
*Managing an Aid Programme*¹

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I had some responsibility, for over two years, for managing the British aid programme. I confess there were times when I wondered cynically whether anyone can really 'manage' that programme. One learns quickly that there are an awful lot of people who think they should have a hand in how the aid programme should be spent and that decisions are not taken independently by the Minister for Overseas Development or the Permanent Secretary or the ODA. They are taken within the folds of collective responsibility in government.

In that respect, our decisions were no different from those of other parts of government which is, after all, a network of competing interests and responsibilities, reflecting competing interests within the nation. The reconciliation of these is the business of government. The money we spend is taxpayers' money and there are many taxpayers with many interests. This must be so for everyone who runs an official aid programme in any country. But something depends on how the administration of the aid programme is organised. In some countries, it is given to an executive agency, like the Swedish SIDA and the Canadian CIDA. Hiving off responsibility in this way no doubt means that the influence of politicians is diminished as compared with our system where a Minister is always directly in charge, whether the aid administration is a part of the Foreign Office, coming under the Foreign Secretary as at present, or a separate Ministry, as it had been under Labour Governments. Patterns vary from one country to another, but in any country decisions about how aid resources should be spent, as well as about the total size of the aid programme, are subject to political and commercial pressures in some degree. That is not only inevitable but right.

Obviously aid serves various purposes. There is no doubt about the fundamental purpose — in our case enshrined in the statute under which we operate: the development of poor countries. But I regard it as our business to try to achieve this objective in ways which also, so far as possible, serve British political and commercial interests. The aid programme must have the support of more than the relatively narrow constituency of idealistic people who are concerned about the poor, vitally important as that group is. I reject the view that the ODA should be concerned only with developmental objectives, leaving the Diplomatic Wing of the Foreign Office to speak for the political and the Department of Trade and Industry for the commercial. That would be an abdication. Of course we were involved in constant dialogue with the rest of the Foreign Office, the Department of Trade and (never to be forgotten) the Treasury. But if the managers of the programme, the ODA, are to maintain the lead in deciding how aid money should be spent we must be concerned with all the objectives of the aid programme.

Political and Commercial Objectives

What political objectives should the aid programme serve? They are often ill-defined: making friends, buying and keeping influence. What is it that has these effects? The announcement of new offers of aid, especially unexpected offers or more-than-expected offers — the gratitude effect? But once aid has become an established fact, the gratitude effect is hard to find, and the political damage which follows when aid is reduced often seems greater than the gains when it is increased. Moreover, the gratitude effect, when it is found, often seems to last at most about 24 hours. So we in the ODA tended to think that the political benefits of aid have to be seen in the longer term — the building up of influence which stems from a fairly substantial and continuing flow of aid; and, more fundamentally, the political gains which can be had through contributing to growth, good government and stability in certain areas.

¹ This is a revised version of a paper given on 8th June 1984 in All Souls College, Oxford, when the author was the Permanent Secretary at the UK Overseas Development Administration and should be taken to express his personal views at that time. He is now Director of the International Finance Corporation, Washington DC.

How do we make the aid programme serve commercial interests? The general rule is that all off-shore procurement financed from British bilateral aid (as opposed to local cost expenditure) is tied to British sources. Of course this policy has costs. There are cases where it is more expensive and less satisfactory to buy British, although we did try to direct aid particularly towards the types of goods and services where the UK is competitive. And where the difference is especially great or non-British elements are obviously desirable, we could be flexible. But without this tying of British aid expenditure to British supply we would weaken the support in the country for the aid programme as a whole. If the price of removing this bit of protectionism were less aid, that would probably not be a net gain to the developing countries.

