The State of UK Aid

2017

An analysis of the quality of UK aid

Acknowledgements

The UK Aid Network (UKAN) is a coalition of UK-based NGOs working together to make the case for more and better quality aid through joint policy, analysis and advocacy.

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Table of Contents

Acknowledgements **2**
Executive summary **4**
Key questions and recommendations **6**
Introduction **7**
Chapter 1: A new strategic direction in UK aid **9**
Framing aid beyond 2015 – Agenda 2030 and 'Leave No One Behind' 10
Chapter 2: Painting by numbers – how much is UK aid? **11**
Targets and goals 11
Hitting the target - 0.7% *11*
Does aid reach the poorest people and countries? *11*
Working in difficult places – fragility, conflict and crisis *12*
Greening development – climate finance *14*
Who gets what – country groupings, regions and top recipients 15
Leaving No One Behind – is UK aid targeted at the poorest? *18*
Chapter 3: What is UK aid trying to achieve? ODA allocation by sector **21**
The Social Sectors 22
Health and health system strengthening *22*
Education *23*
Growth, growth and more growth - economic development 24
Equality and rights – women, girls and gender 26
Environmental sustainability 27
In times of crisis – humanitarian aid 28
Aid in the UK - refugees 29
Other areas 29
Disability *29*
Water, sanitation and hygiene (WASH) *30*
Chapter 4: The who and the how – aid modalities and delivery channels **31**
Who is spending UK aid? ODA across Whitehall 32
Partnering up – who delivers UK aid? 34
From the global to the national - multilateral and bilateral aid *34*
Working together *34*
The how of aid – modalities 38
Chapter 5: Better aid – assessing the quality of UK aid **41**
What is development effectiveness? 42
Development effectiveness - in the monitoring data 42
Looking back at the data – the 2006, 2008, 2011 reviews *43*
A glass half full – 2014 Mexico and 2016 Kenya HLM monitoring data *43*
Development effectiveness in action 44
Who's running the show? Country ownership *44*
Is it real impact? Focus on results *44*
Building better partnerships - inclusive development *45*
Enabling openness - transparency and accountability *46*
The road ahead – making progress on effectiveness in the UK *46*
Beyond Busan – how is UK aid evolving? *47*
Looking forward – better understanding the quality of UK aid *51*
Conclusion **53**
State of UK aid 53
Key questions and recommendations 53
Bibliography **55**
Methodology **56**
Glossary **57**
List of abbreviations **58**

Executive summary

The last decade has been one of change, evolution and challenges for international development and aid in the UK and beyond. It has seen the UK reaffirm its place as an international leader in development and aid – helping to shape the global development agenda and meeting the promises it has made to the world's poorest. It has also been one where the aid and development landscape has continued to evolve at a rapid pace as political realities that seemed stable shift, and global development challenges and goals become both more comprehensive and more complex. The UK must respond to a newly agreed set of priorities in the Sustainable Development Goals – part of the new Agenda 2030 that the UK played a substantial role in shaping – and the Paris Agreement on climate change. All set against a backdrop of one of the biggest political upheavals the UK has seen in decades with the vote to leave the European Union. Beyond the more obvious changes Brexit is likely to bring, it has also emboldened traditional aid critics and put more pressure on the UK's development programme, commitment to targets like the 0.7% ODA/GNI promise and the very idea of aid. There is no question that the beginning of 2017 sees the aid and development sector – government, private sector, civil society – under attack. Protecting the impact and results that UK aid has in eradicating poverty and inequality, and supporting sustainable development is more important than ever.

Better understanding UK aid – how much of it there is, who or where it aims to help and how effective it is – is a vital part of meeting the challenges of this new and more complex future emerging for aid and development. This report, the UK Aid Network's first annual report into the state of UK aid, looks at UK aid through the lens of its primary and fundamental purpose – to target and eliminate poverty.

Although much has changed, much has remained the same in UK aid. The overall picture, however, remains positive although there are emerging challenges that will become clearer as some of these changes start to flow through into data and their effects become more apparent UK aid has changed and adapted over the past ten years, in particular with new political leadership in the UK from 2010 onwards setting a new agenda. The UK remains one of the leading donors in a new development landscape where traditional development practices have become just one of many development tools. The UK's current approach has resulted in significant changes in some areas, for example with a greater emphasis on economic growth and the promotion of women's and girls' rights, while in other areas the effects are yet to be seen.

- **UK aid remains focused on poverty eradication** with the majority of it targeting the poorest countries, steady funding levels to vital social sectors maintained and a continuation of historic programmes and funding for key development enablers such as governance. However, the **recent and relative decline in social sectors** such as education bears watching, including as a possible indicator of future changes.

- The UK is leading the way on meeting international commitments as one of a very select group of countries to deliver on the 0.7% aid promise and the only one to enshrine it in legislation – but most importantly, in helping to ensure there are resources to meet sustainable development and poverty eradication needs.

- **Humanitarian spending is increasing** in line with the global increase in natural disasters alongside emerging climate change and the increase in conflict resulting in displacement of people, many of them within their own countries.

- Economic development is a relatively new priority that has seen the most significant increase in funding and political attention. This seems reflective of more complex development goals, growth-oriented development strategies and a greater emphasis on more market-based approaches.

- The **private sector is becoming an increasingly important aid actor**. This can be seen through different lenses, from the role of UK consultancies and contractors as delivery channels for UK aid, to using the aid budget to promote the role that British and international businesses could play in development.

- Tackling the root causes of instability, fragility and conflict are increasingly significant areas of UK aid spending and political focus. But **securitisation of UK aid is a risk** as it is **aligned more overtly with economic and trade policy and national security priorities**, which may water down its impact on poverty eradication and sustainable development. As part of this, more UK aid is being spent in the UK on areas such as in-donor refugee costs (traditionally not counted as ODA).
- A **much higher proportion of aid is being spent across a number of UK government departments beyond the Department for International Development**, such as the Foreign and Commonwealth Office and the Home Office. This could potentially mean more joined-up government, but also risks diluting the poverty focus of aid; the transparency of non-DFID aid is also a potential problem.
- The Civil Society Partnership Review recently heralded a **substantial change in DFID's relationship with UK civil society** as well as **new funding and relationships with Southern civil society**.

The aid quality picture is just as complicated, with clear progress and leadership in some places but lacklustre performance in others.

- **UK aid through DFID has become the most transparent in the world**, providing verifiable assurance of its impact and quality. The UK has also championed transparency at the global level, ensuring it moved up the agenda and helping to drive progress by other donors.
- Principles like **country ownership have fallen down the political priority list and require renewed attention** as UK aid is increasingly aligned more with UK priorities, moving away from budget support and using recipient country national systems less. This pushes developing countries out of the driving seat of their own development.

This report analyses UK aid against the 'poverty focus' criteria to provide a comprehensive overview of the quality of UK aid, drawing out major trends and shifts as well as trying to look forward where possible to see what the future might bring. Analysis is based on the most up-to-date data available – generally 2015, depending on the publication cycle – from official sources. Where sufficient data is currently lacking to answer these questions (such as for new cross-Whitehall funds), the report draws on alternative or proxy sources of information and data where available.

The first chapter looks at emerging political and policy changes in the UK, focusing particularly on the changes presaged in the 2015 aid strategy. The second chapter looks at UK aid and its targets – including, amongst others, the overall amount of aid, targeting the poorest countries and climate finance – revealing if and how the UK is meeting its international commitments. Chapter 3 provides an overview of what the UK spends its aid budget on with a more in-depth analysis of some priority sectors, including, for example, health and economic development, as well other political or key trends such as the growth in the spending of UK aid inside the UK – on refugee costs, for example. The fourth chapter examines the 'who' and the 'how' of UK aid – who is delivering it, what modalities are being used and what has changed in the last few years. The final chapter looks more broadly at the quality of UK aid, specifically through the lens of the development effectiveness agenda; it draws on assessments from the development effectiveness monitoring process, but also looks beyond those sources to draw a more complete and accurate picture of the effectiveness of UK development.

Key questions and recommendations

- **How can the UK protect the poverty and sustainable development focus of UK aid and the UK's place as a leader in development and aid?**
  - Ensure that UK aid remains focused on its primary purpose of eradicating poverty and promoting sustainable development, including through continuing to provide sufficient funding for vital social sectors such as health and education and a balanced approach to spending on development and humanitarian response in emergencies.
  - Ensure that more recent focus areas for aid spending (such as economic development) and more recent ways of delivering aid (such as via private sector instruments or loans) have adequate accountability mechanisms, maintain the crucial poverty reduction focus and deliver impact.
  - Maintain the commitment to 0.7% and leverage UK leadership and influence to drive up global ambition and standards.
- **How can the UK ensure the best value for money and impact from UK aid?**
  - Support and enhance DFID's expertise as the primary disbursal channel of ODA, strengthening the role of DFID in oversight and scrutiny of aid spent through other government departments.
  - Continue the recent focus on tackling inequality, with aid spending on programmes for women and girls, and people with disabilities.
  - Continue to deepen the focus of aid on the world's poorest countries, including those which are fragile or conflict-affected, while protecting against the securitisation of aid through the conflation of UK aid policy with national security interests.
- **How can the UK re-inject some energy and action into delivery of aid and development effectiveness?**
  - Share a strategy and coherent narrative for accelerating delivery on development effectiveness commitments including finishing the 'unfinished business' of aid effectiveness and how to leverage UK leadership and influence to make sure the effectiveness debate and monitoring process evolves to be fit for purpose in the new, more complex development context.
  - Maintain the laudable transparency of UK aid and DFID's global leadership, extending it equally across government.
  - Demonstrate how DFID and the UK government are promoting developing country ownership – which makes sure aid provides value for money – to put it at the heart of development efforts.
- **How can the UK ensure all government departments contribute to development efforts and are effective aid partners?**
  - Where aid is spent via government departments other than DFID, ensure poverty reduction focus is maintained and demonstrable, including through drawing on the expertise of the UK development community to ensure that all UK aid delivers good value for money.
  - Commit to make development and aid effectiveness a required part of all departmental plans, business cases, guidance and other relevant work relating to UK aid.

Introduction

The aid landscape has changed in fundamental and important ways in the last decade. There is a historic consensus on the UK's role as a progressive development actor which gives the UK a position of leadership and influence in the development sphere and beyond. The commitment to the 0.7% ODA/GNI target is a tangible and concrete demonstration of this, and it was equally visible in the driving role that the UK played in establishing the aid and development effectiveness process. Underpinned by an unusual degree of cross-party consensus and alignment with civil society and other development stakeholders, this has been a time of progress for sustainable development.

The Sustainable Development Goals, the Paris Agreement on climate change and the Addis Ababa Action Agenda on Financing for Development, all agreed in 2015 under the auspices of the United Nations, set an ambitious new development agenda for the world and underscored the crucial importance of aid as one of the tools to achieve the huge transformational shifts called for in Agenda 2030.

Yet, at a time when the world has arguably never needed leadership on aid more, there are worrying signs that the consensus in the UK is fraying, under attack on both the political and media fronts as the country faces perhaps the most challenging period in its recent history – all of which may put years of hard-won progress at risk.

UK aid spending has shifted increasingly into new areas such as economic development – a move that is a reflection of a new government with new priorities coming into power in 2010. More broadly, the focus on more market-based approaches, looking for ways to 'leverage in' additional resources using aid to catalyse investment and working more with business and concepts of mutual benefit, have gained precedence in recent years. Peace and security, fragility and conflict are all playing a stronger role in shaping UK development policy and spending priorities. These developments are neither inherently positive nor negative but rather will need to prove themselves, demonstrating their potential to drive transformational shifts and deliver real impact and value for money. A more clearly concerning development underpinning the new UK aid strategy is an unambiguous and unapologetic focus on the UK national interest which could dilute the poverty impact of aid and divert it away from serving development purposes to attempting to do both and, in the process, losing some of its efficacy. An obvious example of this is the growing share – set to jump from just over 10% to almost 30% in a few years – of aid spent by departments other than the Department for International Development, departments which have a less clear development mandate, less expertise and experience in development and less rigorous scrutiny.

At the same time, much remains the same. The UK is still an aid champion – it reached the 0.7% target in 2013, making it the second largest bilateral donor in absolute terms behind the US, the first of the G7 countries to do so and one of only a very select group to ever achieve the target. Equally important is the political energy the UK has put into pushing and encouraging others to meet their commitments on aid.

