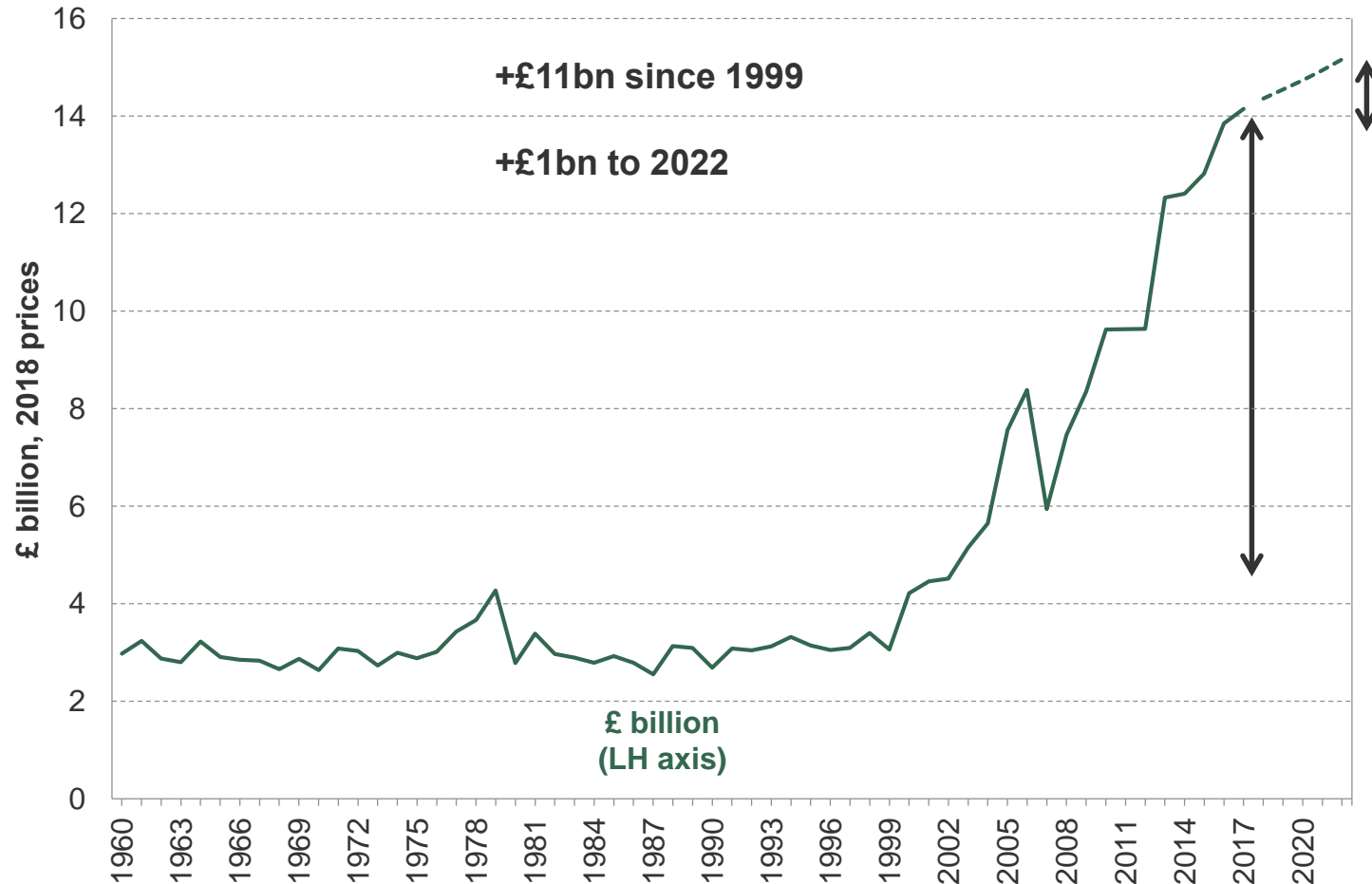


IFS Green Budget 2018

How the UK spends its aid budget

