Submission to the International Development Committee inquiry 'Effectiveness of UK Aid'

Independent Commission for Aid Impact

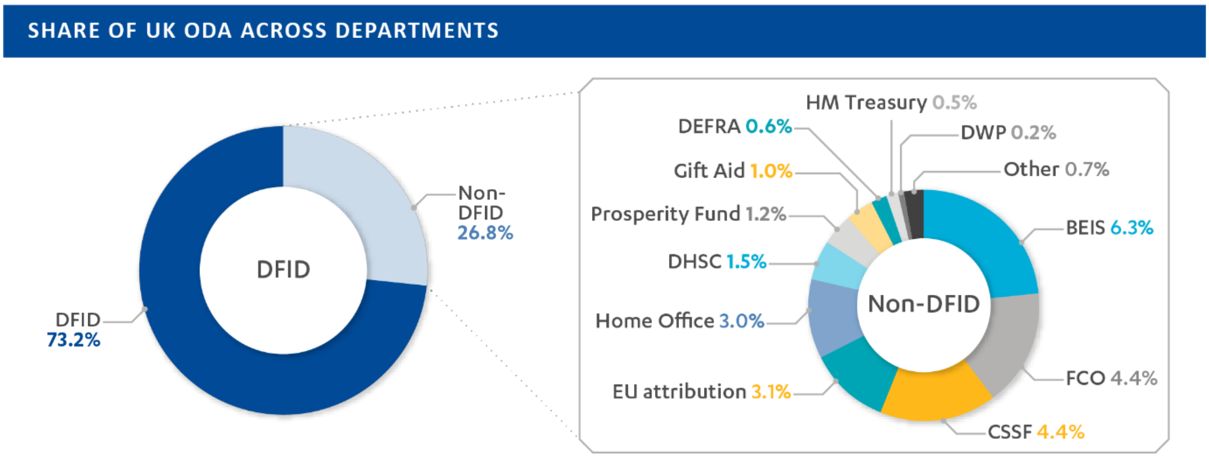
This note summarises findings from past reports, updated as necessary, of the Independent Commission for Aid Impact (ICAI) related to questions being explored by the International Development Committee in its inquiry on the 'Effectiveness of UK Aid'.

The definition and administration of UK aid – who should be responsible, and accountable, for targeting and spending aid?

Who spends UK aid?

In the period before 2015, the Department for International Development (DFID) commonly managed 85% to 90% of the UK aid programme. Under the 2015 aid strategy, the UK government announced that it would make more use of the 'complementary skills' of other departments. Since then, the share of UK aid managed outside DFID rose to a peak of 28.1% in 2017, and stood at 26.8% in 2019. This involved a rapid scaling up of non-DFID aid, from £1.67 billion in 2014 to £4.07 billion in 2019. Non-DFID UK aid is now larger than the aid budgets of midsize donors such as Canada and Norway. The largest beneficiaries of these increases have been the Department for Business, Energy and Industrial Strategy (BEIS), the Foreign and Commonwealth Office (FCO) and the Home Office (see figure 1).

Figure 1: Aid spending by department (2019 provisional figures)



Source: *Statistics on International Development Provisional UK Aid Spend 2019*, DFID, April 2020, link.
Note - Due to rounding, total for all non-DFID departments, funds and uses doesn't add up to 26.8%

Most of the ODA budget is allocated directly by HM Treasury to specific departments. However, there are also two cross-departmental funds, to which departments can bid. In 2019, the Conflict, Stability and Security Fund (CSSF) had an ODA budget of £661 million and the Prosperity Fund £175 million, between them accounting for 5.6% of UK ODA (see figure 1). The FCO was the largest recipient (68% of the total in 2018), followed by DFID (20%), with the rest allocated across 14 other departments.

Where is UK ODA spent?

