7. UK development aid

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Summary

- The government has ring-fenced the UK aid budget and committed to increasing expenditure to meet the international target of providing 0.7% of gross national income (GNI) as official development assistance (ODA) from 2013. In 2010, the UK government spent £8.45 billion on international development, equating to £321 for each household, and this is planned to rise to £12 billion in 2013.
- Sixteen European countries have committed to reaching a target of spending 0.7% of GNI on ODA by 2015. While this level has already been surpassed by five of these countries, the UK is among only a handful of others that have currently achieved a level near to the target.
- The majority of UK ODA is channelled through the Department for International Development (DfID). Of the aid that DfID delivers bilaterally, the largest share is allocated to Africa. The majority of multilateral expenditures are made through the European Commission and the World Bank.
- DfID expenditures were reviewed in 2011. As a result, DfID spending will now be focused on fewer countries, will be channelled through fewer multilateral organisations, and will be reported on more regularly and in a more detailed manner. This is intended to improve the value gained from ODA.
- Despite the recent reviews, there remains a need to evaluate the value for money achieved by UK ODA. To do this, a greater amount of information is needed, along with increased transparency, particularly relating to multilateral expenditures. The creation of the Independent Commission for Aid Impact, an independent aid watchdog, should go some way to achieving this.

7.1 Introduction

The UK has committed to meeting an international target to contribute 0.7% of gross national income (GNI) to development aid annually from 2013. In order to achieve this, the government has 'ring-fenced' aid spending from the cuts that are occurring elsewhere. In contrast to a real-terms reduction in total public expenditure of 11.5% between 2010–11 and 2014–15, development aid expenditures will increase by 40%. The Departmental Expenditure Limit for the Department for International Development (DfID), which is responsible for the majority of UK aid spending, is planned to increase in cash terms from £7.8 billion in 2010–11 to £11 billion in 2014–15.[1] This is a significant

[1] These plans were set out in the 2010 Spending Review. The Departmental Expenditure Limit for DfID is planned to increase to £8.1 billion in 2011–12, £8.8 billion in 2012–13, £11.3 billion in 2013–14 and £11.5 billion in 2014–15. As a result, in real terms, an extra £2.6 billion will have been expended by DfID over this period, compared with the case where DfID funding was frozen at 2010–11 levels. These are authors' calculations based on data available in table 2.15 of the 2010 Spending Review (http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf). Real-terms figures are calculated using the latest GDP deflator

increase in spending; if DfID funds had been frozen at 2010–11 levels, the extra funds could have instead been used to reduce the real cuts to the Department for Education's expenditure by a third over this period.

The decision to protect aid spending from the cuts being made to other budgets has created some controversy and raised the question of why development assistance should be valued above domestic expenditures.

The aims set out by the previous government state that 'It is our duty to care about other people, in particular those less well off than ourselves. We all have a moral duty to reach out to the poor and needy'.[2] In recent years, this rationale has been augmented with the notion that poverty in the developing world is a direct threat to the UK's interests, even in the face of fiscal austerity.[3] David Cameron has stated: 'I don't believe it would be right to ignore the difference we can make, turn inwards solely to our own problems and effectively balance our books while breaking our promises to the world's poorest'.[4] In their 2010 election manifestos, all three main UK political parties included a pledge to meet the 0.7% target by 2013 at the latest. At present, there is a bill going through Parliament that would make meeting the target a statutory requirement.

The target to contribute 0.7% of GNI annually from 2013 onwards, which is endorsed by the United Nations (UN), has been adopted by 16 European countries. Of these, the UK is one of a handful of countries that have either met the target or attained a level close to it. The US, Japan and Canada have not made any commitment to the target. Indeed, by international standards, the UK's public aid spending appears relatively generous.

The 0.7% target is based specifically on increasing 'official development assistance' (ODA), an internationally-used measure of developmental aid adopted by the OECD's Development Assistance Committee (DAC) and used to monitor flows of development assistance. ODA mainly covers developmental aid from government sources that focuses on improving the long-term capabilities of poor people. Only a very small proportion is in the form of humanitarian assistance that focuses on alleviating short-term suffering.[5]

A key part of any debate on development spending is value for money – that is, ensuring that aid is being spent effectively to achieve its goals. This is especially true in a time of fiscal austerity. However, value for money can be difficult to assess. Conceptually, there are a number of ways in which one might proceed in deciding how to evaluate value for

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available from HM Treasury. It should be noted that these figures have since been adjusted in the 2011 Autumn Statement, with an expected decrease of £525 million, to £11 billion, for the 2014–15 figure.

[2] See *Eliminating World Poverty: A Challenge for the 21st Century*, White Paper on International Development, 1997 (http://webarchive.nationalarchives.gov.uk/+/http://www.dfid.gov.uk/policieandpriorities/files/whitepaper1997.pdf).

[3] The Conservative Green Paper on International Development states: 'Poverty breeds extremism, incubates disease and drives migration and conflict. Instability around the world threatens us all'. Source: *One World Conservatism: A Conservative Agenda for International Development*.

[4] This quote was part of an article in *The Observer*, 12 June 2011, available at http://www.guardian.co.uk/global-development/2011/jun/11/david-cameron-international-aid-vaccine%20.

[5] The complete definition of official development assistance (ODA) is 'Grants or loans to countries and territories on the DAC List of ODA Recipients (developing countries) and to multilateral agencies which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms (if a loan, having a grant element of at least 25 per cent). In addition to financial flows, technical co-operation is included in aid. Grants, loans and credits for military purposes are excluded. Transfer payments to private individuals (e.g. pensions, reparations or insurance payouts) are in general not counted' (http://www.oecd.org/document/32/0,3746,en_2649_33721_42632800_1_1_1_1,00.html#ODA). Aid from private sources, including non-governmental organisations (NGOs), is excluded.

money. For example, should money be used to improve the lives of the very poorest, or targeted to those where the spending will have the largest effect (which may not be where absolute poverty is highest)? There are also practical difficulties in collecting data on, and measuring, aid outcomes. But this is important: meeting a target to spend a certain amount can be distinct from achieving the goals underlying that target.

Our aim here is to describe what we currently know about how UK public aid is spent – who spends the money, in which countries do they spend it, what is it spent on, and how does the UK compare with other nations. We note that DfID recently reviewed aid expenditure with a view to ensuring that its aid is spent effectively, and that the Independent Commission for Aid Impact (ICAI) has recently been founded for this purpose. However, there is still more work to be done in setting out the aims of UK ODA and evaluating its efficacy.

Section 7.2 provides a broad overview of the trajectory of UK ODA spending, including a brief history of the 0.7% target. Section 7.3 provides a detailed discussion of DfID expenditure. Section 7.4 compares UK ODA expenditure with those of other countries, analysing the differences in both the amounts spent by each country and the locations in which this spending is targeted. Section 7.5 concludes with some discussion of the importance of evaluating aid spending.

7.2 UK ODA spending

In 2010, UK spending on ODA was £8.45 billion. This amounted to 0.57% of GNI and equates to approximately £275 per UK taxpayer.[6] The government has committed to increasing ODA spending to meet the target of 0.7% of GNI by 2013. This follows a commitment originally made at the 2005 G8 Summit; see Box 7.1 for a brief history of the target. The 2010 Spending Review announced that total ODA spending will need to rise by £3.6 billion from 2010 to 2013 to reach the £12 billion required to meet the 0.7% target. From then on, ODA will have to grow in line with GNI to ensure the ongoing commitment is met. Following the 2006 International Development (Reporting and Transparency) Act, DfID has reported annually on progress towards the target and whether the UK is on track to meet it.

Figure 7.1 shows the evolution of UK ODA over the past five decades, both in terms of total amount (in real terms)[7] and as a percentage of GNI. Real ODA was basically flat until 2000, despite steady nominal increases (not shown). After this, it increased significantly. As a proportion of GNI, ODA spending was falling until the late 1990s. Between 2000 and 2010, the ODA/GNI ratio has almost doubled.