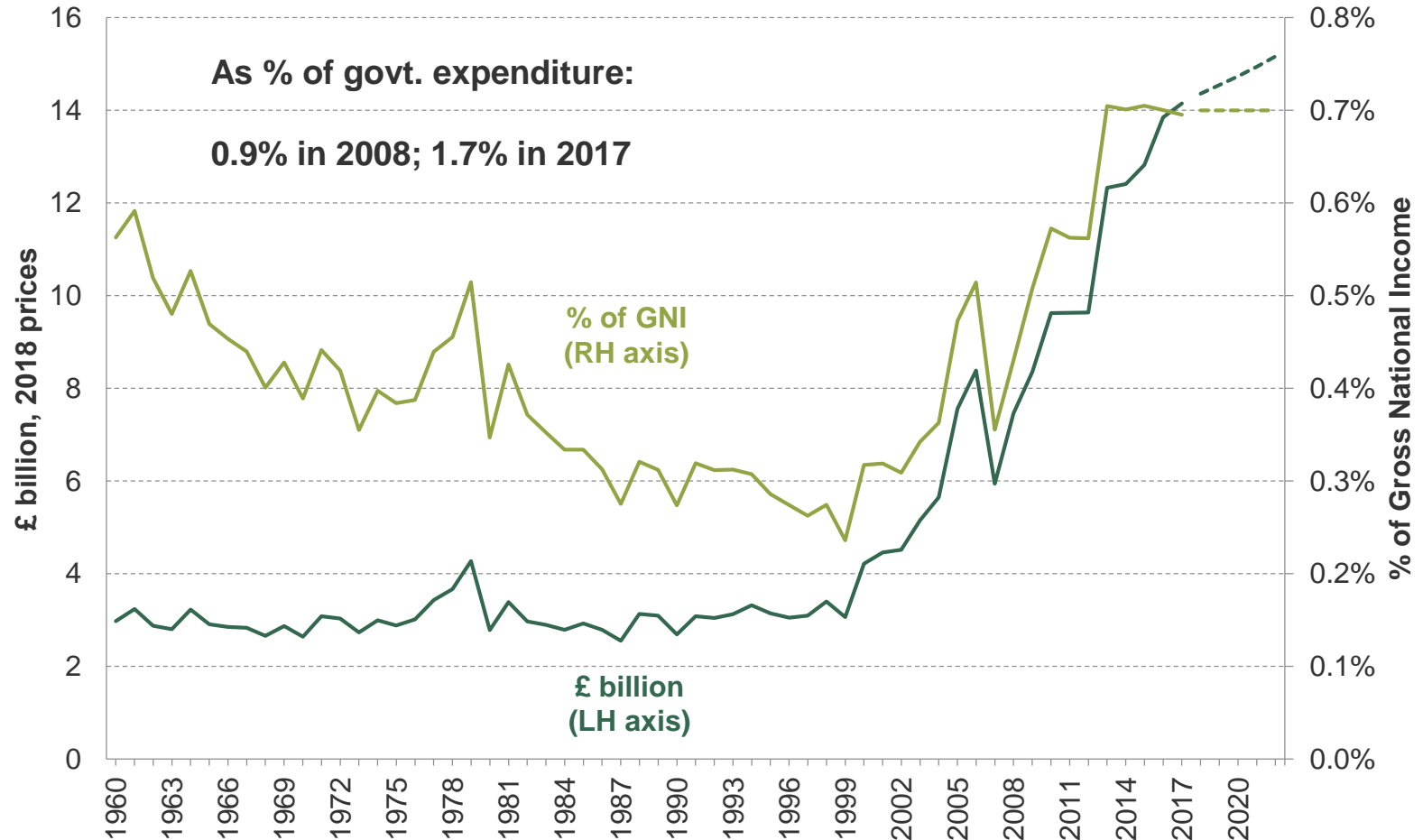
Ross Warwick, Institute for Fiscal Studies

UK aid spending is at an all time high...



