8. How the UK spends its aid budget

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Key findings

- **The UK has reached its target of spending 0.7% of GNI on overseas aid for five consecutive years.** This represented a £14 billion commitment in 2017. Continuing to meet this would, on the latest growth forecasts, require annual spending to rise by a further £1 billion by 2022. ODA spending has risen from 0.8% of total government expenditure in 2000 to 1.1% in 2010 and 1.7% in 2017.

- **The Department for International Development (DfID) remains the main spender of UK aid, but other departments are playing an increasingly important role.** DfID spent 73% of UK aid in 2017, down from 88% in 2013. The next most significant spender was the Foreign and Commonwealth Office.

- **Bilateral aid – provided for specific countries or regions – makes up a majority of UK aid.** The focus has not changed substantially in recent years, with humanitarian, health and education projects accounting for up to 50% of bilateral aid spending. There has been a change in country focus, however. Only five of the top ten recipient countries in 2016 were also in the top ten in 2012. For example, India was the largest recipient of aid in 2012 and has since dropped out of the top ten. Pakistan and Syria were the top two recipients of UK aid in 2016.

- **New areas of focus for UK aid have also emerged in line with the 2015 aid strategy.** Notable is an increased emphasis on 'development capital': public investments in the private sector with development objectives, but which create a returnable asset. These meet the international definition of aid, but do not count towards the deficit – which could create incentives to spend more in this way than would otherwise be optimal. HM Treasury has set minimum targets on this kind of spend for DfID, which increased from £100 million in 2013–14 to £5 billion for the period 2016–17 to 2019–20.

- **In 2016, the UK was the fifth-largest economy in the world but the largest contributor of core aid funds to multilateral institutions in absolute terms.** Over 60% of this aid went to just four organisations, with the EU the largest recipient overall. A number of important decisions regarding spending through these channels are approaching, with both Brexit and significant replenishments for other institutions taking place in 2019.

- **During the 2019 Spending Review, aid spending will come under close scrutiny.** With spending likely to again be dispersed across departments, the government needs to be clear about the overarching objectives for UK aid. Robust and transparent processes should be in place to help ensure that funds are allocated to where they can have the greatest impact, with assurances that departments are well-equipped to manage this spend effectively.

8.1 Introduction

In 2017, the UK met its target to spend at least 0.7% of gross national income (GNI) on official development assistance (ODA) for the fifth consecutive year. This is in line with the UK's endorsement of a UN Resolution in 1970[1] and the commitment made by the Labour government at the G8 Summit in Gleneagles in 2005, which was subsequently adopted by the coalition government in 2010. The target was enshrined into UK law in 2015[2] and there is currently a cross-party political consensus to maintain it.

Meeting the 0.7% target – which applies only to government aid flows – sets the UK apart on the international stage; in 2017, the OECD reports that seven countries did so. Domestically, this level of overseas aid spending is even more notable given the UK's fiscal environment, and in particular the significant cuts to departmental spending that have taken place since 2010–11 (see Chapter 4).

In light of its commitment to aid spending, the government has updated its approach to delivering aid, placing a greater emphasis on spending through a variety of government departments and cross-government funds. At the same time, it is seeking to make the potential benefits to the UK's national interest a more explicit aim of ODA. In practice, this means that ODA is now increasingly being spent by different agencies; while the Department for International Development (DfID) remains the primary spender of UK aid, non-DfID ODA has more than doubled as a share of the total since 2009 and now accounts for over a quarter of UK ODA expenditure.

It is too early to say conclusively how recent developments are impacting upon spending patterns, but the data paint a picture of both continuity and change. The increases in aid spending since 2013 have all been delivered through more bilateral ODA, provided by the donor to target a specific country or region. This spending remains highly concentrated: in 2016, more than half of bilateral spending went to ten countries, of which five were also large recipients in 2012. Humanitarian, health and education programmes continue to be important priorities for the UK, but new areas of focus are emerging too.

One notable change is the support for economic development activities through increased public spending on capital investment in developing countries in the form of loans and equity purchases, including through CDC, the UK's development finance institution. The Treasury has set DfID a minimum requirement for this kind of spend – which does not add to the headline measure of the deficit – of £5 billion between 2016 and 2021. The Secretary of State for Development, Penny Mordaunt, has recently signalled that she wants to make changes to how the returns on this spending are classified. Although the details of this proposal are not yet clear, the level of attention that her speech attracted is indicative of the ongoing interest in how the government manages its overseas aid spending.

The next few years will provide an opportunity for the government to review its strategy for aid spending. Currently, 11% of the UK's ODA spending is channelled through the European Union. The government has indicated that it would like to continue to contribute to EU-led development activities in the future, subject to some conditions. But Brexit has

[1] UN General Assembly Resolution 25/2626, http://www.un-documents.net/a25r2626.htm.

[2] International Development (Official Development Assistance Target) Act 2015, http://www.legislation.gov.uk/ukpga/2015/12/pdfs/ukpga_20150012_en.pdf.

also had an impact on the UK's changing priorities for its aid budget; recent development reviews and strategies have underlined the role that ODA might play in supporting the UK's foreign policy, trade and security objectives as it prepares for a different role on the international stage after it leaves the EU.

More immediately, the 2019 Spending Review will enable the government to consider explicitly its ODA spending alongside its other commitments and priorities (see Chapter 4) and aid spending by DfID and across other government departments will undoubtedly be subject to close scrutiny.

The Spending Review is also a chance for the government to improve the process of allocating, monitoring and evaluating aid to promote greater coherence and effectiveness. This comes at a good time; the government appears to have adjusted to managing a larger aid budget, and departments that are relatively new to ODA spending have gained some experience in this area. An opportunity to reflect on the lessons learned so far and the improvements to be made going forward is welcome. But for the Spending Review to achieve these improvements, it is vital that the government is clear and transparent about the objectives of its ODA spend and that it puts in place strong mechanisms to ensure that its aid budget is well spent.

This chapter does not seek to offer new evidence on the effectiveness of UK ODA or to provide recommendations on how – or how much – aid should be spent. Instead we aim to do four things. In Section 8.2, we describe trends in aggregate ODA spending in the UK and internationally, incorporating a discussion of the history of the 0.7% target. Section 8.3 briefly outlines recent developments in UK ODA strategy and delivery. Section 8.4 describes trends in who spends ODA and Section 8.5 looks at what UK ODA is spent on, in terms of the mix between bilateral and multilateral spending, and the recipient countries and thematic spending areas. Section 8.6 concludes.

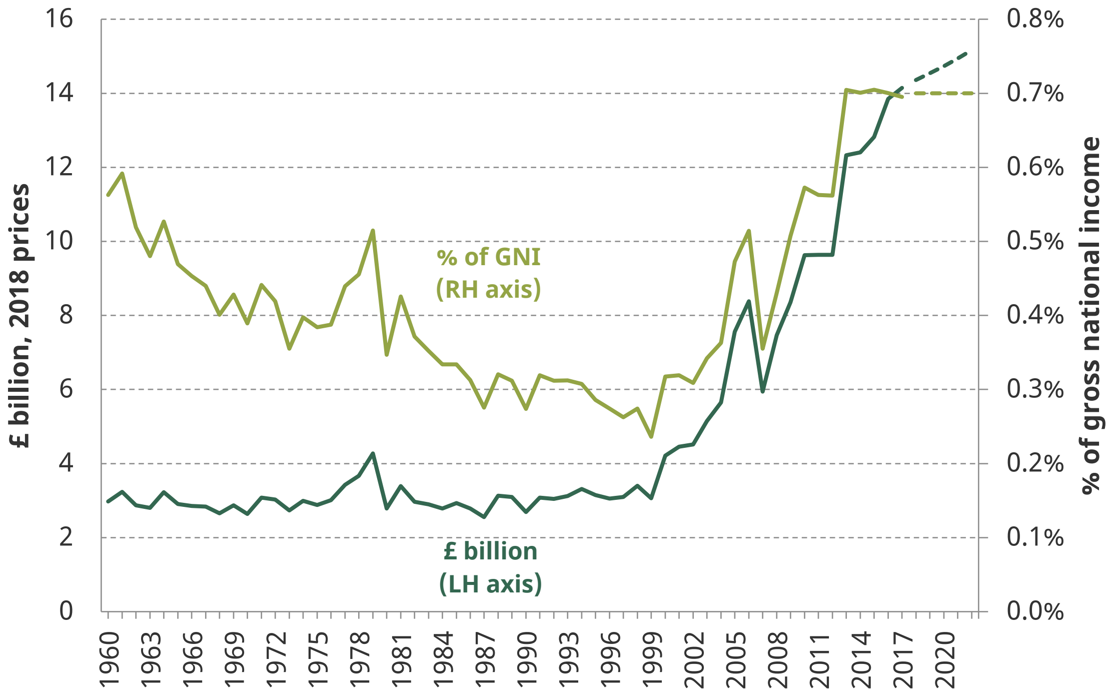
8.2 Reaching the 0.7% target

The domestic context

In 2017, the UK spent £14 billion on ODA, representing approximately 1.8% of total government spending and 0.7% of national income. This is comparable to total Home Office expenditure and is high by UK historical standards.

Figure 8.1 shows the evolution of UK ODA spending since 1960, both in terms of total amount (in real terms) and as a share of national income (as measured by gross national income, GNI). Real ODA spending remained relatively stable between 1960 and 1999, though it fell as a percentage of national income from 0.6% in 1960 to just over 0.2%. Since the turn of the millennium, however, ODA has increased by over 350% in real terms and tripled as a share of national income. These increases in spending have occurred since the establishment of the Department for International Development (DfID) in 1997, which had previously operated as the Overseas Development Administration under the Foreign and Commonwealth Office (FCO). The establishment of a standalone, cabinet-level department demonstrated a marked shift in the incoming Labour government's approach to development cooperation. ODA spending has risen from 0.8% of total government expenditure in 2000 to 1.1% in 2010 and 1.7% in 2017, which, as shown in Figure 8.2, is its highest share of government spending since at least 1960.

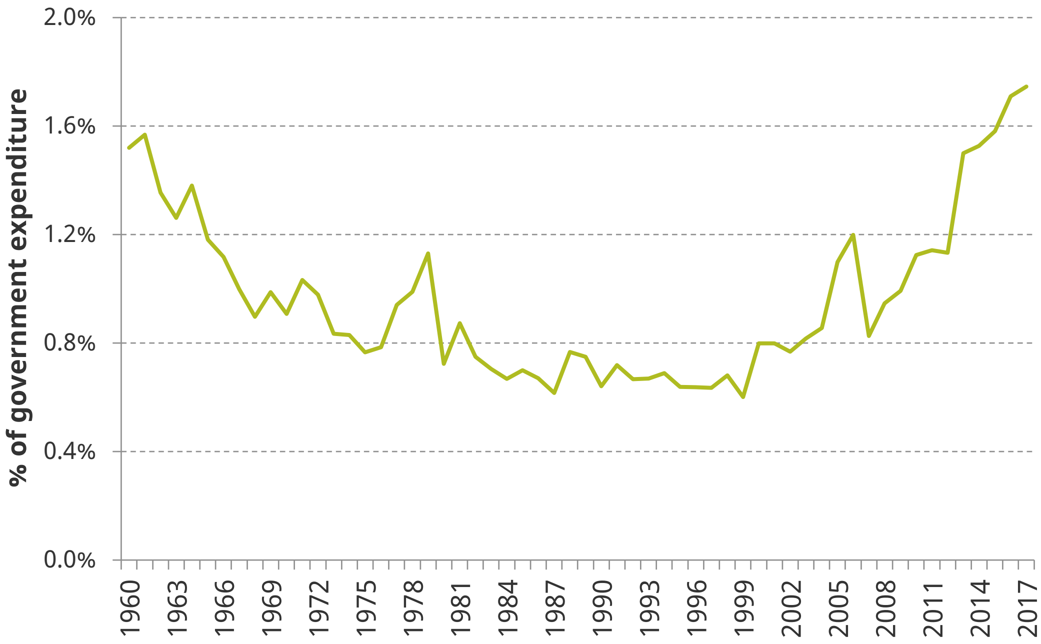
Figure 8.1. Historical UK ODA spending



Note: Forecasts calculated on the basis that real growth in GNI is equal to real growth in GDP, and that the UK continues to spend 0.7% of national income on ODA.

