (ii) promote climate change mitigation and adaptation measures and ensure environmental sustainability; (iii) respond effectively to conflict and humanitarian crises and support peace in order to reduce poverty; (iv) develop a global partnership for development; (v) make all bilateral and multilateral donors more effective; (vi) deliver high quality and effective bilateral development assistance; and (vii) improve the efficiency and effectiveness of the organisation.

prioritise clearly its policy goals and streamline further its policies and strategic guidance around core priorities linked to the Millennium Development Goals (MDGs).

The UK is committed to providing support to fragile countries and conflict zones, which is commendable. Its spending in fragile states has doubled over the last five years and the 2009 white paper commits at least 50% of all new bilateral country aid to fragile states, with a focus on peace and state building. The UK government combines bilateral and multilateral approaches efficiently and advocates strongly for a strengthened and more co-ordinated multilateral response during peace-keeping operations, as well as in crisis and post-conflict situations. DFID is also a driver of the OECD Development Assistance Committee's (DAC) work on fragile situations, where its leadership and innovative approaches are much appreciated. Since 2007, DFID has focused strongly on conflict sensitivity and peace-building in failed and post-conflict states. It could now broaden its approach and develop preventive strategies in fragile but pre-crisis states.

DFID strives to promote gender equality in its policy dialogue and programming, seeking innovative approaches to achieve this. Continued efforts in mainstreaming gender equality will be important to ensure that any gains made are sustainable and can be intensified. The UK should also continue to learn from its work on gender equality, applying lessons to other cross-cutting issues and sharing good practice with other donors.

Ensuring external and domestic accountability

There is broad public and political support for development assistance. However, public awareness of development aid is weak, public support for more official development assistance (ODA) is declining, and public and political concerns over the effectiveness of financial aid are increasing. The aid programme is coming under greater scrutiny as its budget increases (and in light of the economic turndown). More than ever, DFID needs to demonstrate that aid is effective and having an impact if it is to consolidate public and political support. It has taken steps to demonstrate achievements by linking results to UK action and by increasing its communication efforts, including developing a new UK aid logo. The UK needs to continue to ensure that its desire for greater visibility and its need to demonstrate results support partner country priorities and that it remains accountable both to its partner countries and UK stakeholders.

Promoting policy coherence for development

The UK is highly committed to ensuring that all of its domestic and international policies support, or at least do not undermine, partner countries' development aspirations. Its 2009 white paper provides an overarching plan for coherence around three key priority areas: poverty reduction and economic growth (including trade), climate change and conflict. The UK promotes coherence of its domestic and foreign policies with its development efforts in two main ways: (i) the Secretary of State for International Development participates in the cabinet and in cabinet committees; and (ii) the PSAs establish strategic cross-government objectives and targets to which several departments contribute. In practice, cross-government approaches have been strengthened both in headquarters and the field. This is especially true for trade (whose sub-committee is chaired by the Secretary of State for International Development), climate change and conflict, with closer links developed between the aid, foreign policy and defence communities.

DFID has made considerable progress in improving how it works across government and it is increasingly called on to work more with other UK government departments. By clearly specifying DFID's objectives, the *International Development Act 2002* has helped to ensure that the potentially competing objectives of other foreign policy, trade, climate change and national security priorities do not overwhelm development objectives. In the coming years, DFID should continue to rely on its clear poverty reduction mandate to avoid its mission being diluted when engaging with other government departments. Conversely, being at the core of the UK government should enable DFID to ensure that the machinery of government as a whole supports effective cross-government working on international policies and priorities, resulting in UK policies that are consistent with its development objectives. To do so, it should continue to use both internal and external analytical capacity to inform government discussions with strong evidence on policy inter-linkages and their impacts on development.

The government should broaden its efforts and deepen its commitment to the policy coherence for development agenda in selected new areas of government policy, bearing in mind the European Union (EU) platform for policy coherence for development. This requires the UK government to set out a common agenda with clearly prioritised and time-bound objectives. Relevant government departments should then fully assume responsibility for each selected area, guided by solid evidence.

The *International Development (Reporting and Transparency) Act 2006* obliges DFID to report every year on the impact of UK policies on development, and DFID has included policy coherence indicators in several strategic objectives. However, the UK can further improve its monitoring, assessing and reporting to the public and parliament on the impact of its policy coherence for development efforts. It is encouraging that DFID's new evaluation policy plans to assess policy coherence issues.

Recommendations

To maintain its position as a leading development player, the UK should:

- Retain the aid programme's clear focus on poverty reduction as the UK broadens its development agenda and DFID engages further with other government departments.
- Prioritise policies and streamline objectives derived from the public service agreements and white papers around core priorities linked clearly to the MDGs.
- Ensure that the stronger focus on results and communication supports partner country priorities, and that the UK is accountable both to its partner countries and domestic stakeholders.
- Include in the common government agenda for policy coherence for development some additional priority areas in which to promote further development concerns in line with the EU policy coherence platform.
- Improve how the UK measures, monitors and reports to parliament and the public on the impact of its domestic and foreign policies on partner countries' development results.

Aid volume, channels and allocation

The UK's net ODA was USD 11.5 billion in 2008, 25% more than in the previous year alone. Total ODA was equivalent to 0.43% of GNI, ranking the UK tenth amongst DAC donors for its ODA/GNI ratio. The UK is committed to reaching the target of 0.7% of GNI as ODA by 2013. The last comprehensive spending review (2007-2011) sees the UK providing 0.56% of GNI as ODA by UK fiscal year 2010/11. This would meet the EU's individual 2010 target of 0.51%. The UK government has submitted draft legislation that would enshrine the 0.7% ODA/GNI target in law. This development is positive and, if enacted, will add to the UK's credibility.

In 2008, 63% of the UK's bilateral aid was programmed at country level. This percentage is higher than the DAC average of 58%, and demonstrates the extent of the UK's contribution to partner countries' development programmes, and scope for alignment with country-level decision-making processes and priorities.

Continued efforts to concentrate UK aid are important

DFID continues to deliver the bulk of British aid – 86% in 2008. Since the 2006 peer review, DFID has taken further steps to concentrate its bilateral programme geographically, and approximately 90% of its bilateral programme is now concentrated in 23 countries. Since 2002, DFID has closed offices or programmes in 36 countries. However, non-DFID ODA remains more fragmented. The UK does not report on the impact or value for money of this assistance – a situation which could be improved. Further consideration could be given to how aid delivered by departments other than DFID is allocated as its development impact is less clear.

DFID has developed an econometric model to guide its bilateral resource allocation decisions. This does not consider portfolio performance directly, though DFID does strive to improve its portfolio quality. DFID recognises that demonstrating results may be more challenging in fragile states, where risks and delivery costs are higher, though this has not deterred DFID from increasing its emphasis on a set of countries where needs are particularly significant. DFID does not appear to have used its resource allocation model when deciding to close country programmes. It could be clearer with its external stakeholders about how it decides which country programmes to close.

A strong MDG focus, though thematic spending targets continue to pose a risk

The UK's bilateral ODA retains a strong MDG focus. This is reflected in both the allocation of bilateral aid to low income countries (LICs) – 61% of total ODA in 2008 – and the emphasis on social infrastructure and services, which has grown over time. The recent graduation of countries such as India to middle income status has resulted in a slight decline in the proportion of ODA allocated to LICs. Where it engages in middle income countries (MICs) such as India, the UK should sustain its focus on poverty reduction.

In line with the findings of the 2006 peer review, the UK continues to make significant use of sector and thematic spending targets, with 32% of DFID's ODA affected by such targets, primarily in health and education. The problem with these targets is that they can undermine DFID's ability to align with partner country priorities, so it is important that DFID continues to manage them carefully.

A positive emphasis on multilateral effectiveness

In 2008, 36% of UK ODA was provided through multilateral channels. The UK government demonstrates clear support for the multilateral development agenda and plans to increase its use of multilateral channels for aid delivery. The fourth white paper (2009) emphasises the efficiency and effectiveness of the international aid system, and DFID draws on evidence on the performance of multilateral organisations when allocating funds. This approach includes the negotiation of new performance frameworks with several UN agencies, though a significant proportion of funding through the UN is provided as non-core contributions. DFID is an active member of the Multilateral Organisations Performance Network (MOPAN) and uses its work as part of DFID's multilateral assessment framework. DFID could work more with other donors to promote harmonised approaches to making multilateral aid more effective.

Recommendations

Planned increases in the UK's aid volume are encouraging. To build further on its efforts, the UK should:

- Implement its commitment to providing 0.7% of GNI as ODA by 2013. Adopting legislation for this will further enhance the UK's credibility.
- Improve the quality of information on aid delivered by departments other than DFID, including on its development impact and value for money, in its public communications.
- Avoid introducing further sector and thematic spending targets, and guard against existing targets undermining the ability of country programmes to align with partner country priorities.
- Work more closely with other donors on approaches to support multilateral effectiveness. Increase the UK's share of contributions to the UN provided as core resources in exchange for better evidence from UN Agencies, Funds and Programmes on their results, impact and contribution to wider development outcomes.

Organisation and management

A purpose- and performance-driven organisation

The UK institutional system offers a powerful model for development co-operation. A single department (DFID) has a seat in cabinet and manages most aspects of UK international development policy and the bulk of the aid programme. DFID is a capable, mission-driven and decentralised development ministry which delivers its aid programme effectively. It benefits from strong cohesion at management level and high-quality and committed staff. Strong linkages between headquarters and field offices and innovative approaches to working both in-house and with other UK departments and institutions are key features of DFID's way of working. This applies for instance to DFID's efforts to link research and internal policy making. DFID makes continuous efforts to improve both its efficiency and effectiveness. In recent years it has reinforced its corporate tools and systems to ensure compliance and has strengthened its country planning process.

DFID has so far been able to manage an increased aid programme whilst reducing its administrative costs. However, the scale and breadth of the challenge faced by DFID have increased to an unprecedented level: (i) the aid budget is expected to increase annually by 11% in real terms between 2007/08 and 2010/11, while the administrative budget will decrease annually by 5% over the same period; (ii) DFID has increased its engagement in fragile states, where it is more difficult and costly to operate; and (iii) DFID's development portfolio is broader and involves working in more complex and fragmented development environments.

DFID is addressing this challenge through both strategic actions (*e.g.* decreasing the number of country offices) and corporate governance reforms (increasing efficiency and effectiveness and protecting resources on the front line, especially in fragile states). In particular, DFID has embarked on an ambitious internal change programme – "Making it Happen". Its key objectives are to enable DFID to have more development impact with its resources and to better communicate this impact to the UK public, using evidence more effectively. Within this framework, DFID is pioneering a rigorous value-for-money approach, assessing results against the cost of achieving them.

Maintaining capacity and protecting DFID's key strengths

Key UK stakeholders – such as the parliamentary International Development Committee and the National Audit Office – are concerned about DFID's capacity to maintain the quality of its assistance with fewer administrative resources. In particular, the number and quality of DFID staff at country level is an asset and further staff reductions may put at risk its capacity to deliver the aid programme effectively. Maintaining the numbers of staff involved in programme delivery overseas and keeping the level of expertise is crucial. Strengthening the medium-term workforce planning exercise will be essential to ensure DFID has the right staff with the right skills, including in fragile states. DFID should continue to look beyond staffing for efficiency gains. Its recent plan to reduce administrative costs is positive, as it aims to meet the efficiency target set by the Treasury while protecting frontline staff.

DFID should also maintain enough flexibility within its value-for-money and results approach to safeguard the aid programme's key objectives and assets. These include DFID's long-term approach to development; its flexibility in delivering the aid programme; its increased focus on fragile states; and its new approach to civil society organisations.

DFID has established a single corporate performance framework. It also has a system of annual project reviews, as well as separate reporting on the 2009 white paper and other policy priorities. This means that the overall reporting framework is complex and time consuming, and staff in country offices feel that some of the requirements overlap and lack clarity of purpose. DFID should look at how it can integrate further its different streams of reporting. DFID has also made progress on evaluation, increasing the resources available, strengthening independence with the creation the Independent Advisory Committee on Development Impact (IACDI) in May 2007, and setting out a comprehensive evaluation policy in June 2009. These are positive developments which should help reinforce a culture of learning and evaluation across DFID and build stronger linkages to the wider DFID performance management and planning systems.

Recommendations

In order to maintain the credibility of its aid programme while "doing more with less", the UK should:

- Retain its powerful institutional system. This includes a development co-operation department with a seat in cabinet and a clear poverty reduction mandate, as well as a decentralised and flexible approach with a capacity to engage on long-term development objectives.
- Maintain DFID's front-line (programme) staffing levels and keep a critical mass of expertise in-house, including sector specialists. This will mean developing further DFID's medium-term workforce planning system.
- Streamline DFID's reporting requirements further; continue efforts to develop an evaluation culture and to use evaluations as forward-looking management tools.

Practices for better impact

Implementing aid effectively

The UK performs well against the key aid effectiveness indicators, and partner country governments regard DFID as a valued and constructive donor. Implementing the Paris Declaration is a corporate priority for DFID, and is addressed explicitly in its corporate performance framework. DFID's ability to implement its aid effectiveness commitments is supported by its decentralised model, and by significant use of general and sector budget support. Key domestic stakeholders support DFID's use of budget support, provided that certain conditions are met. However, it is important that DFID continues its efforts to assess and communicate the benefits of budget support over other modalities.

External stakeholders recognise and appreciate the UK's efforts to align with partner country priorities and to harmonise with other donors. DFID has often played a leadership role in developing joint country strategies and performance management frameworks at the country level, and it participates in delegated co-operation and silent partnerships. DFID could, however, focus its support more clearly on a smaller number of sectors in which it has clear comparative advantage, in line with the EU code of conduct on complementarity and division of labour. This will be particularly important as partner countries increase their efforts to improve donor division of labour and complementarity at the country level.

The UK has taken steps to implement its international commitments on medium-term predictability. DFID has instructed its country offices in most partner countries to discuss with governments likely future aid flows over a three to five-year horizon. Efforts should be made to extend this approach to all programme countries. In some countries, DFID has been innovative in implementing ten-year Development Partnership Arrangements (DPAs), though these remain in the minority and the firmness of the commitment they embody is not clear.

DFID's approach to conditionality has improved, with guidance restricting the use of policy conditionality. DFID's assistance is conditioned by three underlying partnership principles: (i) commitment to poverty reduction and the MDGs; (ii) respect for human rights and international obligations; and (iii) strengthening financial management and accountability. Adherence to these principles is assessed through mutually agreed performance benchmarks, often derived from partner countries' own national development strategies. However, there are no explicit links between the benchmarks (which DFID stresses are not equivalent to conditions) and the partnership principles. This means that DFID could do more to implement its commitment under the Accra Agenda for Action (AAA) to make public all conditions linked to disbursements, particularly with regard to human rights issues.

The DAC recognises the UK's positive contribution to international dialogue on aid effectiveness, and in particular its influential role in shaping the Accra Agenda. In recent years, the UK has focused on shorter-term and high profile initiatives – such as the International Aid Transparency Initiative (IATI) and International Health Partnership (IHP). The Committee learned that the UK has championed specific initiatives such as IATI. The UK is aiming to galvanise progress in delivering on the Accra accountability and transparency commitments by supporting IATI. At the same time, the UK can and should continue to contribute to the international dialogue on aid effectiveness, where it can share its experience and tools for the benefit of both donors and partner countries.

Learning from priority topics

Capacity development

The UK's development policies are relatively strategic in their approach to capacity development; however, neither the UK government nor DFID has articulated a clear or explicit vision for capacity development in the context of UK development co-operation. The absence of an internal discourse on capacity development that cuts across DFID's thematic work may hinder its ability to disseminate capacity development lessons across sectors and themes.

DFID situates capacity in the context of state capability and accountability. Accordingly, it has strengthened its approach to capacity assessment at the macro level through appropriate tools grounded in the country planning process. DFID does however face challenges at the individual programme or project level, where the design of interventions is not systematically grounded in a robust approach to capacity assessment. The placement of technical co-operation personnel is seen by DFID country offices as a fairly standard response to capacity challenges, and although this can be effective, it does not necessarily lead to the sustainable development of partner country capacities.

DFID's approach to managing technical co-operation is flexible, and it has incorporated key aid effectiveness principles. As with the rest of the UK's bilateral assistance, technical co-operation is fully untied. DFID seeks to pool resources with other donors where appropriate, and encourages the use of partner country systems for the procurement of technical co-operation expertise where feasible.

Supporting capacity development efforts in partner countries can place high demands on country office expertise. It is important that DFID maintains enough expertise in its country offices to ensure high quality dialogue on capacity development initiatives and, where appropriate, to continue playing a role in the direct management of inputs to projects and programmes where this is called for. The UK's focus on state capability has tended to concentrate efforts on capacity development in the government sector. DFID recognises the need to expand its emphasis to non-state stakeholders, and plans to increase support to civil society and other non-state actors. This is a positive development.

Environment and climate change

Driven from the highest levels of government, the UK is strongly committed to tackling climate change. The prominence of this agenda is reflected in the strong legal and institutional framework in place since 2008. This created the Department for Energy and Climate Change (DECC), enacted the Energy and the Climate Change Acts, and established a specific public service agreement (PSA) on climate change. Climate change is a priority area in the *2009 White Paper on International Development*. The objectives set in the PSA and the white paper are translated into DFID's strategic objective on promoting climate change mitigation and adaptation measures and ensuring environmental sustainability. DFID now has greater internal capacity for tackling climate change and broad cross-departmental policy work is done at every level. DFID also makes effective use of various sources to develop knowledge, building close links between its internal climate change research capacity, other UK research institutes and country programmes. Climate change operations are still at an early stage, although key steps include an implementation plan approved in May 2008 and a pilot exercise involving nine partner countries. Lessons from this pilot should help develop corporate guidance on mainstreaming climate change and incorporate climate change and disaster risks into environmental screening. As the UK engages further on climate change, it must ensure that its approaches to climate change also help to alleviate poverty.

The UK plays an influential role in linking climate change with development in international fora. In particular, it promotes the "additionality" of climate change funding, urging that climate finance should be additional money and should not divert resources from existing ODA commitments.

Beyond the specific issue of climate change, DFID sees environmental protection as critical for reducing poverty. While working through international partnerships, DFID also strives to mainstream sustainable development in its bilateral programme, including in the context of budget support. In line with OECD/DAC guidance, DFID has made efforts to ensure systematic and more rigorous implementation of environmental screening and strategic environmental assessment. This comes with an increased emphasis on disaster risk reduction, with the 2009 white paper committing to allocate 10% of any natural disaster response money for prevention and preparedness. This is commendable and should be seen as an opportunity to mainstream further disaster risk reduction in the programme. To support its engagement, DFID must maintain appropriate resources and technical capacity for broader environment issues. It must also ensure that its programmatic support in partner countries is aligned to partner countries' needs and fits into the wider division of labour, strategically selecting key issues where it can add value. In order to monitor progress, DFID could complement its annual corporate reporting on implementing climate change and environmental sustainability activities with broader impact evaluations in the medium term.

Recommendations

To increase further the effectiveness and impact of its development co-operation, the UK should:

- Make public all conditions linked to its aid disbursements. It should clarify conditions on governance and political issues, so that partner countries are clear about what would constitute a breach of its partnership commitments. It should also continue efforts to harmonise conditions with other donors.

- Improve internal communication and guidance on capacity development; strengthen capacity assessments in the development of projects and programmes; and implement its commitment to support the development of capacities of non-state actors.

- Include climate change and disaster risk reduction aspects in DFID's environmental screening system.

- Continue to pay attention to wider environment issues, prioritising areas aligned with partner countries' needs and where it can add value compared with other donors. Ensure sufficient capacity to engage in these areas.

Humanitarian action

The UK is a prominent actor within the international humanitarian system in both policy-setting and financial terms. Of all the DAC donors, DFID gives the third largest volume of assistance to the international humanitarian system, with 84% of humanitarian funding going through multilateral channels. In 2007, nearly two-thirds of UK's humanitarian expenditure was either un-earmarked (40%) or lightly earmarked (24%). Much of the un-earmarked funding is given through multi-year agreements, which increases the predictability of UK support. The UK is considered to be a committed advocate for principled humanitarian action. With a prominent role in instigating and driving the UN humanitarian reform agenda, the UK has also been instrumental in promoting standards and practices across the system. The links between policy and practice within UK humanitarian assistance appear resilient with a corresponding strong association with humanitarian policy orientations at the field level.

DFID has a clear strategy for humanitarian action. This is anchored in the principles of good humanitarian donorship (GHD) and covers the full spectrum of humanitarian action from prevention and preparedness through response to recovery. In line with these principles, DFID has divested responsibility for humanitarian action to country teams; has invested heavily in the UN humanitarian reform process; has built strong partnerships with UN, Red Cross and NGO implementing partners; and has encouraged adherence to learning and accountability standards. The UK is also preparing a Strategy on the Protection of Civilians in Armed Conflict. This responds to the 2006 peer review recommendation for greater clarity in the roles of the relevant government departments (Foreign and Commonwealth Office, Ministry of Defence and DFID) in protecting civilians. The strategy should also help to define both the scope and limitations of protection activities financed through UK humanitarian action. However, it may also be prudent to expand the scope to protection in crisis situations other than armed conflict. The operational relationship between DFID and the Ministry of Defence during natural disaster responses is set out in a memorandum of understanding. Amongst other things, this provides for military assets to be used as a last resort, under DFID's authority.

In general, DFID has successfully protected its humanitarian action from other agendas that might undermine its impartiality and independence. However, further clarity and guidance may be needed to identify the appropriate mix of DFID's humanitarian and peace- and state- building approaches in states affected by conflict or in fragile situations.

DFID's strategic objective on conflict, humanitarian and peace is underpinned by a Divisional Performance Framework. All major humanitarian responses are evaluated and recommendations are subject to management responses. Grants to NGOs require activity evaluations, and accountability to beneficiaries is promoted in the funding guidelines for NGOs. However, linkages between these different levels of performance measurement should be clarified.

The special needs of vulnerable groups are explicitly recognised in both humanitarian and disaster risk reduction policies. To support this approach, DFID should clarify how other corporate policies (including cross-cutting policies such as gender) intersect with the humanitarian decision-making processes.

Recommendations

To consolidate its leading role as a good humanitarian donor, the UK should:

- Identify the appropriate mix of humanitarian and peace-building/state-building approaches in conflict-affected and fragile states.
- Strengthen the performance framework for humanitarian action.
- Clarify how other corporate policies intersect with the humanitarian decision-making processes.

SECRETARIAT REPORT

Chapter 1

Strategic Orientations

An international development leader in times of global crisis

Clear vision, consistent political leadership, strong human resource and financial capacity, and continued commitment to the 0.7 per cent target place the United Kingdom (UK) as a recognised international leader in development. The UK is effective in seizing opportunities to promote development in a wider arena. It used its 2005 presidency of the G8 and the European Union (EU) to achieve tangible commitments to increase aid, eliminate debt and make global trade more beneficial to poor countries. More recently, the UK has played a key role in arguing for a continued international focus on poverty reduction, despite the recent economic and financial turbulence. It has successfully promoted a development focus in the international response to the global economic crisis, illustrated by the outcomes of the London G20 summit in 2009. The UK has also been instrumental in linking climate change with development in international fora. In preparing for the December 2009 Copenhagen Summit, it actively advocated for a global deal on climate change that was ambitious, effective and fair, so that the poorest countries have the support and voice they need (HMG, 2009a). The UK has also been a strong proponent of reforming the international system to improve its effectiveness. It has taken the lead in a number of critical areas such as aid effectiveness, engagement in fragile states and humanitarian assistance. As a result, other donors look to the UK when preparing for the next steps, which gives the UK a special responsibility.

The UK aid programme has developed steadily since 1997 with national and international recognition for its professionalism and ability to deliver its aid programme effectively reaching an all-time high in 2006, as emphasised in the previous peer review. Over the last four years, the United Kingdom has shown a dynamic spirit in sustaining the momentum inherited from this "golden age" of growth and achievement and has made good progress on the vast majority of the recommendations of the 2006 peer review (Annex A). This has been backed by strong leadership on development from the highest levels of government and enabled by a high-performing Department for International Development (DFID), as recognised nationally and internationally (Chapter 4).[2]

Solid foundations of the United Kingdom's development co-operation

A strong legal and institutional framework

Key legal and institutional elements of the UK's powerful development model remain in place:

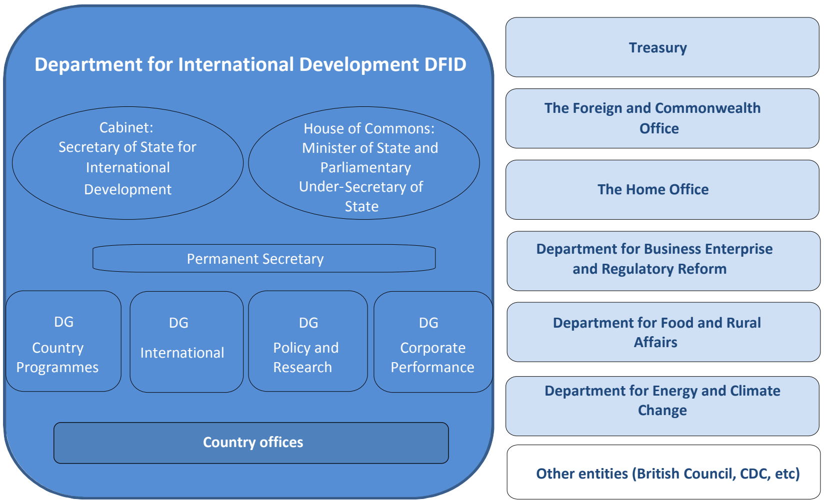
i) The *International Development Act 2002* provides a strong legal basis for development co-operation. It clearly stipulates poverty reduction to be the purpose of development assistance (UK, 2002).

ii) A single department (DFID), with a seat in Cabinet and a decentralised network of offices, manages most aspects of UK international development policy and 86% of the aid programme. It has a clear poverty reduction mandate (Figure 1).

Development remains high on the government agenda and benefits from strong political leadership, broad cross-party consensus and public support. Despite the impact of the global crisis and subsequent constraints on the UK's financial capacity, in July 2009 the Prime Minister reaffirmed the UK's commitments, including providing 0.7% of its GNI as ODA by 2013: "Some argue that in these difficult times the rich world should turn our backs on the Millennium Development Goals and retreat from the promises we have made to the poor. But I believe that amidst these challenges of globalisation we must not lose sight of our vision of a world freed from poverty. While others might be tempted to shy away from their development responsibilities, the United Kingdom will keep the promises we have made." (DFID, 2009a). The Conservative Party – the UK's leading opposition party – also supports key UK commitments, in particular on the volume of aid, the focus on poverty reduction and the Millennium Development Goals (MDGs), and untied aid. It also emphasises the need for a tightened geographic focus, private sector-led growth and attention to good governance in partner countries. As announced in its Green Paper on international development, a Conservative government – if elected – would also maintain the current institutional structure with DFID reporting to the Secretary of State for International Development with a seat in Cabinet (Conservative Party, 2009).

2. A cross-government capability review assessed DFID as the highest performing department in 2007 and again in 2009. In 2009 the UK civil service undertook an assessment of progress and congratulated DFID for its good progress over the last two years (HCS, 2007 and 2009).

Figure 1. The UK development co-operation system



1. Sub-national development co-operation remains very limited; however, Scotland developed an International Development Policy in 2008. Its annual aid programme amounted to GBP 6 million in 2009/10.

A strengthened whole-of-government approach

Since the 2006 peer review a stronger emphasis has been put on whole-of-government approaches and cross-departmental mechanisms to deliver a coherent development co-operation programme. This happens both at policy and institutional levels. The government's policy increasingly emphasises interdependence in a globalised world. The 2009 white paper *Building our Common Future* clearly states that prosperity, security and climate are indivisible global goods and calls for joined-up thinking across government (DFID, 2009a). In institutional terms, the 2008-2011 public service agreements (PSAs) are a major driver of this reinforced whole-of-government approach. In setting out the government's key priority outcomes, the PSA framework establishes strategic cross-government objectives and targets to which several departments have to contribute. In doing so, it urges the departments to intensify joint planning, action and monitoring based on clear roles and accountabilities (Box 1). DFID is the lead department for PSA 29 on poverty reduction, with the Treasury, the Foreign and Commonwealth Office (FCO) and the Department for Environment, Food and Rural Affairs (DEFRA) as delivery partners. DFID also contributes to PSA 27 on climate change, led by the Department for Energy and Climate Change (DECC); to PSA 30 on reducing impact of conflict, led by the FCO; and to PSA 3 on migration and PSA 26 on counter-terrorism, both led by the Home Office. The Secretary of State for International Development's leadership of the Cabinet Committee on Trade is another distinctive feature of the UK institutional system (Chapter 2).

Box 1. Public service agreements

Public service agreements (PSAs) were introduced in the 1998 Comprehensive Spending Review (CSR) as a means of galvanising UK public service delivery. As part of the 2007 CSR, the UK government has identified 30 new PSAs. These set out the government's key priorities in the current spending period (2008-2011). Each PSA is underpinned by a single delivery agreement shared across all contributing departments and developed in consultation with delivery partners and frontline workers. Delivery agreements set out plans for delivery and the role of key delivery partners. They also describe the small basket of national outcome-focused performance indicators that will be used to measure progress towards each PSA.

The 2008-2011 PSA framework helps to develop closer links and reinforce coherence between aid, foreign policy and defence. It also guides DFID's engagement in a broader set of issues. In this way, DFID is increasingly able to play an influential role in central government decision making on key issues (Chapter 2). The 2009 white paper also calls for a broadening and deepening of international partnerships. DFID is already developing closer links with a variety of stakeholders, ranging from large emerging economies – especially China – to private trusts and foundations.

The UK strategic framework: maintaining poverty reduction as the overarching objective

A broader policy agenda

The *International Development Act 2002* affirmed poverty reduction as the overarching purpose of UK development assistance, achieved by furthering sustainable development and by promoting human welfare. This confirmed the goals of the two previous white papers on international development: *Eliminating World Poverty: A Challenge for the 21st Century* (DFID, 1997) and *Eliminating World Poverty: Making Globalisation Work for the Poor* (DFID, 2000).

The third white paper, published in July 2006, *Eliminating World Poverty: Making Governance Work for the Poor*, emphasised good governance and effective delivery of public services for achieving the MDGs. It also deepened DFID's commitments in areas such as climate change and trade, and signalled an increased focus on fragile states (DFID, 2006a). The fourth white paper, *Eliminating World Poverty: Building our common future,* was issued in July 2009. Its comprehensive approach to development co-operation goes beyond the aid agenda to tackle emerging challenges (DFID, 2009a). The paper reflects the perception of a more complex world of development, where poverty reduction is interconnected with the global economy, global environment and security. Thus, while poverty reduction remains central, it is clear that the two most recent white papers have progressively expanded the policy framework for development assistance to reflect new global challenges (Box 2). The MDGs remain the cornerstone of UK aid, but greater emphasis is put on the prerequisites for achieving them. This white paper also shows a stronger commitment to multilateralism.

Box 2. The "beyond aid" agenda: the 2006 and 2009 white papers on international development

The 2006 white paper *Making Governance Work for the Poor* reiterates the UK's commitments on aid volume and geographic concentration in the poorest countries, increasing the focus on the fragile states given their importance in making progress towards the MDGs. It also gives four directions to the programme: (i) putting governance at the centre of DFID's work – focusing on building states that are capable, responsive and accountable to their citizens, and stepping up efforts to tackle corruption internationally; (ii) promoting peace and security, supporting economic growth, and strengthening basic social services and social protection; (iii) working internationally to tackle climate change, by helping developing countries to participate in international negotiations and to integrate climate change adaptation into their development programmes; and (iv) helping create an international system fit for the 21st century.

The 2009 white paper *Building our Common Future* reaffirms past commitments, emphasises interdependence in a globalised world and defines new priorities and ways of working in difficult times. According to this white paper, the world faces three crises: economic downturn, climate change, and insecurity/conflict, with the world's poor being among the hardest hit. Building fair and sustainable growth, tackling climate change and promoting peace and stability are three challenges facing developing countries. Unless all three are tackled, the MDGs will be pushed far out of reach. This matters not just for the poorest, but for the world's common prosperity. Meeting the challenges of interdependence requires a combination of measures to ensure the provision of services that promote fairness, well- being and human rights through initiatives that attack the root causes of the three crises.

Sources: DFID (2006a, 2009a).

