

# Reforming Development Assistance: Lessons from the U.K. Experience

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*The US does not provide foreign assistance in a global vacuum, and there are many useful lessons to be gained by examining aid programs in other donor countries. The establishment of the U.K. Department for International Development in 1997 and the accompanying evolution of the U.K.'s foreign aid policies have provoked international interest as a possible model for other countries to follow. The United Kingdom now combines in a single government department not only the delivery of all overseas aid but also responsibility for analyzing the impact of other government policies—such as those for trade, the environment, and conflict prevention—on developing countries. The department is led by a cabinet-level minister. It has been assigned the task of articulating the U.K.'s long-term security, economic, and political interests in helping to build a more stable and prosperous world, and of ensuring that this long-term goal is considered alongside the more immediately pressing concerns of political, security, and commercial interests. It has benefited from a sharp focus on its long-term mission to reduce poverty overseas.*

*Within a few years, the new department has established a reputation for itself, and for the U.K. government, as a leader in development thinking and practice. This chapter describes the institutional changes in more detail and considers how they came about. It also considers the steps that will be needed to consolidate its early success.*

*It is one of the proudest achievements of the government that we have not merely introduced the International Development Bill, but have increased aid and development money as a proportion of our national income. . . . I believe that our obligations do not stop at these shores. Indeed, it is not merely right, but is in our long-term interest to offer a helping hand out of poverty to the poorest regions of the world.*

—Tony Blair, House of Commons, March 7, 2001.<sup>1</sup>

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In 1997 the incoming Labour government established the new Department for International Development (DFID), with responsibility for the \$6 billion aid budget and other aspects of U.K. development policy, led by its own cabinet minister.<sup>2</sup> In the subsequent eight years, the new department established a reputation for itself, and for the U.K. government, as a leader in development thinking and practice. A 2005 study for the Canadian government found that “ten years ago, the DFID was considered a middle-of-the-pack development agency. Today it is generally considered to be the best in the world.”<sup>3</sup> DFID was described by *The Economist* as “a model for other rich countries.”<sup>4</sup> More new recruits to the management track of the civil service now apply to join DFID than to the traditional first choices, the Foreign Office and Her Majesty’s Treasury (the Treasury), combined. The overhaul of foreign assistance institutions and policies has been described by Tony Blair as one of the Labour government’s proudest achievements and may be seen in time as one of its greatest legacies.

This chapter summarizes the institutional changes and policies that led to the establishment of the Department for International Development and its reputation as a global leader in development since 1997. It considers the objectives of policymakers in establishing the new structure, the extent to which these have been met, and the challenges in the years ahead. It draws lessons for other countries considering similar reforms.

## Development Assistance and the Colonies, 1929–61

The British aid program evolved from relationships that began during the British Empire.

### Before World War II

Until the 1920s the British government took the view that colonial administrations were responsible for maintaining law and order and that they should meet the costs of

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1. Tony Blair, Comments regarding engagements, 7 March 2001, *Parliamentary Debates*, Commons, vol. 364 (2000–01), col. 294 ([www.publications.parliament.U.K./pa/cm200001/cmhansrd/vo010307/debtext/10307-04.htm](http://www.publications.parliament.U.K./pa/cm200001/cmhansrd/vo010307/debtext/10307-04.htm) [January 2006]).

2. Cabinet ministers are at the top of the three rungs on the ministerial ladder. Ministers immediately below cabinet rank are *ministers of state*, below which there may be one or more *parliamentary undersecretaries of state*. Ministers below cabinet rank are collectively known as *junior ministers*. Junior ministers usually report to a cabinet minister. All ministers are in effect appointed by the prime minister and are nearly always, but not necessarily, members of the House of Commons or the House of Lords. Ministers in charge of large government departments are usually cabinet ministers; there are also other members of the cabinet—such as the chief whip and the leader of the House of Commons—who do not run government departments. The Treasury has two cabinet ministers (the chancellor of the exchequer and the chief secretary). The designation *secretary of state* dates back to before the establishment of cabinet government. It originally meant a minister to whom some of the functions of the monarch were delegated, specifically related to the functioning of the Privy Council. Today the title *secretary of state* is generally given to ministers in charge of departments (although not, for much of the twentieth century, the minister for agriculture), and the term is used almost interchangeably with *cabinet minister*. The designation of secretary of state does not denote seniority within government, as some very senior members of the cabinet are not secretaries of state, such as the prime minister, the chancellor of the exchequer, and, until recently, the lord chancellor.

3. Robert Greenhill, *Making a Difference: External Views on Canada’s International Impact. The Interim Report of the External Voices Project* (Toronto: Canadian Institute of International Affairs, January 2005).

4. “Clare Loses It,” *Economist*, May 17, 2003.

administration and such social services as were provided from any revenues that could be raised locally. Colonies were not encouraged to look to the U.K. government for financial or economic aid, and there were no programs for colonial development. Any aid to colonies was voted by Parliament annually and was generally limited to temporary emergencies.

It was not until 1929 that the British government accepted any legal responsibility for providing financial assistance to the colonies. The Colonial Development Act 1929 was intended mainly to reduce unemployment in the United Kingdom by promoting industry and trade.<sup>5</sup> It established a Colonial Development Fund which was not to exceed £1 million (about \$70 million in 2004 prices) in any one year to support agriculture and industry in the colonies and in so doing promote “commerce with or industry in the United Kingdom.” Funds were allocated by the Colonial Development Advisory Committee after a systematic examination of all schemes and projects put forward by colonial governments. The committee generally felt that the act did not permit aid for social services, recurrent expenditures, or projects that would not result in any gains for the United Kingdom.

Between 1935 and 1938, social unrest plagued the colonies. The Colonial Office became convinced that the rapid succession of disturbances in Trinidad, Barbados, and Jamaica were the result of low wages, high unemployment, and poor housing and sanitary conditions, and feared similar disturbances in other colonies that had similar problems. It became clear that the restrictions in the Colonial Development Act 1929 were not sustainable. The result was the Colonial Development and Welfare Act 1940, passed in wartime by a coalition government, which increased funds to £5 million a year (about \$300 million in 2004 prices) and extended the purposes of the Colonial Development Act to include the welfare of the subjects of the colonies.

### Postwar Development Policy

The postwar Labour government took the view that the U.K. government should play a substantial role in assisting the development of the colonies. The Colonial Development and Welfare Act 1945 replaced the two previous acts and increased aid to £120 million (about \$6 billion in 2004 prices) over ten years.<sup>6</sup> This longer commitment was intended to allow colonial governments to plan long-term schemes of public works, social services, and agriculture.<sup>7</sup> Each colonial government was required to prepare a ten-year plan, in consultation with representatives of the local population. A large proportion of the money that went into each ten-year program was provided out of local revenues and loans: the British government sought to minimize the amount funded by aid “so as to prevent even a suggestion of political pressure from the United Kingdom.”<sup>8</sup> The Colonial Development and Welfare Act established the United Kingdom’s first systematic aid programs to be operated not mainly in the interests of the donor.

Two development corporations were established in 1947: the Colonial Development Corporation, to operate in the colonies, and the Overseas Food Corporation, to function

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5. The Colonial Development Act 1929 was passed by a minority Labour government in 1929. Baron Passfield—the former Sidney Webb—was secretary for the colonies and for dominion affairs when it was passed.

6. See William Hare, Earl of Listowel, “Memoirs, Earl of Listowel” ([www.redrice.com/listowel/index.html](http://www.redrice.com/listowel/index.html) [January 2006]). Hare was minister of state for the colonies from 1948 to 1950.

7. “Planning” was a buzzword in the United Kingdom immediately after the Second World War.

8. The quote is from Hare, “Memoirs.”

anywhere in the world. The objectives of the corporations were to bring about a “speedier and more widespread development of our territories overseas for the benefit of the Colonial peoples, whose low standard of living can only be raised by greater use of their natural resources.”<sup>9</sup>

## Evolution of Policy, 1960–97

After World War II, there was a significant change in thinking in the United Kingdom and abroad about the role of foreign aid, driven by the success of the Marshall Plan and by the changing relationships between the United Kingdom and its colonies.

### Changed Thinking about the Role of Aid

The success of the European Recovery Program (the Marshall Plan) generated optimism that the combination of capital and technical assistance could transform economies in a very short time.<sup>10</sup> Though it is popular today, it is worth recalling that it took some time and a considerable effort by President Truman and his colleagues to secure U.S. public support for the Marshall Plan. The State Department organized a large-scale and well-funded public education program, including providing trips to Europe for many members of Congress to see for themselves the need for U.S.-sponsored reconstruction. In the end it was increasing Soviet intransigence and the communist takeover of Czechoslovakia in February 1948 that eventually persuaded Congress to approve the original Marshall Plan appropriation.<sup>11</sup>

The breakup of the British, French and other European empires created a number of poor, independent countries, and it became increasingly unsustainable for them to restrict development aid only to the remaining colonies. The U.K. government declared in 1958 that aid would be extended to former colonies that were members of the Commonwealth and to some non-Commonwealth countries. The British began to offer a combination of budgetary and technical assistance grants, concessionary loans, and loans under the Export Guarantee Act. The Colonial Office, which was responsible for managing the colonies and the process of decolonization, worked under a guiding principle of the “paramountcy of interests of the colonial peoples,” under which it had a duty to press for these interests within government

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9. *Ibid.*

10. A speech given by U.S. Secretary of State George C. Marshall at Harvard University on June 5, 1947 initiated the post-war European Aid Program, more commonly known as the Marshall Plan. For the text of that speech, see Organization for Economic Cooperation and Development, “Marshall Plan Speech” ([www.oecd.org/document/10/0,2340,en\\_2649\\_201185\\_1876938\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/10/0,2340,en_2649_201185_1876938_1_1_1_1,00.html) [January 2006]). An example of the optimism that the success of the Marshall Plan generated can be found in the inaugural address of President Harry S. Truman on January 20, 1949: “Almost a year ago, in company with sixteen free nations of Europe, we launched the greatest cooperative economic program in history. . . . Our efforts have brought new hope to all mankind. . . . We are moving on with other nations to build an even stronger structure of international order and justice. . . . More than half the people of the world are living in conditions approaching misery. . . . For the first time in history, humanity possesses the knowledge and the skill to relieve the suffering of these people. . . . With the cooperation of business, private capital, agriculture, and labor in this country, this program can greatly increase the industrial activity in other nations and can raise substantially their standards of living.” See “Harry S. Truman: Inaugural Address” ([www.bartleby.com/124/pres53.html](http://www.bartleby.com/124/pres53.html) [January 2006]).

11. John Bledsoe Bonds, *Bipartisan Strategy: Selling the Marshall Plan* (Westport, Conn.: Praeger, 2002).

even against Britain's other interests. Many officials who joined the Colonial Office were idealistic, supportive of aid, and in favor of multilateral institutions.<sup>12</sup>

As well as increasing support for the idea of foreign aid, the Marshall Plan also led directly to the establishment of an important international development institution. The Organization for European Economic Cooperation (OEEC) had been formed in 1948 by the recipients of aid from the Marshall Plan, and in 1960 the Development Assistance Group was established within OEEC as a forum for consultations among aid donors on assistance to less developed countries. In March 1961 the Development Assistance Group agreed to the Resolution of the Common Aid Effort (see box 10-1). Later that year, the OEEC became the Organization for Economic Cooperation and Development (OECD); its new emphasis on promoting development was epitomized by the rapid establishment within its structure of the Development Assistance Committee (DAC), which grew out of the Development Assistance Group.