DFID concentrates its assistance in 33 priority countries. Most are poor countries in sub-Saharan Africa. It also supports several South Asian countries (Afghanistan, Bangladesh, Myanmar, Nepal and Pakistan), runs major humanitarian programmes in the Middle East and has a partnership on climate change with Indonesia. Non-DFID aid has a very different geographical profile, with around threequarters going to middle-income countries, including China, India and South Africa, pursuing priorities such as reducing carbon emissions, tackling insecurity, building research partnerships and promoting trade and investment ties with the UK (see Figure 2).

In 2018, DFID spent 62.5% of its country-specific aid in Least Developed Countries (LDCs).[1] For non-DFID aid, this proportion was 25.7%, including 21% for BEIS, 17% for the FCO and none for the Prosperity Fund.[2] A growing share of UK aid goes towards upper middle-income countries, including 43% from FCO, 49% from BEIS and 89% from the Prosperity Fund (see Figure 3).

Figure 2: Top ten recipients of DFID and non-DFID aid (2018)

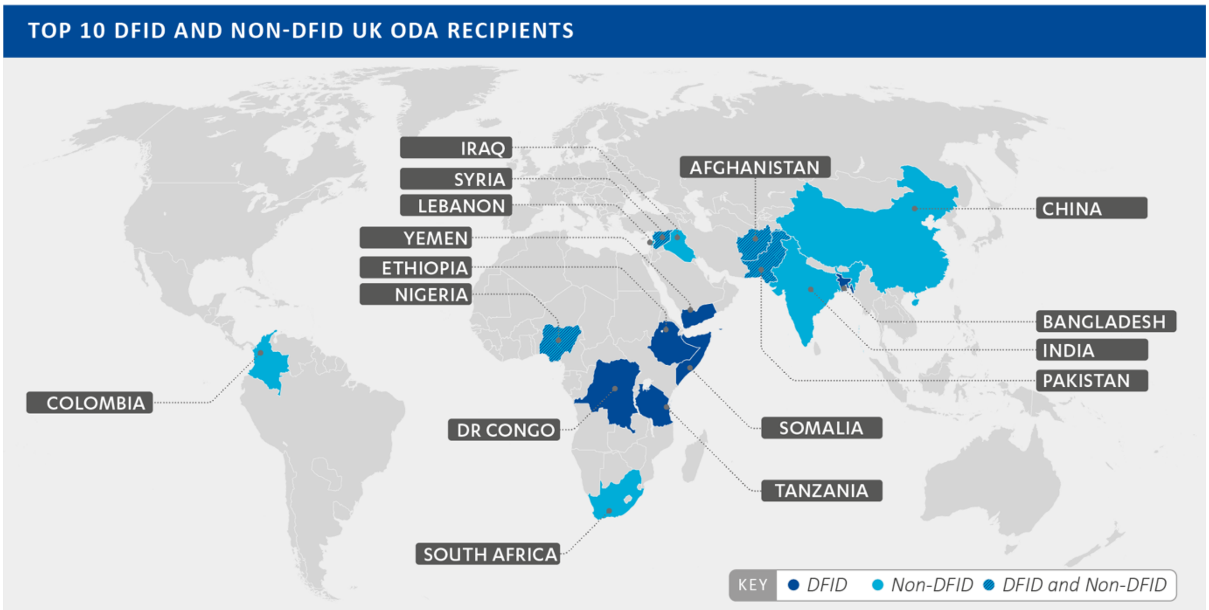
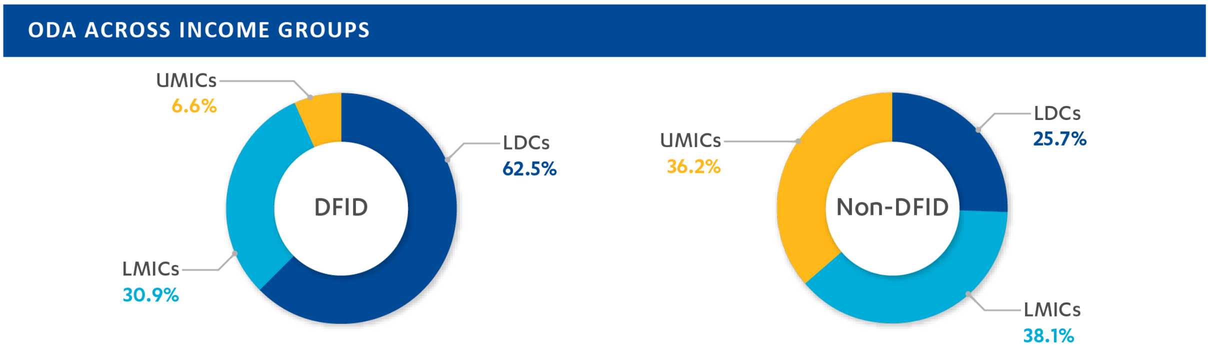


