

This Government is committed to international poverty reduction:

- over the next three years, the UK's aid budget will grow by an average of over 8 per cent a year in real terms, taking the UK's aid budget to nearly £4.9 billion by 2005-06;
- UK Official Development Assistance will rise by £1.5 billion to 0.40 per cent of Gross National Income (GNI) by 2005-06. This will mean the UK will exceed the average European Union (EU) ODA/GNI target agreed earlier this year;
- the Department for International Development's Public Service Agreement is tied to achieving demonstrable progress on reducing poverty and improving education and health outcomes in Africa and Asia by 2006; and
- the Government will ensure that 90 per cent of its bilateral development resources go to the world's poorest countries and overall that resources are 100 percent untied and directed where they will be used most effectively.

INTERNATIONAL POVERTY REDUCTION

UK aid budget **14.1** The Department for International Development (DfID) is responsible for Government efforts to promote the reduction and elimination of poverty in developing countries. DfID's budget will increase to nearly £4.6 billion by 2005-06 compared to £3.4 billion in 2002-03; with the **UK's Official Development Assistance (ODA) to GNI ratio rising to 0.40 per cent** in the same period. This will be **the highest UK ODA ratio since 1981** and will take the **UK well above the current G7 ODA/GNI country average of 0.18 per cent and the OECD average of 0.22 per cent**. The UK Government is committed to the UN target of ODA/GNI of 0.70 per cent.

Public Service Agreement **14.2** DfID has agreed a new Public Service Agreement (PSA) to 2005-06 to ensure that their spending results in demonstrable improvements in the lives of the poorest people. The PSA is built around the Millennium Development Goals and sets targets for 2006. It focuses, in particular, on DfID's key partners in Africa and Asia and sets targets for improvements to health and education, but also for further progress on conflict prevention, on debt relief and on improving trade access – a critical issue for developing countries.

Box 14.1 Millennium Development Goals and DfID's Key PSA Targets

DfID's Public Service Agreement is set around the Millennium Development Goals and, in particular, concentrates on poverty reduction and improved health and education outcomes in 20 key countries across Africa and Asia.

The Millennium Development Goals are global targets for achievement by 2015 set at the United Nations Millennium Summit in September 2000:

- Eradication of extreme poverty and hunger, including halving the proportion of the world's people living in extreme poverty;
- Achievement of universal primary education, with every child completing a full course of primary education;
- Promotion of gender equality and empowerment of women;
- Reduced child mortality, reducing the death rate of children under five by two-thirds;
- Improved maternal health, reducing maternal mortality rates by three-quarters;
- Combating HIV/AIDs, malaria and other diseases;
- Ensuring environmental sustainability; and
- A global partnership for development.

Improving aid effectiveness

14.3 The UK's growing development budget has been complemented by an increasing emphasis on aid effectiveness. DfID has improved the focus of its spending by shifting the way it delivers its aid in line with best practice. There has been a move away from small projects in favour of aid to support poverty-focused reform programmes in recipient countries. DfID is also aiming to work more closely with other donors to cut the costs of aid for recipient countries and ensure coherence in the support offered. Since April 2001 all UK aid has been untied; aid funds are no longer required to be used to purchase goods and services from UK suppliers. Research suggests that removing the link between aid and awarding of contracts can improve the effectiveness of aid by between 15 and 30 per cent. The Government is also working to encourage other donors to implement best practice, and to improve the effectiveness of multilateral aid.

Bilateral spending

14.4 On the bilateral side, the new resources being added to DfID's budget will be targeted at the very poorest, particularly in Africa, which has the highest number of poor countries, and Asia, which has the highest concentration of poor people. **By 2005-06, 90 per cent of DfID's bilateral assistance will be spent on low income countries.** This is up from 67 per cent in 1997-98. **For the first time, the UK will also have in place a £1 billion annual bilateral spending programme in Africa by 2005-06.** This will enable increased resources to be directed towards the continent where achievement of the Millennium Development Goals is most at risk.

14.5 The £1 billion annual programme will enable the UK to support the New Partnership for African Development (NePAD), an African-led development compact based on improved partnership and mutual accountability. NePAD members have committed to improved political and economic governance, and the promotion of peace, security and poverty reduction. Developed countries, in return, have committed to support such countries with improved market access, increased aid and assistance with conflict resolution and peace building.

14.6 Much of the planned increased bilateral spending in Africa and Asia will be targeted on health and education improvements – core areas of the MDGs. Since 1997 DfID has committed £700 million to Universal Primary Education, mainly in Africa and Asia. The World Bank has recently announced a plan to fast track support for countries that are committed to education for all. This plan was welcomed by the UK and by the rest of the G7 at the Kananaskis G7/G8 Summit in June. At the Summit the UK and other G7 countries also committed themselves to increase significantly their support to education. Furthermore, the UK Government has also launched this year a Commonwealth Education Fund to mark Her Majesty the Queen's Golden Jubilee. This Fund will combine public and private money to support primary education in Commonwealth countries over the next four years.