### **Box 10-1. Resolution of the Common Aid Effort**

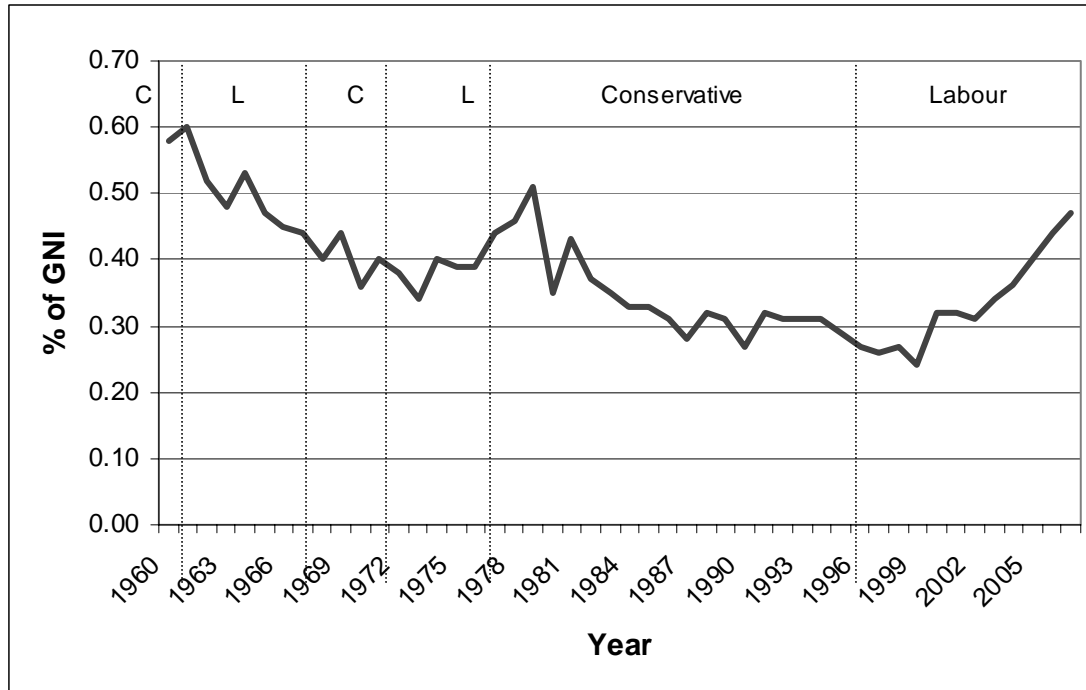
The Development Assistance Group:

- Conscious* of the aspirations of the less-developed countries to achieve improving standards of life for their peoples;
- Convinced* of the need to help the less-developed countries help themselves by increasing economic, financial, and technical assistance and by adapting this assistance to the requirements of the recipient countries;
- Agree* to recommend to Members that they should make it their common objective to secure an expansion of the aggregate volume of resources made available to the less-developed countries and to improve their effectiveness;
- Agree* that assistance provided on an assured and continuing basis would make the greatest contribution to sound economic growth in the less-developed countries;
- Agree* that, while private and public finance extended on commercial terms is valuable and should be encouraged, the needs of some of the less-developed countries at the present time are such that the common aid effort should provide for expanded assistance in the form of grants or loans on favourable terms, including long maturities where this is justified in order to prevent the burden of external debt from becoming too heavy;
- Agree* that they will periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, keeping in mind all the economic and other factors that may assist or impede each of them in helping to achieve the common objective;
- *Agree* to recommend that a study should be made of the principles on which Governments might most equitably determine their respective contributions to the common aid effort having regard to the circumstances of each country, including its economic capacity and all other relevant factors;
- Agree* that the Chairman, assisted by the Secretariat, shall be invited to give leadership and guidance to the Group in connection with the proposed reviews and study.<sup>13</sup> **[end box]**

12. Personal communication from Sir Brian Barder in September, 2005.

13. Adopted by the Development Assistance Group, March 29, 1961, London. See Helmut Führer, *The Story of Official Development Assistance. A History of the Development Assistance Committee and the*

**Figure 10-1. Official Development Aid as Percent of GNI in the United Kingdom, under Conservative (C) and Labor (L) Governments, 1960–2007**



Sources: Department for International Development, *Statistics on International Development*, (2004); HM Treasury, “Further Boost to U.K. Aid Budget,” Press Notice, July 12, 2004 ([www.hm-treasury.gov.uk/spending\\_review/spend\\_sr04/press/spend\\_sr04\\_press09.cfm](http://www.hm-treasury.gov.uk/spending_review/spend_sr04/press/spend_sr04_press09.cfm)) [January 2006].

The Marshall Plan therefore had a strong influence not only because it promoted the idea of economic cooperation and illustrated its possible effectiveness but also because it left an important organizational legacy in the DAC. The U.S. government played a leadership role continuously from the Marshall Plan to the establishment of the Development Assistance Committee, which was chaired by U.S. ambassadors from its creation until 1999.

Against this background in the early 1960s, a more coherent aid policy was beginning to develop within the United Kingdom. In 1960 a Treasury white paper argued that the best way to lift poorer nations out of poverty was through economic development.<sup>14</sup> It argued that the provision of private capital would be the main catalyst for this, but money from the United Kingdom exchequer would continue to provide aid. A 1963 White Paper took an optimistic view of the prospects for developing countries and described aid as a transitory concept. It supported aid both as a good in itself but also because it encouraged trade.<sup>15</sup> In 1961 the Conservative government established the Department for Technical Cooperation to consolidate in one place the technical expertise for the colonies that had been spread across several government departments. The Colonial Office was being reduced in size as a

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*Development Cooperation Directorate in Dates, Names and Figures* (Paris: Organization for Economic Cooperation and Development, 1996).

14. Her Majesty’s (HM) Treasury, *Assistance from the United Kingdom for Overseas Development*, Cmnd. 974 (London: Her Majesty’s Stationery Office [HMSO], March 1960).

15. HM Treasury, *Aid to Developing Countries*, Cmnd. 2147 (London: HMSO, September 1963).

result of decolonization, and many of its staff transferred to the Department for Technical Cooperation, helping to preserve the expertise that had been acquired during the colonial period.

### Ministry of Overseas Development, 1964–70

In 1964 the incoming Labour government kept a manifesto promise to establish a Ministry of Overseas Development (ODM). Thus began a tradition of successive governments changing the organizational structure for administering development assistance, as shown in Table 10-1:

**Table 10-1: Evolution of British Foreign Assistance Structure  
1961 to present**

	In Cabinet	Outside Cabinet
Separate Government Department	1964-1967	1961-1964
	1997-present	1967-1970 1974-1975
Answerable to the Foreign Office	1975-1976	1970-1974
		1977-1979
		1979-1997

Note: Shading indicates Conservative Governments; the remainder are Labor Governments.

The ODM combined the functions of the Department of Technical Cooperation and the overseas aid policy functions of the Foreign, Commonwealth Relations, and Colonial Offices and of other government departments. The intention was that this new ministry should develop and execute all aspects of development policy (not just aid), be separate from the Foreign Office (so that development policies were not subordinated to other foreign policy interests), and have a planning staff of economists (at a time when economists were rare within government).<sup>16</sup> The first three ministers of overseas development were members of the cabinet.<sup>17</sup>

A new white paper in 1965 made a case for aid based both on moral duty and on the long-term interest of the United Kingdom.<sup>18</sup> Aid was not to be given as a response to requests from developing countries but rather as a result of a joint effort to identify the

16. See Adrian Hewitt, "British Aid: Policy and Practice," *ODI Review* 2 (1978): 51–66.

17. Barbara Castle (October 18, 1964 to December 23, 1965), Anthony Greenwood (December 23, 1965 to August 11, 1966) and Arthur Bottomley (August 11, 1966 to August 29, 1967) were members of the cabinet. Subsequent ministers of overseas development under this administration, Reginald Prentice (August 1967 to October 1969) and Judith Hart (October 1969 to June 1970) were not members of the cabinet, though the ODM remained a separate department, independent of the Foreign and Commonwealth Office.

18. Ministry of Overseas Development, *Overseas Development: The Work of the New Ministry*, Cmnd. 2736 (London: HMSO, 1965).

needs of recipients. The goal of the new policy was to get the most development effect from aid, and so the 1965 white paper shifted policy toward project-tied aid, with financial terms linked to economic conditions in the recipient country.

The ODM did not live up to the high expectations that had been created. Aid spending rose only slightly during the Labour government's term of office, partly because of balance of payments and fiscal constraints. From August 1967 the ministerial office was demoted out of the cabinet, which greatly reduced its leverage within the government. Though the ODM remained a separate government department, it was no longer represented in the cabinet. The ODM was always an aid ministry rather than a development ministry—it did not have any impact on trade policy or political relationships with overseas governments, and even on aid the most important decisions were made by an interdepartmental committee. It was not able to define a coherent policy agenda: a further white paper in 1967 was largely a progress report, consisting mainly of a detailed account of the complexities of the British aid program.<sup>19</sup>

### Ministry of Overseas Development, 1970–74

After the reelection of a Conservative government in October 1970, the Ministry of Overseas Development was incorporated into the Foreign Office and renamed the Overseas Development Administration (ODA). The ODA was overseen by a minister of state in the Foreign Office who was accountable to the foreign secretary.<sup>20</sup> In practice, there was little change as a result of this institutional shift. Though it was now a section of the Foreign Office, the ODA was relatively self-contained with its own minister, and the policies, procedures, and staff remained largely intact.

### Reestablishment of the Ministry of Overseas Development, 1974–79

When it was returned to office in 1974, the Labour government announced that there would once again be a separate Ministry of Overseas Development with its own minister. However, as in the period from 1967 to 1970, the minister would not be a member of the cabinet.

The new government proposed a significant change in aid policy, set out in the 1975 white paper *The Changing Emphasis of British Aid Policies: More Help for the Poorest*.<sup>21</sup> British aid was to be focused on the poorest countries, many of whom had been hard hit by the rise in oil prices, the food crisis, and a deterioration in their terms of trade. Aid was to be allocated to have “the most effect in alleviating the worst poverty over the long term.” The priorities would be

*(a) to give an increasing emphasis in our bilateral aid to the poorest countries, especially those in the group most seriously affected by the rise in the price of oil and other commodities;*

19. Ministry of Overseas Development, *Overseas Development: The Work in Hand*, Cmnd. 3180 (London: HMSO, 1967).

20. Technically, the Foreign Office has been called the Foreign and Commonwealth Office since October 1968 but for convenience is referred to as the Foreign Office throughout this chapter. For an explanation of ministerial ranks, see footnote 2.

21. Ministry of Overseas Development, *Overseas Development: The Changing Emphasis in British Aid Policies: More Help for the Poorest*. Cmnd. 6270 (London: HMSO, 1975).



*(b) to give special emphasis to programmes oriented towards the poorest groups within these countries, and especially to rural development;*  
*(c) to promote situations in which British concessional aid funds can best serve to stimulate matching contributions from other governments, and to encourage the deployment of such aid through both multilateral and bilateral channels towards the poorest countries.'*<sup>22</sup>

Though the white paper played down the extent of the change that this entailed, this was a genuinely new focus on poverty. It adopted a basic needs approach, identified the rural poor as the main group to be brought out of poverty, and committed the United Kingdom to increasing the resources devoted to the agricultural sector. The white paper also recognized the importance of international institutions, including a substantial section on Europe, and it discussed the importance of international trade policy decisions and investment as well as aid.

Once again, the evolution of the aid program did not live up to the policy aspirations set out in the white paper. An important weakness of the 1975 white paper was that it did not lift the constraint that U.K. aid could not, in general, be spent on meeting local costs. Aid projects often had to be selected not for their development benefits but because they could be designed in such a way as to have a high proportion of U.K. content. For example, the Indonesia program had to concentrate on groundwater projects because these were the only identifiable rural development activities that would use U.K. goods and services (such as consultants, drilling equipment, and pumps.) The problem of local costs was not solved until exchange controls were abolished in 1979.