Sectoral spending priorities have remained relatively stable and are still strongly focused on 'traditional' aid sectors, social sectors like health alongside governance, humanitarian aid and economic development. A note of warning is needed here though as the data suggests that some of these areas – such as education – are declining in relative importance with significant, relative reductions in spending in recent years. The allocation of bilateral to multilateral aid has remained relatively stable at roughly 60% and 40% respectively. Priority countries, the UK's biggest bilateral partners, have also remained relatively stable with almost all of the top 10 remaining the same over a period of almost a decade – although it is important to note the substantial reduction in the total number of countries where the UK maintains a bilateral programme since 2010. Key multilateral partners also remain much the same – but, again, relative allocations have shifted over time.

Nevertheless, one thing is clear; the official narrative from both the Prime Minister and Secretary of State[1] has shifted. The story now is one of poverty eradication through economic growth, trade and maximising business opportunities for donor and partners alike. This new approach was made concrete in the 2015 Aid Strategy which re-oriented UK aid towards British political or security priorities that do not necessarily align as clearly with the primary goal of poverty eradication. It also seeks to leverage the UK's existing aid relationships for economic opportunities and, ultimately, potential trade deals that would benefit the UK's economic agenda following its departure from the EU.[2] There are growing concerns about the use of aid as a tool of foreign policy – as a political incentive to curb migration, for example – underscored by recent announcements of aid programmes to countries that host large numbers of refugees. But all this must be weighed against high-level, vocal support for the UK's aid and development work.

This has led to some interesting and challenging consequences which are perhaps nowhere as clear as in the effectiveness of UK aid. In recent years, the UK's record on development effectiveness has been mixed; it has performed well and is leading globally in certain areas such as aid transparency and accountability,[3] while lagging behind in others, most notably on country ownership and supporting developing countries to manage their own development. The current political and economic context is a challenging one for aid and, perhaps perversely, even more so for effectiveness – without concerted political and practical efforts the hard won successes of the last decade are at risk of being lost.

The overarching narrative is a positive one. UK aid remains some of the most effective aid in the world, and the Department for International Development (DFID) a leading development agency. But this will not necessarily continue to be true without concerted and deliberate action to promote and protect the quality, impact and value for money of UK aid, and particularly its focus on people living in poverty. There are several trends, including notably in the government's 2015 aid strategy[4] and the subsequent Bilateral and Multilateral Development Reviews, which paint a more complicated picture. Some emerging changes present challenges for the future, but these are set against a broad picture of UK aid that is still focused on tackling poverty, supporting vital services and enabling stronger societies.

1 UK Government, "PM speech at Leaders Summit on Refugees: 20 September 2016", available at https://www.gov.uk/government/speeches/pm-speech-at-leaders-summit-on-refugees-20-september-2016.

2 Department for International Development, 2016, Rising to the challenge of ending poverty: the Bilateral Development Review 2016, p.17.

3 Department for International Development (2016) Raising the standard: the Multilateral Development Review 2016.

4 HM Treasury and Department for International Development (2015) UK Aid: tackling global challenges in the national interest.

Chapter 1: A new strategic direction in UK aid

At the end of 2015 the government published a new aid strategy – one that cut across departments and aimed to define the UK approach to aid across government. The strategy sets out four main goals:

- Strengthening global peace, security and governance;
- Crisis response and resilience;
- Global prosperity; and
- The eradication of extreme poverty.

These thematic areas of focus were not new, but their elucidation seemed to signal a new trend towards using aid policy to support other strategic interests in security, trade and the economy.

How the new strategy will impact the poverty focus of UK aid is not yet clear, but it does highlight challenges in doing aid (well) in the national interest[5] with inherent tensions between the different objectives. For example, the promotion of global prosperity is clearly necessary for development, but it will not, on its own, bring about poverty eradication or benefit vulnerable groups. In Sub-Saharan Africa, for instance, ICAI assessed the evidence on the impact of economic growth, led by a boom in commodities cycle, on structural changes in the economy and employment creation. It found that the concentration of growth in capital cities, key sectors or geographical areas marginalised youth and those living in rural communities.[6]

The aid strategy was also a response to the humanitarian crises happening at the time in the Middle East and the Mediterranean, hence the emphasis on tackling the root causes of fragility to prevent displacement or migration. This approach potentially risks using aid as a tool for controlling mass movements of people instead of being targeted at poverty eradication.[7]

The implications of a greater allocation of aid being spread across government departments are challenging to assess. There is potential for a more coherent development policy that takes into account wider socio-political factors,[8] but it could also result in the opposite as development work is shared between different departments with competing remits and lacking the necessary capacity and experience to deliver aid.[9]

Finally, there are outstanding questions around development effectiveness – in particular on accountability to partner countries as well as domestic taxpayers, transparency, and achieving country-led results that prioritise poverty eradication.

Essentially, one year after its adoption, it is still early to assess how the strategy has been working in practice.

Alongside the aid strategy and the broader political change the last year has brought, there have also been several recent key reports and new strategies from the new government that provide something of a window into the future of aid in the UK.

The shift from aid assistance to wealth creation is one of the pillars[10] of the 2017 Bilateral Development Review (BDR) which asserts that countries will eradicate poverty 'beyond aid', through blended finance, trade deals and remittances.[11] Moreover, it says, aid partnerships will be "mutually beneficial" in the context of Brexit in order to facilitate trade agreements. Beyond this, DFID's plans for the next two years are largely a continuation of the 2015 Aid Strategy. The review re-affirmed the importance of allocating half of all DFID ODA to fragile states, prioritising countries where fragility represents a threat to the national interest – including the Middle East and the Sahel as regions at risk of instability. Finally, it confirmed the UK's commitment to the Sustainable Development Goals in particular as well as to mainstreaming disability, meeting the 0.7% ODA/GNI target and increasing assistance to humanitarian emergencies.

The parallel Multilateral Development Review evaluated thirty-eight international institutions against a set of criteria (value for money, risk and assurance, transparency, accountability and the SDGs).[12] It found that the international system is working well but there are challenges in inter-agency collaboration and coordination. The UK is thus pushing stricter requirements for multilaterals (on improved transparency, value for money, accountability, and openness about management and administration budgets) alongside performance-based financial pledges. Thirty percent or more of the UK's multilateral aid to UN development and humanitarian organisations will be linked to improved results on five reform priorities.[13]

DFID also looked at its relationships with civil society in the Civil Society Partnership Review.[14] While civil society organisations are facing threats to freedom of expression and association globally,[15] in the Civil Society Partnership Review, the UK praised CSOs as effective partners for development.[16] It called for greater engagement with CSOs, from policy dialogue to stronger links with in-country partners. It is not yet clear how the alignment between DFID's priorities and those of NGOs will influence its broader relationships.

Framing aid beyond 2015 – Agenda 2030 and 'Leave No One Behind'

UK aid operates in a global context. The world agreed a new and ambitious set of development goals in 2015, a new financing framework and a climate change agreement in Paris. These collectively form a new agenda on sustainable development for the next 15 years, Agenda 2030, which will frame development to 2030 and beyond.

The UK's rhetoric on a donor-focused value for money approach to the ODA budget is in tension with other international principles and processes where the UK has been a global leader and sits alongside a broader shift to moving beyond aid. As part of Agenda 2030, the UK was pivotal in the adoption of the 'Leave No One Behind' approach, as well as women's and girls' rights. These are areas that need strong financing, as ICAI observed in the case of providing education to marginalised groups, where the DFID value for money approach can be detrimental to inclusion.[17] The UK drove a diplomatic push for greater inclusion in development of people with disabilities and other marginalised groups, while on women's and girls' rights it has also managed to successfully push a progressive agenda.[18] Balancing these international commitments it helped to create and its new approach to development will be a significant challenge.

5 House of Commons International Development Committee (2016) UK aid: allocation of resources: interim report, p.28.

6 Independent Commission for Aid Impact (2016) UK Aid in a changing world: implications for ICAI, p.2.

7 In September, 2015 David Cameron (then Prime Minister) said: "We must make sure that people in refugee camps are properly fed and looked after but also to stop people wanting to make or thinking of making this very, very difficult and very dangerous journey to Europe. [...] What Europe needs more than ever is a comprehensive approach to the migration crisis. We need to do more to stabilise the countries and regions from which these people are coming." BBC News http://www.bbc.co.uk/news/uk-politics-34339921.

8 House of Commons International Development Committee (2016) op.cit, p.8.

9 House of Commons International Development Committee (2016), op.cit, p.20.

10 The other issues particularly highlighted in the BDR included fragility and conflict, global challenges and 'Leave No One Behind'.

11 Department for International Development (2016) Rising to the challenge of ending poverty: the Bilateral Development Review 2016, p.14.

12 Department for International Development (2016) Raising the standard: the Multilateral Development Review 2016.

13 The five priorities are 1. Targeting resources for maximum impact, 2. A truly transparent, efficient system, 3. Working together to maximise results, 4. A transformed humanitarian system and 5. Economic development in action.

14 Department for International Development (2016) Civil Society Partnership Review.

15 CSO Partnership for Development Effectiveness (2013) An Enabling Environment for Civil Society Organizations: A Synthesis of Evidence of Progress since Busan; for more updated information see also Front Line Defenders (2016) Stop the killing of human rights defenders.

16 Department for International Development (2016) Civil Society Partnership Review.

17 Independent Commission for Aid Impact (2016) Accessing, staying and succeeding in basic education – UK's aid support to marginalised girls, p. iv.

18 Independent Commission for Aid Impact (2016) DFID's effort to eliminate violence against women and girls – A learning review.

Chapter 2: Painting by numbers – how much is UK aid?

This section looks at spending allocations and priorities over the last few years that have emerged from the most recent statistical information. It provides a picture of how the UK is meeting its international commitments and where UK aid goes – all key parts of beginning to understand the UK's positioning on aid and also how focused UK aid remains on eradicating poverty and promoting sustainable development.

Key trends:

- *The UK remains a leader in aid and UK aid to date remains largely focused on poverty.*
- *The UK has hit and maintained the 0.7% ODA/GNI target – one of only a small number of developed economies to do so.*
- *It has also met other key targets on aid to the poorest countries, climate finance and targeting aid to fragile or conflict-affected states and contexts. Analysis also shows aid targeting countries with high relative levels of poverty.*

Targets and goals

International commitments, the targets and goals the UK has signed up to, provide one lens through which we can assess the UK's overall commitment to development – its credibility – but also to get a sense of the UK's contribution to development financing.

Hitting the target - 0.7%

The 0.7% of national income target was adopted as a practical number to define how much aid was needed to deliver on global development ambitions – although the scale of need has now almost certainly eclipsed this target. But it is also a totemic issue. It is a promise made by the richest countries in the world to the poorest and the people who live there. Reaching that target, committed to almost half a century ago by most of the world's richest countries, is thus an important step in ensuring that development efforts are well-resourced as well as sending a clear signal to the world.