Source: Authors' calculations using data from OECD, ONS and OBR.

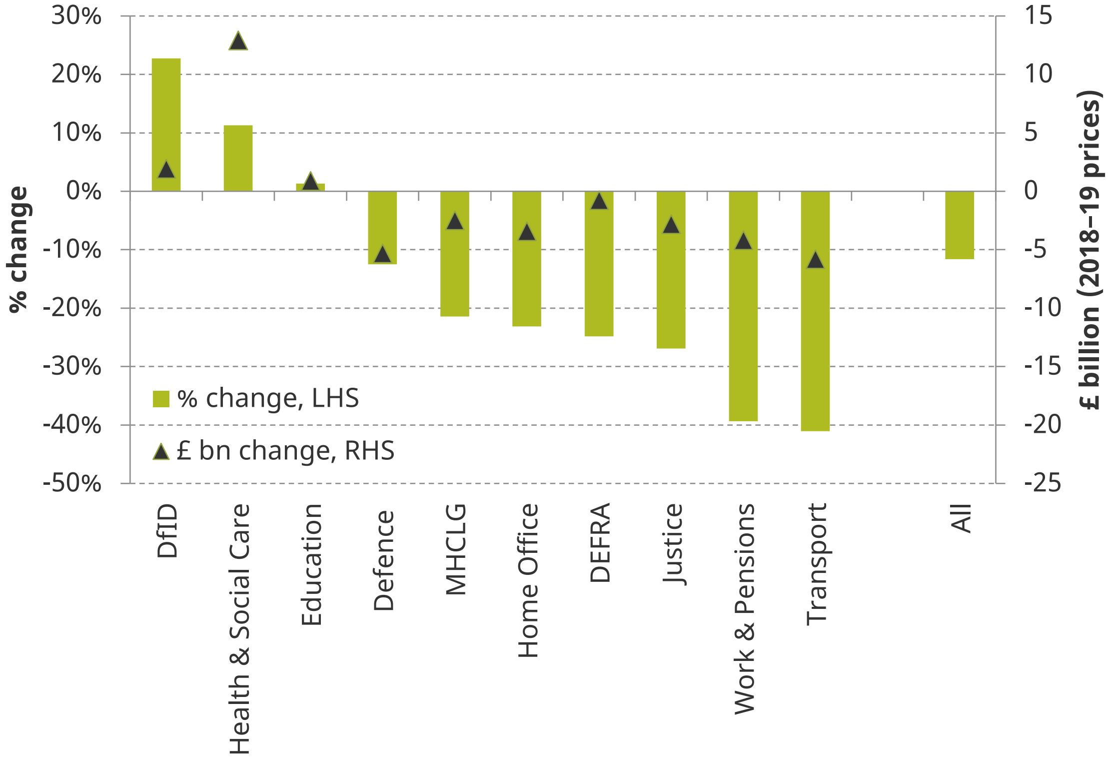
Figure 8.2. Total UK ODA as a percentage of government expenditure



Note: Government expenditure here is measured by total managed expenditure (TME). This covers spending by the entire public sector.

Source: ODA data are from the OECD DAC; UK TME data are from the ONS.

Figure 8.3. Changes in departmental spending 2010–11 to 2017–18 for selected departments



Note: MHCLG figures are for Housing and Communities. These figures are based on total departmental expenditure limits, which are the budgets set by departments for the running of services and departmental costs. Expenditure that is "demand led" – such as social security payments – are outside of these budgets.

Source: Authors' calculations using *Public Expenditure Statistical Analyses 2018* and GDP deflator from HM Treasury.

The commitment to increased aid spending has been sustained over the last two decades and the 0.7% target currently enjoys broad cross-party support; the Conservatives, Labour, the SNP and the Liberal Democrats all made pledges to maintain it in their 2017 general election manifestos. Assuming that the UK continues to spend exactly 0.7% of GNI on aid, this implies a further increase of just over £1 billion a year in ODA by 2022; most of this rise – £600 million a year – would come during the period from 2020 to 2022, after the current Spending Review period, which runs to March 2020.

The rapid rise in the UK's aid spending over the last 20 years is particularly notable given the pressures on the public finances during this period, including the financial crisis, and a period of prolonged stagnation in average living standards. As illustrated in Figure 8.3, during the period 2010–11 to 2017–18, most spending departments have experienced budget cuts; however, DfID was one of the few departments whose allocated expenditure increased, by 23% in real terms.

Surveys suggest that the public overestimate the total scale of aid spending in the UK. Adults surveyed for the Aid Attitudes Tracker (AAT) – a longitudinal, nationally representative survey – estimate, on average, that 16% of government spending is allocated to aid – around 10 times the actual figure. More generally, the British public has a mixed attitude towards aid spending, and it can be controversial. When informed about the full monetary cost of aid and the percentage of government spending it represents, roughly half of British adults believe it should be cut, while 45% think it should be maintained or increased. Furthermore, half of the UK population believe that government aid is ineffective.[3]

Perhaps partly in response to this ambivalent attitude on the part of the public, UK ODA spending is heavily scrutinised. Detailed information about most funded projects is published on the Devtracker website, and critical oversight is provided by three independent UK bodies – the House of Commons International Development Committee (IDC), the National Audit Office (NAO) and the Independent Commission for Aid Impact (ICAI) – as well as by international peer review by the OECD. The programmes supported by UK ODA are disbursed across a wide geographic and thematic range – and the beneficiaries are also both geographically and politically remote – which might justify this level of scrutiny.

The international context

All of the members of the OECD's Development Assistance Committee (DAC), except the US and Switzerland, have endorsed the target to spend 0.7% of GNI on ODA.[4] By 1980, four countries had reached the target, and it was only at the 2005 G8 Summit in Gleneagles that a formal commitment was made, with EU-15 countries agreeing to reach 0.7% by 2015 and the UK setting itself an earlier deadline of 2013. No countries outside Europe made such a commitment to increase their ODA contributions.[5] Box 8.1 outlines the international history of the 0.7% target.

Box 8.1. The history of the 0.7% target and the definition of ODA

The 0.7% target applies to official development assistance. Since 1969, this has been defined by the OECD's Development Assistance Committee as 'those flows to countries and territories on the *DAC List of ODA Recipients* and to multilateral institutions which are:

- provided by official agencies, including state and local governments, or by their executive agencies; and
- each transaction of which: (a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and (b) is concessional in character and conveys a grant element of at least 25%'.[a]

The origin of the 0.7% target specifically is often linked with academic work in the 1960s that sought to estimate the investment needed to fill savings gaps in developing countries to increase growth rates. A number of studies seemed to agree that investment flows of around 1% of 'developed-world' GNI would be sufficient to bring about sustained increases in living standards in recipient countries.[b]

3 See the DevCommsLab website: https://devcommslab.org/attitudes/.

4 The DAC is a forum which includes many of the largest funders in development and was established to promote development cooperation and policies that contribute towards sustainable development.

5 Organisation for Economic Cooperation and Development, 'The 0.7% ODA/GNI target: a history', http://www.oecd.org/dac/stats/the07odagnitarget-ahistory.htm.

However, as a significant portion of total investment flows were private and thus not programmable or predictable for governments, appetite remained for a separate target for government aid flows. The Pearson Commission, set up by the World Bank in 1968, was tasked with investigating the effectiveness of international aid and the potential for a separate minimum target for official aid flows by governments. The Commission's 1969 report concluded that ODA should 'be raised to 0.70% of donor GNP [gross national product] by 1975, and in no case later than 1980'.

It is not clear to what extent this 0.70% figure was based on analytical findings as opposed to political arbitration. Some accounts indicate that, with ODA having reached 0.54% in 1961, 0.60% was deemed too modest and 0.70% was selected on the basis that it was a 'simple, attainable and adequate target'.[c] This target level was adopted by the UN, and since then it has become a focal point for international aid efforts.

The DAC list of ODA recipients determines which countries are eligible to receive ODA. To be eligible, a country must be either a Least Developed Country (LDC) or a low- or middle-income country. The former categorisation is determined by the United Nations (UN) on the basis of income, human assets and economic vulnerability.[d] The latter group comprises countries with a per-capita GNI below $12,235 (approximately £9,300) according to the World Bank's Atlas method. Countries in either of these groups are eligible for ODA for the period 2018–20. In total, 143 countries are now eligible, with Chile, the Seychelles and Uruguay removed from the 2014–17 DAC list because of their graduation to high-income status.