Besides this, there is the Aid and Trade Provision or the ATP, the British mechanism for providing aid in the form of mixed credits, where aid is linked with ordinary export finance. The borderline between aid to developing countries and aid to British industry is sometimes hard to find. The philosophy underlying the arrangement is that the two can be reconciled, and so they can; but our experience of this programme is that business pressures grow and the emphasis tends to shift towards the interests of exporters. I am glad that there is now an increasing recognition of the dangers of an unrestricted mixed credit race in the world. This must be kept within bounds and, difficult as it is, we are trying to promote moves towards better international regulation to restrain it.

Another way in which the aid programme can be used for commercial purposes is when it is made the servant of a kind of industrial policy. But there have been cases where we have been pressed to agree to employing particular British firms as contractors in order to help establish them in a certain market and give them certain experience. Sometimes it works, sometimes it does not. We obviously have to be very careful when it is proposed to use aid money in this way.

Allocating the Aid Programme

In managing the aid programme, there has to be a system for allocation. In the UK, unlike many other countries, the 'aid programme' includes all our combinations to international organisations, not least our share of European Community aid experience (which is partly financed from our vote and partly 'attributed' to the aid programme by the Treasury). So we are very much involved in basic issues about the allocation between multilateral and bilateral aid.

We are involved, but in practice the room for manoeuvre is small. The aid programme as a whole (and it is this entity which is the subject of annual

negotiation with the Treasury) is under tight constraint. It fell by 11 per cent in real terms from 1979/80 to 1983/84 and is planned to increase over the next three years by cash amounts which are likely to mean a small further decline in real terms.² Within the total (now about £1.1 bn net) 41 per cent goes on multilateral aid (as compared with 27 per cent in 1980 and 16 per cent before we joined the European Community in 1972). This seems likely to rise to something over 45 per cent over the next three years.

In decisions about multilateral aid, our freedom of manoeuvre tends to be restricted. In the European Community, we are parties to collective decisions; and even in cases where there is a rule of unanimity it is in practice very difficult to stand out alone against expenditures which the other members all approve. At this stage in history, not all the other members of the Community are so determined to limit public expenditure, and this affects aid as it does other things. In the case of IDA and other concessional international funds, our room for manoeuvre is limited, largely because expenditure tends to be determined by decisions taken some years ago; and although we have reduced our commitments in recent negotiations, we are still on a rising trend of spending.

Is this to be regretted? It hardly makes sense to talk generally about whether multilateral aid is good, better than bilateral aid, or not. It varies enormously. ODA tends to believe that IDA, administered by the World Bank, is one of the most efficient means of channelling resources to the poor countries. ODA tends not to believe the same of the European Development Fund, whose methods of project appraisal, monitoring and financial control are suspect; let alone of the food aid which accounts for up to half of European aid and which is frankly more a means of disposing of European agricultural surpluses than of helping the poor.

There is a case for exploiting this situation. We might even increase our share in IDA, on the grounds that the money is well spent and, moreover, a reasonable share of it goes on procurement from this country. Frankly, if our multilateral proportion stood at 20 instead of 40 per cent we might be more inclined to take this view — or if the aid programme as a whole was expanding. But our bilateral country programmes have fallen by a third in real terms over the last four years and we expect a further fall of about 18 per cent over the next three.³ I cannot see any case for trying to accelerate this process and some strong reasons for trying to slow it up. Bilateral aid does serve purposes,

² Since this was written (mid-1984) the trend has somewhat improved (ed).

³ See footnote 2 above, however (ed).

political and commercial, which are not served by contributions to international organisations; and from a developmental point of view we believe we can spend the money better than many of the organisations we contribute to. So I am in no doubt that we are right, in present circumstances, to do the best we can to protect bilateral aid from further erosion.

Allocation to Countries

But in many ways the most interesting and difficult decisions are about allocation to countries. British aid to countries (about £500 mn in the current year) is a drop in the ocean of the global needs of developing countries; but in another sense it is a significant amount of money and spending it needs careful thought and planning.

