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The changing landscape of UK aid

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Executive Summary

Key findings

1. In line with the pledge made at the 2005 G8 Summit in Gleneagles, the UK reached the target for official development assistance (ODA) spending of 0.7% of gross national income (GNI) in 2013 and has since maintained it. To achieve this, UK ODA spending has nearly doubled between 2005 and 2016, from £7.4 billion to £13.6 billion (in today's terms). Given current growth forecasts, continued commitment to the 0.7% target would mean an increase in ODA spending by another £1 billion between 2017 and 2021.

2. UK adherence to the ODA target is all the more notable in the context of cuts to many other budgets. Spending by the Department for International Development (DFID, which does the majority but not all of ODA spending) rose by 24% (£2 billion) between 2010–11 and 2016–17. The average for other government departments, outside of the health, education and defence, was a cut of 28% (£48.8 billion).

3. Globally, the UK was one of just eight countries that met the ODA target in 2016. Of the 15 EU countries that made the pledge in 2005, only the UK and Germany have risen to the challenge since then. In fact, the majority (eight) of these 15 countries have reduced their ODA spending as a proportion of GNI since 2005.

4. Bilateral aid makes up almost two-thirds of UK ODA. In 2015, the top five recipients of UK bilateral ODA were Pakistan, Ethiopia, Afghanistan, Nigeria and Syria. A sixth of all bilateral ODA was spent on humanitarian aid. A significant proportion of this money went on provision of aid to Sierra Leone for dealing with the Ebola crisis, as well as Syria, Yemen and South Sudan.

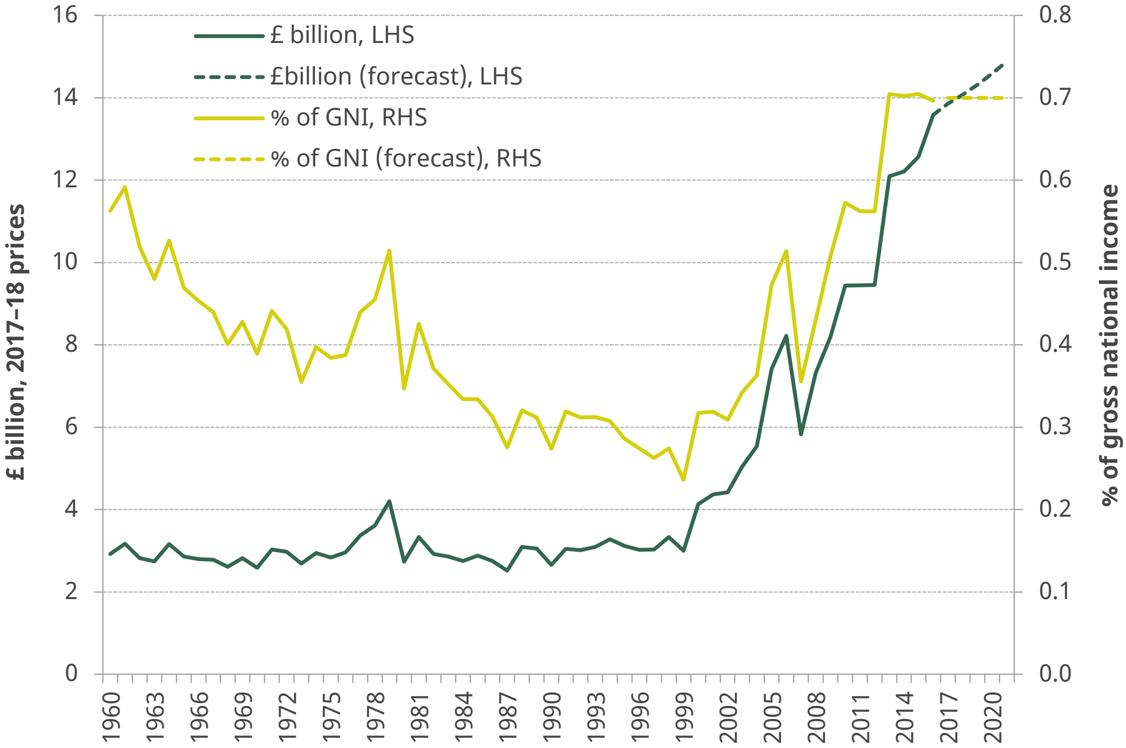
5. Internationally, the UK is seen as a leader in shaping the global development agenda. DFID scores highly on the international Aid Transparency Index and, within the UK, ODA spending is among the most scrutinised parts of UK government spending.

