

Following the events of 11 September, it is even more important that the Government continues to build on Britain's proud tradition as an outward-looking nation, by working both bilaterally and multilaterally, to provide security and opportunity for all. Recent events serve to remind UK citizens of the dangers and insecurities that can still affect the UK. Only by being strong in the world, and by working closely with its international allies, can the UK combat terrorism, tackle poverty and create a safer and fairer world for all.

The Government continues to work hard to promote security for Britain's citizens, while ensuring that globalisation works for all the world's people. In particular, the Spending Review will:

- deliver the **largest planned increase in defence spending in twenty years, with defence spending plans set to increase by £3.5 billion between this year and 2005-06**. This includes more than **£1 billion in capital investment and £0.5 billion of other resources** for new capabilities to enable the UK to continue its leading role in the campaign against international terrorism;
- provide for **higher spending on the Foreign and Commonwealth Office's diplomatic network and programmes, public diplomacy and on intelligence and security**, backed up by a **commitment across government to enhancing resilience in the face of the threat of terrorism**;
- **increase the UK's aid budget by an average of more than eight per cent a year above inflation. The UK's ratio of aid to national income will reach 0.40 per cent by 2005-06** – the highest ratio in over 20 years and more than double the current G7 average;
- enable the UK to **increase further its contributions towards meeting the Millennium Development Goals**. In support of this, **the UK will be directing 90 per cent of bilateral aid to the poorest countries of the world by 2005-06**;
- continue to demonstrate a commitment to strong international relationships, **working hard with international partners in organisations** such as NATO, the European Union, United Nations, G7 and G8, the IMF and the World Bank;
- provide **additional funding for the BBC World Service** including funding for programming in south-west Asia and Africa and further capital investment; and
- enable the British Council to deliver Connecting Futures, **promoting international understanding**, and to expand its network of Knowledge and Learning Centres in key cities.

## RESPONDING TO A DANGEROUS WORLD

**5.1** The terrorist attacks of 11 September shocked the whole world. But they affected Britain particularly strongly, because of the numbers of British citizens killed, because of Britain's close links with the USA and because of the Government's immediate commitment to supporting a multinational response to combat the threat of international terrorism. The

UK's traditional outward-looking stance and network of global interests gave it a leading role in that response. The Government is committed to developing further Britain's ability to play a leading role in promoting peace and prosperity around the world, and in combating global poverty, conflict, and terrorism.

**The threat of terrorism** **5.2** The events of 11 September showed that international terrorism could pose a direct threat to the lives and wellbeing of British citizens. But there is also an indirect threat from failed states which can harbour or foster terrorism, and from failures of governance. The unresolved tensions in the Middle East and in South Asia show that regional difficulties can have global impacts. The range of issues that affect Britain is wide. In recent years the UK has been much concerned with Africa and the Balkans; in 2001 the focus of attention broadened to include Afghanistan. But the example of the Balkans shows the possibility of progress resulting from a coordinated international response and deliberate and careful involvement, working across departmental and national boundaries. Since the last Spending Review, democracy has been restored in Yugoslavia, and in the last twelve months UK armed forces have led a mission to help avert civil war in the Former Yugoslav Republic of Macedonia (FYROM). The UK has many tools for international engagement, including diplomacy, defence capability, peacekeeping and other military operations, aid, trade, intelligence, and public diplomacy. This Spending Review provides extra resources for each of these.

### Security for Britain and British interests

**5.3** The last Spending Review included the first planned real-terms increase in defence spending since the end of the Cold War, to continue implementation of the Strategic Defence Review (SDR). The Ministry of Defence's analysis since 11 September shows that the thrust of the SDR – towards more mobile, more deployable, more effective armed forces – was right, though its implementation so far has been only partly completed. In this Spending Review the Government is adding significantly to spending on defence. In the largest sustained real increase in defence spending plans in twenty years, the defence budget will be raised by £3.5 billion between 2002-03 and 2005-06. The extra funding includes money specifically for new capabilities recommended by the SDR "New Chapter" which will be published shortly. The New Chapter will encompass both enhanced deployable capabilities to act swiftly against overseas threats and improvements in home defence.

**5.4** The Government is ensuring that domestic security is given a high priority, and strengthening society's defences has been a key theme of this Spending Review. Consequently, measures for improving the UK's resilience to, and capability to deal with, a terrorist attack or a civil contingency have been prioritised by departments. Business continuity arrangements have been reviewed and planning has been mainstreamed as a routine activity.