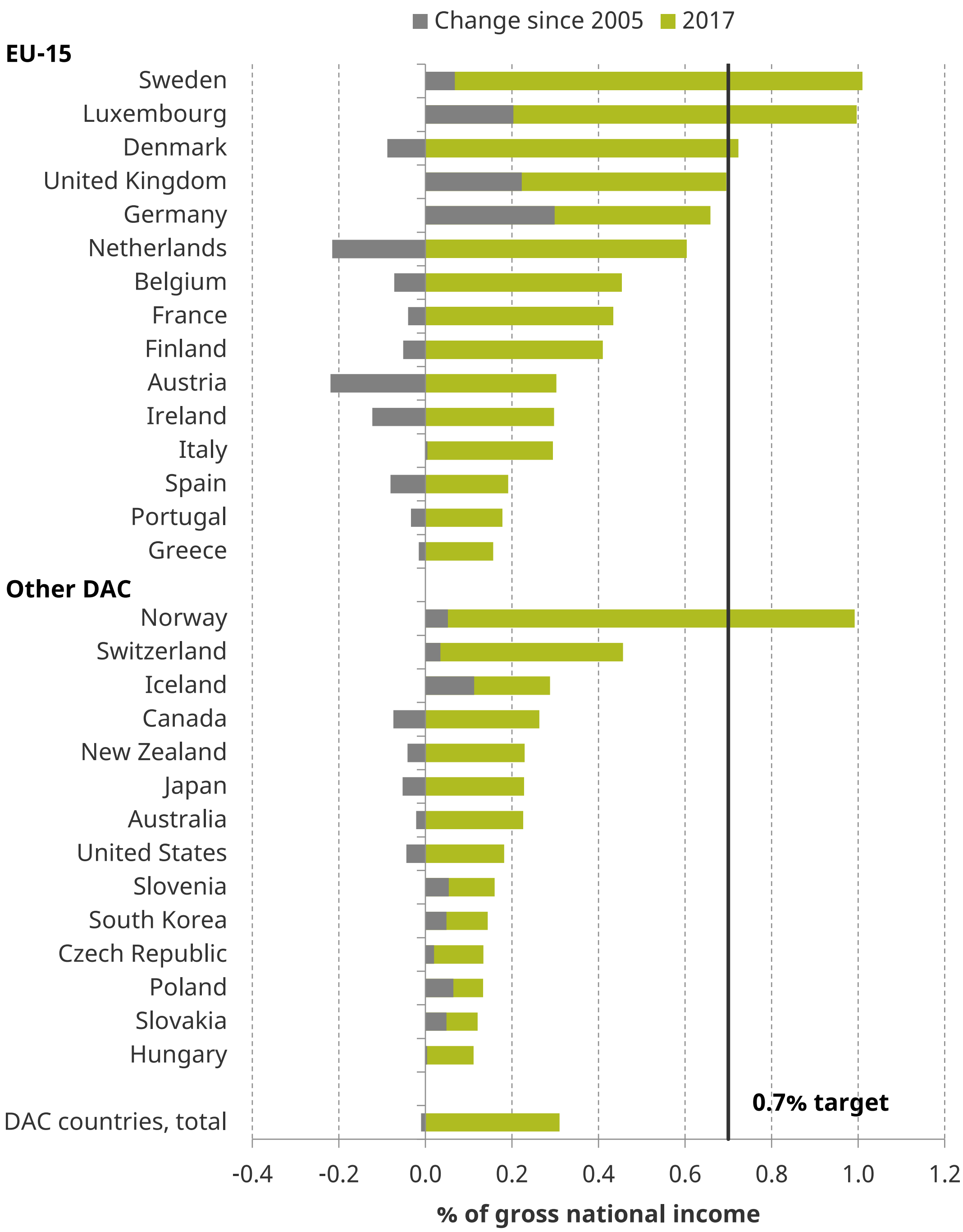
[a] http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm. Beyond 2018, the rules dictating which loans are eligible to be counted as ODA are changing. Specifically, the minimum grant element and reference discount rate will depend on the recipient and only the grant-equivalent element will count as ODA.
[b] P. N. Rosenstein-Rodan, 'International aid for underdeveloped countries', *Review of Economics and Statistics*, 1961, 43, 107–38; H. B. Chenery and A. M. Strout, 'Foreign assistance and economic development', 1966, *American Economic Review*, 56, 679–733.
[c] M. A. Clemens and T. J. Moss, 'The ghost of 0.7 per cent: origins and relevance of the international aid target', *International Journal of Development Issues*, 2007, 6, 3–25.
[d] For more detail on the criteria for identification of LDCs, see https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-criteria.html.

Despite the international commitment to the 0.7% target, only a handful of countries actually meet it. In 2017, out of 29[6] DAC countries, only five – Denmark, Luxembourg, Norway, Sweden and the UK – met the target, and the contribution across all DAC countries was only 0.31% of GNI. Two further countries who report to the DAC – Turkey and the United Arab Emirates – also exceeded the 0.7% target, registering ODA flows of 0.95% and 1.31% of GNI respectively. As Figure 8.4 shows, the increase in ODA as a share of GNI registered by the UK since the Gleneagles Summit is the second-largest in the world at 0.22% of GNI – only Germany has had a larger increase.

[6] There are 30 members of the DAC. The EU is the 30th member.

Overall, there has been little change in the ratio of ODA to GNI amongst DAC countries in recent years. Ten of the EU-15 countries have actually decreased their relative ODA contributions since the pledges made in the mid 2000s. The US, which has recognised but never formally endorsed the target, spends 0.18% of GNI, but made the largest

Figure 8.4. Spending on ODA, 2005–17, by country



Note: No data are available for Slovakia in 2005, so the 2004 total is used instead.

Source: Authors' calculations using OECD data.

contribution in absolute terms in 2017 (£27.8 billion in 2018 prices), followed by Germany (£19.5 billion) and the UK (£14.1 billion).[7]

In 2016, Germany joined the UK as the only other G7 country to meet the target, and was able to achieve this partly because of an increase in spending on newly arrived refugees. Its contribution has since fallen to 0.66% in 2017, and it may miss the target again in future years. Although the German government has committed to continuing to meet the target, recent budget negotiations saw reduced funding for the Ministry of Economic Cooperation and Development in 2018 and slower growth in funding from 2019 through 2022.[8] In France, President Emmanuel Macron has committed to increasing ODA from 0.43% of GNI in 2017 to 0.55% in 2022.[9]

Managing the 0.7% target

The target to spend 0.7% of national income on overseas aid – and the drive to meet this commitment – have shaped the UK's ODA expenditure over the past few years. Advocates of the UK's ODA target argue that it serves as an important reference point for foreign aid efforts, both domestically and in the international sphere. Although few other countries actually meet the target, its proponents argue that it promotes global collaborative action and that it helps to foster sustained political commitment to foreign aid, in turn facilitating longer-term planning of projects and investments.

At the same time, this target is a somewhat unusual way to allocate spending. First, ODA is one of the few areas where spending is explicitly linked to the size of the economy, which – as discussed in Chapters 2 and 3 – can be difficult to predict exactly. Other areas of public spending have targets for minimum expenditure; for example, the National Productivity Investment Fund discussed in Chapter 6 was expanded to £31 billion in the Autumn 2017 Budget. But the closest comparator to the 0.7% target is the NATO commitment, discussed in Chapter 7, to spend 2% of national income on defence. Both of these targets aim to coordinate spending across many countries.

The second notable feature of the target is that it has been written into UK legislation. The International Development (Official Development Assistance Target) Act 2015 requires the Secretary of State to report annually on the status of the target and to provide a statement to parliament, if it is not met, outlining why. In practice, this means that the government must identify a 'spender of last resort' to ensure that its legal commitment is met each year. This role falls to DfID.

The final unusual feature of the 0.7% target is the precision that it demands. Legally, the 0.7% commitment is a spending floor, requiring the government to spend at least this much on ODA. But government policy is to also treat this as a ceiling: rather than aiming to spend 0.7% or a bit more, the government tries to spend 0.7% as precisely as possible.

7 It is important to note that other flows to developing countries, such as foreign direct investment (FDI) and philanthropic giving by individuals and charities, are outside the scope of ODA and can be significant.

8 Reuters, 'German's spending plans likely to disappoint at home and abroad', 2 May 2018, https://uk.reuters.com/article/uk-germany-budget/germanys-spending-plans-likely-to-disappoint-at-home-and-abroad-idUKKBN1I31GH.

9 France Diplomatie, 'Speech by President Emmanuel Macron: Ambassadors' Conference 2018', August 2018, https://www.diplomatie.gouv.fr/en/the-ministry-and-its-network/events/ambassadors-week/ambassadors-week-edition-2018/article/speech-by-president-emmanuel-macron-ambassadors-conference-2018.

So far, it has been remarkably successful in this: since 2013, the ratio of ODA to national income has not deviated by more than 0.005 percentage points from the 0.7% target.

Taken together, these three features mean that the government is committed to a level of ODA spending that is precise, binding and yet somewhat uncertain from year to year. This has influenced both the path that DfID has taken to meet the target and the available options for managing the aid budget going forward.

As in any area of public spending, spending driven by input targets (to increase the amount of money spent) rather than by outcome targets (to reduce measured poverty by a given amount, for example) can be at risk of being poorly directed.

Having such a precise target to meet each year can also potentially influence how the government spends its ODA budget. The government's commitment to meeting the target so precisely creates incentives to ensure that the 'right amount' of spending is classified as ODA each year. This could have costs in terms of transparency – for example, the Secretary of State may be reluctant to declassify projects that she believes do not meet the definition of ODA spending, for fear of falling below the threshold.

The level of precision may also have an administrative cost. Like all departments, DfID has departmental spending limits and plans (decided on a fiscal-year basis), but as the legislated 'spender of last resort' it must also consider the ODA target across government (reported on a calendar-year basis). Alongside problems with accurately forecasting GNI, this may complicate planning projects.

Meeting the target for the first time in 2013 meant spending rose quickly. This presented particular challenges, although in practice many of the risks were anticipated. DfID was aware of the impending funding increases a number of years in advance of first meeting the target in 2013 and made preparations by strengthening its business processes, developing a larger programme of projects, changing the size and composition of its workforce, and improving its focus on results.[10] Although DfID's administrative budget has been cut by over 40% since 2010–11 while its total departmental expenditure has risen by 23%,[11] the number of full-time-equivalent civil servants at DfID has increased by 60% in the same period.[12]

The National Audit Office has examined the government's approach to meeting the target twice and documents some of the adjustments made by DfID and other departments. In 2013, it found evidence that DfID did not spend its new, higher, budget smoothly over the year. DfID spent 40% of its budget in the last two months of the year, approving additional spending of perhaps £800 million. Standard departmental procedures were followed, but the NAO states that the 'need to spend quickly limited the teams' choice of projects and delivery routes for the new and extended projects'.[13] More recent assessments suggest

[10] National Audit Office, *Managing the Official Development Assistance Target*, 2015, https://www.nao.org.uk/report/managing-the-official-development-assistance-target/.

[11] Authors' calculations using Public Expenditure Statistical Analyses (various years) and GDP deflator from HM Treasury.

[12] Institute for Government, 'Civil service staff numbers', September 2018, https://www.instituteforgovernment.org.uk/explainers/civil-service-staff-numbers.

[13] Page 19 of National Audit Office, *Managing the Official Development Assistance Target*, 2015, https://www.nao.org.uk/report/managing-the-official-development-assistance-target/.

that DfID has made improvements to its processes over time. The NAO's 2017 report found that DfID had developed a pipeline of potential projects to increase choice in decision-making, with a smoother profile of ODA expenditure across the calendar year.[14]

One way that DfID is able to meet its precise spending goals each year is by making use of the flexibility it has with the timing of certain ODA payments. For instance, payments to multilateral institutions often take the form of promissory notes, which count as ODA when they are issued rather than when they are cashed. DfID is also involved in many multi-year projects, where payments can easily be shifted over time.

While these mechanisms can help the department to meet its annual spending goals, it is important to note that the 0.7% commitment is far from the only target in development spending. The government often introduces new targets for how ODA spending should be allocated across areas and particular policy priorities. Some of these are discussed in greater detail in Sections 8.3 and 8.5. These targets can help to ensure that new policy priorities are reflected quickly in the government's overall aid strategy. However, they have also been criticised by the OECD DAC, which has recommended that the UK should 'minimise spending targets and manage them in ways that support flexible, context-based programming'.[15] Meeting these targets for where and how to spend ODA adds another challenge for departments trying to deliver a balanced programme of aid spending that meets the overall spending targets while still maintaining a long-term strategy and ensuring value for money in all projects.

8.3 Recent changes in the UK aid strategy

Historically, the UK's spending on aid has primarily been justified on two grounds. First, from a moral perspective, it is a demonstration of the UK's commitment to 'helping the millions of people around the world who live in poverty' and to supporting the achievement of development milestones such as the Global Goals.[16] The fact that spending in low- and middle-income countries can drive big social and economic gains (basic health programmes such as vaccinations are one example with a high 'benefit-to-cost' ratio) further strengthens this rationale. Second, from a strategic and geopolitical perspective, ODA supporters point to the role that aid plays in strengthening the UK's influence internationally and supporting the UK's 'place in the world'.[17]

However, beyond the trends in aggregate UK aid, there have been a number of important developments since 2015, which are influencing the strategy and delivery of ODA spending. In particular, the government now sees ODA spending as playing a broader role in achieving its objectives.