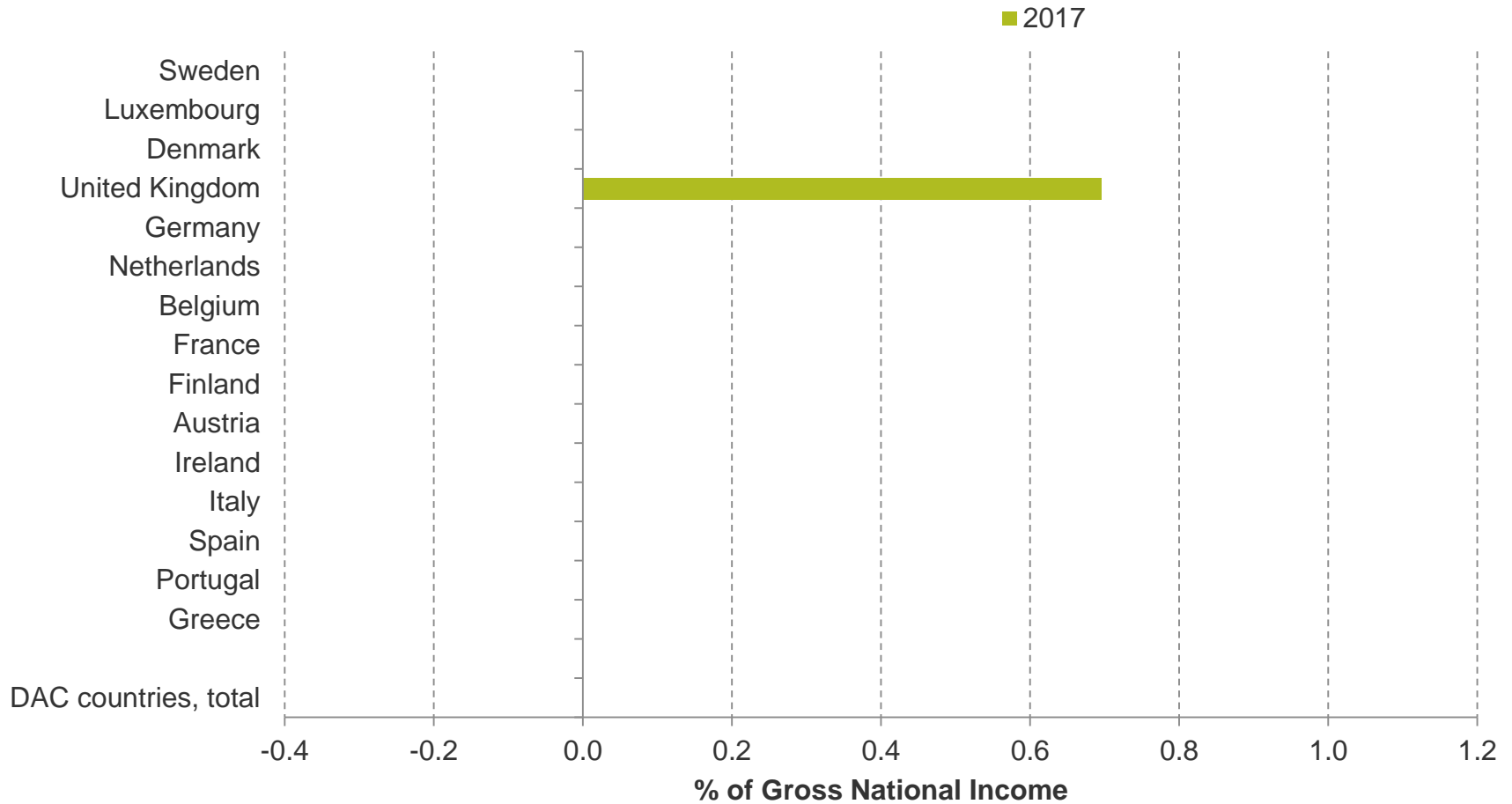
Notes and sources: see Figure 8.1 in the IFS Green Budget

UK aid spending is at an all time high...