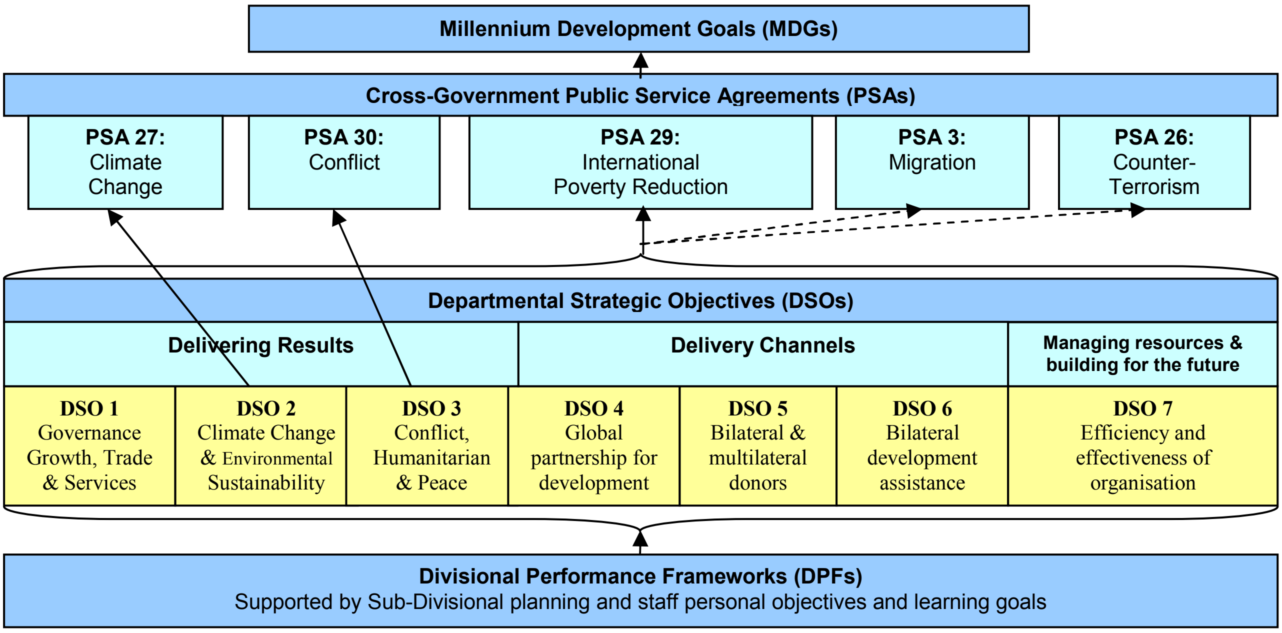
The need to streamline the policy framework

Successive white papers have broadened development policy horizons to take in four key priorities: (i) achieving sustainable growth in the poorest countries, (ii) combating climate change; (iii) supporting conflict prevention and fragile states; and (iv) reinforcing the international aid system's efficiency and effectiveness. This broadened agenda illustrates DFID's willingness to develop a new vision and to respond rapidly to emerging challenges, including the global economic crisis.

As mentioned earlier, DFID's objectives are not only set by the four white papers, but also by the public service agreements for which DFID takes the lead (PSA 29) or is a delivery partner. These PSAs define a high-level framework which is mapped into DFID's departmental strategic objectives (DSOs) and cascaded into all divisional performance frameworks and country plans, with indicators at each level. PSA 29 is clearly focused on reducing poverty in poorer countries through faster progress towards the MDGs (HMG, 2007a). Taking into account its contribution to the other PSAs too, DFID has set up a comprehensive corporate planning and performance measurement framework with seven objectives for 2008-2011: (i) promote good governance, economic growth, trade and access to basic services; (ii) promote climate change mitigation and adaptation measures and ensure environmental sustainability; (iii) respond effectively to conflict and humanitarian crises and support peace in order to reduce poverty; (iv) develop a global partnership for development (beyond aid); (v) make all bilateral and multilateral donors more effective; (vi) deliver high quality and effective bilateral development assistance; and (vii) improve the efficiency and effectiveness of the organisation (Figure 2).

There are no significant contradictions between DFID's strategic objectives derived from the PSAs and the content of the white papers. However, this two-fold system does create a cumulative process which may lead to too many unprioritised objectives and could make monitoring overly complex. This is all the more the case since the white papers add new priorities without dropping previous ones. They also include a long list of precise, mandatory commitments. For example, the 2009 white paper sets 107 "We Will" commitments, which build only partially on the 167 "the UK Will" commitments in the 2006 white paper. In order to integrate the 2009 commitments, all DFID divisions and country offices have had to adjust their business plans. Meanwhile DFID has developed or updated 29 sector-specific policy documents since 2006. In all there is a complex array of policies, strategies and other types of guiding documents. These range from high-level ministerial statements and the "We will" commitments, to departmental and divisional performance frameworks, and to "how to note" practice papers and thematic action plans (*e.g.* on results, gender equality and aid effectiveness). DFID staff, particularly in the field, need more clarity on the hierarchy and interrelationship between these documents and on how to prioritise their actions.

Figure 2. DFID's corporate planning and performance measurement architecture



Setting clear commitments is certainly commendable and helps DFID to be held accountable; however, too many commitments make it difficult to drive the aid programme in a streamlined and coherent manner. It is also important to maintain the clarity of the poverty reduction focus which is a powerful asset for DFID. DFID would gain from prioritising its policy orientations and streamlining further its policies, strategies and guiding tools around core priorities linked clearly to the MDGs.

Deepening engagement in fragile states

The UK government sees security and stability as pre-conditions for development and for achieving the MDGs. Thus, DFID is strongly committed to increasing its aid to fragile countries and conflict zones, where the MDGs are most vulnerable to derailment. The 2006 white paper focuses on two dimensions of support in these situations: (i) improving security and preventing conflict in fragile and deteriorating circumstances; and (ii) tackling the causes of conflict and building peace in situations that have already descended into violence and chaos. It commits to increasing the UK's support in at least ten countries where improved security has been identified as a priority.

The UK's spending in fragile states has already doubled over the last five years and currently amounts to GBP 1.2 billion a year. This is expected to increase further, since the 2009 white paper commits at least 50% of all new bilateral country aid to fragile states. In doing so DFID signals to the donor community the importance of providing assistance where the need for aid is greatest but often not addressed comprehensively by donors. The 2009 white paper also refines earlier approaches. It highlights the convergence between peace-building and state-building goals and expands the concept of security sector reform to a broader vision of security and justice as core responsibilities of the state and a moderating influence on conflict trends. It also highlights the need for economic opportunities in fragile and post-conflict countries to counter the disillusionment that fuels conflict and feeds the recruitment of armed groups.

The 2009 white paper also commits the UK government to work internationally to lay these critical foundations for peace. The UK government strongly advocates for a strengthened and more co-ordinated multilateral response during peace-keeping operations, as well as in crisis and post-conflict situations where security actors play a less prominent role. Consistent with this goal, DFID has been a key driver of the DAC work on fragile states. It was previously the co-chair of the DAC fragile states group, and is now co-chair of the International Network on Conflict and Fragility (INCAF) task team on peace building, state building and security, where its leadership and innovative approaches are most appreciated. DFID is strongly committed to respecting the DAC Principles for International Engagement in Fragile Situations and the Accra Agenda for Action (AAA) commitment to adapting aid policies in fragile situations. In line with its 2007 policy paper *Preventing Violent Conflict* (DFID, 2007a), DFID has also put a strong focus on conflict sensitivity in its programme, including in its multilateral channel (Annex C). To implement the 2009 white paper commitment on building peaceful states and societies, DFID is rolling out its new integrated framework for peace-building and state-building that supports conflict prevention in the full range of conflict affected and fragile states. DFID is working with the rest of the UK government in honing how development and other government programmes can address issues identified by early warning indicators. However, DFID has not yet fully honed its support for preventive strategies in fragile but pre-crisis states. The aim would be for early warning indicators to consistently trigger early preventive action within the development co-operation programme. In deepening its engagement, DFID also confronts the difficult challenge of maintaining adequate expertise in the field to track fluctuations in these volatile contexts (Chapter 4).

Gender equality: strong leadership and an innovative approach

A 2006 evaluation of DFID's gender equality work showed uneven results (DFID, 2006b). This spurred DFID in 2007 onto renewed efforts in this crucial dimension for achieving the MDGs. To promote institutional change it developed a high profile Gender Equality Action Plan (GEAP) driven by a Director General designated as the gender champion for the organisation. The GEAP sets out a rigorous programme for mainstreaming gender equality across DFID's policies, programming, internal systems and resources (DFID, 2007b). A network of divisional gender champions was set up and given specific training. The plan was backed in 2008 by an innovative "Think women!" communications campaign and the development of a gender manual to enable all staff to understand and deliver DFID's commitments (DFID, 2008a). DFID also integrated gender into the job objectives and end-of-year appraisals (with salary incentives attached) of its Senior Civil Service staff. A stronger emphasis was also put on training and results. A gender equality indicator has been incorporated into DFID's strategic objectives, including a specific reporting mechanism. Results are published in the GEAP annual progress reports.

DFID has also taken a leadership role in integrating gender equality perspectives into the Accra High Level Forum on Aid Effectiveness process, investing highly in joint donor research and hosting the London workshop on Strengthening the Development Results and Impact of the Paris Declaration through Work on Gender Equality, Social Exclusion and Human Rights (March 2008). DFID also leads donor efforts to integrate gender equality into the International Development Association's (IDA) 16th replenishment process. The next challenge will be to give sufficient attention to gender equality in new areas for DFID, especially in the "beyond aid" agenda, where stakeholders may be less sensitive to this dimension. DFID could use its international leadership role in these areas, for instance in integrating gender dimensions into trade from the global to national levels, building on the work done by the Trade Policy Unit. Positive signals are that the 2009 white paper promotes mainstreaming of gender equality within the World Bank's work and supports a proposed UN women's agency.

Thanks to DFID's commendable efforts, gender equality now has a higher profile within the department. However, efforts need to continue, including in humanitarian aid (Annex C). As the peer review team noted in India and Rwanda (Annex D), DFID could further strengthen its gender equality-focused programming at the field level and more fully integrate gender dimensions into the country action plan and policy dialogue. This could help bring about real change for women, building on the success of including gender commitments in the Accra Agenda for Action (AAA). In sustaining its internal momentum, DFID will need to reconsider two drivers of the GEAP success, which will be challenging to sustain in the longer term: (i) the system of incentives, which helped to ensure strong management leadership; and (ii) the specific reporting mechanism – which should be integrated into the corporate reporting system as part of streamlining efforts. The GEAP will be reviewed in 2010 and a full independent evaluation is planned in 2011. This should be an opportunity to look at how to keep gender high on DFID's list of priorities. Despite DFID's innovative approach, it is not yet clear whether it has allocated enough resources (both financial and staffing) to ensure that any gains made are sustainable and can be intensified; and whether there is long-term, broad "buy-in" at a senior level to support staff to continue to innovate for transformational change. DFID should also ensure that systems are in place to measure impacts.

Recognising the importance of communicating and building public awareness

Concerns over the level of public support

DFID has conducted research annually since 1999 to measure the general public's perceptions of development issues and aid programmes. According to the latest surveys (DFID, 2008b and 2009b&c), the UK public remains supportive and engaged on global issues, with more than two-thirds expressing concern about global poverty. However, the surveys show three alarming areas:

i) Public awareness around development aid remains weak: only 16% of the UK public had heard of the MDGs in 2009. Consistently, the 2007 EU Barometer shows that UK respondents are less familiar with the MDGs than the EU average: 14% (against 18%) have heard of them (EC, 2007).

ii) Public support for increased ODA is declining: the share of the public supporting the government's decision to increase ODA decreased from 50% in 2007 to 49% in September 2008 and 42% in September 2009.

iii) An increasing proportion of people think that most financial aid to poor countries is wasted (55% in September 2009 against 53% in February 2009 and 47% in 2008).

High political support balanced with increased scrutiny of the aid programme

So far there is broad support in parliament for development assistance. The Labour government's commitment to reaching the ODA/GNI target of 0.7% by 2013 is shared by the other major political parties. Parliament is broadly supportive of DFID's poverty reduction objective, and supports DFID in pursuing this objective through constructive dialogue. More controversial issues include the UK's assistance to large emerging economies such as China and India; the use of budget support, which makes outcome more difficult to attribute; and the ways in which private sector development should be supported. As the aid budget increases, parliament needs DFID to better demonstrate the effectiveness of aid and its development impact. Parliament is also concerned that DFID's declining administrative budget and subsequent reduction of staff might compromise its ability to deliver its targets.

In 2006 parliament passed the *International Development (Reporting and Transparency) Act 2006*. This act requires DFID to report annually to parliament on total expenditure on international aid and on the breakdown of this aid. The report, which is part of DFID's *Annual Report*, is debated in parliament. This reinforces the level of scrutiny of the aid programme. It is also important to note that besides parliament, there is a wide range of domestic constituencies and organisations that seek to exercise accountability in various ways (Box 3). In particular, the National Audit Office regularly produces authoritative reports on key themes *e.g.* providing budget support in developing countries (NAO, 2008a) and operating in insecure environments (NAO, 2008b). DFID therefore faces a continuing challenge as it must ensure: (i) that its domestic accountabilities drive enhanced development effectiveness so that the UK meets external accountability needs (*vis-à-vis* partner countries); and (ii) that the results achieved by the aid programme maintain the support of the UK public (meeting domestic accountability needs). As the environment for UK development assistance becomes more questioning, balancing and aligning these sometimes competing accountability demands becomes ever more important.

Box 3. Greater scrutiny of the UK development assistance programme

The primary mechanisms for parliament to oversee DFID's activities are two select committees: the International Development Committee (IDC) and the Public Accounts Committee (PAC). The IDC scrutinises DFID's policy and practice, while the PAC considers its efficiency and effectiveness. Beside parliament, the National Audit Office (NAO) is able to scrutinise value for money effectively and therefore plays a strong accountability role. The NAO has published ten detailed, respected reports on specific aspects of the aid programme in the last four years. Since 2007, these public bodies have been joined by an Independent Advisory Committee on Development Impact, which was established by DFID to help to improve the quality and independence of its evaluation function.

DFID is increasingly accountable to other parts of the government. Its relationship with Treasury, negotiated via the PSA and the Government's Comprehensive Spending Review, is particularly important. The Cabinet Office also plays an important role in ensuring that DFID's activities are in tune with the policy direction and particular initiatives set out by the Prime Minister.

Finally, civil society organisations (mainly NGOs, but also think-tanks and research institutes) are a prominent actor in holding DFID accountable. To do so, they engage actively with the other actors in the accountability system – parliament, the NAO and other government departments.

Sources: Burrall *et al*. (2009), ODI (2009) and NAO publications (*http://www.nao.org.uk/publications.aspx*).

Raising development awareness and communicating results

In line with the recommendations of the 2006 DAC peer review and the 2007 UK Capability Review (HCS, 2007), DFID has strengthened its communication efforts to build support for development amongst the general public. DFID has set up a new Communications Division staffed by 57 professionals (placing it among the top three in the donor community, after the US and Canada) and with an annual budget of GBP 6 million. The division covers both internal and external communication. It includes a dedicated team managing DFID's website, and a Communication Network which includes every staff member with a communications role, including those posted outside the UK. In September 2008 DFID launched its *Communication Matters* strategy, which builds on substantial market research (DFID, 2008c; Box 4). In the last ten years DFID has also invested in development education, with an annual budget of GBP 25 million spent in four different areas: working through the education system; engaging with the media; supporting development awareness activities; and working with trade unions, diasporas, faith, black and minority ethnic groups.

DFID's increased efforts in communicating and building public awareness have resulted in progress in development education, as illustrated by the introduction of a "global dimension" section in the UK primary and secondary school curricula, and a much stronger presence of DFID and development themes on the web. DFID is now a role model in using electronic communication and social media – trying to get away from one-way communications to a dialogue with taxpayers. However, this has not yet translated into increased public support. All key UK stakeholders agree that the economic downturn and disappointing findings from DFID's 2009 survey point to the need for continuous efforts in communication. This includes providing persuasive evidence on aid effectiveness. In its 2009 report *Aid Under Pressure*, the International Development Committee encouraged DFID to promote its work further and to raise its profile and visibility (IDC, 2009a). In light of rising concerns over corruption amongst the public, the IDC invited DFID to focus its communication on outcomes and to invest more in persuading the sceptical sectors of society that their money brings real benefits to the world's poorest people. The 2009 Capability Review also pointed out that DFID "needs to develop a stronger narrative for development spending in an economic downturn and build constituencies of support. Action has been taken to emphasise results measurement, but the urgency of demonstrating aid effectiveness has increased" (HSC, 2009).

Box 4. A communication strategy tailored to each segment of the public

A 2008 DFID study divided the general UK public into six categories according to their attitudes and values on poverty in poor countries. The study offers in-depth insights into what the various audiences think and expect from the British government:

- *Active enthusiasts* – concerned about levels of poverty and would like more information: 16% of the public.
- *Interested mainstream* – worry whether aid is really making a difference: 22%.
- *Family first sympathisers* – mostly concerned with their families but sympathetic to the plight of others: 15%.
- *Distracted individuals* – more worried by their own problems than those of others: 16%.
- *Insular sceptics* – believe taxpayers' money should be spent on solving problems at home: 20%.
- *Disapproving rejecters* – think corruption makes aid pointless and actively want to see aid spending reduced: 11%.

This segmentation enables DFID to tailor messages and communication tools to the different segments of the public. DFID's three key communication objectives are to: (i) increase people's confidence that DFID's efforts are delivering real results; (ii) reduce the proportion of people who are concerned about aid effectiveness and corruption to less than 50% of the population; and (iii) maintain support for development amongst core supporters (active enthusiasts & interested mainstream).

The 2009 white paper puts a strong emphasis on these aspects and outlines three approaches: (i) continuing to promote learning about development through the UK education system; (ii) introducing a new logo to be clearer about where UK public resources are being spent; and (iii) strengthening communication to taxpayers on the aid programme's results. These are all being implemented already. In 2009 DFID reviewed its work in development education to inform future efforts. The new UK AID logo was launched along with the white paper in 2009. While the logo was primarily designed for use within the UK, the country programmes have guidelines to determine how best to use it in partner countries. While security and cultural sensitivity concerns may restrict the use of the logo, the UK should also ensure that raising its profile in partner countries does not contradict the ownership principle. Finally, DFID is developing a more scientific approach to measuring results, revising the corporate logical framework so it can identify outputs and outcomes for each programme from a clear baseline. These can then be aggregated to reveal results at a regional and global level, and can be communicated to the public as key achievements (see the first pages of DFID's 2009 annual report *Better Results for Poor People* – DFID, 2009d). This approach raises two issues: the first is the methodological difficulty in attributing, and then aggregating, the UK's development inputs to results (Chapter 4). The second lies in the emphasis on quantitative data in the form of numeric outputs and outcomes. This emphasis should not be at the expense of the more qualitative and inclusive approach needed to capture the complexity and breadth of the development results to which UK development co-operation contributes. More broadly, the UK will need to continue to ensure that its desire for greater visibility and its need to demonstrate results do not undermine efforts to pursue long-term development impact and the principles set out in the Paris Declaration on Aid Effectiveness and further emphasised in the Accra Agenda for Action (Chapter 5).

Challenges ahead

With robust processes in place to manage its programme, DFID seems well-placed to respond to the new challenges ahead. However, as highlighted in the Capability Review of 2009, the scale and breadth of the challenges have increased to an unprecedented level, resulting from the conjunction of both internal and external factors:

- The aid budget is expected to increase annually by 11% in real terms between 2007/08 and 2010/11, while the administrative budget will decrease annually by 5% over the same period.
- As in other DAC countries, the economic downturn increases pressure on public spending and puts the aid programme under greater public, political and media scrutiny in terms of results and value for money.
- DFID plans to engage more in fragile, riskier situations, where ensuring value for money might be more difficult.
- DFID is managing a broader development portfolio covering new issues such as climate change.
- The development environment is more complex and fragmented, involves more actors and is becoming increasingly interconnected with a number of other issues.

The management of a rapidly growing aid portfolio alongside a declining administrative budget will pose significant risks to DFID and its credibility, especially as it engages more in complex and fragile situations. Maintaining public and political support in times of economic and financial crisis will be crucial for the UK aid programme and its role as a global leader. DFID has already embarked on an ambitious internal change programme – "Making it Happen" – to address these challenges. As part of this programme, DFID is pioneering a value for money approach for increased impact and efficiency alongside an increased focus on results (Chapter 4). DFID has also made tough strategic choices, such as reducing the number of country offices. DFID will need to pursue these efforts to maintain its credibility, ensuring that its capacity, effectiveness and value for money are preserved.

Future considerations

- The UK should retain its powerful institutional system anchored in a department with a seat in Cabinet and a clear poverty reduction mandate.
- The clear poverty reduction mandate of the UK aid programme has been a powerful driver for both DFID and its programme. The UK needs to retain this clear overarching objective as it broadens its development agenda. It should better prioritise its policies, streamlining the objectives derived from the public service agreements and white papers, and clarifying the hierarchy among policy documents.
- The UK should continue its efforts to promote gender equality, draw lessons to apply to other cross-cutting issues and share good practice with other donors.

- The UK should continue to implement its new integrated approach to peace-building and state-building in the full range of crisis-affected and fragile states, including early preventive action in fragile but pre-crisis states.

- The UK is reflecting on its external visibility and on how to demonstrate achievements in order to consolidate public and political support for development. In doing so, the UK needs to continue to ensure that its stronger focus on value for money, results and communication supports partner country priorities, and that it is accountable both to its partner countries and UK stakeholders.

Chapter 2

Policy Coherence for Development

The OECD/DAC describes progress towards policy coherence for development as involving three building blocks: (i) a political commitment that clearly specifies policy objectives; (ii) policy co-ordination mechanisms that can resolve conflicts or inconsistencies between policies and maximise synergies; and (iii) monitoring, analysis and reporting systems to provide the evidence base for accountability and for well-informed policy-making and politics (OECD, 2008a). The 2006 peer review recommended that the UK should improve the coherence of its policies having an impact on developing countries through a more clearly prioritised agenda, strengthened use of its resources to track inconsistencies and reinforced approach to monitoring and reporting. Four years later, this report shows that the UK has made clear progress against these recommendations and the above three pillars although there is still scope for government to deepen its commitment to the policy coherence agenda in selected new areas and better monitor the impact of its efforts (Table 1).

A high level political commitment with a clearly prioritised agenda

The 2006 white paper *Making governance work for the poor* already committed the government to make sure that all UK policies support development. In emphasising global interdependence, the 2009 white paper *Building our common future* goes a step further and sets a clear ambition for the UK, as stated by the Secretary of State in his preface: "We will strive to lead the world in policy coherence" (DFID, 2009a). This white paper recognises that international development has become a core government policy area, inextricably linked to a range of other policy interests. It provides an overarching plan for policy coherence for development around three key priority areas: poverty reduction and economic growth (including trade), climate change, and conflict.[3]

These three priorities are also reflected in the UK Government's 2008-2011 PSA framework which sets strategic cross-governmental goals and provides a clearly-prioritised and time-bound agenda. Three out of 30 PSAs focus respectively on poverty reduction, climate change and conflict, with relevant departments either leading or contributing to their objectives and targets. These are translated into DFID's strategic objectives (Figure 2, Chapter 1).

3. The 2009 white paper commits the UK to "help fashion a world economy which is better regulated, greener and fairer to all. We will also work rapidly to agree a deal on climate change at Copenhagen which both protects the planet we all depend on – and ensures the poorest and most vulnerable are supported. We will continue to push urgently for a pro-development global trade deal. We will help tackle the conflict and insecurity which blight the lives of ordinary people, particularly women" (DFID, 2009a).

An institutional framework for coherent policies

The cabinet structure and PSA framework: key assets for policy coherence

The UK has two effective mechanisms to promote coherence of its domestic and foreign policies with its development efforts: the participation of the Secretary of State for International Development in the cabinet and cabinet committees, and the PSA framework.

Table 1. The UK's building blocks for policy coherence for development

Building block	Progress made by 2010	Recommended next steps
Building Block A: Political commitment and policy statements	The 2009 white paper provides high-level political commitment to and an overarching plan for policy coherence for development in selected areas.	Build on progress in areas like climate change to expand policy coherence for development in other policy areas to widen the range of "beyond aid" issues addressed in the government agenda.
	The 2008-2011 cross-government public sector agreements (PSAs) set a framework for coherence between UK policies.	
	Parliament advocates for more efforts on policy coherence for development.	
Building Block B: Policy coordination mechanisms	As a cabinet member and a member of several cabinet committees, the International Development Secretary is able to play an influential role in central government decision-making.	Deepen the government's commitment to policy coherence for development by further embedding development goals in other areas of government policy, guided by a sound evidence base. Up until now the UK has focused more on developing whole-of-government mechanisms to deliver the aid programme, rather than on ensuring that domestic and foreign policy support development efforts.
	As a result of deliberate efforts and strong analytical capacity, DFID's position within government has been strengthened.	
	Inter-departmental mechanisms exist in the framework of the PSAs, including a joint unit on trade.	
	Whole-of-government approaches are effective, both at headquarters level and in the field. There is clear evidence of cross-Whitehall working and significant co-ordination between DFID, the FCO and MOD on issues relating to conflict and fragility.	
Building Block C: Monitoring, analysis and reporting systems	Progress is being made with the International Development (Reporting and Transparency) Act 2006 obliging DFID to report every year on the impact of UK policies on development and the inclusion of policy coherence indicators in several strategic objectives, although focus remains mostly on whole-of-government approaches to aid.	Further strengthen, monitor and assess efforts towards policy coherence for development based on the foundations already laid.

Firstly, the Secretary of State for International Development is a cabinet member and also a member of the Cabinet Committee on National Security, International Relations and Development. He also participates in a number of cabinet sub-committees: overseas and defence, Afghanistan and Pakistan, borders and migration, environment and energy and the ad hoc Prime Minister's committee on international climate change. The Secretary of State also chairs the sub-committee on trade. Finally, DFID's Parliamentary Under-Secretary of State participates in the sub-committee on Africa. Given the mandate of cabinet and cabinet committees in arbitrating UK policies, such broad involvement at the highest level enables DFID to ensure that development concerns are heard in the government policy-making process (Box 5).

Box 5. Cabinet and its committees: a key arbitration role

Cabinet is the ultimate arbiter of all government policy, seeking to reconcile ministers' individual responsibilities with their collective responsibility. Underneath cabinet sits a structure of cabinet committees and sub-committees.

Cabinet committees have two key purposes: (i) to relieve the burden on the cabinet by dealing with business that does not need to be discussed by the full cabinet; and (ii) to support the principle of collective responsibility by ensuring that, even though a question may never reach the cabinet itself, it will be fully considered. Thus, cabinet committee decisions have the same authority as cabinet decisions. More broadly, cabinet committees provide a framework for collective consideration of, and decisions on, major policy issues and questions of significant public interest. Proposals that meet the criteria for collective consideration need to be put to the relevant committee(s) or cabinet itself in good time and with sufficient information to enable ministers to make an informed decision.

Secondly, the framework set by the cross-government public sector agreements (PSAs) reinforces coherence among UK policies. This framework primarily helps develop a whole-of-government approach in delivering the aid programme (Box 6). But it also offers an opportunity for DFID to make sure that specific UK policies support development objectives. This happens specifically on climate change (PSA 27) and conflict (PSA 30), where DFID is a delivery partner and participates in the Directors' Delivery Board. On migration DFID also has the mandate to ensure that "UK and EU policies are coherent, take account of the impact on poverty reduction and development in partner countries, and where possible support development objectives" (PSA 3). DFID also contributes to the prevention component of PSA 26 on counter-terrorism by addressing through its development programmes some of the social and economic factors that can drive radicalisation and extremism.

Box 6. Whole-of-government approach in delivering the aid programme

The PSA framework has strengthened the whole-of-government approach in delivering the aid programme. While DFID has the lead responsibility for PSA 29 on international poverty reduction, six other departments also contribute:

FCO
- helps build support for UK development objectives through engagement with host governments, international institutions, the private sector and civil society;
- strengthens policy and delivery through political analysis using its overseas and domestic network; and
- leads on work to promote human rights and democratic values.

DECC
- complements DFID's drive for poverty eradication and environmental sustainability through its lead on international climate change and international sustainable development policy; and

DEFRA
- works closely with DFID on international natural resources issues and on promoting effective international environmental governance and capacity building at country level.

Her Majesty's Treasury (HMT)
- works with DFID to maintain the focus of donor country finance ministers on international development;
- works with DFID through the Paris Club, the International Monetary Fund and the regional development banks, as well as with other stakeholders and with borrowing countries, to promote responsible lending and sustainable debt management; and
- leads on IMF and advocates an ongoing, active role for international financial institutions in low income countries.

Ministry of Defence
- supports cross-government collaboration on development in conflict contexts, from the early planning stages to delivery on the ground and continues to play an important role on conflict prevention and resolution, peace keeping and humanitarian relief.
- works closely with DFID on developing strategic issues such as Defence diplomacy and security co-operation, and how MOD can improve its foresight and understanding of the threats and challenges the UK faces.

DFID and the **Department for Business, Innovation and Skills (BIS)** have joint responsibility for trade policy and will work together to promote free and fair world markets, for developing countries and the UK. The **Department of Health** continues to work with DFID on international health issues.

Source: HMG (2007a).

In practice, joined-up approaches across government have been strengthened both in headquarters and in partner countries – as noted by the review team in India (Annex D). This occurs in particular in the three selected areas, with cross-departmental units established on trade, on conflict/stabilisation (Box 7), and - as a country-level initiative - on climate change and energy at the High Commission in Delhi (Chapter 6). The cabinet sub-committee on trade, chaired by DFID's Secretary of State and including the Department for Business Innovation and Skills (BIS), Treasury, FCO, DEFRA and DFID, aims to ensure benefits for UK and EU businesses and consumers while maximising the contribution trade can make to reducing poverty. This was complemented in November 2007 by the creation of an operational unit which brings together the trade responsibilities of DFID and BIS.

Box 7. Strengthened Whitehall co-ordination for stabilisation and conflict prevention

The PSA 30 delivery agreement on conflict calls the UK government to deepen its joined-up approach to conflict and strengthen its policy coherence between 2008 and 2011. This has increased co-ordination on issues relating to conflict prevention and fragility between DFID, the FCO and MOD, in particular through the Stabilisation Unit and the merged Conflict Prevention Pool.

The Stabilisation Unit is a joint DFID-FCO-MOD unit which provides targeted assistance in countries emerging from violent conflict and where the UK is helping to achieve a stable environment conducive to longer-term development. The Stabilisation Unit has reinforced its capacity since 2006; by the end of 2009 it will be able to deploy at least 1 000 civilians willing to assist in fragile and conflict-affected environments. The Stabilisation Unit is also helping to develop cross-government plans integrating civilian and military efforts, and pull together lessons to improve the impact of future UK efforts in conflict prevention and response.

The Conflict Prevention Pool was set up in 2008 following the launch of DFID's policy paper *Preventing Violent Conflict*. It brings together the former DFID, FCO and MOD Africa and Global Conflict Prevention Pools under tri-departmental leadership. With a budget of GBP 112 million for 2008/09, the pool funds programmes in six regions, as well as two thematic programmes – international capacity building and security/small arms control.

DFID regularly undertakes joint assessments and analysis with its UK government partners, as was the case in Nepal in 2007/08. Joint UK strategies are now being developed in a number of fragile states (Afghanistan, Iraq, Pakistan, Democratic Republic of Congo, Sudan and Yemen). By June 2010, such joint strategies will be established for all fragile states where the UK has a substantial development programme. DFID also has a reputable set of training courses on preventing and responding to conflict. These are regularly attended by representatives of DFID, the FCO and the MOD and help build valuable staff capacity to prevent conflict. DFID also works closely with the FCO, MOD and BIS to build international support for a global arms trade treaty and to scrutinise applications for arms exports licenses.

While efforts primarily focus on the UK's main policy coherence priorities of climate change, trade and conflict, the UK has also set up a number of cross-governmental networks in other areas with an impact on development efforts. For instance, the Justice Assistance Network created in May 2007 brings together DFID, the Attorney General, the Ministry of Justice and the FCO to ensure that UK justice assistance to developing countries is coherent and effective. Since 2002, DFID, the FCO and HMT have also worked together to develop the Extractive Industries Transparency Initiative.

Strengthening DFID's role within government

In addition to its active involvement in these institutional mechanisms, DFID has made deliberate efforts to engage further with other departments, in particular the FCO and MOD. For instance, the DFID, MOD and FCO permanent secretaries have visited Sudan and Afghanistan together. The Capability Review 2009 acknowledged these efforts: "DFID has made considerable progress on improving how it works across Whitehall. Stakeholders have seen a step change in Whitehall working and DFID's relations with other government departments have significantly improved" (HCS, 2009). DFID should continue to build on this progress, as recommended by its 2008 stakeholder survey: while showing that DFID was appreciated within Whitehall, the survey recommended that DFID should "do more joined-up policy and programme work with other departments" (DFID, 2008d). This will be important to reinforce DFID's role within government and make it a powerful vehicle to expand the vision of the "beyond aid" agenda across government.

DFID is increasingly called on to work more with other UK government departments, including on issues where it does not have the policy lead within Whitehall or where there may be tensions among departments' specific objectives. Afghanistan offers an interesting case: DFID is focusing its support on building the Government of Afghanistan's capacity at the central level, and more recently, sub-national governance. At the same time, there are requirements to promote security and stability in the Helmand province in which most UK Forces operate. This responds to the UK Ministry of Defence's interest in showing development dividends there that could help win local people's adhesion and support. The stabilisation effort in Helmand is met from the cross-government conflict prevention pool – which distinguishes clearly between ODA and non-ODA spending. DFID's contributions are consistent with both the *International Development Act 2002* and ODA rules - as they have economic development or welfare as their primary objective. However, it will also be important to ensure that this geographical focus is aligned to country priorities. In such situations, it can be a challenge for DFID to stick to the principles of country-owned development. Meanwhile it is important to note that by clearly specifying DFID's objectives, the *International Development Act 2002* has helped to ensure that the potentially competing objectives of other foreign policy, trade, climate change and national security priorities do not overwhelm development objectives. In the coming years, DFID should continue to rely on its clear poverty reduction mandate in order to reduce the risk of its mission being diluted when engaging with other government departments. Conversely, being more at the core of the UK government should enable DFID to ensure that the machinery of government as a whole supports effective cross-government working on international policies and priorities, resulting in UK policies that are consistent with its development objectives.

Monitoring the results of policy coherence for development

The UK is making progress in monitoring the impacts of its policies, analysing the evidence collected, and reporting on the impacts of domestic and foreign policies on its development efforts and results. These efforts build on two main streams.