From June 1975 the powers of the minister for overseas development were formally transferred to the foreign secretary.<sup>23</sup> From December 1976, after the resignation of Reginald Prentice, the minister for overseas development was no longer a member of the cabinet. Though the Overseas Development Ministry remained technically a separate government department, administratively distinct from the Foreign Office, this meant that in practice development was not given a separate voice within the government. In 1977, partly to shore up its difficult relations with U.K. business, the government introduced the Aid and Trade Provision. This enabled aid to be linked to nonconcessionary export credits, with both aid and export credits tied to procurement of British goods and services. Pressure for this provision from U.K. businesses and the Department of Trade and Industry arose in part because of the introduction of French mixed credit programs, which had begun to offer French government support from aid funds for exports, including for projects in countries to which France had not previously given substantial aid.<sup>24</sup> Though the amounts were initially capped at 5 percent of aid spending, the effect of the Aid and Trade Provision was to bias aid toward higher-income countries and more capital-intensive projects, and the developmental impact criterion for project approval was only superficially applied.

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22. From the 1975 white paper, quoted in Hewitt, "British Aid."

23. The foreign secretary formally became minister of overseas development, and hence exercised the powers invested in that office by Parliament, whereas the junior foreign office minister with day-to-day responsibility for official development aid was given the courtesy title of minister for overseas development. Reginald Prentice, who became minister for overseas development from June 1975 until his resignation in December 1976, was a member of the cabinet. His successors, Frank Judd and Judith Hart, were not, and the foreign secretary spoke on development issues in the cabinet on their behalf.

24. French support for the export of railway equipment to Kenya was the case that eventually led the British government to adopt its own program of concessionary export credits.

During the 1974–79 Labour government, the ODA had institutional independence, an ambitious policy agenda, and high-level political support. There was a reasonably generous increase in aid resources during this time, from 0.37 to 0.51 percent of national income, despite the government’s precarious fiscal position. Yet the department failed to establish itself firmly within government, could not protect the aid program from being distorted by commercial objectives, and was unable to influence broader government policies that had an impact on poor countries. To a large extent this was because the department was not working within a supportive Whitehall environment and was not able to create one.<sup>25</sup> At the same time, chronic pressure on the balance of payments prevented the adoption of policies that separated aid from the promotion of U.K. exports.

### Development Policies under the Conservatives, 1979–97

After the election of the Conservatives under Margaret Thatcher in 1979, the ministry was transferred back to the Foreign Office, as a functional wing again named the Overseas Development Administration. The ODA continued to be represented in the cabinet by the foreign secretary while the minister for overseas development, who had day-to-day responsibility for development matters, held the rank of minister of state within the Foreign Office.

New legislation, the Overseas Development and Cooperation Act 1980, changed little, affirming the government’s broad powers to use aid funds for a wide variety of purposes. While the new government did not publish a new white paper on overseas development, there was nonetheless a significant shift in aid policy under the Conservatives. According to one writer, “Few things so quickly symbolized Mrs. Thatcher’s victory in the 1979 general election as the changes that were soon made to government overseas development policy and spending.”<sup>26</sup> The new minister for overseas development, Neil Marten, announced in February 1980 that the government would “give greater weight in the allocation of our aid to political, industrial, and commercial objectives alongside our basic developmental objectives.”<sup>27</sup> The result was a significant expansion of the Aid and Trade Provision and a number of bilateral aid projects designed to support British businesses, including steel mills, Leyland buses, Hawker-Siddeley aircraft, and Westland helicopters.<sup>28</sup>

The statement also set out the government’s preference for bilateral aid over assistance provided through multilateral institutions such as the European Commission. In practice, however, the difficulty of renegotiating international commitments meant that multilateral contributions were harder to reduce in the short term than bilateral aid. This meant that as

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25. Judith Hart was regarded as having an agenda to the left of the party and had tense relations with the foreign secretary, David Owen. Her successor, Reginald Prentice, sat in the cabinet, but he was becoming increasingly disaffected by the political direction of the Labour Party, from which he resigned when his constituency party deselected him. His successor, Frank Judd, who was not a member of the cabinet, held the post for only a few months before moving to the Foreign Office.

26. John Mitchell, “Public Campaigning on Overseas Aid in the 1980s,” in *Britain’s Overseas Aid since 1979: Between Idealism and Self-Interest*, edited by Anuradha Bose and Peter Burnell (Manchester University Press, 1991), p. 146.

27. Neil Marten, statement on overseas aid, 20 February 1980, *Parliamentary Debates*, Commons, vol. 979 (1979–80), cols. 464–65. The full text of the statement is reproduced at [www.owen.org/musings/marten.php](http://www.owen.org/musings/marten.php) [January 2006].

28. Adrian Hewitt, “Beyond Poverty? The New U.K. Policy on International Development and Globalization,” *Third World Quarterly* 22, no. 2 (2001): 291–96.

the aid budget fell, the burden of reduction actually fell on the bilateral portion rather than the multilateral portion, and so aid provided through multilateral institutions actually rose as a share of a declining total.

The new government was more candid about its willingness to promote such foreign policy objectives as maintaining the U.K.'s leadership role in the Commonwealth and its permanent seat on the UN Security Council.<sup>29</sup> Thus although developmental concerns were still accorded considerable weight and Conservative ministers responsible for aid were held in good regard within development circles, there was a real shift of emphasis in the conduct of development policy.

During the 1980s the balance of payments gradually lost its political significance, partly as a result of the abolition of exchange controls in 1979 and partly because of what became known as the "Lawson Doctrine," which held that a current account deficit was not a cause for concern if it was the counterpart of a private sector deficit.<sup>30</sup> This reduced the government's macroeconomic interest in using the aid program to promote British exports. Whereas during the 1980s nearly half the British aid program was restricted to goods and services originating in the United Kingdom, this was gradually reduced in the 1990s and applied to only about 15 percent of bilateral aid by 1996.

With the fall of the Berlin Wall and the end of the cold war, the British government felt able to reduce the weight of foreign and economic policy considerations in its aid allocations, and instead to link aid more directly to democracy and good governance. In June 1990 Foreign Secretary Douglas Hurd stated that "economic success depends to a large degree on effective and honest government, political pluralism and observance of the rule of law, as well as freer, more open economies." He called on donors to redirect aid toward better-governed countries: "While countries tending towards pluralism, public accountability, respect for the rule of law, human rights, and market principles should be encouraged, those which persisted with repressive policies, corrupt management, or with wasteful and discredited economic systems should not expect aid donors to support their folly with scarce aid resources which could be used better elsewhere."<sup>31</sup>

The pressure to break the link between aid and commercial considerations was further increased in 1994 by a High Court ruling, regarding the Pergau dam project in Malaysia, that asserted there was no legal basis for the government to use development funds for primarily commercial purposes. (The Pergau Dam affair is explained in detail in the appendix 10A.) Douglas Hurd wrote afterwards, "The Pergau episode vexed me greatly at the time. It spoiled what was otherwise a creditable record which Lynda Chalker with my support had built up on aid."<sup>32</sup>

Throughout the whole of its existence, the Overseas Development Administration was staffed mainly by home civil servants, although some members of the diplomatic service have spent parts of their careers there. At its peak in 1979, it employed 2,300 staff, which fell to 1,500 in 1987 as aid budgets were progressively reduced during the Thatcher administration. The rundown of staff numbers was complemented by a reduction in

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29. Tony Killick, "Understanding British Aid to Africa: An Historical Perspective" ([www.odi.org.uk/RAPID/Projects/RAP0011/docs/Annex2\\_Killick.pdf](http://www.odi.org.uk/RAPID/Projects/RAP0011/docs/Annex2_Killick.pdf) [May 2006]).

30. The "Lawson Doctrine" is often known in the United Kingdom as the "Burns Doctrine," after Terry Burns, later Lord Burns, then the chief economic adviser at the Treasury.

31. Peter Montagnon, *Financial Times* (London), June 7, 1990, p. 7.

32. Douglas Hurd, *Memoirs* (London: Little Brown, 2003). Lynda Chalker was the minister for Africa from 1986 to 1997 and contemporaneously minister for overseas development from July 1989 to May 1997.

overseas manpower. In the mid-1960s there were about 16,000 British staff working on contract to developing countries, receiving a salary supplement from the Overseas Development Ministry. By 1990 this had been reduced to almost none.

## Establishment of the Department for International Development

The Department for International Development was established by the incoming Labour Government in 1997. The creation of a single department with broad responsibilities for development issues followed naturally from Labour's desire to "join up" government as well as from its approach to foreign affairs.

### Policy Context

Labour had been out of office since 1979, losing four consecutive general elections. Tony Blair became leader of the opposition in 1994 and set about modernizing the Labour party's image and policies, under the banner of "New Labour." He removed the commitment to public ownership from the party's constitution. With Gordon Brown, who would become finance minister in the Labour government, he neutralized the party's reputation for "tax-and-spend" by promising to spend no more than the Conservatives planned to spend.

Under Tony Blair, New Labour described itself as being committed to a pragmatic, evidence-based agenda. The 1997 manifesto declared that "New Labour is a party of ideas and ideals but not of outdated ideology. What counts is what works. The objectives are radical. The means will be modern."<sup>33</sup> Labour presented itself as offering an end to ideological and class politics. Instead, modern policymaking would be driven by research evidence about what was effective in addressing social problems and achieving intended outcomes. In key policy areas such as crime, education, and welfare, Labour officials talked about their commitment to finding out "what works."

One feature of the modernizing agenda was "joined-up government." New Labour had concluded that seemingly intractable problems such as social exclusion, drug addiction, and crime could not be resolved by any single government department. Instead, such problems had to be made the object of a concerted attack using all the arms of government—central and local government and public agencies, as well as the private and voluntary sectors.<sup>34</sup>

New Labour had a less well developed foreign policy agenda (except on relations with the European Union). It did, however, have a distinctive foreign policy message that it would bring an end to what it called "sleaze," as it described a number of connections between businesses, especially arms exporters, and foreign policy. This line of attack was boosted by the Pergau Dam case, in which aid was linked to commercial contracts in a way which was subsequently found to be unlawful.<sup>35</sup> In February 1996 Sir Richard Scott

33. "Labour Party Manifesto, 1997 ([www.bbc.co.uk/election97/background/parties/manlab/labmanintro.html](http://www.bbc.co.uk/election97/background/parties/manlab/labmanintro.html) [May 2006]). See also Tony Blair interviewed on the Dimpleby program: BBC, "Panorama Leadership Special, April 7—Tony Blair," April 7, 1997 ([www.bbc.co.uk/election97/background/parties/panblair2.htm](http://www.bbc.co.uk/election97/background/parties/panblair2.htm) [January 2006]).