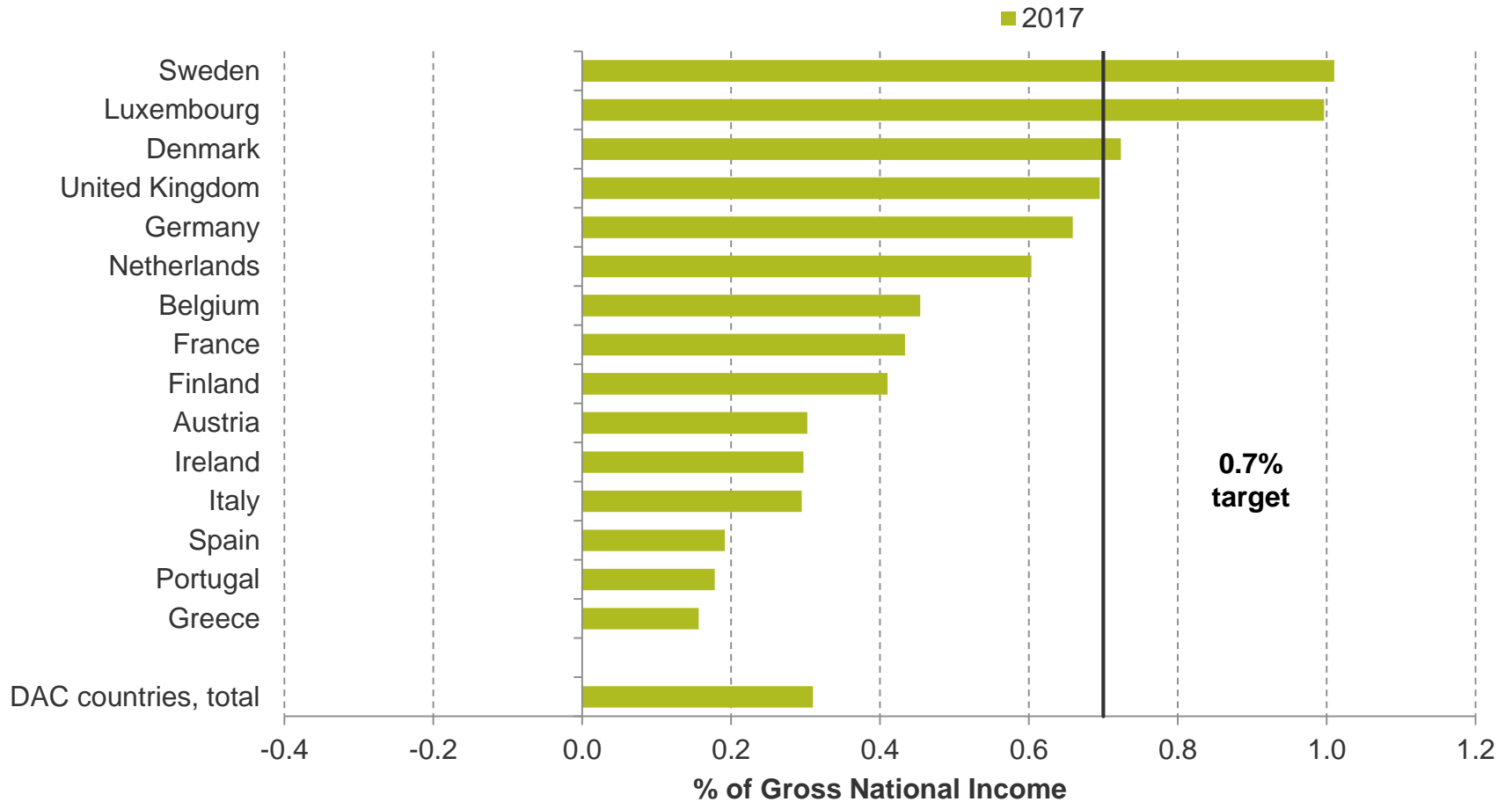
Notes and sources: see Figure 8.1 in the IFS Green Budget

...this sets it apart internationally...