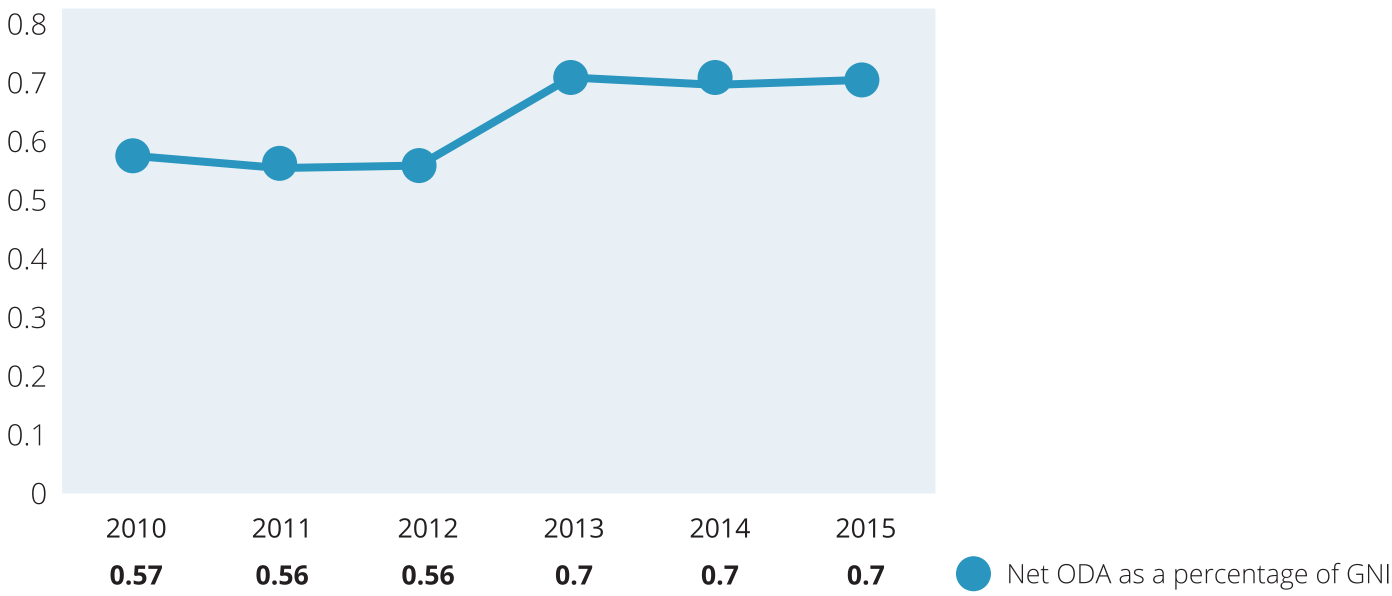
In 2013, the UK became the second largest bilateral aid donor behind the US in absolute terms. The UK has long been proactive in promoting aid: it established the Department for International Development in 1997, passed the International Development Act in 2002 and set the agenda on international poverty at the G8 summits in 2005 and 2013. Prior to the elections in 2010 and 2015, the major political parties all supported aid as part of their foreign policy programmes with clear manifesto commitments to meet the historic 0.7% ODA/GNI target. Prime Minister David Cameron delivered on his pledge to achieve the 0.7% aid target in 2013; at a time when financial austerity resulted in a number of cuts in other departments, the budget for international development increased. Prime Minister Theresa May has reiterated her commitment to the 0.7% target[19]

UK ODA in 2010 was £8,529m and stayed at approximately the same percentage (approximately 0.5-0.6%) of GNI until 2013 when it reached £11,424m, making the UK the only G7 country to fulfil the 0.7% ODA target. Statistics for 2014 show that the UK contributed £11,726m in ODA; those for 2015 report an increase of £412m from the previous year, totalling £12,138m and approximately 0.71% of GNI. In 2015, the Official Development Assistance Target Act was passed, a landmark move enshrining the 0.7% ODA target in law[20] and sending a powerful message to other donors and partner countries.

Does aid reach the poorest people and countries?

Poverty eradication is the primary purpose of aid and one of the four pillars of the current UK aid strategy. Looking at the level of aid to Least Developed Countries (LDCs) and the high proportion of poor people living there can help to answer the question of whether aid does reach the poorest and fulfil that core purpose. Globally, there has been a concerning trend as many donors have reduced financial assistance to these countries. In the period between 2010 and 2014, all major donors' bilateral aid to LDCs decreased with the exception of the UK which now provides 0.25% of GNI to this group and has been steadily increasing aid to LDCs for several years. In 2012, the UK reached the UN-agreed goal of providing between 0.15% and 0.20% of GNI to

Net ODA as a percentage of GNI



Source: National Statistics, Statistics on International Development 2016

LDCs which was reiterated in the UN Financing for Development conference in 2015. At the G7 summit in 2015, the UK was also instrumental in getting reference to assistance to LDCs included in the final declaration.[21]

Redressing declining funding to the world's poorest countries is a critical priority for the international development community and one that has been highlighted at both the UN and OECD DAC levels as an issue donors must address. The UK can be rightly proud that it has led the way in responding to this call – at both the political and delivery level.

The UK's new Prosperity Fund (explored in more detail in later sections) is expected to focus more on middle income countries (MICs) where high levels of poverty and inequality persist. This should not undermine a strong commitment to ensuring that LDCs and low income countries (LICs) receive the funding and support needed. On the contrary, it could potentially represent a clearer strategy for targeting the specific challenges – often related to marginalisation or vulnerabilities – in reaching poor people living in MICs.[22]

Working in difficult places – fragility, conflict and crisis

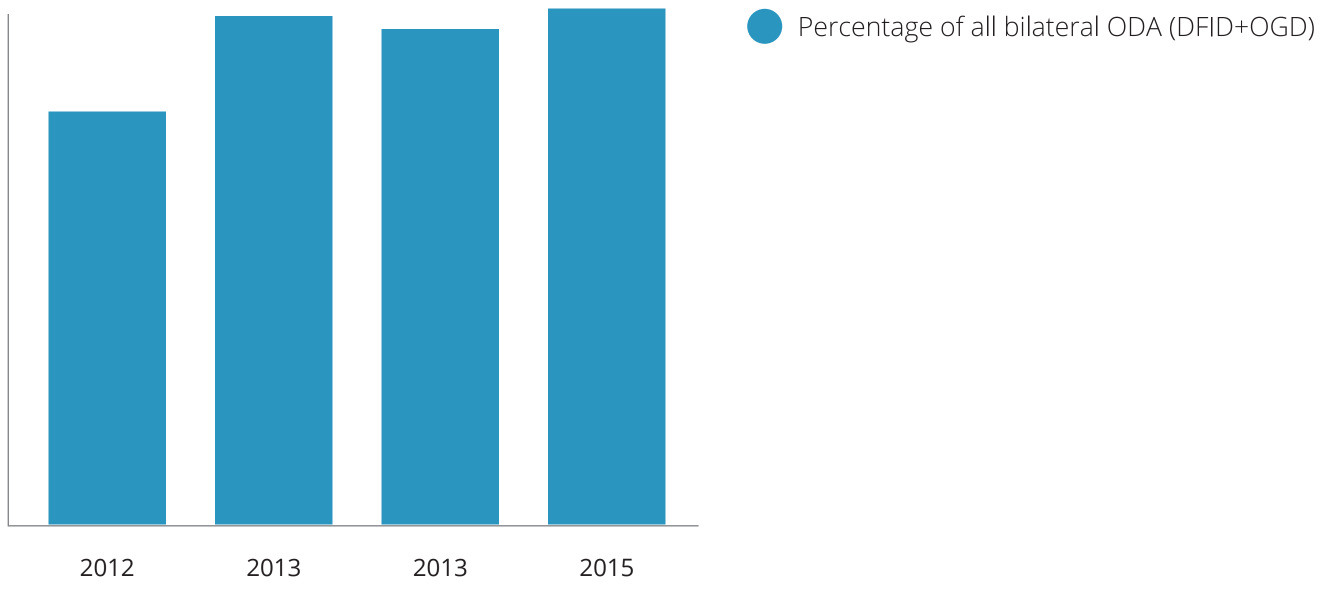
An important, over-arching context to all of the UK's ODA allocation, including the countries and sectors it chooses to prioritise, is its continued and strong focus on fragility and conflict, the most frequent disablers of development and potentially a threat to the UK's national security. The UK government was one of the original signatories to the 2011 'New Deal for Engagement in Fragile States' and has championed the New Deal and its efforts to improve the effectiveness of aid delivery in fragile contexts.

The UK's working definition of fragile states refers to "countries where the government cannot or will not deliver core state function to the majority of its people, including the poor"; 21 of the 28 DFID priority countries are fragile states.[23] The 2016 BDR expands on this definition including 'suffer external and social stresses that are particularly likely to result in violence; lack the capacity to manage conflict without violence; and neighbouring states that are especially susceptible to instability' and outlines the open sources of information DFID use for assessment (World Bank, UN or World Peace Index data for example). Of the fragile states that are bilateral priority countries for DFID, eleven are both highly fragile and LDCs, while only one lower-middle income country, Pakistan, is highly fragile. Conversely, among the seven countries classified as moderately fragile, there is only one LDC, Bangladesh, while the others are either lower-middle income or low income countries. A significant proportion of the world's poor live in fragile settings and lack of development is among the drivers of conflict – both factors which have seen the UK increase its aid for fragile states: in 2012, 24% of all bilateral UK ODA went to fragile states, rising to 30.5% in 2015. The 2015 aid strategy set a target of at least 50% of all DFID bilateral and multilateral aid going to fragile contexts from 2015 onwards.[24]

According to departmental plans published in 2016, in financial year 2016/17 there will be increases in aid to Syria (up to £336m from £206m), Afghanistan (£178m from £132m) and Sierra Leone and Liberia together (notwithstanding their ranking as "low fragility", to £123.5m from £48m). Sudan and DRC will both receive 10% more aid, while assistance for Zimbabwe will be the same in absolute terms. There are, however, going to be cuts to ODA to other highly-fragile states; for instance, Iraq, Yemen, South Sudan and Somalia will all receive 10% less than in previous years.[25]

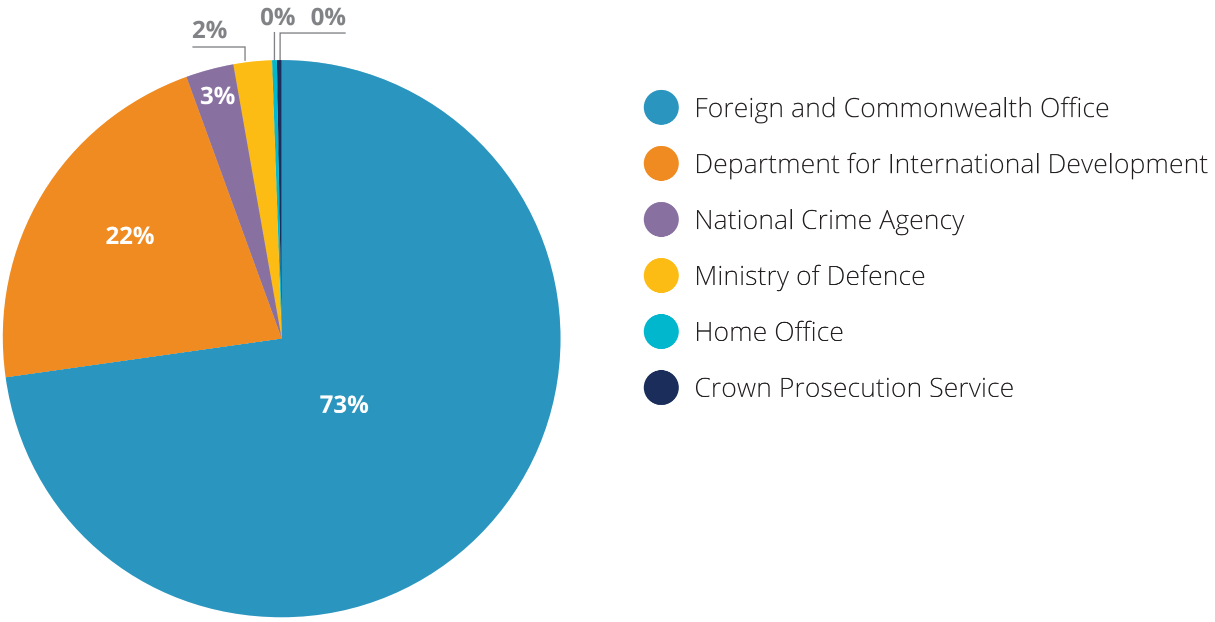
The cross-government Conflict, Stability and Security Fund (formerly the Conflict Pool) had a total budget of £1,033m for 2015/16 of which a 40% share (£324m) was ODA, representing 2.7% of the total ODA budget. The Fund's budget is set to rise to £1,300m between 2016 and 2020;[26] this is a substantial increase, as in 2014 the Conflict Pool represented only £180m of expenditure.

UK bilateral aid to fragile states



Source: OECD DAC CRS

Conflict Pool ODA, 2015



Source: DFID Annual Report and Accounts 2015-16

Some of DFID's programmes falling under the CSSF in FY 2015/16 were Syria (£17.3m), Lebanon (£10m), Jordan (£8.7m), Somalia (£6m), Pakistan (£5m) and Myanmar (£5m). There is very limited information regarding what type of projects will eventually make up the CSSF portfolio, raising a number of questions regarding transparency and the general principles of development effectiveness.