6. There has been a recent shift in the strategic focus of the UK aid strategy. Growing importance is now attached to promotion of the UK's national interest. A key mechanism for achieving this, as set out in the 2015 aid strategy, has been to direct the aid budget away from DFID to other government departments and cross-government initiatives. Between 2014 and 2016, there was a 12 percentage point drop in the proportion of the ODA budget received by DFID, so that by 2016 more than a quarter of the aid budget (£3.5 billion) was being spent outside DFID, up from 14% two years earlier.

7. Within the UK and internationally, this direction of travel has raised some concerns: first, that it will reduce focus on global poverty alleviation, identified as a necessary target of UK ODA in UK law; and second, that the current statutory framework is not sufficient to ensure that poverty alleviation remains an objective of all UK ODA spending – not just DFID's.

UK expenditure on official development assistance has almost doubled over the last decade

Figure 1. Historical and forecast total real UK spend on official development assistance (ODA)



In line with the pledge made at the 2005 G8 Summit in Gleneagles, Scotland, the UK reached the target for official development assistance (ODA) spending of 0.7% of gross national income (GNI) in 2013 and has since maintained it. The target was agreed and set out in a 1970 UN resolution. Specific pledges to meet it, however, were only made by EU15 countries in 2005. Having met the target, the UK put it into law under the coalition government, with cross-party support, in the International Development (Official Development Assistance Target) Act 2015.

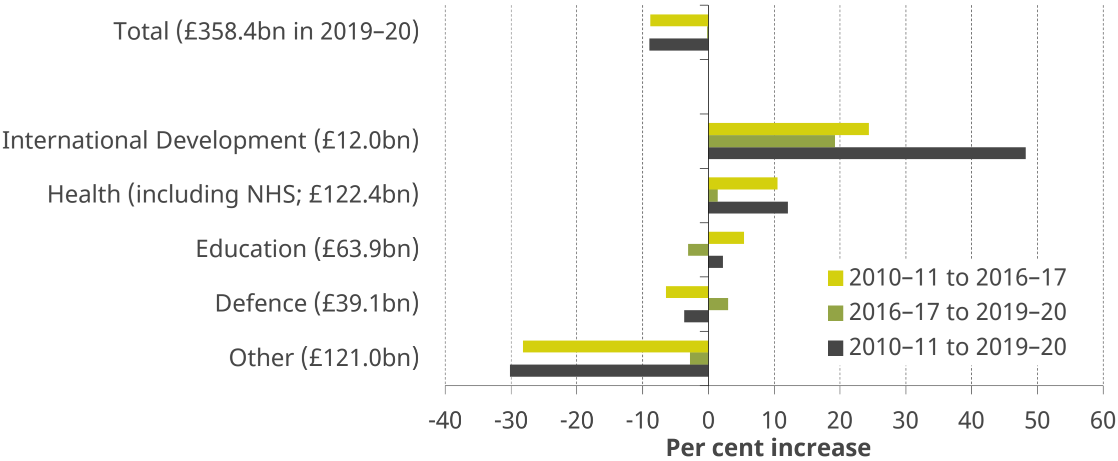
Figure 1 shows the evolution of UK ODA since 1960 in terms of total amounts (in 2017–18 prices) and as a percentage of GNI. Real ODA spending remained mostly flat between 1960 and 2000, falling as a proportion of GNI. Since then, there has been a steady steep rise in both. In order to reach the 2005 G8 Summit pledge, UK ODA spending has nearly doubled between 2005 and 2016, from £7.4 billion to £13.6 billion.

Theresa May has recently committed to continue honouring the 0.7% pledge. This would mean an increase of ODA spending by £1 billion between 2017 and 2021 (given current growth forecasts), as shown in Figure 1.

