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TIME FOR A DFID DIET?

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- Over 30 years, extreme poverty has fallen from one in two to one in five in the developing world. Evidence shows that international trade rather than overseas aid has achieved this.
- However, the UK's aid budget has increased by nearly 4x in real terms since the late 90s. The 0.7% target has been accompanied by 'rushed spending' and ineffective distribution of aid.
- Only five other countries hit the UN's 0.7% target for aid spending. On average, these countries ran a 2015 budget surplus while the UK's deficit was 4.4% of GDP.
- Problems persist with aid efficacy, particularly with multilateral bodies. UK contributes to around 1/7 of the European Commission's aid disbursements, yet has relatively little influence. UK paid £7.4 billion to the EC aid budget over 6 years.
- Brexit means the UK can take back control of aid money given to the EC. But this may mean more waste. DfiD's bilateral budget would grow by 18% in one year.
- Now is the time to review the wisdom of the 0.7% aid target.

1. INTRODUCTION

In the three decades between 1981 and 2010, the rate of extreme poverty in the developing world has fallen from more than one out of every two people to roughly one out of every five people, according to the World Bank. This reduction in extreme poverty represents the single greatest decrease in material human deprivation in history. This is largely a result of expanding free trade and – to a great extent – the freedom of capital movements that have led to increased private investment. Evidence suggests that countries with lower levels of private investment tend to experience modest growth and more enduring poverty.

The benefits of free trade and private investment have been observed especially in China. The President of the World Bank claims that 700 million people have been lifted out of poverty as a result of trade and the opening up of its economy to competition.

However, the link between overseas aid and poverty reduction is far less conclusive. Angus Deaton, winner of the Nobel Prize in Economics in 2015, argues that foreign aid can be harmful as it undermines local state capacity. He goes further by concluding that overseas aid ultimately does more harm than good. Of course, overseas aid programmes can sometimes alleviate poverty, but the overall effectiveness of aid programmes is ambiguous.

The UK's withdrawal from the EU brings new opportunities in this field. In particular, the UK now has the chance to regain control of its contribution to the European Commission's (EC's) aid budget. However, this may bring challenges of its own. The UK Government's policy of spending 0.7% of Gross National Income (GNI) on aid has brought many problems, which will be exacerbated should the Department for International Development's (DfiD's) budget simply increase as a result of reclaiming contributions to the EC budget.

2. UK BILATERAL AND MULTILATERAL AID

The UK's overseas aid budget is supplied to a variety of bilateral and multilateral projects. Nearly two thirds of the UK's aid budget is distributed directly by the DfiD on a bilateral basis, according to government figures.[1] The rest is given to multilateral organisations with, for example, £1.4bn of funds going directly to the EC in 2015 (see Table 1).

The allocation of funds to multilateral organisations has historically drawn criticism. The Independent Commission for Aid Impact (ICAI) has previously warned that DfiD's increasing reliance on multilateral partners has risked those relations now being considered 'too big to fail'. Multilateral aid has increased from £3.4 billion in 2011 to £4.5 billion in 2015, according to DfiD.

The UK's contribution to the EU budget is based on factors that include revenues from customs levies, revenues from VAT receipts, the UK's level of Gross Domestic Product (GDP) and the level of rebate. There have been particular concerns raised about funds given by the UK to the EC aid programme. The UK has given the EC £7.4 billion since 2010 for its aid programme (see Table 1).

1 Note: A small portion of this comes from other government departments.

Table 1: UK aid spending by agency since 2010

Figures in £bn

	2010	2011	2012	2013	2014	2015	Total	%
UK Bilateral Aid	5.4	5.3	5.6	6.7	6.8	7.7	**37.5**	61.5
European Commission	1.3	1.2	1.1	1.2	1.2	1.4	**7.4**	12.1
World Bank	0.9	1.1	0.8	1.1	1.7	1.3	**6.9**	11.3
UN Agencies	0.3	0.4	0.4	0.4	0.5	0.7	**2.7**	4.4
Other Organisations	0.5	0.7	0.9	1.8	1.5	1.2	**6.6**	10.8
Total	**8.4**	**8.6**	**8.8**	**11.3**	**11.7**	**12.2**	**61**	

Note: *Figures are rounded to 1 decimal place and may therefore not add up exactly.*
Sources: *Dfid annual accounts link & link.*

The House of Lords Economic Affairs Committee has previously suggested that the Government should push for a reduction in the EC's aid programmes given its focus on the EU's neighbours rather than poorer, low income regions elsewhere in the world.