An analysis[27] by Development Initiatives pointed out that the new strategy of investing more in fragile states will not result in entirely new allocations, as a significant number of bilateral programmes are already targeted at countries appearing on the fragile states list.[28]

Greening development – climate finance

Another major area of focus in the UK aid strategy is strengthening resilience and crisis response in developing countries, including climate change mitigation and adaptation. Climate finance is a key part of delivering that strategy, with climate finance/ODA managed by different government departments, such as the (now dissolved) Department for Energy and Climate Change (DECC), the Department for the Environment, Food and Rural Affairs (DEFRA)[29] and DFID. DFID also includes a climate change element in relevant projects, aiming to draw a link between climate mitigation, adaptation and poverty eradication.

In the lead-up to the 2015 UN Climate Change Conference, the UK pledged a total of £5.8bn by 2021, at an annual average of £966m which is a 50% increase compared to the amount spent in the previous five years.[30] It is worth noting that this sum for climate finance is public money (as opposed to mobilised private or other non-public finance) and forms part of the existing aid commitment to 0.7%.

The government has kept its promise to increase climate finance; DFID's most recent statistics for financial year 2015/16 show an expenditure of £827m, in line with the 2021 target, and a £150m increase over the previous financial year. This was used, among other purposes, to build resilience to climate change in partner countries, to increase access to clean energy and to foster green development that could benefit women and young people with job opportunities.[31] ICAI's review considered the approach successful in tackling both climate change and poverty but identified potential tension between the two objectives, in particular when financing long-term investments such as infrastructure projects that may require years to bring about results while possibly failing to achieve short-term objectives on poverty reduction.[32]

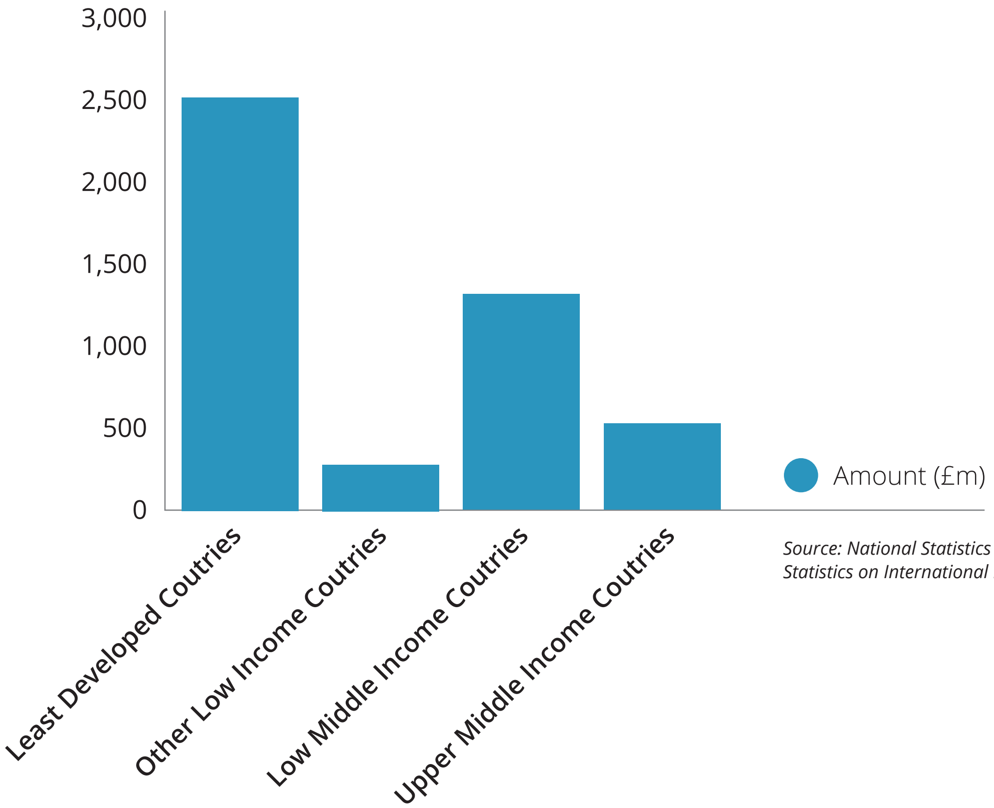
Who gets what – country groupings, regions and top recipients

Alongside the question of what UK aid is aiming to do, the question of where it is going to do it is equally important. How poor a country is, where in the world it is, the level of fragility and the relative poverty levels of people living in the countries DFID works in are all important factors in understanding the impact, reach and breadth of UK aid. Why the UK and DFID are active in certain places and not others is not a question that can be completely answered, but looking at the data some conclusions can be drawn about the drivers for these decisions. Beyond the factors highlighted in strategic documents and announcements, it is evident that the UK's aid allocations remain driven by a strong focus on poverty – or, more precisely, the poorest countries – as well as other factors such as historic links and the comparative advantage they may provide. For example, the UK clearly focuses on East African or Asian countries which have historic, often colonial, connections to the UK that, along with a continued focus on fragility, has lent a degree of stability to where UK aid goes.

Country	ODA 2015 (£m)	ODA 2012 (£m)	Fragility	Poverty Group	Poverty Headcount
Ethiopia	339	255	Moderate	LDC	21.50%
Sierra Leone	218	58	Low	LDC	31.60%
Pakistan	374	171	High	LMIC	6.90%
Nigeria	263	202	Moderate	LMIC	49.70%
Bangladesh	164	189	Moderate	LDC	11.70%
Afghanistan	300	181	High	LDC	15%
India	168	199	N/A	LMIC	17%
South Sudan	208	106	High	LDC	70.50%
DRC	143	138	High	LDC	76%
Tanzania	205	151	Neighbouring	LDC	44%
Somalia	122	85	High	LDC	41%
Uganda	123	83	Low	LDC	34.60%
Kenya	155	117	Moderate	Other LIC	25%
Nepal	88	67	Low	LDC	8.40%
Occupied Palestinian Territories	51	35	Moderate	LMIC	0.20%
Mozambique	50	84	N/A	LDC	60%
Zimbabwe	93	132	Moderate	Other LIC	17.40%
Rwanda	101	39	Neighbouring	LDC	55%
Myanmar	114	29	High	LDC	3.50%
Yemen	82	37	High	LDC	No data
Malawi	85	117	N/A	LDC	70%
Zambia	50	51	Neighbouring	LDC	60.50%
Ghana	60	74	N/A	LMIC	12%
Sudan	54	44	High	LDC	9.20%
Southern Africa	19	15	N/A	UMIC (South Africa only)	16%
Tajikistan	12	8	Moderate	Other LIC	22.50%

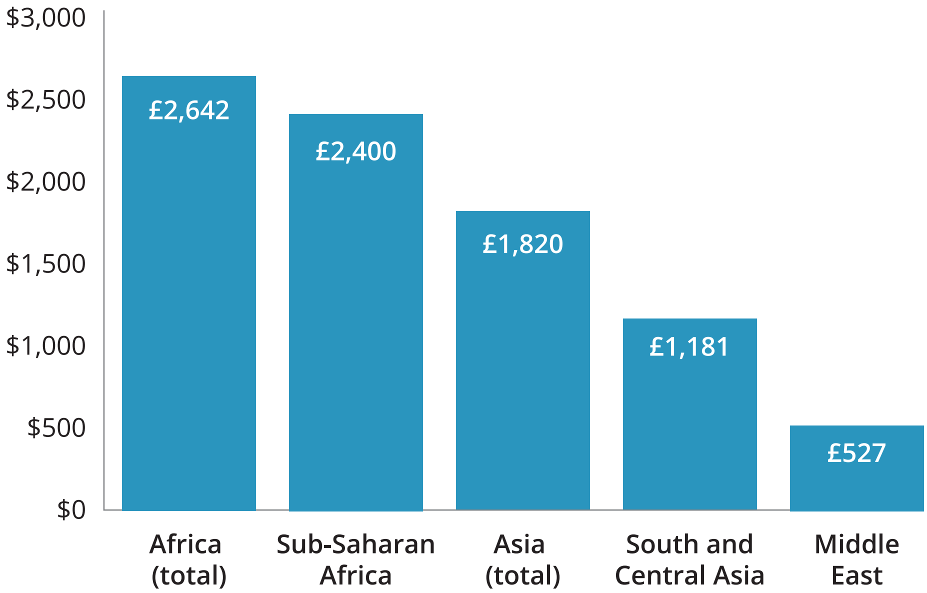
Source National Statistics and Department for International Development, Statistics on International Development 2016, World Bank PovCal Net Database

Bilateral ODA by country ranking - 2015



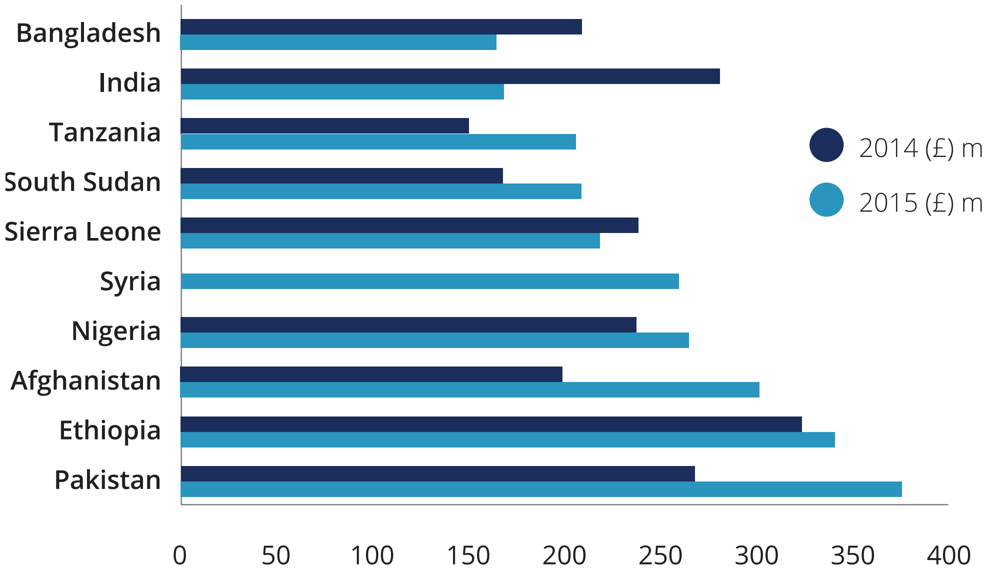
Source: National Statistics and Department for International Development, Statistics on International Development 2016

Regional allocation (£m) 2014



Source: OECD DAC

Top 10 bilateral aid partners 2014 - 15



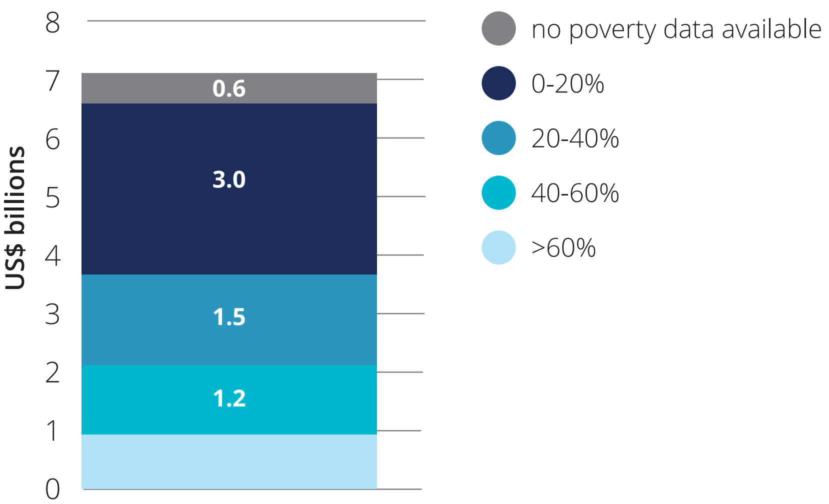
Source: National Statistics and Department for International Development, Statistics on International Development 2016

Statistics for 2015 show that UK ODA went primarily to Africa, Asia and Least Developed Countries (£2,505m up from £2,310m in 2014), followed by Lower Middle Income countries (£1,331m), while other Low Income Countries received £261m and Upper Middle Income Countries £525m respectively. UK ODA to LDCs amounted to 32.6% of all net bilateral ODA, a slight increase from previous years and driven mostly by DFID's expenditure in those countries.[33] Other government departments spent 70% of their budget in aid to Middle Income Countries and the remaining 30% on LDCs.