34. Vernon Bogdanor, *Joined-Up Government* (Oxford University Press, 2005).

35. The background of the Pergau Dam decision is described in appendix 10A. Labour's foreign affairs spokesman, Robin Cook, called the verdict "an alarming glimpse into the private arrogance of a government who have been there for so long that they no longer even ask whether there are limits to their personal

published the results of his inquiry into the sale of arms to Saddam Hussein's government in Iraq, contrary to the UN sanctions regime then in force. Robin Cook, Labour foreign affairs spokesman, enhanced his parliamentary reputation—and nearly brought down the Conservative government—with his charge that the government had sought to cover up its involvement in the illegal arm sales.<sup>36</sup>

For three decades foreign assistance programs had been influenced by the cold war, during which strategic and security interests had affected the government's choice of which countries to support and how; and by the need to support the U.K.'s balance of payments, which had encouraged governments to link overseas aid to British exports. By the mid-1990s, these pressures had largely disappeared, creating an opportunity for Labour to say that it would pursue a foreign policy with an “ethical dimension.”<sup>37</sup>

### Labour Party's Policy on Development

The publication in 1980 of the Brandt Report had led to renewed thinking about the role of rich countries in international development. The report argued that aid budgets should be increased, focused on the poorest countries, and provided through multilateral institutions; it also asserted that poor countries should have more influence over the decisions of those institutions.<sup>38</sup> During the 1980s and 1990s, independent nongovernmental organizations and consortiums such as the Independent Group on British Aid argued that British aid should be more focused on poverty, de-linked from commercial contracts, and part of a broader government strategy for international poverty reduction.<sup>39</sup> The *Reality of Aid* reports, published from 1993 onwards, set an agenda for both improving and increasing aid.<sup>40</sup>

Internationally, a new consensus was forming on development policy. In May 1995 development ministers and heads of aid agencies adopted a statement, “Development Partnerships in the New Global Context,” that identified poverty reduction as the central challenge and endorsed a comprehensive strategy for tackling it.<sup>41</sup> Furthermore, they asked Jim Michel, the American who chaired the Development Assistance Committee, to produce a forward-looking reflection on “strategies looking to the next century.”<sup>42</sup> The result was a set of concrete, medium-term goals, all based on the recommendations of major United Nations conferences, to be pursued on the basis of agreed principles: people-centered development, local ownership, global integration, and international partnership. These goals

authority.” See Robin Cook, Statement regarding foreign affairs and defense, 17 November 1994, *Parliamentary Debates*, Commons, vol. 250 (1994–95), col. 150.

36. John Kampfner, *Blair's Wars* (London: Free Press, 2004), p. 7.

37. From a speech by Robin Cook announcing the new Foreign Office “mission statement.” See “Robin Cook's Speech on the Government's Ethical Foreign Policy,” *Guardian*, May 12, 1997 ([www.guardian.co.uk/indonesia/Story/0,2763,190889,00.html](http://www.guardian.co.uk/indonesia/Story/0,2763,190889,00.html) [January 2006]). This is often misquoted as a commitment to an “ethical foreign policy.”

38. Willy Brandt, *North-South: A Programme for Survival. Report of the Independent Commission on International Development Issues* (London: Pan Books, 1980).

39. Independent Group on British Aid, *Real Aid: A Strategy for Britain* (London: 1982).

40. Judith Randel and Tony German, *Reality of Aid* (London: ActionAid, ICVA, and EUROSTEP, 1993). *Reality of Aid* reports were also published in 1997, 1998, 2000, 2002, and 2004.

41. Jim Michel, “The Birth of the MDGs,” *DACNews*, September–October 2005 ([www.oecd.org/document/34/0,2340,en\\_2649\\_33721\\_35295778\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/34/0,2340,en_2649_33721_35295778_1_1_1_1,00.html) [January 2006]).

42. *Ibid.*

were presented in the report *Shaping the 21st Century*, which was approved by development ministers at the DAC High Level Meeting in May 1996.<sup>43</sup> The objectives agreed upon in this report became known first as the International Development Targets and, after the UN Millennium Summit in September 2000, as the Millennium Development Goals.<sup>44</sup>

During 1994 to 1996, while the Labour party was in opposition, it created the Britain in the World Policy Commission, which reviewed Labour's policies on a broad range of international issues, including foreign policy, security, and development. The commission, chaired by Robin Cook, recommended the creation of a separate government department responsible for the broad range of international development issues across government, a focus on the poorest countries, and giving less weight to commercial and strategic considerations in overseas aid.

These recommendations were a natural fit with the New Labour agenda of policymaking based on evidence of what works and with joining up policy responsibility for difficult problems across a number of government departments. They had the political benefit of illustrating how the conduct of foreign policy would change to reduce the influence of commercial considerations. They also responded to the agenda to reform overseas aid being advocated internationally by nongovernmental organizations, academics, and others. In practice, the policy commission did not consider the recommendations in detail, and there had been little discussion of the proposals by the time they were hardened into party policy. The recommendations passed into the Labour party policy statement on foreign affairs for the 1997 general election, *A Fresh Start for Britain*, and in summary form into the manifesto:

*Labour believes that we have a clear moral responsibility to help combat global poverty. In government we will strengthen and restructure the British aid programme and bring development issues back into the mainstream of government decisionmaking. A Cabinet minister will lead a new department of international development.*

*We will shift aid resources towards programmes that help the poorest people in the poorest countries. We reaffirm the U.K.'s commitment to the 0.7 percent UN aid target, and in government Labour will start to reverse the decline in U.K. aid spending.*

*We will work for greater consistency between the aid, trade, agriculture, and economic reform policies of the EU. We will use our leadership position in the EU to maintain and enhance the position of the poorest countries during the renegotiation of the Lomé Convention.*

*We will support further measures to reduce the debt burden borne by the world's poorest countries and to ensure that developing countries are given a fair deal in international trade. It is our aim to rejoin UNESCO. We will consider how this can be done most effectively and will ensure that the cost is met from savings elsewhere.<sup>45</sup>*

In the months before the election in 1997, Foreign Office officials suggested to Robin Cook and senior Labour party officials that it would be a mistake to transfer control of the development budget and policy away from the Foreign Office.<sup>46</sup> But at the same time, Sir

43. Development Assistance Committee, *Shaping the 21st Century: The Contribution of Development Cooperation* (Paris: OECD, 1996).

44. UN General Assembly "United Nations Millennium Declaration," UN A/RES/55/2, September 18, 2000 ([www.undp.org/mdg/99-Millennium\\_Declaration\\_and\\_Follow\\_up\\_Resolution.pdf](http://www.undp.org/mdg/99-Millennium_Declaration_and_Follow_up_Resolution.pdf) [January 2006]).

45. Labour Party, *A Fresh Start for Britain: Labour's Strategy for Britain in the Modern World* (London: 1996). See also "New Labour Because Britain Deserves Better," December 2, 2005 ([www.psr.keele.ac.uk/area/uk/man/lab97.htm](http://www.psr.keele.ac.uk/area/uk/man/lab97.htm)).

46. Clare Short, *An Honourable Deception? New Labour, Iraq and the Misuse of Power* (London: Free Press, 2004), p. 51.

John Vereker, the most senior civil servant at the ODA, was in close contact with Clare Short, the Labour party shadow secretary of state for overseas development; they agreed to argue for the proposed structures and policies of the future department.<sup>47</sup>

Immediately after Labour's victory in the general election, the new prime minister, Tony Blair, offered the aid portfolio to Clare Short. She was clear that she would not accept the job unless she was given a cabinet post with overall responsibility for development policy generally and not just aid.<sup>48</sup> Short, as secretary of state for international development, was not only a member of the cabinet but also a member of several interdepartmental ministerial committees. As the scope of DFID's work was to cover development policy broadly, she became a member of government committees on the environment, drug abuse, women's issues, health, and export credits, including arms sales. One example of the department's expanded role was that it was consulted on the approval of arms export license applications before they were issued.

### Principal Changes to Development Institutions and Policy in 1997

There were three related changes to the structure of U.K. aid institutions and policy in 1997. First, an independent ministry, the *Department for International Development*, was created, headed by a member of the cabinet, with responsibility for aid and development. Like its predecessors, the new department had responsibility for bilateral aid and the funding of multilateral development institutions, but it was also given responsibility for ensuring a joined-up development policy across the government as a whole.

Second, *poverty reduction*—broadly defined—was identified as the overarching objective of aid and development policy. Quantifiable and measurable global targets were identified by which to track progress toward this objective, based on the International Development Targets (which later became the Millennium Development Goals).<sup>49</sup>

Third, the concept of development *policy coherence* was introduced, which acknowledged that managing aid spending was only one (and arguably not the most important) part of development policy, and that the new department had a legitimate voice in the formulation of government policy in other areas (such as trade, conflict, and foreign relations) for which other government departments had primary responsibility.

### The New Policies 1997–2005

DFID came into existence at a time of considerable change in international thinking about development. For example, the market economic reforms in Africa had been considered necessary, but it was also observed that they had been painful for the poor and had not always delivered economic growth. While macroeconomic adjustment continued to be an important part of the policy prescription, there was a growing focus on poverty reduction, governance reform, and debt relief.

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47. Sir John Vereker, "Blazing the Trail: Eight Years of Change in Handling International Development," *Development Policy Review* 20, no. 2 (2002): 133–140.

48. Kampfner, *Blair's Wars*, p. 64.

49. The ODA Permanent Secretary, Sir John Vereker, had been a member of the OECD committee that drew up *Shaping the 21st Century* in 1996. See note 42.

## Establishing Objectives: The White Papers of 1997 and 2000

Within six months of its establishment, DFID had drafted a new government white paper, *Eliminating World Poverty*, which (as the title suggests) set out an ambitious agenda for U.K. development policies.<sup>50</sup> In 2000 the department published a follow-up white paper, looking specifically at the relationship between globalization and development.<sup>51</sup> The paper argued that globalization provided an opportunity to reduce poverty by making poor people and poor countries more productive through better access to markets, imported inputs, finance, and new technologies; but this opportunity would not be realized without supporting actions: some from rich countries and international organizations, and some within developing countries.

These white papers were important not only because of what they said but also because they put on the public record clear statements of the government's approach to international development. This had considerable impact in an environment in which there had not been a white paper for twenty-two years. Both white papers were accompanied by a well-organized publicity and communications effort to explain the new policies, both within the United Kingdom and abroad.

### *Poverty Reduction as the Goal of Development Policy, with Output Targets*

The mission for poverty reduction was clearly announced: "We shall refocus our international development efforts on the elimination of poverty and encouragement of economic growth which benefits the poor."<sup>52</sup> The 1997 white paper shifted the government's measure of success from spending targets (for example, official development aid as a share of national income) to the achievement of the International Development Targets (later known as the Millennium Development Goals).<sup>53</sup>

### *Explicit Focus on Social Sectors*

The 1997 white paper put special emphasis on investment in social sectors as a means to poverty reduction. This seemed to shift the emphasis away from investment in productive sectors such as agriculture and infrastructure (although in practice this shift was already underway before 1997).

### *Economic Growth and Liberalization*

The 2000 white paper proclaimed the importance of economic growth as a means to reduce poverty. This shifted the balance back a little from the focus on social sectors after the 1997 white paper. Coming as it did in the year after the 1999 Seattle protests, the 2000 white paper set out the government's commitment to support trade liberalization and to help poor countries benefit from, rather than resist, globalization.<sup>54</sup>

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50. Department for International Development (DFID), *Eliminating World Poverty: A Challenge for the 21st Century*, Cm. 3789 (London: The Stationery Office, 1997).

51. DFID, *Eliminating World Poverty: Making Globalization Work for the Poor*, Cm. 5006 (London: The Stationery Office, 2000).

52. DFID, *A Challenge for the 21st Century*.

53. The International Development Targets were set out in OECD, *Shaping the 21st Century*.

54. Between 50,000 and 100,000 people demonstrated at the Third World Trade Organization Ministerial Conference in Seattle, Washington, in December 1999.



*Development Policy, Not Aid Policy*

The white papers announced that in addition to managing the aid program, DFID would develop capacity to analyze a broad range of policies affecting development. This would include policies concerning the environment, trade, agriculture, investment, good government and human rights, conflict prevention, debt relief, financial stability, drugs, migration, and cultural links.