At the time of the 2011 Autumn Statement, the Office for Budget Responsibility (OBR) forecast that GNI will grow at a slower rate than previously expected. This means that reaching the 0.7% target will require less spending on aid than previously thought. As a result, the Chancellor announced that the amount of ODA expenditure will be smaller than originally forecast so as not to overshoot the target. Although the amount spent on ODA is still increasing to meet the target, this will cost the government around

[6] A taxpayer is taken as an individual who pays income tax. There were an estimated 30,600,000 taxpayers in the UK in 2010 (http://www.hmrc.gov.uk/stats/tax_receipts/table1-4.pdf). ODA and GNI data are sourced from the OECD DAC database.

[7] This 'real-terms' measure uses UK economy-wide inflation. This definition applies to all cases within the chapter that use this term.

Box 7.1. History of the 0.7% official development assistance target

The ‘0.7% of GNI on ODA’ target has diverse claims on its origin but can be concretely dated back to 1969. At that time, the Pearson Commission on International Development, set up by the World Bank to study aid effectiveness, proposed that ODA ‘be raised to 0.7% of donor GNP by 1975, and in no case later than 1980’.[a] The 0.7% figure was based on the estimated financial requirements of developing countries, historical commitments, and the capacity of the developed world to contribute to development. This target was endorsed by the United Nations (UN) in a 1970 General Assembly Resolution, though no explicit commitment to it was made.

By 1980, only four countries had reached this level. Renewed calls for countries to commit to the 0.7% target followed the Brandt Report, the outcome of an internationally-recognised independent commission on international development. Although widely discussed at the time, no formal agreements were made in response.[b] This pattern continued throughout the 1990s with no fixed deadline ever set.

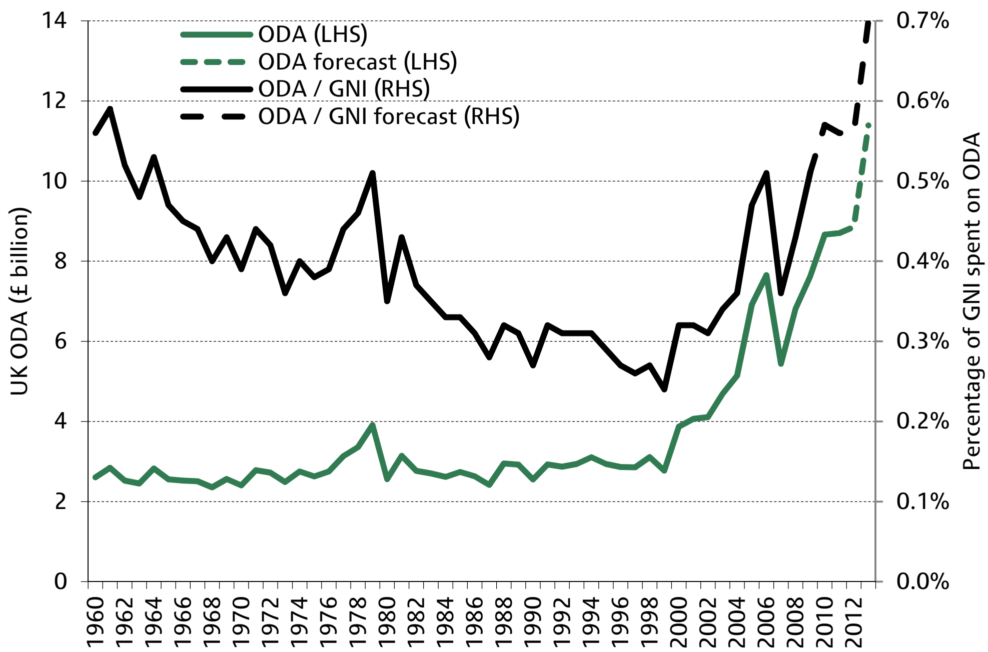
In 2002, the EU15 countries agreed collectively to reach an average level of 0.39% of GNI, and for each country to set out a timetable to reach 0.7%, by 2006. However, the 0.7% target was not part of a formal commitment until the 2005 G8 Summit in Gleneagles, Scotland.[c] This included a pledge by the EU15 countries individually to reach the 0.7% target by no later than 2015. Individual countries pledged to meet this commitment by different dates, with the UK settling on 2013. There was also an interim target collectively to reach 0.56% of GNI by 2010. Outside of Europe, no countries have explicitly agreed to the 0.7% target.

The optimal target for aid is difficult to establish. Recent attempts to recalculate the 0.7% figure using the savings-based models referenced by the Pearson Commission suggest that required contemporary flows are much smaller than 0.7% of GNI.[d] Using a different, needs-based model, Sachs et al. (2005) derive estimates of 0.54% of OECD nations’ GNI as a minimum requirement for ODA spending by 2015.[e] However, the appropriate methods for such calculations remain hotly debated.

In practice, the target reflects a political consensus based on donors’ experiences and historical precedence. Even in 1969, the Pearson Report stressed that ultimately we rely on ‘the experience of the major aid agencies, which suggest that the capacity of developing countries to use … aid is well above current availabilities’.

[a] Pages 148–149 of Lester B. Pearson et al., *Partners in Development: Report of the Commission on International Development* Praeger Publishers, New York, 1969. The target was originally based on GNP, but was replaced by GNI following the 1993 update of the UN’s System of National Accounts.
[b] Page 43 of United Nations General Assembly, Twenty-Fifth Session, Second Committee, *International Development Strategy for the Second United Nations Development Decade*, October 1970 (available at http://www.un.org/documents/ga/res/25/ares25.htm).
[c] The commitments were formalised in the ‘Gleaneagles Communiqué’ (http://www.unglobalcompact.org/docs/about_the_gc/government_support/PostG8_Gleneagles_Communique.pdf).
[d] See M. Clemens and T. Moss, ‘Ghost of 0.7%: origins and relevance of the international aid target’, Centre for Global Development, Working Paper 68, 2005 (http://www.cgdev.org/files/3822_file_WP68.pdf)
[e] J. Sachs et al., *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*, Millennium Project, Report to the UN Secretary-General, 2005 (http://www.unmillenniumproject.org/documents/MainReportComplete-lowres.pdf).

Figure 7.1. UK ODA, 1960 to 2013



Notes: Figures are in 2011 prices. Forecasts are based upon the assumption that GNI will grow at the same rate as GDP, and use OBR forecasts for GDP and GDP deflators.
Source: Authors' calculations based on data from the OECD DAC Database, Autumn 2011 forecasts from the Office for Budget Responsibility, and the latest GDP deflator figures available from HM Treasury.

£1.2 billion less than previously thought over the next three years (£380 million less in 2012–13, £265 million less in 2013–14 and £525 million less in 2014–15). This means that the UK is on course to meet the target, spending 0.56% of GNI on ODA in 2012 and 0.7% in 2013 and thereafter, but it also means that this target level is not expected to be exceeded.

The majority of ODA spending (87% in 2010) is channelled through DfID.[8] In 2010–11, DfID received 2% of total public spending, a similar proportion to that of the Ministry of Justice. In comparison, 27% is spent on the NHS, an amount approximately 14 times larger than DfID, and 16% on education. The DfID budget is expected to increase to 3% of overall public spending in 2014–15.[9]

The rest of ODA expenditure is carried out through a variety of other government departments. In 2010, 3% of ODA was attributable to the Department of Energy and Climate Change (DECC),[10] 3% to the CDC Group PLC and 2% to the Foreign and Commonwealth Office (FCO).[11] The CDC Group is the state's development finance

[8] Source: Table 3 of DfID, *Statistics on International Development 2011*, Statistical Release (http://www.dfid.gov.uk/Documents/publications1/sid2011/Statistical-Release.pdf).

[9] Source: Table 1.8 of HM Treasury, *Public Expenditure Statistical Analyses 2011* (http://www.hm-treasury.gov.uk/d/pesa_2011_chapter1.pdf).

[10] This is mainly through the joint DfID/DECC fund, known as the Environmental Transformation Fund, which supports development and poverty reduction through better environmental management, and helps developing countries respond to the realities of climate change. In addition to this, DECC makes contributions to the International Atomic Energy Agency and UN Framework Convention on Climate Change.

