1) QUANTITY OF AID

1.1. Current/Recent Quantity Performance:

| Net ODA (US$m) | 11,409 |
| % of GNI      | 0.43%  |

Source: OECD/DAC, preliminary 2008 data.

Between 2001 and 2006, the UK’s ODA increased from US$4,581m (equivalent to 0.32% of GNI) to US$12,460m (0.51% of GNI). It fell sharply in 2007, to only 0.35% of GNI, because of a sharp fall in debt relief, but has since risen by 24.5% in real terms and by 0.06% of GNI in 2008.

1.2. Future Quantity Intent

The UK has committed to give 0.56% of GNI in 2010-11 budget year, and 0.7% of GNI by 2013. Adjusting for the impact of the current recession, the DAC predict that the UK could be giving US$14,243 million in ODA by 2010 (DAC, 2009). The UK’s latest three-year spending targets envisage increases of 11% a year and therefore higher dollar amounts than the DAC. With the volume of debt relief having fallen dramatically in 2007 and expected to remain low, other types of aid are needing to increase rapidly for the UK to meet its ODA targets.

2) KEY AGENCIES/Mechanisms

2.1 Bilateral Agencies and Structures

Department for International Development (DFID)

DFID is a UK Government department, represented at Cabinet level by the Secretary of State for International Development. DFID has both ministerial (policy and government leadership) and agency (aid delivery, technical expertise) functions and is clearly designated as the lead government department for international development issues. DFID is responsible for almost all ODA, with direct control over some 84% of total disbursements (the rest is accounted for by flows such as funding to the IMF from the UK Treasury). While development policy is strategically directed from headquarters, DFID views its delivery operations as “country led, decentralised and delegated” through a world-wide network of 67 offices, where more than half the staff are based. Country offices are responsible for meeting country-level targets. They produce and implement the country assistance plan (CAP), and the country head of office is delegated financial authority up to £7.5m per action (DAC, 2006b, p55).

Capital for Development Group (CDC)

CDC is wholly owned by DFID. It delivers small amounts of ODA to support the private sector in developing countries.
2.2 Key Policies and Legislation

2002 International Development Act (DFID, 2002)

The 2002 Act establishes poverty reduction as the over-arching purpose of British development assistance, either by furthering sustainable development or promoting the welfare of people. The Act governs the conditions under which the UK can give development or humanitarian aid, the forms it can take and its terms. Two conditions need to be met for DFID to provide development assistance: that a) assistance is provided for the purpose of furthering sustainable development or improving welfare, and b) that DFID is satisfied that the assistance will be likely to contribute to the reduction of poverty. This means that UK aid must be for the primary purpose of reducing poverty (which rules out, for example, aid tying) and be expected to be effective in so doing. The Act places ‘sustainable development’ at the centre of the UK’s aid policy, and defines it as: ‘any development that is, in the opinion of the Secretary of State, prudent having regard to the likelihood of its generating lasting benefits for the population of the country...in relation to which it is provided’. This means that DFID can promote development outside a narrow income-focused model.

2006 White Paper: Making Governance work for the Poor (DFID, 2006a)

The White Paper sets out what the UK will do to reduce world poverty over the next five years. It commits the UK to: increase its development budget to 0.7% of GNI by 2013; concentrate its resources on the poorest countries – particularly sub-Saharan Africa and South Asia – and working more in fragile states; and make sure that wider UK policies support development. The White Paper puts governance at the centre of the UK’s development work – ‘focusing on building states that are capable, responsive and accountable to their citizens’. It outlines a commitment to spend 50% of all future bilateral aid to public services for poor people, and a new framework for assessing the quality of governance to be used to tailor UK support to country circumstances.

DFID’s evolving thinking on key policy issues can be monitored through accessing the minutes of DFID’s Management Board (www.dfid.gov.uk/aboutdfid/management-board/mbmeetingsindex.asp) and DFID’s Development Committee (www.dfid.gov.uk/aboutdfid/dev-committee/dc.asp), which is responsible for DFID’s overall strategic direction with respect to development policy.