Firstly, the *International Development (Reporting and Transparency) Act 2006* requires DFID to report every year on the international aid programme. This report includes a section on policy coherence and MDG 8. It can include observations on the effect of UK policies on sustainable development and poverty reduction in partner countries. Such observations must include the pursuit of MDG 8, including progress towards (i) the development of an open trading system that expands trading opportunities for low income countries; (ii) the development of an open financial system; and (iii) the enhancement of debt relief for low income countries. Though all these aspects are not yet extensively reported in DFID annual reports, this reflects a growing demand for reporting on policy coherence, which will need to be addressed in a more systematic way in the coming years.

Secondly, the PSA framework, with its indicators and timeframes, provides a results-based approach to cross-government work. The reporting systems attached to the PSA on poverty reduction and to DFID's related strategic objectives (DSOs) will enable DFID to measure the progress of actions across relevant UK government partners. Several of DFID's strategic objectives are measured using progress on policy coherence as a criterion; in particular DSO 4 on developing a global partnership for development includes a target on "Cross Whitehall agreement and support for coherent, pro-development forums and programmes". However, DFID could look at the extent to which indicators of coherence in its strategic objectives capture the impact of all UK policies.

These elements provide a solid foundation for the further strengthening, monitoring and assessment of efforts towards policy coherence for development. DFID's new evaluation policy plans to assess policy coherence issues like trade and investment, climate change and conflict, using protocols to be agreed with other Whitehall Departments by the end of 2010 (DFID, 2009e). This will be monitored through the Independent Advisory Committee on Development Impact (IACDI) and the mid-term review of the Evaluation Policy. This is a positive signal. The UK should also broaden the scope for its impact assessments to support effective action on policy coherence for development, as these are so far mostly focused on the impact of economic growth, climate change and insecurity.

Looking forward: a "beyond aid" agenda for the whole UK government?

The UK has made good progress in areas where the Cabinet has engaged strategically and where institutional mechanisms are in place, in particular on climate change (Chapter 6). According to the Commitment to Development Index (CDI) measured annually by the Centre for Global Development (CGD), the UK was 12th out of 22 countries in 2009. However, it ranks second for environment, due to its strong environmental record from the perspective of developing countries. It comes first in the investment component, thanks to policies that promote healthy investment in poor countries. In its 2009 report on policy coherence, the European Commission also notes the UK's strong record, with a number of policy coherence for development initiatives (EC, 2009).

In focusing on three areas, the UK has made a deliberate choice to prioritise a small number of issues on which to achieve a coherent approach. Other sectors are therefore lower priority, although this does not mean that they are ignored. For instance, a number of steps have been taken on anti-corruption: (i) the UK created the cabinet-level role of UK Anti-Corruption Champion to co-ordinate the country's action to combat corruption; (ii) it prepared modern foreign bribery legislation which has been introduced to Parliament for consideration in 2010; (iii) DFID actively participates in a number of cross-departmental anti-corruption related fora; and (iv) the UK has established a police unit dedicated to investigating bribery overseas by UK businesses and individuals. As indicated in the 2009 white paper, DFID will triple its support for asset recovery to fund investigations and recovery actions (to date, GBP 20 million of assets stolen from developing countries have been recovered, with a further GBP 13 million frozen). These developments are welcome and should be pursued. They respond to the OECD's Working Group on Bribery which requested in October 2008 that the UK take rapid action to enact adequate foreign anti-bribery laws in line with the OECD Anti-Bribery Convention (OECD, 2008b).

However, efforts in the area of migration seem weak by comparison. Migration is not a key aspect of the 2009 white paper, although it explicitly recognises the need to "harness the benefits and mitigate the costs to developing countries by giving further consideration to how migration policy could help encourage and support development". In the same vein, DFID is mentioned as a delivery partner in PSA 3 on migration, but specific activities are not clearly defined in the delivery agreement; nor has DFID set up a related departmental objective. However, DFID has developed a strategy to increase the benefits and reduce the risks of migration for poor people and it implements migration-related programmes, in particular to facilitate the transfer of remittances. Nevertheless, more could be done to ensure consistency between the UK migration policy and its development objectives – especially as migration is the sector where the UK ranks lowest on the CDI index (19th out of 22). The UK vision contained in the PSA delivery agreement 3 on migration does not encompass impact on developing countries: "The Government's vision is to provide an immigration service that is firm but fair and that delivers secure borders whilst maximising the benefits of migration to the UK economy" (HMG, 2009b). DFID has not been successful so far in getting the development agenda addressed by the Home Office. Back in 2004, the UK parliament called on DFID to "be fully involved in discussions within Whitehall about managing migration, to ensure that policies are supportive of the UK's objectives for international development" (IDC, 2004). The 2008 OECD synthesis report on policy coherence pointed out inconsistencies between the UK development agenda and the Home Office's strategy (OECD, 2008a). In strengthening coherence in the area of migration, the UK should consider how to make better use of research done by UK institutes. For instance, the Institute for Public Policy Research works on a number of key topics (*e.g.* the economic impacts of immigration, migration and development) and is funded by various partners, including DFID.

The UK parliament engages actively in policy coherence issues, such as the UK's responsibility for combating corruption and money laundering in Africa (AAPPG, 2006), development and trade (IDC, 2007) and the control of arms exports (IDC, 2009b). G20 countries at the London Summit sent out a strong message about enforcing international tax standards, following which parliament's International Development Committee invited the FCO to strengthen its assistance to the British Overseas Territories which are tax havens, in order to help them conform to international standards (IDC, 2009a). The government has provided an official response to each of the IDC reports. These are areas where the UK could increase coherence and it should ensure that mechanisms exist for monitoring and providing progress updates.

The UK tends to focus more on developing whole-of-government mechanisms to deliver the aid programme, rather than on ensuring that domestic and foreign policies support development efforts. In the coming years, the government could broaden its efforts and deepen its commitment to policy coherence in selected new areas of government policy, bearing in mind the European Union (EU) policy coherence for development platform. Meanwhile, it should pursue efforts made in other areas such as corruption, taxation and the legal system.[4] These areas should be made public with clearly prioritised and time-bound statements setting targets for making progress on policy

4. Although the new Justice Assistance Network aims to ensure that the UK legal framework supports development efforts, inconsistencies remain. For instance, non-UK companies are currently allowed to sue developing countries through the UK legal system. This resulted in a British court recently ordering Liberia to pay two Caribbean-registered investment funds more than USD 20 million for a debt that dates back to 1978, thus undermining the UK's previous debt forgiveness efforts (BBC, 2009).

coherence for development. While DFID needs to be more assertive in promoting policy coherence for development, it does not control all policies which have an impact on developing countries. Commitment from other UK departments is therefore crucial for bringing new areas to the table. This requires the UK government as a whole to own the "beyond aid" approach and to set out a common agenda. For this, the UK government needs to consider more carefully the cumulative and inter-related impacts of policies and regulatory regimes. Relevant government departments should then take fully their part of responsibility for each selected area, grounded in solid evidence. This will involve collecting evidence and developing *ex-ante* analysis to support policy-makers in refining or re-prioritising policy instruments and objectives.

Future considerations

- Building on achievements in areas like trade, the UK government should include in its common agenda for policy coherence for development a selected number of additional priority areas in which to further promote development concerns, bearing in mind the EU platform for policy coherence.

- While engaging further with other government departments, DFID should continue to pursue its clear poverty reduction mandate to promote development objectives and avoid diluting its mission.

- DFID should continue to use both internal and external analytical capacity to inform government discussions with strong evidence on policy inter-linkages and their impacts on development.

- The UK should continue to improve the way it measures, monitors and reports to parliament and the public on how its domestic and foreign policies affect partner countries' development efforts and results.

Chapter 3

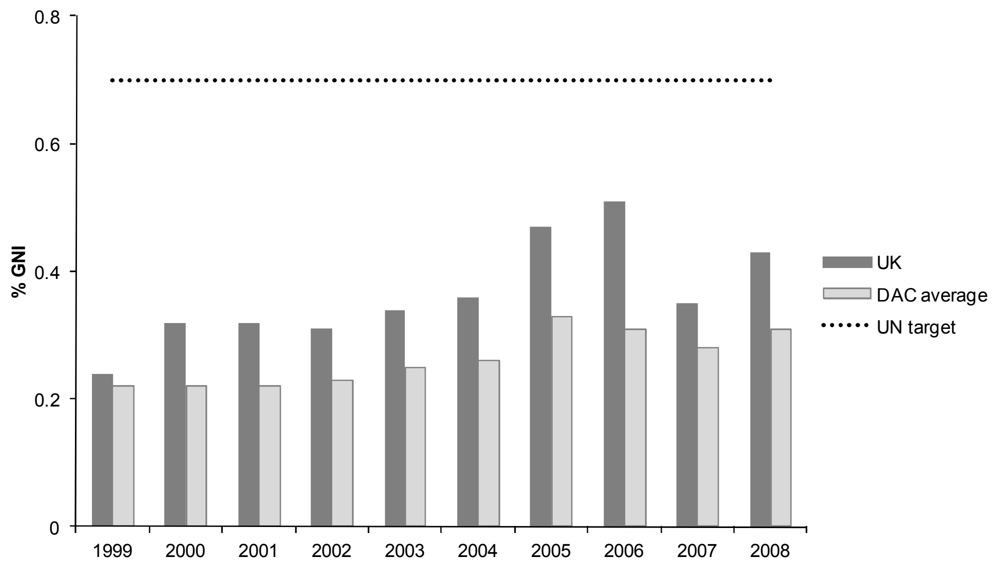
ODA Volumes, Channels and Allocations

Official development assistance in summary

Continued commitment to scaling up

The UK is the third largest DAC donor, delivering USD 11.5 billion in net ODA in 2008 (and USD 11.505 billion in 2009 according to preliminary data). This is part of a continuing upward trend towards meeting the UN target of providing 0.7% of gross national income (GNI). In real terms, UK net ODA increased by 25% alone in 2007-08. With its total ODA equivalent to 0.43% of GNI in 2008, the UK was ranked tenth amongst DAC donors for its ODA/GNI ratio. Although it exceeds the (weighted) DAC average of 0.31% (Figure 3), it falls short of the unweighted average ODA/GNI ratio of DAC countries – 0.48% in 2008.[5]

Figure 3. UK ODA as a percentage of GNI, 1999-2008



Source : OECD/DAC International Development Statistics.

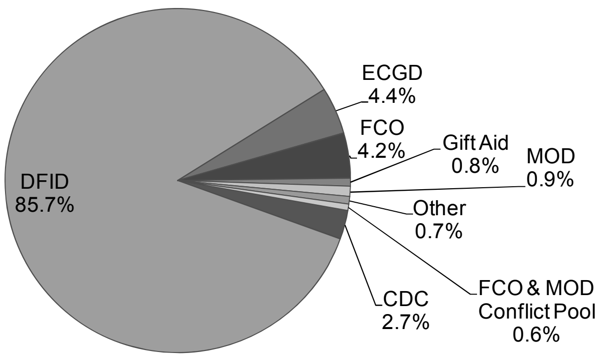
5. Debt relief to Nigeria and Iraq contributed an unusually large component of total UK ODA in 2005 and 2006. When this is excluded, subsequent years continue to show an increasing trend.

The UK maintains its 2004 commitment to reaching the 0.7% target by 2013, reiterated most recently in its fourth *White Paper on International Development* (DFID, 2009a). This sees the UK exceeding the EU target of 0.7% by 2015. The last Comprehensive Spending Review, covering 2007-2011, plans for the UK to provide 0.56% of GNI as ODA by the UK fiscal year 2010/11. This is consistent with the EU individual target of 0.51% by 2010. The UK government has also signalled its intention to present legislation to parliament that could enshrine the 0.7% ODA/GNI target in law, adding further weight to the UK's commitment. In this respect, the UK continues to lead by example, and its commitment to achieving the 0.7% target appears to be the subject of consensus across all of its major political parties. Alongside this commitment, the UK continues to play an important role in seeking to maintain the integrity of the DAC ODA definition, and has committed itself – most recently in the fourth white paper – to press others to keep their promises on volumes of development assistance. For example, the UK continues to advocate that most climate change financing should be additional to existing long-term ODA commitments (Chapter 6).

UK ODA by government department

DFID contributes the bulk of UK ODA – 86% in 2008. This share has been relatively stable over time – in 2004, it was 84% (OECD, 2006a). The remaining portion of UK ODA is delivered by 14 other government departments and entities, the most significant being debt relief provided through the Export Credits Guarantee Department (ECGD), net investments channelled through CDC,[6] and contributions managed by the Foreign and Commonwealth Office (Figure 4).

Figure 4. UK ODA by government department, 2008



Source: DFID data as provided to peer review team.

Bilateral assistance

The UK's share of ODA allocated to bilateral programmes has remained relatively stable in recent years, with 64% of gross ODA being provided as bilateral assistance in 2008.

6. The CDC Group – formerly the Commonwealth Development Corporation – is a development finance institution owned by DFID.

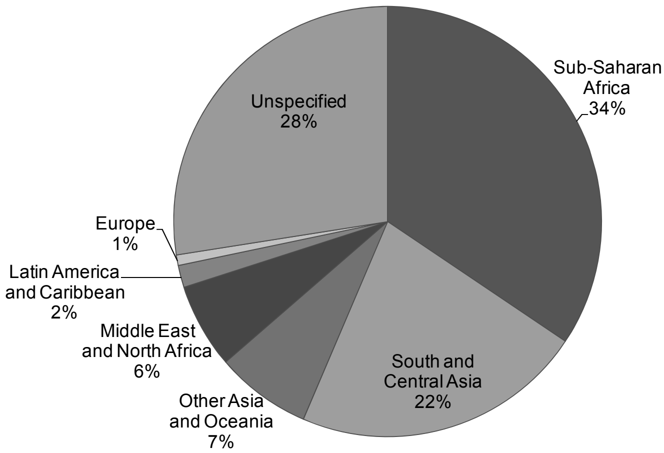
A strong commitment to low income countries

Although the share of UK ODA provided to low income countries (LICs) has declined slightly in recent years from a peak of 79% in 2006, DFID's bilateral programme remains strongly focused on these countries, reflecting a continued emphasis on achieving the MDGs. In 2004, DFID set itself an ambitious target: for at least 90% of its bilateral programme to go to LICs. While DFID reports that this target was met for the period 2005-2008, it acknowledges that this target may not be met in the medium term as some key programme countries (*e.g.* India) have since graduated to middle income country (MIC) status, and DFID will need to maintain predictability as it refocuses its bilateral aid programme.

The current share of total UK ODA allocated to LICs (61% in 2008) remains significantly higher than the DAC average. Approximately one-third of the UK's bilateral ODA is allocated to sub-Saharan Africa (Figure 5). The UK's increasing focus on fragile states is also consistent with its MDG focus, as these countries face particular challenges in making progress towards the MDGs.

Figure 5. UK Bilateral ODA by region

Gross bilateral ODA, 2007-08 average



Source: OECD/DAC International Development Statistics

Continued engagement with and support to middle income countries (MICs) is the subject of public debate in the UK. Bilateral aid to India, for example, has grown quite significantly in volume in the last decade. India continues to be the UK's largest bilateral programme, with gross ODA totalling USD 700 million per annum (2007-2008 average). In this particular case, DFID cites the achievement of the MDGs as its key development priority, recognising the huge disparities in income in a country where one third of the population – 456 million people – lives below the international USD 1.25 per day poverty line. Its focus on support at the sub-national level, targeting India's poorest states, is consistent with this rationale. Other MICs such as China now receive a declining share of UK bilateral ODA, with DFID refocusing its support in these countries to what it describes as "beyond aid" priorities such as trade, integration with global markets, climate change and global public goods.

The 2006 peer review of the UK noted the geographic dispersion of DFID's bilateral programme, and recommended that the UK should concentrate its assistance to ensure a sharper focus and greater impact on the MDGs (OECD, 2006a). For these reasons, DFID has reaffirmed its commitment to spending a minimum of 90% of its bilateral assistance in LICs, while further concentrating its bilateral assistance geographically. As noted, India's graduation to MIC status will affect DFID's ability to meet its target for aid to LICs in the medium term. Approximately 90% of DFID's bilateral programme in volume terms is now concentrated in 23 countries and it has closed country offices or programmes in 36 countries since 2002. It plans to close a further four offices or programmes by the end of 2011. Further consideration could be given to the allocation of non-DFID ODA, as the development impact of this assistance is less clear.

The decision to scale back country programmes and close country offices has involved an iterative process of reflection and consultation, particularly around relatively small bilateral programmes, rather than being guided by explicit criteria. The decision to close country offices has at least in part been influenced by the need to deliver an increasing aid budget with declining administrative resources (Chapter 4). Where decisions to close country programmes have been taken – for example, in Cambodia – DFID has taken steps to ensure that this is done in a phased and predictable manner, and in consultation with other donors. DFID's entry into and exit from particular countries does not appear to be informed directly by its resource allocation model (discussed in detail below), and some stakeholders identified scope for improved communication around its decisions to withdraw from programme countries. This was also the case at the sub-national level in India, where DFID has decided to close its West Bengal programme.

DFID's bilateral resource allocation approach

DFID continues to use an econometric model to inform its bilateral aid allocation decision. This tool, which uses empirical evidence on aid at the macro level, acts as a starting point for an internal decision-making process that also considers a range of important qualitative criteria, as well as involving a degree of flexibility and political discretion (Box 8). Country missions to India and Rwanda (Annex D) highlighted the extent to which factors like population size, fragility and MDG focus play an important role in the decision-making process. While this approach focuses on country need and the environment within which aid is delivered, it does not consider portfolio performance directly.

Looking ahead, the fourth white paper's increasing focus on fragile states (Chapter 1) adds a new dimension to DFID's decision-making process. The UK government is committed to allocating at least half of all new bilateral resources to fragile countries (DFID, 2009a): 2008/09 saw 54% of DFID's bilateral aid being spent in fragile states. This increasing emphasis on fragile states – and the accompanying risks and costs – is likely to have an impact both on the quality of DFID's bilateral portfolio and on its ability to deliver an increasing aid budget with declining administrative resources (Chapters 1 and 4). It is also unclear to what extent relatively stable programme countries with successful and lower risk bilateral programmes will be affected by this decision.

Box 8. DFID's bilateral resource allocation model

DFID's bilateral resource allocation model draws on the work of Burnside and Dollar (2000) and Collier and Dollar (2002) to arrive at a formula for bilateral aid allocation that considers need, measured using GNI per capita, and potential effectiveness of aid, relying on the World Bank's CPIA scores as a proxy. This approach recognises the importance of good policies for ensuring that aid has positive development outcomes. It also recognises that there are diminishing marginal returns to aid allocations.

A number of steps guide discussions around bilateral resource allocations:

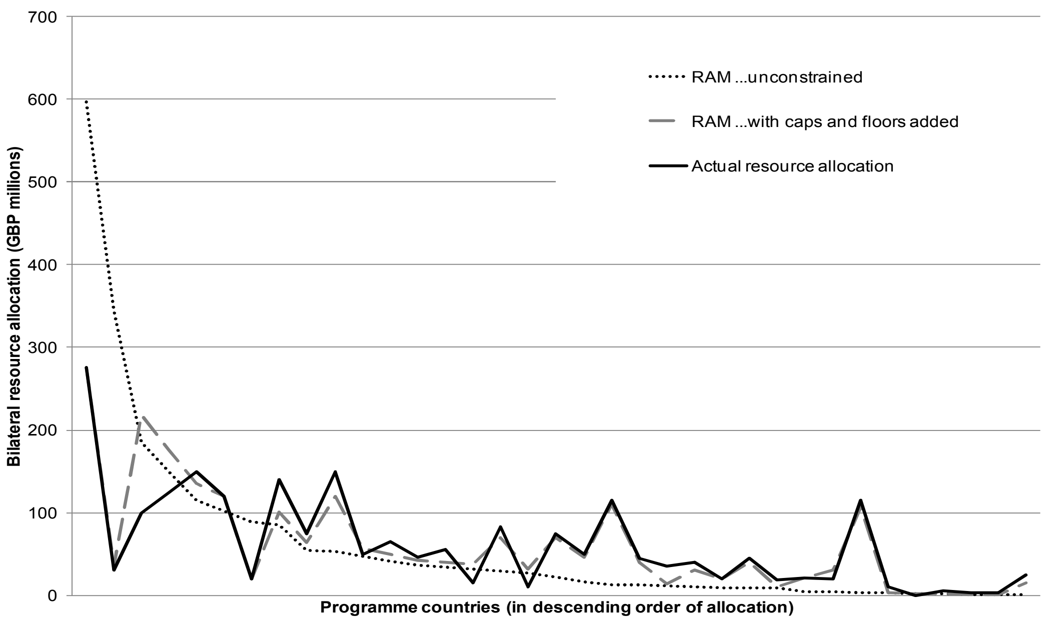
(i) In its most basic form, a resource allocation score is derived from a country CPIA score, GNI per capita and population, for a pre-selected number of countries. Resource allocation scores are then used to pro-rate the total bilateral aid budget.

(ii) Caps are then introduced to limit allocations to some countries. Left unaltered, the basic model would result in particularly large allocations to countries such as India and China because of their large populations or their development status. Floors (minimum levels) are introduced for a further 10 countries based on a ministerial decision so as to ensure that aid levels are not reduced from 2007/08 levels.

(iii) This constrained version of the model is then used as a starting point for dialogue using a qualitative decision-making tree that guides DFID to consider (i) poverty and MDG status, challenges and direction of travel; (ii) issues of political governance; (iii) issues of fragility, conflict, or a country's post-conflict status; and (iv) regional and global linkages and issues.

(iv) Additional factors considered in discussions on resource allocation include (i) aid flows from other donors; and (ii) availability of other sources of financing (*e.g.* revenue from natural resources).

Model *versus* actual bilateral resource allocations, 2009/10

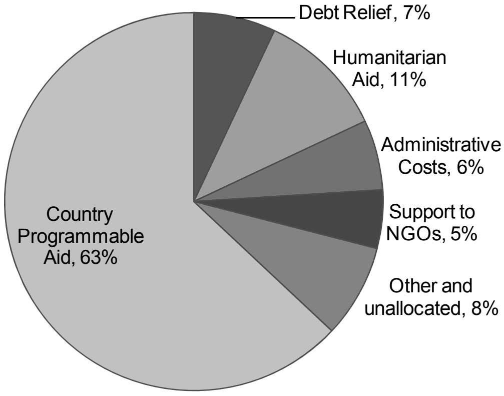


Source : DFID data.

Although there is a weak correlation between actual resource allocations for 2009/10 and those proposed by the DFID resource allocation model in its unconstrained form (step 1 above), the introduction of "caps" and "floors" plays a significant role in determining actual allocations. While this approach promotes a focus on country need and the environment within which aid is delivered, it does not at present consider portfolio performance directly. This could provide scope for tension between needs- and results-based approaches in decision-making.

Within its bilateral programme, a significant proportion of UK ODA is considered to be country programmable. Country programmable aid (CPA) is a measure of a donor's contribution to "core" development programmes, and in turn the extent to which its financing is relevant to decision-making and alignment with priorities at the country level.[7] UK country programmable aid in 2008 was USD 4.9 billion, or 63% of its bilateral ODA, which is higher than the DAC average of 58% (Figure 6).

Figure 6. Composition of UK ODA, 2008



Source : OECD/DAC (2009b).

Sector allocations and thematic spending decisions

The fourth white paper commits the UK to "[continue spending] half of future UK direct support for developing countries on public services" (DFID, 2009a). Correspondingly, the sectoral distribution of the UK's bilateral ODA retains a strong MDG focus. The share of the UK's bilateral ODA allocated to social infrastructure and services has continued to grow over time, reaching 44% in 2007-08, which exceeds the DAC average. This is offset by a decline in direct bilateral allocations to the productive sectors and in particular agriculture, forestry and fishing, which now account for 1% of UK bilateral ODA (compared with 7% over the period 1997-2001; see Table B.5 in Annex B). The decline in UK ODA to the agriculture sector has been discussed in a recent parliamentary inquiry. The All Party Parliamentary Group on Agriculture and Food for Development (APPG) called on DFID to increase substantially the proportion of its ODA allocated to food security and sustainable agriculture (APPG, 2010). Following the 2009 Summit of G8 leaders in L'Aquila, DFID announced that it would contribute GBP 1.1 billion (USD 1.8 billion) to food security in line with G8 commitments to increase spending in this priority area. This is a reprioritisation of existing development resources.

The 2006 peer review noted that the UK's use of sector and thematic spending targets could potentially undermine partner country ownership and aid effectiveness. At present,

7. CPA is calculated by subtracting from total bilateral aid assistance which: (i) is unpredictable by nature – *e.g.* humanitarian aid and debt relief; (ii) entails no cross-border flows, such as administrative costs, imputed student costs etc.; (iii) does not form part of co-operation agreements between governments (food aid and aid from local governments); or (iv) is not country programmable by the donor (*e.g.* core funding of NGOs).

32% of DFID's ODA is affected by such targets, primarily in health and education. DFID's senior management considers that these are manageable, and there is no clear evidence that they have distorted country programming, or affected DFID's ability to align with country priorities. It also claims that such targets play a role in strengthening public support for development co-operation. A growing aid budget and the inclusion of budget support in such targets also allows for a degree of flexibility. Evidence however suggests that some DFID country offices are concerned that sector spending targets could undermine their ability to align with partner country priorities (Thornton and Cox, 2008).

The UK's fourth white paper focuses more on supporting sustainable and pro-poor economic growth. One channel through which the UK supports this is CDC – a development finance institution wholly owned by DFID. Net investments through CDC accounted for 2.7% of UK ODA in 2008 (Figure 4). In 2008 DFID agreed a new investment policy for CDC, which requires it to make more than 75% of its total investments in LICs until 2013, with more than half targeting sub-Saharan Africa.

UK development assistance through non-governmental channels

DFID provides bilateral ODA through non-governmental channels, both at the central level and through its bilateral country programmes. Over the last decade, the UK has continuously increased its core bilateral support to non-governmental organisations (NGOs), both in volume terms and as a share of its overall bilateral expenditure. USD 520 million per annum – an average of 7% of the UK's bilateral ODA – was committed as core support to NGOs over the period 2007-2008. This is a significantly higher share than the DAC average of 2%.[8] International data on total UK aid flows both to and through NGOs show a less clear trend.[9]

The UK's fourth white paper increases the emphasis on civil society, both in directly addressing poverty, and in enhancing voice, advocacy and accountability. It commits the UK to further increasing its non-humanitarian central support for civil society organisations to GBP 300 million (approximately USD 516 million) by 2013, alongside a strengthened approach to performance assessment and a new model for partnership agreements.

Looking ahead, the UK is likely to work increasingly with non-governmental actors in the delivery of aid to fragile states, given the emphasis in the fourth white paper. The decision to allocate resources equivalent to 5% of direct budget support to non-state actors in budget support contexts is also an interesting development. A strategic approach to channelling these resources will be important to ensure sustained focus on results.

Multilateral assistance

In 2008, the UK provided 35.9% of its net ODA through multilateral channels (17.7% through the EU institutions, and 18.3% through other multilateral organisations). DFID is

8. Source: OECD/DAC International Development Statistics, quoted in 2007 prices.

9. See Annex B, Table 1. Variations in the reporting definitions may explain the apparent decline in the proportion of UK ODA channelled through NGOs. DFID has informed the peer review team that in UK financial year 2008/09, 16% of its total bilateral programme was channelled through a range of non-governmental channels. At the time of writing, the DAC Secretariat was in dialogue with DFID with a view to correcting these inconsistencies.

responsible for most of the UK's ODA provided through multilateral channels, although key exceptions to this are a component of the EC attribution, which is managed by the FCO; and some thematic contributions managed by the departments of energy and climate change, health, and environment, food and rural affairs.

The UK government demonstrates clear support for the multilateral development agenda and plans to increase reliance on multilateral channels for aid delivery. This is signalled in the fourth white paper, which commits the UK to, "as the aid programme grows, put a higher proportion of [its] new resources into multilateral organisations, in response to delivering reforms" (DFID, 2009a). This is complemented by a strong commitment to global approaches to development challenges, and to increasing the efficiency and effectiveness of the international aid system.

The UK's series of white papers sets out its approach to the multilateral system. This is complemented by individual institutional strategies for key multilateral organisations. DFID's aims in channelling ODA through multilateral organisations are consistent with its overall objectives: poverty reduction, progress towards the MDGs, climate change, peace and issues of fragility, as well as global public goods (Highton *et al.,* 2009).

In the UK financial year 2008/09, DFID allocated GBP 2.3 billion (USD 4 billion) of its programme funding as core contributions to multilateral organisations (Figure 7). It expects this to rise to GBP 3.4 billion (USD 5.9 billion) by 2010/11, representing an increased portion of a growing aid budget.

The European Union institutions remain the most significant multilateral channel for UK ODA in volume terms. The fourth White Paper sees the UK continuing to emphasise poverty reduction as the main aim of EU development assistance, and pushing for greater prioritisation of resources through the EU institutions to conflict-affected countries in Asia and the Middle East (DFID, 2009a). Since its last peer review, the UK has collaborated increasingly on development research at the EU-level. In addition to its partnership with the European Commission, the UK is working with the European Investment Bank to expand its window for lending and to focus on sectors prioritised by the UK for development co-operation.

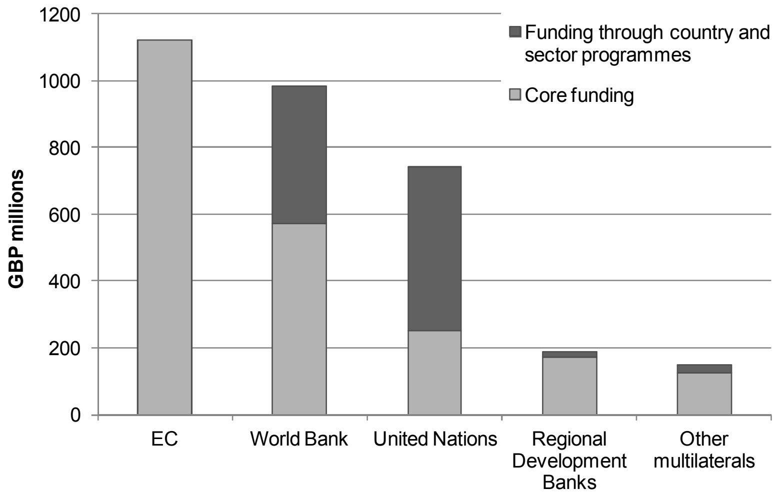
The UK is highly supportive of the "Delivering as One" approach being piloted by the United Nations development system at the country level, and sees this as an important building block towards greater UN effectiveness and development impact. DFID's approach to partnering with the UN development system as it seeks to improve UN effectiveness and responsiveness is set out in a "How to" note (DFID, 2008i). In addition to increased advocacy on key issues such as leadership and co-ordination, DFID sees its approach to funding the UN development system as critical for providing the right incentives for increased organisational effectiveness. At present, only approximately 40% of DFID's contributions to the main UN development agencies, funds and programmes take the form of core resources, with the remainder provided through trust funds, thematic funding and project-specific contributions.[10] DFID intends to increase the share of funding to the UN provided as core or unearmarked resources at the central level where there is evidence of increased impact. It has also instructed its country offices in the eight "Delivering as One" pilot countries to increase reliance on "One Funds" or pooled approaches for financing UN-supported activities through bilateral programmes, though

10. Source: DFID (2008i). Estimate based on UK financial year 2008-09.

earmarking for specific projects remains common practice. It has also encouraged other countries to used pooled mechanisms for financing UN activities where they exist.

Figure 7. DFID funding through multilateral organisations

Core *versus* non-core funding, FY08/09



Notes:

1. "EC" includes the UK's contribution to the EC development budget and the European Development Fund.
2. "Other multilaterals"includes the Global Fund and the Global Environment Facility.

Source : DFID data.

In seeking to strengthen incentives for reform and a continued results focus within UN agencies, funds and programmes, DFID has adopted an innovative approach to negotiating performance frameworks with several agencies. These link a portion of core funding to agency performance, measured through selected "bonus" indicators. While this approach provides incentives for improved performance, some UN agencies expressed concern about the additional transaction costs that it involves, highlighting the need for greater alignment of indicators and targets with the agencies' own strategic plans.

The UK continues to see the World Bank as one of the most effective channels for multilateral delivery, and this assessment formed the basis of the UK's GBP 2.1 billion (USD 4.2 billion) replenishment of IDA 15 in 2007 (DFID, 2009i). This is a 49% increase on its allocation to IDA 14. The UK also remains the largest donor to World Bank-managed trust funds, contributing approximately GBP 556 million (USD 1.0 billion) in 2008. The UK continues to emphasise the importance of the Bank fulfilling its commitments on conditionality in its lending, and to advocate for increased representation of developing countries in the Bank's decision-making processes. It has also used negotiations to push for continued decentralisation of World Bank staff – and decision-making authority – to the country level. The World Bank sees the UK as a strategic and constructive partner, and appreciates the clarity of the UK government's objectives for the Bank.

DFID has further improved strategic tools for assessing multilateral performance. It has developed a framework for assessing the relevance, effectiveness and reform scope of organisations, and draws on the work of the Multilateral Organisation Performance Assessment Network (MOPAN), of which it is an active member, to inform decision-making on multilateral allocations. While DFID's progress in this area is commendable, it will be important that it partners with other donors on harmonised approaches to multilateral effectiveness. The DAC could provide an appropriate forum for this (OECD, 2009d).

Future considerations

- Delivering on its commitment to providing 0.7% of GNI as ODA by 2013 will add to the UK's credibility. Enshrining this target in legislation will deepen the UK's commitment and enhance predictability, encouraging other donors to deliver on their commitments.