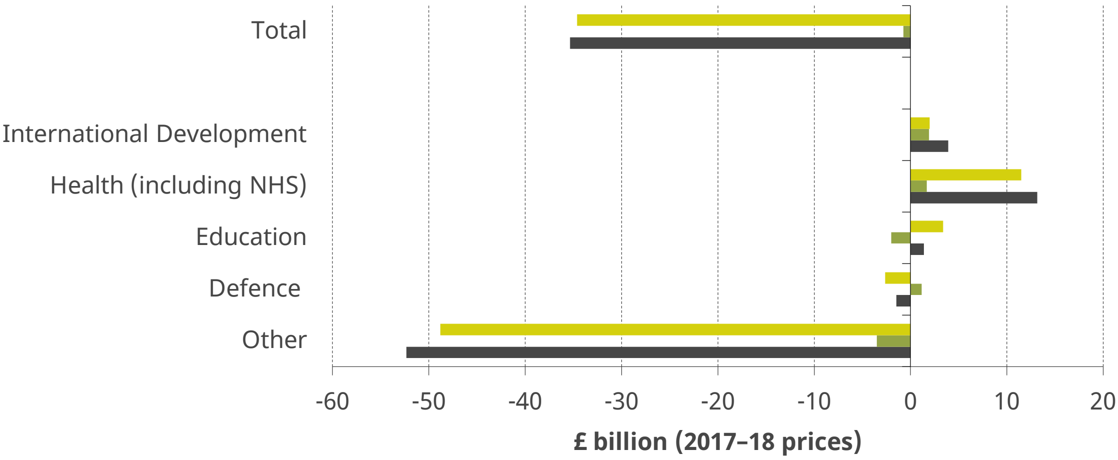
While less than two pence in every pound spent by government goes on ODA, the Department for International Development is among a minority of government departments to see increases in real spending