The UK's top bilateral partners have also largely remained the same, although it is worth noting the relative decline in aid to MICs such as India as the UK gradually winds down bilateral programmes. The relative shift to fragile or conflict-affected countries can also be seen in this chart as aid levels increase to countries like Syria, Afghanistan, South Sudan and even MICs such as Pakistan. At the same time, many long-term and traditional aid partners such as Bangladesh and Ethiopia remain important focus countries for the UK – as do places where there are historic and cultural links between the two countries.

While it is difficult to predict the future, the high degree of stability and consistency alongside the continued emphasis on targeting the poorest countries suggests that seismic shifts in the geography of UK aid in the near future are unlikely. The BDR in 2016 also did not seem to suggest a major re-allocation as was seen at the time of the 2011 bilateral aid review, after which DFID concluded 18 out its 43 major bilateral country programmes.[34] DFID's forward spending plans, on the other hand, point towards a limited reduction in bilateral provisions for FY 2016/17, with 12% less aid allocated to Ghana, 11% less to Nepal, and a 5% reduction to Rwanda and Tanzania.[35] What is harder to draw out or evidence is what is driving these choices – while the result has not shifted much, there is little question that political and pragmatic considerations are now driving the direction of UK aid more than ever. The concern is that these emerging political and national interest priorities begin to outweigh more evidence and needs-based decisions which could see more dramatic shifts in the future.

UK 2014 ODA by poverty headcount band

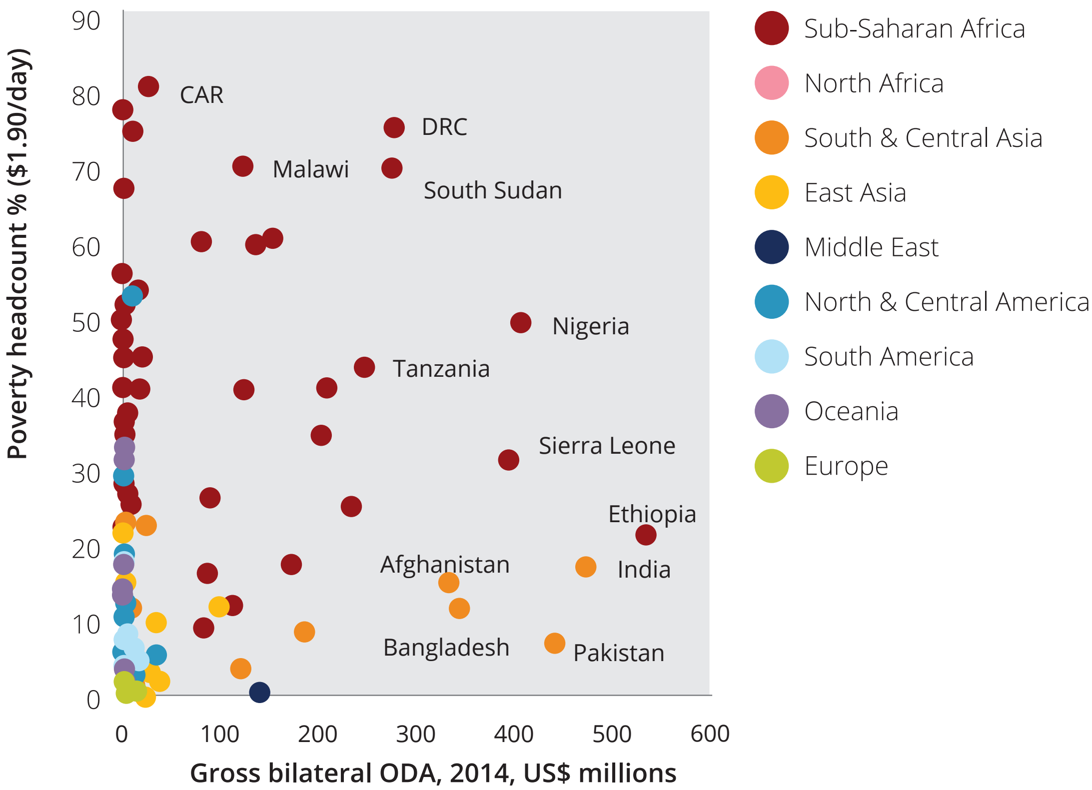


Source: Development Initiatives (Duncan Knox) with data from OECD DAC2a; World Bank Povcal NetNotes: Data accessed 26-10-2016

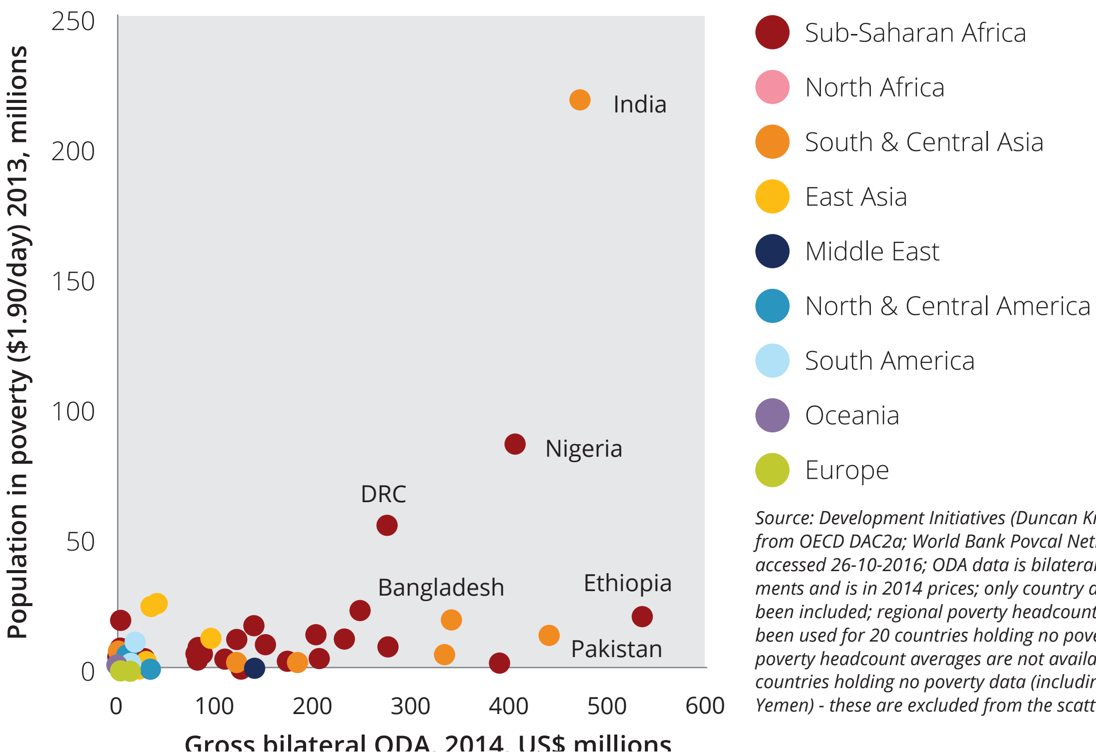
'Leave No One Behind' – is UK aid targeted at the poorest?

Many of the world's poor now live in MICs, an increasing proportion in fragile or conflict-affected states and many still in the world's poorest countries. The question of where UK aid goes is not just a matter of geography; it is also a relative one that must look below the surface, below the top line numbers. As the charts below demonstrate, this also creates a more complex landscape and understanding of how UK aid is targeted. Again, the overall narrative is positive, but complicated, with UK aid targeting both the poorest countries with high or very high poverty headcounts as well as countries with relatively lower poverty headcounts but high absolute numbers of people living in extreme poverty.

UK 2014 ODA by recipient poverty headcount %



UK 2014 ODA by population in poverty



Source: Development Initiatives (Duncan Knox) with data from OECD DAC2a; World Bank Povcal NetNotes: Data accessed 26-10-2016; ODA data is bilateral gross disbursements and is in 2014 prices; only country allocable ODA has been included; regional poverty headcount averages have been used for 20 countries holding no poverty data; regional poverty headcount averages are not available for 8 MENA countries holding no poverty data (including Syria and Yemen) - these are excluded from the scatter plots.

The first plot chart matches the recipients of UK bilateral ODA with the proportion of their people living in poverty (poverty headcount).[36] Of the UK's top five bilateral partner countries, Nigeria is the only country with a poverty headcount of more than 50%. Approximately half of all partner countries register a relatively low poverty headcount that is between 0%-20% of the population, while the remaining half is almost evenly distributed between countries with poverty headcounts between 20%-40% or 40%-60%. Only 13% of all UK bilateral ODA goes to countries with an extremely high poverty headcount, i.e. over 60% of the overall population. This latter group includes Sudan and the Democratic Republic of Congo, both of which were among the top ten recipients of aid and have been grappling with conflict and humanitarian emergencies.

The second chart ranks bilateral partners according to the absolute number of poor people; this criterion shows ODA flows going to countries with relatively low poverty headcounts but with large absolute numbers of people in poverty such as Bangladesh.

19 In July 2016, the Prime Minister declared that the UK would "keep our promise to spend 0.7% of our national income on aid", BBC News; "Hollande urges UK to start Brexit talks as soon as possible", 21 July 2016, available at http://www.bbc.co.uk/news/uk-politics-36853952.

20 The Guardian, "UK passes bill to honour pledge of 0.7% foreign aid target, 9 March 2015, available at https://www.theguardian.com/global-development/2015/mar/09/uk-passes-bill-law-aid-target-percentage-incomenew.

21 G-7 Leaders declaration, Schloss Elmau, Germany, June 8, 2015, available at https://www.whitehouse.gov/the-press-office/2015/06/08/g-7-leaders-declaration.

22 Independent Commission on Aid Impact (2017), The Cross-Government Prosperity Fund.

23 National Audit Office (2015) Trends in total UK Official Development Assistance and the Department for International Development's expenditure.

24 Calculations based on OECD DAC Creditor Reporting System database. For further information on aid to fragile states, see Independent Commission for Aid Impact (2015) Assessing the Impact of the Scale up of DFID's Support to Fragile States.

25 Department for International Development (2016) Annual reports and accounts 2015/16, p.135.

26 UK Parliament, Written Questions and Answers and Written Statements, Conflict Stability and Security Fund Settlement, Financial Year 2015-16: Written Statement – HCWS392, available at http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2015-03-12/HCWS392/.

27 Dalrymple, S. Development Initiatives (2016) "Does DFID's new fragile states list point towards a shift in funding allocation?" available at http://devinit.org/#!/post/does-dfids-new-fragile-states-list-point-towards-a-shift-in-funding-allocation.

28 Development Initiatives found that DFID's list does not match other indexes on the category developed by the UN and the World Bank as the UK includes on its list neighbouring countries that are likely to deal with the spillover from fragile states. It remains unclear how the list will guide the allocation of aid. DFID's list of fragile countries can be found in the International Development Committee (IDC) Inquiry – Allocation of resources: Memorandum by the Department for International Development (DFID), Annex A: Full list of fragile states and regions.

29 Following the Brexit referendum a new department for Business, Energy and Industrial Strategy was formed which now includes the former DECC. Statistics for 2015 and prior years still refer to DECC or other as appropriate however so those names have been used in this document for the sake of consistency with official statistics.

30 The Guardian, 27 September 2015, "UK to spend £5.8bn on tackling climate change in poor countries", https://www.theguardian.com/politics/2015/sep/27/uk-to-spend-58bn-on-tackling-climate-change-in-poor-countries.

31 DFID Annual Reports and account 2015/16 p. 22.

32 Independent Commission on Aid Impact (2014), The UK's International Climate Fund, p.21.

33 National Statistics and Department for International Development (2016) Statistics on International Development, p.28.