[14] National Audit Office, *Managing the Official Development Assistance Target: A Report on Progress*, 2017, https://www.nao.org.uk/wp-content/uploads/2017/07/Managing-the-Official-development-Assistance-target-a-report-on-progress.pdf.

[15] Page 17 of OECD, *OECD Development Co-operation Peer Reviews: United Kingdom 2014*, 2014, http://www.oecd.org/dac/peer-reviews/UK%20peer%20review%202014.pdf.

[16] Page 5 of HM Treasury and Department for International Development, *UK Aid: tackling global challenges in the national interest*, November 2015, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/478834/ODA_strategy_final_web_0905.pdf.

[17] Ibid.

First, six months after enshrining the target into law in 2015, HM Treasury and DfID published *UK Aid: Tackling Global Challenges in the National Interest*, which set out their approach to organising ODA spending. Published as part of the 2015 Spending Review, this strategy reaffirmed the government's commitment to the 0.7% target while seeking to build 'public confidence' in aid spending by making benefits to the UK an important and explicit consideration. As the title suggests, the strategy aims to align the dual goals of improving economic development and welfare in developing countries and of enhancing UK security and prosperity. Of course, there are many ways to promote the UK's security and prosperity, and other channels may be more direct than ODA spending. But the underlying narrative of this strategy is that UK aid can have a role in improving global security and prosperity – whether through improved living standards and governance, the opening up of new markets abroad, or global public goods produced by research – and that, for a variety of reasons, this is in the UK's long-term interest. Since 2015, there have been three Secretaries of State for International Development, but the broad thrust of the strategy remains the same.

The strategy outlines four key objectives:

- strengthening global peace, security and governance;
- strengthening resilience and response to crises;
- promoting global prosperity;
- tackling extreme poverty and helping the world's most vulnerable.

A key mechanism for achieving the shift in focus outlined in the 2015 aid strategy – and perhaps also for broadening support for the 0.7% spending target – has been to distribute an increasing proportion of ODA through departments other than DfID, as well as through a number of cross-government funds, with the expectation that they should be responsible for 30% of spending by 2020.[18] This figure has already almost been reached, as discussed further in the next section. The government has also set out plans to deepen partnerships with researchers and academia, civil society and the private sector.

The second development shaping the ODA strategy is the UK's decision to leave the European Union. Both DfID's 2016 Bilateral and Multilateral Development Reviews and its 2017 Economic Development Strategy are framed in this context. The most direct implication of Brexit relates to the contributions that the UK makes to the EU budget, covered in Section 8.5. However, these documents also emphasise the role that ODA might play in supporting the UK's foreign policy, trade and security objectives and in facilitating the reorientation of the UK's role on the international stage after March 2019.

An increased focus on private sector engagement in developing countries is also reflected in a shift toward supporting economic growth and increasing 'development capital'. This is defined by DfID as 'public investment made in the private sector to achieve development objectives'.[19] Development capital investments, also known as 'non-fiscal'

[18] Page 5 of National Audit Office, *Managing the Official Development Assistance Target: A Report on Progress*, 2017, https://www.nao.org.uk/wp-content/uploads/2017/07/Managing-the-Official-development-Assistance-target-a-report-on-progress.pdf.

[19] Page 54 of Department for International Development, *Rising to the Challenge of Ending Poverty: The Bilateral Development Review 2016*, 2016 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/573889/Bilateral-Development-Review-2016.pdf.

spending, can include loans, equity investments, and certain contributions to multilateral development banks. The Treasury requires DfID to spend £5 billion in this way over the 2015 Spending Review period, compared with a requirement of £100 million in 2013–14.[20] This sort of aid does not impact total managed expenditure (TME) because it involves a swap of financial assets, leaving the headline measure of borrowing (public sector net borrowing) unaffected by the transaction.

Possibly as part of the process of meeting this target, in 2017 parliament made the decision to quadruple the cap on DfID's potential stake in CDC Group plc (formerly the Commonwealth Development Corporation), from £1.5 billion to £6 billion, with provisions for a future increase to £12 billion. CDC is the UK's development finance institution (DFI), whose primary role is to provide investment in private enterprise in developing parts of the world. This institution is wholly owned by DfID and, as a public corporation, capital support provided to CDC by DfID does not count toward TME either, again leaving the headline measure of borrowing unchanged. Since the cap was lifted, DfID has announced capital injections of at least £3.1 billion over the next six years, covering the majority of DfID's total non-fiscal capital requirement in those years.[21]

The Development Secretary announced on 9 October 2018 that she would also seek to alter OECD rules on ODA such that returns on CDC's investments, if reinvested, would count as new ODA spending. As it stands, if these returns are reinvested, they do not count towards the 0.7% target. If the Secretary of State is successful, and assuming returns were positive, this would concentrate even more of the UK's ODA resources within CDC.[22]

One issue often raised in the discussion of DFIs is that they are simply crowding out private investors, although this effect is difficult to measure.[23] DfID's business case for its upcoming investments in CDC claims that this additional capital will facilitate riskier investments in nascent or failed markets, which are typically less attractive to private sector investors; it therefore expects investments in these markets to be less prone to crowding-out.[24] Regardless of the effectiveness of DFIs and 'development capital' spending more generally, targets such as the one that the Treasury has set for DfID create incentives to scale up this type of spending, even if the money could be better spent elsewhere.

Although it is too early to assess how these developments might be affecting the outcomes achieved by ODA spending, Sections 8.4 and 8.5 describe trends and emerging

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[20] Page 6 of International Development Committee's Allocation of Resources Inquiry, 'Memorandum by DfID', http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/international-development-committee/dfids-allocation-of-resources/written/28276.pdf.

[21] Department for International Development, *Capital Increase to CDC, the UK's Development Finance Institution*, 2017, https://www.gov.uk/government/publications/capital-increase-to-cdc-the-uks-development-finance-institution-to-deliver-increased-development-impact-in-africa-and-south-asia-2017-2022.

[22] DEVEX, 'UK aid funding headed for "part privatization" after new announcement, observers say', https://www.devex.com/news/uk-aid-funding-headed-for-part-privatization-after-new-announcement-observers-say-93610.

[23] P. Carter, N. Van de Sijpe and R. Calel, 'The elusive quest for additionality', Centre for Global Development (CGD), Working Paper 495, 2018, https://www.cgdev.org/sites/default/files/elusive-quest-additionality.pdf.

[24] Department for International Development, *Capital Increase to CDC, the UK's Development Finance Institution*, 2017, https://www.gov.uk/government/publications/capital-increase-to-cdc-the-uks-development-finance-institution-to-deliver-increased-development-impact-in-africa-and-south-asia-2017-2022.

patterns in who spends ODA and in where and how it is spent. These sections use disaggregated data from the Statistics on International Development until 2016, as well as the preliminary aggregated data from 2017.

8.4 Spenders of UK ODA

In 2017, DfID was responsible for 72.5% of total ODA expenditure, with other government departments and cross-governmental funds (see Box 8.2 for background), and other payments and attributions (for example, to the EU), making up 18.1% and 9.4% respectively. While DfID's budget is still high by historical standards, the proportion of UK ODA disbursed by DfID has fallen in recent years. Over the period from 2009 to 2013, DfID spent between 87% and 90% of total ODA. Since then, the real-terms expenditure of DfID has fallen slightly even as total aid spending has risen; all of the increase in ODA since 2013 has come from spending outside of DfID, which has increased by 200% (or over £2.5 billion) since 2012 (see Figure 8.5).

Box 8.2. Cross-government funds

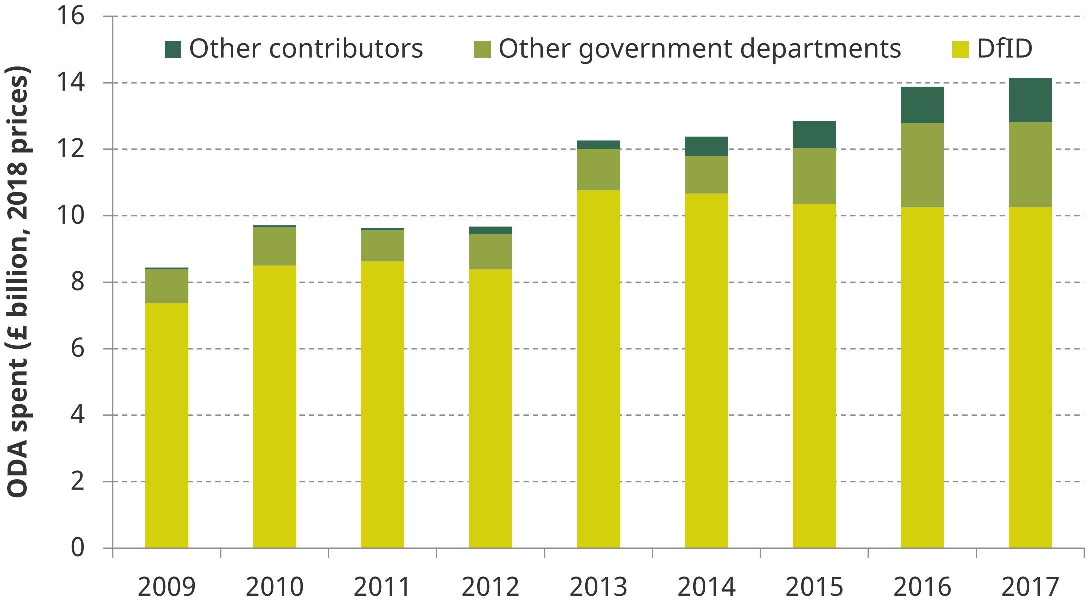
Two cross-government funds – the Conflict, Stability and Security Fund (CSSF) and the Prosperity Fund – are overseen by the National Security Council (NSC). Both of these are 'blended' in the sense that they spend both ODA- and non-ODA-eligible funds, and each consists of a pool of money that can fund projects through different departments.

The CSSF was established in 2015 and is intended to contribute to the achievement of the UK's national security and aid objectives. In 2017–18, its total funding was £1.2 billion, 47% of which was ODA-eligible, making it one of the largest spenders of UK aid. Afghanistan (£68 million) and Syria (£59 million)[a] were the two countries where the most ODA was spent through CSSF in 2017–18, with 70% of total CSSF ODA going through the FCO in 2017.[b]

The Prosperity Fund aims to reduce poverty through inclusive economic growth. It has an explicit focus on multi-year programmes in middle-income countries, with the creation of opportunities for UK business as a secondary objective. This fund has an allocated budget of £1.2 billion over the period 2017–22 and 90% of its spending was ODA-eligible in its first year of operation.[c]

[a] Annex B of HM Government, *Conflict, Stability and Security Fund: Annual Report 2017/18*, July 2018, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/727383/CSSF_Annual_Report_2017_to_2018.pdf.
[b] 'Statistics on international development: provisional UK aid spend 2017'.
[c] Pages 3–4 of HM Government, *The Prosperity Fund: Annual Report 2016/17*, 2017, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/670103/FCO-Prosperity-Report-2016-2017.pdf.

Figure 8.5. Spenders of UK ODA since 2009



Note: 2017 figures are preliminary.

Source: Authors' calculations using 'Statistics on international development 2017' and 'Statistics on international development 2017: provisional UK aid spend 2017'.

Almost two-thirds of the increase in non-DfID spending has been since 2014, in line with the new aid strategy and the 2015 Spending Review. During this Spending Review, HM Treasury invited departments to submit bids for ODA spend alongside their normal spend. Departments were asked to determine whether any existing activity could be classified as ODA and to submit bids for new ODA-eligible activities they would like to undertake.