The ICAI has also highlighted that DfiD's influence on the delivery of EC aid is limited – which, incidentally, they did not find in relation to the UK funding to the World Bank. The UK's contributions to the EC's aid budget are substantial. In 2013, aid disbursements of 9.3 Billion euros were made by the EU, while the UK contributed £1.2 billion to the budget (around 1.4 to 1.5 Billion euros using 2013 exchange rates). That means the UK contributed over one seventh of the aid disbursements in 2013 – yet had relatively little influence over how the money was spent.

Moreover, the EC's administration of aid appears to be inefficient compared to DfiD's, with the EC spending a greater proportion of its aid budget on administration. For example, the European Development Fund spends around 6% of its budget on administration. Even when including its front line delivery costs, DfiD spends an 18% lower proportion of aid money on administration.[2]

Given these problems, Brexit provides the UK with an opportunity to reclaim and take control of its £1.4bn annual contribution to the EC's overseas aid budget. Although the UK will continue to contribute to the EU budget until it departs the EU, any further contributions will depend on the arrangements agreed for the UK's future relationship with the EU.

3. OVERSEAS AID TARGET: THE PROBLEMS

Shortly before the election of 2015, the Coalition Government passed the International Development Act, which effectively enshrined the target of spending 0.7% of GNI on overseas aid into law. If the UK does not meet the target, the Secretary of State for DfiD is obliged to make a statement to the House of Commons.

[2] Dfid spends 4.89% on admin (including front line delivery costs) vs the EDF's 6%.

The Act is a token measure as there are no consequences for missing the target. However, the political pressure on a Secretary of State means that there is a high incentive for the Government to meet the target.

When the International Development Bill reached the House of Lords in 2015, many Peers warned that setting this arbitrary target could lead to problems. Problems highlighted included:

- That the target will mean the aid budget will grow quickly, which is difficult to justify at a time of economic restraint and could also open up the possibility that poor value for money will be achieved.
- Some members of the House of Lords suggested that it could lead to the problem of "rushing" spending towards the end of a financial year. The National Audit Office (NAO) has previously highlighted the problem of "rushing" spending towards the end of a financial year to simply meet the target. DfiD had to "quickly add some activities to its 2013 plans but delay others set for 2014, making it more difficult to achieve value for money," according to the NAO.
- The target may lead to increased corruption. The House of Lords Economic Affairs Committee highlighted the potential for the target to increase the risk that aid will have a corrosive effect on local political systems.

In light of these concerns, Peers tabled a number of amendments to the International Development Bill at the Committee and Report stages. This included setting a spending target over a five year period rather than a one year period, and introducing a sunset clause to give parliamentarians an opportunity to review overseas aid commitments and review the impacts on the effectiveness of aid in 2020. All of the amendments were rejected by the House of Lords.

4. MANY OF THESE PROBLEMS HAVE MATERIALISED

Although only passed into law in 2015, the UK has been meeting the overseas aid target of 0.7% of GNI in every year since 2013 (see Figure 1). The UK's aid budget has increased six fold in nominal terms since the late 1990s (which equates to just under four times in real terms).[3]