Figure 2. Planned real change to departmental expenditure limits, by department

a) Per cent increase



b) £ billion increase

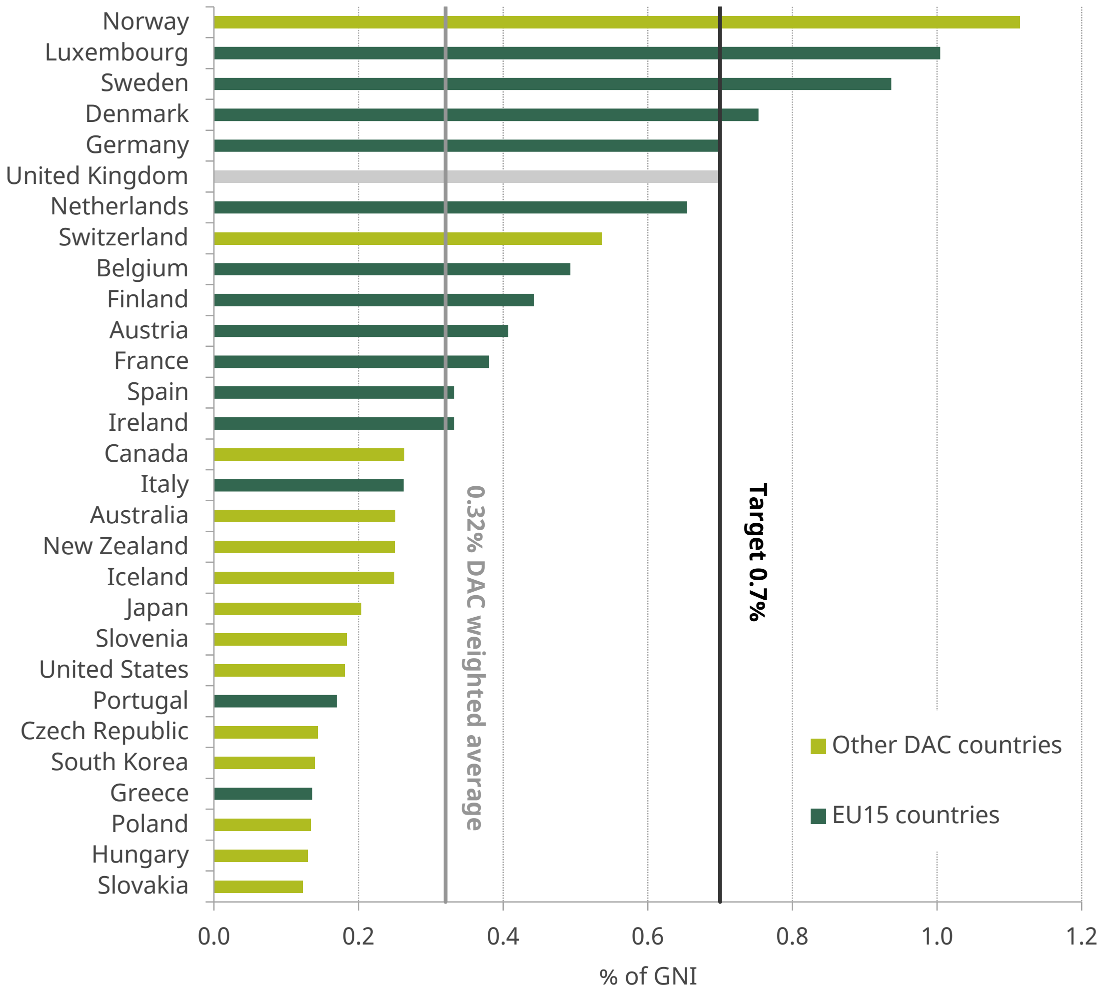


UK adherence to the ODA target is all the more notable in the context of cuts to departmental spending that have taken place since 2010–11 and are planned by 2019–20. Figure 2a shows that the Department for International Development (DFID), which receives most of the ODA budget,[1] is among a minority of government departments that have seen a real increase in spending between 2010–11 and 2016–17; the majority have seen substantial cuts. By 2019–20, the DFID budget is planned to be nearly 50% bigger than it was in 2010–11, while departmental spending on average is set to be 9% lower in real terms. Since DFID's spending makes up less than 2% of total public spending, however, the increases it has seen since 2010–11 make up just over a sixth of those seen by the Department of Health and are just over half the size of increases for the Department for Education (Figure 2b).

[1] Note that Figures 2a and 2b do not reflect the full scale of changes to ODA spending. The international development category includes the ODA allocation to DFID. As shown in Table 1 later, based on preliminary figures, more than a quarter of ODA was allocated to other government departments and cross-government funds in 2016. Figures 2a and 2b include the non-DFID ODA budget in departmental expenditure limits for the departments that it was allocated to.

The UK is one of only six OECD DAC countries to meet the UN target of 0.7% of GNI to be spent on ODA in 2016

Figure 3. ODA as a percentage of GNI in OECD DAC countries in 2016



The 1970 UN resolution is endorsed by all but two[2] of the 30 countries that are members of the OECD Development Assistance Committee (DAC) – a forum for promotion of policies that contribute to sustainable development. A country-specific commitment to meet the target by 2015 was made by the EU15 countries at the 2005 G8 summit. Yet by 2016 the UK was one of only six DAC countries and five EU15[3] countries that were meeting this aim (in Figure 3, note that the Netherlands had also met this level of spending in every year but two from 1974 to 2015).[4] Furthermore, among the five EU countries meeting the target in 2016, two (Denmark and Sweden) have done so since 1975 and Luxembourg has done so since 2000; the UK was joined by Germany in 2016 as the only countries to rise to the challenge since the 2005 pledge. By 2016, average ODA spending by individual DAC countries reached less than half of the 0.7% target, at 0.32%, though it was above this average for the majority of the EU15 countries.