- The UK should improve the quality of information on aid delivered by government departments other than DFID, including on its development impact and value for money, in its public communications. Further disaggregating ODA delivered by departments other than DFID will also be important in the UK's reporting to the DAC.

- While DFID's continued focus on LICs and increasing emphasis on fragile states are commendable, it will be important that continued emphasis is placed on the geographical concentration of the UK aid programme as a whole, consistent with the desire to reduce aid fragmentation.

- Sector and thematic spending targets should be kept manageable so as to avoid a tension with the need to align with and respond to partner country priorities. This was emphasised in the previous peer review.

- The UK is commended for its increasing emphasis on multilateral effectiveness. Going forward, however, there is scope for the UK to work more closely with other donors on joint approaches to supporting multilateral effectiveness.

- The UK should increase the UK's share of contributions to the UN provided as core resources in exchange for better evidence from UN Agencies, Funds and Programmes on their results, impact and contribution to wider development outcomes. This would further strengthen incentives for reform, alongside the UK's continued support for Delivering as One and its emphasis on improved evidence on the results and impact of assistance channelled through UN agencies, funds and programmes.

Chapter 4

Organisation and Management

A powerful institutional model

The UK's institutional system for development has not changed since the last peer review in 2006. It offers a powerful model, combining a high degree of centralisation in Whitehall with decentralisation in the field. All poverty reduction aspects of UK government development co-operation, both bilateral and multilateral, are led by the Department for International Development (DFID), which manages 86% of the UK's ODA. DFID is represented in cabinet by the Secretary of State for International Development, and supported in the House of Commons by a Minister of State and a Parliamentary Under Secretary of State. Primary responsibility for technical themes is shared between the three ministers by mutual agreement.

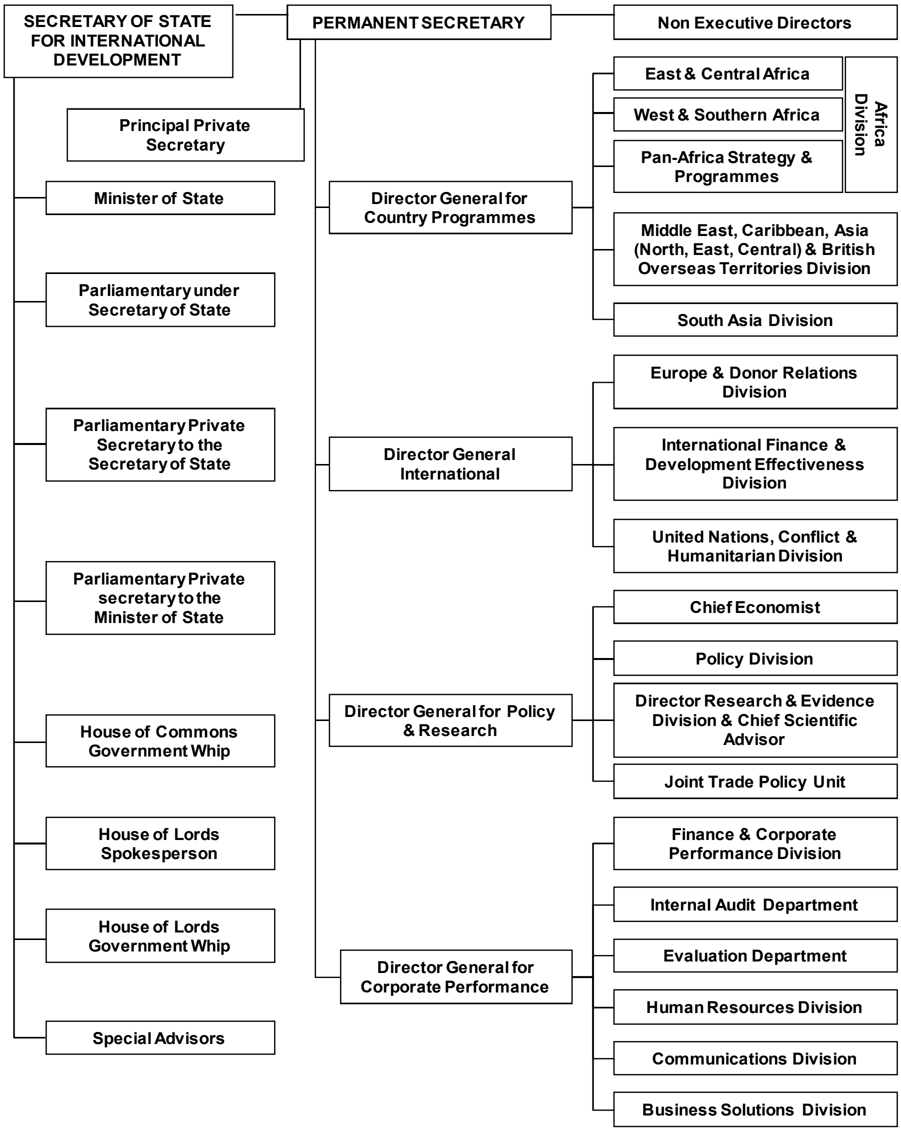
A capable, mission-driven organisation

As highlighted in the 2007 and 2009 UK capability reviews, DFID is a high-performing international development department. It benefits from impressive leadership, complemented by high-quality and committed staff (HCS, 2007, 2009). DFID has a strong results-based management framework, and this – combined with a purpose and performance-driven organisational culture and cohesion at the senior level – is important in ensuring effective delivery of the aid programme.

DFID's organisational structure remains conceptually simple, although since 2008 the number of directorates and sub-units has increased (Figure 8). The most senior civil servant in DFID is the Permanent Secretary. She was assisted at the time of the visit to London (November 2009) by four Directors-General in charge of: (i) country programmes (geographic desks), (ii) international relations (the international financial institutions, UN and donor relations); (iii) policy and research (including a joint trade policy unit); and (iv) corporate performance (finance and corporate performance, internal audit, evaluation, human resources, communications and business solutions). Since then, DFID has decided to merge two Director-General posts (international, and policy and research), with the new appointment becoming effective in April 2010. The Directors-General supervise a total of 18 sub-units, with staff split between headquarters in London and East Kilbride, Scotland. In addition, an Independent Advisory Committee on Development Impact (IACDI) was set up in May 2007 and reports directly to the Secretary of State for International Development.

Figure 8. DFID organisation chart

October 2009



Source: DFID.

A Management Board, comprised of the Permanent Secretary, the Directors-General, the Director for finance and corporate performance and two external non-executive directors, guides the management of DFID's operations, staff and finances, in order to implement policies set by the Secretary of State. The Management Board meets once a month and is supported by five committees:

- The Development Committee, chaired by the Director General for Policy, aims to ensure that DFID's policies and programmes deliver the strategic priorities set by the Management Board, including public service agreements.

- The Security Committee, chaired by the Director General for Country Programmes, is responsible for monitoring the adequacy and effectiveness of all aspects of DFID's security.

- The Senior Leadership Committee, chaired by the Permanent Secretary, leads and manages Senior Civil Service posts and staffing to support DFID's PSA objectives.

- The Audit Committee, chaired by a non-executive director and composed of non-executive members, provides advice to ensure a financially sound and efficient organisation.

- Finally, the Investment Committee, chaired by the Director General for Corporate Performance, was set up in 2008. Its role is to ensure that DFID investments (whether multilateral, bilateral, or global public goods) represent good value for money for development impact and for UK taxpayers and that clear systems exist to take strategic financial decisions based on evidence.

Combining decentralisation with strong corporate compliance

Decentralisation is a cornerstone of DFID's philosophy. Its 51 country offices benefit from substantial delegated authority and one half of DFID staff resources are located overseas. For example, country offices are responsible for preparing the country plan (which is submitted to the Country Planning Review Committee and then to the minister); implementing, monitoring and reporting on the plan; promoting coherent UK policy and taking appropriate action if programme objectives require attention. The Head of Office is delegated authority up to GBP 20 million, a substantial increase since the last peer review (GBP 7.5 million). DFID's partners in the two countries visited as part of this review (India and Rwanda) see this decentralisation as key in allowing DFID to provide flexible and quick responses to partner governments' needs. It also allows for alignment and harmonisation (Chapter 5 and Annex D).

The significant autonomy of DFID country offices is complemented by a clear corporate performance framework, as recognised by the NAO and the capability review. The bulk of British ODA is delivered through cascading instruments within the overarching objectives of the PSAs: the PSAs are translated into DFID's seven departmental strategic objectives (DSOs), measured by a total of 31 indicators. These are then cascaded further down the organisation to divisional performance frameworks (DPFs), which are the main mechanism for translating corporate goals into operational country and departmental plans, and ultimately individual performance management framework objectives (Figure 1, Chapter 1).

DFID has reinforced its corporate tools and systems to ensure compliance. Two corporate tools are particularly important: (i) *The Essential Guide to Rules and Tools* (known as *The Blue Book*), which explains the rules governing DFID's key corporate activities, including programme management, finance, human resource management, security, information technology and propriety; and (ii) the Activities Reporting Information E-System (ARIES), a new management system which integrates financial accounting, project databases, statistical and management reporting, budgeting and expenditure forecasting and procurement.

DFID has also strengthened its country planning process. A Country Planning Review Committee (CPRC) was formed in early 2008 to replace the Quality Assurance Group. The committee reviews country plans before being submitted to ministers. It not only reviews the planning options presented to ministers, but also the quality, validity and range of data, analyses and assumptions that underpin those options. In addition, a revised logical framework (logframe) approach ("Using numbers") focused on outputs, outcomes and results has been adopted throughout the organisation, and stronger guidance has been provided to country offices on preparing country plans, including economic appraisals.

The strong linkages maintained between DFID's field offices and headquarters are another key feature. DFID has developed innovative approaches to working both in-house and linking UK government roles at the country level, such as the extensive use of information technology like videoconferencing. It also uses innovative approaches to sharing and placing staff, with some 30 co-funded policy staff based in country offices. For example, in DFID Rwanda the Climate Change Advisor is shared between the headquarters Policy Division and the Country Office. This helps to build linkages between the field and headquarters, and enables the Policy Division to ensure that policies reflect the situation in the field. Professional networks also play an important role in sharing lessons across the organisation, whether through e-networks or annual meetings and their role could be deepened further. There is still scope to improve collaboration between different departments, such as gender and aid effectiveness, and for the distinct professional groups to learn more about capacity development (Chapter 6).

DFID's wide, interconnected framework makes the relationships between country offices and headquarters appear seamless. This means that the headquarters' split between London and East Kilbride does not seem to create a gap between the different entities. However, DFID has recognised the need for greater career mobility in its East Kilbride office.

Streamlining reporting requirements

While DFID's extensive delegation of authority and its systematic corporate compliance and accountability are powerful, they do lead to heavy, sometimes overlapping, framework monitoring and reporting requirements. They imply heavy transaction costs at a time when diminishing administrative resources are putting additional pressure on staff, and some of the requirements are perceived by staff in country offices as lacking clarity of purpose. The previous peer review recommended that in improving its performance measurement and reporting approach, DFID should avoid unnecessarily increasing the complexity of the existing system. Since then, DFID has established a single corporate performance framework for the current three-year spending period, in which Divisional objectives cascade from overall Departmental objectives. DFID also has a system of annual project reviews, as well as separate reporting on white paper and other policy priorities (Box 9). More should be done to integrate these different streams of reporting. Greater clarity on the hierarchy and inter-relationship between DFID's policies, strategies and guidance notes (Chapter 1) would assist in this process. It should also be linked with further improvement in performance measurement as noted below. DFID should also consider how far its ARIES system (which currently supports only finance, procurement and project management reporting) could also support corporate performance management and how it could integrate further project cycle management. In streamlining its system, DFID should ensure that: (i) all country offices comply with DFID systems and objectives; (ii) feedback provided through these reporting systems is translated into knowledge and used for management purposes; and (iii) the information generated can meet the scrutiny demands of British stakeholders.

Box 9. DFID reporting mechanisms: the example of DFID India

DFID uses a number of reporting tools, each of which allows scrutiny at different levels of operations and policy, and aims to guide planning, lesson learning and accountability. As reported by DFID India, these are as follows (however, some are not mandatory requirements, but are considered to be good practice by the office; DFID India also includes staff objectives which are standard management practices and not considered part of reporting by headquarters):

(i) **Policy reporting.** This involves: (i) reporting against the 2009 white paper implementation matrix (each country office/division identifies a number of priority commitments against which it will deliver on the "We wills" and report on progress); (ii) contributing to DFID sector-wide policy reviews, including portfolio reviews; to thematic reports; and to provide inputs from the field to shape policy; and (iii) reporting on progress against the Gender Equality Action Plan.

(ii) **Divisional/country programme reporting**. This includes (i) the division performance framework, reviewed mid-year and at year end by the management board, with contributions from each sub-unit/country office; (ii) the report against the country results framework , (twice a year to contribute to the divisional framework); and (iii) staff individual objectives, which are subject to performance reviews at mid-year and end of year. DFID India has in addition set up team business plans, which are reviewed twice a year;

(iii) **Project and portfolio quality reporting**: (i) all projects are scored annually (and at project closure) against their objectives through DFID's Portfolio Quality Index; (ii) projects above GBP 1 million are reviewed and scored annually as part of the Output to Purpose Review; and (iii) project closure involves independent evaluation reports and audit reports, as well as completion reports for projects above GBP 1 million.

(iv) **Corporate reporting**: (i) report against the "Making it Happen" targets (see below) twice a year through the divisional performance framework; (ii) quarterly financial reporting; and (iii) annual human resource reporting. In addition,DFID. India has developed internal tracking tools to assess performance against the DFID-wide results action plan.

Linking policy and research

DFID aims to improve links between research and internal policy making. Its policy and research divisions are now regrouped under the same directorate. DFID is doubling its spending on development research, planning to invest up to GBP one billion between 2008 and 2013 on research in five areas: economic growth, sustainable agriculture, climate change, health, and governance in difficult environments. DFID's research involves innovative links with universities and research institutes, both domestically and internationally. For instance 15 senior research fellows are hired part-time to keep DFID in touch with university work. However, outsourcing research should be balanced with the need to maintain in-house analytical capacity so that research is grounded in internal knowledge of the situation in the field. Thus DFID must ensure it is appropriately staffed in its focus areas. DFID also strives to ensure coherence between its research and development policy by balancing high quality research for domestic and international purposes with developing capacity for research in partner countries (Chapter 6).

Engaging further with civil society organisations

Since the last peer review, DFID has significantly increased its funding to civil society organisations (CSOs) (Chapter 3). This reflects greater recognition of the role that CSOs can play in development, and a willingness to further integrate these organisations in DFID's work, both at policy and implementation levels. This is why DFID's Civil

Society Department moved in May 2008 from the Communication Division to the Policy Division. Funding to CSOs is allocated both through DFID country offices and centrally-managed funds, with different schemes responding to specific needs. This includes: (i) non-earmarked Partnership Programme Arrangement funds to 30 international CSOs that play a leadership role with which DFID has a significant working relationship and shares a common vision; (ii) thematic funding to support CSOs' role in promoting governance, rights and accountability in partner countries; and (iii) support to development awareness activities in the UK.

The 2009 white paper commits DFID to scale up and broaden its support for civil society, including doubling its non-humanitarian headquarters support for CSOs to GBP 300 million a year by 2013. As a result, the Partnership Programme Arrangement funding should increase from some GBP 90 million a year between 2009 and 2010/11, to GBP 148 million by 2012/13. The white paper also calls for small-scale funding for UK individuals and community activities overseas. DFID has a new Development Innovation scheme to respond to this and is also working to support small and diaspora groups working on international development through the Common Ground Initiative. Although funds provided through these schemes are limited, it will be a challenge to track results and manage the transaction costs of this kind of support within a reduced administrative budget. DFID will complete a portfolio review of its work with CSOs in 2010. This should help identify and share good practice in working with CSOs across the organisation and with partners.

The challenge of "doing more with less"

The UK government is commended for its significant ODA increases in recent years (Chapter 3) and for ensuring that these are delivered through streamlined and efficient structures. DFID has so far managed delivery of increased ODA effectively whilst reducing administrative costs. However, the combination of delivering higher levels of ODA, protecting frontline staff and the need to respond to the UK government's drive for greater efficiency across the UK public sector remains an ongoing challenge for DFID. While DFID has identified opportunities to make further efficiency savings in non-frontline expenditure, there will be a limit to the extent to which administrative budgets can be reduced further without undermining DFID's credibility and exposure to risk, especially as it engages more in complex and fragile situations. DFID's response to this challenge has been forward-looking. It includes both strategic actions and corporate governance reforms (the "Making it Happen" programme). These efforts should be strengthened as key British stakeholders (NAO, parliament, the Cabinet Office) share the view that DFID needs "a clear strategy for ensuring rising budgets and declining administration costs do not negatively affect capacity, effectiveness and value for money" (NAO, 2009a). DFID must ensure that its people and financial resources are aligned effectively behind its policy agenda, focusing resources on those areas where it can have most impact on poverty reduction and ensuring it has the right skills to meet its future requirements.

A purpose- and performance-driven organisation

An ambitious change programme

DFID is strongly committed to organisational effectiveness, with good results. One of its seven departmental strategic objectives is to improve the organisation's efficiency and effectiveness (DSO 7). The 2009 performance report shows good progress towards these indicators (DFID, 2009f). The creation of both the Investment Committee and the CPRC illustrates DFID's continual efforts to improve risk management and corporate compliance. This comes together with an increased focus on development impact and organisational effectiveness through the "Making it Happen" change programme. Key objectives of this programme are to enable DFID to get more development results from its people and its money and to better communicate those development results to the UK public. It focuses on three work streams – Value for Money (which comprises results, commercial, and money), Communications and People – which are consistent with the objectives and targets of DFID seventh strategic objective (DSO 7). Each division and country office integrates Making it Happen into their business plan, and report through the DPF process, as illustrated by the India case (Box 10).

Box 10. Increasing efficiency and maximising productivity: the example of DFID India

The example of DFID's India office shows how seriously the Making it Happen agenda is taken and the drastic changes already made. Administration costs now account for just 2.2% of total spend. Since 1999, staff numbers have decreased from 173 to 92.5 (down 47%), while the programme budget has increased from GBP 96m to GBP 270m (up 181%). DFID India has already made considerable savings in back-office functions through outsourcing, ensuring the office maximises the available resources for delivering the programme. Further opportunities to make savings will occur through jointly outsourcing and sharing corporate services with the British High Commission. DFID India implements the strands of the Making it Happen agenda as follows:

Results and using evidence: a stronger results team with a new Results Adviser; more impact evaluation with a new Impact Evaluation Fund; stronger logframes in a new format; new results framework to record and track results; more focused portfolio (20% fewer projects over two years); and action plans in place for poor performing projects.

Communications: a strengthened communications team: new posts and more resources; a new communications strategy; more pro-active work with Indian and UK media; a new study on UK perceptions of India; explicit targets for *Insight* and website.

People: increased budget for learning and development; skills refreshment through training; new performance management and promotion systems; performance-related pay; flatter office structures and more delegation; peer and team recognition awards; a culture of giving/asking for feedback.

Money: a new portfolio scrutiny committee in Delhi; stronger procurement systems for DFID and implementing partners; even stronger fiduciary risk management through training and tools; more shared services with the FCO; counting the administrative costs of climate mainstreaming.

Systems: ARIES roll-out: better information on money and results; GBP 300 000 for better staff security; stronger emergency communication and staff support systems; revised and tested business continuity plans; greening DFID operations, such as reduced carbon footprint, including of residences; Delhi hosting regional services, such as IT, procurement and more.

A value for money approach to drive development effectiveness and greater efficiency

As part of the Making it Happen programme, DFID is pioneering a value for money approach, looking to move beyond measuring and managing for results to being more explicit about assessing whether the level of results achieved represent good value for money against the costs incurred: moving from "results to returns". Significant areas of programme where DFID will be spending around GBP 1 billion per year - health, education and governance - are subject to rigorous value for money portfolio reviews. Through reviewing both the international evidence on cost effectiveness and DFID's own practice, the reviews are identifying areas where policy or programming action could further improve value for money. The Investment Committee is driving increased analytical activity on value for money across the organisation, on both allocation policy and the portfolio in aggregate, and commissioning work and pressing for changes to DFID's systems to ensure more focus on value for money. For example, DFID is currently considering how to improve the measurement of value for money at project level including using unit costs in key sectors that are amenable to this approach. DFID is also taking forward a new approach to procurement following a Procurement Capability Review carried out across UK government departments.

DFID is committed to meeting the target set by the Treasury of GBP 647 million in efficiency gains in the Comprehensive Spending Review 2008-2011. In a further effort to protect frontline staff, DFID has recently announced a comprehensive efficiency programme that will: reduce the size and cost of its corporate performance group; improve the management of its estates; reduce the cost and environmental impact of its global travel; and share more of its non-frontline services with other government departments (especially the FCO). The allocation of staffing costs across administrative and programme budgets has also been adjusted. In its 2008/09 account report, DFID classified approximately 64% of overseas frontline staffing costs in 2007/08 (GBP 64 million) as programme-funded administrative costs. This ring-fenced allocation was a transfer of administration costs capped at 1% per year, while the rest of administration costs fell by 5% per year. The National Audit Office has noted that this classification better reflects the role of staff working on the delivery of projects and programmes as opposed to administrative functions. In principle, this could also allow for quicker and more rational decisions on staffing to meet specific programme needs overseas, as related management costs would be funded from the same programme budget (NAO, 2009a).

Whilst the value for money approach is valuable for ensuring efficiency, DFID should retain enough flexibility to avoid undermining its key objectives and assets. These include its flexible approach to aid delivery, its increased focus on fragile states and its new approach to civil society organisations. DFID should be cautious in applying the value for money approach, ensuring that decisions like delivering bigger but fewer programmes and closing projects which are not fulfilling their objectives are adjusted depending on contexts and do not weaken DFID's long-term approach to development (see below on staffing and Chapter 5).

Stronger focus on managing for development results

DFID has also placed a stronger emphasis on managing for development results. Its objective is to use evidence more effectively in order to both ensure the maximum impact of the aid programme and be able to demonstrate its effectiveness. In January 2008, DFID launched its first Results Action Plan, which became a central pillar of DFID's Making it Happen programme (DFID, 2008g). The plan identifies ten priority actions for DFID, in-country and internationally (**Error! Reference source not found.**). These respond to the need for better quality statistics and information, stronger commitment to evidence-based policy making, robust systems for monitoring and evaluation, and strengthened mechanisms to hold governments and donors to account.

DFID has taken steps to implement each priority action. In particular, with USD 97 million allocated in 2007-2009, DFID is the main bilateral donor in supporting national strategies for the development of statistics. It also supports accountability mechanisms in partner countries, as seen by the review team in Rwanda (Annex D) and in 2009 committed to increase this support. At the international level, DFID was influential in the process leading up to the Accra Agenda for Action, which includes commitments for mutual accountability.

Box 11. DFID's Results Action Plan: 10 priority actions

Within DFID:

- More use of quantitative information to improve decision-making
- Strengthen performance and results frameworks for country programmes
- Improve communication to the UK public on the results of development assistance
- Review people management systems to encourage a stronger focus on outcomes
- Establish Independent Advisory Committee for Development Impact to strengthen the independence of the evaluation function

With partner countries:

- Invest in statistics through internationally co-ordinated funding
- Support accountability mechanisms to scrutinise governments and donor performance

Internationally:

- Support an internationally coherent approach to impact evaluation
- Promote new international mechanisms for mutual accountability between donors and partners, and seek agreement at the Ghana High Level Forum in 2008
- Promote new international mechanisms for assessing agency effectiveness, and seek international agreement at the Ghana High Level Forum in 2008

Source : Source: DFID (2008g).

Evaluation: towards a more strategic and independent approach

DFID has also made progress on evaluation, increasing the resources available (from GBP 3.6 million in 2007/08 to GBP 5.1 million for 2009/10), developing a new policy (DFID, 2009e), and strengthening independence with the creation the Independent Advisory Committee on Development Impact (IACDI) in May 2007, which reports directly to DFID Secretary of State. IACDI is important since DFID's Evaluation Department reports to the DG for corporate performance and is more embedded in DFID's core management structure than most other evaluation units. IACDI's role is to oversee evaluation at a strategic level, including: (i) approving the evaluation work programme; (ii) ensuring the evaluation approach is independent and effective; and (iii) monitoring how far evaluation outputs are used and followed up in practice. However, challenges remain. In 2009 IACDI reviewed evaluation quality in DFID, which proved a very good learning exercise and has resulted in tangible recommendations on how to improve evaluation quality as well as the use of evaluations. However, its findings showed there were methodological weaknesses, as well as a defensive attitude from management which would require a "culture change". DFID's management response to the review set out measures to address these findings: the Investment Committee will take a lead role to strengthen DFID's evaluation culture; lead Directors will be designated for specific studies; and major study findings will be considered by the Development Committee and the Country Planning Review Committee. Although efforts have been made to ensure that evaluation recommendations inform decision making,[11] linkages to the wider DFID performance management and planning systems could be strengthened. As noted by the National Audit Office, the evaluation department is not tasked with providing a better interpretation of DFID's performance against PSAs or MDGs (NAO, 2009b).

The publication in June 2009 of a new, comprehensive evaluation policy is a commendable step in building a culture of learning and evaluation and increasing the quality of evaluations across DFID. It also incorporates many of the emerging priorities in the evaluation community, including a push for assessing results through impact evaluation, and a strong mandate to participate in joint evaluation and support partner country capacity development – as already initiated by DFID's India office. As regards international approaches, DFID's chairmanship of the DAC Evaluation Network and its involvement in the international initiative for impact evaluation (3ie) is also much appreciated by the donor community.

The difficulty of assessing DFID's performance

"Judged by its own targets, DFID performance has been mixed". This statement was made by the NAO in its report to parliament on DFID performance in 2008/09 (NAO, 2009a). It reflects the fact that three of the eight indicators in PSA 29 on poverty reduction show improvement, while five show little or no improvement (DFID, 2009f). However, this does not mean that the aid programme is managed inefficiently, and the NAO does recognise that there is some evidence of significant progress. This mixed result illustrates the difficulty of assessing DFID performance against the PSA 29 targets. These targets focus heavily on the progress of DFID's 22 priority countries towards meeting the MDGs, with indicators aligned to the MDGs.[12] While this approach has the merit of being strongly aligned to partner country performance, there are challenges related to difficulties of interpretation. First of all, linking DFID (or any single donor's) interventions with progress towards the MDGs is inherently difficult – even more so with the increased use of un-earmarked aid. Countries move on-track or off-track due to a range of factors, including contribution by different bilateral or multilateral donors, the actions of recipient governments, and the impact of social, economic and environmental variables. Secondly, weak data – deriving from reliance on national data systems – as well as the time needed for a programme to have results, make it difficult to establish trends or link contributions to outputs. DFID also struggles to measure the impact of its "influencing work", and it does not have a corporate approach for measuring "capacity developed or sustained" (NAO, 2009b). It is worth mentioning that DFID progress against its departmental strategic objectives 2008-2011 is more positive: in 2009, four out of seven objectives showed strong progress and three showed some progress (DFID, 2009f). This suggests that DFID should choose carefully the level and nature of the objectives and progress indicators, and should avoid too ambitious and difficult-to-measure results when setting the next departmental objectives. DFID should also consider streamlining its complex set of objectives and related indicators.

11. For instance, DFID country planning approval process now requires explicit use of country programme evaluations, each evaluation is subject to a management response, and the Head of Evaluation Department now has more access to the DFID Management Board.

12. These are for instance the proportion of population living on below USD 1 a day, net enrolment in primary education, and ratio of girls to boys in primary education.

In order to better link DFID actions to results, the NAO suggests that as well as continuing to reinforce national statistical systems in partner countries, DFID should focus more on demonstrating its contribution, alongside other contributions, to change. DFID could also communicate more on how it plans to respond to off-track or not fully achieved targets. As noted in Chapter 1, DFID is developing a more scientific approach to results in order to be able to identify outputs and outcomes for each programme against a clear baseline. While recognising the importance of demonstrating results, the review team advises DFID to take a prudent approach to results measurement. It should recognise the importance of contribution alongside attribution, and ensure its approach does not undermine efforts to target the aid programme at long-term development. In this regard, it is encouraging to note the Results Action Plan's strong commitment to internationally-agreed principles on aid effectiveness.

Human resources: maintaining DFID's core value

DFID benefits from a high quality and committed staff, as recognised by stakeholders both within and outside the UK (HCS, 2007 and 2009). Due to its strong reputation, graduate applications for DFID positions outnumber those to other government departments – including the Treasury and FCO – allowing DFID to recruit high quality staff.

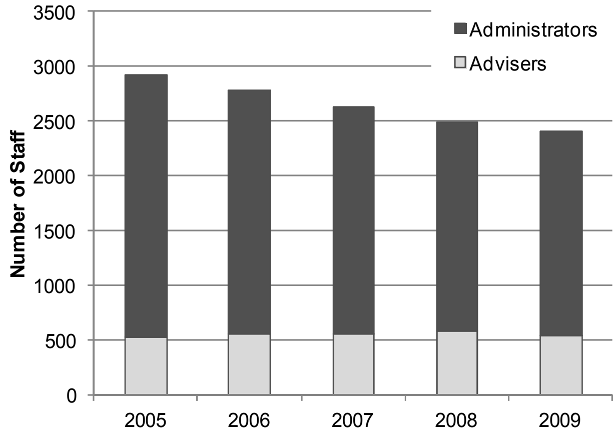
DFID staff numbers total 2 337 (full time equivalent), 68% of which are "home civil servants" and the remaining one-third are "staff appointed in-country". This proportion has remained stable over the last five years. The distribution of staff across headquarters and country offices has also been stable over time, with half of DFID staff located in the UK (750 staff in London and 494 in East Kilbride) and the other half (1 166) based overseas. The most striking feature is the evolution of the absolute numbers of DFID staff: reaching a high point (2 872) in 2005 before decreasing sharply to 2 337 in 2010. This reduction has affected both UK civil servants and staff appointed in country. As regards staff functions, DFID has managed to maintain its number of sector advisors while the number of programme administrators decreased sharply (Figure 9). The number of secondments to external organisations has also diminished sharply since 2005 (down from 135 to 68), but remains high compared with other bilateral donors.[13]

This decline in staff numbers is part of DFID's adjustment to its declining administrative budget. While the reduction in staff numbers, following a rapid rise in staffing levels in the early 2000s, has helped to streamline human resource management, DFID is approaching a point at which further reductions may put at risk its capacity to deliver the aid programme effectively. This is clearly the case in India: over the last 10 years the number of DFID staff was reduced by half while its programme became three times bigger. Overall, this leaves only a small margin for further adjustments. However, DFID plans to save GBP 4.4 million of administrative costs in 2009/10 to meet its efficiency savings target in the Comprehensive Spending Review 2008-2011. As highlighted by the National Audit Office, this raises concerns over DFID's capacity to ensure effective aid spend in line with an increased budget (the Comprehensive Spending Review awarded DFID 46% more aid between 2008 and 2011); greater focus on labour intensive work in fragile states – as outlined in the 2009 white paper; and a reduced administrative budget (NAO, 2009a). In particular, one of DFID's strengths is the

13. Another feature of DFID staff is its international composition, with many non-UK citizens working either at headquarters or in partner countries.

technical capacity of its staff – particularly its sector specialists – and it needs to ensure that this quality is maintained. This was emphasised by partners in both India and Rwanda (Annex D). Having fewer staff able to provide observations on the ground may also weaken DFID's ability to measure performance.

Figure 9. DFID's staff trends, 2005-2009



Source: DFID data.

DFID is responding by becoming increasingly strategic in human resource management, illustrated by its new market-based postings system and its closer management of secondments. DFID needs to continue to develop its medium-term workforce planning to ensure it has the right people with the right skills. DFID appoints qualified staff in-country and is perceived to provide attractive conditions, including scope for career progression and mobility. A number of relatively senior posts are held by staff appointed in-country and DFID plans to continue to promote staff appointed in-country to senior levels. This approach improves the quality of DFID's programme and should be continued.

Filling job vacancies in fragile states is a specific challenge. In early 2007 the average number of applications fell to 1.7 per vacancy in insecure countries – compared to 2.2 in stable countries. DFID responded to this by increasing incentives and reducing posting durations for difficult places. However, the problems remain for specific posts in some countries. The 2009 white paper commitment to working more in fragile states heightens the importance of addressing this issue. In 2009, DFID reviewed staffing in fragile states and has agreed a new internal "pool and cluster approach" to staffing, for which it is reviewing financial incentives (NAO, 2009a).

Intensive team work, a strategic approach to training, and strong attention to middle management are important features of DFID's human resource management and personal development approach. DFID has a performance-based staff evaluation system linked to bonuses and promotion prospects. However, this has still to be carefully reviewed and adjusted to ensure it provides relevant incentives to staff.

Key assets for DFID are its strong cohesion at management level, and the clear and wide understanding by DFID staff that their work contributes to the department's objectives (91% of DFID staff, according to the 2009 Civil Service People Survey) (ORC, 2009). However, while DFID still benchmarks better than comparator organisations, the 2009 Civil Service People survey also shows a decline in staff's confidence to speak up and challenge the way DFID is operating, as well as scepticism about the organisation's ability to manage change and deal with poor performance. This may reflect the scale of change affecting staff and its concerns over the challenges faced by the department. It may also be the result of reinforced compliance mechanisms and increased pressure to deliver results. In taking action following the survey, DFID management will need to understand the underlying causes and to demonstrate a clear engagement as staff commitment and confidence will be crucial in achieving the Making it Happen programme. DFID needs to keep space open for lively internal debates to maintain its strong culture of innovation and creativity.