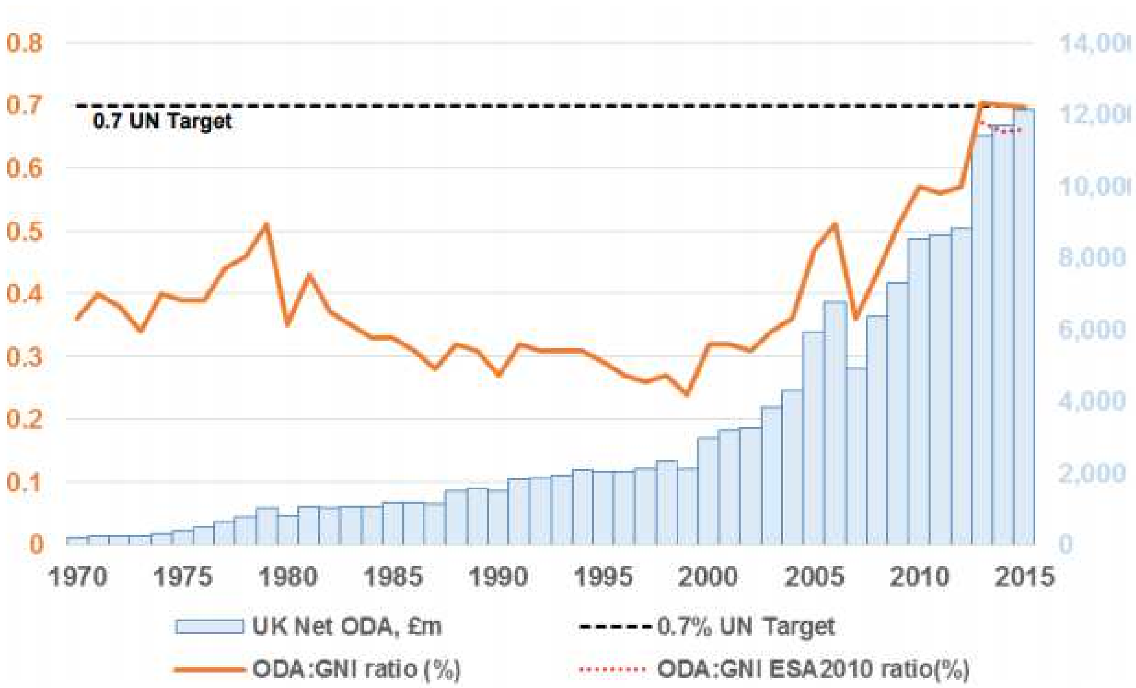
Of the six countries meeting the 0.7% target in the world, the United Kingdom has by far the largest budget deficit (see Table 2). The other five countries have – on average – a budget surplus, which compares to the UK's substantial budget deficit of -4.4% in 2015.

Last year, DfiD published figures showing that the UK's overseas aid budget continues to grow dramatically. While some unprotected departments face significant spending cuts, the overseas aid budget grew by over £500 million in 2015, taking the collective budget to around £12.2 billion. There was also further controversy over 2015's figures as there appears to have been an over-spend of £172 million. Current growth forecasts by the OBR suggest that the overseas aid budget could reach over £14 billion by 2020 (see Table 3).

[3] 1999 nominal figure is £2.1 billion. In 2015 prices it is £3.3 billion. Aid spend in 2015 was £12.2 billion.

A recent investigation by The Times has also revealed that the UK is currently leaving billions of pounds of money in World Bank trust funds in order to simply reach the 0.7% aid target. It has been reported that the UK has channelled at least £9 billion into 219 different World Bank trust over the past five years for this purpose. This is more than any country apart from the US and follows from previous reports from the National Audit Office of DfiD rushing spending.

Figure 1: UK ODI spend



Source: *DfiD link.*
Note: *The UN target was established in 1970.*

Table 2: Countries meeting the Overseas Aid Target (2015)

	Spending on aid (% of GDP)	Current budget deficit
Sweden	1.4%	0%
Norway	1.05%	+6.4%
Luxembourg	0.93%	+1.2%
Denmark	0.85%	-2.1%
Netherlands	0.76%	-1.8%
UK	0.71%	-4.4%

Sources: *OECD and Europarl.*

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Table 3: Projected aid spend based on OBR growth forecasts

	2016	2017	2018	2019 *UK leaves the EU*	2020
OBR growth forecasts	2.1%	1.4%	1.7%	2.1%	2.1%
Projected nominal GDP*	£1,909bn	£1,936bn	£1,968bn	£2,010bn	£2,052bn
International Development Budget (0.7% of GDP)**	**£13.3bn**	**£13.5bn**	**£13.8bn**	**£14.1bn**	**£14.4bn**
Projected Bilateral aid spending	**£8.8bn**	**£8.9bn**	**£9.2bn**	**£10.9bn**	**£11.2bn**
Projected Multilateral aid spending***	£4.6bn	£4.6bn	£4.6bn	£3.2bn	£3.2bn

* *Based on OBR forecasts. Statista estimates that UK nominal GDP was £1,869,560 million in 2015.*

** *Rounded to 1 decimal place.*

*** *Assumes that (a) contributions to multilateral organisations remain at 2015 levels and (b) the UK stops contributing to the European Commission upon leaving the EU in 2019.*

There are also worrying trends with respect to overseas aid being spent on Western consultants. Oral evidence submitted to the International Development Committee, for example, reveals that £500 million went to the 11 biggest contractors in 2015 – double the amount they received two years previously. Specific examples also suggest that wasteful spending on consultants is a major issue with UK's overseas aid. This includes claims of four executives netting £43 million in share pay-outs and bonuses in the four years to 2016 and reports of one think tank receiving over £10,000 to write a single blog post.