**Role of intelligence agencies** **5.5** Britain's security and intelligence agencies play a vital role in ensuring national security. They have done much valuable work both before and since 11 September. This Spending Review ensures that they are well funded to carry on their work in the future. Total spending on the Single Intelligence Vote will be £291 million higher in 2005-06 than in 2002-03.

**Box 5.1: Key PSA targets – Britain in the World**

- By 2006 ensure that a minimum of 90 per cent of high readiness forces are at their required states of readiness with no critical weaknesses.
- Reduce tension in South Asia, the Middle East, the Balkans and elsewhere through action with our international partners.
- Reduce the number of people whose lives are affected by violent conflict and potential sources of future conflict, where the UK can make a significant contribution (*joint target between MoD, DfID and FCO*).
- Progress towards the Millennium Development Goals in 20 key countries across Africa and Asia (see box 14.1).
- A greater impact of EC external programmes on poverty reduction, including through working for agreement to increase the proportion of European Union ODA to low income countries from 38 per cent to 70 per cent.
- Strengthen European security through an enlarged and modernised NATO, an effective European Union crisis management capacity and enhanced European defence capabilities (*joint target between MoD and FCO*).
- Measurable improvement in the business performance of Trade Partners UK's customers; maintain the UK as the prime location in the European Union for foreign direct investment (*joint target between FCO and DTI*).

**CREATING A SAFER WORLD FOR ALL****Fostering strong relationships abroad**

**5.6** The UK's important role in diplomacy has been seen in our support for the Bonn process leading to the Transitional Administration in Afghanistan, in our links with both India and Pakistan, in our role in the G7/G8 and in the Government's initiatives to promote African development (see paragraph 5.18). This Spending Review provides increased funding for the FCO, to sustain its global network of posts, to provide for new and enhanced targeted programmes of spending on priority international issues, and for public diplomacy. A global reach through the FCO network ensures that the UK has a local presence in any area where a crisis may suddenly emerge. The FCO will undertake programmes aimed at making a success of European Union enlargement and, as enlargement proceeds, for advancing UK interests through closer engagement with the EU's new neighbours in the former Soviet Union.

**Box 5.2: Afghanistan**

The challenges facing Afghanistan remain considerable and the UK has committed itself for the long-term to working with the Afghan authorities to help build a democratic and representative society. In the last few months, the UK has worked to support capacity building for the Interim and Transitional Administrations, and to give practical backing to the political process under the Bonn Agreement. It has also pledged to commit £200 million over five years for Afghanistan, on top of the £60 million disbursed since September 11. The UK was the first donor to contribute to the Afghanistan Reconstruction Trust Fund and the Government has also given contributions directly to UN agencies and non-governmental organisations (NGOs) to meet Afghanistan's continuing humanitarian needs.

**5.7** Britain's public diplomacy institutions are widely respected and highly effective. For example, the BBC World Service's Afghan services have been recognised as the key source of independent information for the Afghan people during and after the period of the Taleban regime. The settlement means that spending on the World Service will be £38 million higher in 2005-06 than in 2002-03, which will enable it to continue to attract record numbers of listeners across the world. It is also developing an important on-line presence to complement its broadcasting. The new plans also provide for spending on the British Council to be £28 million higher in 2005-06 than in 2002-03, which will support the Council in redirecting its efforts more towards education and towards developing countries, including opening the first of a planned network of Knowledge and Learning Centres. It will engage increasingly with target audiences in countries of strategic interest, particularly young people in the Middle East and South Asia. The FCO is committed to building on this success by developing a more strategic approach to public diplomacy, particularly focusing on the needs identified in the countries and regions of concern after 11 September. There will be a further shift in emphasis towards emerging priorities and areas of opportunity.

**Conflict prevention**

**5.8** The Government is continuing and developing the conflict prevention pools created in the 2000 Spending Review. The pools fund a wide range of programmes designed to deter future conflicts and build societies where conflict is less likely. Examples of the conflict prevention pools at work are to be found in Afghanistan, in Sierra Leone, in Nepal, and in many other countries. They have also helped fund effective peace-building operations, e.g. in Sierra Leone, which recently held free elections and where thousands of former guerrillas have been disarmed, demobilised and reintegrated into society; and in FYROM, where civil war has been averted and civil rights for minorities enhanced. Both interventions, combining peacekeeping activity with development and diplomatic support, have proved much less costly – to local people, to the UK and to the wider world – than the protracted conflicts in Bosnia and Kosovo.

**Building capacity**

**5.9** The Government continues to help build capacity in other countries and institutions, for example, through supporting the implementation of the Brahimi report on UN peacekeeping, so that the UN's global peacebuilding and conflict prevention mechanisms are significantly enhanced to prevent and respond to complex emergencies. Building on successful engagement in Sierra Leone, the Government is also promoting African peacekeeping capacity, by working on a regional basis with individual countries and international donors. This includes the provision of training assistance to develop key capabilities for peacekeeping operations.