[11] Authors' calculations based on DfID data contained in table 2 of *Statistics on International Development* (SID), October 2011 (http://www.dfid.gov.uk/documents/publications1/sid2011/SID-2011.pdf). This figure excludes FCO spending on Conflict Pools, which it jointly funds alongside the Ministry of Defence. This accounted for 1.2% of UK ODA in 2010 but data are not available on how much of this is contributed by FCO.

institution, investing 'UK money in a commercially sustainable way in the poorer countries of the developing world'.[12]

7.3 Aid expenditure by DfID

DfID has spent the vast majority of the UK aid budget since the department's creation in 1997.[13] Its share is set to remain the dominant component of ODA for the foreseeable future.

In this section, we discuss DfID expenditures. DfID provides increasingly comprehensive data on how and where its budget is spent, which are often unavailable for ODA spending from other departments.[14] We use these data to investigate in detail the ways in which much of UK aid money is spent; in so doing, it is worth bearing in mind that, in this section, we are analysing 87% of UK overseas aid (as of 2010).

The data we use here differ from data from the Development Assistance Committee (DAC) of the OECD, which covers all ODA (but in less detail) and which we return to in the next section. Box 7.2 highlights the differences between DfID and DAC data.

Box 7.2. Measuring expenditure on aid: DAC vs DfID

Data on the level and nature of ODA across countries are collected by the OECD's Development Assistance Committee (DAC).[a] It has created standardised definitions, templates and methodologies for collecting these data, which provide a platform for harmonising the distinct approaches to the ODA of different donor countries. DAC data are therefore seen as the most internationally comparable. A number of countries have harmonised their own approaches to data collection to meet the DAC standards. However, there are still differences at more disaggregated levels.

In the UK, DfID provides the most detailed data on where and on what UK aid is spent. The key differences between these data and those compiled by DAC are:

1. ODA includes expenditures on aid to recipients (countries and organisations) defined to be eligible by DAC. The DfID data include DfID aid expenditures to all countries (where 1.3% of DfID expenditures are not classified as ODA) and exclude ODA expenditures by other government departments.

2. ODA is a net figure, taking into account any loans repaid or grants recovered, whereas the DfID figures are gross flows. So it is even possible for ODA figures to be negative, though this is rare in practice.

3. DAC reports ODA on a calendar-year basis while DfID reports its expenditures for each financial year of the UK government.

[a] See http://www.oecd.org/dac.

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[12] Quote from CDC Group website, http://www.cdcgroup.com/reducing-poverty.aspx.

[13] The UK government set up the 'Department of Technical Cooperation' in 1961 to pull together expertise on colonial development spread across diverse departments. In 1997, DfID was inaugurated as a separate entity from the Foreign and Commonwealth Office, where some of its new responsibilities had been housed, to 'refocus [the UK's] international development efforts on the elimination of poverty and encouragement of economic growth which benefits the poor' (*Eliminating World Poverty: A Challenge for the 21st Century*, White Paper on International Development, 1997, http://webarchive.nationalarchives.gov.uk/+/http://www.dfid.gov.uk/policieandpriorities/files/whitepaper1997.pdf). A fuller history of DfID can be found at http://www.dfid.gov.uk/About-us/History.

[14] Publicly-available data from DfID can be found at http://www.dfid.gov.uk/About-us/Public-data/. Details of all DfID projects can be found at http://projects.dfid.gov.uk/.

DfID classifies aid as bilateral or multilateral on the basis of definitions laid down by DAC. On the whole, bilateral aid is aid over which DfID has direct control, either in terms of choosing the recipient country or the purpose of the aid. Multilateral aid is provided as core contributions to international organisations (such as the European Development Fund and the World Bank's International Development Association), and becomes part of the pooled funds of each organisation. In 2010–11, overall DfID expenditure totalled £7.8 billion, of which 55% was classed as bilateral, 42% as multilateral and 3% as administration costs.[15] However, as will be seen below, almost half of bilateral funds were channelled through multilateral organisations or non-governmental organisations (NGOs). As a result, around two-thirds of total DfID funds are delivered through organisations other than the UK government. The term bilateral therefore covers aid that is directed towards specific countries but delivered via a range of mechanisms.

How and where DfID distributes its aid is guided by a number of factors. The first is its own overall aim 'to reduce poverty in poorer countries, in particular through achieving the Millennium Development Goals (MDGs)',[16] a series of internationally-agreed development targets to be achieved by 2015 that seek to address multiple forms of poverty. Thus, there is a focus on nations that are lagging behind in their achievement of international poverty targets.

A second factor is that 30% of UK aid is committed to conflict-affected countries, those in danger of falling into conflict or those deemed 'fragile'.[17] One justification for this is that conflict abroad threatens the UK both through the threat of terrorism and because of the cost of any UK intervention potentially required if conflict escalates. A second justification is that states affected by conflict are typically unable to provide basic public services. Keeping nations from conflict is thus seen as a cost-effective investment in future development.

Other factors underlying the distribution of overseas aid include political considerations (for instance, Burma and North Korea receive very little aid) and other government commitments such as those relating to climate change.

Clearly, these rationales can be combined in multiple ways to determine different distributions of aid across countries. There does not seem to be a rigorously-documented process as to how each of these factors is weighted in distributional decisions.

With this in mind, DfID has recently provided more detailed information on its rules of disbursement in the 2011 Bilateral and Multilateral Aid Reviews (see Box 7.3). There was a focus in these reviews on identifying the areas in which UK aid spending would achieve the greatest value for money. The result has been to focus DfID expenditure in fewer countries and through fewer multilateral organisations.

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[15] Source: Table 1 of *Statistics on International Development* (SID), October 2011 (http://www.dfid.gov.uk/documents/publications1/sid2011/SID-2011.pdf). It is interesting to note that DfID spends a considerable amount on development research, in both the bilateral and multilateral budgets. Between 2011–12 and 2014–15, DfID plans to spend £1.15 billion in this area; see DfID Research and Evidence Division, *Operational Plan 2011–2015*, April 2011 (http://www.dfid.gov.uk/Documents/publications1/op/rsch-evi-div-2011.pdf). There are important questions as to how this is expended in the most effective manner.

[16] DfID Annual Report and Accounts 2010–11 (http://www.dfid.gov.uk/Documents/publications1/departmental-report/2011/Annual-report-2011-vol1.pdf).

[17] This commitment is set out on pages 44 and 46 of the 2010 Strategic Defence and Security Review (SDSR) (http://www.direct.gov.uk/sdsr).

Box 7.3. 2011 Bilateral and Multilateral Aid Reviews

In March 2011, DfID published the results of the Bilateral and Multilateral Aid Reviews (BAR and MAR respectively). These are set to shape the focus of DfID spending over the coming years.

The BAR sought to identify the most cost-efficient ways for the UK to tackle extreme poverty, with the aim of prioritising DfID's bilateral expenditure in fewer places but where it could have the greatest impact. It also sought to enact DfID's commitment, set out in the 2010 Strategic Defence and Security Review, to spend 30% of its budget in fragile and conflict-affected countries by 2014–15.

Over the next four years, the number of countries that DfID will focus on will fall by a third, from 43 to 27. Prior to the report, it was decided that funding would cease for China and Russia, and the BAR announced that bilateral programmes will come to an end in another 14 countries by 2014–15: Angola, Bosnia and Herzegovina, Burundi, Cambodia, Cameroon, Gambia, Indonesia, Iraq, Kosovo, Lesotho, Moldova, Niger, Serbia and Vietnam. In 2010–11, these programmes accounted for 3.6% of DfID's total bilateral programme.[a]

The selection of these 27 priority countries (as well as three regional programmes) was justified by comparing them with a 'need–effectiveness' index that judges both the potential effectiveness of aid spending within a country and the need of that country's population.[b] Nineteen of the 27 priority countries are in the top quartile of this index and two in the second quartile; the remaining nations are ones that face 'substantial development challenges and are ones in which … a distinctive British bilateral aid programme can make a significant impact'.[c]

The MAR was conducted alongside the BAR. It reviewed 43 global development agencies through which DfID channels funds. Each of these multilateral organisations was judged against a number of criteria that were grouped into two distinct indices against which each was compared: 'contribution to UK development objectives' and 'organisational strengths'.[d]

Out of the 43, nine were rated as 'very good', 16 as 'good', nine as 'adequate' and nine as 'poor' in terms of value for money for UK aid (with those classed as either 'very good' or 'poor' performing well or badly against both indices). As a consequence, the UK government stopped channelling funding through four of the 'poor' organisations (UN-HABITAT, ILO, UNIDO and UNISDR), while another four were placed under 'special measures' to encourage their immediate improvement (UNESCO, FAO, the Commonwealth Secretariat and the International Organisation for Migration). In contrast, funding has been increased to those organisations that were judged to give very good value for money (UNICEF and the International Development Association, at the time of writing, with others imminent). The remaining organisations will be monitored to decide on any future funding changes.