**Pursuing Long-Term Poverty Reduction Rather Than Short-Term Commercial Interests**

The government was clear that the aid program should *not* be used to pursue short-term commercial interests, as this was thought to have an adverse impact on the effectiveness of the development budget. The Aid and Trade Provision program was abolished in the 1997 white paper, albeit replaced by the possibility of continuing to use “mixed credits” that met development criteria but still allowed aid to be tied to British contracts. In practice, mixed credits were not used, and they were formally ended by the 2000 white paper, which announced that U.K. aid would be completely untied.

**New Partnerships**

The white papers heralded a new way of working with other U.K. government departments, other donors and development agencies, developing countries, and with the private and voluntary sectors. In particular, a new aid relationship between Britain and the governments of developing countries was envisaged, in which developing countries that committed themselves to poverty reduction and good government could in return expect a longer-term commitment from DFID, more money, and greater flexibility in the use of resources. Where possible, DFID would move away from supporting stand-alone projects and dictating exactly how resources were to be used: “Where we have confidence in the policies and budgetary allocation process and in the capacity for effective implementation in the partner government, we will consider moving away from supporting specific projects to providing resources more strategically in support of sector-wide programmes or the economy as a whole.”<sup>55</sup>

*More Realistic Assessment of Britain’s Role*

The white papers acknowledged that Britain could make only a modest difference on its own, but there was much that the international community could do by working together. This led to a much more positive view of the need to work closely with other donors. Together with a raft of policy papers on particular topics, embracing collaboration with others helped DFID become extremely influential throughout the development community after 1997.

*New View of the Role of the State in Developing Countries*

The 1997 white paper criticized previous models of the role of the developing country governments as being either too statist or wrongly believing in a “minimalist” state. It

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55. DFID) *A Challenge for the 21st Century*.

asserted that “there is now an opportunity to create a new synthesis which builds on the role of the state in facilitating economic growth and benefiting the poor. . . . The state is responsible not only for providing the right economic framework but also for ensuring social justice: which means access to services such as health and education and respect for human rights.”<sup>56</sup>

#### *Devolution of Aid Management*

The new partnership relationship was supported by increased decentralization of DFID’s management. Strong field offices, operating with significant delegation of authority, would promote dialogue with recipient countries.

### **Increased Interdepartmental Cooperation on Conflict Reduction**

An example of effective joining-up across government, and DFID’s growing role in development policies and not just aid, was the establishment in 2001 of the Global Conflict Prevention Pool and the Africa Conflict Prevention Pool.<sup>57</sup> The purpose of these pools was to bring together the resources of the Ministry of Defense, the Foreign Office, and the Department for International Development to permit a more strategic approach to conflict reduction. The two pools had a budget of about \$300 million a year between them. Each was governed by a cabinet committee of ministers from the three departments, chaired by the foreign secretary (Global Conflict Prevention Pool) and the development secretary (Africa Conflict Prevention Pool). Each department spent money allocated to it under its own arrangements for accountability once the strategy had been approved by the interdepartmental committee.

Initiatives under the pool arrangements included development of new governance and justice systems; disarmament, demobilization, and reintegration of fighters into society and development of alternative livelihoods for them; small arms reduction programs; and training for police, armed forces, and other parts of the security sector in democratic and accountable systems that respect human rights. Most of the money was spent on consultancy and other noncapital support for these objectives.<sup>58</sup>

In Sierra Leone, for example, the Africa Conflict Prevention Pool coordinated a program to retrain and reequip both the army and the police, the creation of a ministry of defense with civilian oversight, funding for an anticorruption unit, and support for a truth and reconciliation commission. The pools were especially successful in promoting coordinated activities in the Balkans, Afghanistan, the Middle East, North Africa, Nepal, and Indonesia.

An evaluation found that the pools promoted significantly better cooperation between the departments concerned, especially in London. The expanded pooled funds acted as an incentive for cooperation. Across the areas of policy, both in the recipient country and in Whitehall, regular formal and informal coordination and information sharing has improved.<sup>59</sup>

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56. *Ibid.*

57. DFID, *The Africa Conflict Prevention Pool: An Information Document* (London: 2004).

58. Bill Rammell, Global Conflict Prevention Pool, Written Answer, 12 Mar 2004, *Parliamentary Debates*, Commons, vol. 418 (2003-04), col. 792W.

59. Greg Austin, “Evaluation of the Conflict Prevention Pools,” Report EVSUM EV647 (London: DFID, 2004).

However, a large part of the spending on these objectives by all the participating departments remained outside the pools.

After the success of the two pools in improving interdepartmental coordination and joining-up of development policy across government, the government also established an interdepartmental unit to coordinate work on postconflict reconstruction, which would help countries to put in place quickly the civilian capabilities needed for a stable environment in the aftermath of war so that reconstruction could begin.

### **International Development Act 2002**

In 2002 Parliament passed the International Development Act 2002, foreshadowed in the 2000 white paper. The act replaced the Overseas Development and Cooperation Act 1980. It enshrined in law the single purpose of aid spending: every development assistance project or program must by law either further sustainable development or promote the welfare of people and be likely to contribute to the reduction of poverty.<sup>60</sup> Exceptions were aid to U.K. overseas territories, humanitarian assistance, and contributions to multilateral development banks. The 2002 Act made it illegal for U.K. aid to be tied to the use of British goods and services. It clarified the purposes for which aid could be given to U.K. overseas territories, gave clearer legal authority for DFID's development awareness work, and provided a wider range of mechanisms through which financial assistance could be provided.

### **Better Aid Allocation to Increase Value for Money**

DFID sought to increase value for money by increasing the proportion of its resources going to very poor countries and by increasing public scrutiny of aid allocation decisions. The new department's emphasis on helping countries achieve the Millennium Development Goals required a greater focus on poor countries because these were furthest from reaching the goals. Analysis by economists at the World Bank implied that aid would have greater impact on economic growth if more of it were spent in countries with large numbers of poor people (as well as in countries with better governments).<sup>61</sup> During the 1990s, however, there had been a significant increase in the proportion of global aid going to richer countries, at the expense of poorer countries (within a roughly constant total for global aid). DFID decided to address this not only by redirecting the allocation of U.K. aid toward the poorest countries but also by drawing attention to the allocation of global aid resources, which were not well targeted to reach the Millennium Development Goals. In 1998 DFID set itself an objective of reversing the trend of European Community aid spending, an increasing proportion of which was going to better-off countries.<sup>62</sup>

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60. For a full text of the act, see Office of Public Sector Information, "International Development Act 2002," April 8, 2002 ([www.opsi.gov.uk/acts/acts2002/20020001.htm](http://www.opsi.gov.uk/acts/acts2002/20020001.htm)).

61. See David Dollar and Craig Burnside, "Aid, Policies, and Growth," Policy Research Working Paper 1777 (Washington: World Bank, June 1997); Paul Collier and David Dollar, "Aid Allocation and Poverty Reduction," Policy Research Working Paper 2041 (World Bank, January 1999).

62. DFID, "EU Institutional Strategy Paper" (London: December 1998).

In 2002 DFID agreed with the Treasury to set a public target of increasing from 78 to 90 percent the proportion of the department's bilateral program going to low-income countries.<sup>63</sup> This commitment, which demanded a significant shift in resources to the poorest countries, became known as the "90–10 rule."

In 2003 DFID published a technical analysis that looked at the results of studies of aid effectiveness to predict where aid spending would have the most impact in terms of lifting people out of poverty, based on the recipients' income, population, extent of poverty, and the quality of governance.<sup>64</sup> This created a publicly available benchmark allocation of aid spending, optimal in its effect on poverty reduction, from which deviations would have to be justified.

### Development and Security: Policy since September 11

After the terrorist attacks of September 11, 2001, U.K. foreign policy increased its focus on identifying and supporting "weak and failing states" and on removing the conditions that create the circumstances in which terrorists could recruit and organize. DFID set out its approach in a policy document in 2005.<sup>65</sup> It argued that lack of security was a significant obstacle to achieving the Millennium Development Goals and that poverty and fragile states created fertile conditions for conflict and the emergence of new security threats, including international crime and terrorism.

Under the International Development Act 2002, DFID could not use development assistance to finance programs whose primary objective was tackling threats to the U.K. or global security. The policy document explained the relationship between aid resources and security: "Nor will DFID open programmes in countries on the basis of U.K. or global security considerations alone—there would have to be a prior and compelling poverty reduction case. But we and other development agencies can support programmes that enhance the human security of the poor in developing countries and, in so doing, benefit everyone's safety, whether rich or poor."<sup>66</sup>

Under the new strategy, DFID committed itself to pay greater attention to regional conflict and insecurity and to countries that were pivotal to regional security. It also committed to expanding safety, security and access to justice programs; refocusing governance work to promote accountability that promotes security; increasing efforts on conflict reduction through the conflict prevention pools; and encouraging transparency of payments for the extraction of natural resources.

There was considerable pressure within the U.K. government to increase DFID spending on reconstruction in Afghanistan and Iraq. However, the 90–10 rule (see above) prevented allocations to the poorest countries from being reduced in order to accommodate increased spending in Iraq (which counted as a middle-income country). In order to increase spending in Iraq without breaching the 90-10 rule, DFID decided to accelerate planned

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63. DFID, *Public Service Agreement 2003–2006*, July 2002 ([www.dfid.gov.uk/pubs/files/publicserviceagreement03-06.pdf](http://www.dfid.gov.uk/pubs/files/publicserviceagreement03-06.pdf) [January 2006]). Her Majesty's Treasury (HM Treasury) is the name for the U.K. Finance Ministry, which combines the functions of an economic ministry and a budget ministry. The finance minister is known as the chancellor of the exchequer.

64. Nick Dyer and others, "Strategic Review of Resource Allocation Priorities," Discussion Paper (London: DFID, January 2003).

65. DFID, *Fighting Poverty to Build a Safer World* (London: 2005).

66. *Ibid.*

withdrawal from other middle-income countries such as Anguilla, Bulgaria, Croatia, Honduras, Macedonia, Peru, and Romania, and reduce spending in Albania, Bolivia, China, Jamaica, Kosovo, Russia, South Africa, and Sri Lanka.<sup>67</sup>

### New Whitehall Environment

Other government departments were predictably nervous at first about the establishment of a new department with such broad responsibilities. Both the Foreign Office and the Department of Trade and Industry had in the past been skeptical of the development agenda, and their policies had reflected the lower political priority of Britain's long-term interest in reducing poverty in favor of shorter term commercial and political objectives. The Department of Trade and Industry was distrustful of the establishment of a trade policy department within DFID, and there were early disagreements with the Ministry of Defense over military training programs in Africa.<sup>68</sup>

There was inevitably some friction between the new department and the Foreign Office. Clare Short wrote afterwards, "The Foreign Office wanted us to run projects and not interfere in political issues such as the ending of conflict in Africa. Africa came low down the list of Foreign Office priorities, but they certainly did not want DFID poking its nose in."<sup>69</sup> These disagreements mainly took the form of low-intensity bureaucratic warfare on issues such as the sharing of classified documents, the clearing of drafts of UN Security Council resolutions, and responsibility for and wording of policy documents, although some of the disagreements were more substantive, especially relating to the conduct of policy in Africa.<sup>70</sup>

Relations with the Foreign Office improved over time. In April 2002 a joint Foreign Office and DFID unit was established to manage the United Kingdom's relations with Sudan. In May 2004 this team won a public service award for best central government team. There was effective collaboration, especially on conflict resolution and postconflict reconstruction. In 2004 the two departments agreed to an "Action Plan for Collaborative Working," which mainly addressed logistical issues, such as sharing services in the United Kingdom and overseas; estates issues, especially colocation overseas; security; and information technology systems.<sup>71</sup> However, the action plan also allowed for country-level collaboration and the joint planning and delivery of shared government targets.<sup>72</sup>

The new department worked closely from the outset with the Treasury. The independence of the Bank of England in 1997 had liberated senior Treasury officials from short-term worries about the conduct of monetary policy, and they were convinced that progress toward the reduction of world poverty was in the long-term economic interest of the United Kingdom. At the ministerial level, there was an especially good relationship between the secretary of state for international development (Clare Short) and the finance minister (Gordon Brown).