In 1983 we gave aid to 125 countries, and that fact expresses one problem. We are a medium-sized industrial country, but our past as a world power tends to make us think still in terms of a world role. But the question of concentration or scatter is a real one. Most of these aid programmes are very small — for example, in most Francophone and Latin American countries they consist of a few scholarships or experts or a bit of English language teaching. There are probably some political benefits to be had from even very small programmes of technical assistance in many countries and, conversely, the financial savings to be had from cutting out a lot of these programmes would not add up to much. So I do not regret that we have a thin scatter of small programmes. The real questions are about which countries should get more substantial amounts of aid. I believe that impact on development, as well as political and commercial gains, are maximised if aid is concentrated to some extent, so that in a certain number of countries — perhaps a dozen or fifteen — our presence is substantial and our impact felt. Better in terms of all our objectives to be No. 1 or 2 in 8 or 10 countries than No. 6 in 30. But this view is not shared by everyone in Whitehall.

In any case spending on development projects is a slow business and changing direction is like turning an oil tanker around. The geographical pattern of the aid programme is still influenced by decisions taken when Mrs. Hart was Minister for Overseas Development in the Labour Government because a number of large projects begun in the late 1970s are now coming to an end. So the choices about priorities are not usually about this year or next, but they have to be made and in making them we in the ODA recognise three main criteria.

The first is the relative poverty of countries. The British view, endorsed, I am glad to say, by both main

parties, is that aid should take the form mainly of grants and should be concentrated on the poor countries. In 1983, 63 per cent of our aid to countries went to the 50 poorest countries (and we now find that the most convenient place to draw the line, rather than some shifting line of GNP per head). I personally would like to see the proportion higher still — it was influenced in 1983 by a number of special cases, such as aid to Turkey which was undertaken largely for political reasons, and one or two lumpy ATP projects. But the policy of concentrating on the 50 poorest does limit the field. The British record here is a pretty good one.

Secondly, it is natural that we should concentrate our aid effort on countries with which we have good political and commercial links, countries with which we communicate easily. Of course this takes us towards the Commonwealth and I think we need make no apology for that. In 1983, 73 per cent of our country aid went to the Commonwealth. We are not the only aid donor in the world and our distribution can be influenced by what others are doing. We naturally operate most effectively in countries where English is spoken and where systems of administration are akin to our own. Not all our priority countries are in the Commonwealth but there are enough such countries which meet our other criteria to take up a very large part of our aid.

Thirdly, we try to give priority to countries where our aid can be effective. Now that is not an easy thing to judge. Effectiveness can be influenced by many factors, but a key one is the context of economic and development policy. We work mainly through governments, as an official aid programme is bound to do. This means that the effectiveness of the aid depends very much on whether our contribution fits into sensible and well-administered development policies, sound general economic policies and sound policies for particular sectors.

There are countries who would qualify under my first two headings but where we are not satisfied that substantial amounts of aid will not, in effect, be wasted. Tanzania provides an interesting example. In 1980 ODA supported the building of a major new road in southern Tanzania. The area to be linked by the new road to the main highway system and towns of Tanzania is one of high agricultural potential. The calculation showed a reasonable economic rate of return. We built in a review point half-way through the scheme and the calculations were done again. This time they showed a lower return, because Tanzanian policies, with depressed producer prices and an exorbitantly over-valued exchange rate, meant that the agricultural potential of the area was much less likely to be realised, so the value of the road was less.

In fact, we decided to finish the road, partly because we thought it reasonable to take a longer-term view, and partly because of being afraid of looking ridiculous by leaving a half-built road in the bush.

Aid effectiveness can also be a matter of the efficiency of the institutions with which we have to deal. We are reluctant to put aid into a railway system which is badly managed and heavily subsidised. It also, of course, involves judgements about the likely continuing value of the aid. When we build a road, for example, we have to take an interest in what arrangements there will be for maintaining it afterwards.