## WORKING TO REDUCE GLOBAL POVERTY

**5.10** The UK Government remains firmly committed to its long-term goal of helping to tackle global poverty and achieve the internationally agreed Millennium Development Goals (MDGs), such as halving poverty and achieving universal primary education, by 2015. The Government is also working to try and achieve further progress on other development issues, such as aid effectiveness, over the rest of the year.

### Increasing overseas aid

**5.11** In order to achieve the MDGs, the UK Government is committed to the UN target of official development assistance (ODA) to gross national income (GNI) of 0.7 per cent. The UK has continued to make progress towards the target since 1997, reversing the decline in aid spending. By 2005-06 the UK's ODA will be £4.9 billion and the ODA/GNI ratio will reach 0.40 per cent ensuring that the UK more than fulfils the Monterrey pledge (see below). This places the UK well above the current G7 country average of 0.18 per cent and the OECD average of 0.22 per cent.

**5.12** The Government continues to raise development issues on a regular basis with counterparts in other countries. The UN Financing for Development Conference in Monterrey, Mexico in March was the first UN Conference to deliver a significant increase in development aid. The Monterrey Consensus, the conference outcome document, recognises the need for a new deal based on the mutual rights and responsibilities of all countries, including government, business and non-governmental organisations. At the European Union Economic and Finance Ministers' meetings at the beginning of March, European Union Member States agreed collectively to raise their aid budgets by an estimated \$7 billion a year by 2006 so that a European Union average of 0.39 per cent is reached by 2006. The US also pledged additional aid volumes of \$10 billion between 2004 and 2006 and an additional \$5 billion each year thereafter. The UK will look to take forward this momentum at the World Summit on Sustainable Development in Johannesburg in August, the Commonwealth Finance Ministers' Meeting in London in September and the Annual meetings of the IMF and World Bank in Washington in the autumn.

**5.13** The Zedillo report for the United Nations concludes that achieving the MDGs will require an additional \$50 billion every year until 2015. In order to proceed with the urgency that the scale of the challenge demands, and recognising the duties of the richest countries to the least developed nations. The UK has proposed for discussion an international development financing facility that can raise, through borrowing against long term donor commitments, additional resources above the amounts committed at Monterrey. The UK will continue to raise and discuss this and other financing mechanisms internationally, to raise the resources needed to meet the Millennium Development Goals.

**5.14** The effectiveness of aid is important and the UK has demonstrated this by, among other things, untying 100 per cent of its aid – i.e. removing the link between aid and the awarding of contracts. Research suggests this can increase the effectiveness of aid by between 15 and 30 per cent and the UK plays a leading role in encouraging donors and international institutions to do more in this area. At their Summit in July, G7 Finance Ministers reiterated the call made at Monterrey for a Global Development Compact between developed and developing countries, based on mutual accountability for results. This included agreement that developed countries have a responsibility to improve development cooperation in support of country-owned poverty reduction and growth strategies, to provide appropriate aid and debt relief, and to expand market access.

**Delivering debt relief** **5.15** As well as pushing for increases in overseas aid, the UK 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, and six of these countries have had debt irrevocably cancelled. Total debt relief committed under the HIPC initiative now stands at \$62 billion, a significant step towards the \$100 billion announced at Cologne in 1999. Of the remaining HIPC countries with unsustainable debts, the majority are affected by conflict, making progress in the HIPC initiative difficult. To assist post-conflict countries, the IMF agreed to supply emergency post-conflict assistance on concessional terms. The UK has already pledged £2.5 million and was the first country to make a contribution to the fund.

**5.16** The global economic slowdown and collapse in commodity prices has hit HIPC countries particularly hard, and many are now forecast to reach Completion Point with an unsustainable burden of debt. In November 2000 the UK was instrumental in securing agreement from the International Monetary and Financial Committee (IMFC) and Development Committee to consider these factors in providing additional debt relief or topping up at Completion Point. This relief is mostly financed through the HIPC Trust Fund, and with over \$300 million committed the UK is the second largest bilateral contributor to the fund. To finance any further topping up that may be required, and to address the existing shortfall in the fund, the UK secured agreement, at the G8 Summit in Kananaskis in June, for additional funding for the HIPC Initiative of up to \$1 billion to address debt sustainability in the poorest countries. The UK will check progress against this, and other issues, at the annual meetings of the IMF and the World Bank in the autumn.