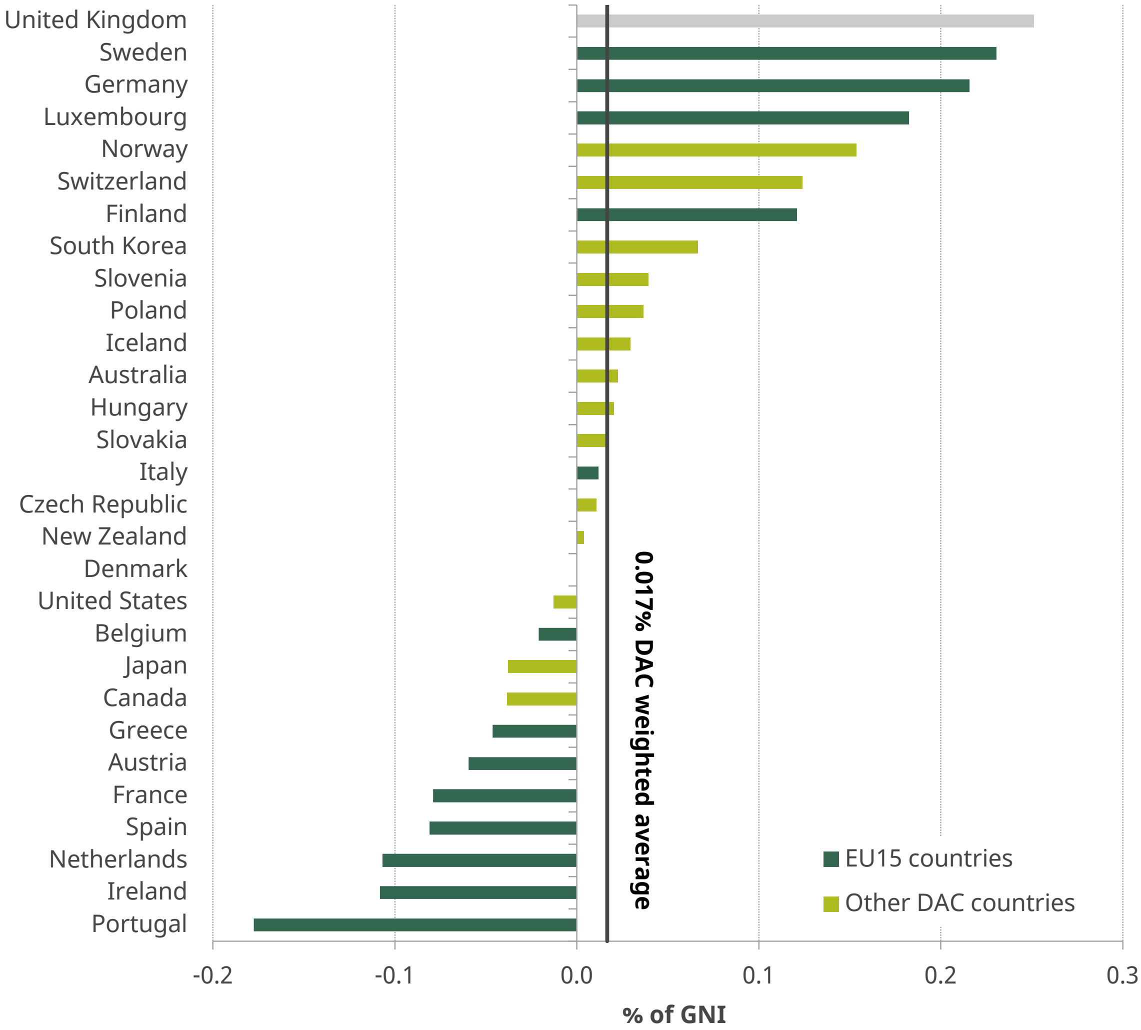
[2] Switzerland and the US are exceptions.

[3] The EU15 countries are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom. These were the member countries prior to the accession of 10 additional candidate countries in 2004.

[4] Additionally, two non-DAC countries met this target in 2016 – Turkey and United Arab Emirates.

UK increase in ODA spending over the last decade is highest among DAC countries

Figure 4. Increase in ODA as a percentage of GNI in OECD DAC countries between 2006 and 2016



Furthermore, the majority (eight) of the EU15 countries have, in fact, reduced their ODA spending as a proportion of GNI since 2005. Figure 4 shows that out of the 11 DAC countries that are in this category, EU15 countries (dark green bars) occupy the top seven places in terms of the size of cuts. For example, not only does Portugal spend relatively little but it has also reduced its spending considerably over the last decade. In contrast, at 0.25 percentage points, the UK has increased its ODA spending as a proportion of GNI by more than any other DAC country in the time since 2006.

The UK's success in honouring its ODA commitments despite difficult economic conditions is widely recognised. The most recent OECD DAC peer review of UK international development policy acknowledges this and identifies the UK as leading in shaping the global development agenda.[5]

[5] OECD, *OECD Development Co-operation Peer Reviews: United Kingdom 2014*, http://www.oecd.org/dac/oecd-development-co-operation-peer-reviews-united-kingdom-2014-9789264226579-en.htm.