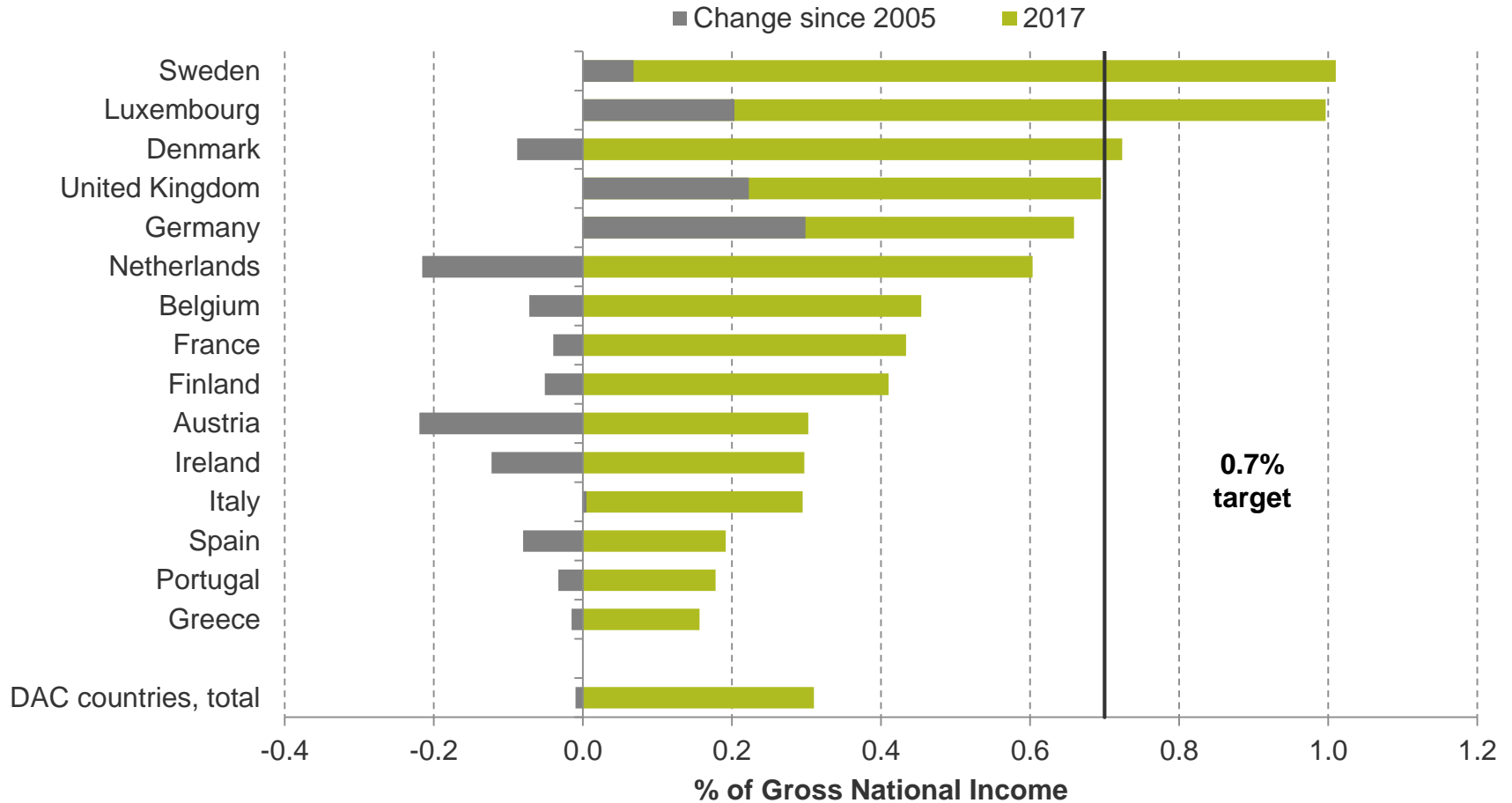
Notes and sources: see Figure 8.4 in the IFS Green Budget

...this sets it apart internationally...



Notes and sources: see Figure 8.4 in the IFS Green Budget

...this sets it apart internationally...