[a] Tables 13 and 14.1–14.4 of SID 2011 (*Statistics on International Development*, October 2011, http://www.dfid.gov.uk/documents/publications1/sid2011/SID-2011.pdf).
[b] For more detail on this index, see page 20 of DfID, *Bilateral Aid Review: Technical Report*, March 2011 (http://www.dfid.gov.uk/Documents/MAR/FINAL_BAR%20TECHNICAL%20REPORT.pdf).
[c] Paragraph 21 of 2011 *Bilateral Aid Review: Technical Report*.
[d] For more details of these indices, see pages 13–14 of DfID, *Multilateral Aid Review*, March 2011 (http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf).

In what follows, we discuss the distribution of bilateral aid, in terms of what regions and countries benefit from it, and how this is due to change. We then discuss the distribution of multilateral aid across organisations.

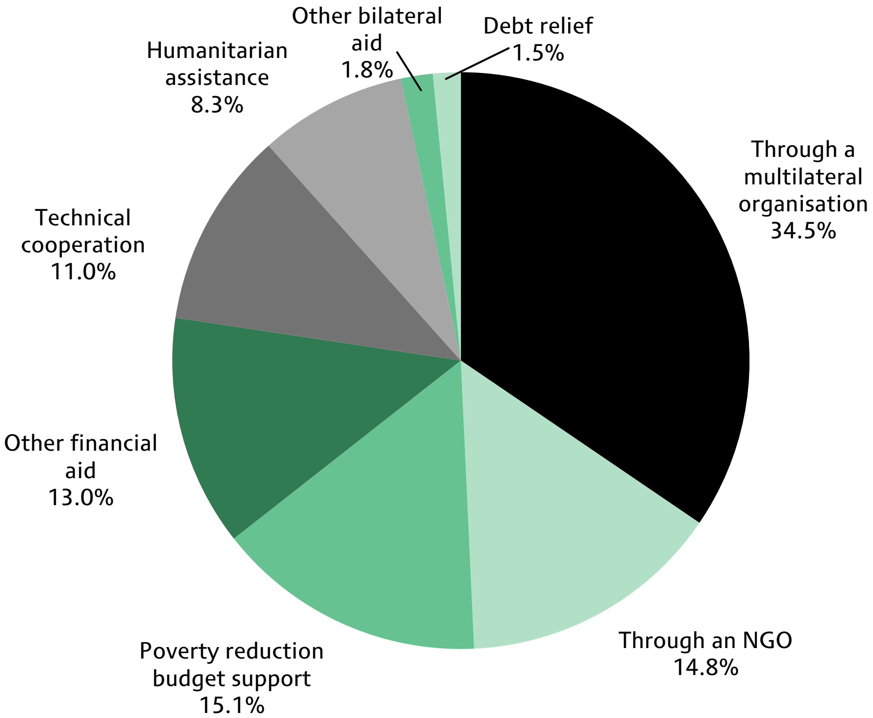
Bilateral aid

DfID's bilateral aid programme totalled £4.3 billion in 2010–11. The programme can be disaggregated between Country Programmes (divisions that work in specific countries or regions), which as of 2010–11 account for two-thirds of expenditure, and International/Policy Programmes (divisions that work on policy areas or with international organisations, and that benefit many different countries or regions).[18] In 2011, the BAR set out plans to focus bilateral expenditures in 27 priority countries in the near future. Here we consider how bilateral aid funds are disbursed, to whom and for what purpose.

How is bilateral aid disbursed?

Figure 7.2 shows how bilateral aid is disbursed. In 2010–11, the largest share of bilateral aid (34%) was delivered through a multilateral organisation. It is classified as bilateral because DfID has control over the country, sector and/or theme that the funds will be spent on (unlike, as we will see, multilateral aid). Indeed, delivery of bilateral aid through a multilateral agency has increased in recent years, with its current share over double its 2008–09 level.[19] A further 15% of aid is distributed through both UK and foreign non-

Figure 7.2. Breakdown of DfID bilateral spending, 2010–11



Source: Figure 4 of SID 2011 (*Statistics on International Development*, October 2011, http://www.dfid.gov.uk/documents/publications1/sid2011/SID-2011.pdf).

[18] Source: Page 5 of SID 2011.

[19] This rise was due to a number of new bilateral contributions to multi-donor pooled funds that are managed by a multilateral organisation – for example, the Global Trade Liquidity Programme (GTLP), the Environmental Transformation Fund and the IDA Social Protection & Crisis Response Fund.

governmental organisations. Together, these figures imply that roughly half of UK bilateral aid is spent by organisations that are not the UK government and is not directly transferred to a recipient government.

A further 28% of DfID funds are delivered directly to national governments: 15% is delivered through 'poverty reduction budget support', where funds are provided directly to recipient governments and pooled with their own funds to be spent on home-grown development programmes, and 13% ('other financial aid') is devoted to direct aid for funding sector-specific projects and programmes.

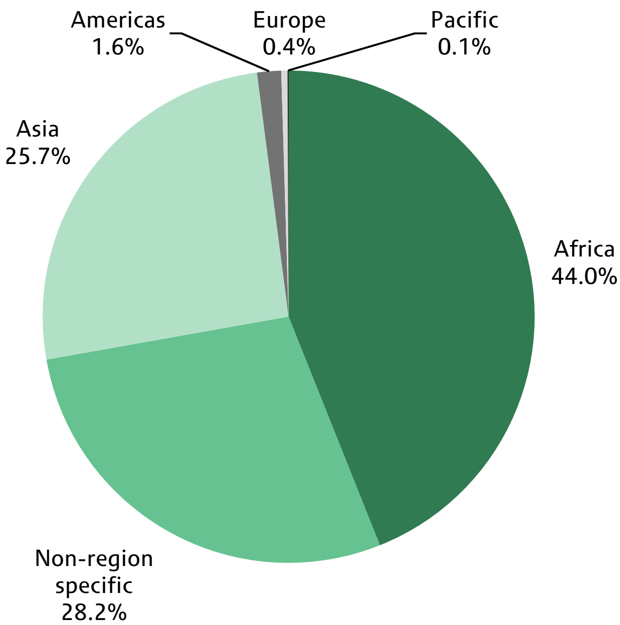
DfID also provides technical cooperation to overseas governments (11%), which includes activities designed to enhance the knowledge and skills of individuals in recipient countries, and the funding of services to help design or implement development programmes.

The remainder of bilateral aid is distributed as humanitarian assistance, debt relief or otherwise. Humanitarian aid – the provision of, for instance, food, shelter, medical care and advice in emergency situations and their aftermath – is often seen as a relatively high-profile component of ODA. However, it only accounts for 8% of bilateral aid and 7% of all UK ODA.[20]

Who are the recipients of this bilateral aid?

Figure 7.3 shows the recipients of DfID bilateral aid in 2010–11. Africa currently receives the largest share (44%). The region also dominates DfID's future plans for its aid as the UK government sees it as the area most in need of assistance. Asia receives around a quarter. Just under 30% of bilateral aid expenditure is non-region-specific; rather, it is allocated for specific purposes through bilateral pooled funds. As a result, it is not

Figure 7.3. Breakdown of DfID bilateral spending by region, 2010–11



Source: Table 13 of SID 2011.

[20] Authors' calculations based on OECD DAC data, available at http://stats.oecd.org/qwids/#?x=1&y=6&f=4:0,2:0,3:0,5:0,7:0&q=1:2+2:1+4:1+5:3+3:51+6:2005,2006,2007,2008,2009,2010+7:1.