Most UK aid continues to be disbursed bilaterally. Over the last decade, the amount going to humanitarian aid has more than doubled

UK ODA is delivered through bilateral and multilateral channels. Bilateral aid goes to specific countries, regions or programmes (sometimes through multilateral agencies). Spending of bilateral aid is controlled entirely by the donor, while multilateral aid is channelled through organisations engaged in development work, with little condition on exactly how the funds are to be spent.

Based on provisional figures for 2016, nearly two-thirds (64%) of UK ODA was delivered as bilateral aid. Just over half of this bilateral aid was region specific, with Africa receiving the largest proportion (57%) among the regions. The top five recipients of UK bilateral ODA were Pakistan, Ethiopia, Afghanistan, Nigeria and Syria.

Figure 5. Sectoral breakdown of UK bilateral ODA spend in 2015

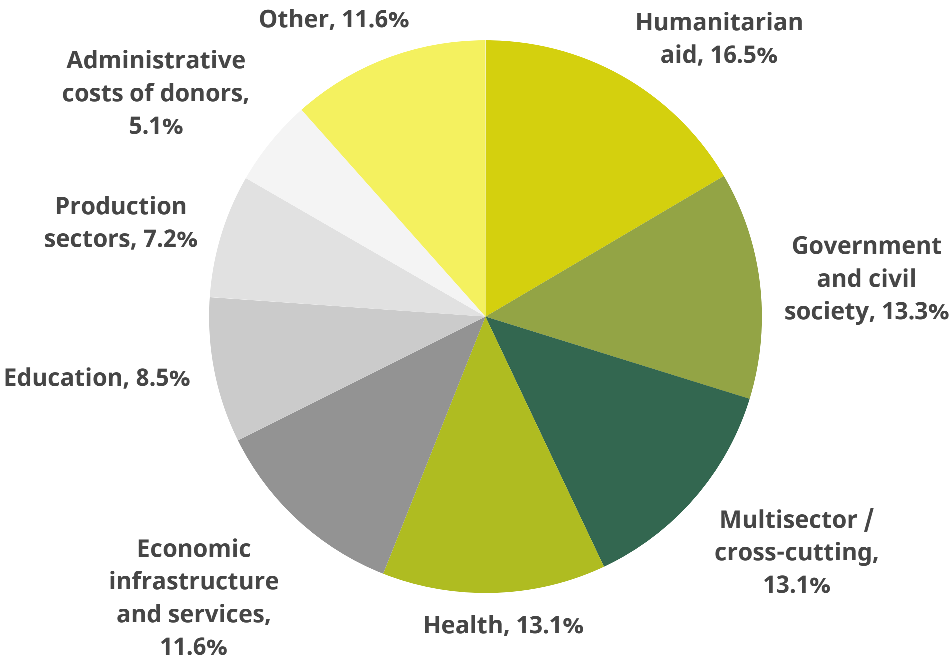


Figure 5 shows a sectoral breakdown of bilateral aid spending for 2015. Humanitarian aid is the single biggest category, accounting for one-sixth (16.5%) of total bilateral aid. A significant proportion of this money was spent on provision of aid to Sierra Leone (for dealing with the Ebola crisis), as well as Syria, Yemen and South Sudan.

Most of UK multilateral aid (57%) went through two partners in 2015 – the World Bank and the European Commission. More than a quarter was disbursed by the International Development Association (IDA), which is part of the World Bank Group; a further third was allocated to the European Commission. In a recent DFID review of its multilateral aid programme, IDA was one of three (out of 38) partners to receive the highest possible score in terms of matching with UK development objectives as well as organisational strength.[6]

[6] Department for International Development, *Raising the Standard: The Multilateral Development Review 2016*, https://www.gov.uk/government/publications/raising-the-standard-the-multilateral-development-review-2016.

DFID spending has been highly scrutinised and highly rated

According to DFID, key principles underlying its aid allocation decisions include: present need (levels of extreme poverty); aid effectiveness (the degree to which aid can translate into poverty reduction in a particular context); future need; and countries' own ability to finance their poverty needs.