Future considerations

- In addressing the "doing more with less" challenge, DFID needs to continue to protect front-line staff overseas. Alongside the implementation of its change programme, this will be critical in ensuring its credibility in both the UK and abroad.

- DFID should look at ways to expand further horizontal collaboration and learning opportunities across the organisation through closer links among professional groupings.

- Alongside improved policy prioritisation, DFID should further streamline its reporting requirements, assessing carefully the benefits of each against transaction costs. It should also draw lessons from its current performance assessment framework as it sets the next departmental objectives and associated indicators.

- Building on its new evaluation policy and the creation of IACDI, DFID should continue efforts to develop a culture of evaluation and to promote its use as a forward-looking management tool.

- DFID should also ensure that the pressure to reduce administrative costs does not influence its model of engagement, and that it maintains a critical mass of expertise in-house, including sector specialists. It should continue to develop its medium-term workforce planning system to ensure it has the right staff with the right skills, including in fragile states.

Chapter 5

Aid Effectiveness

The international aid effectiveness agenda: UK commitment and leadership

Following its important role in supporting the preparations for the second High Level Forum on Aid Effectiveness and the Paris Declaration (2005) which emerged from it, the UK continued to play an active role in international dialogue on aid effectiveness in the run up to the third High Level Forum (Accra, 2008), and in shaping the Accra Agenda for Action (AAA). DFID was active and influential in the final negotiations for the AAA, supporting the priority "beginning now" deliverables.

DFID plays an important and active role in much of the work of the Working Party on Aid Effectiveness (WP-EFF), engaging substantively in and contributing financially to joint ventures. It participates in all of the subsidiary bodies of the Working Party on Aid Effectiveness (WP-EFF), and plays an active role in the work on aid effectiveness of the Nordic Plus group. DFID co-chairs the DAC's International Network on Conflict and Fragility (INCAF). In the past DFID has been willing to use its own experiences in implementing the aid effectiveness agenda – including in potentially risky areas such as budget support and co-operation in fragile states – to encourage other donors to act on international aid effectiveness commitments. In recent years, DFID has placed greater emphasis on high profile and at times less inclusive aid effectiveness initiatives, which it sees as a means to galvanise faster progress on delivering Accra accountability and transparency commitments.

In 2008, DFID launched the International Aid Transparency Initiative (IATI) – a global initiative committing donors to improve the availability and accessibility of information on aid. IATI now has 18 donor signatories and 13 partner countries have endorsed it. A number of civil society organisations also support and are involved in the initiative. Although IATI contributes to the work programme of the WP-EFF, DFID may wish to consider whether IATI allows for participation by the broader donor community, and whether it adds value in relation to existing initiatives.

September 2007 saw the UK playing a key role in launching the International Health Partnership (IHP) – an initiative which aims to implement Paris Declaration commitments in the health sector. Managed by the World Health Organization (WHO) and the World Bank, the process has built on extensive discussions on aid effectiveness in the health sector. However, DFID – as its lead sponsor – could further ensure greater inclusion and responsiveness to partner country countries and their needs and voice.

Some stakeholders note that the UK's approach to partnership-based objectives such as IATI and the IHP may have come at the expense of developing longer-term relationships with a range of stakeholders around common goals. This view is supported by the first phase of the evaluation of the Paris Declaration, which concludes that:

> *"…if there are any grounds for concern about DFID's commitment to the Paris Declaration, it is the preference for high-profile new initiatives over the hard work of implementing old ones. New initiatives, such as global spending commitments and new funding vehicles for global public goods, do not fall clearly within the country led paradigm, and have the potential to push Paris Declaration commitments into the background." (Thornton and Cox, 2008).*

Given its strong leadership in shaping the Accra Agenda for Action, its participation in the Working Party on Aid Effectiveness and its subsidiary bodies, and the degree of its investment in specific initiatives such as IATI and the IHP, DFID should continue to play an active role in broader international dialogue on aid effectiveness, using its expertise and track record to benefit other donors and partner countries alike.

From commitments to implementation: strong performance against key indicators

The Paris Declaration is a corporate priority for DFID: one of its departmental strategic objectives (DSOs) for 2008-2011 is "Paris Declaration commitments implemented and targets met corporately and in country offices". This objective cascades down through the corporate performance framework, with individual offices required to report internally on their performance against the Paris indicators regularly using ARIES (see Chapter 4). All bilateral country assistance plans are expected to include an assessment of aid effectiveness issues. DFID has also taken an active interest in the multilateral organisations' performance on aid effectiveness – for example, progress towards Paris Declaration targets is included in DFID's institutional strategy papers for key multilateral organisations. DFID's dedicated Aid Effectiveness and Accountability Department develops internal policy guidance on aid effectiveness, supporting the organisation in meeting its aid effectiveness targets.

By international standards, the UK performs well against the 12 Paris Declaration indicators. Data from the *2008 Survey on Monitoring the Paris Declaration* suggest that by 2007 the UK had already met several of its targets for 2010, and is likely to meet other targets by 2010 (Table 2; OECD, 2008c). Based on the survey findings, DFID has identified indicators 3, 7 and 12 (aid on budget, predictability and mutual accountability) as priorities for 2009-10 (DFID, 2009j).

Much of the UK's strong performance on aid effectiveness can be attributed to DFID's approach to programming. The inherent flexibility of its decentralised model enables it to mainstream the Paris principles significantly in its work at the country level, though there was no evidence on the extent to which aid effectiveness principles are emphasised in the management of DFID's centrally-managed funding (for example, civil society challenge funds and funding to UK-based NGOs). Information is scarce on the performance of other UK government departments and entities on aid effectiveness. It is important that other government departments take steps to implement the UK's commitments on aid effectiveness. DFID has taken a lead in training staff from other government departments in aid effectiveness issues.

The UK's willingness to lead in the use of direct budget support[14] has in part contributed to its strong performance against the Paris Declaration indicators (the UK's approach to direct budget support is discussed further below). Evidence on the degree of understanding of and incentives for aid effectiveness across DFID is positive. A recent pilot self-assessment of incentives for aid effectiveness within DFID pointed to its strong internal communication on aid effectiveness issues – including incorporating aid effectiveness language in top-level policy documents – and familiarity with aid effectiveness concepts among advisory staff. Staff rotation was identified as a possible challenge to supporting aid effectiveness, as was lack of public understanding of the importance of aid effectiveness (DFID, 2009k).

Table 2. The UK's performance against the Paris Declaration indicators

Indicator	2005 (22 countries)	2007 (22 countries) [1]	2007 (32 countries) [1]	2010 target	Comment
3. Aid flows are aligned on national priorities	45%	65%	58%	85%	On track
4. Strengthen capacity by co-ordinated support	56%	66%	48%	50%	Target met or likely to be met
5a. Use of country public financial management systems	78%	77%	66%	(80%)[2]	Target met or likely to be met
5b. Use of country procurement systems	78%	68%	59%	(80%)[2]	Decline since 2005
6. Avoid parallel implementation structures	37	18	45	14	On track
7. Aid is more predictable	46%	60%	54%	73%	On track
8. Aid is untied	100%	100%	100%	100%	Fully untied
9. Use of common arrangements or procedures	61%	71%	62%	66%	Target met or likely to be met
10a. Joint missions	46%	61%	58%	40%	Target met
10b. Joint country analytic work	69%	69%	61%	66%	Target met or likely to be met

1. The *2006 Monitoring Survey* for the UK is based on data from 22 countries reporting UK ODA in 2005 (out of a total of 33 countries surveyed) and covering 48% of country programmed aid in 2005. The *2008 Monitoring Survey* data for the UK are based on 2007 data from 32 countries (out of 55 countries surveyed), and cover 61% of country programmed aid. For ease of comparison, 2007 data are presented in two columns: data for the 22 countries that participated in the first round (left), and data for all 32 partner countries reporting UK ODA in the enlarged second round of the survey (right).

2. The 2010 targets for indicators 5a and 5b are indicative, and assume that further improvements in the quality of partner country public financial management and procurement systems support their increasing use by donors.

Source : OECD (2008c), p.132.

Supporting country-led approaches to development

DFID's internal guidance on country planning refers explicitly to international agreements on aid effectiveness, and country offices are required to consider performance against aid effectiveness targets in the design of country plans (DFID, 2008j). As part of the country planning process, a partner country government's ownership of the development agenda and commitment to poverty reduction and attaining the MDGs are

14. Direct budget support (DBS) - also referred to as poverty reduction budget support (PRBS) by DFID – involves financing a partner country's budget through the transfer of resources to the partner government's treasury, and without the intention of earmarking funds for specific activities. DBS includes both general and sector budget support.

assessed through the Country Governance Assessment, the Fiduciary Risk Assessment and other sources. These form the basis of a country-led approach to programming, with country plans based on national poverty reduction strategies (PRSs) or similar medium-term planning frameworks. Although final decisions on the focus of DFID's country plans are discussed at UK ministerial level, the relative autonomy of DFID country offices in developing options and recommending strategies for a country plan allows DFID to enter into a meaningful dialogue with partner country governments and to align programmes to national and sub-national priorities. This is appreciated by partner countries. Although intended to strengthen the country planning process, there is however a risk that the increased emphasis on analytical work – often conducted within a tight timeframe – could lead DFID to work less with other donors in its analysis and planning processes.

Significant delegation of authority to the country office level enables DFID to be flexible and responsive in adapting to changing country circumstances and needs during a country planning cycle. In ensuring that this approach to alignment is sustainable, the UK will need to keep aggregate sector and thematic spending targets at manageable levels (see Chapter 3). The emergence of country-led division of labour exercises – which could result in DFID being asked to diversify away from its traditional sectors of focus – could also be an important external factor in this regard.

The UK's approach to conditionality also supports alignment with national development priorities. Three key partnership principles underpin DFID's conditionality, namely a shared commitment to:

- poverty reduction and the MDGs;
- respecting human rights and other international obligations; and
- strengthening financial management and accountability, and reducing the risk of funds being misused through weak administration or corruption (DFID, 2005).

In essence, this approach means that DFID provides assistance to partner countries in implementing their own development strategies where the commitment to do so is sound, and such strategies support poverty reduction and the achievement of the MDGs. Guidance on the use of conditionality states that any conditions need to be owned by the partner country government, and limits the use of policy conditionality. In countries in which adherence to its partnership principles are perceived to be weak, DFID offices are guided in the use of alternative approaches designed to support alignment – or *shadow alignment*. This could include working through NGOs or the UN development system, or through community-driven development instruments.

In assessing adherence to its partnership principles, DFID establishes benchmarks against which performance is reviewed with the partner country government, usually on an annual basis. It stresses that benchmarks are not equivalent to policy conditions; instead they are a means of gauging adherence to its partnership principles. In practice, DFID ensures that such benchmarks are grounded in the partner country's own monitoring framework. In countries such as Mozambique and Rwanda, DFID derives its benchmarks from national performance assessment frameworks (PAFs) grounded in the country's medium-term development strategy, and used by several donors as a basis for convergence towards common conditionality and dialogue around budget support.

Although the UK's partnership principles act as a strong starting point for transparency around its approach to conditionality, there is no explicit link between performance benchmarks and conditions (which affect aid allocations and disbursements). This means that the UK could improve further against the Accra commitment to "regularly make public all conditions linked to disbursements" (AAA, para. 25b). Although DFID stresses that its benchmarks are not conditions, in some instances poor performance against benchmarks has been used as the basis for reducing budget support.[15]

The UK continues to maintain a degree of unilateral discretion in its interpretation of partnership principles as it engages in decision-making around budget support in particular. This is noted by the National Audit Office, which found that "country teams seldom define examples or criteria for the types of circumstances which would constitute a breach of the partnership commitments. [...] greater clarity on what DFID's expectations are in different country circumstances is important to guide actions when difficult situations arise and to make DFID's expectations clear to partner governments." (NAO, 2008a). This is a particular challenge for human rights issues. DFID has since issued guidance to country offices on the implementation of its conditionality policy, and on assessing and monitoring human rights (DFID, 2009l, 2009o). Further efforts to increase transparency will be important as DFID implements the Accra commitments on conditionality.

Positive efforts to strengthen and use country systems

In addition to supporting alignment to the sectoral and thematic priorities of partner country governments, DFID's policies, procedures, and decentralised structure also allow for alignment with partner country implementation systems. This is highlighted by a recent survey in which 72% of regional and country office staff reported that they are encouraged to use country procurement and financial management systems (DFID, 2009k).

DFID acknowledges the importance of both strengthening and using partner country systems in delivering aid. In 2007, approximately two-thirds of UK ODA made use of partner country public financial management (PFM) and procurement systems (OECD, 2008c). Most of this assistance (49% of aid to surveyed countries) took the form of direct budget support. Globally, DFID provided GBP 647.7 million (USD 1.1 billion) in budget support to 13 partner countries in 2008/09, representing 27% of the total DFID bilateral programme. Direct budget support implies use of country public financial management and procurement systems, increases the coverage of aid in both partner country budgets and accounts, and reduces the scope for parallel project implementation units and poorly co-ordinated interventions often associated with stand-alone projects. In common with other donors, demonstrating further progress against aid effectiveness indicators for its project-based aid is more challenging – DFID could make further progress in this area.

Evidence also suggests that DFID continues to play an active role in supporting the strengthening of partner country systems in areas including but not limited to public financial management, procurement and national statistics. Survey data from DFID country offices show that those offices providing budget support are also more likely to

15. In Tanzania for example, DFID withheld the variable tranche of its budget support in 2009, citing poor performance against benchmarks as a breach of conditionality (DFID, 2009d).

provide support for reforming a country's public financial management system (NAO, 2008a). Such support to country systems typically involves targeted technical assistance, often to support a country's own programme of reforms. Beyond the narrow focus on planning, budgeting, accounting and procurement processes, the review team identified examples of broader work on country systems being supported by DFID (for example, domestic revenue mobilisation in Rwanda – Chapter 6).

DFID's status as an international leader on budget support is recognised both domestically and by partner countries, who appreciate DFID's willingness to engage in budget support. Key domestic stakeholders, including the National Audit Office and the cross-party International Development Committee, also support DFID's use of and approach to direct budget support, provided that certain conditions are satisfied (NAO 2008a; House of Commons, 2008). Some stakeholders have expressed concern that increasing use of direct budget support should not be seen as an "easy option" for spending a rising aid budget (House of Commons, 2008). While DFID may see the pressure to reduce its administrative budget as an opportunity to rely increasingly on "upstream" modalities such as budget support, the effectiveness of this approach will depend on DFID's ability to sustain the quality and intensity of engagement by its staff (Thornton and Cox, 2008). The move towards budget support and the accompanying upstreaming of dialogue may reduce exposure to field-level issues and reality – a concern flagged by other donors in Rwanda.

Continued efforts to strengthen the monitoring of results in the context of direct budget support, and in assessing and communicating the added value of budget support over other aid modalities, will be important in ensuring continued support for the UK's budget support operation. Such efforts will also play a role in sustaining support for the UK's use of partner country systems more broadly – whether through budget support or other modalities. For example, recent discussions of the Committee on Public Accounts, prompted by a report on aid to Malawi by the National Audit Office, highlight concerns over how DFID monitors results and assesses value for money in its reliance on partner government systems (NAO, 2009c; House of Commons, 2010). Further efforts to improve transparency around conditionality, including DFID's plans to publish conditions in April 2010, will, as discussed above, be particularly important in improving the predictability of budget support.

Harmonisation through flexibility and leadership

DFID actively seeks opportunities to harmonise and co-ordinate with other donors in-country. This is supported by conducive policies and guidance to country offices that allow significant flexibility in working with other donors. Delegated authority to country offices also plays an important role in enabling DFID to adapt its approaches to different partner country aid environments, while other donors may remain more constrained by decision-making processes at headquarters level.

DFID guidance on country planning encourages country offices to develop country assistance plans in partnership with other donors where feasible. It has also played a lead role in supporting joint partner country-donor initiatives such as the development of joint assistance strategies (for example, in Tanzania, Zambia and Uganda). Where joint results frameworks are in place, DFID also seeks to rely on these as a basis for harmonising its dialogue on budget support with other donors. The degree of flexibility given to DFID country offices in relation to other donors and the capacity of DFID country offices compared with that of some other donors at the country level means that DFID often assumes a leadership role in joint approaches to programming and implementation.

At the sector level, in-country advisory capacities have enabled DFID to play a lead role in some areas. For example, the key role played by DFID in Rwanda to support the development of a sector-wide approach was noted and appreciated. This saw DFID leading the dialogue with the Ministry of Education – on behalf of other donors active in the sector – on key education policy issues and supporting the development of a sound sector strategy and medium term expenditure framework. DFID's important role in supporting Rwanda to mobilise additional resources through the Education for All Fast Track Initiative was also commended (Annex D).

DFID is often involved in silent partnerships or similar arrangements for delegated co-operation with other donors at the country level. This involves both managing co-operation arrangements on behalf of other donors, and also delegating to other donors and acting as a silent partner. This approach is positive, and DFID does not appear to have concerns about lack of visibility at the country level. However, its relatively strong sector advisory capacities in country offices do mean that DFID often plays a leadership role. Although few partner countries have to date approached the issue of in-country division of labour with the degree of leadership foreseen by the *Good Practice Principles* (OECD, 2009a), there may nevertheless be scope for DFID to be more selective in its engagement at the country level, or to increase delegation to other donors in some sectors, in line with the EU code of conduct on complementarity and division of labour. In its discussions with other donors in Rwanda, the peer review team noted that DFID could communicate more clearly its rationale for entering new sectors of co-operation, and for phasing out support to others. This impression is echoed in the findings of the first phase of the Paris Declaration Evaluation, which notes that both internal factors (the pressure to meet sector spending targets) and external factors (pressure from partner countries to remain engaged in a number of sectors) may limit DFID's ability to focus on a smaller number of sectors in which it has clearer comparative advantage (Thornton and Cox, 2008).

Adding to its commendable efforts in partnering with other bilateral donors, DFID also places significant emphasis on working with and through multilateral organisations at the country level, consistent with its strong focus on improving the effectiveness of the multilateral partners. Participation in joint projects and programmes and in trust funds, and its approach to funding the UN development system through pooled funds at the country level (Chapter 3), are positive examples.

DFID has seized additional opportunities for collaboration by seconding staff to other donor organisations and pooling some of its human resource capacities with other donors strategically. Building on such successes would support harmonisation and could assist DFID in maintaining adequate advisory capacities in country as it seeks to reduce its administrative costs. For example, in Rwanda DFID staff secondments to the EC Delegation and World Bank office have helped to strengthen capacities for economic analysis and rural development respectively. Sharing DFID's Economic Adviser with the Netherlands Embassy in Rwanda has strengthened co-operation on budget support issues, while drawing on the expertise of an Energy Specialist based within the Netherlands Embassy has also given DFID access to important advisory capacities to support DFID's work on climate change.

Making aid more predictable

Although the UK has identified the need to make further progress against Paris Declaration indicator 7 (in-year predictability – Table 2 above), challenges in the measurement of this proxy for predictability explain at least partly the gap highlighted by the indicator.[16] There is no specific evidence to suggest that the UK faces significant challenges in delivering against its short-term commitments. Stakeholders interviewed in both India and Rwanda felt that DFID performed well on in-year predictability, and this view was also echoed in discussions with some multilateral organisations, who appreciate the timeliness of DFID's disbursements.

The UK was very supportive of the AAA commitment for donors to provide details of forward expenditure and/or implementation plans over a three to five-year rolling period in a manner that is helpful to partner countries in their planning processes. DFID has since taken clear steps to implement this commitment. It has instructed its offices in countries covered by the Public Service Agreement to give rolling three-year resource indications where it provides resources through government. This sub-set of countries accounted for 76 per cent of DFID's total country programme in UK financial year 2008/09 (DFID, 2009n). DFID should build further on its efforts by providing this information in all of its programme countries. Other UK government departments delivering aid should also follow DFID in implementing this commitment.

DFID has been particularly innovative in paving the way for increased predictability in some of its partner countries through the use of ten-year Development Partnership Arrangements (DPAs). These arrangements – developed as memoranda of understanding and not legally binding – set out the annual volume of aid that DFID expects to allocate to a partner country over a ten-year period. In Rwanda, which entered into a 10-year DPA with the UK in 2006, senior government officials emphasised the importance and uniqueness of this approach. They felt that it not only supports medium-term planning, but that it also benefits the bilateral partnership and dialogue with the UK by signalling a certain degree of trust. To date, the UK has limited its use of ten-year DPAs to nine countries in which it sees bilateral co-operation to be particularly important over the medium to long-term. In common with donors, the degree to which such instruments offer a firm and credible commitment of future aid is limited by the domestic resource allocation process – in the UK's case, the three-year non-rolling Comprehensive Spending Review.

Existing and emerging challenges to aid effectiveness

Although the peer review team emphasises the UK's leadership role and strong performance on aid effectiveness, it also notes that DFID will need to continue responding to existing and new challenges. Many of these relate to the more qualitative aspects of aid effectiveness that are not necessarily reflected in existing performance indicators. For example, DFID's focus on government-to-government bilateral co-operation may have played a role in limiting political space and the scope for partnerships with civil society (Thornton and Cox, 2008). Although DFID recognises the need to

16. Indicator 7 is a proxy for in-year predictability, which considers the extent to which a donor's planned disbursements for a specific year are reflected in the partner country's accounting system for that year. Performance against this indicator thus depends in part on the reliability and coverage of partner country systems for capturing aid flows.

broaden country-level policy dialogue on development, in line with the AAA, it now needs to develop a strategic approach to implementing these commitments.

In order to strengthen domestic accountability channels in partner countries, DFID is committed to allocating an amount equivalent to at least 5% of budget support funds to non-state actors in budget support countries. While this is encouraging, clear strategies will be important as DFID implements this commitment. Support to and dialogue with civil society in partner countries can be resource-intensive, and there is a risk that downward pressures on administrative budgets – and in turn staffing levels – could limit DFID's ability to develop and nurture partnerships with civil society in partner countries. In Rwanda, civil society stakeholders identified positive instances of DFID supporting broader ownership. For example, it has used its dialogue with government to advocate for the increased participation of civil society and parliamentarians in joint fora and mechanisms that have traditionally been dominated by government-to-government dialogue.

The increasing focus on fragile states in the fourth white paper is an opportunity for the UK to deepen its commitment to aid effectiveness, especially the AAA commitments on fragile states and the *Principles for Good International Engagement in Fragile States and Situations* (OECD, 2007). As DFID collaborates increasingly with other UK government departments in its work on conflict and fragility (Chapter 2), it should consider how its capacities and track record on aid effectiveness issues can be shared with other government departments responsible for delivering UK ODA in these contexts. Placing staff skilled and experienced in aid effectiveness issues in these countries will enhance the high quality dialogue and partnerships with other donors that are positive features of DFID's approach in other countries.

Future considerations

- DFID should sustain its engagement in long-term and inclusive international dialogue on aid effectiveness. Its strong track record on aid effectiveness means that DFID is well placed to share its tools and approaches with other donors, supporting the broader implementation of aid effectiveness commitments.

- DFID's efforts to support medium-term predictability are positive. To fully meet its AAA commitments on medium-term predictability, the UK should provide information on its three- to five-year forward expenditure and/or implementation plans in all of the developing countries to which it provides aid. This should also include aid delivered by UK government departments other than DFID.

- The UK should further improve the extent to which it makes public all conditions linked to its aid disbursements, particularly with respect to governance and political issues. Continued efforts to harmonise conditions with other donors are also encouraged.

Chapter 6

Special Issues

Capacity development

Strategic orientations

"Capacity development" is understood as the process whereby people, organisations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time (OECD, 2006b). In contrast with a historical focus on the individual and on skills, capacity is now seen to refer more broadly to the ability of people, organisations and societies to manage their affairs. The development of capacity is an endogenous process driven and shaped by individual, organisational and societal factors.

In common with other donors, the UK's approach to capacity development has evolved over time from emphasising training and skills in the 1960s and 70s,[17] through an increasing focus on organisations in the 1980s, towards a broader understanding of the institutional and societal challenges to sustainable development today. This understanding was set out in a note prepared by DFID's Governance Department, which acknowledges the need for an increasingly strategic approach to capacity development, situating interventions in ways that link individual, organisational and institutional change, and the implications of this for the existing approach to technical assistance (DFID 2002).

Neither the UK government nor DFID have articulated a clear or explicit vision of what capacity development is, or its implications for development co-operation, although the UK's development policies nevertheless address capacity development in a relatively strategic manner. The UK's third white paper on international development situated capacity in the context of state capability and accountability: "To achieve lasting improvements in living conditions for large numbers of people, the capacity and accountability of public institutions needs to be strengthened." (DFID, 2006a). The white paper sets out the importance of state institutions and their capacities for sustainable poverty reduction, and emphasises the role of the UK development co-operation programme in supporting them. The fourth white paper on international development then builds on this, by considering more explicitly the UK's approach towards fragile states and conflict-affected settings (DFID, 2009a).

17. DFID's earliest predecessor, the Department for Technical Co-operation, was set up in 1961 as a government ministry in its own right and with a focus on technical expertise at a time when the Treasury still retained control of capital projects.

As a strong advocate of the international aid effectiveness agenda (Chapter 5), DFID has recognised the importance of tailoring support to capacity development to differing country contexts, and is supportive of the Paris and Accra commitments to ensure better co-ordinated, demand-driven support for capacity development, as well as the continued strengthening of partner country systems.

Capacity development in practice

Mainstreaming capacity development in the organisation and its programme

Rather than seeing capacity development as a functional or thematic area in its own right, DFID approaches capacity development as a theme cutting across its development co-operation programme. This is also evident in the way in which the UK government has discussed capacity in the context of state capability in recent years. Internal dialogue and thinking around capacity development issues tend to be centred in DFID's different professional cadres, with all key sector agendas (for example, water, education and health) playing a role in developing, sharing and internalising good practice on capacity and institutional development for their sector-specific challenges. However, the absence of an internal discourse on capacity development that cuts across DFID's thematic work may hinder DFID's ability to disseminate capacity development lessons across sectors and themes.

The Governance Group plays an important role in DFID's work on broader issues of state capability. In its *Policy on Governance, Development and Democratic Politics*, DFID emphasises the importance of country-led approaches for achieving sustainable change: "Initiatives need to be designed to support, not undermine, the capability, accountability and responsiveness of the state. We have learned that the country-led model is the most appropriate..." (DFID, 2007b). Improving understanding of the local development context – including the societal, political and institutional context – has been central to DFID's way of working since the publication of its third white paper.

At the country level, the key tool for improving DFID's understanding of and responsiveness to such factors is the Country Governance Assessment (CGA). The core objective of the CGA is to inform DFID's aid strategy, and this is now a pre-requisite to the preparation of a country assistance plan. As part of the CGA's assessment of state capability, a number of relevant issues are explored, including partner country capabilities for economic and social policy management; government effectiveness and service delivery; revenue mobilisation and PFM; alongside broader questions on the political and institutional context (DFID, 2008h).

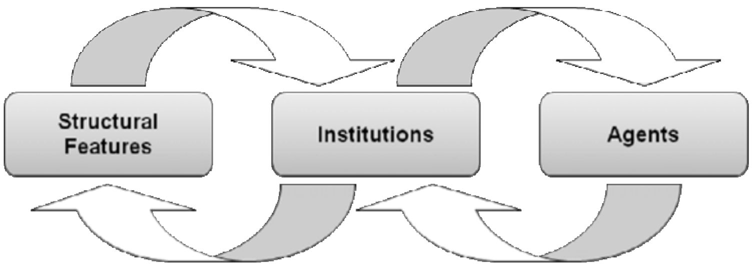
Political economy analysis has also been an important tool for DFID in approaching capacity issues. Since 2003, its Drivers of Change framework has formalised its political economy approach to understand incentives for change over the short, medium and long-term. This has since been integrated into more recent internal guidance on political economy analysis (Box 12).

DFID's work on both capacity development and climate change highlights the challenges in balancing high quality research for domestic purposes and as a global public good, and developing capacity for research in partner countries. DFID's *Research Strategy 2008-2013* aims to "use research not only to improve the knowledge and choices available to our partners across the world, but also to strengthen our own decisions and to make sure that they are based on sound evidence" (DFID, 2008f). While DFID's research strategy intends to develop new knowledge to help shape policies, it also puts a clear emphasis on strengthening developing countries' capability to undertake and use research capacity:

> *"Our own research programmes will pay more attention to helping bring on the research capabilities of developing country researchers. We will also help more in strengthening African research organisations, by supporting regional organizations and research initiatives, including their work to detect future regional development challenges. We will also support southern countries' joint capacity development programmes, through networking and taking part in regional capacity building."*

DFID should continue this capacity development trend, which is important for improving coherence between its research and development policies.

Box 12. DFID's Drivers of Change Framework



In identifying drivers of change over the short, medium and long-term, DFID considers the dynamic interaction among the three sets of factors represented above:

- **Structures** – long-term contextual factors, often difficult to influence.
- **Institutions** – formal (rules, laws) or informal (political, social and cultural norms).
- **Agents** – internal and external actors (political leaders, civil servants, businesses, CSOs etc).

Reviews of the use of this approach by DFID country offices have pointed to the benefits of the Drivers of Change model in improving country strategies and programmes, for example by challenging previous ways of thinking, supporting greater awareness of risks, and enhancing in-country dialogue.

Guidance on sector-level and problem-specific approaches to political economy analysis complement the Drivers of Change approach and help DFID offices to better translate the findings of political economy analysis into operational recommendations.

Source: DFID (2009g).

Designing capacity development interventions

Although DFID's approach to understanding capacity challenges at the country level is relatively well embedded in the analytic approaches described above, this approach to capacity assessment does not always cascade to the level of the individual programme or project. This may hinder the impact and sustainability of DFID's support to capacity development – a concern shared by a report on the first phase of the evaluation of the Paris Declaration (Thornton and Cox, 2008). Prescriptive guidance to country offices sets out DFID's standard project cycle in detail, and there is specific guidance on contracting and managing technical co-operation personnel, but this approach tends to assume that recruiting technical co-operation personnel is a relatively standard response to capacity development challenges (DFID, 2006c). The UK does not at present give explicit consideration to how activities other than technical co-operation can support capacity development (for example, partnerships with other parts of the UK government, scholarships and other development opportunities). It could map these more clearly as a basis for developing a more strategic approach to capacity issues.

An evaluation of DFID-supported technical co-operation in sub-Saharan Africa, focusing on four country cases, made a number of important findings and recommendations: (i) the need for more rigorous and systematic approaches to assessing context in the design of capacity development interventions; (ii) although technical co-operation can be highly effective in a range of contexts, this effectiveness does not necessarily relate to capacity development; and (iii) the lack of civil service reform in partner countries is the most significant barrier to capacity development in most of the cases studied (Oxford Policy Management, 2006).

In its discussions with partner country stakeholders in both India and Rwanda, the peer review team noted that the strategic approach in designing capacity development interventions supported by DFID varied in both quality and extent. It is likely that the quality of dialogue with individuals in DFID country offices has an important impact on capacity development outcomes. Where it has been most strategic, DFID has provided long-term support, often with a focus on strengthening systems and tools. This was the case, for example, for DFID's support to the Rwanda Revenue Authority. DFID's strategic and sustained engagement with the institution over a ten year period was seen to be critical to Rwanda's economic recovery and development. It was complementary to its financial aid – much of which is provided as budget support – at a time when the Government of Rwanda's capacity to mobilise domestic revenue was very weak.

In other cases, DFID's approach to technical co-operation has perhaps been less strategic and less clearly-focused on developing sustainable capacities. For example, in India the peer review team met with two government institutions that expressed appreciation for the work of DFID-funded technical co-operation personnel in the areas of planning and procurement. However, it noted the risks that a "gap filling" approach to technical co-operation might pose in terms of longer-term sustainability, possibly undermining – rather than strengthening – country systems. In Rwanda, some other donors felt that DFID can be too quick to offer short-term technical co-operation personnel to government to accelerate implementation or fill gaps, and that the benefits of such assistance for capacity development are less evident.

To date, DFID's approach to supporting capacity development has focused largely on the government sector, though it will now seek to expand its emphasis on non-state stakeholders, such as civil society and oversight institutions, as called for in the fourth white paper.

Managing technical co-operation

DFID's internal guidance on providing technical co-operation personnel reflects its approach to development co-operation in general – and aid effectiveness issues in particular – in the procurement and management of technical co-operation services. It emphasises, for example, the need to avoid contradictions with its conditionality policy by emphasising partner country leadership over policy decisions. Unlike some bilateral donors, DFID's technical co-operation is fully untied (as is the rest of its bilateral portfolio), and it encourages the procurement of services locally where appropriate. It tries to co-ordinate its support with other donors, at times pooling resources for providing technical co-operation.

DFID’s guidance encourages the use of partner country procurement systems in sourcing technical co-operation expertise, though like many other donors it also recognises some of the legitimate challenges that this may pose, particularly where local procurement capacities are weak, or where local systems make the selection and contracting of the most appropriate expertise difficult. While DFID’s emphasis on aligning with national systems is encouraged, it will be important that decisions on sourcing and managing technical co-operation continue to be guided by partners’ needs, and that country offices retain the capacity to provide adequate support – which can involve high transaction costs – to partners in managing technical co-operation and broader capacity development interventions.

Environment and climate change

Climate change: a new strategic priority with a strong legal and institutional framework

The UK is strongly committed to the climate change agenda, driven from the highest levels of government. This was illustrated by the Prime Minister’s call for reinforced international efforts on climate change in July 2009 and his strong leadership in preparing for the December 2009 Copenhagen Summit. The prominence of the climate change agenda is reflected by the adoption by parliament in November 2008 of both the Energy and the Climate Change Acts. The latter – updated in March 2009 – provides the UK with a legally binding long-term framework for cutting carbon dioxide emissions. It also creates a framework for enhancing the UK's ability to adapt to climate change.