Notes and sources: see Figure 8.4 in the IFS Green Budget

...and makes it important to understand how it is spent

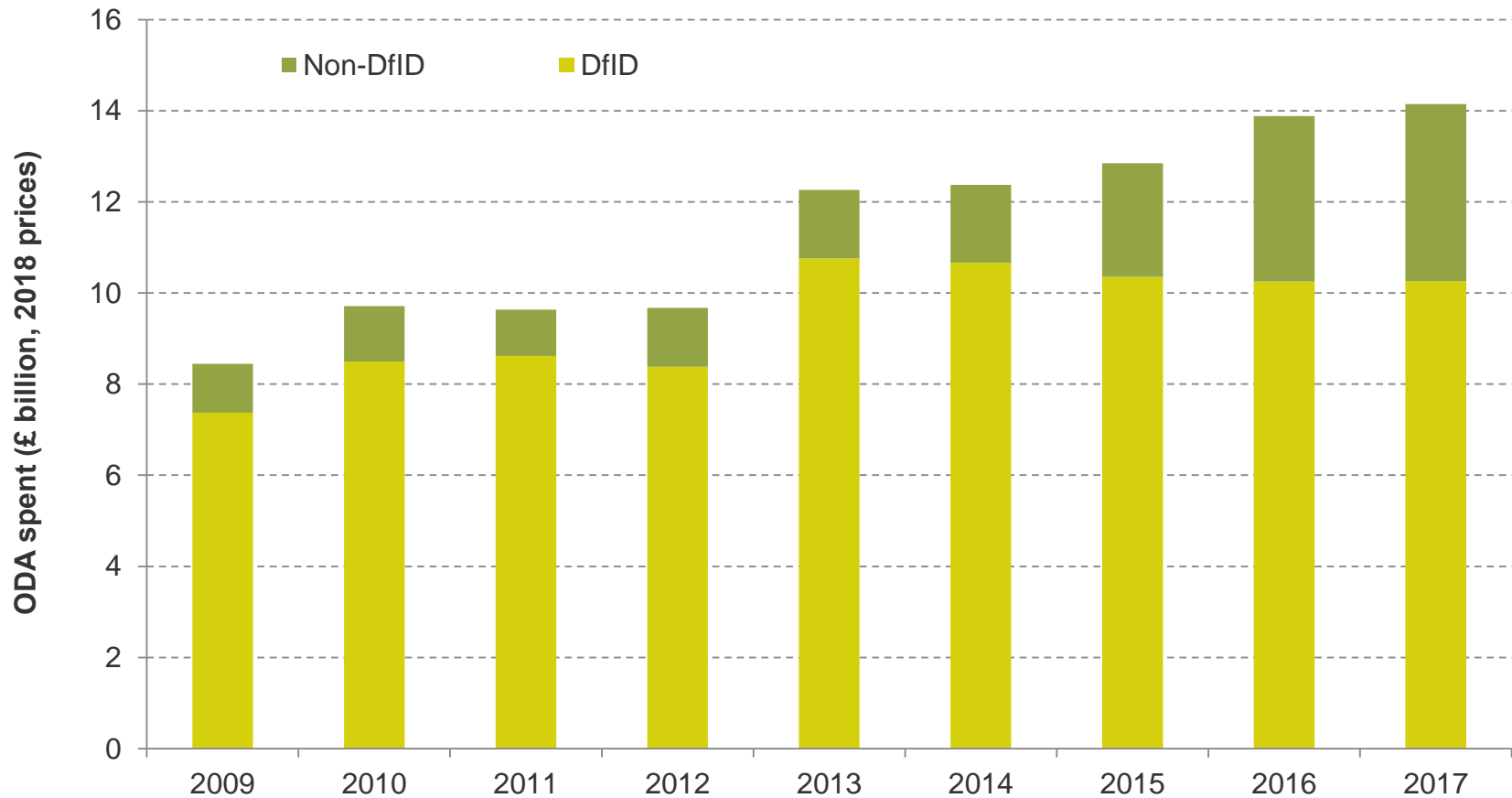
In 2015, the 0.7% target was written into UK law

- This is a substantial fiscal commitment

There have been changes to the strategy underlying this spending

- 2015 aid strategy is the first cross-government strategy
 - Poverty reduction remains a key objective
 - But also supporting security and prosperity abroad, and tackling crises
 - Contribution to the UK's national interest is emphasised
- In light of Brexit, increased focus on the role aid can play in creating opportunities abroad for the UK

