WHAT IS THE PURPOSE OF UK EXPENDITURE ON INTERNATIONAL DEVELOPMENT?

1. Sections 2 and 3 have highlighted the funding mechanisms through which bilateral aid is delivered and the countries to which it is directed. So, for example it is possible to identify how much money is spent on technical assistance, how much is spent in Ghana, and how much is spent on technical assistance in Ghana. This report has not yet considered the issue of what aid is being spent on – for example technical assistance might be directed towards health improvement, education or rural development.

2. It is important to be aware that demonstrating the exact areas on which aid is being spent is by no means a simple process and a certain amount of judgement is involved. While it can be relatively straightforward in the case of focused projects over which DFID has total control, even they can be multi-dimensional and address interrelated policy areas, and increasingly such projects are not the norm as more innovative types of aid are introduced. DFID is increasingly moving towards larger, more complex and longer term programmes. PRBS is a particularly complicated example. The principle behind the use of PRBS as an aid instrument is to empower recipient Governments to allocate funds according to their own priorities. It is therefore at odds with this principle, and practically very difficult, to try and give accurate representations of what the money is being spent on. In the longer term, DFID intends to move to an approach using recipient government budgets to show where funding is actually being allocated (so for example, if budgets show 20% of a country's expenditure going on education, DFID would report that 20% of PRBS in that country was being spent on education). However this methodology is not yet ready for use and so reliance must be placed on best estimates and users of the data should recognise their limitations.

3. Two systems in operation in DFID attempt to gather information on the purpose of bilateral aid: Sector codes (which also apply to GPEX), and the Policy Information Marker System (PIMS). Depending on the nature of particular questions, it might be more appropriate to use data from one or other system[1.] The types of question best addressed by each approach are considered at the end of this section.

Broad Sector Codes

4. Every bilateral project or programme that comes within the umbrella of GPEX, is marked with 'input sector codes' that identify where funding will be spent. There are eight broad sectors as shown in Box 4.

[1] A combination of Sector Codes and PIMs is used in calculating spend against DFID's various spending target commitments – for example on HIV/AIDS, water and sanitation and education. The results of these exercises are not reported in *SID*, but can be obtained from the relevant DFID policy teams.

Box 4: DFID'S Broad Sectors

Economic (including transport, communications, construction and manufacturing)

Education (including teacher training and development awareness)

Health (including communicable disease control and nutrition)

Governance (including international influencing, statistics and local government reform)

Social (including human rights, shelter and housing and water supply)

Humanitarian Assistance (including emergency food aid and de-mining)

Rural Livelihoods (including agriculture and aquaculture)

Environment (including biodiversity and climate change)

5. Within the broad sectors there are a range of more detailed codes. Since October 2002, up to 6 sector codes can be specified for each project or programme (including PRBS and debt relief). For each code selected, budget holders indicate what proportion of the total commitment is expected to be spent in or on behalf of that sector[2]. Prior to October 2002 just one dominant sector was identified which limits comparison between the latest two years and older data.

6. Figure 10 shows the split of DFID's bilateral programme between sectors for 2004/05. It can be seen that just over a quarter of spend was classified under the economic sector code and that health, humanitarian assistance and education received the next largest amounts. As the DFID bilateral programme has grown over the last two years, so spend in most sectors has increased (see Figure 11).

Figure 10
DFID Bilateral Aid by Broad Sector 2004/05

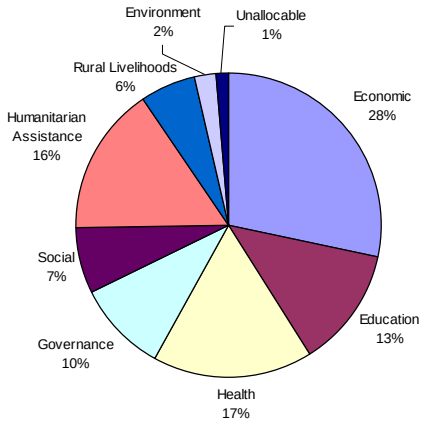
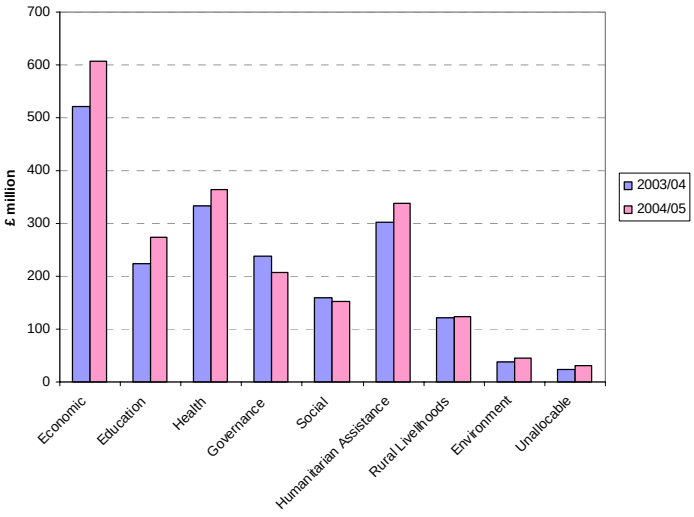


Figure 11
DFID Bilateral Aid by Broad Sector 2003/04 – 2004/05



[2] Because of the lack of precision inherent in this exercise, percentages are rounded to the nearest 5 or 10%; they must sum to 100%. For international reporting purposes it is necessary to allocate a single broad sector to each project. This is done automatically based on the largest percentage (or the first code specified where percentages are equal).