Table 7.1. DfID bilateral spending, selected countries, £ million

Country	2005–06 to 2009–10 (Average)	2010–11 (Allocated[a])	2014–15 (Forecast)
Africa	**1,182**	**1,518**	**2,208**
Ethiopia	134	241	390
Tanzania	124	150	168
Nigeria	94	141	305
Democratic Rep. of Congo	84	133	258
Sudan	123	132	140
Uganda	71	90	90
Mozambique	63	88	85
Kenya	68	86	150
Ghana	92	85	100
Malawi	70	72	98
Rwanda	53	70	90
Zimbabwe	47	70	95
Sierra Leone	44	54	77
Zambia	49	53	63
Somalia	28	26	80
South Africa	29	17	19
Liberia	10	10	0[b]
Asia	**753**	**1,037**	**1,543**
India	271	274	280
Pakistan	109	215	446
Afghanistan	117	178	178
Bangladesh	129	157	300
Occupied Palestinian Territories (OPTs)	35	74	88
Nepal	51	57	103
Yemen	19	50	90
Burma	22	32	58
Total priority spending[c]	**1,934**	**2,555**	**3,751**
Total DfID spending (excluding admin costs)	**5,196**	**7,470**	**11,053**

[a] 2010–11 figures refer to the amount allocated for this period at the time of the 2011 BAR. Actual spend may be different over this period.

[b] Under current plans, Liberian aid will be frozen between 2011–12 and 2013–14, and will cease completely in 2014–15. However, this is set to be reviewed following the planned elections in 2012.

[c] Excludes Kyrgyzstan and Tajikistan.

Notes: No budget data are available for two of DfID's 27 'priority countries' named in the 2011 Bilateral Aid Review – Kyrgyzstan and Tajikistan. Countries are ranked from highest to lowest funding in 2010–11, within each region. Full reports on future budgets and the underlying decision processes can be found at http://www.dfid.gov.uk/barmar.

Source: Annex F of DfID, *Bilateral Aid Review: Technical Report*, March 2011 (http://www.dfid.gov.uk/Documents/MAR/FINAL_BAR%20TECHNICAL%20REPORT.pdf).

possible to track directly the funding to a particular country from the available data. Based on the distribution of the region-specific aid, it is likely that much of this non-region-specific aid is also spent in Africa and Asia. This would suggest that the regional figures under-report the true amount of aid given to these regions.

Current and projected expenditures in 25 of the 27 priority countries are listed in Table 7.1 (data are not available for Kyrgyzstan and Tajikistan). In 2010–11, the total budget allocated to these countries was £2.6 billion. This is forecast to rise substantially to £3.8 billion by 2014–15.

In 2010–11, India was allocated the largest amount of bilateral expenditure (£274 million), Pakistan the third largest (£215 million), Afghanistan the fourth

(£178 million) and Bangladesh the fifth (£157 million). These allocations account for just over 75% of DfID bilateral expenditures in Asia. Thus, despite Asia being allocated just a quarter of bilateral aid, four Asian countries alone are allocated large quantities of DfID's aid spending (19.4%).[21] Turning to Africa, Ethiopia was allocated the second-largest portion (£241 million) of bilateral expenditure and Tanzania the sixth (£150 million), while Ethiopia and Nigeria are set to receive the largest amounts in Africa by 2014–15. African aid is more evenly spread across countries, although the distribution is set to change slightly over the next couple of years, as a result of the findings of the BAR. For example, Tanzania, which in 2010–11 was allocated a larger amount of aid than Nigeria, will be allocated a smaller share of African aid in the future.

As a consequence of these funding changes, the relative rankings in terms of the amount of aid will change. Pakistan will become the largest recipient of UK bilateral aid, with Nigeria moving up to third and India falling to fifth. Pakistan and Nigeria, both notably 'fragile', as well as Bangladesh, can be seen as the big 'winners' from the BAR. Each of these countries' budgets will roughly double over the period and by 2014–15 will account for 11.9%, 8.1% and 8.0% of the priority budget respectively. By the same measure, the relative 'losers' are India and Afghanistan. In 2010–11, India accounted for 10.7% of planned bilateral spending on these priority countries, and this will fall to 7.5% by 2014–15, while the freeze on allocated expenditure in Afghanistan will reduce its share by 2.2 percentage points to 4.8% in 2014–15.

To this list of 'losing' countries should, of course, be added the 16 countries in which the bilateral programmes are closing. In 2010–11, 3.6% of DfID bilateral spending was channelled to these countries, with just over a third of this allocated towards Vietnam.[22] As a result, Vietnam loses significantly. The BAR justifies this decision on the basis that Vietnam is no longer an aid-dependent country, and is instead moving towards being classified as 'middle-income'.

The relative gains experienced by some of the priority countries in comparison to others can be clearly seen in Figure 7.4. This displays the percentage change in the expenditure allocated to each country between 2010–11 and 2014–15, ranking countries by the size of the change. With the exception of Liberia and Mozambique, which stand to lose funding, and Afghanistan, India (from 2012–13) and Uganda, for which funding is frozen, DfID expenditure will rise. Somalia will benefit the most, with expenditure tripling over the period. Nigeria and Pakistan are the two next-largest beneficiaries, with both experiencing greater than 100% increases in their funding.

These results suggest that the decisions behind the funding shifts are driven by a number of criteria. The BAR cites need and effectiveness, measured by DfID's 'need–effectiveness index', as two major factors. However, it is clear from some of the funding shifts being made that these are not the sole factors driving these decisions. For example, those ranked highest in the index, where additional aid expenditure is most needed and is likely to be most effective, should expect to receive greater funding, but this is not always the case: India, which ranks top of the index, along with Uganda and Afghanistan, which are ranked in the top decile, face funding freezes. In contrast, one would not expect countries

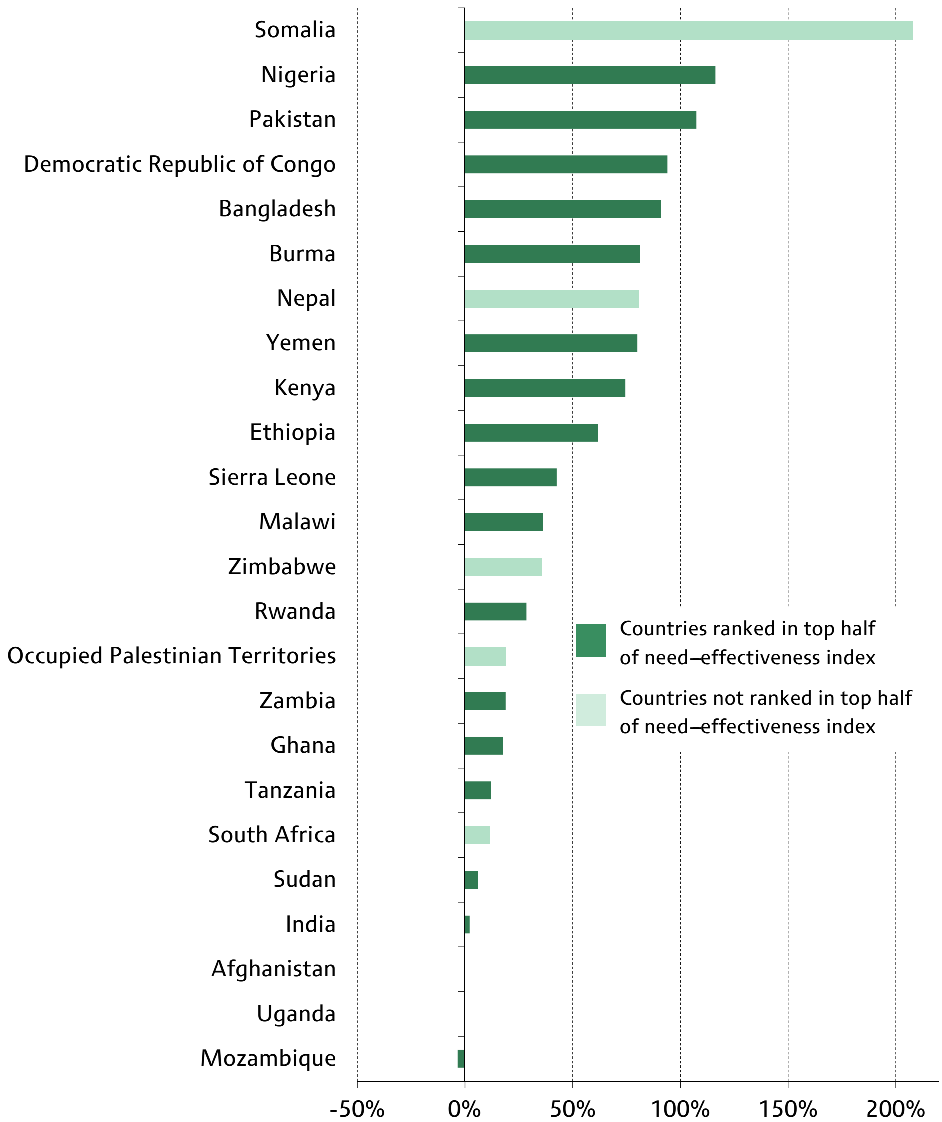
[21] Authors' calculations using data on final bilateral expenditure in 2010–11 available in table 13 of SID 2011 and data on allocated country budgets in 2010–11 in annex F of the BAR Technical Report 2011. Note that it is likely that a significant amount of non-region-specific aid is also allocated to these countries, but this is not included in these calculations due to data constraints.