3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA

3.1. Recipient Countries

<table>
<thead>
<tr>
<th>Top countries</th>
<th>% of total ODA gross disbursements</th>
<th>% of bilateral ODA gross disbursements</th>
<th>US$ m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>22.2%</td>
<td>30.5%</td>
<td>2,657</td>
</tr>
<tr>
<td>Iraq</td>
<td>6.3%</td>
<td>8.7%</td>
<td>760</td>
</tr>
<tr>
<td>India</td>
<td>4.2%</td>
<td>5.8%</td>
<td>511</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>1.9%</td>
<td>2.6%</td>
<td>233</td>
</tr>
<tr>
<td>Tanzania</td>
<td>1.8%</td>
<td>2.5%</td>
<td>220</td>
</tr>
<tr>
<td>Sudan</td>
<td>1.7%</td>
<td>2.3%</td>
<td>206</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1.6%</td>
<td>2.2%</td>
<td>193</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1.3%</td>
<td>1.8%</td>
<td>159</td>
</tr>
<tr>
<td>Ghana</td>
<td>1.2%</td>
<td>1.7%</td>
<td>145</td>
</tr>
<tr>
<td>Malawi</td>
<td>1.1%</td>
<td>1.5%</td>
<td>137</td>
</tr>
</tbody>
</table>
Source: OECD/DAC. 2005-2006 data.
Note: Nigeria and Iraq received uncharacteristically high levels of ODA in 2005-06 due to debt cancellation.

DFID’s total number of partner countries decreased from 146 to 119 between 1993-94 and 2003-04, mainly reflecting the rationalisation of middle-income aid recipients, and the share of bilateral aid received by the top 20 recipients increased from 69% to 80% in the same period (DAC, 2006b, p30). The top ten recipients listed above received 60% of bilateral UK ODA in 2005-06.

Distribution among different groups of recipients (% bilateral ODA gross disbursements):

| Least Developed Countries | 26.8% |
| Other Low Income Countries | 52.8% |
| Sub-Saharan Africa | 62.1% |
| Central and South Asia | 16.3% |


3.2. Allocation Criteria
3.2.1. Pre-selection criteria
DFID has no pre-selection criteria for country eligibility.

3.2.2. Allocation criteria:
As of the end of 2006, DFID has a target of allocating at least 90% of its bilateral funding to Low Income Countries (LICs) in 2005-08. Within this allocation guideline, DFID plans to emphasize aid to Africa and Asia, while de-emphasizing aid to Latin America. While it focuses on poor countries, DFID plans to increase its involvement in fragile or “orphan” states, many of which are less on track to meet the MDGs (DAC, 2006b, p30).

DFID has set up a model to inform its allocation in such a way to maximise its impact on poverty reduction. Two different features are taken into account for each country: (i) the extent of poverty; and (ii) the likely effectiveness of aid in reducing poverty. The latter is measured on the basis of the World Bank Country Policy and Institutional Assessment (CPIA), with allowance for vulnerability to economic shocks. In addition to these two criteria, the model takes into account the amount of aid each country is likely to receive from other donors (DFID, 2005a). It will also be placing more emphasis on governance issues in future allocations and aid types, and, as of 2006, is modifying its model accordingly.

4) AID POLICIES
4.1. Concessionality
DFID disburses only grants, but CDC disburses a very few concessional loans to the private sector in developing countries.

4.2. Types of Assistance
Breakdown of different types of ODA:
In 2006 – 2007, 18% of DFID’s bilateral programme was provided through Poverty Reduction Budget Support (i.e. via recipients’ central exchequer processes as either General Budget Support or sector support) (DFID 2007a, p11), compared to a DAC average of 3.35% for its member countries (DAC CRS database). This average number hides wide variation between countries however. In Vietnam, Ethiopia, and Tanzania, more than 65% of DFID country programme expenditure is provided through PRBS (DAC, 2006b, p71), but this modality is used much less in other countries. CPIA scores reflecting the quality of a country’s PFM framework (Paris indicator 2) are not closely linked to the amount of Budget Support a country gets, despite fiduciary risk being one of DFID’s conditions for PRBS. For example, amongst the countries that scored 3.5 or more on the aforementioned PFM indicator, Ethiopia got 78% of its total UK aid in the form of PRBS, Tanzania 80%, with other countries getting no PRBS at all. The UK is committed to providing more than 50% of its country programme resources in the form of PRBS or sector wide support by 2007/08 (DFID, 2005c).

According to both the baseline Paris survey and the HIPC CBP evaluation methodology, there is a lot of variance in DFID’s ability to manage its Technical Co-operation (TC) in a way that is consistent with national development strategies. According to the Paris Declaration survey (Indicator 4) and for those countries receiving more than US$25 million in TC from DFID, DFID does best in Vietnam, Zambia and Bangladesh (100% aligned), but performs very poorly in others (sometimes even as low as 9%). Even though the Paris overview chapter warns that TC definitions were not always uniformly applied, the high variance is also reflected in the HIPC CBP scores. DFID indicates that “Improved delivery of technical assistance is an area where DFID has a long way to go” (DFID, 2006b), even though explicit agency-wide targets have not been agreed outside of Paris.