In 2008, the UK created the Department for Energy and Climate Change (DECC) to co-ordinate the government’s response in these areas. It also established a public service agreement (PSA) on climate change when setting the PSAs for 2008-2011. PSA 27 sets out a comprehensive vision for the UK’s international and domestic response to global climate change (HMG, 2007b). It also sets clear indicators and expected outcomes for both mitigation and adaptation, and clearly delineates the roles and responsibilities of relevant UK departments, including the Department of Business, Enterprise and Regulatory Reform, the FCO and DFID (Chapter 2).

Within this framework, DFID should contribute to the international mitigation effort by enabling low-carbon development in developing countries and assisting the multilateral development banks to put in place clean energy investment frameworks and to screen all development investments for climate risks. DFID should also contribute to the UK’s positions on carbon markets and on deforestation. As regards adaptation, DFID should help build adaptive capacity in developing countries as part of national planning processes, in particular through the effective incorporation of disaster risk reduction approaches into policy and planning. These PSA requirements cascade into DFID’s Departmental Strategic Objective 2 on promoting climate change mitigation and adaptation measures and ensuring environmental sustainability.

The emphasis on climate change is reinforced in the 2009 white paper *Eliminating World Poverty: Building a Common Future* (DFID, 2009a). The UK sees climate change as one of the key challenges faced by developing countries and the white paper identifies climate change as one of the four priority areas for its development co-operation programme to target. It sets three directions: (i) working towards an ambitious and fair deal from the Copenhagen process; (ii) supporting mitigation/low carbon development; and (iii) building resilience and supporting adaptation to climate change in developing countries.

A lead role in the international community

The UK plays an influential role in the international debate on environment and climate change and the UK government is actively engaged in EU and international negotiating fora to promote its vision. The UK's approach to international negotiations on climate change was set out in the *Road to Copenhagen*, which made a pro-development case for an ambitious and fair international agreement (HMG, 2009a). Despite the limited results of the Copenhagen meeting, the UK is now actively involved in efforts to implement and build on the Copenhagen Accord working towards a legally-binding UN Convention, and is striving to keep up international momentum for action until the next major climate change forum in Mexico in December 2010. DFID is also actively involved in many technical fora. It currently co-chairs the DAC Network on Environment and Development Co-operation (ENVIRONET). It previously co-chaired the work on strategic environmental assessment (SEA) and has demonstrated strong leadership in applying SEA.[18] It was also actively involved in developing the DAC *Policy Guidance on Integrating Climate Change Adaptation into Development Co-operation*. DFID is also an active member of the board of the international Climate Change Adaptation Fund.

The UK plays a significant role in international thinking on climate change financing and its international architecture. In July 2009 the Prime Minister called for developed and developing countries to work together to provide around USD 100 billion a year by 2020 to help developing countries address climate change. The UK promotes the "additionality" of climate change funding – in other words, it urges that climate finance should be new and additional and should not divert money from existing ODA commitments. The UK has therefore committed to providing additional finance for climate change activities above its existing ODA commitments. Once the UK reaches the 0.7% ODA/GNI target it will provide additional climate finance on top of this. The UK also advocates, for itself and for others, placing a limit of 10% on the amount of ODA spent specifically on climate change activities; any additional funds should not be reported as ODA[19]. However, the UK has since informed the peer review team that it recognises that some or all of this additional funding that is on top of existing ODA commitments may fall within the internationally agreed ODA definition, and may therefore be reported as ODA. This adjustment in the UK's position is important as it signals its commitment to support the integrity of the internationally-agreed ODA definition, alongside its commendable desire to promote the additionality of climate change funding.

18. As an illustration, the UK has played a pivotal role in developing a document called *SEA in Practice in Development Co-operation: A Review of Recent Experiences*. The DAC SEA Task Team will publish this report in 2010.

19. As well as emphasising the need for additional climate change funding the UK sees this 10% ceiling as a way of avoiding diverting ODA already been promised for poverty reduction towards activities that have less impact on poverty reduction.

Operational approaches to environment and climate change

Beyond the specific issue of climate change, DFID sees environmental protection as critical for reducing poverty. Its approach to the environment is outlined in a policy published in 2006 (DFID, 2006d). It is centred on MDG 7 on the environment and includes three dimensions: (i) making a direct contribution to better environmental management; (ii) tackling underlying institutional challenges; and (iii) managing environmental risks. The policy's key operating principles are mainstreaming environment; aligning to country-driven processes; harmonising with other partners; improving capacity for environmental management domestically and in the international arena; and managing environmental knowledge. DFID works both at country level and through partnerships internationally to support better environmental management and help developing country partners build sustainable growth strategies.[20] DFID also supports projects focused on environmental issues.

DFID strives to integrate the principles of sustainable development across a broad range of its sector work (such as governance, conflict prevention and sustainable growth) including addressing environmental objectives in the context of budget support. Environmental screening is part of the DFID logical framework and is mandatory for all programmes of more than GBP 1 million. Following a review which showed uneven results (DFID, 2006e), DFID has now provided clearer guidance to ensure more rigorous implementation of environmental screening and strategic environmental assessment, in line with OECD/DAC guidance (OECD, 2006c). It includes screening of general and sector budget support, linking support with an assessment of how government policies address environmental management for sustainable poverty reduction. Environmental screening requirements are now integrated into the DFID-wide ARIES workflow. An increased focus is put on disaster risk reduction, with the 2009 white paper committing the UK to allocate 10% of any natural disaster response for prevention and preparedness. DFID should monitor the outcomes of these positive steps.

DFID needs a more systematic and strategic approach to developing environmental capacities within partner countries – an operating principle of DFID's approach to the environment. This does not just include capacity in environment ministries and agencies, but also in key economic sectors, central ministries of planning and finance and the non-governmental and private sectors. The OECD has established a Task Team on Governance and Capacity Development for Environment and Natural Resource Management. This task team is currently developing a *Guidance Document on Capacity Development for Environment* that looks at both what can be done by donors in-country and also what can be done by donors within their own agencies to enhance their capacity for environment and natural resource management and governance. DFID's own experience could be a valuable contribution to this work.

Climate change operations are still at an early stage, although key steps have been taken. DFID has developed an implementation plan which was approved by ministers in May 2008 (DFID, 2008e). It is now undertaking a pilot exercise with nine partner countries to integrate climate change into the programme and help partner countries

20. In November 2007 DFID also issued an internal environmental operations policy. This policy describes the department's approach to managing the estate's operational and support activities in line with the UK sustainable development strategy launched in 2005. The policy applies to the management of operational and support activities at all DFID offices. All DFID staff and any contractors working for the department are expected to follow its principles.

develop their national strategies. As part of this pilot, DFID India has developed a matrix on climate change mainstreaming within its programmes. And in 2010 DFID India and DFID Rwanda programmes will undergo a Climate Change Strategic Programme Review of its programme in light of projected climate risks and impacts which will inform planning processes. DFID India seems well advanced in integrating climate change into its programming, both through special projects and through mainstreaming climate change into ongoing and planned projects. In 2007 it had already carried out a climate risk screening and assessment of its programme. However, the peer review team noted during visits to these two countries that work done relied to a great extent on the initiative of the country offices. So far there is no precise corporate guidance nor prescriptive tools on mainstreaming climate change. DFID is now starting to develop a climate change mainstreaming approach. In the coming years DFID should incorporate climate change and disaster risks into its environmental screening. More broadly, DFID should ensure that adaptation to the adverse effects of climate change and opportunities for low carbon growth are further integrated into development policies, plans and programmes. In doing so, DFID could make good use of experience and lessons from DFID India.

The UK increasingly includes climate change in its policy dialogue with partner countries, as was seen in India and Rwanda. In Rwanda, DFID has been working directly with the government on climate change issues since 2008. It has commissioned a study on the economics of climate change in Rwanda, as part of a wider regional study.[21] The final report was published in November 2009 and was seen as instrumental in helping the government to develop its new strategy on climate change. While DFID's support is highly appreciated by the Rwandan government, the Indian government seems less appreciative of UK involvement in this area (which it sees as UK-driven) and key programmes are still to be approved (Annex D). The UK will need to be careful in balancing what is seen now as a key stream of its development co-operation programme with expectations from its development partners. In partner countries, it will also need to ensure that its programmatic support for climate change fits into the wider division of labour.

Although DFID continues to work on environmental issues, there is a risk that the shift of interest towards climate change reduces attention to other key environmental topics that affect livelihoods, such as desertification and soil erosion, and chemicals management. As detailed below, capacity dedicated to climate change is being dramatically strengthened, including through redefining profiles, and funding allocated to this sub-sector is increasing. DFID will need to maintain appropriate attention and resources for the broader environment, building on its positive work on sustainable development, including water and sanitation, and strategically selecting key issues where it can add value. In calling for "promoting economic recovery and *greener growth*", the 2009 white paper also invites DFID to maintain this attention. Equally, as for other donors, the UK's approach to climate change risks distorting the central poverty reduction focus of its aid programme. The UK should ensure that efforts for achieving the MDGs are not given less priority or delayed until climate change is dealt with and partner countries have shifted to a low carbon path, and that it approaches climate change in ways that help alleviate poverty. The UK is aware of this risk and its approach to the additionality of funding to climate change is a positive signal.

21. The UK has funded a number of regional economics of climate change studies, which explore alternative mitigation scenarios for key countries and developing regions, and the costs and benefit of adaptation.

Increased capacities and innovative cross-government work

DFID has increased its capacity to engage in this area, both in terms of staff numbers and adjusted skills through training. The Climate and Environment Advisory Cadre now has 40 environment advisers (compared with 22 in 2007), 36 of whom are also accredited climate change advisers. In particular, 11 posts for climate change advisors in country offices have been created, their costs being shared by HQ's Policy and Research Directorate and the country offices. DFID has also developed on-line training courses on climate change since early 2009. It also provides sessions on climate change during DFID staff regional retreats and has created a network of climate champions to raise awareness within the department. DFID is committed to building awareness on climate change amongst the broader UK public and engages with a wide range of stakeholders (businesses, CSOs) and networks for this purpose.

While the profile of the Climate and Environment Group as a whole has been raised, its growth has been clearly driven by climate change, with three of the six teams dedicated to climate change issues, two covering both climate change and environment and one dedicated to environment. There is also a climate change and environment research team in DFID's Research and Evidence Division. DFID will need to retain enough technical capacity to engage in other environmental areas crucial to the MDGs.

Within the PSA framework, the UK takes innovative approaches to working both in-house and across the UK government in London and at the country level, as illustrated by the establishment of a joint unit on climate change in Delhi (Box 13). A lot of joint policy work is done at every level. For instance, in Rwanda DFID has worked in partnership with the FCO and the DECC to provide technical input and information to the government in the lead up to Copenhagen. In London the key UK departments have worked closely to prepare the UK positions in international negotiations on climate change. DFID also makes strategic use of various sources to develop knowledge, building close links between its internal climate change research capacity (which will receive at least GBP 100 million over the next five years), other UK research institutes and country programmes. In particular, it has developed a climate change research programme and is setting up a UK climate and development knowledge network. These interactions are valuable in providing high quality expertise and sound knowledge at a time when partner countries are assessing the risks and vulnerabilities associated with climate change and are designing their climate change strategies.

Financing and monitoring

The UK's financial support to the environment in development co-operation has both a multilateral and a bilateral component. On the multilateral side, the bulk of the UK's funding will go to the Climate Investment Funds administered by the World Bank (GBP 800 million between 2008 and 2011). In 2008, DFID also provided GBP 6 million to the United Nations Environment Programme (UNEP) to support MDG 7. It has also committed GBP 15 million to the multilateral banks to support the Clean Energy Investment Framework and GBP 20 million to the UN adaptation funds, as well as GBP 50 million to the Congo Basin Forest Fund and GBP 15 million to the Forest Carbon Partnership Facility.

Box 13. India: the joint working unit on climate change and energy

In mid-2008, the UK High Commission and DFID country office in Delhi decided to merge their respective climate change units into a cross-government Climate Change and Energy Unit (CCEU) to enhance joint working across government. The unit works with a wide range of Indian partners to deliver tangible progress on: (i) a credible, fair and ambitious global agreement on climate change; (ii) accelerated investment in low-carbon growth; and (iii) increased resilience of the poor to the impact of climate change.

The CCEU brings together staff and funding from the FCO, DFID, DECC and DEFRA. It has 15 staff in Delhi and four in the regions. Funding comes mostly from the FCO, the rest (and office support) being provided by DFID. The head of the unit works part time for the FCO and part time for DFID. Programme resources are pooled. They include FCO strategic programme funds to support the policy level dialogue, DFID funding on climate change activities (some GBP 12 million), and funding for research activities from DECC. The unit has developed a joint business planning process which is shared with the four departments involved. It is focused on: (i) supporting a credible, fair and ambitious global agreement on climate change; (ii) accelerating investment in low-carbon growth; and (iii) increasing resilience of the poor to the impact of climate change.

The joint unit is able to draw on the FCO's diplomacy skills, DFID's development expertise and DECC and DEFRA's climate change and environmental knowledge. Its joint approach has enabled it to factor development concerns into political negotiations and to boost its work with business, government and NGOs on a range of issues. The unit has also provided value for money by cutting down bureaucracy and reducing transaction costs. The UK could still gain further in this area, by developing a joint reporting mechanism instead of the current separate reports provided to each of the four departments.

Source: DFID India.

The UK's bilateral spending on environment as part of development co-operation is more difficult to establish. The UK reports on the Rio markers. Figures show a sharp increase in expenditure on climate change (rising from USD 52 million in 2007 to USD 288 million in 2008) and on biodiversity (up from USD 9 million in 2007 to USD 247 million in 2008), while expenditures on desertification remain small (USD 11 million in 2008). The UK reporting on environment as a sector and as a policy objective was an average of 13.2% of total sector allocable UK aid between 2005 and 2008, which is high. However, the UK could improve its aid reporting on environment: a methodological issue that is relevant to all donors. The UK is therefore invited to actively engage in the DAC's work to ensure clarity on ODA definitions and reporting on climate change financing.

The PSA 27 delivery agreement sets six overarching indicators to measure progress in implementing the PSA – such as the trend of global CO_2 emissions and the size of the global carbon market – as well as a number of more directly attributable outcomes. The agreement established a cross-government reporting and governance structure to manage the climate change PSA and relevant cabinet committees regularly monitor progress. Mechanisms for monitoring progress and impact will need to be refined following the Copenhagen process. In the meantime, DFID reports annually on the implementation of its DSO 2 on climate change and environmental sustainability. It does so against two indicators: (i) policies and programmatic approaches developed for effective climate change mitigation and adaptation measures in developing countries, along with coherent international support for them; and (ii) environmental sustainability integrated into programmes. While DFID made some specific achievements in these two areas in 2009, it may want to consider commissioning broader impact evaluations in the medium term (DFID, 2009d).

Future considerations

Capacity development

- DFID could improve its internal communication and guidance on capacity development to improve understanding across the organisation of its complex and multi-faceted nature. This will be important in strengthening capacity assessments and the capacity development strategies that are derived from them.

- Developing a thorough understanding of context and maintaining the high quality of dialogue and support to partners in their capacity development efforts can place high transaction costs on donor country offices. DFID will need to reflect on its ability to sustain and improve its work in this area despite pressure to deliver a growing aid budget with declining administrative resources.

Environment and climate change

- The UK should pay attention to wider environment and development issues, building on its experience in sustainable development and aligning to partner countries' needs. The UK is encouraged to set priorities and focus on areas where it can provide value-added compared with other donors, in line with the division of labour called for in the Accra Agenda for Action. Sufficient capacity will need to be retained to engage in these areas.

- DFID's system of environmental screening should include climate change and disaster risk aspects, as well as low carbon growth opportunities. Preliminary experience and thinking from field offices should be incorporated into this.

- The UK should continue to report ODA allocated specifically for environment and climate change, while maintaining the integrity of the ODA definition and supporting the additionality of funding for climate change.

Annex A

Progress since the 2006 DAC Peer Review Recommendations

Key issues	Recommendations 2006	Progress since 2006
Overall framework and new orientations	The challenge for UK development co-operation is how to build from its currently strong base. As DFID tries to deliver more and better aid 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.	The United Kingdom has shown a dynamic spirit in sustaining the momentum and consolidating its position as a world leader in supporting development. This is backed by strong leadership for development from the highest levels of government and enabled by a high-performing development department. DFID has taken effective steps to achieve "more with less". But any further development will need to be assessed carefully against the need to protect DFID's ability to deliver quality aid, including in fragile states.
	As DFID proactively seeks to influence international donors towards 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.	The UK is recognised as an international leader on development and the quality of its inclusive leadership is appreciated in partner countries. Given its strong role in shaping the Accra Agenda for Action, and the degree of its investment in specific initiatives (*e.g.* IATI, IHP) DFID should continue to play an active role in international dialogue on aid effectiveness more broadly. The UK is also invited to work more closely with other donors towards joint approaches to supporting multilateral effectiveness.
	Maintaining current high levels of public support for development will be a special challenge. DFID will need to identify and communicate results and "tell a 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.	DFID has strengthened its communication efforts with a reinforced Communications Division and a new strategy building on substantial market research to tailor messages to each segment of the public. Despite substantial progress (*e.g.* a website, media coverage), key UK stakeholders agree that the economic downturn and disappointing findings from DFID's 2009 survey on levels of public awareness require continuous efforts in communication. This includes providing persuasive evidence and messages on aid effectiveness.
Policy coherence for development	The UK should develop a more clearly prioritised action agenda for policy coherence for development (PCD). DFID should make judicious use of its significant headquarters' and field resources in identifying and working on specific policy inconsistencies.	The 2009 white paper provides high-level political commitment and an overarching plan for policy coherence for development in three areas; and the 2008-2011 public sector agreements set a framework for coherence among UK policies. Good progress has been made in areas where the cabinet has engaged strategically and where institutional mechanisms are in place. The UK agenda for PCD should now be extended to include new areas. DFID should continue to use both internal and external analytical capacity to bring strong evidence for policy inter-linkages and impacts on development to government discussions.
	Policy coherence actions should be fully integrated into DFID's results monitoring and reporting, if at all possible in concert with other similarly motivated international partners.	The UK is making progress in monitoring and reporting on the impacts of its policies on its development efforts and results, with the PSAs and DFID's performance framework providing a results-based approach to cross-government work. Further progress is planned. DFID should include in its annual report a section on policy coherence (as

Key issues	Recommendations 2006	Progress since 2006
		required by the International Development Transparency Act 2006). Its new evaluation policy plans to assess policy coherence issues.
Aid volume and distribution	The DAC welcomes the commitment to reach the 0.7% ODA/GNI target by 2013 and reinforces the importance of the UK 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 UK remains committed to reaching the 0.7% target by 2013. The 2008-2011 Comprehensive Spending Review sets out plans for the UK to provide 0.56% of GNI as ODA by the UK fiscal year 2010/11 and the UK government has signalled its intention to enshrine its ODA/GNI target in legislation. The 2009 white paper has set directions for the bilateral programme, maintaining a strong focus on LICs and increased support to fragile states while further concentrating bilateral assistance geographically. It also commits to increasing reliance on multilateral channels for aid delivery.
	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.	DFID's bilateral programme remains strongly focused on LICs (61% in 2008), and its sector distribution on social infrastructure and services (44% in 2007/08), reflecting a continued emphasis on achieving the MDGs. Some 90% of the bilateral programme in volume terms is now concentrated in 23 countries and the period 2006-2009 saw the closure of 11 country offices. Where decisions to close country programmes have been taken, DFID has ensured that this was done in a phased and predictable manner, and in consultation with other donors.
	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.	Strong focus on social services has led to a decline in allocations to the productive sectors. However, the UK's fourth white paper places an increasing focus on supporting sustainable and pro-poor economic growth and some country offices have already developed growth strategies. DFID's innovative efforts to promote gender equality in its programmes have been successful and it could now give more attention to gender equality in the "beyond aid" agenda, including at the international level.
	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.	One third of DFID's programme budget is affected by sector spending targets, primarily in health and education. DFID headquarters consider that these are manageable and do not distort its ability to align with country priorities. A growing aid budget and the inclusion of budget support and assistance delivered through multilateral channels in such targets allows for a degree of flexibility. DFID should continue to manage these targets in ways that do not undermine 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.	DFID has further improved its strategic tools for assessing multilateral performance, both relying on the work of the Multilateral Organisations Performance Network (MOPAN) and developing its own framework for multilateral engagement. DFID should continue to engage with other bilateral donors to support harmonised approaches to partnership with multilateral organisations. DFID has made clear its intention to increase the share of funding to the UN provided as core or unearmarked resources at the central level (from 40% at present), in return for clearer evidence of results and impact of this assistance on development outcomes.

Key issues	Recommendations 2006	Progress since 2006
Aid management and implementation	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 organisation and management.	DFID has managed to deliver increasing ODA volumes whilst reducing administrative costs. This has been done both through strategic actions (increased reliance on multilateral delivery channels, closing country offices, delegated co-operation agreements) and broader corporate governance reforms (Making it Happen programme; creation of the Investment Committee). These efforts have been instrumental in saving costs and DFID's commitment to organisational effectiveness is commendable. DFID should however look carefully at whether administrative budgets can be reduced further without affecting how the programme is delivered or its credibility, as it engages more in fragile situations.
	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 measurement tools to demonstrate results.	DFID has taken steps to streamline its reporting system, with ARIES integrating different reporting requirements into a single system. However, DFID's reporting structure remains complex and should be further streamlined to alleviate the burden on staff while ensuring that: (i) all country offices comply with DFID systems and objectives; (ii) feedback provided through these reporting systems is used for management purposes; and iii) the information generated responds to requests for scrutiny from British stakeholders. DFID has put a lot of effort in managing for and demonstrating development results, including through supporting statistical capacity in partner countries. It is considering how to quantify peace and state-building results in fragile states.
	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.	DFID is becoming increasingly strategic over human resource management, as illustrated by its new market-based postings system, new promotion process and the development of tools for workforce planning in December 2009. In order to fill posts in fragile states, DFID has increased incentives and reduced posting durations for these posts. In 2009, DFID also undertook a review of staffing in fragile states; it has agreed a new internal cluster approach to staffing and is now reviewing financial incentives. A challenge for DFID is to maintain the technical capacity of its staff in the context of reduced administrative resources.
	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.	Interactions within DFID are increasing with wide consultation processes on policies. These rely on extensive use of information technology, but also on innovative approaches to sharing staff. This helps in building linkages between the field and headquarters, and enables the Policy Division to ground policies in reality. Professional groupings also play an important role in sharing lessons. Their role could be deepened further, in particular as regards horizontal collaboration across the organisation. DFID also aims to better link research and internal policy making and has thus regrouped policy and research work under the same directorate.
	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 of the roles and responsibilities of different policy and operational teams within DFID concerning fragile states.	DFID has divided roles and responsibilities, with CHASE leading on all conflict and security matters and the Politics and State team in the Policy and Research Directorate leading on governance matters. A joint work stream addresses state building and peace building.

Key issues	Recommendations 2006	Progress since 2006
Aid effectiveness	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.	DFID's deepened decentralisation enables it respond flexibly to partner governments' needs and contexts, including in its mix of aid modalities. DFID is developing guidelines for programming approaches in fragile states. The DFID medium-term action plan (2007) and its post-Accra Action Plan (2009) supersede the previous medium-term action plan and focus DFID's efforts on three areas (predictability, transparency, mutual accountability) for better meeting the AAA commitments.
	The UK is encouraged to look at general budget support (GBS) 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.	While DFID continues to be ahead of other donors in engaging in budget support, it has clarified its approach to budget support as part of a mix aid modalities. Key domestic stakeholders are supportive of DFID's approach to direct budget support, provided that certain conditions are satisfied. Continued efforts in assessing and communicating the added value of this instrument vis-à-vis other aid modalities will be important in ensuring continued support for the UK's budget support operation.
	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.	DFID's approach has to date focussed on the government sector, including increasing focus on sub-national government levels through a stronger focus on decentralisation and local governance. It will now seek to expand its emphasis on non-state stakeholders, such as civil society and oversight institutions, as called for in the fourth White Paper. DFID should keep sight of the grass-roots context as the move towards modalities such as direct budget support may come at the expense of staff development and exposure to field-level issues and realities.
Humanitarian aid	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.	DFID's 2006 humanitarian policy continues to emphasise improving the quality of assessments to inform needs-based provision of humanitarian aid. Progress is being made on improving coherence within Whitehall with, for instance, strengthened co-ordination on stabilisation and conflict prevention. The DFID policy paper on Preventing Violent Conflict (DFID, 2007a) appropriately positions DFID as a stakeholder in tackling the problems that contribute to violent conflict, although further clarity and guidance may be needed on co-locating UK's humanitarian and peace-building objectives within the "contiguum" of post-crisis programming.
	Awareness-raising of the new humanitarian policy framework and on GHD (good humanitarian donorship) at field level should be made a priority.	Progress has been made and links have been strengthened with humanitarian policy orientations at the field level. There are also resilient links between policy and practice within UK humanitarian assistance.
	Greater operational clarity between FCO, DFID and MOD is needed on how to maximise the protection of civilians and on approaches in fragile states.	The UK is committed to protecting civilians, as illustrated by the forthcoming launch of the UK strategy on the Protection of Civilians in Armed Conflict. This strategy was prepared by the FCO, MOD and DFID, and identifies appropriate operating procedures for civilian and military actors in difficult environments.

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	1994-98	1999-2003	2004	2005	2006	2007	2008
Total official flows	**3 411**	**4 732**	**7 750**	**10 673**	**12 272**	**9 805**	**11 477**
Official development assistance	**3 379**	**4 737**	**7 905**	**10 772**	**12 459**	**9 849**	**11 500**
Bilateral	1 876	2 984	5 361	8 169	8 735	5 602	7 367
Multilateral	1 503	1 753	2 544	2 603	3 724	4 247	4 133
Other official flows	**32**	**- 5**	**- 155**	**- 99**	**- 187**	**- 43**	**- 22**
Bilateral	32	- 5	- 155	- 99	- 187	- 43	- 22
Multilateral	-	-	-	-	-	-	-
Net Private Grants	**425**	**417**	**390**	**726**	**543**	**236**	**462**
Private flows at market terms	**12 086**	**7 116**	**23 562**	**19 870**	**14 127**	**35 634**	**29 938**
Bilateral: *of which*	12 086	7 116	23 562	19 870	14 127	35 634	29 938
Direct investment	8 181	7 263	18 092	14 812	7 530	22 584	23 783
Export credits	76	- 591	- 356	- 625	-4 696	196	3 932
Multilateral	-	-	-	-	-	-	-
Total flows	**15 922**	**12 264**	**31 702**	**31 269**	**26 941**	**45 676**	**41 878**
for reference:							
ODA (at constant 2007 USD million)	*5 546*	*7 147*	*9 316*	*12 519*	*13 938*	*9 849*	*12 315*
ODA (as a % of GNI)	*0.28*	*0.31*	*0.36*	*0.47*	*0.51*	*0.35*	*0.43*
Total flows (as a % of GNI) (a)	*1.32*	*0.79*	*1.45*	*1.37*	*1.11*	*1.61*	*1.57*
ODA to and channelled through NGOs							
- In USD million	91	375	1 120	1 097	1 132	1 597	714
- In percentage of total net ODA	*3*	*8*	*14*	*10*	*9*	*16*	6
- Median DAC percentage of total net ODA	*4*	*8*	*8*	*9*	*7*	*7*	7

a. To countries eligible for ODA.

ODA net disbursements
At constant 2007 prices and exchange rates and as a share of GNI

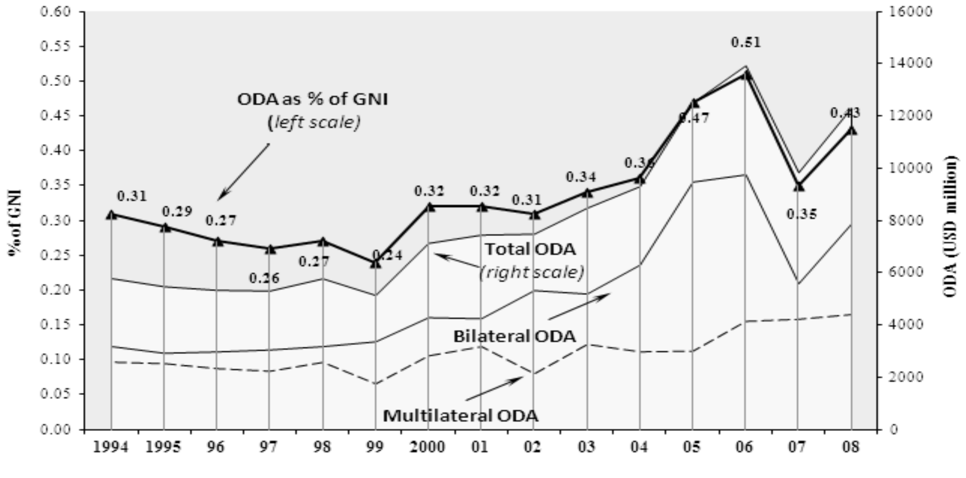


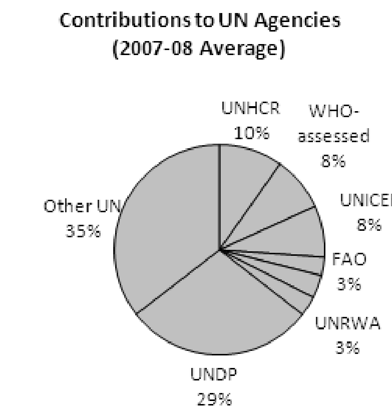
Table B.2. ODA by main categories

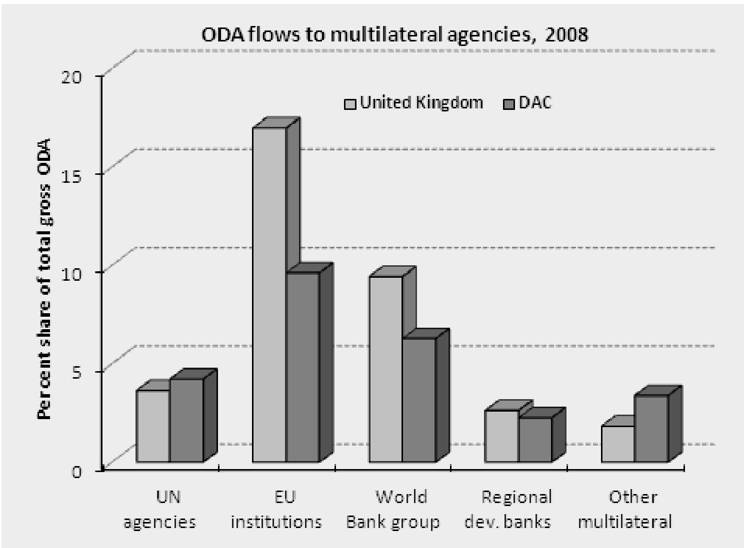
Disbursements

United Kingdom	Constant 2007 USD million					Per cent share of gross disbursements					Total DAC
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	2008%
Gross Bilateral ODA	**6 651**	**9 896**	**10 395**	**7 379**	**8 399**	**69**	**76**	**71**	**63**	**65**	**74**
Grants	*6 202*	*9 589*	*9 875*	*6 577*	*7 564*	*64*	*74*	*68*	*57*	*59*	*65*
Project and programme aid	1 710	1 578	1 808	1 807	2 005	18	12	12	16	16	25
Technical co-operation	885	982	962	888	1 218	9	8	7	8	9	12
Developmental food aid	-	-	-	90	172	-	-	-	1	1	1
Humanitarian aid	616	730	934	352	714	6	6	6	3	6	7
Action relating to debt	966	4 114	3 928	77	588	10	32	27	1	5	8
Administrative costs	599	496	534	545	496	6	4	4	5	4	4
Other grants	1 426	1 688	1 710	2 819	2 371	15	13	12	24	18	8
Non-grant bilateral ODA	*449*	*307*	*520*	*802*	*835*	*5*	*2*	*4*	*7*	*7*	*9*
New development lending	95	20	1	0	-	1	0	0	0	-	8
Debt rescheduling	-	-	-	-	-	-	-	-	-	-	0
Acquisition of equity and other	354	288	519	802	835	4	2	4	7	7	1
Gross Multilateral ODA	**3 047**	**3 084**	**4 233**	**4 247**	**4 426**	**31**	**24**	**29**	**37**	**35**	**26**
UN agencies	457	592	624	576	467	5	5	4	5	4	4
EU institutions	1 821	1 420	1 751	2 143	2 178	19	11	12	18	17	10
World Bank group	417	797	1 096	987	1 209	4	6	7	8	9	6
Regional development banks (a)	154	32	396	188	337	2	0	3	2	3	2
Other multilateral	194	237	363	352	235	2	2	2	3	2	3
Total gross ODA	**9 698**	**12 980**	**14 628**	**11 626**	**12 825**	**100**	**100**	**100**	**100**	**100**	**100**
Repayments and debt cancellation	**- 382**	**- 460**	**- 689**	**-1 778**	**- 510**						
Total net ODA	**9 316**	**12 519**	**13 938**	**9 849**	**12 315**						
For reference:											
Associated financing (b)	*23*	*21*	*14*	*22*	*10*						
Net debt relief	*958*	*4 102*	*3 919*	*70*	*588*						
Imputed student cost	-	-	-	-	-						
Refugees in donor countries	-	-	-	-	-						

a. Excluding EBRD.

b. ODA grants and loans in associated financing packages.