[22] Source: Tables 13 and 14.1–14.4 of SID 2011.

ranked lower in the index to receive large funding increases. However, Somalia, ranked in the third quartile, experiences a tripling in funding over this period. This is clearly shown in Figure 7.4, where countries ranked outside of the top quartile of the need-effectiveness index are highlighted (in pale green).

Other factors are clearly important, though it is not clear what exactly these are. This suggests that there is a need for DfID to document better how it maps its priorities into an allocation mechanism, in the interests of transparency and accountability.

Figure 7.4. Change in country allocations from DfID country-specific budget, 2010–11 to 2014–15

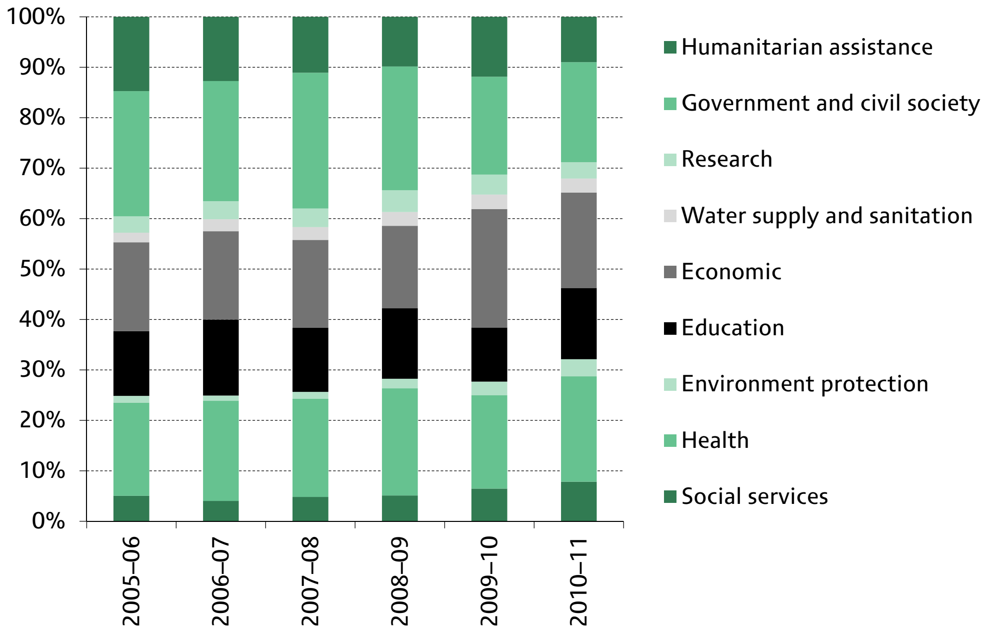


Notes: No budget data are available for two of the priority countries: Kyrgyzstan and Tajikistan. Liberia is also excluded as current data suggest that it will lose 100% of its funding. However, this is likely to change after review. Countries are ranked by changes in allocated budgets between 2010–11 and 2014–15, from highest to lowest.
Source: Authors' calculations based on data from annex F of DfID, *Bilateral Aid Review: Technical Report*, March 2011 (http://www.dfid.gov.uk/Documents/MAR/FINAL_BAR%20TECHNICAL%20REPORT.pdf).

To what purpose is the aid put?

The vast majority (93.3%) of DfID expenditure is allocated across nine broad sectors, with the share of allocable funding that each sector received in each year between 2005–06 and 2010–11 shown in Figure 7.5. The remaining 6.7% of expenditures in 2010–11 are non-sector-allocable, including those funds that are directed towards debt relief and Programme Partnership Agreements.[23]

Figure 7.5. Breakdown of DfID spending by sector, 2005–06 to 2010–11



Source: Table 20 of SID 2011.

Over the period 2005–06 to 2010–11, the allocation of funds has remained roughly constant. The greatest shares in 2005–06 were attributed to the areas of: health (18%), with a focus on communicable disease control and maternal health; economics (18%), aimed at creating the correct conditions for economic growth and investment; and government and civil society (25%), which aims to help avert conflict and encourage stable institutions in fragile countries. These sectors remain the largest in 2010–11. The greatest gains have been made by social services, focusing on providing social protection, shelter and housing, and food security, which grew by 2.8 percentage points. The other areas where funding increased the most are health (2.4 percentage points) and environmental protection (2.0 percentage points). The biggest relative reductions occurred in humanitarian assistance and government and civil society, which both fell by roughly 5 percentage points.

Multilateral aid

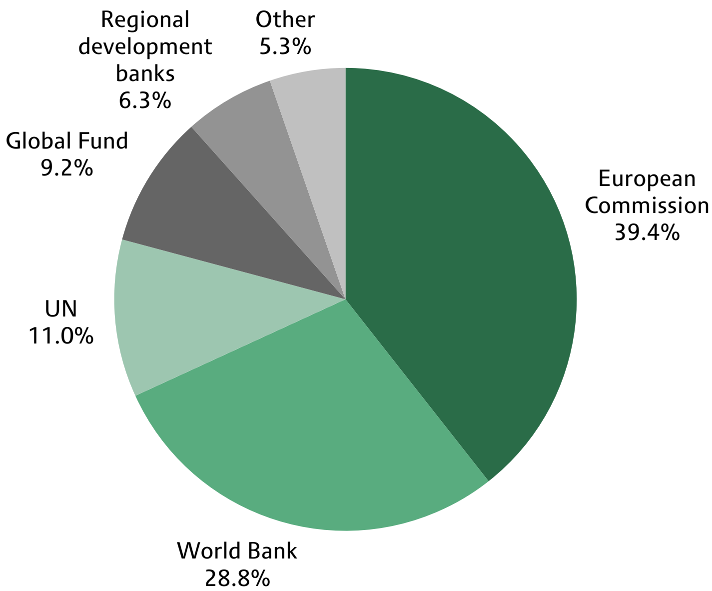
Funds are deemed to be multilateral if they are channelled through an organisation classed as multilateral by DAC; organisations must be engaged in development work to be included on the list. Unlike bilateral funding, multilateral funds are typically

[23] Source: Table 20 of SID 2011. Programme Partnership Agreements (PPAs) are a way in which to help fund NGOs. This involves agreement over a number of targets that the NGO must report against annually. PPAs typically award funding for three years, allowing NGOs to plan future projects, and are largely used toward achieving the Millennium Development Goals.

provided with little to no conditions attached to how the funds are spent, and are used to support the guiding objectives of the recipient organisation. There are many rationales for providing funding in this way. Specifically, multilateral organisations are present across the world, and often have greater capacity to work in politically sensitive contexts. They may be able to exploit scale economies, in terms of financing and coordinating development assistance (for example, in humanitarian crises). They can draw on a large pool of technical assistance and share knowledge across extended networks.