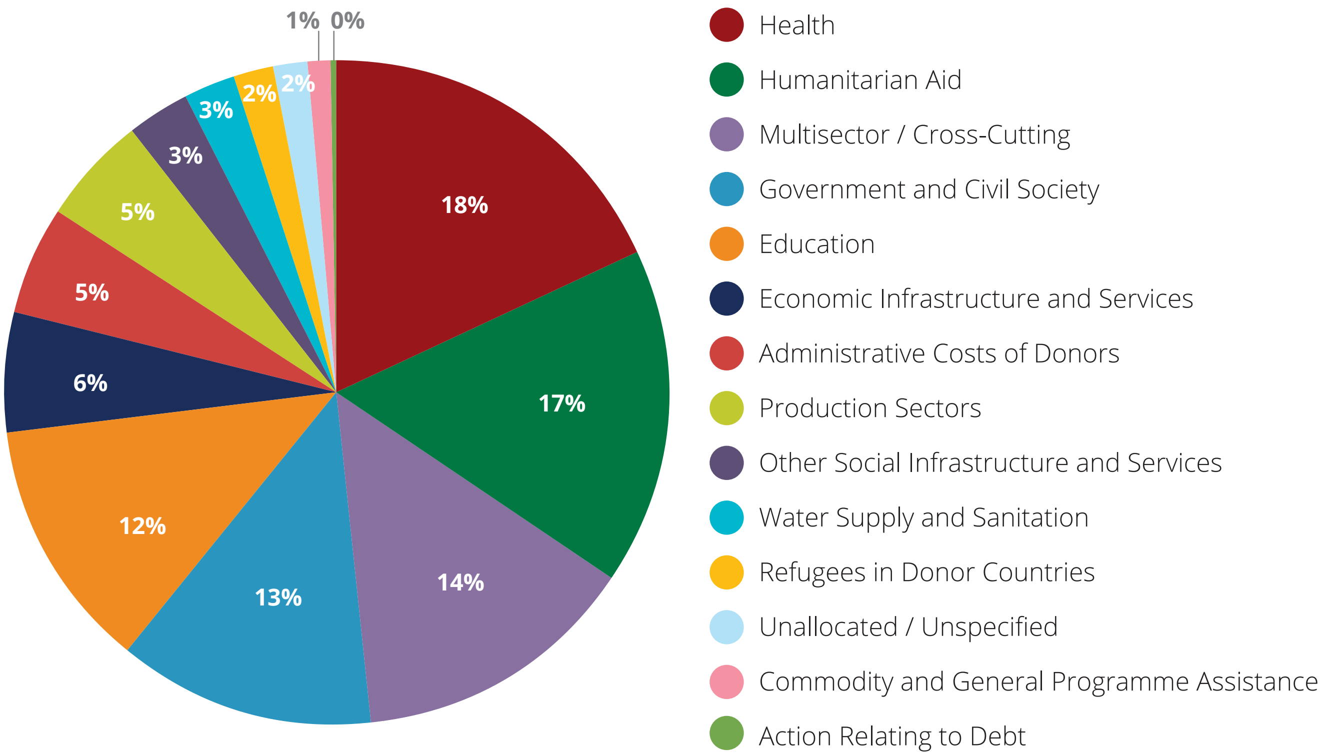
34 Independent Commission on Aid Impact (2016) When aid relationships change: DFID's approach to managing exit and transition in its development partnerships – A performance review, p. ii.

35 Department for International Development (2016) Annual Report and Accounts 2015/16, p.135.

36 As measured by the World Bank data on the number of people living below $1.90 a day. Data can be found on the World Bank PovCal Net database, http://iresearch.worldbank.org/PovcalNet/povOnDemand.aspx.

Chapter 3: What is UK aid trying to achieve? ODA allocation by sector

Bilateral ODA by sector (2015)



Source: National Statistics and Department for International Development, Statistics on International Development 2016

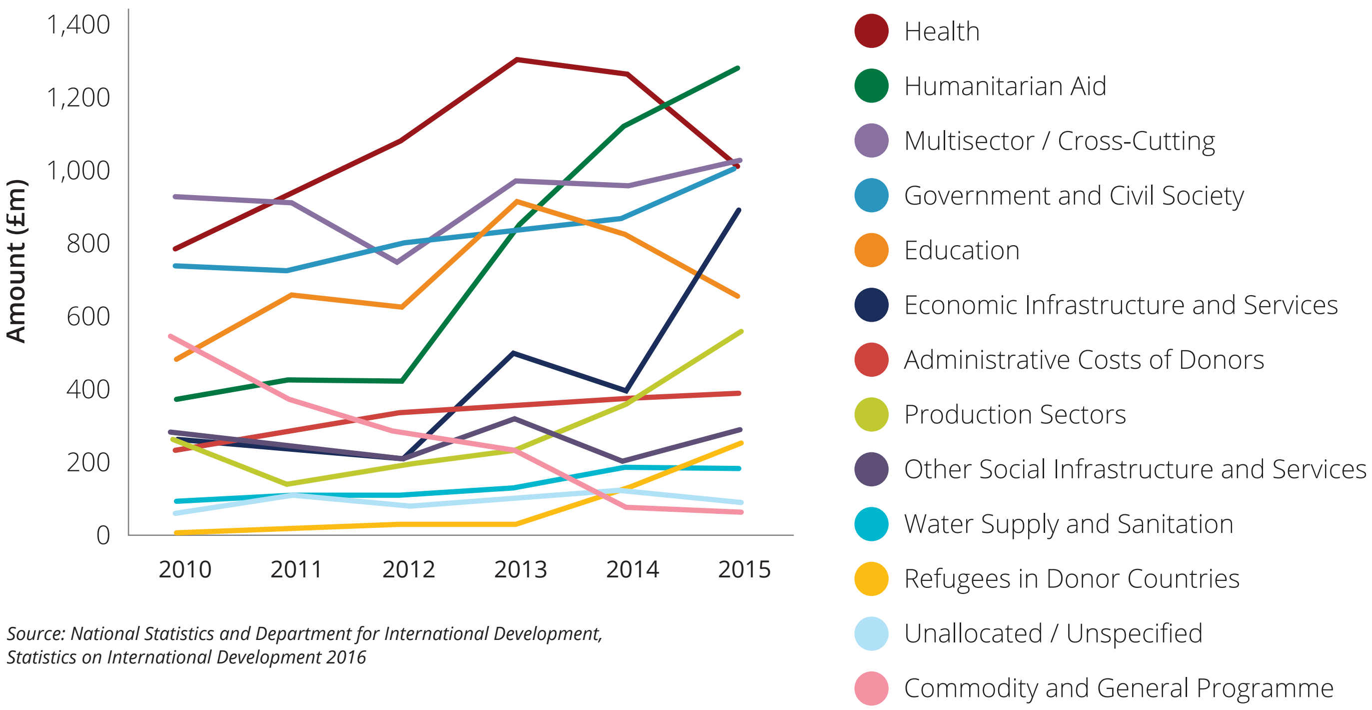
Looking at the sectors that UK aid prioritises and how it aims to achieve results in those areas provides a more holistic and sometimes surprising picture which can differ somewhat from the political rhetoric. The categories highlighted in the subsequent sections – in line with official DAC classifications – have been chosen based on their share of aid budget and announced political priorities.

Key trends:

- *Social sectors including health and education, core to the MDG agenda, are still priority areas – although it is important to note the relative decline in education in recent years.*
- *Commitment to spending on economic development grew although the current reporting structure somewhat obscures this, but the allocations for related sectors more than doubled in the 5 years to 2015.*
- *Support to governance and civil society remained relatively steady with a very small contraction.*
- *Expenditures related to humanitarian aid approximately doubled to 16.4% in 2014 from 7% in 2010, while there was a ten-fold increase in domestic expenditures for refugees which went from 0.2% in 2010 to 2% in 2014.*

In 2014, the largest shares of bilateral aid went to health at 18.2%, humanitarian at 16.4%, governance and civil society at 12.6% and education at 12%. Development assistance that cuts across several sectors is usually referred to as multi-sector support[37] and in 2014 it was 13.9% of the bilateral aid budget. In 2015, the allocations for humanitarian purposes (17%), governance and civil society (13%) and multi-sector projects (13%) remained the same as the year before, while spending on economic infrastructure went up 5% to 12%, and health and education expenditures went down by 5% and 3% respectively.

Bilateral ODA sectoral allocation 2010-2015



Source: National Statistics and Department for International Development, Statistics on International Development 2016

The Social Sectors

Despite receiving relatively less attention on the political level and featuring less clearly in the 2015 Aid Strategy and the 2016 BDR, so-called 'traditional' aid activities (the provision of support and capacity building) in sectors like health and education remain big spending priorities for the UK, reflecting their fundamental importance in poverty reduction. The relative, if not in absolute terms, decline of funding to education, however, is an important counterpoint.

Health and health system strengthening

The UK is one of the few donors allocating at least 0.1% of its GNI for ODA for health-related causes, as recommended by the World Health Organisation.[38] In this sector, the UK is the third largest donor worldwide, following the US and the Gates Foundation.

In 2014, approximately 18% of all ODA funded initiatives were in the health sector; this amounted to £1,994m of which around 60% was allocated to bilateral channels (£1,244m) and 40% (£750m) multilaterally. The UK financed a range of multilateral organisations working on health, including those with a special focus on specific diseases: £285m for the Global Fund for AIDS, TB and Malaria; £269.4m for the Global Alliance for Vaccines and Immunization (GAVI); £110.5m for the WHO. For 2015, the contribution to GAVI stayed the same, the grant to the Global Fund dropped considerably to £100m, while the amount given to the WHO slightly increased by £18m.

An IDC report found that in some countries the availability of financial resources through multilateral instruments focused on specific diseases – sometimes called 'vertical funding' – at the expense of strengthening national healthcare systems and institutions in general.[39] While this may achieve short-term results, in the long run it is less sustainable[40] and does less to strengthen systems as a whole – a critique that DFID acknowledged in their response and an area that they will be monitoring.

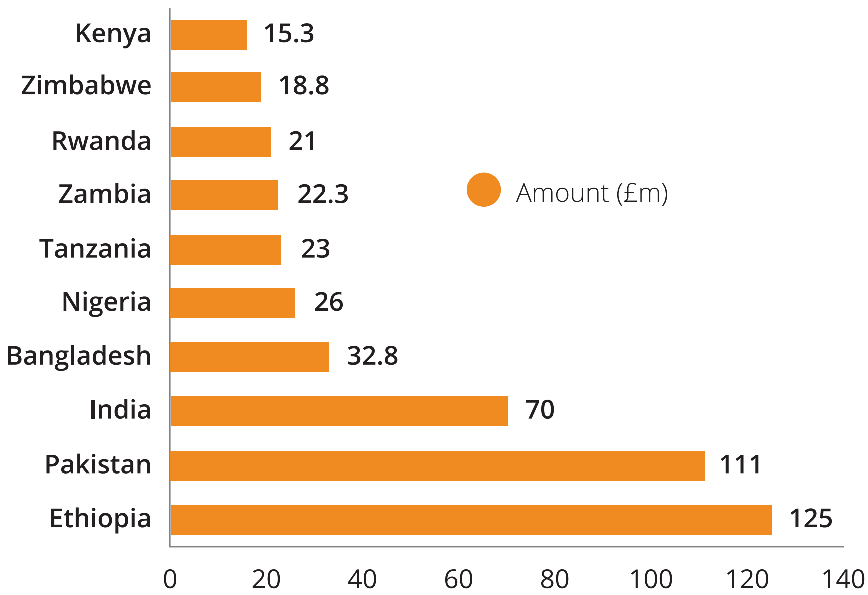
Education

Bilateral aid in the education sector has consistently been one of the priorities for UK development cooperation. Between 2010 and 2015, approximately a tenth of the total bilateral budget has been earmarked for education, reaching a peak of 13.5% in 2013. Although since then, there has been a decrease in this sectoral allocation, education remains a top priority for UK aid.

In 2015, the UK allocated £651.5m, about 8.5% of all its bilateral aid, to projects in the education sector, down from £821m the year before. DFID reports that in 2014 it spent the vast majority (£698m) to provide decent education for all children, reaching girls and the most marginalised, as well as supporting teachers and improving classroom practices.

At the multilateral level, the UK gave £48m to UNICEF in 2014, in particular financing its work on education in emergencies, for example in Syria. The UK also invested significantly in a multi-donor partnership, the Global Partnership for Education, earmarking a total of £300m from 2018 to 2020. For financial year 2014/15, the UK allocated £50m; it previously contributed £60m in 2013/14 and £40m in 2012/13.[41]

Priority bilateral aid countries for education 2014



Source: OECD DAC CRS

UK aid to education is starting to support low cost private schools in countries such as Ghana, Nigeria and Kenya. The DEEPEN project in Nigeria, for example, provides technical assistance to the private education market; its annual budget for the next three financial years is over £3m. UN human rights bodies and development organisations have criticised this practice as one that fosters greater inequalities and does not contribute to building a strong public education sector, which is ultimately key to achieving poverty eradication.[42] The department's response to criticism emphasises a pragmatic approach, saying that in certain contexts low fee schools are the only viable option to provide education.[43] An ICAI study on access to education for marginalised girls concluded that "DFID lacks evidence on the effectiveness and value for money of working through private schools".[44]

Growth, growth and more growth - economic development

There has been a notable and much-touted shift in DFID's thinking and priorities in recent years towards emphasising economic growth as the primary driver of development and poverty reduction[45] - which has been accompanied by a parallel strengthening of the role of business in development.