67. DFID, *Achieving the Millennium Development Goals: The Middle-Income Countries. A Strategy for DFID: 2005–2008* (London: 2004).

68. Tom Porteous, "British Government Policy in Sub-Saharan Africa under New Labour," *International Affairs* 81, no. 2 (2005): 281–97; Short, *Honourable Deception*, pp. 78–80.

69. Short, *Honourable Deception*, p. 79.

70. Porteous, "Policy in Sub-Saharan Africa."

71. Unlike other bilateral donors, DFID offices in the partner country were separate from the local British embassy, and the staff reported directly to DFID ministers in London.

72. See DFID, *Departmental Report 2005* (London: 2005), chap. 7, pp. 150–51.

Although relations with the Treasury were generally good, there were some early battles. In 1997 DFID argued that the U.K. executive director of the World Bank should be appointed by the department, separately from the U.K. executive director of the International Monetary Fund (IMF). (The two posts were combined in a single appointment made by the Treasury.) A hard-fought compromise was eventually reached: the secretary of state for international development was designated as the U.K. governor of the World Bank, in place of the finance minister, who would remain Britain's governor of the IMF; but the roles of executive director of the World Bank and the IMF were not split and remained a Treasury appointment.<sup>73</sup>

The new department was given the task of changing attitudes and policies across Whitehall, to bring development policy concerns into the mainstream of U.K. government policymaking. This proved easier than had been expected: other government departments increasingly saw the need to build support among developing countries and civil society organizations for their own policies with an international dimension, and regarded DFID as a potentially useful ally in building international support. In 1999, after the failure of the World Trade Organization Ministerial Conference in Seattle, Clare Short proposed that DFID should publish a second white paper, on the impact of globalization. Although this touched on many areas of other departments' responsibilities, they gave strong support to the idea, in part because they saw that they could better pursue their policy priorities if the government built a broader consensus for its approach to international affairs.

The new department built a good network of relationships across Whitehall and established increasing respect for its effectiveness and for the quality of its thinking. Especially through the process of developing the 2000 white paper on globalization, it formed good working relationships with the Department of Trade and Industry, Foreign Office, Ministry of Defense, and the Department for the Environment, Food and Rural Affairs. These relationships contributed significantly to the evolution of policy. For example, the Department of Trade and Industry championed the designation of the new trade round, launched in Doha in November 2001, as a development agenda. In July 2004 it published a white paper, *Making Globalisation a Force for Good*, which set out a trade policy agenda concentrated on helping the poor.<sup>74</sup>

## Objectives of the Changes and Assessment

This section identifies the government's aims in making its institutional changes and discusses whether they have been achieved.

### Focus on the Reduction of Poverty

While in opposition the Labour party decided that the new aid department should have as its single purpose the reduction, and eventual elimination, of world poverty. And during this same, in her role as Labour shadow secretary of state for overseas development, Clare Short

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73. Short, *Honourable Deception*, p. 78.

74. Department of Trade and Industry, *Making Globalisation a Force for Good*, Cm. 6278 (London: The Stationery Office, 2004).

determined that the immediate objective of such a department should be to harness the global effort to meeting the 2015 Millennium Development Goals.

There were two significant motives for insisting on this focus. The first was to improve value for money spent: using aid to support British exports or other strategic interests over the years had reduced the effectiveness of the aid program. The second was managerial: by setting a single clear mission, ministers and senior officials could increase the focus and motivation of staff. Sir John Vereker wrote afterwards, “This clarity of purpose, rapidly transmitted through the organisation, has been a powerful motivating, unifying, and guiding force over the last five years.”<sup>75</sup>

The government was successful in narrowing the focus of development on the reduction of poverty and eschewing the use of aid for commercial or strategic objectives. The white papers scaled back and then abolished tied aid, and the International Development Act 2002 made it illegal for aid to be used for any purpose other than poverty reduction. However, there was some confusion about what focusing on poverty meant. Some stakeholders, including some of DFID’s own staff, officials from other government departments, and other donor countries, misunderstood it to mean that DFID would be focused on poverty relief—that is, addressing needs arising from poverty—rather than tackling the underlying causes. DFID ministers and senior officials always understood that long-term, sustainable poverty reduction involved addressing the causes of poverty, and they interpreted this broadly to include investing in economic growth, conflict reduction, improving governance, fighting corruption, and long-term investments such as research and development and human development. Nonetheless, it was some years before it was widely understood, including within Whitehall, that the focus on poverty reduction extended beyond purely humanitarian objectives.

An instructive example of the impact of limiting the department’s resources to poverty reduction occurred in May 2002 when the Home Office drew up proposals to reduce the number of asylum seekers in the United Kingdom, which was (and remains) a very sensitive political issue. One proposal was that aid to some developing countries should be made conditional on accepting the return of asylum seekers. The prime minister attached particular importance to cutting asylum numbers, and Downing Street advisers supported tying bilateral British and European Union (EU) development aid for countries such as Somalia, Sri Lanka, and Turkey to commitments to take back rejected asylum seekers.<sup>76</sup> Clare Short opposed using aid funds to “try to blackmail governments into facilitating the early return of failed asylum seekers.”<sup>77</sup> She attended a cabinet meeting chaired by the prime minister to consider the proposals, and argued—successfully—that using aid funds in this way would be a breach of the new act.<sup>78</sup> She told the BBC, “In terms of British aid, it is illegal, because under law we can only spend it for development.”<sup>79</sup> The proposal was dropped.

## Development Policy, Not Just Aid Policy

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75. Vereker, “Blazing the Trail.”

76. Seamus Milne and Alan Travis, “Blair’s Secret Plan to Crack Down on Asylum Seekers,” *Guardian*, May 23, 2002, p. 1.

77. Short, *Honourable Deception*, pp.130–31.

78. *Ibid.*, p. 134.

79. See BBC, “‘Turn Away Refugees’ Says Tory Leader,” May 24, 2002 ([news.bbc.co.uk/1/hi/uk\\_politics/2005605.stm](http://news.bbc.co.uk/1/hi/uk_politics/2005605.stm) [January 2006]).

The government had decided that the new department should not only be responsible for aid but should also have a role in all the development aspects of U.K. policy, including the environment, trade, conflict, political relationships, international economy, and migration. This had been an aspiration of the first Ministry of Overseas Development as long ago as 1964.

The motive for including all aspects of development policy in the department's purview was the recognition that there were important limits on what aid alone could achieve. A great many other policies pursued by rich nations have as much, or more, impact on the reduction of poverty. Five years after the department was established, the outgoing DFID permanent secretary wrote of the responsibilities of the department:

*As the Accounting Officer for the last eight years of a budget now approaching £3.5 billion [\$6 billion], and directly responsible to Parliament, I have to say that I spend surprisingly little of my time transferring resources to developing countries. That's the easy bit; but unthinking aid can do more harm than good. Most of the contents of my in-tray now consist of complex policy issues, spanning different government departments and involving many different international collaborations designed to improve the economy and governance of poor countries. These are areas as diverse as civil-military cooperation in conflict, the developing country voice in international trade negotiations, the coherence of European Union policies towards developing countries, the sustainability of debt, the impact of the global environment on poor people, or the ways of encouraging free and fair election.<sup>80</sup>*

One example of DFID's expanded role within government was that it was consulted over the issue of arms exports licenses for sales to developing countries, as were the Department of Trade and Industry, Foreign Office, and Ministry of Defense. This did not mean that development interests were always placed above commercial or strategic decisions. In December 2001 DFID unsuccessfully opposed an arms export application from British Aerospace for a £28 million (\$48 million) military radar system for Tanzania, on the grounds that it was unnecessary and breached the terms of Tanzania's debt relief. After considerable debate within the government, some of which spilled into the press, the prime minister decided in favor of the Department of Trade and Industry, and the sale was allowed.

## More Aid

One of the incoming Labour government's policy commitments was to reverse the decline in total aid spending, with the aim of moving toward the UN target of 0.7 percent of gross national product.<sup>81</sup> In practice, since the UN General Assembly agreed to this goal in 1970, successive U.K. governments have committed themselves to move toward this figure without setting a date by which it would be reached.<sup>82</sup> For example, in its February 1974

80. Vereker, "Blazing the Trail," p. 135.

81. "Each economically advanced country will progressively increase its official development assistance to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7 percent of its gross national product . . . by the middle of the decade." UN General Assembly, "International Development Strategy for the Second United Nations Development Decade," Resolution 2626, 25 sess. (October 24, paragraph 43).

82. For an account of the history of the 0.7 percent target and a discussion of its rationale as an international goal, see Michael A. Clemens and Todd J. Moss, "Ghost of 0.7 Percent: Origins and Relevance of the International Aid Target," Working Paper 68 (Washington: Center for Global Development, September 6, 2005).



manifesto, the Labour party said, that “the next Labour government will seek to implement the United Nations Development Target of 0.7 percent of GNP in official aid and will increase the aid programme to meet it.”<sup>83</sup> In the period since 1970, the target acquired considerable political significance as a measure of the willingness of governments to commit resources to development.

However, the new government was also committed to maintaining the public expenditure plans of its predecessor, which constrained its ability to increase aid spending. As a result progress was slow in the early years, and in 2001 the Development Assistance Committee peer review of the U.K. aid program noted that the government’s rhetoric had gotten ahead of reality: “The government recognises that a more substantial ODA [overseas development assistance]/GNI performance is necessary to demonstrate the United Kingdom’s commitment to tackling world poverty and has reiterated its commitment to the United Nations’ ODA/GNI target of 0.7 percent. Although the United Kingdom is one of the few DAC Members committed to raising its official development aid volume and lifting its ODA/GNI ratio, it remains far from reaching this target.”<sup>84</sup>

Partly as a result of commitments given by the EU to reverse the decline in aid—commitments made in advance of the International Conference on Financing for Development in March 2002, in Monterrey, Mexico—the government budgeted for a more rapid rise in aid from 2002 onward. In 2004 Secretary of State for International Development Hilary Benn and Finance Minister Gordon Brown agreed on future increases in aid at a rate that would reach the target of 0.7 percent of GDP by 2013, and budgeted for those increases up to 2007–08.<sup>85</sup> As figure 10-1 shows, this would represent the most sustained increase in aid as a share of national income for at least forty years, and it was the first time that any British government had set a timetable for meeting the 0.7 percent target.

### Focus on the U.K.’s Long-Term Interests

An important motivation for establishing a separate department in 1997 was to increase the attention paid within government to the U.K.’s long-term strategic interests so that these might be properly balanced against short-term pressures. For example, it was recognized that it was in the U.K.’s long-term commercial interests that Africa should emerge as an economically strong trading partner, and in the U.K.’s security interests that there should be reductions in poverty and inequality and improvements in governance in developing countries. But these long-term interests had not always been given weight alongside short-term commercial and strategic concerns. By creating a department with a long-term agenda for global poverty reduction, the intention was to create institutional pressures within government to ensure that the U.K.’s long-term interests were taken into account alongside short-term pressures.

Eight years later, it was apparent that U.K. policy had been substantially realigned, partly as a result of the collaborative work across Whitehall of drawing up the two white papers.

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83. See “February 1974 Labour Party Manifesto” ([www.labour-party.org.uk/manifestos/1974/Feb/1974-feb-labour-manifesto.shtml](http://www.labour-party.org.uk/manifestos/1974/Feb/1974-feb-labour-manifesto.shtml) [May 2006]).