Allocation by Sectors

So much for allocation between countries. But there are also many decisions to be taken about priorities within countries — agriculture or infrastructure, health care or balance of payments support, manpower or capital? In 1983, 31 per cent of our bilateral aid was spent on agriculture and natural resources, 43 per cent on infrastructure and energy, 10 per cent on education. But these figures are not the result of any decision to allocate given sums of money globally to these things. It would be an administrative nightmare to apply a policy of sectoral allocations, cutting across the country allocations. It would mean sub-dividing each country allocation into amounts for agriculture, education or what-have-you and most of our desk officers would resign. Broadly speaking, the allocation between sectors is the consequence of judgements made country by country in consultation with recipient governments.

But that is not the whole story. Choices between sectors are influenced by broad views which we develop in the ODA about what the priority needs of developing countries are, which is of course a subject on which there is much discussion between donors, recipient governments, international organisations and academics and research workers.

At the same time our choice of sectors is also influenced by another factor: in what sectors is the UK best placed to meet the needs of developing countries? Do we have good, competitive firms to provide the goods or do the work cost-effectively? Do we have special centres of knowledge and expertise which can make a contribution? In some areas, the UK is, I think, better placed to help than in others and there is much to be said for concentrating on these.

Bringing these two strands — needs and our ability to supply — together suggests that in current circumstances five areas deserve particular attention, namely, agriculture, infrastructure, education, manpower and health.

First, there is *agriculture* and related areas (livestock, forestry, fisheries). This is basic to development in most countries. Moreover this is the area in which there is often most scope for rapid improvements in productivity and so the best prospect of improving the standards of living of poor people widely. Agriculture is about organisation more than it is about investment. It means getting a lot of aspects of government organisation and the environment within which farmers work right, then allowing farmers to get on with the job. It is about pricing, the supply of fertiliser and seed, credit for small farmers, water, research into new varieties and farming methods, roads and other forms of transport, marketing arrangements.

This is not an area in which donors can achieve anything without the closest cooperation with recipient governments. Great strides have been made in many countries in Asia. Africa is far behind, but the potential for the improvement of agricultural productivity is enormous and this must be a priority, although that does not necessarily mean that it must claim the largest amount of money. And we must be prepared to sustain the effort over a long period.

The world of tropical agriculture and research in particular is of course one in which a good deal of knowledge and experience has been built up in this country in the past, although that comparative advantage may be fading a little now. Scientific brainpower has for decades been concentrated much more on temperate agriculture. That is changing and it is now more widely recognised that applying brainpower to tropical agriculture can produce great gains. We are strong supporters, in money and staff, of the Consultative Group for International Agricultural Research which runs a number of important research institutions around the world, and there are supporting activities in this country — at the Universities of Reading and Nottingham, for example, and at the Centre for Tropical Veterinary Medicine in Edinburgh. Within the ODA we have the Tropical Development and Research Institute and the Land Resources Development Centre.

Secondly, *infrastructure* will always be a major part of the programme, including transport and energy. This is basic to economic progress and is the responsibility of governments, so very suitable for official aid. But we are increasingly aware that better economic returns can now be secured by restoring or maintaining existing capital assets rather than building new ones. So even in this field there is not necessarily a need for huge new capital investment. But that is sometimes needed and this is the part of the aid programme which brings the most obvious commercial and employment benefits to the UK. This too is an area in which Britain has something to contribute — there are many British

companies with skills and experience in the building of roads, railways, power stations, dams, water and irrigation systems in tropical countries.

Thirdly, *education* must always be high on the British list of priorities. But what kind of assistance should we give to education? The contribution we can best make from abroad varies according to the country and the sector. In primary and secondary education it is usually best concentrated on organisation, planning and management, rather than the provision of teachers. More direct help, in the form of staff, is often appropriate for technical and higher education. Partly because of our imperial past we are well equipped to contribute in the whole of this field, and our help is very much wanted by many developing countries.