**Unproductive expenditure** **5.17** To complement efforts in reducing unsustainable debts, the UK successfully led efforts in the OECD to introduce a multilateral agreement to ensure that new export credit lending to HIPC countries is used only for productive purposes, ensuring that unsustainable debt burdens do not re-emerge. Furthermore, the UK has a unilateral ban on export credits for unproductive expenditure in those 63 poor countries who can only borrow from the World Bank on highly concessional terms. This policy means that Britain's export credits will only support productive enterprise that assists social and economic development.

**5.18** The UK has also been leading the way in pressing for a strong G8 response to the New Partnership for African Development (NePAD), an African-led initiative, and to the wider needs of Africa. NePAD members have committed to improved political and economic governance, and the promotion of peace and poverty reduction. Developed countries, in return, have committed to reward such countries with improved market access, increased aid, and assistance with conflict resolution and peacebuilding. As part of the UK's call for increased resources to Africa DfID will have, for the first time, a £1 billion annual bilateral programme to Africa by 2005-06.

**Global health fund** **5.19** The link between health and poverty in developing countries is clear and the Government has already taken a leading role in developing the Global Fund to fight HIV/AIDS, malaria and tuberculosis. 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 R&D 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, to help improve the provision of basic healthcare in developing countries. The UK will continue to push for a coordinated approach to address the problems of health in developing countries.

**Education 5.20** Education is another key development priority, and the World Bank recently announced a plan to fast track support for countries that are committed to education for all. The plan was welcomed by the UK and by the G7 at their recent summit in Kananaskis, where the UK and other G7 members also committed themselves to significantly increase their support to education. As well as the £700 million committed to universal primary education by DfID since 1997, the Government also launched, in the year of Her Majesty's Jubilee, a Commonwealth Education Fund to strengthen the capacity of low-income Commonwealth countries to deliver good quality primary education. The UK Government will provide an initial £10 million grant, and will match pound for pound, including tax relief, contributions from businesses and Comic Relief's Sport Relief in 2002-03.

**Trade 5.21** Trade managed correctly can be a powerful tool to reduce poverty and raise living standards. The UK Government is committed to making trade work for developing countries, including through implementation of the measures agreed at the World Trade Organisation's Doha meeting in 2001 increased market access for poor countries, securing reform of the EU's Common Agriculture Policy and building the capacity of developing countries to negotiate and participate in the global trading system.

### Working with international partners

**5.22** The UK continues to foster strong international relations, playing an active and constructive role in international fora such as the G8, European Union, NATO, United Nations, IMF, World Bank and the Commonwealth, as well as building relations with bilateral partners such as the USA.

**G7 and G8 5.23** The UK recognises the importance of multilateral action and continues to use the G7 and G8 to push for progress on development and other international issues. Defeating terrorism is also a top priority for the UK and the G8. By coordinating effectively with the G8 and through the IMF, the UK has pushed forward international efforts to upgrade security and combat the financing of terrorism. At the recent summit in Kananaskis, the G8 also agreed a ten-year programme for nuclear safety in the former Soviet Union.

**5.24** In June, the UK also gained agreement among G7 Finance Ministers to tackle banking secrecy and promote effective exchange of information in the international financial system, to ensure greater transparency in the world economy.

**The IMF and the World Bank 5.25** The Chancellor's role as Chair of the International Monetary and Financial Committee and UK Governor ensures that the UK continues to play a central role in the activities of the IMF and World Bank. The UK has worked closely with partner countries to strengthen IMF surveillance of the international economy, support poverty reduction in low-income countries, strengthen the frameworks for the prevention and resolution of financial crises, implement internationally-agreed codes and standards for good economic policymaking, and combat money-laundering and terrorist financing. The UK is working to ensure the continuous implementation of wide-ranging reforms to the international financial architecture, to ensure a more stable global economy. As part of these reforms, the UK is working with others to create a more effective system of crisis resolution, including through a potential new restructuring mechanism for sovereign debt.

**5.26** Multilateral development institutions (i.e. the World Bank and IMF, regional development banks, and agencies of the United Nations) play a central role in development. In addition to managing significant aid resources themselves, these organisations enhance the effectiveness of all development assistance by placing poor countries in control of their own development, coordinating national aid programs and attracting investment from the

private sector. The UK will remain a key partner in these institutions, and will continue to be a major donor. The UK will also work with them and with other donors to improve their effectiveness and their capacity to respond to new development challenges. For example, contributors to the International Development Association (IDA), the branch of the World Bank that supports poverty reduction in the poorest countries, reached agreement in June on a substantial increase in IDA's funding. This agreement will unlock nearly £9 billion for the poorest countries over the next three years.