14.7 On health, the UK has played an influential role in establishing a new international Global Health Fund to help fight HIV/AIDS, TB and Malaria, especially in the poorest countries. International commitments now stand at \$2.1 billion; of which the Government has so far pledged \$200 million over five years. Budget 2002 announced a new tax measure to encourage Research and Development into drugs and vaccines to treat specific diseases threatening lives in poor countries, and a new relief that will help to encourage industry to make appropriate donations of medical equipment and supplies to developing countries. These initiatives are in addition to bilateral commitments worth over £1 billion which have been agreed by DfID since 1997 for developing and delivering strategies for improved healthcare in developing countries.

14.8 The UK, as well as pushing for increases in overseas aid, also remains at the forefront of the international debate on debt relief and continues to be a leading advocate of the Heavily Indebted Poor Countries (HIPC) initiative. Twenty-six countries have now qualified for debt relief. Social expenditure in these countries has increased by \$1.7 billion in 2001-02, equivalent to 1.2 per cent of GDP. On average, health and education spending account for 65 per cent of the use of HIPC debt relief. As discussed in Chapter 5 (5.15), the UK secured commitment to international funding of \$1 billion to address debt sustainability for HIPCs suffering from a collapse of commodity prices.

Multilateral Institutions **14.9** Multilateral institutions have a crucial role to play in the development agenda and the best-performing multilateral programmes deliver aid very effectively. DfID's total multilateral programme spending has increased 35 per cent since 1997. DfID works with the multilaterals at both headquarters and field level to set or influence reform agendas. DfID funds non-discretionary commitments, in particular the UK's share of European Union programmes and subscriptions to United Nations (UN) agencies. However, DfID has also used resources to strengthen and support the most effective multilateral agencies, and those most willing to reform.

14.10 Contributors to the International Development Association (IDA) – the branch of the World Bank which provides highly concessional assistance for the poorest countries and is one of the most effective forms of development expenditure – reached agreement in July 2002 to a substantial replenishment of its funding. Contributors will provide nearly £9 billion for the poorest countries over the next three years. As part of the agreement, IDA will provide grants equivalent to 18-21 per cent of total support: this will be focused on post-conflict countries; the fight against HIV/AIDS; and, following a UK initiative, on helping to ensure poor countries do not face a return to unsustainable levels of debt. Grant finance at this level will lead to a loss of loan reflows in future years which the UK believes should be covered by additional support from donors. The UK is strongly committed to preserving and increasing IDA. We will therefore provide a total of up to £1 billion to the new replenishment. Of this, £100 million will help cover the costs of grants during the current period, and will be conditional on contributors agreeing, during the IDA Mid Term Review in January 2003, a responsible scheme for putting aside extra funds for grants in future replenishments.

**Cross-cutting
work on conflict
prevention**

14.11 In the 2000 Spending Review, the Government set up two conflict prevention pools for Africa and global conflict prevention. These pooled budgets have brought together the work on conflict prevention of three departments – DfID, the Ministry of Defence and the Foreign and Commonwealth Office – across Whitehall in order to improve the effectiveness of the UK's response to conflict prevention. The largest share of the Africa pool's funding in the past year was directed to Sierra Leone and the Great Lakes region. Examples of improved joint working and a strengthened UK approach in the past year include a closely co-ordinated programme for security sector reform in Sierra Leone and support for the Special Protection Force in Burundi.

SPENDING PLANS

14.12 The UK Government is committed to the UN target ratio of ODA to GNI of 0.70 per cent. The UK has continued to make progress towards it since 1997 and by 2005-06 the UK's ODA/GNI ratio will reach 0.40 per cent, up from 0.26 per cent in 1997. This is the highest level since 1981 and is equivalent to an increase in UK ODA of £1.5 billion since 2002-03. The spending plans for the Department for International Development provide for total spending for their budget to increase by £1.2 billion between 2002-03 and 2005-06.²

Table 14.1: Key figures

	£ million			
	2002-03	2003-04	2004-05	2005-06
Department for International Development				
Resource budget	3,374	3,709	3,846	4,599
Capital budget	14	11	18	14
Total Departmental Expenditure Limit¹	3,371	3,699	3,843	4,592
Memo: Conflict prevention	50	50	60	60
Near-cash spending in DfID DEL ²	3,339	3,560	3,674	4,443

¹ Full resource budgeting basis, net of depreciation.

² Consistent with previous control basis.

Table 14.2: Official Development Assistance

	£ million			
	2002-03	2003-04	2004-05	2005-06
Total UK Official Development Assistance¹	3,420	3,669	4,131	4,902
Official development assistance as a proportion of GNI (per cent)	0.32	0.33	0.35	0.40

¹ To ensure consistency with national accounts, the proportion of GNI is calculated using near-cash numbers.

² In line with international definitions UK ODA excludes some elements of DfID's budget (for example, pensions) and includes some items outside DfID's budget (for example investments by the Commonwealth Development Corporation).