

**The Government is committed to reducing international poverty:**

- as a result of this Spending Review, the Department for International Development's (DFID) budget will grow by an average of 9.2 per cent a year in real terms over the three years of the Spending Review period, to more than £5.3 billion a year by 2007-08;
- total UK official development assistance (oda) will reach nearly £6.5 billion a year by 2007-08. This is equal to 0.47 per cent of Gross National Income (GNI) and represents a real terms increase in UK oda of 140 per cent since 1997;
- the Government wishes to continue to raise UK oda at the rate of growth achieved in 2007-08, which would mean that total oda would reach 0.7 per cent of GNI by 2013;
- but the UK wants to go faster and if the Government's proposed International Finance Facility succeeds the UK could achieve the equivalent of 0.7 per cent oda/GNI by 2008-09; and
- this settlement will allow the UK to increase the level of bilateral aid to Africa from £1 billion a year by 2005-06 to at least £1.25 billion a year by 2007-08 and spend at least £1.5 billion over the next three years on bilateral and international efforts to combat HIV/AIDS.

**INTERNATIONAL POVERTY REDUCTION**

**UK aid budget** **15.1** The Department for International Development (DFID) is responsible for government efforts to promote the eradication of extreme poverty in developing countries. **DFID's budget will increase to more than £5.3 billion a year by 2007-08 compared to £3.8 billion in 2004-05; an average annual increase of 9.2 per cent in real terms over the three years of the Spending Review period.** This follows the 8.1 per cent real terms increase to DFID's budget announced in the 2002 Spending Review and the 6.2 per cent increase in the 2000 Spending Review. **UK official development assistance (oda) will reach nearly £6.5 billion a year by 2007-08. Total UK oda as a proportion of GNI will rise from 0.35 per cent today to 0.47 in 2007-08,** representing a real terms increase in UK oda of 140 per cent since 1997. The Government wishes to continue to raise UK oda at the rate of growth achieved in 2007-08, which would mean that total oda would reach 0.7 per cent by 2013.

**Public Service Agreement** **15.2** As in the 2002 Spending Review, DFID's Public Service Agreement (PSA) for 2005-08 has been built around the Millennium Development Goals (MDGs). The overall aim of the PSA is the eradication of extreme poverty and hunger in particular through the achievement by 2015 of the MDGs. The PSA sets targets to which DFID, working with the international community and other government departments including HM Treasury, Foreign and Commonwealth Office, Ministry of Defence and the Department for Trade and Industry, will contribute up to 2008. The PSA ensures that DFID, working with its partners, is focused on reducing poverty; in particular achieving better health and education outcomes for the poor; conflict prevention and post-conflict reconstruction; reducing debt and allowing developing countries access to the markets of the developed world.

### Box 15.1: Millennium Development Goals and DFID's key Public Service Agreement (PSA) targets

DFID's Public Service Agreement, including those targets shared with other government departments, is set around the Millennium Development Goals and, in particular, concentrates on poverty reduction and improved health and education outcomes in 25 key countries across Africa and Asia.

The MDGs 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 the age of 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.

**Bilateral spending** **15.3** To ensure that aid will have the greatest impact on meeting the MDGs it must be focused on the world's poorest countries where it is needed most. The 2002 Spending Review announced that 90 per cent of UK bilateral aid would be directed to the world's poorest countries. The 2004 Spending Review will safeguard this commitment by ensuring that at least 90 per cent of the total UK bilateral aid budget continues to be focused on the poorest countries. **The 2004 Spending Review will also enable the Government to increase the level of UK bilateral aid to Africa from £1 billion a year by 2005-06, announced following the 2002 Spending Review, to at least £1.25 billion a year by 2007-08.**

**15.4** Improvements in health and education underpin the MDGs and are key to reducing global poverty. Since 1997, DFID has committed over £1.5 billion to support global health systems, with bilateral spending on HIV/AIDS-related programmes rising from £38 million in 1997-98 to over £270 million in 2002-03. According to UNAIDS, the UK ranks second amongst government donors for HIV/AIDS in terms of both volume of bilateral aid and spending as a proportion of national income. **This Spending Review will enable DFID to step up bilateral and international efforts to combat HIV/AIDS, including a commitment to spend at least £1.5 billion on HIV/AIDS related work over the next three years.**

**15.5** Since 1997, DFID has committed over £700 million to the development of primary education in the world's poorest countries, providing bilateral aid through its country assistance programmes. Spending on education is set to rise to over £1 billion over the period 2003-04 to 2006-07.

**Multilateral institutions** **15.6** Achieving the MDGs will depend upon a coherent international approach, with agreed policies to support development and effective collaboration between institutions and nations. Research suggests that aid can be more effectively managed and delivered in a joint approach with other donors, alongside harmonisation of systems and procedures. The Government has increasingly focused its aid behind country-led Poverty Reduction Strategies (PRS), and has been at the forefront of advocating donor harmonisation and new international approaches to collective working.

**15.7** DFID attaches great importance to its role within the multilateral system and contributes significant resources to poverty reduction through multilateral channels. DFID currently contributes around £380 million each year to the United Nations development efforts, divided between core contributions to UN bodies and co-funding of specific development programmes. DFID also allocates resources through the World Bank, the European Community, which accounts for around a quarter of DFID's current development budget, the World Health Organisation, and the Global Fund to fight AIDS, Tuberculosis and Malaria, to which DFID has committed \$280 million until 2008. Regional Development Banks, such as the African and Asian Development Banks, are also important partners for DFID and the UK continues to work to improve their contribution to the reduction of poverty in their regions.