DfID's multilateral aid programme totalled £3.2 billion in 2010–11. Figure 7.6 shows the organisations that receive this aid, highlighting that DfID's multilateral assistance is channelled primarily through the European Commission (EC) and the World Bank Group.[24] The United Nations and the Global Fund to Fight Aids, Tuberculosis and Malaria (GFATM) also receive significant shares. The MAR is set to change the distribution of funding across organisations slightly between now and 2014–15, though it is difficult to predict just how at this stage.

Figure 7.6. Recipients of DfID multilateral spending (2010–11)



Source: Figure 4 of SID 2011.

When DfID provides contributions to multilateral organisations, it is not possible to track the funding to the country or sector level. Not only are UK funds pooled with those of other countries, but also imputing the 'UK share' of impact can be complex and thus opaque. This creates a gap in our understanding of how multilateral aid is spent. While DfID provides some indication as to the destination and sector of UK multilateral aid (by using the overall proportions of ODA reported by the relevant agencies to impute a UK contribution), it will be important going forward to understand better how to evaluate

[24] The UK is responsible for a large share of European Commission and World Bank overall aid funding. In 2010, 15% of total European Commission funding and 17.4% of World Bank funding was contributed by the UK government. (Figures are authors' calculations based on OECD DAC data.)

the use of the UK's funds, particularly as multilateral spending is an increasingly large part of UK aid expenditures.[25]

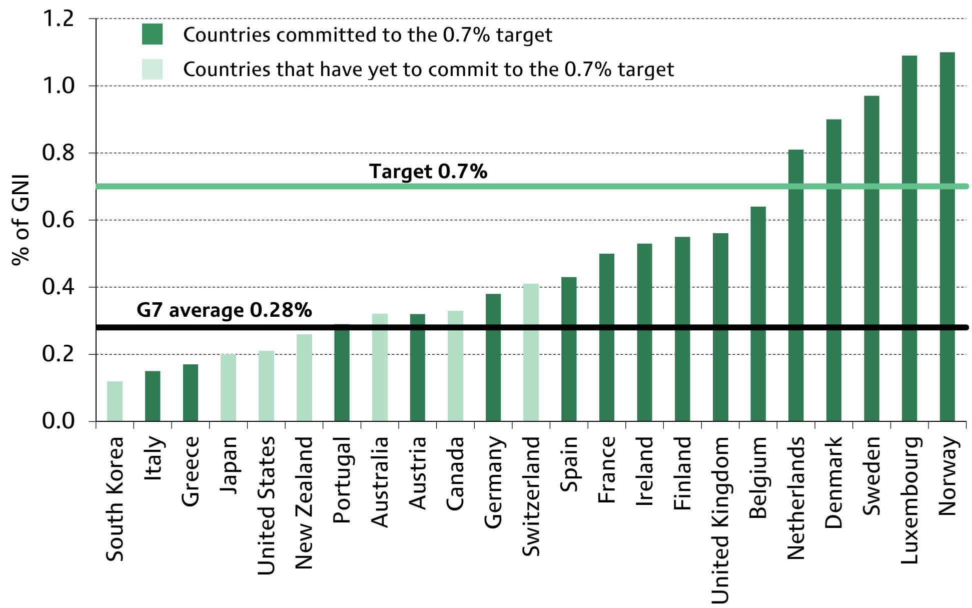
7.4 International comparisons

This section sets UK aid expenditures in an international context by comparing the level and nature of spending on ODA across developed countries. This includes both countries that have and have not committed to reaching the 0.7% target.

ODA as a proportion of GNI

The relative performance of the UK can be judged by examining how close the UK is to reaching the 0.7% target, and by viewing this alongside the same information for other developed countries. This can be seen in Figure 7.7, which displays ODA as a percentage of GNI for 23 developed countries, with the countries that have not committed to the 0.7% target highlighted in light green.

Figure 7.7. Proportion of GNI spent on ODA across countries, 2010



Notes: The G7 are Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. The G7 average shows total ODA spending across the G7, as a proportion of the combined GNI of these countries.
Source: Authors' calculations based on OECD DAC data.

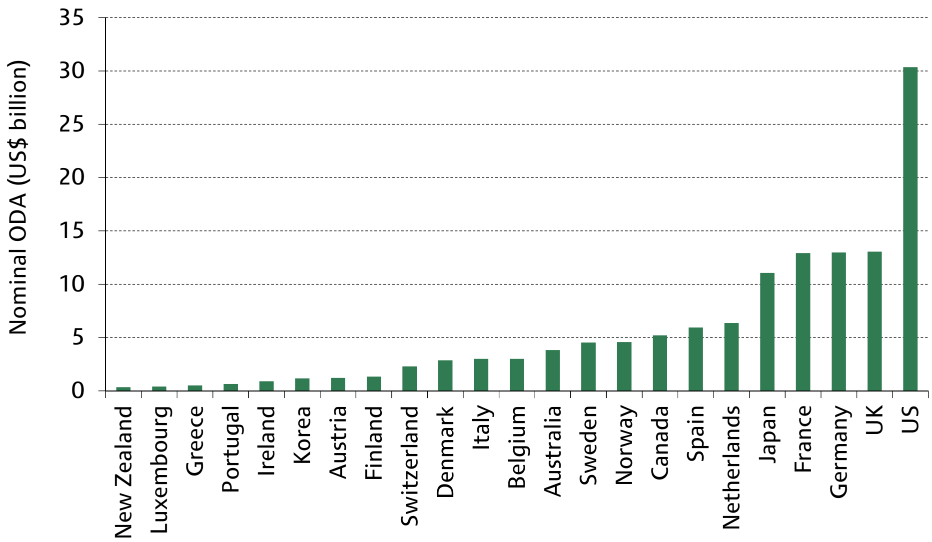
In 2011, all EU15 countries and Norway implemented a detailed schedule to achieve the 0.7% commitment no later than 2015. Figure 7.7 shows that, as of 2010, five countries had already reached the 0.7% target. Among the others, Belgium is closest to the target, followed by the UK, Finland and Ireland, all of which contributed over 0.5% GNI to ODA. Of the 16 countries with an explicit commitment to meet the target by 2015, Italy spent the lowest share of GNI in 2010 (0.15%) and therefore missed its interim target of 0.51% by 2010. In 2010, the United States spent just 0.21% on ODA, while Japan spent 0.2%. It

[25] Current figures suggest that, in 2009–10, approximately 43% of UK multilateral aid was allocated to Africa, 21% to Asia and 19% was non-region-specific. However, as noted before, these figures are quite unreliable and are only rough estimates. (Source: Table 13 of SID 2011.)

should be noted, however, that although performing relatively poorly by this measure of public aid expenditure, data indicate that the US gives a significant amount in private flows.[26]

This suggests that the UK spends a relatively large share of national income on ODA compared with other developed countries. Among the G7 members, the UK spends the highest proportion of GNI on ODA, and thus, of the G7 countries committed to the 0.7% target (recall that no country outside of Europe has committed to it), the UK looks best placed to reach it. We note, however, that the G7 countries rank considerably higher when looking at nominal aid flows. Figure 7.8 shows that, in 2010, US ODA was $30.4 billion, by far the largest and well over twice the nominal expenditure of the next-highest country, the UK ($13.1 billion).

Figure 7.8. Nominal ODA across countries, 2010



Source: Authors' calculations based upon OECD DAC data.

The distribution of ODA across countries

The UK differs from other countries in terms of the regions to which it allocates ODA. Table 7.2 displays the regional distribution of ODA spent by each of the G7 countries on average between 2005 and 2009.

As we would expect from the analysis of the DfID figures in Section 7.3, the largest share of UK ODA was channelled to Africa between 2005 and 2009, with the majority of this going to sub-Saharan countries. The next-largest share was allocated to Asia. It is interesting to note that ODA during this period was *negative* in the Americas as a result of loan repayments exceeding the amount given in aid (recall that ODA is a net flow; see Box 7.2).

There are some notable differences in the distribution of spending across the G7 countries. With the exception of France, which allocates almost 60% of its ODA to Africa, the UK spends a higher proportion of its aid in Africa than does any other G7 country. The

[26] DAC data suggest that, in 2010, private US aid flows equalled $22.8 billion, or 0.16% of GNI, an amount double that of the entire Japanese public aid programme ($11.1 billion) (OECD DAC data).