84. OECD Development Assistance Committee, “United Kingdom (2001), Development Cooperation Review: Main Findings and Recommendations” ([www.oecd.org/document/33/0,2340,en\\_2649\\_34603\\_2460513\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/33/0,2340,en_2649_34603_2460513_1_1_1_1,00.html) [January 2006]).

85. HM Treasury, “Further Boost to U.K. Aid Budget,” Press Notice, July 12, 2004 ([www.hm-treasury.gov.uk/spending\\_review/spend\\_sr04/press/spend\\_sr04\\_press09.cfm](http://www.hm-treasury.gov.uk/spending_review/spend_sr04/press/spend_sr04_press09.cfm) [January 2006]).

For example, both trade policy and environmental policy have changed significantly to take account of the U.K.'s long-term interests in shared economic prosperity and in halting the degradation of the environment.

In 2005 Prime Minister Tony Blair chose two key objectives for the U.K. presidency of the Group of Eight: the development of Africa and addressing the impact of climate change. That he chose to focus on these two long-term objectives was a testament to the extent of the change that had occurred in the priorities and time horizons of U.K. policymakers.

### **Improving the Impact of Aid on Poverty**

The reforms of development assistance were intended to enhance the poverty impact of aid by improving both the allocation of aid—especially by targeting it on countries with poor people—and the effectiveness with which it was used. The government completely uncoupled aid from commercial contracts or any requirement that goods and services be bought from U.K. suppliers, which was estimated to increase its effectiveness by between 15 and 30 percent.<sup>86</sup> The government also sought to improve the poverty impact of aid by shifting resources toward poor countries—setting a goal of 90 percent of aid to go to low-income countries—and by using an explicit aid allocation model.

By 2003 DFID estimated that the poverty reduction impact of a marginal dollar of aid had quadrupled since 1990, although some of this was due to changes in aid levels and improvements in governance in developing countries. As a result of improvements in aid allocation, DFID's own estimates showed that it raised more people out of poverty for an extra \$1 million than the donor average (it ranked third highest among bilateral donors).<sup>87</sup>

However, the effectiveness of aid depends not only on where it is used but also on how it is spent. Changes in development assistance that were intended to make aid more effective also had the effect of making it more difficult to measure the cost-effectiveness of those aid programs. For example, the move away from supporting individual projects and toward providing financial support more generally to governments committed to poverty reduction plus the increased collaboration and pooling with other donors were changes based on evidence that aid could be more effective when delivered this way. However, these same changes also made it more difficult to attribute particular outputs and outcomes to the U.K. aid program, thus reducing the availability of direct evidence for the effectiveness of aid.

### **Focus on the Causes of Poverty, Not Just the Symptoms**

Because it took a long-term view of its mission, DFID decided to focus on the causes of poverty and not just its symptoms. This brought the new department explicitly into new policy arenas, such as conflict prevention, trade, environment, governance, and security, with the intent to identify and address the causes of poverty. In one sense, the change was less pronounced than it might appear: the previous Overseas Development Administration had been engaged in many of these issues. However, the department's explicitly broad responsibilities for development and not just aid, and its representation in the cabinet,

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86. HM Treasury, "Britain in the World," in *2002 Spending Review: New Public Spending Plans 2003–2006* ([www.archive2.official-documents.co.uk/document/cm55/5570/5570-05.htm](http://www.archive2.official-documents.co.uk/document/cm55/5570/5570-05.htm) [January 2006]).

87. Dyer and others, "Strategic Review," p. 15.

changed government and public perceptions of its role and enabled it to act with considerably greater confidence and effect in these areas.

An example of how DFID began to look at the causes of poverty was the “drivers of change” strategy, which sought to ground development programs in an understanding of the economic, social, and political factors that either drive or block change within a country.<sup>88</sup> The goal of tackling the causes of poverty also led DFID to expand its work on institution-building and governance reform, security and access to justice, and governance programs. DFID and the Department of Trade and Industry together argued for a “development round” for the Doha trade talks and for reform of the EU Common Agricultural Policy. With the Ministry of Defense and the Foreign Office, it greatly expanded work on preventing and ending conflict, and on investment in postconflict societies.

### **Increasing Leverage to Increase Impact**

The government made a deliberate effort to work with and through other bilateral and multilateral donors, to leverage the impact of the U.K.’s contribution to development. Starting in 1997 DFID consciously moved away from highlighting U.K. contributions to particular programs (for example, the Union Flag was no longer stenciled onto bags of food aid). In part, this change was intended to facilitate more opportunities to work across the international system as a whole, with other like-minded donors, the European Community, and the international financial institutions. Seeking publicity for the U.K.’s own contribution internationally, it was felt, had been a distraction from, and in some cases an obstacle to, effective collaboration with partners. This change was accompanied by an increased effort within the United Kingdom to explain the purpose and effectiveness of the aid program so as to sustain support as it became less visible on the ground.

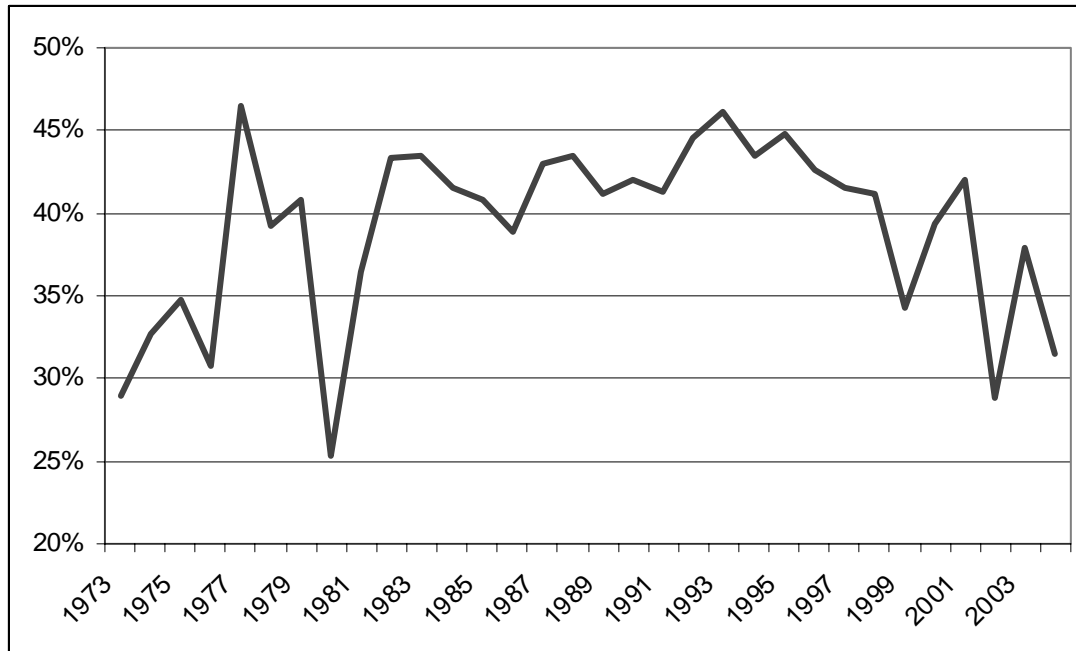
One example of the effort to increase leverage was the government’s willingness to channel resources through multilateral institutions where they were effective, such as through the World Bank. The United Kingdom gave a higher share of aid as multilateral assistance than the DAC average. From 1996 to 2000, DFID provided on average 41 percent of its aid through multilateral organizations, compared with 36 percent for all DAC donors and 25 percent for the United States. (There is no clear relationship between the size of donor and the multilateral share.) An increased willingness to work with others also led to a very large number of policy collaborations with the World Bank.

In another example, in 2001 DFID’s Vietnam program was established with a complete ban on purely bilateral aid projects. All aid was provided in support of projects or programs conducted by or with other development partners, especially the World Bank. This approach was perceived to leverage other resources, help focus other organizations on the achievement of the Millennium Development Goals, discipline project design by requiring all interventions to secure the support of other agencies, and reduce transaction costs for the government of Vietnam.

However, as figure 10-2 shows, although the share of aid going to multilateral institutions remained relatively high, it fell at a time when the department was advocating working through multilateral institutions where possible.

### **Figure 10-2. Multilateral Aid as a Share of Total Aid, United Kingdom, 1973–2004**

88. DFID, “Drivers of Change,” 2004 ([www.grc-exchange.org/docs/doc59.pdf](http://www.grc-exchange.org/docs/doc59.pdf) [January 2006]).



Source: Department for International Development, *Statistics on International Development* (London, 2004), table 2.2.

### Evidence-Based Policymaking: Outcomes and Transparency

In line with the new approach across the U.K. government, DFID set itself the task of basing policy on evidence, focusing on outcomes rather than inputs, and increasing the transparency of policymaking and use of resources. Arguably, it was one of the more successful government departments at ensuring that policies were firmly based on evidence.

DFID employed a large number of technical specialists, from economists to anthropologists, and experts in health, engineering, education, statistics, trade, conflict, environment, population, and governance. One important result of DFID's commitment to using evidence was consistent support for the important but politically unglamorous process of building capacity for the collection and analysis of statistics in developing countries.

In line with the aim of basing policy on evidence, both DFID white papers were the result of extensive consultation with experts outside government, including academics and nongovernmental organizations, and were backed by an array of specially commissioned analyses. The 1997 white paper shifted the department's measurement of its performance toward the U.K.'s contribution to meeting the Millennium Development Goals rather than on input-based measures of the U.K.'s contribution. However, in common with other organizations, DFID did not satisfactorily resolve the tension between the two, on the one hand wanting to increase the importance of measuring outcomes, and on the other hand needing to show that those outcomes were attributable to the U.K.'s own contribution. (It was easier to attribute the U.K.'s contribution to inputs, such as total aid given, or to

outputs, such as schools built, than it was to outcomes that were the effect of the country's own efforts as well as the combined effects of all the donors.)<sup>89</sup>

Development policy became markedly more transparent. Country assistance plans—which formed the basis of DFID country programs—were published for the first time. Most project documents were made available through the database on the Accessible Information on Development Activities website.<sup>90</sup> And as of 2005, all project documents were opened to public scrutiny under the U.K.'s Freedom of Information Act.

### Greater Public Awareness and Political Focus

Finally, an explicit objective of the reforms of U.K. development assistance was to increase the political focus on development. One way this was achieved was by having a high-profile cabinet minister appointed to lead DFID. In addition, the 1997 white paper called for increased public understanding of global mutual dependence and the need for international development. It called for all children to be educated about development issues so that they could understand the key global considerations that would shape their lives.

One consequence of greater collaboration with other donors and more use of resource transfer to recipient governments, rather than project aid, was that U.K. aid was less overtly visible and thus less likely to generate a strong sense of ownership within the United Kingdom. To avoid a decline in support for aid, the government considered it important to explain carefully the rationale for the policy change and highlight the increased impact of British aid that it was expected to produce.

DFID began a low-key but effective public awareness campaign. This included, for example, working with the Department for Education to include “global citizenship” in the new national curriculum, and providing materials and support for teacher training colleges to enable teachers to incorporate development issues into their curriculum. In 2004 the U.K. government teamed up with the Rough Guide, publishers of travel books, to produce *The Rough Guide to a Better World*, which explained what members of the public could do if they wanted to become more involved in supporting developing countries.<sup>91</sup> One effect of these efforts was a steady increase in the proportion of the British public who said that they were “very concerned” about development, from 17 percent in 1999 to 26 percent in 2004.<sup>92</sup>

The Labour government developed an unexpectedly testy relationship, at least at first, with many of the nongovernmental organizations (NGOs). Clare Short, as secretary of state for international development, felt that the development and environmental NGOs had an agenda that would not help developing countries take advantage of globalization, and that funding British NGOs was a “short term political distraction.” She wrote: “All of these groups were well intentioned but the most generous possible funding for the best possible U.K. NGOs was not capable of bringing about the massive reductions of poverty that were needed.”<sup>93</sup> Relationships with NGOs improved over time, in part because of the

89. See OECD Development Assistance Committee, *The DAC Journal Development Cooperation Report 2004*, vol. 6, no. 1 (Paris: 2005).