This emphasis on business opportunities and an enabling environment for the private sector in developing countries has been accompanied by a target for expenditure. In 2013, DFID adopted a strategic framework on economic development which set the target of spending £1,800m by 2015/16, doubling the amount it spent on similar activities in 2012/13. According to the department, the target was achieved[46] although this has not been independently verified. The framework stipulates investment in the private sector as the key driver of economic growth which will result in job creation and thus poverty reduction. To deliver such growth, DFID identified five areas of focus: international trade, the creation of an enabling environment for the private sector in recipient countries, maximising the use of capital flows and trade in frontier markets, working with businesses so that their investments foster development, and making growth inclusive and beneficial for women and girls.[47]

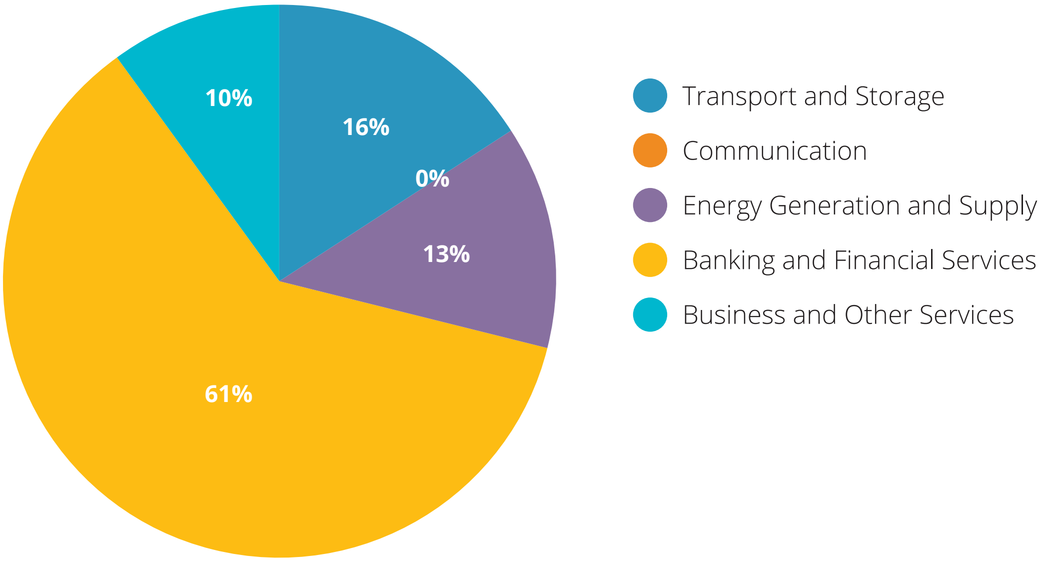
It is a challenge to provide a holistic picture of actual UK aid spending on economic development. Current ODA reporting standards and tags do not disaggregate for economic development as a sector or other headings, making it difficult to get a precise picture - some economic development expenditure may actually be 'hidden' in other categories.

However, it is possible to look at the data that is captured under some current headings that correlate to DFID's conceptualisation of economic development – production sectors, and economic infrastructure and services which cover a broad range of sub-sectors as outlined in the charts below - to see how at least some of the spending in this area has shifted or evolved.

- Economic infrastructure and services grew slightly from 7% in 2010 to 7.2% in 2012 before jumping to £888.5m or 11.6% of the bilateral aid budget in 2015. Within this, banking and financial services is the primary focus, albeit having declined in relative importance from the majority of the budget in 2010 to only a third in 2015.
- Production sectors received £552m in 2015, with the great majority of it (£408m or 74% of such expenditure) reserved for agriculture, farming and fishing.

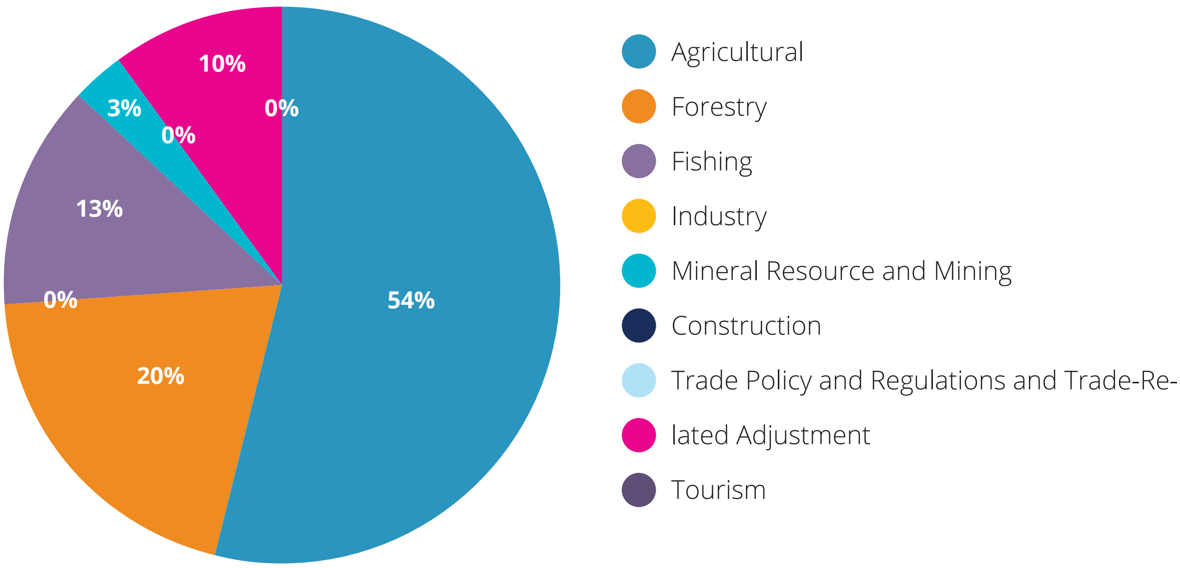
DFID's reporting of the results achieved under the wealth creation pillar of the results framework also suggests a focus – in addition to those elements outlined above – on financial inclusion and land rights, supporting almost 70 million individuals in accessing financial services in 2014 and over 6 million to improve their land and property rights.[48] While it is not possible to quantify spending on this pillar in the same way as above, nor would the numbers be comparable as they would overlap significantly, the headline results figures suggest significant spending in these areas.

Bilateral ODA 2015 - Economic Infrastructure and Services



Source: National Statistics and Department for International Development, Statistics on International Development 2016

Bilateral ODA 2015 - Production Sector



Source: National Statistics and Department for International Development, Statistics on International Development 2016

The Prosperity Fund is a cross-Whitehall instrument through which the UK aims to use ODA to promote economic growth in middle income countries and will clearly form an important part of the UK's economic development strategy. The Fund was initially set up in 2016 with an overall budget of £1,300m over the next five years.[49] The Fund is targeted at middle income countries which are attractive for their business and trade opportunities, with the suggested recipients including Brazil, China, India, Mexico, South Africa and Turkey. There are, however, concerns around the accountability and transparency of the Prosperity Fund. ICAI's recently released review of the Prosperity Fund highlights some emerging issues and challenges, particularly around aligning the primary purpose of poverty reduction with a secondary purpose of promoting British business and prosperity, the challenge of effectively scaling up to over £1,300m in a short timeframe, a lack of transparency (particularly around partner companies with potential conflicts of interest), strategic allocation of resources and conflicts of interest. While the Fund is as yet nascent, there are lessons to be learned from its development and challenges that are not unique, but rather found repeatedly in this area of development work.[50]

While the data is relatively sparse, not comparable and overlaps in places, it is possible to see a trend in economic development spending – one that shows a sharp increase in DFID spending in specific sectors, a clear focus on delivering significant results in this area and new cross-government funds receiving substantial resources. Given the political rhetoric about economic development, this is a trend that can be expected to continue.

Equality and rights – women, girls and gender

In the past five years the UK has put women's and girls' rights and gender equality at the core of its aid strategy, prioritising support to a number of areas such as education, gender-based violence, and sexual and reproductive health. The UK has also passed landmark legislation – the International Development Act (Gender Equality) 2014 – which makes consideration of gender equality a legal requirement for all of DFID's programmes, development and humanitarian assistance. And, at the global level, the UK has been a strong advocate, pushing gender equality up the agenda, notably as part of the SDG negotiations in 2015.

DAC statistics for 2014 show that 6% (£422.5m) of the overall bilateral ODA allocated across all sectors had gender equality as a principal target, while 32% of all bilateral ODA (£2,221m) had a significant gender component.

Through this clear commitment – financial and political, focused on results – the UK has established itself as one of the key agenda-setters on gender, including organising a number of high-profile conferences and international summits attended by international donors and civil society:

- The Family Planning Summit in partnership with the Gates Foundation in 2012 where the UK pledged to spend £516m on contraception over 8 years.[51]
- The 2012 Girls' Education Challenge to ensure that up to a million of the world's poorest girls in remote and marginalised communities can access education with an estimated budget of £300m through partnerships with civil society and large business organisations such as Coca Cola and Price Waterhouse Cooper.
- Since 2013 has backed an African-led effort to end female genital mutilation by supporting a £35m five-year-programme, bolstered by the Girl Summit, organised together with UNICEF where the UK pledged £25m for a programme to end child marriage.

ICAI found that in 2015 DFID provided £184m to tackle violence against women and girls, a 63% increase compared to the previous five years.[52] The increase in funding was also accompanied by building a stronger knowledge base and greater promotion on the global stage. DFID's main weaknesses were around data collection. ICAI also assessed the Girls' Education Challenge's performance and concluded that the fund underperformed on three key outcomes:

attendance, learning and sustainability. The latter is concerning because delivery through non-state actors presents challenges for national education systems.[53]

Environmental sustainability

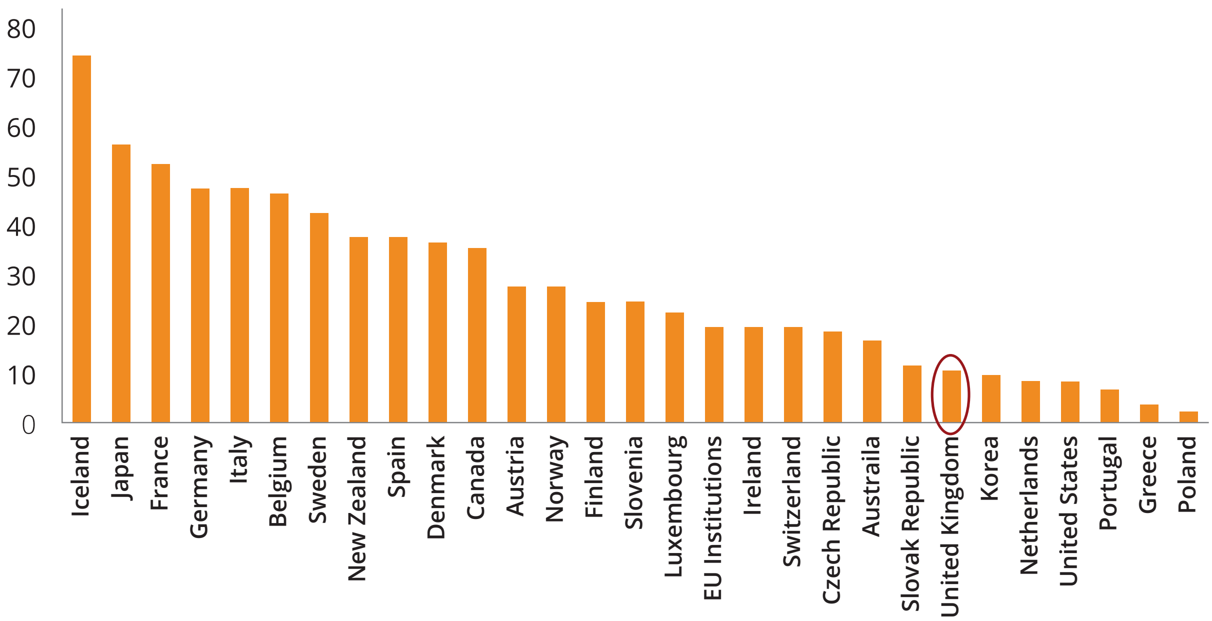
Environmental sustainability is internationally recognised as essential for sustained poverty eradication and prosperity and is integral to the Sustainable Development Goals (SDGs). Communities depend on natural resources such as water, forests and land for their livelihoods and for economic opportunities. Environmental degradation can lead to poverty as well as pressure over limited resources as well as increasing conflict and migration. Protecting the environment is therefore an integral part of sustainable development.