4.3. Channels of Assistance

In 2006 the UK allocated around 30% of its ODA via multilateral organisations, of which 40% went to the EC, 15% to UN agencies and 26% to the World Bank (2006 data, OECD DAC). In 2005-6 around 7.5% of DFID’s bilateral programme was channelled via NGOs. (DAC 2007, table 18)

DFID’s high commitment to budget support means that a relatively high proportion is channelled through recipient countries budgets and systems. As a member of the EU, the UK signed up to commitments in Paris in 2005 to channel 50% of government-to-government assistance through country systems. On top of that, DFID has committed to have all of its aid to government reported on the national budget by 2010 (DFID, 2005c).

<table>
<thead>
<tr>
<th>Projects and programmes (including some technical cooperation)</th>
<th>US$m</th>
<th>% of gross bilateral ODA commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>- of which General budget support</td>
<td>642</td>
<td>6.9%</td>
</tr>
<tr>
<td>Stand-alone technical cooperation</td>
<td>860</td>
<td>9.3%</td>
</tr>
<tr>
<td>Action related to debt</td>
<td>3,511</td>
<td>37.9%</td>
</tr>
<tr>
<td>Developmental food aid</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other commodity assistance</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Emergency and distress</td>
<td>835</td>
<td>9.0%</td>
</tr>
<tr>
<td>Other</td>
<td>2,453</td>
<td>26.5%</td>
</tr>
</tbody>
</table>

Source: OECD/DAC, 2006 data.
There is a subtle difference between using country systems to channel assistance and making sure aid is recorded ‘on-budget’. The former would include the use of local PFM and procurement systems, whilst the latter is more of an informational/accounting issue.

Almost all UK assistance is provided through the budget in Ethiopia, Sierra Leone, Uganda and Zambia. Those countries get the top score for the relevant indicator in the HIPC-CBP survey.

### 4.4. Sectors and Projects

<table>
<thead>
<tr>
<th>Sector</th>
<th>% of bilateral ODA (commitments)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social and Administrative Infrastructure</td>
<td>30.5%</td>
</tr>
<tr>
<td>Of which: Education</td>
<td>4.9%</td>
</tr>
<tr>
<td>Health</td>
<td>4.6%</td>
</tr>
<tr>
<td>Population</td>
<td>3.3%</td>
</tr>
<tr>
<td>Water supply and sanitation</td>
<td>0.6%</td>
</tr>
<tr>
<td>Government and civil society</td>
<td>15.8%</td>
</tr>
<tr>
<td>Economic Infrastructure</td>
<td>2.4%</td>
</tr>
<tr>
<td>Of which: Transport and communications</td>
<td>0.8%</td>
</tr>
<tr>
<td>Energy</td>
<td>0.9%</td>
</tr>
<tr>
<td>Production</td>
<td>2.9%</td>
</tr>
<tr>
<td>Of which: Agriculture</td>
<td>1.6%</td>
</tr>
<tr>
<td>Industry, mining, construction</td>
<td>0.7%</td>
</tr>
<tr>
<td>Trade and tourism</td>
<td>0.6%</td>
</tr>
<tr>
<td>Multi-sector</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

Source: OECD 2007, 2006 data.

Sectorally, DFID does not routinely use targets, but has tended to emphasise social sectors. A growing emphasis is now being placed on the “government and civil society” sub-sector in line with DFID stronger engagement in fragile states, and on basic education in support of the MDGs. Over the last decade, support to economic infrastructure and services as a percentage of ODA declined (although it increased in real terms) and in 2006 stood below the DAC average; the percentage of ODA going to the production sectors also declined, although the UK position equated with the DAC average in 2003-04 (DAC, 2006b, p13). The 2006 White paper includes a commitment to spend at least 50% of future bilateral aid on public services for poor people. DFID is further committed to increase its spending on trade-related assistance to £100m per annum by 2010 (www.dfid.gov.uk/aboutdfid/organisation/aidfortradeqa.asp). Also, in 2007 DFID set up a new £100m “Governance and Transparency Fund” to strengthen civil society and the media to help citizens hold their governments to account.

As a member of the NORDIC+ group of like-minded donors, DFID will aim at focusing its active involvement with partner governments in a maximum of three sectors. Active engagement in sectors is envisaged to be for at least 5-7 years, or a minimum of 2 PRS cycles (NORDIC+, 2005).