Figure 3: Share of net-ODA across country income groups, DFID and non-DFID



LDCs = least developed countries (plus Zimbabwe – see footnote 1). LMICs = lower middle-income countries. UMICs = upper middle-income countries. Country classifications are from the OECD: link. Source: *Statistics on International Development: Final UK Aid Spend 2018*, DFID, September 2019, link.

How is ODA allocated across departments and funds?

The Treasury allocates ODA budgets to each department and fund, in order to meet government priorities and the statutory 0.7% target. Allocations are made through Comprehensive Spending Reviews (CSRs) and adjusted as needed through the annual budget process. The last CSR, in 2015, allocated ODA for the period 2016/17 to 2019/20. The process began with departments presenting bids to Treasury, outlining their strategic objectives and proposed delivery methods. A 2017 National Audit Office review of this process found that “HM Treasury did not ask for details of departments’

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1 The statistics exclude some ODA spent through global and regional programmes. Least developed countries (LDCs) are 47 countries identified by the UN as facing severe structural impediments to their development: see the OECD list at link. We have also included Zimbabwe, which is a low-income country but not on the official list of LDCs.

2 Note that the majority of non-DFID aid is not reported against specific countries.

capacity and capability to implement their proposed projects or their plans for monitoring and evaluation of the projects' outcomes", although it did consider these issues where relevant information was available. In *How UK Aid Learns*, ICAI recommended that, in the next CSR, the Treasury require departments bidding for ODA to present evidence of their investment in learning and other aid-management capabilities. The recommendation was accepted.

The cross-government aid architecture

In addition to Treasury's role in allocating aid budgets, a cross-government architecture for managing the fragmented aid budget has emerged.

- **The National Security Council (NSC)** coordinates UK government policy on national security, diplomacy, trade and development. It prepares the National Security Strategy and a range of regional, country and thematic strategies. Through the Fusion Doctrine, it has directed that aid should be used alongside other tools of external engagement in support of common objectives. Under the NSC, there are:
    - **The Cross-Government Funds sub-committee,** a ministerial-level body that sets strategic priorities for the CSSF and the Prosperity Fund
    - **The Prosperity Fund Ministerial Board**, which brings together nine departments involved in the Prosperity Fund at Ministerial level to make programming and funding decisions
    - **National Security Implementation Groups (NSIGs)**, which bring together senior officials from across departments to coordinate work on particular regions, countries or themes. There is no public list of NSIGs.

- **The Senior Officials Group** is a director-level body that monitors delivery of the 0.7% aid target and plays a limited role in promoting value for money across UK aid.
- **The Joint Programme Hub** is an inter-departmental team based in the FCO that provides coordination, technical and programme management support to departments implementing CSSF and Prosperity Fund programmes. **Programme boards** at regional and country levels approve and oversee CSSF programmes.
- **Independent scrutiny:** ICAI is part of the cross-government architecture. The International Development Secretary has a statutory obligation to make arrangements for the independent evaluation of the value for money of all UK aid. ICAI provides that independent scrutiny role, working closely with the International Development Committee. The National Audit Office also produces regular reports on ODA-related matters.

There is also a substantial and growing network of cross-government coordination mechanisms, on specific development topics (e.g., climate change and global health), types of aid (e.g., development research) and cross-cutting themes (e.g., safeguarding and evaluation).