Fourthly, there is *manpower*, especially for government departments, parastatal organisations and all sorts of public sector activities. This is a desperate need in many countries, especially in Africa. Both we and newly independent governments have been naive in our belief in the ability of African countries to take over and run all these activities efficiently within a decade or two of independence. We now recognise that we must take a much longer view of needs in this area. But priority in our aid programme in Africa (and some countries elsewhere) is to help in the efficient running of key institutions in the development of the country. Manpower aid has to be reshaped, targeted on particular institutions, set in the context of long-run plans, and directed at new and future needs and not just at maintaining existing staff.

Again our historic connections with Commonwealth countries in particular, and the enormous interest in Africa and Asia which still exists in this country, mean that we are as well equipped as any western donor to provide help in this form. Most Commonwealth countries of Africa have come through a period after independence when they wanted to Africanise everything. They are now much more aware of the deficiencies of their manpower and the weaknesses of many of their institutions and anxious to have our help in this field.

Fifthly, there is *health*. In the British list of priorities this has traditionally come rather low. In 1983 only 2 per cent of the bilateral aid programme was spent on health. The argument has been that our resources are scarce and that the first priority should be to build up the economic strength of developing countries, after which they will be able to provide better medical services themselves. There is something to be said for this approach; but we cannot always sacrifice the present for the future. Within the field of health, the current tendency is to put heavy emphasis on primary health care and preventive medicine rather than on

large hospitals. Perhaps even this fashion can go too far. We cannot altogether forget the hospital sector.

This area troubles me. It is not a high priority within our aid programme, although there is outstanding expertise and knowledge in this country. We have two of the finest centres of research into tropical diseases in the world in London and Liverpool. With our limited resources it is hard to see ways in which we can channel this particular talent more in meeting the needs of recipient countries. We may have to think more of informal and unofficial links between hospitals in this country and those abroad if we are to exploit this resource to the full.

Systems of Control and Allocation

How do we take decisions on these things in practice? In the ODA, it is through three administrative mechanisms.

First, the basic process of allocating the aid programme takes place through a rolling plan (we call it the Aid Framework) which contains firm planning figures for year one and indicative figures for the two later years. The plan is reviewed and rolled forward annually. In mid 1984 we were working on the plan for the three years beginning with 1985-86. The process begins in the ODA and is then expanded to involve the whole of the Foreign Office, the Department of Trade and Industry and the Treasury, officials and Ministers.

We do not publish this plan and though that may shock some advocates of open government, there are good reasons for it. We have to work within the UK Government's system of expenditure control with a cash limit for each financial year and a cut off at each 31st March. Country programme managers or desk officers are expected to spend their particular allocations in the Aid Framework within the financial year as nearly as possible and to make sure that it is well spent. Sometimes these two objectives conflict and we settle for spending less than the plan in country X rather than wasting money. This is only possible because the recipient country does not know how much has been allocated to it. If they were told, this would become an entitlement and we would be under great pressure either to spend loosely or to make up in subsequent years for any underspending. The European Development Fund has got itself deeply into just these difficulties by a system of known allocations. The World Bank, on the other hand, has its own internal system of allocation which is not known to the Executive Board which represents member countries, and this gives the management some freedom of manoeuvre and a greater ability to insist on conditions.

Secondly, we have recently introduced an annual review of our aid programmes in each of the main countries. The Under-Secretary responsible for each geographical area produces a paper which reviews the economic and political situation in each country, its development needs and our development programme. The Diplomatic Wing of the Foreign Office takes a hand in this process and each paper is then discussed at a meeting under the chairmanship of the Permanent Secretary of ODA. These meetings produce conclusions about the priorities which, after they have been approved by the Minister, become the marching orders for the geographical departments and desk officers in the ODA. But this review process does not result in precise decisions about individual projects. These decisions will be taken case by case as the year goes on, the Treasury and the Department of Trade and Industry being consulted wherever necessary.