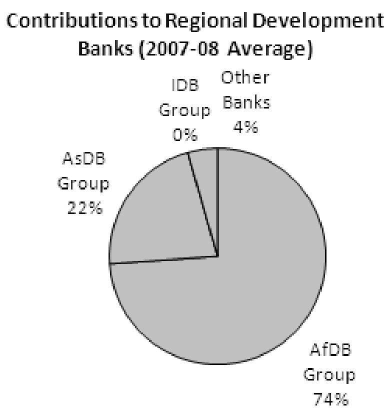
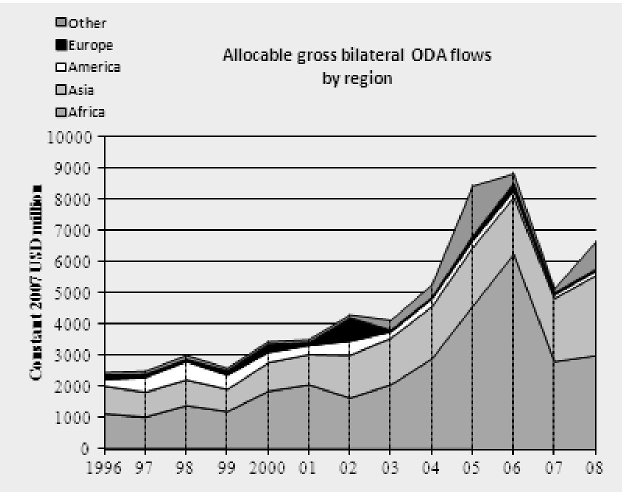
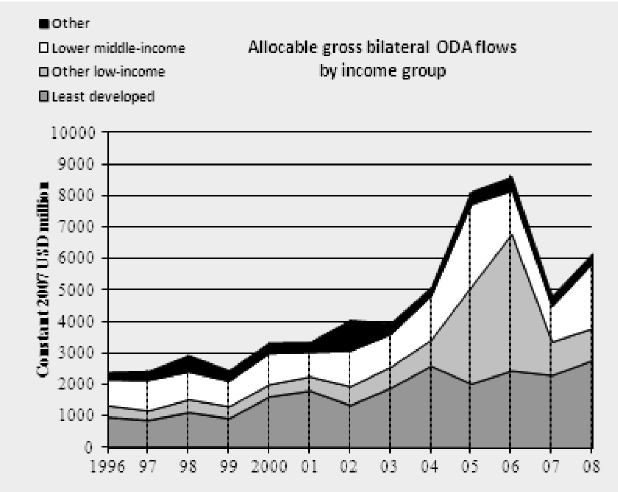


Table B.3. Bilateral ODA allocable by region and income group

Gross disbursements

United Kingdom	Constant 2007 USD million					Per cent share					Total DAC
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	2008%
Africa	2 913	4 608	6 278	2 820	3 013	55	54	71	55	45	**38**
Sub-Saharan Africa	2 715	4 447	6 165	2 697	2 716	51	52	70	52	41	**32**
North Africa	92	33	39	6	39	2	0	0	0	1	**4**
Asia	1 682	1 896	1 838	2 038	2 576	32	22	21	39	39	**30**
South and Central Asia	1 397	1 398	1 392	1 501	1 986	26	16	16	29	30	**17**
Far East	263	354	361	415	534	5	4	4	8	8	**12**
America	248	216	207	121	142	5	3	2	2	2	**10**
North and Central America	119	165	141	102	96	2	2	2	2	1	**4**
South America	114	39	47	18	31	2	0	1	0	0	**4**
Middle East	390	1 594	301	118	870	7	19	3	2	13	**17**
Oceania	7	9	5	6	7	0	0	0	0	0	**2**
Europe	50	156	236	62	59	1	2	3	1	1	**4**
Total bilateral allocable by region	**5 291**	**8 479**	**8 865**	**5 166**	**6 666**	**100**	**100**	**100**	**100**	**100**	**100**
Least developed	2 605	2 039	2 454	2 308	2 779	51	25	28	48	45	**35**
Other low-income	818	3 089	4 352	1 060	1 010	16	38	50	22	16	**10**
Lower middle-income	1 404	2 629	1 379	1 127	2 075	28	32	16	23	34	**46**
Upper middle-income	271	389	437	323	309	5	5	5	7	5	**10**
More advanced developing countries	1	2	0	1	-	0	0	0	0	-	-
Total bilateral allocable by income	**5 099**	**8 148**	**8 622**	**4 820**	**6 173**	**100**	**100**	**100**	**100**	**100**	**100**
For reference:											
Total bilateral	6 651	9 896	10 395	7 374	8 399	*100*	*100*	*100*	*100*	*100*	***100***
of which: Unallocated by region	*1 360*	*1 418*	*1 530*	*2 209*	*1 733*	*20*	*14*	*15*	*30*	*21*	***19***
of which: Unallocated by income	*1 552*	*1 749*	*1 773*	*2 554*	*2 227*	*23*	*18*	*17*	*35*	*27*	***27***





1. Each region includes regional amounts which cannot be allocated by sub-region. The sum of the sub-regional amounts may therefore fall short of the regional total.

Table B.4. Main recipients of bilateral ODA

Gross disbursements

United Kingdom	1997-2001 average Current USD million	1997-2001 average Constant 2007 USD mln	1997-2001 average Per cent share	Memo: *DAC countries' median*
India	184	287	7	
Tanzania	151	238	6	
Uganda	119	186	5	
Bangladesh	101	157	4	
Mozambique	90	142	4	
Top 5 recipients	**645**	**1 009**	**26**	**21**
Zambia	89	138	4	
Ghana	79	122	3	
Malawi	66	103	3	
Guyana	62	95	3	
China	59	92	2	
Top 10 recipients	**999**	**1 560**	**41**	**33**
Kenya	58	90	2	
South Africa	54	84	2	
States Ex-Yugoslavia	44	68	2	
Montserrat	42	65	2	
Indonesia	42	65	2	
Top 15 recipients	**1 240**	**1 933**	**50**	**41**
Pakistan	37	56	1	
Sierra Leone	32	50	1	
Rwanda	29	46	1	
Zimbabwe	28	43	1	
Nepal	28	43	1	
Top 20 recipients	**1 393**	**2 172**	**57**	**46**
Total (134 recipients)	**1 863**	**2 901**	**76**	
Unallocated	596	928	24	38
Total bilateral gross	**2 458**	**3 828**	**100**	**100**

	2002-06 average Current USD million	2002-06 average Constant 2007 USD mln	2002-06 average Per cent share	Memo: *DAC countries' median*
Nigeria	1 121	1 280	18	
India	441	548	7	
Iraq	398	470	6	
Tanzania	216	269	3	
Bangladesh	204	255	3	
Top 5 recipients	**2 379**	**2 821**	**38**	**29**
Afghanistan	184	226	3	
Ghana	165	205	3	
Serbia	151	208	2	
Zambia	131	159	2	
Pakistan	125	155	2	
Top 10 recipients	**3 135**	**3 773**	**50**	**45**
Sudan	115	134	2	
Uganda	113	140	2	
Congo, Dem. Rep.	111	131	2	
Malawi	110	134	2	
Ethiopia	99	119	2	
Top 15 recipients	**3 684**	**4 433**	**59**	**53**
South Africa	94	117	2	
Kenya	81	101	1	
Mozambique	72	89	1	
China	71	89	1	
Rwanda	66	82	1	
Top 20 recipients	**4 068**	**4 910**	**65**	**58**
Total (134 recipients)	**4 925**	**5 975**	**79**	
Unallocated	1 291	1 601	21	22
Total bilateral gross	**6 215**	**7 576**	**100**	**100**

	2007-08 average Current USD million	2007-08 average Constant 2007 USD mln	2007-08 average Per cent share	Memo: *DAC countries' median*
India	700	727	9	
Iraq	350	372	5	
Afghanistan	296	307	4	
Nigeria	275	282	4	
Ethiopia	273	282	4	
Top 5 recipients	**1 893**	**1 970**	**25**	**31**
Bangladesh	249	258	3	
Tanzania	243	252	3	
Pakistan	229	239	3	
Sudan	203	210	3	
China	201	208	3	
Top 10 recipients	**3 018**	**3 137**	**40**	**44**
Congo, Dem. Rep.	157	164	2	
Mozambique	157	164	2	
Ghana	152	157	2	
South Africa	149	153	2	
Malawi	140	145	2	
Top 15 recipients	**3 773**	**3 921**	**50**	**54**
Kenya	118	122	2	
Uganda	116	119	2	
Viet Nam	112	116	1	
Rwanda	97	101	1	
Nepal	93	97	1	
Top 20 recipients	**4 310**	**4 475**	**57**	**61**
Total (131 recipients)	**5 292**	**5 496**	**70**	
Unallocated	2 319	2 393	30	21
Total bilateral gross	**7 611**	**7 889**	**100**	**100**

Table B.5. Bilateral ODA by major purposes

at current prices and exchange rates

Gross disbursments - Two-year averages

United Kingdom	1997-2001 average		2002-06 average		2007-08 average		2007-08
	2007 USD million	Per cent	2007 USD million	Per cent	2007 USD million	Per cent	Total DAC per cent
Social infrastructure & services	**1 016**	**29**	**2 397**	**34**	**3 431**	**44**	**41**
Education	287	8	408	6	757	10	9
of which: basic education	83	2	253	4	436	6	2
Health	244	7	395	6	591	8	4
of which: basic health	100	3	146	2	278	4	3
Population & reproductive health	104	3	248	4	439	6	7
Water supply & sanitation	74	2	43	1	149	2	5
Government & civil society	178	5	1 163	16	1 252	16	13
of which: Conflict, peace & security	-	-	3	0	275	4	3
Other social infrastructure & services	129	4	141	2	242	3	4
Economic infrastructure & services	**351**	**10**	**369**	**5**	**1 133**	**14**	**15**
Transport & storage	117	3	95	1	71	1	6
Communications	19	1	10	0	28	0	0
Energy	120	3	141	2	49	1	4
Banking & financial services	78	2	63	1	946	12	3
Business & other services	17	0	60	1	40	1	2
Production sectors	**414**	**12**	**342**	**5**	**253**	**3**	**6**
Agriculture, forestry & fishing	257	7	226	3	108	1	4
Industry, mining & construction	148	4	80	1	71	1	1
Trade & tourism	4	0	36	1	73	1	1
Other	5	0	-	-	1	0	0
Multisector	**165**	**5**	**182**	**3**	**305**	**4**	**6**
Commodity and programme aid	**342**	**10**	**78**	**1**	**816**	**10**	**5**
Action relating to debt	**428**	**12**	**2 014**	**29**	**333**	**4**	**10**
Humantarian aid	**361**	**10**	**731**	**10**	**533**	**7**	**8**
Administrative costs of donors	**291**	**8**	**537**	**8**	**520**	**7**	**5**
Aid to NGOs (core support)	**103**	**3**	**416**	**6**	**520**	**7**	**2**
Refugees in donor countries	-	-	-	-	-	-	**2**
Total bilateral allocable	3 472	100	7 066	100	7 844	100	100
For reference:							
Total bilateral	*3 805*	*60*	*7 573*	*70*	*7 889*	*65*	*75*
of which: Unallocated	*334*	*5*	*508*	*5*	*46*	*0*	*1*
Total multilateral	*2 545*	*40*	*3 184*	*30*	*4 336*	*35*	*25*
Total ODA	***6 351***	***100***	***10 757***	***100***	***12 226***	***100***	***100***

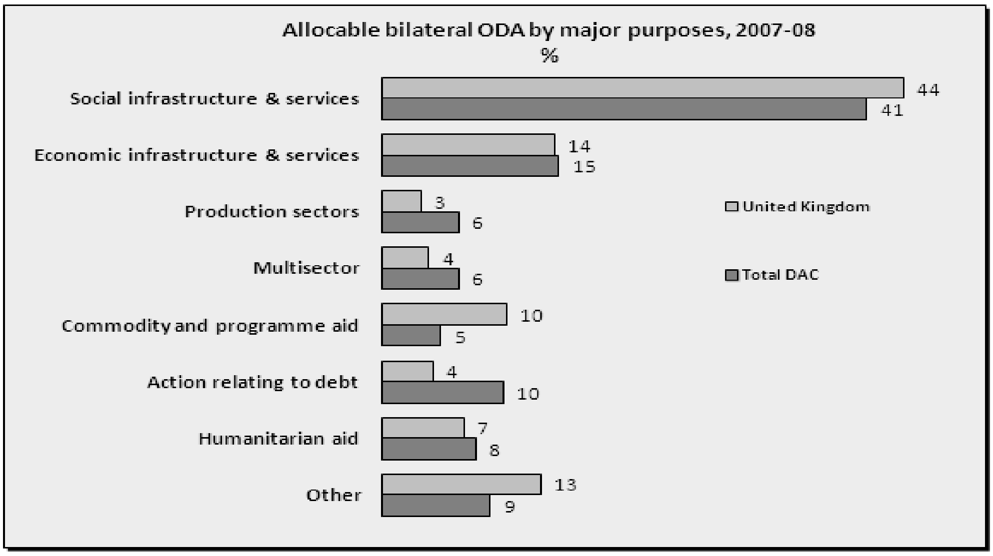


Table B.6. Comparative aid performance

Net disbursements

	Official development assistance			Grant element of ODA (commitments)	Share of multilateral aid				ODA to LDCs Bilateral and through multilateral agencies	
	2008		2002-03 to 07-08 Average annual % change in real terms	2008	2008				2008	
	USD million	% of GNI		% (a)	% of ODA (b)	% of ODA (c)	% of GNI (b)	% of GNI (c)	% of ODA	% of GNI
Australia	2 954	0.32	8.3	100.0	10.2		0.03		25.9	0.08
Austria	1 714	0.43	18.0	100.0	28.0	10.9	0.12	0.05	16.3	0.07
Belgium	2 386	0.48	-0.2	99.7	42.3	19.3	0.20	0.09	39.0	0.19
Canada	4 785	0.32	6.4	100.0	29.8		0.10		38.8	0.13
Denmark	2 803	0.82	0.7	100.0	34.8	25.1	0.28	0.21	39.1	0.32
Finland	1 166	0.44	7.7	100.0	40.5	22.4	0.18	0.10	34.3	0.15
France	10 908	0.39	1.7	90.0	40.8	17.6	0.16	0.07	28.0	0.11
Germany	13 981	0.38	8.7	92.1	35.2	15.1	0.13	0.06	25.9	0.10
Greece	703	0.21	3.4	100.0	55.6	21.6	0.12	0.05	20.5	0.04
Ireland	1 328	0.59	13.4	100.0	29.9	18.3	0.18	0.11	50.8	0.30
Italy	4 861	0.22	3.7	99.0	62.2	26.9	0.14	0.06	32.7	0.07
Japan	9 579	0.19	-1.8	85.3	28.8		0.05		26.1	0.05
Luxembourg	415	0.97	7.7	100.0	32.9	24.3	0.32	0.24	39.1	0.38
Netherlands	6 993	0.80	4.1	100.0	25.6	16.6	0.21	0.13	29.0	0.23
New Zealand	348	0.30	8.1	100.0	20.2		0.06		29.1	0.09
Norway	3 963	0.88	3.8	100.0	23.4		0.21		37.8	0.33
Portugal	620	0.27	1.6	79.2	39.8	13.8	0.11	0.04	36.2	0.10
Spain	6 867	0.45	14.6	94.3	30.1	15.0	0.13	0.07	21.3	0.10
Sweden	4 732	0.98	7.4	100.0	33.6	25.8	0.33	0.25	32.6	0.32
Switzerland	2 038	0.42	4.5	100.0	23.9		0.10		24.5	0.10
United Kingdom	11 500	0.43	6.8	100.0	35.9	18.3	0.16	0.08	36.5	0.16
United States	26 842	0.19	7.4	100.0	11.1		0.02		30.8	0.06
Total DAC	121 483	0.31	5.6	96.0	28.8	18.1	0.09	0.06	30.4	0.09
Memo: Average country effort		0.48								

Notes:

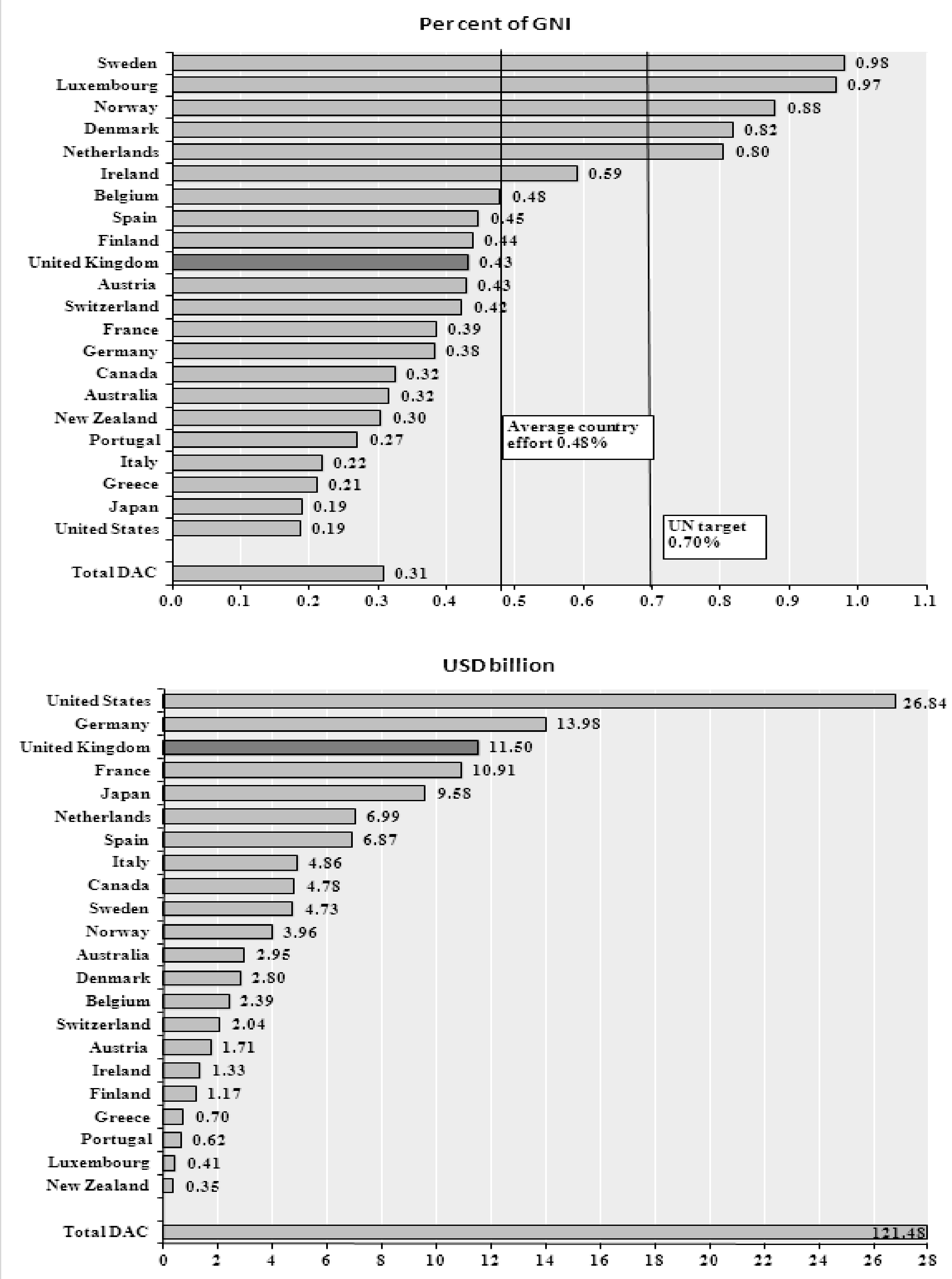
a. Excluding debt reorganisation.

b. Including EU institutions.

c. Excluding EU institutions.

.. Data not available.

Figure B.1. Net ODA from DAC countries in 2008



Annex C

The United Kingdom and the Good Humanitarian Donorship Initiative

The UK endorsed the *Principles and Good Practices of Humanitarian Donorship*[22] at the inaugural good humanitarian donorship (GHD) conference in Stockholm in 2003. The UK was one of the first DAC members to publish a national implementation plan, in 2005, as agreed at the first high-level meeting on GHD in Ottawa. The national plan has now been subsumed within *Saving Lives, Relieving Suffering, Protecting Dignity: DFID's Humanitarian Policy*, which reiterated the commitment "to the principles of Good Humanitarian Donorship, and to their implementation in its own work and more broadly" (DFID, 2006f).

This peer review is the second time that the DAC has assessed the UK against its GHD commitments. The previous peer review remarked that "the UK has become a global leader in improving and reforming the international humanitarian aid system and a main contributor in financing humanitarian action" (OECD, 2006a). Since then it has continued to be influential in global humanitarian issues. The last peer review report made three specific recommendations for humanitarian action. The UK has made progress towards addressing these recommendations (Annex A).

This peer review has been conducted in accordance with the 2008 humanitarian assessment framework. The report is structured around the four thematic clusters of the GHD principles and good practices: (i) policy framework for humanitarian action; (ii) funding flows; (iii) promoting standards and enhancing implementation; and (iv) learning and accountability. It concludes by identifying issues for further consideration by the UK development co-operation system. The report primarily draws on a series of meetings held in London in November 2009 with DFID officers, representatives of other government departments and representatives of UK-based NGOs. Assessment of UK humanitarian action was not included in the field visits to India and Rwanda.

Legislative and policy framework for UK humanitarian action

Legal foundations

The International Development Act 2002 is the legal foundation for UK humanitarian action and vests legal responsibility in the Secretary of State for all overseas humanitarian assistance in response to natural or man-made disasters or other emergencies. It provides for (i) financial or technical assistance; and (ii) assistance consisting of supplying materials. However, the act does not legislate the neutrality, impartiality and independence of this assistance in humanitarian contexts.

22. *www.goodhumanitariandonorship.org/background.asp.*

Policy foundations

UK humanitarian action is anchored, first and foremost, in the Public Service Agreements (PSAs). At a bilateral level, PSA 29 makes specific reference to continuing to "provide humanitarian aid where it is needed and to support reform of the international humanitarian system". At a multilateral level, it refers to "work towards an enhanced UN led humanitarian … system and improved coordination mechanisms" and sets the dual goals of "creating incentives for a coordinated response by more effective financing" and "to increase the effectiveness of UNDP in crisis prevention and recovery" (Chapter 1). PSA 30 refers to UK humanitarian action for Palestinian refugees and PSA 27 refers to disaster risk reduction (DRR) in the context of climate change, although there are no references in the PSAs to DRR or emergency responses for other environmental or hydro-meteorological disasters.

The implementation framework for the humanitarian priorities identified in the PSAs is further defined by three DID policy documents – the 2009 white paper (DFID, 2009a), *Saving Lives, Relieving Suffering and Protecting Dignity: DFID's Humanitarian Policy* (DFID, 2006f) and *Reducing the Risk of Disasters – Helping to Achieve Sustainable Poverty Reduction in a Vulnerable World* (the "DRR policy", DFID, 2006g). These policies outline mutually-reinforcing goals across the spectrum of humanitarian action (Box 14). Importantly, these policies have been developed through robust consultative processes – a critical feature of recent UK policy-making that has promoted broad support from non-government stakeholders.

Box C.1 The UK's humanitarian policy framework

White paper (2009)	Humanitarian policy (2006)	DRR policy (2006)
Deepen efforts that have already improved the humanitarian system.	Improve the effectiveness of humanitarian responses.	Contribute to sustainable development through reducing the burden of disasters on the poor and most vulnerable.
	Be a better donor.	
Invest in the evidence base for really effective humanitarian aid.	Continue to emphasise the importance of improving the quality of needs assessment.	
Actively support humanitarian action by NGOs and the Red Cross Movement.	Support efforts to build the prevention and response capacity of [international NGO, Red Cross and UN partners].	Support an improved international system and strong institutional structures at the national and regional level aimed at reducing risk in disaster-prone developing countries.
Support an enlarged UN Central Emergency Response Fund (CERF).		Promote the effective integration of risk reduction into development and humanitarian policy and planning.
Invest 10% of the funding provided by DFID in response to each major natural disaster to prepare for and help prevent future disasters.	Reduce risk and extreme vulnerability.	Reduce the vulnerability of the poor through building capacity and livelihood resilience to disaster risk.

Humanitarian action in the white paper

The UK has continued to be active within the international donor community and allocates substantial resources to global efforts to strengthen the international humanitarian system. In the UK's view, these efforts remain incomplete and the 2009 white paper therefore outlines the overarching goal to "deepen efforts that have already improved the humanitarian system", underpinned by four specific objectives: (i) to support an enlarged UN Central Emergency Response Fund (CERF); (ii) to invest 10% of DFID funding in response to each major natural disaster to prepare for and help prevent future disasters; (iii) to invest in the evidence base for really effective humanitarian aid; and (iv) to actively support humanitarian action by NGOs and the Red Cross Movement. It embraces multilateralism as the backbone of international humanitarian action and re-affirms the importance of humanitarian dialogue for improving access to crisis-affected populations. It contains important initiatives – including building the capacity and preparedness of key NGO partners – and outlines an ambition "to lobby for a single Development Commissioner within the EC covering all development and humanitarian aid" (DFID, 2009a). This aspiration could have profound impacts on the delivery and scope of European humanitarian action. Overall, however, the white paper commitments represent a deepening – rather than widening – of the humanitarian agenda previously outlined in the two policy documents launched in 2006. These documents already outlined a holistic vision of an effective humanitarian response system, as well as actions to reduce vulnerability by increasing preparedness and diminishing exposure to hazards. Therefore, they remain highly relevant to the white paper themes.

Humanitarian response policy

Launched in 2006, *Saving Lives, Relieving Suffering, Protecting Dignity: DFID's Humanitarian Policy* (DFID, 2006f) outlines a strategy to advocate for stronger leadership and accountability within the UN-led humanitarian system, while maintaining a bilateral capacity to "plug holes" (emergency relief stockpiles, air charter arrangements, technical expertise). The policy sets out a broad vision of humanitarian action that includes protection of civilians: "helping to keep people safe and to preserve their dignity and integrity as a human being". The 2006 peer review recommended that field-level awareness of this policy should be made a priority and, indeed, several interlocutors remarked that there appeared to be a strong awareness of the humanitarian policy at the field level and that the links between policy and practice within UK humanitarian assistance appear resilient.

DFID is also working with the FCO and MoD to define a UK Strategy on the Protection of Civilians in Armed Conflict, scheduled for release in 2010. This strategy responds to the 2006 peer review recommendation to better define the roles of the respective departments to maximise the protection of civilians. The strategy should also help to define both the scope and limitations of protection activities financed through UK humanitarian action. However, it may also be prudent to expand the scope to protection in other crisis situations.

Disaster risk reduction policy

UK's DRR policy, *Reducing the Risk of Disasters – Helping to Achieve Sustainable Poverty Reduction in a Vulnerable World* (DFID, 2006g), represents a deliberate attempt to promote states' responsibility for assisting disaster-prone populations on their territory. As noted earlier, 10% of the funding provided for each major disaster event is earmarked initiatives that enable the affected state to prepare for and prevent future disasters. The DRR policy also provides a blueprint for country offices in disaster-prone states to integrate DRR into development co-operation partnerships.

Other corporate policies

In general, DFID has successfully protected its humanitarian action from other related agendas that might undermine its impartiality and independence. DFID's policy paper *Preventing Violent Conflict* (DFID, 2007a), for example, steps back "from addressing the effects of violence and asks instead; how can DFID play a part in tackling the problems that contribute to violent conflict". In doing so, this policy is a complementary but distinct point of focus for the development co-operation system. However, further clarity and guidance may be appropriate on what the appropriate mix of DFID's humanitarian and peace-building/state-building (including stabilisation in relevant contexts) approaches should be in conflict affected and fragile states, throughout the relief to development "contiguum".[23]

Financing UK humanitarian action

Management

DFID has three funding windows for humanitarian action: through country programmes which contain elements of humanitarian assistance (including GHD-eligible DRR activities); through the regional humanitarian programme managed by the Africa, Conflict and Humanitarian Unit (ACHU); and through the Conflict, Humanitarian and Security Department (CHASE), which has a global remit to reinforce these channels and respond to rapid-onset short-term crises. The supplementary nature of the global funding administered by CHASE means that a large proportion of humanitarian funding decisions are taken at the country-level – a feature that helps to align humanitarian and development assistance.

Volume

In 2007, UK was the third largest DAC donor of humanitarian assistance by volume, with bilateral and multilateral contributions amounting to USD 976 million – or 10.9% of the collective DAC total (Development Initiatives, 2009). While this represented a substantial decline from the 2006 peak flows of USD 1 298 million, bilateral contributions alone rose again in 2008 to USD 714 million (Annex B), indicating that total humanitarian flows are likely to rise steeply again. Moreover, the UK was also the most generous donor by volume to the Central Emergency Response Fund (CERF), as

23. This refers to the relief-development "contiguum": the emerging consensus that recovery and development assistance should begin from the earliest stage of a crisis and run alongside humanitarian action – rather than separately (see, for example, OECD-DAC Framing Paper: Transition financing procedures and mechanisms, INCAF).

well as the largest contributor to pooled funding mechanisms by volume in 2007 and 2008.

Channels

Disbursement of humanitarian assistance closely aligns with the UK's priority of supporting the international humanitarian system. For example, nearly 84% of UK humanitarian assistance expenditure was provided through UN channels in 2007, including the CERF and pooled funding mechanisms. In that year, the UK was the largest donor to the United Nations Office for the Co-ordination of Humanitarian Affairs (OCHA), and seventh largest donor to the UN's World Food Programme (WFP) and to the United Nations High Commissioner for Refugees (UNHCR). It was also second largest bilateral donor to the International Committee for the Red Cross (ICRC) and fifth largest donor to the United Nations Relief and Works Agency (UNRWA). In terms of global DRR funding, the UK was the second largest bilateral donor to the UN International Strategy for Disaster Reduction (UNISDR) and to the Global Facility for Disaster Reduction and Recovery (GFDRR). The remainder of UK humanitarian assistance is provided through NGOs or as bilateral in-kind support to the UN system (*e.g.* emergency stockpiles, aircraft charters etc.).

Priorities

UK humanitarian assistance is disbursed according to need; the Humanitarian Response Policy commits the UK to prioritising assistance to the most serious threats to life. However, the policy also notes that there is a diversity of humanitarian need that is likely to become even more apparent over the coming decades: "[p]andemic disease, climate change, environmental degradation and major demographic changes, including urbanisation, are likely to present new threats" (DFID, 2006f). It therefore commits DFID to increasing humanitarian aid spending in line with projected UK aid budgets, as long as there is proven need. In this regard, UK's advocacy and support for improving needs assessments, for example through the GHD Working Group, reflect a strong interest in improving targeting of UK humanitarian action. At the same time, the commitment to provide 10% of funds for DRR activities during each natural disaster response expresses DFID's commitment to assisting the most vulnerable communities. Beyond this threshold, bilateral assistance for DRR is allocated on the basis of "government capacity, country risk exposure, effectiveness of existing national and regional efforts; and what other bilateral donors are doing" (DFID, 2006g).

Quality of UK financing

In 2007, nearly two-thirds of UK's humanitarian expenditure was either fully un-earmarked (40.1%) or lightly earmarked (23.8%), such as contributions channelled through pooled funding mechanisms including the CERF (Development Initiatives, 2009). Much of the un-earmarked funding is given through multi-year agreements that make UK support more predictable. In 2007, USD 262 million (27%) of UK's humanitarian assistance was channelled through UN Inter-Agency Consolidated Appeals

(CAPs).[24] From 2009, earmarking has also been reduced and predictability enhanced for funding NGOs' emergency responses. The recently-launched Conflict, Humanitarian and Security Fund has allocated GBP 5 million for rapid response and capacity-building/preparedness measures to two NGO consortiums. At the same time, the UK has increased the access of NGO implementing partners to country-level pooled funds through the NGOs and Humanitarian Reform Project. It is expected that this project and the consortium approach will improve co-ordination and coherence between UK-funded NGO activities.

Promoting standards and enhancing implementation

The UK is considered to be a committed advocate for principled humanitarian action and a reliable supporter of the international humanitarian system. With a prominent role in instigating and driving the UN humanitarian reform agenda, the UK has also been instrumental in promoting standards and practices across the system. Simultaneously, the UK has striven to embed better practices within its own programming decisions. In particular, the *Humanitarian Funding Guidelines for NGOs* require that grantees demonstrate that they have "considered quality issues, set appropriate standards and put in place robust management and monitoring mechanisms to ensure compliance with these" (DFID, 2007d). They also require grantees to apply three standards referred to in the GHD commitments (the *Sphere Humanitarian Charter and Minimum Standards in Disaster Response*, the *1994 Code of Conduct for the International Red Cross and Red Crescent Movement and NGOs in Disaster Relief* and the *UN Guiding Principles on Internal Displacement*). However, they acknowledge that achieving these standards may not be feasible in certain contexts.