7. Table 18 shows sector breakdowns of DFID and GPEX bilateral aid by aid type. It can be seen that for PRBS, the economic sector is reported to be a key focus. This may in part be due to the difficulties of coding this type of expenditure and reflect the fact that PRBS is intended to facilitate the establishment and maintenance of fiscal discipline. Technical cooperation is particularly likely to be focused on the health, economic and governance sectors. A sector breakdown of DFID's bilateral aid by region is given in Table 19.

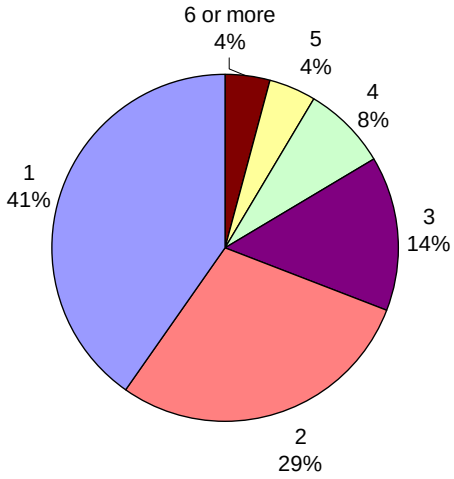
Policy Information Marker System (PIMS)

8. The policy information marker system (PIMS) is used within DFID to show the extent to which development activities target specific policy areas – in particular those focused on different MDGs. The PIMS system has been revised over the years to reflect changes in development focus and reporting needs. It currently includes 13 markers, which map onto the MDGs.

9. All bilateral spending commitments over £100,000 are required to be marked under the PIMS system[3]. By value, this means that over 90% of DFID's expenditure is coded, although by number only around half of all projects are included[4]. Debt relief is excluded, but PRBS is included. In analysis of expenditure by PIMS marker, PRBS is often shown separately from other types of aid.

10. While it is a requirement to have at least one PIMS marker, there is no upper limit on the number allowed and because DFID policy areas are mutually supportive and overlapping, most bilateral activities contribute to, and are marked against two or more PIMS markers. In 2004/05, four in ten of all PIMS eligible projects/programmes had only one marker and almost a third had two (see Figure 12).

Figure 12
Number of PIMS Markers
on PIMS eligible projects/ programmes 2004/05



11. The PIMS system is designed to show whether a particular policy area is a principal target for the project/ programme, in which case a 'principal' marker should be applied or whether it is an important objective, but not a primary reason for undertaking the activity – in which case a 'significant' marker should be used. Projects can have more than one principal marker, although in 2004/05 83% had only one (12% had two and just 5% had three or more).

[3] Marking for PIMS takes place at the commitment stage of a project or programme although markers can later be changed as the project or programme is reviewed.

[4] DFID has a large number of relatively low value projects in its portfolio and since PIMS analysis presents monetary value against the markers, it was decided that only projects over £100,000 should be included to maximise the value of the data while minimising the time involved in coding.

12. Scoring against PIMS does not involve attributing spend proportionately to different markers where there are more than one. As a result, in analysis the total value of expenditure on any project or programme in the year in question is counted against each of the markers allocated to it. This means that there would be double counting if data for different PIMS markers were added together. SID does not aggregate spending against PIMS markers (except under MDG headings where we avoid double counting) and Tables 20-22 include footnotes warning against adding markers together.

13. In previous editions of *SID* PIMS analysis has been undertaken in relation to commitment values rather than expenditure. However there are now data for a long enough period of time that expenditure figures can be reported[5].

14. Figure 13 shows that the PIMS marker with greatest DFID bilateral expenditure marked against it in 2004/05 was 'good governance', followed by 'the elimination of extreme poverty and hunger' and 'reducing child mortality'. The markers 'Promote gender equality and empower women' and 'human rights and empowerment' were next in line. It is interesting to note that some markers like the ones for poverty/hunger and education are more likely to have a principal marker, while others such as the gender equality and human rights markers are more likely to be awarded as significant. This is what would be expected given the mainstreaming agendas which apply to gender, HIV/AIDS and the environment.

15. Table 20 is the table on which Figure 13 is based and shows how DFID's eligible expenditure is marked against the full range of PIMS marks, with separate analysis of PRBS. Tables 21 and 22 give a regional breakdown of estimated allocations under PIMS for PRBS and non-PRBS expenditure.

When to use Sector Codes or PIMS data

16. Sector codes should be used to address questions such as what proportion of DFID's bilateral programme is spent on health? (the percentage should be calculated on the basis of aid that can be allocated to sectors which is shown in Tables 18 and 19). Sector data are also most appropriate if a UK perspective is required since data are available for total GPEX.

17. PIMS markers should be used for questions such as to what extent is DFID targeting work on a particular policy area. In answering the question, the principal markers which show direct targeting should be reported separately from the significant markers which show a wider reach of work in the area concerned. PIMS eligible spend should be used as the baseline for any calculations.

[5] Expenditure data are more meaningful since sums can be related to the year in question whereas commitment data include sums intended to be spent in future years.