90. See [aida.developmentgateway.org/AidaHome.do](http://aida.developmentgateway.org/AidaHome.do) [January 2006].

91. Martin Wroe and Malcolm Doney, *The Rough Guide to a Better World and How You Can Make a Difference* (London: Rough Guides, 2004). For an online version, see [www.roughguide-betterworld.com](http://www.roughguide-betterworld.com) [January 2006].

92. Maureen O'Brien, Office of National Statistics, *Public Attitudes towards Development* (London: July 2004). Based on data from the National Statistics Omnibus Survey for the Department for International Development.

93. Short, *Honourable Deception*, p. 81.

introduction of partnership program agreements to fund NGOs on the basis of their strategic objectives. These long-term funding agreements do not restrict the use of their funds to particular projects or activities.<sup>94</sup>

## Future Challenges for DFID

By 2005 enormous progress had been made by the new Department for International Development, but considerable challenges remained. In the 2005 edition of the Center for Global Development's authoritative, quantitative annual study of the how the policies of rich countries help or hinder poor countries, the United Kingdom ranked about half way, tenth out of twenty-one countries, equal to Canada, just below Germany, and well behind the Scandinavian countries and Australia and New Zealand.<sup>95</sup> A relatively strong performance on aid, trade, and investment was undermined by weak and deteriorating performance on policies such as migration and security. (The United Kingdom, however, along with Spain and Sweden, showed the fastest improvement since the index began in 2003.)

The Department for International Development faces a number of continuing challenges, which will require it to:

—*Maintain a tight focus* on the department's core strengths and limit the number of countries to which Britain gives bilateral aid. Prioritization is more difficult at a time of rapid increases in the aid budget, and arguably one of DFID's weaknesses is that it tries to do too much.

—*Lock in the improvements* in development policy made after the end of the cold war, which enabled aid to be allocated to the poorest countries where it would have most impact and reduced the distortion of aid by short-term strategic, political, and commercial interests. Since September 11 and the heightened focus on security, there will be increasing pressure to use all the government's resources in the fight against terrorism. DFID has, so far, been largely successful in sustaining the argument that the U.K.'s longer term interests, including its security interests, are best served by preserving the focus of aid on poverty reduction.<sup>96</sup>

—*Restrain, and perhaps reverse, the growth in bilateral aid* by ensuring that the bulk of the anticipated increases in aid are channeled through multilateral institutions—a process more efficient both for donors and recipients—and also by increasing investments in global and regional public goods, such as scientific research, early warning systems, and regional infrastructure, which are currently underfunded.

—*Within bilateral aid, make more progress on implementing DFID's rhetorical commitments to increase program aid*, which increases the recipient's control of resources—thus enhancing effectiveness and accountability—and reduces the administrative burden of projects.

<sup>94</sup>. For case studies see DFID, "Minister Announces 28 Percent Increase in Support to NGO's," press release, February 21, 2005 ([www.dfid.gov.uk/news/files/pressreleases/increase-ngo-support.asp](http://www.dfid.gov.uk/news/files/pressreleases/increase-ngo-support.asp) [January 2006]).

<sup>95</sup>. David Roodman, *Foreign Policy* 150 (September-October 2005): 76–83. See also Center for Global Development, "Commitment to Development Index" ([www.cgdev.org/section/initiatives/\\_active/cdi](http://www.cgdev.org/section/initiatives/_active/cdi) [January 2006]).

<sup>96</sup>. An example of DFID's success in retaining a focus on poverty is the decision to preserve the 90–10 rule in the face of rising costs in postwar Iraq.

—Improve the department’s approach to the *transfer of knowledge and skills*, based on evidence about what works, and thus reduce the proportion of spending on technical cooperation and consultants (which, although declining since the late 1990s, remains high by international standards).

—Expand DFID’s influence on *sensitive areas of policy* that have a significant effect on poor countries, including migration, corruption and lack of transparency by transnational corporations, and the configuration of armed forces for humanitarian relief and conflict prevention.

—Build *stronger public support* for the government’s role in international development. In an annual survey of U.K. opinion, less than a fifth of people identify the governments of rich countries as making a major contribution to the reduction of international poverty, compared with two-thirds who think that international charities do so.<sup>97</sup> This remains a precarious basis for DFID’s long-term survival and influence within government.

## Lessons from the U.K. Experience

This final section contains some personal reflections on the main components of the reforms, which I see as having been largely successful.

### What Were the Components of Success?

The main ingredients in the successful reform of U.K. development assistance have been:

—Combining *responsibility for all aid in a single government department*. This has been the case in the United Kingdom since 1964 and has made an important contribution to both the coherence and cost-effectiveness of British aid that other countries would do well to emulate.

—Establishing an *integrated development ministry*, with influence over a range of government policies that affect development, has had a significant effect on the conduct of policy. While development interests will not always take precedence over other government objectives, they should at least be identified and taken into account in the design and execution of broader government objectives.

—Setting a *clear purpose and focus on outcomes*. DFID has maintained its long-term strategy in the face of short-term political pressures. This is easier said than done: it requires powerful political leadership to prevent aid budgets being diverted to other priorities. Both the appointment of a separate cabinet minister and legislation delimiting the use of aid resources have enabled the department to resist other pressures.

—Building an understanding among policymakers and commentators of the *relationship between the long-term and short-term interests* of the country.

—Recognizing that development is impossible without security and that *security is impossible without development*. This mutual interdependence has profound implications for government institutions and priorities.

—Accepting that more can be achieved through *partnerships with others* and through leverage of the multilateral system, even if this means a less distinctively high profile for the

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<sup>97</sup>. O’Brien, “Public Attitudes.”

development program. This includes integrated management of bilateral and multilateral aid to secure the synergies and ensure coherence.

### How Did It Happen?

As with most successful revolutions, the changes succeeded in part because they resonated with a long-evolving way of thinking, and in part because they captured the mood of the moment. The unified management of aid by a single government department—unusual internationally—has been a long-standing virtue of the U.K. system, dating back to 1964. The United Kingdom has also consistently argued over many years the importance of assistance to the poorest countries, although its own aid program did not always reflect that priority. Many of the changes that the United Kingdom introduced in 1997 and afterwards were in line with a new international attitude that while increases in aid were an important part of development agenda, it also was essential to pay attention to the broader set of policies that affect developing countries.

Other elements that enabled these changes to happen and be sustained were:

—High profile *political leadership* for a new approach to development. The prime minister and the chancellor of the exchequer were willing to back the new department, and Clare Short provided a strong focus for it. One external commentator wrote, “What drove the difference? ‘In a word: leadership.’ . . . Short imposed focus and drive on her organizations. She believed that DFID should—and could—make a real difference. ‘She recruited the best and the brightest’ from the U.K. and abroad. She encouraged discussion and debate. She demanded excellence.”<sup>98</sup> Subsequent cabinet ministers have ensured that DFID retains a high political profile.

—A *supportive political environment* for improvements in the use of aid, buttressed by investment in public education and development awareness campaigns.

—A supportive environment within the rest of government, including recognition that *reorganizing responsibilities and powers among government agencies is not a zero sum game*. British government departments learned that they could be more effective and influential if they worked together to deliver coherent policy objectives than if they spent their time and resources fighting for turf. Other government departments were persuaded that they had something to gain from the emergence of a strong, confident agency with responsibility for development assistance.

### Appendix 10A: The Pergau Dam[end]

The Pergau Dam is a hydroelectric dam in Malaysia, near the border with Thailand. The dam is the largest aid project ever financed by the United Kingdom. In March 1988 the then defense secretary, Sir George Younger, signed a “defence export protocol” with Malaysia that committed the U.K. government to “bring to bear the resources of its MOD [Ministry of Defence] in order to grant certain facilities, including: - aid in support of nonmilitary

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<sup>98</sup> It should be noted that this view comes from a report based on interviews with several dozen world leaders, who have a tendency to ascribe most successful changes to leadership above all else. See Greenhill, *Making a Difference*.



aspects under the programme.”<sup>99</sup> Lord Younger agreed that Malaysia would receive 20 percent of the value of the arms sales in the form of aid.

In November 1988 an application for aid through the Aid and Trade Provision (ATP) for the Pergau Dam was made to the Department of Trade and Industry (DTI) by a consortium of British companies, led by Balfour Beatty, which had close connections to the governing Conservative party. In March 1989, in the context of a visit to Downing Street by the Malaysian prime minister, Mahathir Mohamad, Prime Minister Margaret Thatcher made an oral offer of a £68.25 million grant, based on a contract price of £316 million.

During the following year, ODA and DTI undertook a joint mission to survey the Malaysian power sector and the possibilities for other projects that might attract British companies. That review indicated that electricity could be produced more cheaply by gas turbine power stations than from the Pergau project dam.

In February 1991 Sir Tim Lankester, the most senior civil servant in the ODA, formally advised the minister for overseas development that funding the Pergau Dam project would not be consistent with policy statements by ministers to Parliament about the basic objectives of the aid program. Ministers at the two departments responsible for the ATP program, Lynda Chalker and Trade Minister Tim Sainsbury, were opposed to providing support for the dam. But Britain’s high commissioner to Malaysia, Sir Nicholas Spreckley, and Alan Clark, then minister for defense procurement, argued that to withdraw support for Pergau “would have an adverse impact on U.K. relations with Malaysia in general and on the defence sales relationship in particular.” The prime minister, John Major, agreed with their assessment. In July 1991 the then foreign secretary, Douglas Hurd, overruled the objections and authorized expenditure of £234 million (about \$400 million) from the aid budget.

At the time officials denied any link between British aid and arms sales to Malaysia. The prime minister’s office described the timing of the arms sales as “merely a coincidence.” However, in January 1994 Sir Tim Lankester gave evidence to a House of Commons public accounts committee inquiry, and it was clear that there had in fact been a link between the decision to give aid and the arms sales. As a result of this evidence, Douglas Hurd admitted that there had been a “brief entanglement” between aid and arms sales from March to June 1988, which he claimed had been ended by Sir George Younger’s letter of June 28, 1988, to the Malaysian finance minister saying that “the linking of aid to projects” would not be possible. But on the same day, the U.K. government offered up to £200 million in ATP and export credit support for future contracts. This amount was the same as the aid expected to accompany the £1 billion of arms sales.

A judicial review sought by a nongovernmental organization led to a High Court ruling in November 1994 that aid for the Pergau Dam was in violation of the Overseas Development Act 1980, which allows the foreign secretary to make payments “for the purpose of promoting the development or maintaining the economy of a country or territories outside the U.K., or the welfare of its people.” The High Court ruled that the project was not of economic or humanitarian benefit to the Malaysian people.

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<sup>99</sup>. All quotes and other details of this case can be found in Association for International Water and Forest Studies, “Court Cases in Dam Projects. 5. Pergau (Malaysia)” ([www.fivas.org/rettskr/pergau7.htm](http://www.fivas.org/rettskr/pergau7.htm) [January 2006]).

After the ruling, the foreign secretary announced that the government would meet its contractual obligation to pay for the three-quarters-built dam. He told the House of Commons in December 1994 that he would not appeal against the court ruling, but the ODA would not be reimbursed for the £24.4 million spent on the Pergau project between July 1991 and March 1994.