Under Treasury rules, each department is responsible for its own spending, including ODA, and accountable to its own select committee. DFID has no overall responsibility for quality control, but does provide certain cross-cutting functions. It prepares the UK's aid statistics, receiving spending figures from other departments and publishing the annual *Statistics on International Development*. It advises and supports other departments on the international ODA definition, but does not conduct line-by-line checks of their ODA returns. The International Development Secretary reports to Parliament on the achievement of the 0.7% spending target, and DFID acts as 'spender or saver of last resort', adjusting its own ODA spending at the end of each year to ensure that the target is met but not exceeded. DFID also maintains the DevTracker online platform for publishing aid data, which other departments can use. It provides extensive support to aid-spending departments through guidance, training and secondments (in 2019, it had more than 100 staff on loan to other departments). In response to concerns raised by ICAI[3] and others that DFID was not resourced for this supporting role, the department was allocated £20 million in the September 2019 Spending Round to support its cross-government work.

Gaps in the architecture

ICAI,[4] the International Development Committee[5] and the National Audit Office[6] have all pointed to significant gaps in the UK aid architecture. First, there is no oversight of whether the aid programme as a whole meets its objectives. The 2015 Aid Strategy set out high-level objectives for UK aid, but there is no single body responsible for assessing whether the fragmented aid programme aligns with those objectives or is delivering its intended results.

Second, the distribution of UK aid across countries and sectors is an unintended result of allocation decisions made separately by aid-spending departments and funds. This means that no explicit decision is made on how much aid to spend in the poorest countries, even though poverty reduction is the primary objective of UK aid under the International Development Act.

Third, there is no overall quality control mechanism. DFID and HM Treasury published value for money guidance in 2018. However, there is no requirement to adhere to international standards on aid effectiveness, such as the Paris Declaration and its successors. Only DFID has made a public commitment to 'leaving no one behind' – the underlying principle of the 2030 Sustainable Development Agenda. The UK government remains committed to untying all UK aid, but concerns raised by ICAI around the tying of ODA research budgets have not been addressed.[7]

How effective and transparent is aid spent by DFID compared to other departments and the cross-government funds?

ICAI has carried out around 40 reviews of UK aid since the 2015 UK aid strategy, covering the work of DFID, other departments and cross-government funds and programmes. These detailed reviews have assessed aid-management capacities in areas such as procurement, fiduciary risk management, oversight and value for money, as well as fund governance and management. This body of work makes us well placed to identify the capabilities that departments need in order to manage aid properly and achieve excellence in development cooperation. The capabilities required are extensive.

- **ODA compliance:** The ability to ensure that aid spending falls within the international ODA definition and the requirements of the International Development Act – i.e. poverty focus, promoting gender equality and untying from UK business.
- **Country knowledge:** Adequate country presence and engagement to design and manage aid programmes that respond to local needs, context and challenges.
- **Development expertise:** The ability to build knowledge of 'what works' in international development, including through research, guidance material and staff training.
- **Value for money:** An ability to appraise and select the best value interventions from among competing options, using sophisticated methods to assess costs and benefits.
- **Cross-cutting commitments:** An ability to meet the cross-cutting priorities that underpin the quality of UK aid, including aid effectiveness principles, the 'leave no one behind' commitment, gender equality, disability inclusion and climate resilience.
- **Procurement and commercial management:** The ability to engage, secure value from and build effective relationships with delivery partners, including firms, NGOs and multilateral organisations.

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3 *How UK Aid Learns: A Rapid Review*, ICAI, September 2019, link.
4 *How UK Aid Learns: A Rapid Review*, ICAI, September 2019, link.
5 *Definition and Administration of ODA: Fifth Report of Session 2017-19,* International Development Committee, June 2018 link.
6 *Managing the Official Development Assistance Target: A Report on Progress*, National Audit Office, July 2017, link.
7 *Global Challenges Research Fund: A rapid review*, ICAI, September 2017, link; *The Newton Fund: a performance review*, ICAI, June 2019, link.