Table 7.2. Average regional ODA of the G7 countries, 2005 to 2009

Country	Africa *(sub-Saharan)*	Americas	Asia	Europe	Oceania	Developing countries – unspecified
UK	**45.9% *(44.0%)***	**–0.3%**	**31.2%**	**1.3%**	**0.1%**	**21.8%**
US	26.1% *(24.6%)*	7.7%	43.8%	2.3%	0.8%	19.2%
Germany	34.9% *(29.9%)*	7.9%	39.6%	5.1%	0.0 %	12.5%
France	59.5% *(48.5%)*	3.9%	19.9%	4.4%	1.8%	10.6%
Japan	23.7% *(22.1%)*	4.1%	50.3%	2.7%	1.2%	18.1%
Canada	39.5% *(30.7%)*	14.2%	33.4%	2.1%	0.3%	10.4%
Italy	38.6% *(36.3%)*	5.4%	43.3%	5.1%	0.4%	7.2%

Note: Countries are ranked by total nominal ODA. UK regional shares are different in this table, which examines the regional shares of ODA, from those contained in Section 7.3, which only analysed DfID data, so figures should not be directly compared (see Box 7.2 for more information).
Source: Authors' calculations based on OECD DAC data.

other countries have, in contrast, a larger focus on Asia, with over 50% of Japanese aid focused in this region.

These distributions seem to be largely linked to historical ties. Both France and the UK had a large colonial presence in Africa, and this appears to be connected to the areas in which they currently spend aid. In fact, over half of DfID's bilateral aid expenditures that were allocated to specific countries in 2010–11 were expended in Commonwealth countries.[27] Similarly, Japan, which has far greater historical and geographical ties with Asia, spends the largest share of any G7 country in that region. Historical connections appear to play a large role, to date, in deciding which countries receive aid.

A note on the quality of UK aid

There is evidence that the quality of UK aid is high by international standards. For example, in a 2010 peer-reviewed report by DAC, the UK was recognised as an international leader in development.[28] The evaluation of the Paris Declaration, an international effort to improve aid effectiveness, is replete with examples of best practice from the UK.[29] While there is little academic literature on the subject, the UK is ranked second out of 39 donor agencies assessed by Easterly and Pfutze (2008) for aligning to best practices in aid expenditure.[30]

[27] Source: Table 13 of SID 2011.

[28] The report for the UK began: 'The United Kingdom is a recognised international leader in development'. The full report can be found at http://www.oecd.org/dataoecd/49/20/45519815.pdf.

[29] The Evaluation of the Paris Declaration and associated documents can be found at http://pd-website.inforce.dk/.

[30] Top ranked is the International Development Association (IDA) of the World Bank. The US comes 16th. The full paper is W. Easterly and T. Pfutze, 'Where does the money go? Best and worst practices in foreign aid', *Journal of Economic Perspectives*, 22, 29–52, 2008 (http://www.aeaweb.org/articles.php?doi=10.1257/jep.22.2.29).

7.5 Conclusions

In 2010, the UK government spent £8.45 billion – 0.57% of GNI – on ODA, mainly through DfID. This is set to rise to £12 billion in 2013 in order to fulfil the commitment to spend 0.7% of GNI on ODA, something that is particularly controversial against the backdrop of fiscal austerity for almost all other areas of public expenditure.

The decision to increase aid spending raises some obvious questions and concerns.

First, government spending driven by input targets (to increase the amount of money spent) rather than by outcome targets is at particular risk of being poorly directed. This can be a particular problem when spending levels are increased rapidly. The capacity to spend wisely may come under some strain, and a clear plan for scaling up expenditures should be made public.

Second, as spending increases, it is particularly important that its value is kept under constant review. The coalition government has emphasised its focus on performance and accountability from increases in aid money.[31] The Bilateral and Multilateral Aid Reviews were welcome in setting some clearer bases for decisions on how and where money should be spent, and resulted in some budgetary consolidation. However, the Public Accounts Committee has commented that

> The Department still has insufficient data to make informed investment decisions based on value for money. The Department's Bilateral Aid Review was supported by only limited data, and relied on people's experiences of what they could deliver with the resources available. The Department also had insufficient data on its projects and programmes, including a lack of timely data and information on unit costs.[32]

There is clearly room for better collection of data on the value for money the UK receives for DfID investments. Going forward, an important step in tracking commitments on effectiveness is the recent setting-up of the Independent Commission for Aid Impact (ICAI) on 12 May 2011.

Third, there is still scope for greater consistency and transparency in decisions over where spending occurs. The BAR states that from now on there will be a greater focus on 'identifying and scrutinising from the bottom-up the results that UK assistance could achieve in each country'. Bilateral aid will be more tightly focused on 27 priority countries. However, the underlying selection process is not clearly defined and further efforts to clarify it would be welcome.

Fourth, a recent focus of UK public aid expenditure is on fragile and conflict-affected states, shown by the commitment within the Strategic Defence and Security Review to deliver 30% of UK ODA in such countries from 2014–15 onwards, with Pakistan set to receive the largest share. This will create challenges to ensuring value for money in these countries. One of the ICAI's first reports argued that '[an increase in] the proportion [of

[31] As argued in the Conservative Green Paper on International Development (*One World Conservatism: A Conservative Agenda for International Development*), 'As taxpayers feel the pinch, maintaining public support for our aid programme will require a much greater focus on performance, results and outcomes. Our bargain with taxpayers is this: in return for your contribution of hard-earned money it is our duty to spend every penny of aid effectively'.

[32] Paragraph 18 of Public Accounts Committee, Fifty-Second Report, *DfID Financial Management*, October 2011 (http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1398/139802.htm).

the aid budget] going to fragile and conflict-affected states ... will expose the UK aid budget to higher levels of corruption risk'. It went on to argue that there is a lack of strategic response to this threat.[33] DfID has since responded positively to the recommendations of the ICAI, which focused on how DfID can minimise the risks to UK aid funds from corruption and how it can better assist countries to address corruption.[34] Such expenditures will require particularly astute monitoring.

Fifth, DfID has consciously decided to become increasingly reliant on multilateral organisations to disperse the monies it makes available. While many of these organisations are well placed to deliver aid in particular regions, with existing infrastructure and networks in many of the world's poorest and fragile countries, this inevitably involves some loss of control and accountability. Indeed, it is hard to follow through quite what happens to that money and how effectively it is spent. As a result, efforts must be made to improve the transparency of such organisations so that how the money is spent can be better understood.

Sixth, because the spending occurs elsewhere in the world, there is a relative lack of public scrutiny of the budget's effectiveness – voters can't experience the effectiveness of aid spending in the way they can experience their local school, hospital or police force. This argues for an even greater degree of transparency and clarity about spending decisions and effectiveness than is seen in the rest of public spending. DfID has an important role to play to bridge this gap in accountability.

There is clearly an ethical case for increased spending on international development. However, that case can only stand if the spending is well targeted and effective and is seen to be well targeted and effective. While there is evidence that the UK is relatively good at directing its aid spending effectively, there remains a need for more public understanding of the underlying objectives, for more clarity over how prioritisation occurs and for better and more transparent documentation of how priorities are mapped into an allocation mechanism and the effectiveness of spending. The dangers of not doing this are perhaps best spelt out in a 2009 Ipsos MORI poll which suggested that overseas development was the most popular choice for being cut to help restore the health of the public finances.[35]

[33] ICAI, *The Department for International Development's Approach to Anti-Corruption*, November 2011 (http://icai.independent.gov.uk/wp-content/uploads/2010/11/DFIDs-Approach-to-Anti-Corruption.pdf).

[34] The DfID management response can be found at http://www.dfid.gov.uk/Documents/publications1/ICAI/Man-response-anti-corruption.pdf.

[35] The Ipsos-Mori results can be found at http://www.ipsos-mori.com/Assets/Docs/poll-public-spending-charts-june-2009.pdf. They are consistent with previous polls that found mixed public support for international aid. The results of the most recent YouGov poll on the subject state that 55% of people are either indifferent or unfavourable towards aid (http://www.politicshome.com/documents/PoliticsHome_International_Aid_Report.pdf).