The NAO notes that HM Treasury received 61 bids with a value of £18 billion from 12 departments, exceeding the £7 billion available to departments other than DfID over the period to March 2021. Some of the bids included existing activity that had not previously been classified as ODA, though it is not clear what share of overall spending this reclassified activity accounts for. While the Treasury asked departments to specify the objectives and costs of each project, how it aligned with strategic objectives, and its eligibility for ODA, it did not ask them to provide information on their capacity and capability to implement ODA programmes, or their plans for monitoring and evaluating project outcomes. Some departments, such as the Department for Environment, Food and Rural Affairs (DEFRA), nevertheless provided this information.[25]

Table 8.1 summarises total net ODA disbursement (in 2018 prices) by UK government bodies in 2014 and 2017, respectively the year before the release of the new aid strategy and the latest year for which data are available. Outside DfID, the government bodies that spent the most ODA were the Department for Business, Energy and Industrial Strategy (BEIS), which accounted for 5.5% (£780 million) of total ODA in 2017, the Foreign and Commonwealth Office (FCO) and the cross-government Conflict, Stability and Security

[25] Pages 20 and 21 of National Audit Office, *Managing the Official Development Assistance Target: A Report on Progress*, 2017, https://www.nao.org.uk/wp-content/uploads/2017/07/Managing-the-Official-development-Assistance-target-a-report-on-progress.pdf.

Fund (CSSF), which both accounted for 4.0% (£569 million and £565 million respectively). When taking into account its role in administering and allocating CSSF funds, the FCO is the second-largest spender of UK aid, behind DfID. The Home Office is the fourth-largest spender of ODA outside DfID. Collectively, other government departments accounted for around 2% of UK ODA spending in 2017.

Disbursing ODA through departments other than the aid agency is not unusual internationally. The IDC cites Sweden as one example, where only about 50% of ODA spending goes through the government authority for development cooperation.[26] There may be benefits to spreading the responsibility for ODA more widely across government

Table 8.1. Spenders of UK ODA, 2014–17

	2014		2017		Change, 2014–17	
	£m	% ODA	£m	% ODA	£m	%
DfID	**10,694**	**86.2%**	**10,259**	**72.5%**	**–435**	**–4.1%**
Of which: EU attribution	396	3.2%	446	3.2%	49	12.4%
Total non-DfID	**1,714**	**13.8%**	**3,886**	**27.5%**	**2,172**	**126.8%**
BEIS	286	2.3%	780	5.5%	494	172.8%
FCO	388	3.1%	569	4.0%	181	46.6%
CSSF	191	1.5%	565	4.0%	374	195.8%
Home Office	144	1.2%	340	2.4%	196	136.5%
Other departments[a]	132	1.1%	301	2.1%	169	128.3%
IMF PRGT[b]	0	0.0%	737	5.2%	737	–
Non-DfID EU attribution	444	3.6%	451	3.2%	8	1.7%
Other sources[c]	130	1.0%	143	1.0%	13	10.0%
Total UK net ODA	**12,408**	**100.0%**	**14,145**	**100.0%**	**1,737**	**14.0%**

[a] Other branches of government consist of Department of Health and Social Care, DEFRA, Prosperity Fund, Department for Work and Pensions, HMRC, Department for Culture, Media & Sports, Export Credits Guarantee Department, Cabinet Office, HM Treasury, CDC, Department for Education, Ministry of Defence and Office for National Statistics.
[b] IMF PRGT is the International Monetary Fund's Poverty Reduction and Growth Trust.
[c] Other sources include Gift Aid, BBC World Service, colonial pensions and the Scottish and Welsh Governments.

Note: Sorted by total net disbursal in 2017. The allocation of the EU attribution between DfID and the rest of government depends on the aims of the budget lines the contribution is spent on in that year. Spend in 2017 is provisional and may be revised. All figures are in 2018 prices.

Source: 'Statistics on international development: provisional UK aid spend 2017' and 'Statistics on international development 2015', https://www.gov.uk/government/organisations/department-for-international-development/about/statistics; GDP deflator forecast from HM Treasury.

[26] Page 10 of International Development Committee, *Definition and Administration of ODA*, Fifth Report of Session 2017–19, HC 547, 2018, https://publications.parliament.uk/pa/cm201719/cmselect/cmintdev/547/547.pdf.

in terms of exploiting the varied expertise of departments and providing opportunities for programmes to be tailored to the needs of different countries.

Irrespective of which department disburses the funds, all UK ODA spending falls under the aid strategy, and must meet the definition provided by the OECD DAC (see Box 8.1 for details). ODA spending by DfID must meet the further requirement – set out in the International Development Act 2002 – of being 'likely to contribute to a reduction in poverty', although the Act does not specify what this means in practice. In 2014, the Act was amended to include a duty for this spending to have a regard to gender equality. ODA provided by other departments is not explicitly subject to the requirements of the 2002 Act, which may afford them greater flexibility in terms of how they approach the four key objectives set out in the aid strategy, although the government has stated that it is its view that all ODA spending by cross-government funds (but not necessarily by all departments) meets this requirement in practice.[27]

This potential for divergence in objectives across departments has been flagged by the NAO and the IDC as a potential area of concern. Further issues that they have highlighted include the lack of a single body or individual accountable for the delivery of the aid strategy or for managing the overall effectiveness of the government's ODA spending, and the fact that only one of the four strategic objectives of the aid strategy – poverty reduction – has measurable outcomes.

While departments that have seen large increases in their ODA expenditure in recent years have been taking active steps to develop their capacity to manage it, there is some evidence that they have faced some problems during the recent period of scale-up. For instance, some departments have had difficulties with project pipeline development and forecasting, with the NAO identifying five departments that spent at least half of their annual ODA budget in the final quarter in 2016. In addition, not all projects scrutinised had evaluation frameworks in place.[28] The *Green Book* – guidance from the Treasury on how to appraise and evaluate policies, projects and programmes – currently provides few references to developing programmes for, and assessing the economic and social value of, ODA. However, DfID has agreed to expand its role in providing advice and training to help other departments in building the capacity to manage larger ODA budgets.

The more dispersed nature of aid spending across government has also raised questions of coherence and transparency. In 2016, for example, there were 6,950 bilateral projects focused on 127 countries across 13 thematic spending areas, of which 1,432 cut across multiple themes.[29] Managing this complex spending portfolio effectively across government is likely to pose some challenges, although the government has established a number of cross-governmental working mechanisms in order to improve coordination.

From a transparency perspective, the government has committed to ensuring that all UK departments are ranked 'good' or 'very good' in Publish What You Fund's Aid

27 International Development Committee, *Definition and Administration of ODA*, Fifth Report of Session 2017–19, HC 547, 2018, https://publications.parliament.uk/pa/cm201719/cmselect/cmintdev/547/547.pdf.

28 Pages 29–30 and 33 of National Audit Office, *Managing the Official Development Assistance Target: A Report on Progress*, 2017, https://www.nao.org.uk/wp-content/uploads/2017/07/Managing-the-Official-development-Assistance-target-a-report-on-progress.pdf.

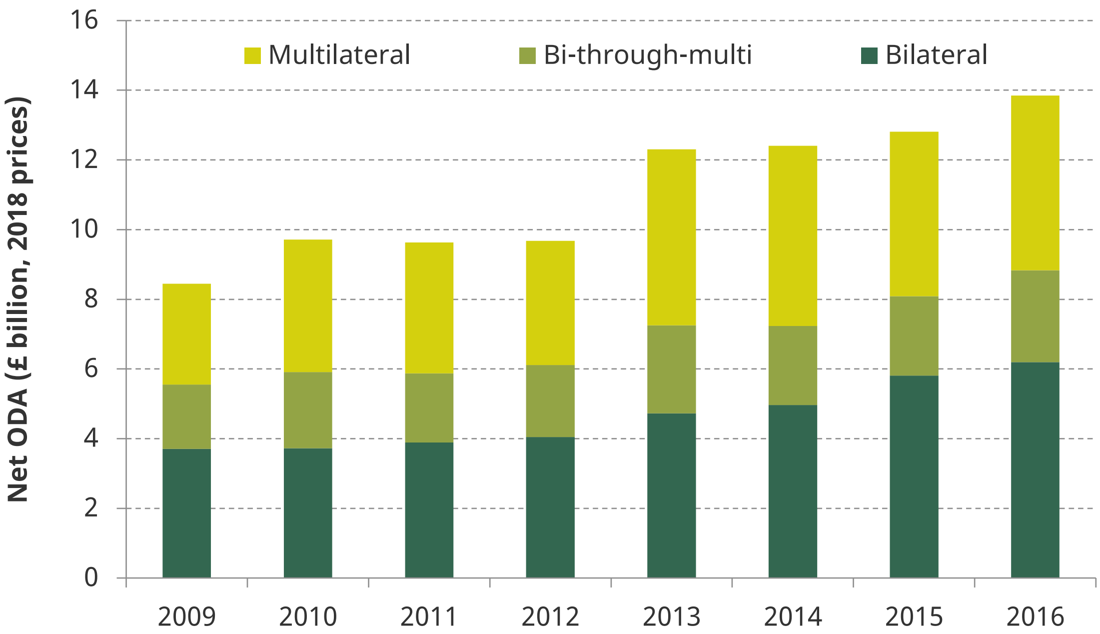
29 Authors' calculations based on 'Statistics on international development 2017'.

Transparency Index by 2020.[30] This index is calculated from the data published online about specific aid projects, and in the 2018 index DfID received a 'very good', with an overall ranking of 3rd out of 45 international donors. The FCO, the only other UK department included in the index at present, is ranked 40th out of 45, with an overall score of 'poor' due to the infrequency and incompleteness of its reporting and its relatively weak overall results indicators. Newer spenders of UK ODA, such as the cross-government funds, have also been criticised for a lack of transparency by the ICAI.[31] The government is supporting Publish What You Fund to conduct evaluations for all departments for the 2019 index – a promising step.[32]

8.5 Recent trends in where and how ODA is spent

UK ODA is spent through bilateral and multilateral channels. Bilateral spending, disbursed directly by the donor and targeting a specific country, region or thematic spending area, is the primary channel of delivery for UK ODA. Funds are typically managed by the recipient governments, local or international non-governmental organisations, or the private sector, which handle the day-to-day running of programmes. In 2017, the UK disbursed

Figure 8.6. Real net ODA by delivery channel and year



Source: Authors' calculations using data underlying Statistics on International Development 2017.

[30] The Aid Transparency index is calculated based on 35 weighted indicators across five categories: organisational commitments and planning, finance and budgets, project attributes, joining-up development data and performance. See: http://www.publishwhatyoufund.org/

[31] Independent Commission for Aid Impact, *The Cross-Government Prosperity Fund*, 2017, https://icai.independent.gov.uk/wp-content/uploads/Rapid-Review-of-the-Prosperity-Fund.pdf and *The Conflict, Stability and Security Fund's Aid Spending*, 2018, https://icai.independent.gov.uk/wp-content/uploads/The-CSSFs-aid-spending-ICAI-review.pdf.

[32] Page 10 of International Development Committee, *Definition and Administration of ODA: Government Response*, 2018, https://publications.parliament.uk/pa/cm201719/cmselect/cmintdev/1556/1556.pdf.