- **Project management:** Robust capacity to manage complex projects through the delivery cycle, including appraisal and design, implementation, and monitoring and evaluation.
- **Risk management:** The ability to manage fraud and corruption risks, comply with rules on human rights and terrorist financing, and ensure that UK aid does no harm.
- **Safeguarding:** The ability to set standards and manage risks around sexual exploitation and abuse, and to implement environmental and social safeguards.
- **Results management:** The ability to select appropriate objectives, results indicators and targets, monitor progress and ensure independent evaluation.
- **Adaptability:** An ability to adapt programmes in real time in response to changes in context and lessons learned.
- **Learning:** Systems to capture and distil learning from aid programmes, and a culture of using learning to challenge established practices.
- **Transparency:** An ability and willingness to meet international transparency standards, so as to enable external scrutiny and accountability.

As a specialist aid ministry, DFID has invested since 1997 in building these capabilities. It has established a reputation as a leading global development agency with a strong focus on results, transparency and evaluation.[8] ICAI reviews have pointed out where DFID falls short of its own high standards, but have also recognised the department's commitment to continual improvement. For example, in 2019 we raised concerns about a loss of focus on working with and through partner country systems, but praised DFID's efforts to implement the 'leave no one behind' commitment.[9]

By contrast, other aid-spending departments are still putting in place basic aid-management systems and processes. In *How UK Aid Learns*, we noted that no extra resources were put in place to build the necessary capabilities across 16 aid-spending departments and funds, posing substantial compliance and value-for-money risks. Across our reviews of non-DFID aid, we have found gaps in systems for ensuring ODA eligibility, setting and monitoring results targets, ensuring value for money and managing complex portfolios. For the FCO, which describes itself as 'an experienced and reliable spender of ODA' with a track record back to at least 2007,[10] our reviews have identified weaknesses around transparency, programme management, results systems and learning.[11] A 2019 review of aid-spending departments found that only DFID, BEIS and the Department for Health and Social Care have so far met the UK government's aid transparency commitment, with some – including the FCO – still well off the standard required.[12]

There are, however, areas of high-quality aid across government. UK aid clearly benefits from drawing on the skills and experience available across departments. Examples include:

- BEIS's partnership on low-carbon development with countries such as Colombia with fast-growing emissions[13]
- The FCO's high-quality engagement with the Colombian government on strengthening the rule of law, drawing on the expertise of the National Crime Agency[14]
- The Department of Health and Social Care's use of ODA to develop vaccines and treatments for neglected diseases, tackle antimicrobial resistance and address the weaknesses in global health systems exposed by the Ebola crisis[15]

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8 *OECD Development Co-operation Peer Reviews: United Kingdom*, OECD, 2014, link.

9 *The current state of UK aid: a synthesis of ICAI findings from 2015 to 2019*, ICAI, June 2019, pp. 14-16, link.

10 Written evidence submitted by the FCO: IDC inquiry of 'Definition and Administration of ODA', link.

11 *How UK Aid Learns: A Rapid Review*, ICAI, September 2019, link; *The Conflict, Stability and Security Fund's aid spending: A performance review*, ICAI, March 2018, link; *The UK's Preventing Sexual Violence in Conflict Initiative: Joint Review*, ICAI, January 2020, link.

12 *How Transparent is UK Aid? A Review of ODA Spending Departments*, Publish What You Fund, January 2020, link.

13 *International Climate Finance: UK aid for low-carbon development – A performance review*, ICAI, February 2019, link.

14 *The Conflict, Stability and Security Fund's aid spending: A performance review*, ICAI, March 2018, link.

15 *The UK aid response to global health threats*, ICAI, January 2018, link.

- HM Revenue and Customs' support to developing countries to strengthen their tax systems and tackle international tax evasion.[16]

We note, however, that excellence in these areas comes from the technical expertise available across the departments, rather than their capacity to manage large and complex aid programmes, in which DFID remains the acknowledged specialist.

How should the national interest be defined, and what weight should it be given, in relation to targeting aid?