Complementing these country reviews, we have instituted a system of sectoral reviews which is still experimental. Papers are produced for discussion amongst senior management in the ODA about aid to agriculture, education, health, transport, energy, water, small scale industry and population programmes. The papers are a combined effort by the specialist advisers in each field and the economists. The purpose is to make sure that sectoral thinking about developing country needs and the British ability to supply is not suppressed by a system which gives priority to country needs.

Thirdly, and most important, there is the system which we have been developing over many years of project and programme appraisal governing all spending decisions. All proposals must of course fall within the framework plan (or exceptionally be financed from our contingency reserve). Those involving an expenditure of more than £1.5 mn are submitted to a Projects Committee chaired by the Deputy Secretary. The appraisal documents must demonstrate that the proposal has been examined rigorously from all points of view but especially regarding its potential contribution to development. Where an economic rate of return can be calculated this is done, or an assessment of cost-effectiveness is made. This is the filter through which all important spending decisions have to pass. Proposals which are put to the Projects Committee will be very detailed and include questions about the technical feasibility of the proposals; environmental and social considerations; conditions to be attached to the assistance; the nature of any contracts with suppliers; and arrangements for monitoring and supervision and for financing and procurement. Those projects which pass the test and are recommended for approval by the Committee are then submitted through the Permanent Secretary to the Minister for approval.

Getting the Money Spent

Allocation is important but it is only the beginning of the process and a great deal of life in the ODA consists of getting the money spent. Like other aid organisations we have to find ways of bringing together the contributions of administrative and financial people on the one hand and specialists on the other. Our system gives the lead clearly to geographical departments, so far as the country programmes are concerned, with our specialist advisers 'brigaded' with them, assigned to areas and countries and working closely alongside the administrators. We went over to this system of attachment of advisers to geographical departments a few years ago and it is working well. In fact, although we call them 'advisers', the specialist staff are in practice much more than this when it comes to the design and monitoring of projects.

This applies even more in the outposts which we have in various regions, known as Development Divisions — two in Africa, one in South East Asia, one in the Caribbean and one in the Pacific. They consist of interdisciplinary teams working very closely together on project identification and appraisal and on the monitoring of projects once they start.

A basic principle in the administration of the country programmes is that the responsibility for the expenditure lies with Ambassadors and High Commissioners. Formally, Development Divisions are advisers to them. It is not surprising that this relationship is a variable one. There are sometimes frictions and personalities can make a difference, but in practice it works reasonably well and in my view it is on balance an advantage, from a purely administrative point of view, that the ODA is part of the Foreign and Commonwealth Office, working under the same political master, the Foreign Secretary.

Other Aid Expenditure

There is more to aid than country programmes and multilateral contributions. For example, there is a subvention to the British Council, which gets about one-third of its core funding from the ODA to finance its activities in developing countries, besides acting as our agent in administering aid programmes in training and education. There is the Commonwealth Development Corporation, again funded by us, a sort of private sector arm of the aid programme. There is a lot of expenditure on research, some of it within the ODA itself, especially in the Tropical Development and Research Institute, some of it in universities and institutes up and down the country, and some of it in international institutes, which I have mentioned.

There is the whole voluntary sector; the British

Volunteer Programme receives about 90 per cent of its funds from the ODA, and plays a significant part in British manpower aid. There are the arrangements for joint funding of small development projects through organisations like Oxfam and Christian Aid, organisations which bring something unique to the aid effort, an ability, very often, to get closer to the needs of very poor people than is possible through the official aid programme. There is even the academic world and the Institute of Development Studies at Sussex University.

Here, as elsewhere, financial pressures have brought about change in the last five years and the IDS now raises about half its income from sources other than ODA, mostly by selling its services to overseas governments and aid agencies; but the contribution from the aid programme is still significant. It is one more example of the wide and varied interest to be found in the UK in the affairs of developing countries which is so great a support for those who are responsible for managing the aid programme.