£8.7 billion of aid bilaterally (62.4% of the total in that year).[33] Since 2013, the first year in which the 0.7% target was met, all of the growth in real ODA spending has come from increases in bilateral spending. Approximately a third of spending attributed as bilateral aid has in the past been through contributions to multilateral organisations which are earmarked for specific purposes. In this section, we classify this 'bilateral-through-multilateral' spending as bilateral aid.

Multilateral spending involves channelling ODA into the core budget of international institutions (for instance, the World Bank or the European Commission), which then allocate the funds to support their own programmes. Between 2012 and 2013 – the first year in which the UK met the 0.7% target – there was a 42% increase in spending through this channel, and multilateral contributions as a proportion of total UK ODA increased from 37% to 41%. Since then, the mix between bilateral and multilateral spending has rebalanced somewhat: in 2016, multilateral contributions accounted for 36% of the total ODA spend, just below the level of 2012. Multilateral spending disbursed by DfID peaked in 2013 before decreasing by 20% to 2016, but this has been fully offset by spending through this channel elsewhere in government increasing by 190% over the same period.

The choice of allocation between bilateral and multilateral spending is, in broad terms, a choice between having control over how resources are spent and having the opportunity to leverage and pool expertise, presence and resources in ways that might be hard to achieve if individual donor countries acted unilaterally. Striking the right balance between the two channels of delivery is thus an important task when determining how the allocation of ODA will best fit a government's strategic objectives. In 2016, the IDC stated that while it felt that the balance was broadly correct, it was 'not entirely apparent' how DfID determines this balance, and recommended that the department should clearly set out its decision-making criteria.[34]

Bilateral aid

DfID uses Bilateral Reviews to provide a framework for its portfolio of bilateral spending and to support the targeting and delivery of the overarching aid strategy. The reviews are developed to promote coherence and improve the overall effectiveness of spending. A key recommendation from the first review conducted in 2011 was to reduce the number of significant bilateral country programmes from 43 to 27, prioritising DfID's expenditure in fewer countries where it could have the greatest impact.[35] DfID now lists 32 bilateral country programmes on its website, as well as three 'development partnerships' – with China, India and South Africa. These partnerships focus on the provision of technical assistance and development capital, rather than on 'traditional' aid.

[33] 'Statistics for international development: provisional UK aid spend 2017', https://www.gov.uk/government/statistics/statistics-on-international-development-provisional-uk-aid-spend-2017.

[34] Page 13 of International Development Committee, *UK Aid: Allocation of Resources: Interim Report*, Third Report of Session 2015–16, HC 927 incorporating HC 533, 2016, https://publications.parliament.uk/pa/cm201516/cmselect/cmintdev/927/927.pdf.

[35] By 2016, it was decided that the following programmes should close: Angola, Bosnia, Burundi, Cambodia, Cameroon, China, Indonesia, Iraq, Kosovo, Lesotho, Moldova, Niger, Russia, Serbia, The Gambia and Vietnam.

Recipient countries

Table 8.2 shows the top 10 recipients of UK country-specific bilateral aid in 2012 and 2016.[36] Despite funding programmes targeting 135 countries in 2012 and 127 in 2016, over half of bilateral spending went to these top 10 countries. Similarly, 83% and 88% of this kind of spending in 2012 and 2016 respectively flowed to DfID's main bilateral country programmes.[37] In 2016, 57% of region-specific bilateral ODA went to Africa, with a further 39% being spent on programmes in Asia.

DfID uses an aid allocation model to focus its programmes on countries where extreme poverty affects a significant proportion of the population, where extreme poverty is likely to persist over the medium term, and where the country itself is unable to finance poverty reduction. It also takes into account 'specific risks, national security priorities, our [the

Table 8.2. Top 10 recipients of bilateral UK ODA in 2012 and 2016

Rank	2012		2016	
	Country	**£m**	**Country**	**£m**
1	India	321	Pakistan	479
2	Afghanistan	301	Syria	364
3	Ethiopia	292	Ethiopia	346
4	Nigeria	217	Nigeria	331
5	Bangladesh	216	Afghanistan	244
6	Pakistan	208	Tanzania	193
7	Tanzania	173	Jordan	181
8	Congo, Dem. Rep.	153	South Sudan	167
9	Zimbabwe	153	Sierra Leone	159
10	Malawi	137	Somalia	157

Note: ODA amounts are given in 2018 prices. These figures exclude UK funds that these countries may have received through multilateral institutions, development finance institutions or regional programmes.

Source: Authors' calculations using Statistics on International Development 2017 and GDP deflator forecast from HM Treasury.

[36] Although Table 8.2 covers all bilateral ODA, and not just DfID's, a large share of the ODA spent in these countries is by DfID, and the rationale for working in these countries broadly reflects criteria established in the 2016 Bilateral Review, with the justifications in the text being provided by DfID.

[37] Authors' calculations using 'Data underlying SID 2017'. The number of bilateral country programmes increased from 27 to 28 following independence in South Sudan in 2011, and has increased again with the crisis in Syria. The exact list in 2016 is unclear, so we use the current list on the DfID website for the 2016 calculation: https://www.gov.uk/guidance/where-we-work.

UK's] comparative advantage, the degree to which countries receive aid in comparison to their needs and our ability to deliver the Government's commitments'.[38]

India was the largest ODA recipient in 2012 but, in the same year, the Secretary of State announced that 'traditional' financial aid would end by 2015, and aid to India had reduced by 70% by 2016. This change in strategy was justified by DfID on the grounds that India has experienced a strong growth trajectory and other countries might have higher rates of poverty and be less able to fund development themselves. The IDC expressed concerns about the timing and transparency of the decision to close the India bilateral country programme, however, questioning why it was taken outside of the Bilateral Review time frame.[39] The UK continues to provide technical and capital support in India to support infrastructure, skills and private sector development.

Afghanistan, Ethiopia, Nigeria, Pakistan and Tanzania feature in the top 10 recipients in both 2012 and 2016. DfID's country profiles provide some insights into the rationale for these spending patterns.[40] Pakistan is home to the second-largest number of refugees in the world and, like Ethiopia and Nigeria, has a large population with significant minorities living in poverty; entrenched regional inequalities; and instability both internally and on its borders. Despite worries about the levels of political freedom in Ethiopia, support from the UK is further justified by DfID on the grounds of the country's commitment to investing in public services and human development, its focus on boosting growth and its success in lifting large numbers of people out of poverty since 2000. DfID has managed its largest-ever humanitarian programme in Syria, committing £2.7 billion to the regional response since 2012, with the funds also supporting human development and governance programmes, as well as the estimated 3.6 million Syrian refugees living in Turkey.

In line with the updated aid strategy, the 2016 Bilateral Review incorporates a stronger focus on ensuring 'that the people who pay for our aid budget benefit from it', through protecting the UK from disease, addressing the root causes of migration, building global security, tackling extremism and terrorism, and moving beyond aid to provide a more comprehensive approach to development.[41] The justifications provided by DfID on the bilateral spending priorities outlined above reflect their importance for the UK's geopolitical, security and strategic priorities: the stability of Pakistan and Afghanistan is regarded as fundamental to the stability of both their region and the UK, while Nigeria has Africa's second-largest economy and the world's tenth-largest oil reserves and ninth-largest gas reserves.

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[38] The aid allocation model is based on the principle that aid should be allocated according to: present need as expressed by extreme poverty corrected for large deviations in child mortality and the multidimensional poverty index; aid effectiveness; future need; and ability to self-finance. See page 6 of Department for International Development, *Bilateral Development Review – Technical Note*, 2016, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/573890/Bilateral-Development_Review-technical-note-2016.pdf.

[39] International Development Committee, *The Closure of DFID's Bilateral Aid Programmes: The Case of South Africa*, 2013, https://publications.parliament.uk/pa/cm201314/cmselect/cmintdev/822/82203.htm.

[40] https://www.gov.uk/government/collections/dfid-country-profiles-july-2018.

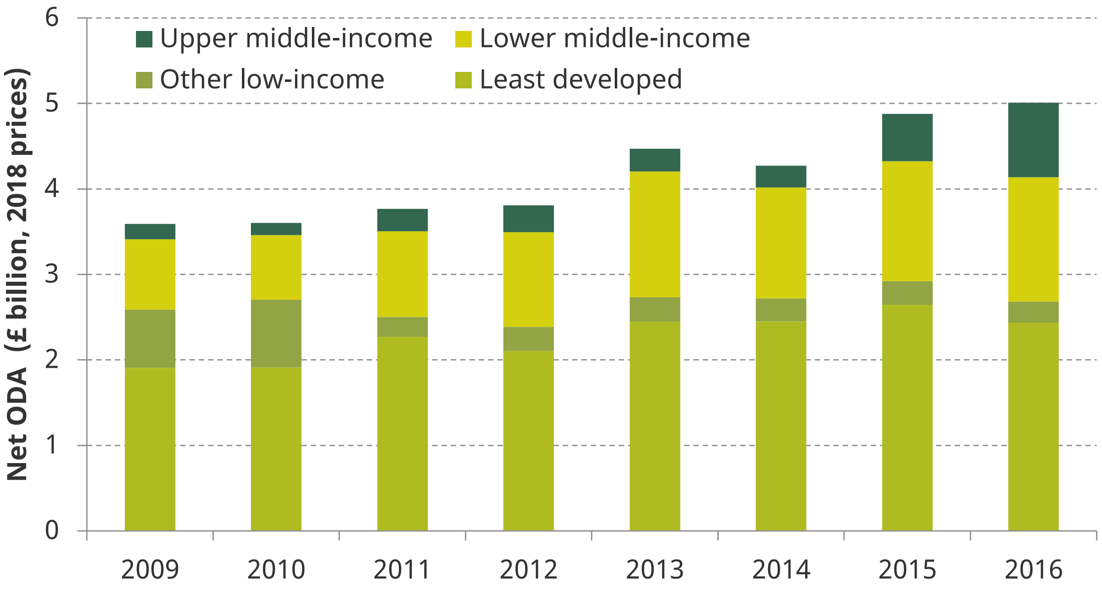
[41] Page 17 of Department for International Development, *Rising to the Challenge of Ending Poverty: The Bilateral Development Review 2016*, 2016, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/573889/Bilateral-Development-Review-2016.pdf.

DfID has also pledged to spend at least 50% of its bilateral budget in fragile states and regions (up from 30% in the 2011 Bilateral Review), with a particular emphasis on expanding its work in the Middle East, the Sahel and across Africa's 'Arc of Instability'.[42] All of the top 10 countries in 2016 feature on DfID's 2016 list of states that are fragile themselves or neighbour fragile countries.[43]

Income groups of recipient countries

Tackling extreme poverty is a core objective of the 2015 aid strategy. The countries eligible to receive ODA according to the OECD DAC definition are divided into four income groups. As outlined in Box 8.1 earlier, three of these groups are based solely on per-capita GNI, while the Least Developed Countries (LDCs) are defined by the United Nations based on three criteria – income, human assets and economic vulnerability.[44] Figure 8.7 presents a breakdown of aggregate UK bilateral aid spending by the income group of the recipient country. The majority of the UK's bilateral ODA goes to LDCs and other low-income countries, but despite an overall rise in bilateral aid spending between 2009 and 2016, spending in these countries remained essentially flat. Spending in LDCs specifically was increased by 28% over the period, but by much less than the increase in aid for middle-income countries, which more than doubled from just under £1 billion in 2009 to £2.3 billion in 2016, with noticeable increases to upper middle-income countries in 2015 and 2016. Four upper middle-income countries bordering Syria (Iraq, Jordan, Lebanon and

Figure 8.7. Total country-specific bilateral ODA by income group of recipient country



Source: Authors' calculations using Statistics on International Development 2017 and GDP deflator forecasts from HM Treasury.