The share of DFID assistance that relates directly to Poverty Reduction Strategy (PRS) processes has significantly increased since 2000 and reached 90-100% in many African countries in 2003 (DAC 2006b, p70). This is borne out by independent assessment by recipient governments (HIPC-CBP evaluation), with DFID scoring best
amongst all donors on aligning with and willingness to fund PRSP’s, with 7 out of 12 countries getting the top score.

4.5. Flexibility
DFID’s allocation formula takes account of vulnerability to shocks and allocates more funds to more vulnerable countries. DFID also builds contingency allowances into regional and country programmes to allow for flexible use, and an overall contingency fund can be used to make extra budget support or emergency aid available (DFID, 2003). PRBS is sometimes fully flexible within the government’s budget, although it is sometimes earmarked for particular sectors. Recipient governments (HIPC-CBP evaluation) equally assess DFID as being flexible, with top scores being given in Malawi, Guyana, Rwanda and Sierra Leone.

4.6. Predictability
DFID is able to set rolling triennial budgets at the division and department levels and frequently enters into three-year arrangements with its partner countries. It has also committed to reporting publicly in its annual report on disbursements of PRBS for the year (comparing actual with planned disbursements, noting the reasons for any divergence); and on commitments for 3 years ahead (DFID, 2005c). DFID is now considering longer-term arrangements with countries committed to poverty reduction and good governance, and has already signed ten-year partnership arrangements with Sierra Leone, Rwanda and Afghanistan (DAC, 2006b, p13). DFID’s Development Committee recently agreed that ‘the default way of providing assistance should be 10 year country level Development Partnership Agreements (DPAs)’ (See www.dfid.gov.uk/aboutdfid/dev-committee/dcmeeting11july06.asp). However, currently there are still quite a few countries where multi-year planning is not the reality.

Future PRBS commitments (for years two and three of the medium term expenditure framework, and the years beyond) are divided into two components:

- a core component of committed aid which will only be varied if there is a breach of the partnership commitments;
- an indicative component which is not committed aid.

Full disbursement should take place in the first six months of the partner government’s financial year although in high risk environments two disbursements may be planned (DFID, 2006c, p14).

According to recipient governments (HIPC-CBP evaluation), best practice (top scores on the two relevant indicators) in terms of multi-year commitments and disbursements matching pledges in the intended fiscal year can be found in Ethiopia, Gambia and Sierra Leone. There looks to be quite a close link again between the amount of programme support and on-budget aid and predictability (see Paris Indicator 7 for Rwanda, Tanzania, and Afghanistan where respectively 84%, 89% and 94% of aid is delivered on-budget). However, DFID also provides highly predictable aid in countries where there is no programme support (Albania and Nigeria).

4.7. Conditionality
According to the new UK policy on conditionality, DFID should not make its aid conditional on specific policy decisions by partner governments or attempt to impose
policy choices on them, including in sensitive areas such as privatisation or trade liberalisation (DFID, 2005d and DAC, 2006b, p69). Instead, DFID should agree with recipients that partnership is based on a commitment to (DFID, 2005d, p1):

- poverty reduction and the MDGs;
- respecting human rights and other international obligations; and
- strengthening financial management and accountability.

DFID will seek to agree benchmarks to assess commitment to these three things, and may withdraw funds if the commitments are breached (e.g. Ethiopia in 2005), although usually for future rather than current financial years. According to recipient countries (HIPC-CBP evaluation), this has translated into conditions that are enforced rather leniently, with only minor conditionality-induced disbursement delays occurring as only 3 out of the 12 survey countries do not get one of the two top marks.

4.8. Policy Dialogue
Due to their high proportion of budget support, DFID tend to play an important role in policy dialogues at the country level, including via multi-donor budget support groups. This is confirmed by recipient countries’ views emanating from the HIPC-CBP evaluation. DFID policy is to support country programmes independently of other donors (see 4.7 above) and only enter joint arrangements with other donors where their approach to conditionality is compatible. The recent White Paper however, points out that it tends to participate in multi-donor arrangements which have considerable conditionality and that DFID needs to do more to reduce this. If an IMF or World Bank programme is suspended, delayed or withdrawn, DFID will not automatically withdraw funds, but will assess the situation against its own benchmarks (DFID, 2006c). According to recipient countries (HIPC-CBP evaluation), the way this ‘freedom’ is applied still varies considerably across countries, with top scores given by Gambia and Guyana.

5) AID PROCEDURES

Many of DFID’s procedures are set out in its ‘Blue Book’ (DFID, 2005e).