If the UK's current contribution to the EC's international aid budget is returned to DfiD, the department will be responsible for an even greater amount of funding. DfiD's bilateral budget could jump by £1.7bn from the year 2018 to 2019, which would equate to an 18% annual increase (see Table 3). It is therefore likely that many of these problems associated with the 0.7% target will be exacerbated.

5. WHERE IS THE UK GETTING IT RIGHT?

There are, of course, many issues with the UK's aid programmes, particularly over the lack of transparency and the issues associated from the imposition of an overseas aid target. However, DfiD's overseas aid programmes have had a number of successes.

Its spending on administration costs is relatively effective compared to multilateral bodies like the EC. It is also notable that DfiD's spending is very much focused on helping the poorest countries. When looking at country-specific bilateral aid, 68% of DfiD spend goes to low income countries – which is much better ratio compared to overseas aid that originates from non-DfiD UK departments (see Table 4).

Table 4: Destination of UK country-specific bilateral aid (2014)

	DFID		NON-DFID	
Low income	£2.5bn	68%	£0.1bn	28%
Middle income countries	£1.2bn	32%	£0.3bn	59%

Source: *National Audit Office.*

It is estimated that the UK's aid programmes over the previous spending round will help approximately 60 million people access clean water and sanitation, saving 1.4 million children's lives through immunisations, and improving nutrition for at least 50 million people.

The UK has also been active in providing bilateral aid to the Syrian refugee crisis. The Government announced that it would invest an extra £1.2bn overseas aid in Syria and the region to help fund education, create jobs and humanitarian protection. This takes the UK's total investment in the region to more than £2.3bn and makes the UK the world's second biggest bilateral donor in the region, according to the DfiD. This aid contribution has the dual impact of helping people in need in the region while providing some alleviation of Europe's migration crisis.

CONCLUSION

The link between growing free trade and reduced poverty in the developing world is well established. However, the evidence for a link between overseas aid programmes and poverty reduction is unclear.

Overseas aid programmes can undoubtedly help lift people out of poverty, but the efficacy of aid programmes is often in doubt. Even the UK's DfiD – which is one of the most effective departments of its kind – faces significant challenges. Many of DfiD's bilateral financial programmes have been questionable. A recent example highlighted how officials from DfiD have been reluctant to deal with issues of fraud and leakage because it may be politically difficult. And, of course, the documented evidence of large spending on Western based consultants is a concern, with the most prominent example being the investigation around Adam Smith International.

Moreover, the imposition of spending 0.7% of GNI on aid has added to worries about the effectiveness of UK aid. Spending on overseas aid has increased dramatically at a time when the UK is still running a substantial (and in peacetime, historically unprecedented) budget deficit. It is also notable that some advanced economies such as Australia have slashed aid spending in part to address their budget deficits.

Around one third of the UK's aid money goes directly to multilateral organisations. There is a strong argument to suggest that these organisations are even less effective than DfiD. This includes the EC, which currently receives £1.4 billion from the UK in aid cash every year. Evidence suggests that the UK has little influence over how this money is spent.

Brexit therefore provides an opportunity for the UK to reclaim this £1.4 billion annual contribution to the EC, either immediately after leaving the EU, or possibly after 2020 when the EU's current Multiannual Financial Framework ends. However, it is open to question whether this should all automatically be transferred to DfiD's bilateral budget. It is hard to justify giving a department with evidence of misallocating spending an 18% increase in its bilateral budget, particularly at a time when the government will be continuing to run a substantial deficit.

While the Government's push for more robust scrutiny of aid and for greater moves towards a more mutually beneficial overseas aid policy is welcome, it is also time for the Government to review the International Development Act that enshrines the 0.7% target into law.

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