[42] This term includes the following countries and areas: Northern Nigeria and the Lake Chad Basin, Mali, Niger, Chad, Sudan and Somalia.

[43] Note that DfID's definition of fragile states differs from that of the World Bank.

[44] The 2014–17 DAC list is based on 2013 country classifications and includes all LDCs, and all other low-income countries (per capita GNI of no more than $1,045), lower middle-income countries and territories (per-capita GNI of $1,046–$4,125) and upper middle-income countries and territories (UMICs) (per-capita GNI of $4,126–$12,745) on the list published by the World Bank, with the exception of G8 members, EU members and all countries with a firm EU entry date.

Turkey) saw their collective UK ODA receipts increase from less than £100 million in 2014 to almost £525 million in 2016.

In 2016, non-DfID departments and cross-government funds spent three-quarters of their bilateral aid in middle-income countries. By contrast, DfID's spending was more focused on low-income and least developed countries, with 41% of spending allocated to middle-income countries. This may represent an efficient division of responsibilities: while DfID has considerable experience working in the least developed and other low-income countries, other departments may possess expertise more relevant to working in places that are more developed. Although their relative contributions to total bilateral spending remain small, there are some emerging differences in the bilateral programmes of the other government departments which reflect this trend: in 2016, the Department for Business, Energy and Industrial Strategy (BEIS)'s top three bilateral recipients were China, India and Brazil – all major economies – while the FCO's were Pakistan, India and China.

Increasing the resources available for middle-income countries is not incompatible with poverty reduction: lower middle-income countries all have national income per head less than a tenth of the UK's, and 73% of the world's poor live in middle-income countries.[45] Specific risks and events may also call for an increase in support for middle-income countries – the increased funds channelled to Syria and its neighbouring countries are an example of this. Nonetheless, it is important that aid in middle-income countries is well targeted. The IDC has raised concerns about the targeting of the Prosperity Fund's spending, for example, suggesting that a greater focus on development in rural areas and on the urban poor would better ensure that ODA reaches the poorest people.[46]

Thematic spending areas

As well as working in a large number of different countries, UK bilateral aid also covers a broad range of thematic spending areas. Priorities outlined in the 2016 Bilateral Review include boosting prosperity through inclusive economic growth, investing in people through health, nutrition and education interventions, and tackling humanitarian crises, as well as the national interests objectives outlined in Section 8.3.

Figure 8.8 represents over 75% of spending between 2009 and 2016, and outlines the proportion of UK bilateral aid going to the top six thematic spending areas.[47] Notable is the share on humanitarian spending, which nearly doubled between 2012 and 2016. This increase was driven by UK responses to crises in Syria, Yemen, South Sudan and the Ebola outbreak in West Africa. Spends on health and sanitation, education, and governance and civil society programmes continue to account for significant portions of UK ODA.

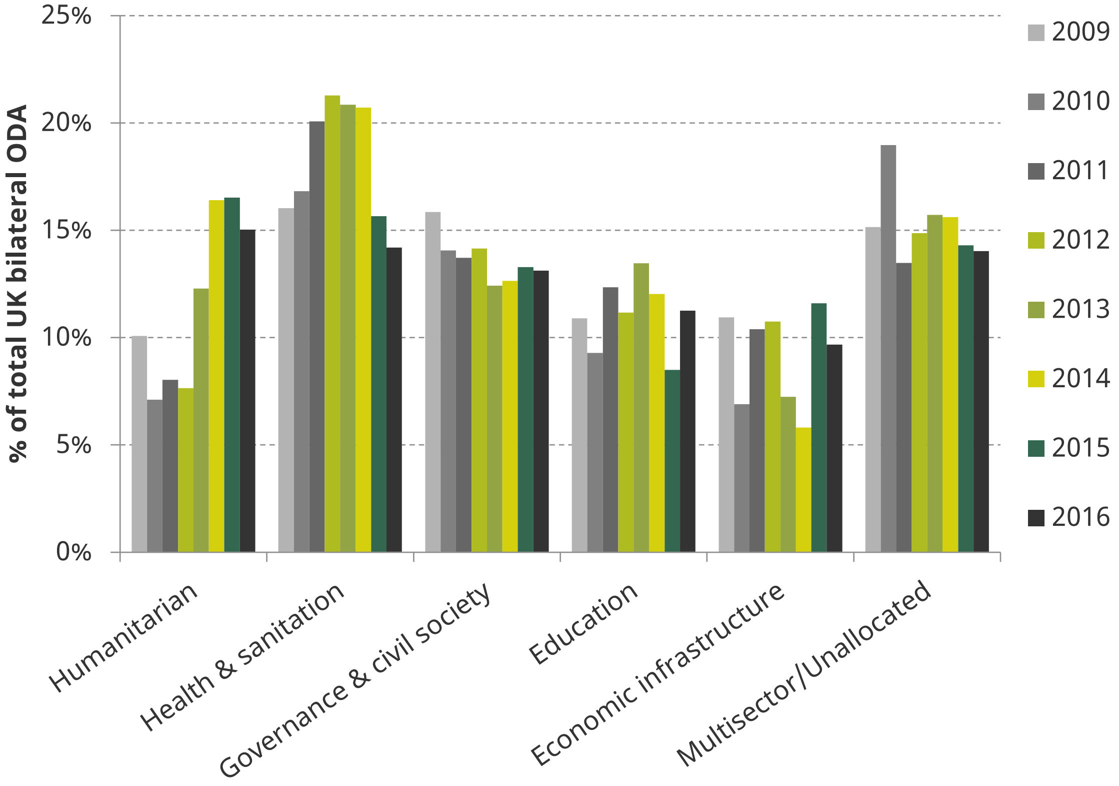
Spending on economic infrastructure and services, following a 35% decline in real terms between 2012 and 2014, more than doubled in 2015, and remained at a similar level in 2016. This was largely driven by equity injections by DfID into CDC plc (which is discussed in more detail in Section 8.3). A £450 million promissory note was deposited in CDC in 2015, and there were further capital increases of just under £300 million in 2016

45 https://www.worldbank.org/en/country/mic/overview.

46 International Development Committee, *Definition and Administration of ODA*, Fifth Report of Session 2017–19, HC 547, 2018, https://publications.parliament.uk/pa/cm201719/cmselect/cmintdev/547/547.pdf.

47 Defined by broad-sector OECD Creditor Reporting System (CRS) code; this classification system groups aid flows by answering the question: 'Which specific area of the recipient's economic or social structure is the transfer intended to foster?'.

Figure 8.8. Percentage of bilateral ODA spent on top six spending themes, 2009–16



Note: Health includes spending on WASH (water, sanitation and hygiene) activities. Categories excluded from the graph include administrative costs, commodity and general programme assistance, other social infrastructure spending, and spending on production services. Multisector/Unallocated spend includes cases where the sector is not specified, promoting awareness of aid work, and programmes that cut across several separate themes.

Source: Authors' calculations using 'Data underlying SID 2017'.

earmarked as spending on economic infrastructure. This followed changes in how CDC contributes to UK ODA: from 2015, capital injections have counted as ODA in the year they are provided.[48]

There has also been a shift towards providing aid to promote improvements in the business environment in developing countries, such as providing support to better regulatory and legal frameworks, or reducing the barriers to trade.[49] Although this aligns with the aid strategy's objective to boost prosperity, the ICAI has cautioned that 'the link between a more conducive investment climate and improved lives for intended beneficiaries – the poor – is indirect and complicated'.[50] Spending of this kind increased

48 https://www.gov.uk/government/consultations/department-for-international-development-statistical-consultation.

49 The methodology for defining this type of aid can be found in Development Initiatives, 'The enabling environment for private sector development', Discussion Paper, 2018, http://devinit.org/wp-content/uploads/2018/03/the-enabling-environment-for-private-sector-development_discussion-paper.pdf. This definition uses a combination of aid purpose codes and keyword searches, and cuts across a number of the broad sectors discussed here, including social infrastructure, economic infrastructure, production services, education and health.

50 Page 14 of Independent Commission for Aid Impact, *DFID's Private Sector Development Work*, 2014, https://icai.independent.gov.uk/wp-content/uploads/ICAI-PSD-report-FINAL.pdf.

from under £400 million to £1 billion (in 2018 prices) between 2014 and 2015, and remained at roughly this level in 2016.

Although not included in Figure 8.8 because it now represents a small proportion of UK ODA, it is also interesting to note that the UK has phased out spending on general budgetary support and commodity provision, which made up only 1% of total UK ODA in 2016, down from a peak of 10% in 2010. This follows from the 2015 aid strategy, which committed to ending this form of support and moving towards more targeted forms of financing.

There is also some variation in how different departments spend ODA. In 2016, almost all ODA spending by BEIS fell under two broad categories: research and innovation (see Box 8.3 for details), and supporting developing countries to respond to climate change (through UK International Climate Finance, which invests in climate and energy funds). Nearly 40% of Foreign Office ODA spending in 2016 was spent on aid-related front-line diplomacy costs. The Conflict, Stability and Security Fund, administered by the FCO, spent 70% of its ODA on governance and civil society programmes – for instance, to support the

Box 8.3. Research funds disbursing ODA

The 2015 aid strategy outlined a commitment to providing greater support for research to address complex global challenges. BEIS is responsible for the administration of both the Global Challenges Research Fund (GCRF) and the Newton Fund. Bidding processes and funding decisions are managed by delivery partners, such as UK Research and Innovation, the British Academy and the UK Space Agency.

The GCRF, launched in 2015, has a budget of £1.5 billion over five years. GCRF stresses interdisciplinary research partnerships, particularly between UK universities and institutions in developing countries. Although the separation of the provision of funding and award-making processes is considered to be fundamental to promoting high-quality research, most of the delivery partners require a UK institution as a primary applicant. This has been flagged by the Independent Commission for Aid Impact as a potential area of concern because it may be inconsistent with the UK's commitment to ensure that aid is not tied to spending in the donor country. In response, the government has stated that it is 'content' that the funds are 'being accurately reported as untied to the OECD DAC'.[a]

The Newton Fund was launched in 2014 and has a budget of £735 million until 2021. It focuses on research partnerships between UK institutions and partners in 17 middle-income countries such as Brazil, Egypt, Jordan and the Philippines.

The £1 billion Ross Fund is targeted at research focused on drug resistance, neglected tropical diseases and diseases with epidemic potential. It is managed by DfID and the Department of Health and Social Care.