While aid effectiveness is difficult to measure, recent reports from the parliamentary International Development Committee (IDC) point out that foreign aid is the most scrutinised part of UK government spending, monitored by the IDC, the National Audit Office and the Independent Commission for Aid Impact (ICAI). As the department disbursing most of UK ODA, DFID scores highly on the international Aid Transparency Index. The most recent 2014 peer review of UK aid strategy by the OECD was also largely positive about the country's performance, highlighting the UK's leadership of the global development agenda, DFID as a forward-looking mission-driven department well positioned to manage efficiently and effectively, and the UK's strengths in its approach to corruption and its political drive to achieve results.[7]

A number of directions for improvement were also identified, emphasising the need for better systems to ensure coherence in aid spending across the whole of the government, to minimise spending targets and to streamline the management process. A further challenge, flagged in the recent IDC report, is for the nature of the UK's aid spending to be better communicated to the public.

[7] OECD, *OECD Development Co-operation Peer Reviews: United Kingdom 2014*, http://www.oecd.org/dac/oecd-development-co-operation-peer-reviews-united-kingdom-2014-9789264226579-en.htm.
International Development Committee, *UK Aid: Allocation of Resources: Interim Report*, Third Report of Session 2015–16, HC 927, https://www.publications.parliament.uk/pa/cm201516/cmselect/cmintdev/927/927.pdf.
International Development Committee, *UK Aid: Allocation of Resources*, Seventh Report of Session 2016–17, HC 100, https://www.publications.parliament.uk/pa/cm201617/cmselect/cmintdev/100/100.pdf.

In line with the 2015 aid strategy, a growing proportion of the aid budget is allocated away from DFID to other departments and cross-government initiatives

Table 1. Changes in the allocation of total UK ODA budget from 2014 to 2016

	2014		2016		Change
	£m	Share	£m	Share	% points
DFID, of which:	10,501	86.2%	10,051	74.0%	−12.2%
EU attribution	389	3.2%	507	3.7%	0.5%
Total non-DFID, of which:	1,683	13.8%	3,536	26.0%	12.2%
BEIS	281	2.3%	700	5.2%	2.9%
CSSF	188	1.5%	585	4.3%	2.8%
Foreign & Commonwealth Office	381	3.1%	521	3.8%	0.7%
Home Office	142	1.2%	368	2.7%	1.6%
HM Treasury	0	0.0%	73	0.5%	0.5%
DEFRA	60	0.5%	68	0.5%	0.0%
Department of Health	12	0.1%	46	0.3%	0.2%
Department for Education	0	0.0%	39	0.3%	0.3%
Prosperity Fund	0	0.0%	38	0.3%	0.3%
Other	14	0.1%	28	0.2%	0.1%
Other contributors, of which:	607	5.0%	1,071	7.9%	2.9%
EU attribution (non-DFID)	436	3.6%	486	3.6%	0.0%
IMF PRGT	0	0.0%	454	3.3%	3.3%
Other	171	1.4%	130	1.0%	−0.3%
Total	12,184	100.0%	13,587	100.0%	-

In addition to the large increase in UK ODA spending over the last decade, there have been some significant shifts in ODA strategy within the UK. These are set out in a 2015 Treasury policy paper, 'UK aid: tackling global challenges in the national interest'.[8] As the title makes clear, the new strategy places serving the national interest at the heart of the government's approach to how the ODA budget is spent.

A key mechanism for achieving this is directing less of the aid budget through DFID and instead spending it through other government department and cross-government initiatives. Since its inception in 1997, DFID has received most of the ODA budget. Over the five years prior to the publication of the new strategy in 2015, the proportion of the ODA budget received by DFID fluctuated from year to year but overall went down by less than 1 percentage point. Between 2014 and 2016, however, there was a 12 percentage point

8 HM Treasury, *UK Aid: Tackling Global Challenges in the National Interest*, Cm 9163, 2015, https://www.gov.uk/government/publications/uk-aid-tackling-global-challenges-in-the-national-interest.

drop, so that by 2016 more than a quarter of the aid budget (£3.5 billion) was being spent outside DFID, up from 14% two years earlier (Table 1).