Civil-military co-operation

The working relationship between DFID and the Ministry of Defence when responding to natural disasters is guided by a memorandum of understanding (MoU). This provides for, *inter alia*, military assets to be used as a last resort, under the authority of DFID. It also specifies defraying costs associated with these deployments (which are normally at DFID expense), as well as timeframes. This arrangement appears to have succeeded in protecting humanitarian principles in more benign natural disaster contexts. For example, Ministry of Defence policy refers to the engagement of military forces in disaster relief operations as being:

> *…out of the necessity for speed of reaction, including proximity of suitable resources to the disaster area, the scale of effort required or specialist skills to deal with the consequences of a humanitarian emergency/disaster. UK military forces will therefore only normally be engaged in response to Rapid Onset Disaster and normally at the request of humanitarian organisations and usually through DFID (MoD, 2002).*

The MoU does not, however, extend to more hostile environments where British troops are on peacekeeping duties or are active combatants (*e.g.* Iraq and Afghanistan). In these circumstances, DFID has generally channelled support through multilateral

24. OCHA Financial Tracking System, *http://ocha.unog.ch/fts/reports/daily/ocha_R6_Y2007_0912100206.pdf accessed 10th December 2009.*

agencies, Red Cross organisations and NGOs to ensure that humanitarian action remains distinct from other non-aid agendas. However, the forthcoming launch of the UK Strategy on the Protection of Civilians in Armed Conflict also represents an opportunity to identify appropriate operating procedures for civilian and military actors in these contexts.

Learning and accountability

Accountability to beneficiaries is promoted through support to the Humanitarian Accountability Partnership (HAP) initiative. Certification against the *Humanitarian Accountability and Quality Management Standard* (Humanitarian Accountability Partnership-International, 2007) is not yet mandatory, but is encouraged within the *Humanitarian Funding Guidelines for NGOs* (DFID, 2007d). Certification requires that monitoring and evaluation is conducted with beneficiaries' involvement and with recourse to an accessible complaints mechanism. At an institutional level, NGO implementing partners must also adhere to good practices in human resource management for their own staff (*e.g. Code of Best Practice in the Recruitment & Management of Aid Personnel*[25]) and to a robust code of conduct on sexual abuse (*e.g. 2006 Statement of Commitment on Eliminating Sexual Exploitation and Abuse by UN and non-UN Personnel*[26]).

Since the last peer review, DFID has strengthened learning further within the humanitarian sector. All major humanitarian action is evaluated and the ensuing recommendations need to receive formal responses on appropriate follow-up actions. Under the *Humanitarian Funding Guidelines for NGOs* (DFID, 2007d), grant recipients are required to include provision for adequate monitoring, evaluation and accountability activities within their proposals and budgets and to identify mechanisms for disseminating lessons. Wherever appropriate, DFID monitoring of NGO activities is conducted jointly with other donors.

In common with other parts of the organisation, DSO 3 (conflict, humanitarian and peace) is underpinned by a Divisional Performance Framework (DPF). The CHASE DPF has a specific humanitarian component which is aligned to DSO 3's two indicators on: (i) effective DFID response to prioritised humanitarian crises; and (ii) an improved international system for humanitarian assistance. However, reporting against it is fairly limited and it is unclear how the accountability, monitoring and evaluation activities (including as regard influencing the international reform – Chapter 4) are aggregated to provide a robust framework for assessing results at this divisional level.

Human resources management

DFID's core capacity for humanitarian affairs includes the Humanitarian and Risk Policy team (15 people) and the Humanitarian Response team (5 people) – both located within CHASE. In addition to this, some 12 equivalent full-time staff in the Africa division (including the Africa Conflict and Humanitarian Unit) work on humanitarian issues. The Humanitarian Response team is supplemented by the Operations Team (30 people) managed by the Crown Agents.

25. Developed by People In Aid, available online at www.peopleinaid.org/code/online.aspx.

26. Developed by the International Council of Voluntary Agencies, available online at www.icva.ch/doc00001962.html.

Cross-cutting issues in humanitarian action

The special needs of vulnerable groups – such as women, children, people living with HIV/AIDS, the elderly and disabled – are explicitly recognised in both humanitarian and DRR policy. However, despite the recognition that disasters affect these groups differently, and despite the GHD commitments to beneficiary-led programming, it is not clear that this awareness is being systematically applied in humanitarian decision making. For example, it is unclear the extent to which the tools and guidelines in DFID's Gender Equality Action Plan (GEAP) are being systematically applied in humanitarian decision-making. And one can make similar observations for the other vulnerable groups listed above. This is an area where DFID may need to "breathe life into … policy commitments that are floundering in translation into action and impact" (DFID, 2008a).

Future considerations

- The UK should use the launch of its strategy on the Protection of Civilians in Armed Conflicts to explore ways to expand its scope and cover natural and other disaster situations.

- The UK should identify the appropriate mix of humanitarian and peace-building/state-building approaches in conflict-affected and fragile states (including stabilisation in relevant contexts).

- DFID should ensure it has a robust framework for reporting and assessing results of its humanitarian action.

- DFID should clarify how other corporate policies (including cross-cutting policies such as gender) intersect with its humanitarian decision-making processes. This will address the special needs of vulnerable groups in crisis situations.

Annex D

Field Visit Report: India and Rwanda

The peer review team, comprising four examiners from Spain and Sweden and two OECD/DAC Secretariat staff, visited India in November 2009 and Rwanda in January 2010. The team met with UK government officials in New Delhi, India, and Kigali, Rwanda, as well as representatives of key external stakeholders and partners in both countries. As part of its visit to India, the team also travelled to Kolkata, West Bengal, where it met with UK government officials and partners operating at the state level. This annex summarises the team's observations of the UK development co-operation programme in both India and Rwanda.

Overall impressions of UK's development co-operation at the country level

The peer review team's visits to India and Rwanda highlighted the strengths of the UK development co-operation model; DFID is perceived as an efficient, effective and appreciated partner in both countries. The high degree of alignment, flexibility and quality of dialogue were distinguishing features of the DFID approach in both countries. However, the peer review team received more limited evidence on the portion of UK ODA delivered by departments other than DFID. Therefore one should avoid assuming that DFID-specific findings reflect the quality of the UK's development co-operation as a whole.

Government partners in both India and Rwanda spoke of the quality of DFID country office staff, and their importance in ensuring that the UK provides high quality policy dialogue and advice. Both offices have reduced their staffing levels as a result of pressures to reduce their administrative budgets, and although this may have resulted in efficiency gains in some areas, staff in both India and Rwanda were conscious that future staff cuts may reduce their ability to manage country programmes effectively. Qualified staff are appointed in-country, and this contributes to thewhich increases the quality of DFID's programme.

In both India and Rwanda, the peer review team noted that the significant delegation of authority to the country office has allowed DFID to be flexible, responsive and timely in its co-operation with partner governments, and was appreciated in both India and Rwanda. This is combined with a high degree of compliance with DFID's corporate objectives. However, the peer review team noted in both countries that it was not always clear how DFID's various policies, strategies and guiding documents interrelated and should be prioritised. Reporting against these various specific policies and strategies can place a significant burden on country offices.

DFID offices in both countries have internalised international commitments on aid effectiveness, and country-level data suggest that DFID performs relatively well against the Paris Declaration indicators. Government partners noted the effort made by DFID in aligning its support to their priorities. In both countries, steps have been taken by DFID to both strengthen and rely further on country systems in delivering aid.

Two very different country contexts highlight the importance of partner government leadership in supporting donor co-ordination and harmonisation. The UK's ability to harmonise with other donors in India has been constrained by the Government of India's (GoI) preferences in this regard. In Rwanda DFID has played a more significant role in supporting donor harmonisation, where its flexibility has allowed it to leverage joint approaches to working.

In both countries, evidence on DFID's approach to technical co-operation was mixed. While government partners value DFID's support, it is not always clear that DFID's technical co-operation is designed and implemented in a way that targets the sustainable development of national capacities. The extent of the UK's efforts to support non-state capacities – in the context of the AAA's calls for broadening ownership – was less evident in both countries.

In both India and Rwanda, some stakeholders identified a need for improved communication by DFID around some of its strategic decisions. For example, in India, state officials felt that DFID could explain better its decision to close the West Bengal programme. In Rwanda, some stakeholders felt that DFID could have better clarified its rationale for strengthening its focus on the health sector while phasing out support to education.

The peer review team noted a number of innovative and positive practices in both countries visited. Despite the obvious differences in country context and in the size of the UK government's presence, DFID has made efforts to work closely with other UK government departments in both countries. In Rwanda, co-location with the British High Commission and close work on political and governance issues exemplify this. In India, the UK government has formalised cross-government working in some areas. For example, for climate change a joint government unit is co-managed by DFID, the FCO and DECC.

India

Country context

India's status as a middle income country, its federal structure of government and the prevalence of poverty make for a unique development context. Although India has a GNI per capita of USD 1 070,[27] it is currently ranked 134 out of 182 countries on the Human Development Index (HDI), reflecting the persistence of income inequality and poverty (UNDP, 2009). India accounts for one-sixth of the world's population, and one-third of the world's poor (DFID, 2009m).

At the aggregate level, India is far from being dependent on aid. Net ODA is equivalent to approximately 0.1% of its GNI, or USD 1.16 per capita (OECD, 2009c).[28] India is also emerging as a donor in its own right. India does not have a poverty reduction

27. 2008 GNI per capita (Atlas method, USD current prices). Source: World Bank, *http://go.worldbank.org/1SF48T40L0.*

28. Refers to 2007 data.

strategy paper (PRSP), though donors broadly consider its 11th five year plan, which covers the period 2007/08 to 2012/13, to be broadly equivalent to a national development strategy. The UK is India's third largest donor, after the World Bank and Japan. India adhered to the Paris Declaration on Aid Effectiveness in 2006, and the GoI exercises close control over and ownership of foreign aid, with the Department of Economic Affairs (DEA) in the Ministry of Finance providing direction.

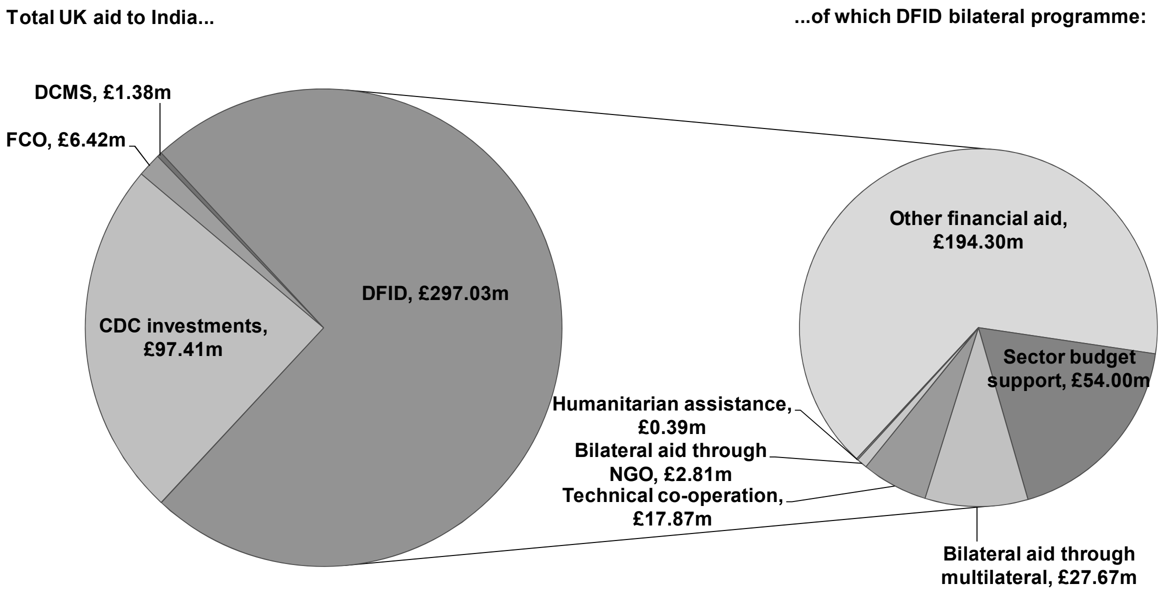
In 2004, the GoI decided to restrict the number of bilateral donors providing government-to-government aid to G8 member states and those providing more than USD 25 million per annum. Citing its desire to reduce transaction costs and fragmentation, the GoI invited other donors to provide assistance only through multilateral organisations or NGOs. Scope for harmonisation and strategic dialogue amongst donors in India is now limited since the annual India Development Forum (which brought together the Government of India and its donors) was disbanded in 2004. The GoI has subsequently asked donors not to meet amongst themselves to discuss development issues at a strategic level, although donor co-ordination does happen at the sector and state levels.

Key features of UK development co-operation in India

India remains by far the UK's largest bilateral co-operation programme in volume terms. UK gross ODA to India totalled an average of USD 700 million per annum over the period 2007-2008, accounting for 9% of all UK bilateral ODA. In real terms, the UK's bilateral programme with India has more than doubled in the last decade, accounting for an increasing share of a growing aid budget. Approximately three-quarters of this was provided through the DFID bilateral programme, with the remainder being channelled through the CDC, FCO and the Department for Culture, Media and Sport (DCMS) (Figure 10).

Figure D.1 UK bilateral aid to India by government department

UK financial year 2008/09



Source: DFID India.

Approximately ten UK government departments and agencies are present in India, signalling that the UK-India relationship goes far beyond development co-operation. The UK describes its own priorities in India as "safeguarding and promoting UK interests; promoting India's engagement on the world stage; progress on growth and development goals; and further progress on disseminating the values of good governance, democracy and human rights." (DFID, 2009m).

A cross-government strategy agreed between the UK's foreign and development secretaries underpins the UK's approach to co-operation with India, and this is implemented by a number of joint teams that bring together staff from DFID and other government departments. This has facilitated joint policy analysis (*e.g.* on climate change, growth, trade) and joint approaches to negotiating with India on development issues and positions.

As the principal channel for bilateral co-operation with India, DFID has adopted a strategic approach that retains a focus on the MDGs, while recognising India's unique context and its implications for development co-operation. This is reflected in DFID's three "faces" of India, which underpin its seven year country plan (2008-2015) (Box D.1).

Box D.1 DFID's "three faces of India"

DFID's country plan for India reflects the country's uniqueness and its poverty reduction goals. It outlines three key strategic axes which it describes as the "three faces of India":

- **Poorest India:** the 456 million people living on less than USD 1.25 per day who can't access basic services or feed their children adequately.
- **Developing India:** a further 372 million Indians who live on less than USD 2.50 per day, and whose lives are beginning to improve but who are still vulnerable to any shock.
- **Global India:** promoting global issues such as trade, climate change and reform of the international development system; and areas where India can contribute to reducing poverty in other countries (*e.g* generic drugs).

Source : DFID (2009m).

DFID has sought to retain a poverty focus in its co-operation with India, recognising that there are significant geographical disparities in human development, and that reducing poverty in India will be critical to achieving the MDGs globally. Consistent with this, 64% of DFID India's annual expenditure is spent on the health and education sectors, with the remainder focused largely on governance, growth and urban management.

Approximately 47% of DFID's bilateral programme is channelled at the sub-national level, targeting the five focus states of West Bengal, Andhra Pradesh, Orissa, Madhya Pradesh and Bihar. Forty-five percent of its programme is channelled through the national government, and 8% through multilateral and civil society organisations. DFID seeks to balance its support to India's poorest states with interventions at the national level which it sees as catalytic for poverty reduction across India (for example, through support to national institutions responsible for developing and overseeing implementation of policies), and which provide scope for policy dialogue with the GoI.

Although DFID's focus on India's poorest states is commendable, it could give further consideration to the criteria that it relies on in its decision-making around its entry and closure of state-level programmes. For example, although DFID considers its West Bengal programme to be performing well, in 2007 its ministers decided to close the programme by the end of 2011. This decision was underpinned by West Bengal's progress in reducing poverty, and its middle ranking in poverty terms among Indian states. In its place, DFID will focus on the state of Bihar, which is a poorer state and has been less successful at reducing the incidence of poverty. Some government stakeholders at the state level indicated that DFID could improve its communication about why it decides to close state programmes.

DFID makes significant use of country systems in its assistance to India, in line with the GoI's preferences. Most support provided to and through government institutions makes full use of national or state government PFM systems, either through the use of direct budget support, or projects financed on a reimbursement basis.[29] Procurement of technical co-operation (TC) is the main exception to this, and DFID cites bottlenecks in national procurement procedures and capacities as a key challenge to transferring responsibility for procurement of TC to government partners.

The limited number of bilateral donors providing assistance directly to the government sector in India, combined with the GoI's stated preference for bilateral dialogue with its donors over joint dialogue and efforts to coordinate support within the donor community, means that DFID's ability to co-ordinate and harmonise with other donors is constrained. It does however make efforts to co-ordinate its efforts with multilateral agencies and with other donors at the state and sector levels.

The DFID India office benefits from significant delegation of authority from headquarters, allowing it to align its assistance to national and sub-national priorities. DFID's work in the area of climate change, however, stems from headquarters policy rather than a GoI request, thus it is questionable how much this work is aligned with national priorities. Country office staff participate in preparing DFID-wide policies and strategies. DFID India makes effective use of both local and international expertise, and the DFID partners met by the peer review team conveyed a positive impression of the office and its staff.

Three programme teams support the delivery of the Country Business Plan, alongside a policy coherence and communications team and a corporate services team. The India office also houses the cross-departmental Climate Change and Energy Unit (Chapter 6). Responding to corporate pressures to reduce administrative costs, DFID India has reduced its staffing levels in recent years. This has encouraged some efficiency gains, particularly in back office and support functions (Chapter 4). DFID India plans to relocate to the British High Commission to reduce overheads further and to enhance its collaboration with other UK government departments.

Rwanda

Country context

Rwanda is a low income country and, despite an impressive recovery since the 1994 genocide and civil war in which its population was decimated, it remains poor by both

29. In this approach to project implementation DFID disburses project funds to the Treasury periodically to reimburse the GoI for accepted expenditures through its own systems.

global and sub-Saharan African standards. With a GNI per capita of USD 410,[30] Rwanda ranks 167 out of 182 countries on the Human Development Index (UNDP, 2009). Impressive economic growth rates in recent years have been accompanied by significant progress towards the MDGs in some areas. For example, primary school enrolment rates have increased to 94% with the implementation of fee-free basic education, and gender parity in primary education has improved. In other areas, more progress is needed if other MDGs are to be met – such as maternal mortality and access to safe drinking water.

The Government of Rwanda (GoR) is considered to be strongly committed to development and poverty reduction, and this is embodied in Rwanda's ambitious *Vision 2020* statement which sets itself the goal of becoming a middle income country (USD 900 per capita GDP) by 2020. Its current Economic Development and Poverty Reduction Strategy (EDPRS) covering the period 2008-2012 builds on Rwanda's first Poverty Reduction Strategy Paper (PRSP 2002-2006), placing greater emphasis on increasing sustainable economic growth, tackling extreme poverty and strengthening good governance. The donor community is broadly supportive of the priorities set out in the EDPRS and is encouraged by the GoR to use this – and the set of sector strategies that cascade from it – as the basis for their aid programmes in Rwanda.

Although Rwanda has made strong progress in increasing domestic revenue in recent years, it remains highly dependent on aid. In 2007, Rwanda received approximately USD 74 per capita in net ODA, making it one of the most aid-dependent countries in sub-Saharan Africa. Aid is equivalent to about one-quarter of Rwanda's GDP, and contributes about half of the national budget (GoR and Development Partners, 2008). Ten bilateral donors and 22 multilateral agencies (including 17 UN agencies, funds and programmes) are represented in the country.

While most aid to Rwanda in the late 1990s was focused on humanitarian assistance and reconstruction, the bulk of ODA now supports longer-term development efforts. Successive donor round tables in the late 1990s and early 2000s focused on mobilising resources for Rwanda's recovery and reconstruction. Following these, the GoR seized the opportunity presented by the international dialogue on aid effectiveness around the Rome (2003) and Paris (2005) High Level Fora on Aid Effectiveness to assert greater ownership and leadership over its aid. This is embodied in a national aid policy which sets out the GoR's priorities, preferences and approach to working with development assistance (GoR, 2006). Donors are supportive of Rwanda's Aid Policy, and have committed to achieving the Paris Declaration targets at the country level through a joint response to the policy.[31] An aid co-ordination architecture and a number of innovative tools and approaches support the implementation of Rwanda's aid policy (Box 16). A dedicated unit within the Ministry of Finance and Economic Planning co-ordinates aid issues, day-to-day negotiations with donors, and aid policies.

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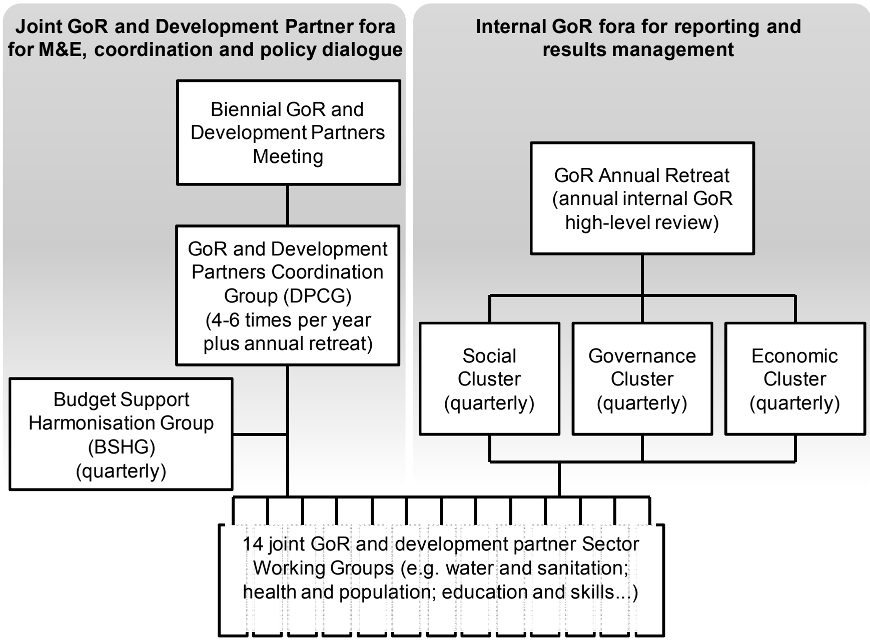
30. 2008 GNI per capita (Atlas method, US$ current prices). Source: World Bank, *http://go.worldbank.org/1SF48T40L0*

31. *Joint Donors' Statement of Intent Towards the Implementation of the Paris Declaration and Rwanda's Aid Policy*, Sixth Annual GoR and Development Partners Meeting, Kigali, 23 November 2006.

Box D.2 Rwanda: good practices for aid co-ordination, harmonisation and alignment

Joint fora for co-ordination, monitoring and policy dialogue

A multi-tier co-ordination architecture complements mechanisms for internal GoR dialogue and accountability around development policies and results. The Ministry of Finance and Economic Planning takes a lead in chairing joint co-ordination fora. For example, it co-chairs the high-level Development Partners Meeting and the Development Partners Co-ordination Group, along with the UN Resident Co-ordinator who acts as co-chair on behalf of all donors. A lead donor is identified to co-chair – along with the relevant government institution – the sector working groups. These are joint fora for policy dialogue on sector-specific issues, and lead in compiling and validating EDPRS monitoring information.



Mutual performance assessment frameworks for harmonisation and mutual accountability

2009 saw the full implementation of the Common Performance Assessment Framework (CPAF) in Rwanda – a joint framework for monitoring progress on the implementation of Rwanda's EDPRS. Monitoring is based around 46 indicators selected from the larger EDPRS monitoring matrix. Rwanda's seven budget support donors have agreed to use the CPAF as the basis for their joint reviews of budget support, so as to harmonise and align conditionality around the GoR's own priorities.

This is complemented by a Donor Performance Assessment Framework (DPAF) to strengthen mutual accountability by providing a framework for annual discussions on both aggregate and individual donor performance. The DPAF draws heavily on the indicators defined by the *Survey on Monitoring the Paris Declaration* (OECD, 2008c), supplementing these with additional Rwanda-specific indicators or targets. All donors are assessed through the DPAF, and in annual discussions donors commit to their own policy actions to improve performance in the delivery of aid.

Dialogue on donor division of labour

The Government of Rwanda agrees with the need to move towards a donor division of labour along sectoral lines. It has drawn on the *International Good Practice Principles* (OECD, 2009a) in its initial dialogue with donors on this. It has undertaken an initial mapping of donor comparative advantage, and plans to use this as a basis for a division of labour exercise to take shape over the next PRSP period.

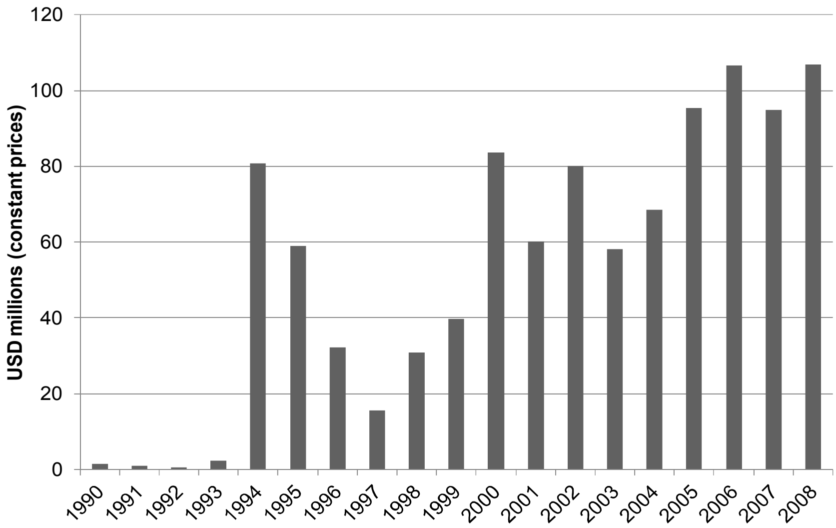
Source : Peer review team mission to Rwanda.

Key features of the UK's development co-operation in Rwanda

Before the 1994 genocide and civil war, the UK government had no physical presence in Rwanda and was not a significant provider of ODA. In 1994 and the immediate years following it, most UK assistance to Rwanda was channelled through multilateral and non-governmental channels with a humanitarian focus. 1996 marked the opening of the UK's embassy to Rwanda, and the establishment of bilateral co-operation through DFID followed in 1997, growing significantly over time (Figure D.2). The UK was Rwanda's largest bilateral donor between 2000 and 2007 (since overtaken by the United States).

Figure D.2 UK ODA to Rwanda 1990-2008

Total net ODA (2007 prices)



Source : OECD/DAC International Development Statistics.

DFID delivers the vast majority of the UK's ODA to Rwanda, and is Rwanda's largest bilateral budget support donor, providing almost three-quarters of its annual GBP 46 million programme as direct budget support (both general and sector budget support). The UK was the first donor to provide budget support in Rwanda (in 2000, when the risks of doing so were high). Both GoR and UK stakeholders emphasise the importance of this decision in signalling mutual trust and building a long-term bilateral relationship. The UK's relatively early move towards budget support has also played a key role in encouraging other donors to provide budget support, and the UK continues to play an influential role within the Budget Support Harmonisation Group. Responding to previous recommendations by the UK's National Audit Office, DFID Rwanda has taken steps to better evaluate the added value of budget support over other approaches to aid delivery, and recently conducted an economic analysis that sets out more clearly the case for continued reliance on budget support in Rwanda.

A ten-year Development Partnership Agreement was signed by the UK and GoR in 2006, committing the UK to providing at least GBP 46 million a year in bilateral aid over this period, with at least two-thirds of this being provided as direct budget support. The agreement also sets out obligations for both the UK government and the GoR, emphasising (i) poverty reduction, macroeconomic stability and public financial management; (ii) good governance and human rights; and (iii) conflict prevention.[32]

32. *Memorandum of Understanding between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Republic of Rwanda*, February 2006.

Although the agreement is non-binding, and as such the credibility of the commitments made in it could be questioned, the GoR cited it as an important instrument for building confidence, trust and predictability in its bilateral relationship. The Minister of Finance and Economic Planning of Rwanda suggested that other donors could learn from the UK's experience with such agreements.

DFID's current country plan for Rwanda covers 2008-2012, to coincide with Rwanda's EDPRS. DFID's reliance on budget support *de facto* supports alignment with the EDPRS. Project aid is also provided in a number of areas that DFID perceives to be of strategic importance for implementing the EDPRS and that support and safeguard its significant budget support investment (for example, governance, statistical capacities and PFM reform).

DFID Rwanda has internalised the Paris and Accra commitments on aid effectiveness and participates actively in dialogue on aid effectiveness at the country level. Its reliance on direct budget support promotes alignment and – as a signatory to the partnership framework on budget support – harmonisation with other donors. DFID has taken a lead role in setting up a pooled fund in the education sector, and actively supports the strengthening of government PFM systems by participating in a joint package of support for the implementation of the GoR's PFM reform strategy. DFID Rwanda's relatively strong performance against aid effectiveness indicators is reflected in the GoR's most recent DPAF results.

At the sector level, DFID has played a particularly active role in education, co-chairing the Education Sector Working Group with Rwanda's Ministry of Education. DFID's engagement in policy dialogue has been appreciated by both the GoR and other donors, and has helped to strengthen strategic planning in the sector and to develop a sector-wide approach within which all donors can operate. The GoR emphasised the importance of DFID's role in influencing other donors to ensure harmonisation and alignment at the sector level, and in encouraging greater use of sector budget support. DFID led – on behalf of other donors – the dialogue and assessment process around Rwanda's planning for increased access to basic education, which led to the mobilisation of additional resources through the Education for All Fast Track Initiative.

DFID has recently entered the health sector in Rwanda, where it sees itself well placed to encourage increased harmonisation and alignment of aid in a sector that has been characterised by aid fragmentation, poor alignment and limited harmonisation. While DFID had initially sought to withdraw gradually from the education sector, this was met with resistance by the GoR and as a result DFID has partnered with UNICEF to exercise joint leadership of the education donor group. Although the extent to which DFID supports greater donor division of labour across sectors in Rwanda was unclear to the peer review team during its visit, the GoR has since shared with its donors a blueprint for a future division of labour along sectoral lines which could see the UK focusing its support to education, health and social protection.[33]

DFID has taken a keen interest in the issue of climate change in Rwanda; since 2008 it has worked with the Rwanda Environment Management Authority (REMA) on analytic work around the economics of climate change. It now plans to support the drafting of a national policy and strategy on climate change. Going forward, further consideration

33. *Government proposal on donors' division of labour*, presentation made by the Ministry of Finance and Economic Planning, Rwanda, at the annual Government of Rwanda and Development Partners Retreat, Rubavu, February 2010.

might be given to how DFID's work on climate change fits into its bigger portfolio, and its comparative advantages in the overall donor division of labour.

The DFID office in Kigali is responsible for both the Rwanda programme and a relatively small bilateral programme in neighbouring Burundi. The office has 23 full-time staff, 10 of which are UK civil servants. The office has recently downsized to reduce administrative costs, in line with the DFID-wide "more with less" agenda (Chapter 4). This resulted in the departure of approximately one third of its staff, achieved both by phasing out UK civil servant positions as they became vacant, and redundancies for staff appointed in-country. The interests of staff appointed in-country (SAIC) are represented by a committee in regular meetings with the country office management. DFID Rwanda has decided to promote qualified national staff to more senior roles as a means of supporting greater cost effectiveness. One SAIC now has management responsibilities within the office. DFID staff appointed in-country were positive about DFID as an employer.

DFID Rwanda has adopted innovative approaches to supporting harmonisation and partnership with other donors. These include seconding staff to multilateral organisations based in Rwanda, and pooling advisory capacities with another bilateral donor (DFID shares its Economic Adviser with the Netherlands Embassy, which in turn shares its Energy and Climate Change Adviser with DFID).

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.[34]

ASSOCIATED FINANCING: The combination of official development assistance, whether grants or loans, with other official or private funds 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 ODA RECIPIENTS: The DAC uses a List of ODA Recipients which it revises every three years. From 1 January 2005, 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 825 or less in 2004 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 826 and USD 3 255 in 2004. 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 3 256 and USD 10 065 in 2004.

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 ODA 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).

34. For a full description of these terms, see the *Development Co-operation Report 2007*, Volume 9, 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.* as 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 DEVELOPMENT ASSISTANCE (ODA): Grants or loans to countries and territories on the DAC List of ODA Recipients and multilateral agencies active 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 ODA Recipients which do not meet the conditions for eligibility as official development assistance.

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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OECD Development Assistance Committee
Peer Review UNITED KINGDOM

The OECD Development Assistance Committee conducts periodic reviews of the individual development co-operation efforts of DAC members. The policies and efforts of each of the 24 members are critically examined approximately once every four years, hence five programmes are examined annually.

The United Kingdom's aid volume was USD 11.5 billion in 2009, representing 0.52% of its gross national income (GNI). Its planned expenditures for 2010/11 put it on track to reach its target of 0.7% of GNI by 2013.

The United Kingdom plays a leading role in the international development community, actively engaging in key areas such as responding to climate change and the global economic crisis. Other donors see the United Kingdom's efforts to reduce poverty as a model of good practice. The United Kingdom high level and sustained political engagement over the last decade has been instrumental in promoting the development agenda both domestically and internationally. Other key strengths of the United Kingdom as a donor include its clear focus on poverty reduction anchored in law, and a powerful institutional system with the Department for International Development (DFID) leading the aid programme in close collaboration with other government departments. Strong cross-government mechanisms help ensure that the United Kingdom's domestic and international policies support – or at least do not undermine – the development aspirations of its partner countries, with good results in areas like climate change and trade.

The OECD Development Assistance Committee (DAC) encourages the United Kingdom to maintain these key aspects of its development co-operation model. This implies retaining a clear focus on poverty reduction as the United Kingdom broadens its approach to development and DFID engages further with other government departments and in fragile states. This will also require that the United Kingdom continuously communicate the impact of its aid to its politicians and population. Since DFID staff plays a central role in delivering high-quality aid to developing countries, the DAC encourages DFID to maintain its current levels of front-line and advisory staffing, despite the pressure to cut costs. DFID could also be more strategic in building governments' own capacity to manage their development.

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