[a] https://icai.independent.gov.uk/wp-content/uploads/Further-gov-response-to-GCRF.pdf.

development of political and rule of law institutions and to build law enforcement capability. The CSSF also handles funds for the UK's contributions to UN peacekeeping and EU Common Security and Defence Policy civilian operations in developing countries, which accounted for around 20% of its ODA spend in 2016. The Home Office spends ODA on the direct costs associated with providing accommodation, subsistence and training to refugees during their first 12 months in the UK:[51] this amounts to just under 5% of total UK bilateral ODA. Other DAC countries, such as Germany and Sweden, spend much larger proportions of their ODA budget in this way, although they have received much larger flows of refugees.[52]

Multilateral aid

Multilateral organisations are 'international institutions with governmental membership that carry out developmental activities'[53] and they include development banks and organisations that work with the private sector, UN agencies, global funds and humanitarian agencies. In 2016, the UK was the largest contributor of core aid funding to multilateral institutions, in terms of gross disbursements – this amounted to over £5 billion (in 2018 prices).[54] There are a number of key advantages to working with multilaterals, with DfID emphasising the fact that they expand the reach of the UK, are regarded by many stakeholders as impartial, provide a global platform for action on development issues, help to uphold international norms and standards, and can provide economies of scale in the delivery of aid.[55]

DfID was the first international donor to publish the findings of its Multilateral Review in 2011, and since then the UK has worked with other DAC countries to encourage the increased effectiveness and performance of multilateral institutions. In both the 2014–16 and 2017–19 multilateral replenishment cycles, where financial commitments were made by donor countries to the various multilateral institutions, the UK was the world's largest contributor to multilateral funds in absolute terms.[56] Recent cycles have seen a slight shift towards 'thematic' funds, such as the Global Alliance for Vaccines and Immunisations (GAVI), and away from broader-based funds such as the International Development Association (IDA).[57] The UK's leading role in the multilateral system may influence whether this trend continues.

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51 Following a review carried out by DfID and the Home Office in 2014 and after seeking advice from the OECD, a number of additional support activities have been treated as ODA-eligible since 2014. The OECD made a further clarification in 2017 that direct support costs provided to asylum seekers and refugees by donor countries during the first 12 months after arrival can be classified as humanitarian assistance.

52 Page 63 of National Audit Office, *Managing the Official Development Assistance Target: A Report on Progress*, 2017, https://www.nao.org.uk/wp-content/uploads/2017/07/Managing-the-Official-development-Assistance-target-a-report-on-progress.pdf.

53 Page 4 of OECD, *Multilateral Aid 2015: Better Partnerships for a Post-2015 World*, 2015, https://www.oecd.org/dac/aid-architecture/OverviewChapter-MEP.pdf.

54 Authors' calculations using 'Statistics for international development: provisional UK aid spend 2017' and OECD QWIDS.

55 Pages 10–11 of DfID, *Raising the Standard: The Multilateral Development Review 2016*, 2016, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/573884/Multilateral-Development-Review-Dec2016.pdf.

56 Page 8 of Centre for Global Development, *Mapping the Concessional Financing Landscape: Key Data on the Role of Multilateral Institutions and Funds,* 2018, https://www.cgdev.org/sites/default/files/mapping-concessional-financing-landscape.pdf.

57 Page 4, ibid.

The UK's ODA spending through multilateral bodies is highly concentrated: in 2016, just four institutions – the European Commission, the European Development Fund, the World Bank's International Development Association, and the IMF's Poverty Reduction and Growth Trust – received in excess of 60% (amounting to £3.2 billion, in 2018 prices) of total multilateral spending. Other important recipients were GAVI, the Global Fund to Fight AIDS, Tuberculosis and Malaria and regional bodies such as the African Development Bank.

These institutions were identified from the 38 that were assessed in the 2016 Multilateral Development Review (MDR) as organisations whose development and humanitarian objectives closely matched those of DfID, with strong organisational capacity and a commitment to transparency and accountability.[58] In total, 75% of the UK's core multilateral funding, and 87% of DfID's spending, was disbursed to organisations that scored at least 'good' in both indices of the 2016 review.

UK aid and Brexit

The UK contributes around £1.5 billion of funding to EU development programmes every year, 11% of the UK's total ODA spend. Of this contribution, roughly a third consists of payments to the European Development Fund (EDF), the EU's (voluntarily funded) vehicle for providing development aid to African, Caribbean and Pacific (ACP) countries, along with overseas countries and territories (OCTs).[59] The remainder constitutes the contribution towards the development share of the EU budget, which finances programmes along a number of thematic and regional lines; this contribution is split between a DfID and a non-DfID attribution, with the share going to each determined by the aims of the budget lines that the contribution is spent on in that year (see Chapter 4 for more discussion of this contribution via the EU budget). DfID expects UK ODA through the EU to continue to represent a similar proportion (11–12%) of the UK's total ODA until 2020, and then to decline in both absolute and relative terms. Based on the spending profile of the last Multiannual Financial Framework (MFF), the tail would come to an end by 2026.[60]

The UK's contributions also form a significant proportion of the total EU aid budget. The UK provides 15% of the EDF's current multiannual funding (€4.5 billion in 2013 prices, over the period 2014–20), and in total UK contributions made up approximately 10% of all ODA spending by EU institutions in 2016.[61] Current EU proposals for the next MFF include a 30% increase in external action spending, from €94.5 billion to €123 billion; however, the EU

[58] Index 1 of the MDR assessed match in terms of what the organisation does, how it delivers and where it works. Index 2 of the MDR assessed strengths in terms of whether the agency is clear about the results that it is delivering, how it manages risks and assurance, and the extent to which it strives to be transparent and accountable to governments, clients and beneficiaries. Organisations are rated as 'very good', 'good', 'adequate' and 'weak'.

[59] There are 25 OCTs; these are islands that are small in size or population, but which have constitutional relationships with EU member states.

[60] Page 2 of International Development Committee, 'EU exit and future UK/EU development co-operation', written evidence submitted by DFID, July 2018, http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/international-development-committee/ukeu-development-cooperation/written/86905.pdf.

[61] Authors' calculations using 'Data underlying SID 2017' and OECD QWIDS.

has acknowledged that it may struggle to finance this increase if it loses ODA contributions from the UK in the wake of Brexit.[62]

As the UK exits the EU, it will be necessary to resolve both the details of the relationship during the transition period, and the framework and mechanisms for future long-term cooperation. The UK has signalled that it will seek continued 'close collaboration … on a case-by-case basis'[63] with EU institutions and partners post-Brexit, particularly in three priority areas: migration, peace and security, and humanitarian aid. In these areas, the EU has geographical and political reach far beyond the UK's bilateral footprint (particularly in francophone Africa, the Sahel and the Western Balkans).

However, the UK has emphasised that any future financial contribution to the EU's development programming would require two conditions ('red lines') to be met: influence and oversight over how funds are used at both strategic and programme levels, and the eligibility of UK organisations to bid to deliver any programmes that UK funding is spent on.

Under the Draft Withdrawal Agreement published in March 2018, the UK will continue to contribute to the implementation of EU programmes and activities – both through the Commission's budget and through the EDF – until the end of 2020. However, the level of influence it will hold in this transition period will likely be reduced. For instance, UK participation in the EDF Committee will be limited to observer status, without any voting rights.[64] Although the Draft Withdrawal Agreement does confirm the entitlement of UK entities to participate in EU programmes at least until the end of 2020, EU aid contracts have reportedly seen the insertion of disclaimers that warn UK non-governmental organisations that they will lose EU funding in the event of a no-deal Brexit,[65] potentially dissuading British organisations from involvement in EU projects.

To facilitate cooperation post-2020, the UK is hoping that EU aid spending will transition towards the model operated by other multilateral institutions which offer 'open' instruments which any donor can contribute toward, in return for rights of governance over funds in line with the level of contribution.[66] Currently, however, most of the EU's development instruments either do not allow participation by non-members or restrict their ability to influence decision-making – contravening the UK's first 'red line'.

Regardless of the form of the UK's aid partnership with the EU after Brexit, the 0.7% target means that any contributions that would have previously been earmarked for EU ODA are unlikely to provide a windfall for other areas of UK spending. Rather, DfID and the other spenders of UK ODA will find themselves with both the opportunity and the challenge of

62 Page 1 of European Parliament, 'Post-2020 MFF and own resources', 2018, http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/620240/EPRS_BRI(2018)620240_EN.pdf.

63 Page 21 of HM Government, *Foreign Policy, Defence and Development: A Future Partnership Paper*, 2017, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/643924/Foreign_policy__defence_and_development_paper.pdf.

64 See Article 145 of the Draft Withdrawal Agreement.

65 See, for example, https://www.theguardian.com/politics/2018/jul/01/brexit-eu-accused-of-making-false-aid-funding-claims.

66 Q1 of International Development Committee, 'UK-EU Development Co-operation', oral evidence, July 2018, http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/international-development-committee/ukeu-development-cooperation/oral/87000.pdf.

allocating these funds in a manner that serves the UK aid strategy at least as well as they did when they were channelled through the EU institutions.

8.6 Conclusion

The UK has now met the annual target of spending 0.7% of national income on foreign aid for the past five years, with a forecast total spend of £14.4 billion in 2018. This continued commitment has been delivered despite a challenging fiscal context domestically and with overall aid spend amongst the UK's DAC peers relatively flat at around 0.31% of GNI.

Assessments by independent observers such as the OECD and the NAO suggest that the UK has largely managed this increased spending effectively, though each has highlighted areas for improvement. DfID has improved its forward planning and has used flexibility in the schedule of its payments to multilaterals to help it in meeting the 0.7% target each year.

However, meeting the annual target with no margin to spare creates a disincentive for the Secretary of State to halt or reclassify aid, as this can risk undershooting the target. At the same time, and despite recommendations from international bodies such as the OECD DAC, further targets within the overall envelope of aid spending exist, such as the requirement to spend £5 billion on development capital over the current Spending Review period. It is important that the government ensures that these commitments do not overshadow the need for overall aid spending to be coherent and effective.

In parallel with this increase in aggregate aid spending, in 2015 the government updated its aid strategy, with arguably the most significant shift being its aim that ODA should deliver on both poverty reduction and national interest objectives.

DfID remains the largest spender of ODA, but the government now stresses a 'cross-government' approach to UK aid, which is manifested in a much greater share of total aid being spent by departments other than DfID (which spent 73% of UK aid in 2017, down from 88% in 2013). There is some evidence that other departments are not yet meeting the same standards of transparency, monitoring and evaluation as DfID, however, and steps to raise standards across government are welcome in this regard.

It is too early to assess fully how these recent developments are affecting aid spending patterns, but the data provide some indicative evidence. It seems likely that the change in strategy is affecting where and how ODA is being spent. National security objectives appear to be leading to an increased role for the National Security Council and the FCO, in particular through the Conflict, Security and Stability Fund. A greater focus on economic development and research programmes may lead to more projects in upper middle-income countries, such as through the Prosperity Fund.

Another important change is the increased focus on 'development capital', or 'non-fiscal spending'. This takes the form of concessional loans and investments to the private sector in developing countries (including through CDC) and the Treasury has set minimum spending targets for this area. As this spending does not score against the headline measure of government borrowing, there is a risk that more will be spent through this channel than would otherwise be the case.

In 2016, the UK was the largest contributor of ODA to the multilateral system, but with several large ‘replenishments’ due in 2019, and with significant uncertainty surrounding the UK’s post-Brexit relationship with the EU – its largest multilateral aid partner – the future balance that will be struck between multilateral and bilateral channels of aid could be subject to significant change.

Looking forward, the NAO has recommended that the Treasury, DfID and other bodies focus on ‘developing ways of capturing the overall effectiveness of ODA expenditure and assessing its coherence across government’.[67] The Spending Review will provide an opportunity to do this and to make improvements to the 2015 departmental bidding and allocation process. As it goes through this process, the government must be clear about its objectives for aid spending and the outcomes it wishes to achieve. Any future process should allocate spend to where it is likely to be most effective at meeting these goals.

[67] Page 10 of National Audit Office, *Managing the Official Development Assistance Target: A Report on Progress*, 2017, https://www.nao.org.uk/wp-content/uploads/2017/07/Managing-the-Official-development-Assistance-target-a-report-on-progress.pdf.