Table 1 shows that most of this change has been driven by increases in ODA allocations to other government departments and cross-government funds. Among the departments, the Department for Business, Energy & Industrial Strategy (BEIS), the Home Office, the Foreign & Commonwealth Office and the Treasury have seen the largest increases. In addition, significant allocations were made to cross-government funds, including the Prosperity Fund and the Conflict, Security & Stabilisation Fund (CSSF). In 2016, the latter disbursed the second-largest proportion of the non-DFID UK ODA budget (4.3%) after BEIS.

According to the strategy document, broadly these changes aim to ensure that 'Britain … not only meets its responsibilities to the world's poorest, but in doing so best serves and protects its own security and interests'. For example, through goals such as improving the business climate, competitiveness and the operation of markets, reforming the energy and financial sectors, and increasing the ability of governments to tackle corruption, the Prosperity Fund is intended to contribute to poverty reduction while creating international business opportunities, including for UK companies.

Within the UK and internationally, this direction of travel has raised some concerns. According to international criteria, spending counts as ODA if it is 'administered with the promotion of the economic development and welfare of developing countries as its main objective'.[9] UK law further stipulates that 'provision of the assistance [should be] likely to contribute to a reduction in poverty'.[10]

A review of the Prosperity Fund by ICAI flagged a number of concerns, emphasising difficulties in developing programmes that are effective at reconciling poverty reduction with the need to strengthen opportunities for UK firms.[11] More generally, the most recent 2014 OECD DAC peer review of UK aid strategy, as well as a 2016 report to the House of Commons by the IDC, flag the risk that it will reduce focus on global poverty alleviation given the likely challenges of aligning this target with national interest.[12] The IDC further highlights a need for a stronger statutory framework within the UK for ensuring that poverty alleviation is the primary objective of all UK ODA spending – not just DFID's – as well as a concern about transparency and accountability of aid spending outside DFID.

So far, Theresa May has made it clear that if she wins the election, she will uphold the UK's commitment to spending 0.7% of GNI on ODA. However, across the main parties, there has been little indication of how this money will be spent and what balance they will aim to strike between national interest and global poverty alleviation goals in UK aid spending going forward.

9 http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm.

10 International Development Act, 2002.

11 Independent Commission for Aid Impact, *The cross-government Prosperity Fund* (February, 2017).

12 OECD, *OECD Development Co-operation Peer Reviews: United Kingdom 2014*, http://www.oecd.org/dac/oecd-development-co-operation-peer-reviews-united-kingdom-2014-9789264226579-en.htm.
International Development Committee, *UK Aid: Allocation of Resources: Interim Report*, Third Report of Session 2015–16, HC 927, https://www.publications.parliament.uk/pa/cm201516/cmselect/cmintdev/927/927.pdf.

Notes and sources

Figure 1

Note: Figure is in 2017–18 prices. Forecasts are based on the assumption that GNI will grow at the same rate as GDP and that the 0.7% pledge is maintained, and use Office for Budget Responsibility (OBR) forecasts for GDP and deflators. Spike in ODA spending in 2005 and 2006 reflects provision of debt relief to Iraq and Nigeria.
Source: Authors' calculations based on data from the OECD DAC database (http://stats.oecd.org/qwids/).

Figure 2

Source: Figure 9 in C. Emmerson, 'Two parliaments of pain: the UK public finances 2010 to 2017', IFS Briefing Note 199, May 2017, https://www.ifs.org.uk/publications/9180.

Figure 3

Source: Authors' calculations based on data from the OECD DAC database (http://stats.oecd.org/qwids/).

Figure 4

Note: Figure shows the difference in the three-year average of the ODA/GNI ratio between 2006 and 2016.
Source: Authors' calculations based on data from the OECD DAC database (http://stats.oecd.org/qwids/).

Figure 5

Source: DFID, 'Statistics on international development 2016',
https://www.gov.uk/government/statistics/statistics-on-international-development-2016.

Table 1

Note: Table in 2017 prices using OBR GDP deflators. BEIS – Department for Business, Energy & Industrial Strategy; CSSF – Conflict, Security & Stabilisation Fund; DEFRA – Department for Environment, Food & Rural Affairs; PRGT – Poverty Reduction & Growth Trust.
Source: Authors' calculations using table 3 of DFID, 'Statistics on international development 2016', https://www.gov.uk/government/statistics/statistics-on-international-development-2016 and GDP deflators from the Office for Budget Responsibility.