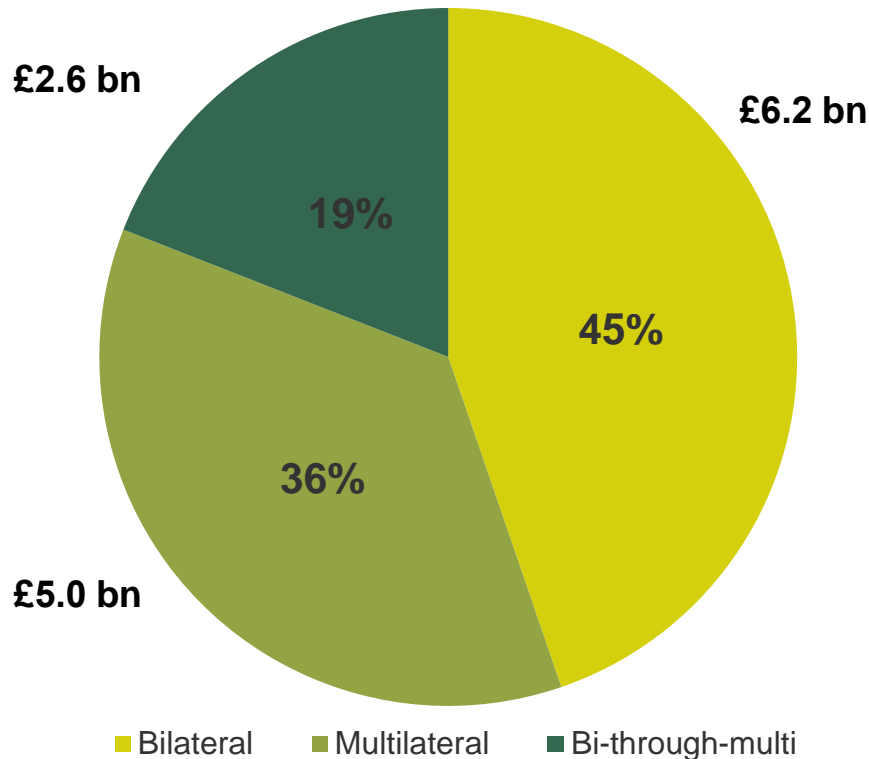
Who spends UK aid?



Notes and sources: see Figure 8.5 in the IFS Green Budget

Where does UK aid go?

Net ODA in 2016 (2018 prices)



Bilateral aid targets a specific country, region or thematic spending area

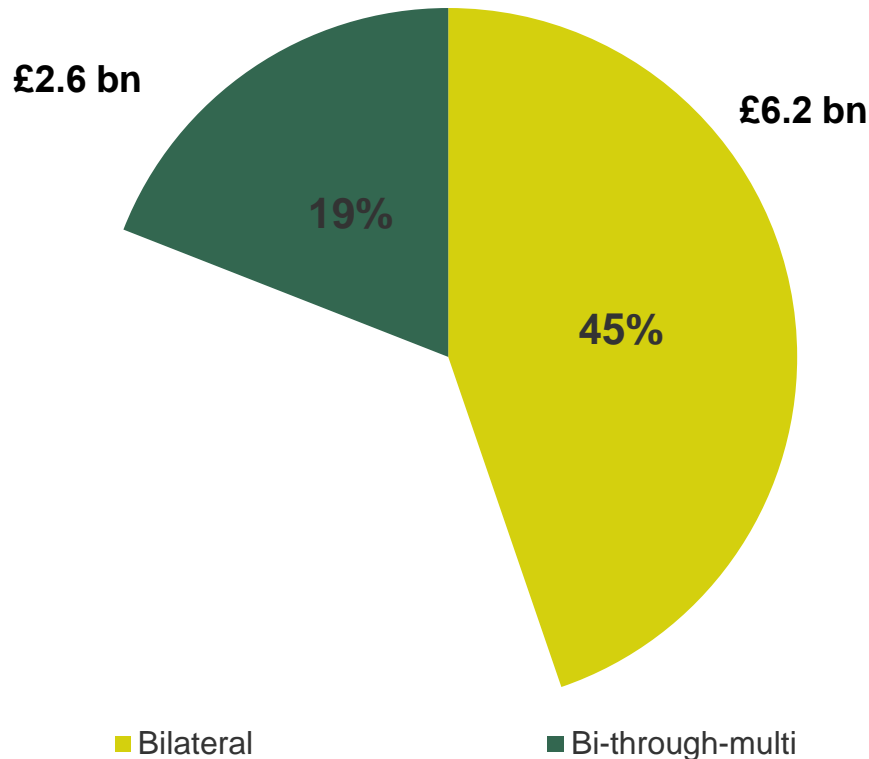
Multilateral aid funds eligible international institutions carrying out development activities