5.1 Conditions precedent
DFID’s programming cycle revolves around the Country Assistance Plan (CAP). They set out how DFID aims to contribute to the achievement of the MDGs, based on the respective partner’s PRSP. They include a framework for annual assessment of DFID’s performance in implementing the plan. Major reviews of Country Assistance Plans are to be undertaken every three to four years (DFID, 2007b).

An account must be opened at the Central or Primary bank for the transfer of funds to the account of the Treasury Officer; a signature specimen must be provided for each person authorised to validate the payment request. DFID does not ask for counterpart funds. According to the Paris survey, Project Implementation Units (PIUs) are quite rare in countries where DFID mainly gives budget support. Most country reports of the 2008 Paris Survey mentioned the UK having 2 PIUs or less, with the exception of Nepal where there are 12 PIUs. Recipients (HIPC-CBP evaluation) find that, in most countries there are only few prior conditions that need to be met. These conditions do not in general delay disbursements to a significant extent.
5.2 Disbursement Methods
For non-program-based support, as a rule DFID only provide funding on a reimbursable basis. The only exception to this is funding to NGOs, who are seen to not have sufficient liquidity to pay up front for costs.

5.3 Disbursement Procedures
DFID has committed to providing information to recipients on disbursement plans (including within-year phasing) for the coming fiscal year, at a time and in the form needed for finalisation of their budget. They aim to disburse all Poverty Reduction Budget Support in the first six months of the recipient’s financial year.

The UK is increasingly using recipient countries’ PFM systems, as noted by indicator 5a of the Paris survey. Best practice is to be found in Uganda, Nepal, Tanzania, Rwanda and Zambia. DFID channels all of its aid through the countries’ PFM systems in Uganda and Nepal, and nearly all its aid in Tanzania, Rwanda and Zambia (scoring respectively 99%, 98% and 92%). According to recipient countries’ own assessments (HIPC-CBP evaluation), the number of disbursement procedures is low on average, with some exceptions.

5.4 Procurement Procedures
From 1 April 2001, all UK development assistance has been fully untied (it is illegal for the UK to tie aid under the 2002 International Development Act). ‘Paris’ indicator 8 confirms that DFID has untied all of its aid. In line with EU Procurement Directives, DFID is required to advertise all activities expected to exceed the threshold of £93,738 (as of December 2006) by placing a Contract Notice in the Supplement to the Official Journal of the European Communities (OJEC). Exceptions to these requirements include emergency relief and legal projects (www.dfid.gov.uk/procurement/complaints.asp).

Lessons on the use of recipient country procurement systems (‘Paris’ indicator 5b) reflect to a very high degree the lessons from indicator 5a (see section 5.3). From the HIPC-CBP evaluation, one can see that delays attributed to procurement are still an issue in certain recipient countries.

5.5 Coordination
DFID endorsed the Paris Declaration in 2005 and signed up to the EU Action Plan on Harmonisation in November 2004 (DAC, 2006b, p68). It has entered into basket funds and pooled funding arrangements in a number of countries. DFID has also been willing to enter into joint assistance strategies (replacing their own Country Assistance Plan), e.g. in Tanzania. In Rwanda, the next country plan will be developed jointly with the World Bank and aligned with the country’s PRSP cycle. DFID has also participated in silent partnerships (or “delegated cooperation”), e.g. with France for the education sector in Niger. As a member of the EU, the UK committed in 2005 in Paris to reduce the number of uncoordinated missions by 50%. According to the 2008 Paris Survey, the UK has exceeded its pledge and only 39% of its missions were uncoordinated in 2007.

Most of the examples in the previous paragraph are applications of the principles agreed by the so-called ‘Nordic +’ group of donors, of which the UK is a member. With this group of countries, the UK has agreed on many harmonisation documents
such as guidelines on delegated cooperation, and on division of labour (Nordic+, 2005, 2006).

‘Paris’ indicators 10a and 10b report on joint field missions and joint country analytic work. Looking at the recipient-country specific data, there are few regularities to be found. In some countries (Kyrgyz Republic and Nepal) everything is done jointly, whilst in others only 14% of missions are joint or 20% of analytic work is joint. This high variability is borne out by recipient countries’ own assessment (HIPC-CBP evaluation).

**Key Sources (All internet sources were accessed in October 2008)**


DAC (2008a) “Press release: initial 2007 ODA figures”, OECD Development Assistance Committee, accessed at: http://www.oecd.org/document/8/0,3343,en_2649_33721_40381960_1_1_1_1,00.htm