**15.8** The Government believes that the International Development Association (IDA), the concessional arm of the World Bank, provides some of the most effective development assistance. IDA's development assistance is well aligned with UK objectives, as it is focused on the poorest countries, has a grant element, provides aid built around Poverty Reduction Strategies and supports donor harmonisation. The UK is currently the fourth largest donor to IDA and **this Spending Review settlement will enable the UK to significantly increase contributions to IDA during the forthcoming replenishment round. This will build upon the £1 billion the UK committed during the last replenishment round.**

#### **Box 15.2: Efficiency**

##### **Agreed target**

DFID will realise total annual efficiency gains of at least £310 million by 2007-08, through an improvement in the effectiveness of international aid and redeployment of resources to key priority areas, delivering better outputs and outcomes.

##### **Implementation plan**

As part of this programme DFID plans, by 2007-08, to:

- achieve a total reduction of 170 civil service posts, with a further reduction of 124 posts appointed in country, and be on course to have relocated 85 posts out of London and the South East by the end of 2005 at the latest;
- increase the percentage of bilateral programme spending going to budget support from 44 per cent to 53 per cent. Research shows that budgetary support provided as part of partner government Poverty Reduction Strategies is a significantly more effective form of aid;
- achieve a 2 per cent year on year improvement in the performance of aid projects, achieving better value for money;
- increase the level of European Community aid going to Low Income Countries to 70 per cent, in line with World Bank evidence that aid targeted to the poorest countries achieves a greater impact in reducing poverty;
- substantially raise support for the next IDA replenishment round, which is acknowledged to provide some of the most effective development assistance;
- deliver cashable savings on administration costs of £7 million a year; and
- achieve an additional 1 per cent increase in savings annually, through further improvements to procurement, representing savings of over £10 million a year.

**International Finance Facility** **15.9** The Government's aim is to ensure that no country genuinely committed to reducing poverty and good governance should be denied the opportunity of pursuing these goals through lack of resources. In order to bridge the gap between what has been pledged by donor governments and what is still required, the UK has proposed an International Finance Facility (IFF). The IFF is designed to deliver the additional \$50 billion per year in aid flows the UN deems necessary to meet the MDGs by frontloading aid through the international capital markets. If the IFF succeeds, total UK aid flows with estimated disbursements from the IFF, excluding the debt service elements, could achieve the equivalent of 0.7 per cent oda/GNI as early as 2008-09.

**15.10** The Government is working closely with the international community to take the IFF forward. Since the proposal was launched, it has received broad support from emerging markets, developing countries, international institutions, faith communities, NGOs and business.

**Debt relief** **15.11** The UK continues to be a champion of the Heavily Indebted Poor Countries (HIPC) Initiative, which has so far provided debt relief for 27 countries worldwide. The UK has provided commitments of £2.3 billion of debt relief to eligible countries, and has pledged a total of \$434 million to support multilateral institutions' participation in the Initiative. The UK goes further than is required under the terms of HIPC, and provides 100 per cent debt relief on all debt owed by eligible HIPCs. The UK is also a strong supporter of additional HIPC relief for countries that have suffered external shocks between Decision and Completion Points. The UK will be seeking international support for further measures to relieve countries committed to the MDGs and poverty reduction of their debt burden.

**Conflict prevention** **15.12** The Africa and Global Conflict Prevention Pools were established in 2001 as a mechanism for delivering the UK's response to conflict prevention and resolution. The Pools bring together conflict-related activity of the Foreign and Commonwealth Office, the Ministry of Defence and DFID, and are intended to develop conflict prevention strategies as well as manage related conflict prevention programmes.

**15.13** Through the Africa Conflict Prevention Pool (ACPP), managed by DFID, the UK has provided critical support to African peacekeeping missions in Burundi, Liberia, Sudan and Cote d'Ivoire and has worked to enhance the capacity of African Peace Support Operations (PSO) through support to regional PSO training centres. In May 2004, the ACPP provided £2 million to fund an African Union ceasefire monitoring team in Sudan.

**Table 15.1: Key figures**

	£ million			
	2004-05	2005-06	2006-07	2007-08
<b>Department for International Development</b>				
Resource Budget	3,780	4,536	5,030	5,324
<i>Of which Administration Budget</i>	222	239	235	232
Capital Budget	18	14	20	22
<b>Total Departmental Expenditure Limit<sup>1</sup></b>	<b>3,777</b>	<b>4,529</b>	<b>5,028</b>	<b>5,323</b>
Memo: Africa Conflict Prevention Pool	60	60	63	64.5

<sup>1</sup> Full resource budgeting basis, net of depreciation.

**Table 15.2: Official development assistance**

	£ million			
	2004-05	2005-06	2006-07	2007-08
Total UK official development assistance	4,141	4,889	5,521	6,460
oda as a proportion of GNI (per cent)	0.35	0.39 <sup>i</sup>	0.42	0.47

<sup>i</sup> The 2002 Spending Review settlement predicted total UK oda would reach 0.40 per cent of GNI by 2005-06. In real terms, UK oda spending in 2005-06 will remain the same and the Government will deliver its commitment to increase the UK aid budget. However, due to faster than predicted growth in the economy it is now anticipated that the UK may just miss the 0.40 per cent oda/GNI forecast in 2005-06.