In a broad sense, all UK aid is in the national interest, in that the UK benefits from ending poverty, spreading prosperity, boosting peace and security, and from international cooperation on climate change and other global challenges. It is also in the UK national interest to be seen as a 'development superpower', using its large and high-quality aid programme as a multiplier of international influence. ICAI has identified a number of instances where aid has enhanced the UK's influence on pressing global issues, including:

- Enabling the UK to play leading roles in the international response to conflicts in Somalia and Syria[17]
- Helping to build the UN's capacity to mount large-scale humanitarian operations[18]
- Helping to shape the international climate finance architecture and leverage climate finance from others[19]
- Addressing weakness in the international health emergency response system[20]
- Promoting global cooperation on illicit financial flows and international tax evasion.[21]

In recent years, there have been growing calls for the use of UK aid to promote bilateral trade and investment, as a 'secondary benefit' to its primary purpose of reducing poverty. ICAI has found that, for now, the change has been more rhetorical than real. So far, departments have generally been careful to avoid using aid in pursuit of short-term commercial advantage.[22] However, the Prosperity Fund is a significant shift of direction for UK aid, towards emerging economies and future trading partners, and DFID is also under pressure to increase its focus on 'market strengthening'. There are a number of risks around this direction of travel:

- It may dilute the focus of UK aid on its primary purpose of reducing poverty. This is a particular concern with the Prosperity Fund's focus on upper middle-income countries, unless it comes with a strong focus on addressing inequality within those countries.
- The pursuit of secondary benefits has the potential to blur departmental mandates and create conflicts of interest. For example, a British investor in a developing country may seek the UK government's support in negotiating tax breaks, even as UK aid is working to help that country raise its tax revenues.
- There is evidence that DFID officials are being asked to spend more of their time supporting mutual prosperity objectives, which risks diverting them from their primary role.[23]

There are clear risks to the reputation of the UK aid programme if these tensions are not managed. ICAI has seen limited evidence that aid is useful for securing short-term economic advantages. If a

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16 *The changing nature of UK aid in Ghana: Country portfolio review*, ICAI, February 2020, link.
17 *UK aid in a conflict-affected country: Reducing conflict and fragility in* Somalia, ICAI, June 2017, link. *The UK's humanitarian support to Syria: A performance review*, ICAI, May 2018, link.
18 *The UK's approach to funding the UN humanitarian system: A performance review*, ICAI, December 2018, link.
19 *International Climate Finance: UK aid for low-carbon development – A performance review*, ICAI, February 2019, link.
20 *The UK aid response to global health threats*, ICAI, January 2018, link.
21 *The changing nature of UK aid in Ghana: Country portfolio review*, ICAI, February 2020, link. *Mapping the UK's approach to tackling corruption and illicit financial flows: Information note*, ICAI, March 2020, link.
22 *The use of UK aid to enhance mutual prosperity: Information note*, ICAI, October 2019, link.
23 ICAI carried out a consultation with stakeholders on risks arising from the mutual prosperity agenda: *The use of UK aid to enhance mutual prosperity: Information note*, ICAI, October 2019, link.

donor is seen as self-interested, it may undermine its influence and its ability to achieve either poverty reduction or secondary benefits. It may ultimately be of greater benefit to the UK to promote inclusive and sustainable development over the longer term through high-quality aid programmes.

Accountability of systems and structures recommended by the Integrated Review, including arrangements for parliamentary scrutiny

If the UK is to maintain its reputation for aid excellence and its global standing as a development superpower, it needs to invest in maintaining the high standards of UK aid. Independent scrutiny is an essential part of this, as recognised in the 0.7% spending target legislation.[24] It is also key to maintaining public confidence in and support for a large aid programme.

The current independent scrutiny regime – including ICAI, the NAO and the International Development Committee – is one of the strengths of UK aid. ICAI has demonstrated its ability to push DFID to raise its performance and to articulate the standards expected of all aid-spending departments. By casting a light on UK aid practices, ICAI also facilitates parliamentary scrutiny and robust engagement with the aid programme by the media and civil society.

Independent scrutiny is all the more important during a period of rapid change in the UK aid architecture, when risks to the integrity, effectiveness and value for money of UK aid are heightened.

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[24] *International Development (Official Assistance Target) Act 2015*, section 5, link.