Some bilateral aid goes through multilaterals

Notes and sources: see Figure 8.6 in the IFS Green Budget

Where does UK aid go?

Net ODA in 2016 (2018 prices)



Bilateral aid targets a specific country, region or thematic spending area

It accounted for 64% of UK ODA in 2016 and 62% in 2017

Notes and sources: see Figure 8.6 in the IFS Green Budget

Where does bilateral aid go?

For top recipient countries, some changes in recent years

- Significant continuity (e.g. Ethiopia, Nigeria, Pakistan, Tanzania) but:
 - Greater focus on crises and conflict (e.g. Jordan, Syria)
 - Transition to ‘development partnerships’ (e.g. China, India)

Thematic spending patterns haven’t changed drastically

- Health, education and governance programmes continue to be prominent
- Humanitarian aid constituted largest proportion in 2015 and 2016

A greater role for “development capital”

“Public investment made in the private sector to achieve development objectives”

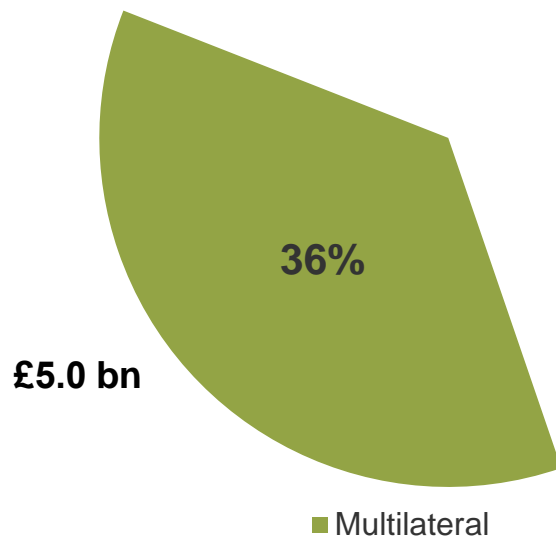
- The Treasury has set DfID a target to spend £5 billion in this way over the 2015 Spending Review period
- CDC Plc is the primary vehicle for this, providing loans and equity
 - Capital injections of £3 billion over 6 years from 2017

Penny Mordaunt’s speech last week suggests an even greater role for CDC in UK aid

- This type of aid does not add to the headline measure of the deficit

Where does UK aid go?

Net ODA in 2016 (2018 prices)



Multilateral aid funds eligible international institutions carrying out development activities

In 2016, the UK was the largest contributor of this type of aid in the world

- Over 60% went to the EU, IMF and World Bank

Notes and sources: see Figure 8.6 in the IFS Green Budget

The EU is the UK's biggest multilateral partner

- In 2016, the UK contributed £0.9 billion to the EU Commission's aid budget and £0.6 billion to the other EU institutions

There is a great deal of uncertainty about future arrangements

- The UK seeks “close collaboration” post-Brexit subject to two red lines: influence over how funds are used and access for UK organisations
- The 0.7% commitment implies that part of the UK's current contribution to the EU is earmarked for aid spending

Summary

The UK's commitment to aid spending entails a significant fiscal commitment, forecast at over £14 billion for 2018

Though it is too early to draw strong conclusions, an updated strategy is already affecting how UK aid is spent

- more humanitarian aid; emphasis on private sector investments

There is considerable uncertainty about the future of parts of the aid budget

- what will happen in next year's Spending Review?
- what is the role of CDC in the future?
- how will Brexit affect UK aid?