The OECD Development Assistance Committee (DAC) has monitored aid flows directed towards the environment since 1992, introducing separate markers in 1998 for aid supporting objectives of the Rio conventions – the United Nations Framework Convention on Climate Change (UNFCCC), the Convention on Biological Diversity and the United Nations Convention to Combat Desertification.

In 2015, the UK was ranked 23rd out of the 29 DAC members in the proportion of screened bilateral aid that had an environmental objective (OECD, 2016)[54]. The National Audit Office (2011)[55] found that this was a historical trend and that under-reporting against the markers was a factor.

In the case of DFID, trends from 2010-2014 show an overall downward trend in spending on bilateral aid with environmental objectives, including supporting climate change adaptation and mitigation.

Proportion of screened aid disbursements marked as having environmental objectives by DAC member 2015



Source - OECD Statistics 2016

Proportion of DFID disbursements by environmental marker, 2010-2014

	2010	2011	2012	2013	2014
Environment	21.19%	7.89%	12.03%	12.19%	9.33%
Biodiversity	3.13%	0.93%	0.48%	4.18%	2.80%
Desertification	0.06%	0.00%	0.00%	2.78%	1.25%
Climate change mitigation	9.71%	2.94%	2.05%	7.00%	6.66%
Climate change adaptation	12.43%	7.01%	3.83%	12.24%	10.16%

Source: OECD statistics 2016

Although underreporting may be an issue, the markers do provide some indication of the priority given to the environment by DFID from 2010-2015 and they appear to be the only way that DFID does report on its overall expenditure for environmental purposes.

Going forward, there are indications that this should change, based on increased commitments to the Green Climate Fund[56] and on the need to take a more integrated approach to meeting the SDGs, integrating both environment and development objectives.

However, improved reporting on this data is needed to understand DFID's overall contribution to environmental sustainability. And with both climate and development objectives included in more aid, it is important to avoid double counting of aid.

In times of crisis – humanitarian aid

Humanitarian aid differs in important ways from development aid although the distinction is not always clear cut. It is primarily geared towards responding to crises or other moments of acute need, although there is an increasing focus on improving the long-term impact of humanitarian aid and smooth transitions from crisis response to more long-term development, including through measures to encourage resilience to shocks.

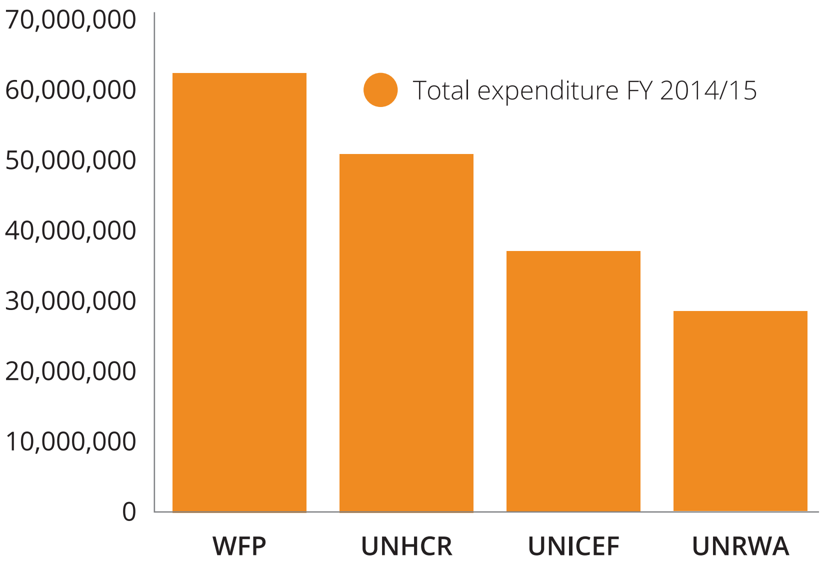
The UK is currently the world's third biggest humanitarian donor, after the US and the European Union; humanitarian aid has become one of the three top priorities for DFID, taking a 17% share of all bilateral ODA in 2014 and 16% in 2015. As part of the 2015 strategy, an ODA Crisis Reserve Fund of £500m was established to enable greater flexibility in responding to emerging crises.

The ten major recipients of UK bilateral humanitarian aid in 2015 were Syria, South Sudan, Lebanon, Yemen, Jordan, Somalia, Iraq, Ethiopia and the Democratic Republic of Congo. While the amounts given have varied over the years, these countries were also among the key recipients of relief in the two previous years. Others included Sierra Leone (because of the Ebola crisis), the Philippines (after Typhoon Hayan) and Mali (following internal conflict).

The UK also provided £1bn worth of aid, announced by the government in 2015 for 2016, to address the displacement of people caused by the civil war in Syria, in particular through multilateral projects in Syria, Lebanon and Jordan, making it one of the world's largest donors addressing the conflict.

In a review of DFID's efforts to address crises, the National Audit Office concluded that to ensure value for money in a growing number of humanitarian interventions, a scale-up of resources, monitoring mechanisms and planning for transitions and exit is required.[57]

Multilateral ODA allocated to Syria emergency FY 2014/15



Source: DFID DevTracker

Aid in the UK - refugees

Prior to 2010, the UK did not calculate domestic expenditure on refugees as part of ODA.[58] Figures since then show a steady increase, from £12m in 2010 to £251m in 2015. In September 2015, at the peak of the Syrian refugee emergency, former Chancellor of the Exchequer George Osborne announced that the UK aid budget would provide financial support for refugees during their first year in the UK, in compliance with OECD guidelines.[59] The Home Office spent 2.7% of the bilateral aid budget on refugee resettlement, mainly as a result of the refugee crisis in the Mediterranean and the conflicts in the Middle East.

Other areas

UK bilateral ODA has a wide reach that goes beyond the sectoral allocations analysed above. Support to governance and civil society initiatives took 13.3% of its budget, with a disbursement of £1,018m in 2015, while multi-sector projects covering cross-cutting areas and environmental protection amounted to 13.1%.

In addition to financing those sectors, there are also small expenditures that are worth looking at to understand how UK aid has tackled important development priorities such as disability, and water and sanitation (WASH). DFID has been active in the area of disability mainstreaming, but its record on aid to WASH could be improved.

Disability

DFID launched a disability framework in 2014, renewed in 2015, to promote inclusive development and ensure that the UN Convention on the Rights of Persons with Disabilities is implemented as part of its international co-operation efforts. The policy involves a twin track approach, one on disability mainstreaming in current policies, and the other to deliver programmes that target individuals with disabilities. This clearly relates to the SDG 'Leave No One Behind' agenda. In the BDR, disability is also a top priority and DFID has committed to be a champion on disability disaggregated data.[60]

In financial terms, the Disability Rights Fund (DRF) was set up in 2008, and between 2013 and 2016 it received a £2.6m grant. The Fund disburses grants and financial support to Disabled Persons' Organisations (DPOs), locally active in recipient countries. DFID also works with the DRF, International Disability Alliance and United Nations Partnership to Promote the Rights of Persons with Disabilities through a new £7.5m programme, the Disability Catalyst Fund, which runs from 2016 to 2020.

In a report, the International Development Committee observed that in 2012-13 6% of all bilateral aid had been spent on programmes for disabled people.[61] It is not possible to say how far DFID's spending on disability inclusion has changed since the IDC reported, because published data on DFID's spending on disability is not available (OECD and IATI statistics do not currently track disability-inclusive programming).

Water, sanitation and hygiene (WASH)

DFID set itself a goal of reaching 60 million people between 2011 and 2015 with at least one intervention in the WASH sector. Having met this goal in 2015, the UK government committed (in the then new Aid Strategy) to providing both safe drinking water and access to sanitation, which represents a strengthening of criteria, to 60 million more people by 2020.

Historically, WASH has not been a major spending priority area for UK bilateral ODA. Projects on water and sanitation received about 2.6% of the bilateral ODA budget, with an expenditure of £181m for 2015, unchanged from the previous year but up from £128m in 2013. A significant portion of UK WASH ODA is delivered multilaterally, with £126m in 2014, an increase from £108m the year before.

A review by ICAI of interventions in the WASH sector underscored the importance of sustainability in the long term. Considering its record in building systems in health and education, the UK should focus more on strengthening national systems in the WASH sector and ensure that this approach is adequately evaluated for long-term results.[62]

37 For instance, this could take the form of a project sustaining civil society in Afghanistan to improve accountability by the state to citizens or an initiative to increase employment and productivity in agriculture in Nigeria. For further detail, see DevTracker: Strengthening Civil Society in Afghanistan https://devtracker.dfid.gov.uk/projects/GB-1-201000 and Rural and Agricultural Markets Development Programme for Northern Nigeria https://devtracker.dfid.gov.uk/projects/GB-1-202098.

38 House of Commons, International Development Committee (IDC) (2014) Strengthening Health Systems in Developing Countries, Fifth report of session 2014-15, p. 7.

39 Ibidem p.19.

40 Ibidem p.9.

41 Development Tracker, Global Partnership for Education [GB-1-200765], available at https://devtracker.dfid.gov.uk/projects/GB-1-200765.

42 The Right to Education Project and other organizations (2015) Alternative report to the Committee on Economic, Social and Cultural Rights (CESCR) on the occasion of the consideration of list of issues related to the sixth periodic report of the United Kingdom, 2015, The UK's support of the growth of private education through its development aid: questioning its responsibilities as regards its extraterritorial obligations. http://www.teachers.org.uk/files/rte_alternative_report_cescr_eto_uk_final_09_2015_updated.pdf.

43 BBC news, 13 July 2016, "Cease funding overseas private schools, UK urged", available at http://www.bbc.co.uk/news/education-36706601.

44 Independent Commission for Aid Impact (2016) Assessing, staying and succeeding in basic education – UK's aid support to marginalised girls, A performance review, p.35.

45 "UK shifts African aid focus to economic growth", Financial Times, 27 January 2014, https://www.ft.com/content/08d8f86c-8770-11e3-9c5c-00144feab7de; "Greening: UK will focus on frontier economic development", UK Government press release, 27 January 2014 https://www.gov.uk/government/news/greening-uk-will-focus-on-frontier-economic-development.

46 Department for International Development (2017) Economic Development Strategy: prosperity, poverty and meeting challenges. p.7.

47 Department for International Development (2014) Economic development for shared prosperity and poverty reduction: a strategic framework, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.

48 Department for International Development (2015) Results achieved by sector – Wealth creation, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/540027/Wealth-Creation.pdf.

49 UK Government (2016) Cross-government Prosperity Fund: update, available at https://www.gov.uk/government/publications/cross-government-prosperity-fund-programme/cross-government-prosperity-fund-update.

50 ICAI (2017) The cross-government Prosperity Fund – An ICAI rapid review, available at http://icai.independent.gov.uk/html-report/prosperity-fund/.

51 Department for International Development (2016) Rising to the challenge of ending poverty: The Bilateral Development Review 2016, p. 37.

52 Independent Commission for Aid Impact (2016) DFID's efforts to eliminate violence against women and girls – A learning review.

53 ICAI (2016) op. cit. p.8.

54 OECD (2016) Aid in Support of Environment, DAC, Paris, France: OECD.

55 National Audit Office (2011) Aid and the Environment, Briefing for the House of Commons Environmental Audit.

56 DFID Annual Reports and account 2015/16 p. 22.

57 National Audit Office (2016) Department for International Development, Responding to crises.

58 Independent Commission for Aid Impact (2015) A preliminary investigation of Overseas Development Assistance (ODA) spent by departments other than DFID, p.12.

59 BBC News, 6 September 2015, "Migrant crisis: the UK aid budget will help fund refugee response - Osborne" http://www.bbc.co.uk/news/uk-34167271.

60 UK Government news story, 3 December 2016, "UK to make disability a global priority" https://www.gov.uk/government/news/uk-to-make-disability-a-global-priority.

61 House of Commons, International Development Committee (2014), Disability and Development, p.12.

62 Ibidem, p. 21.

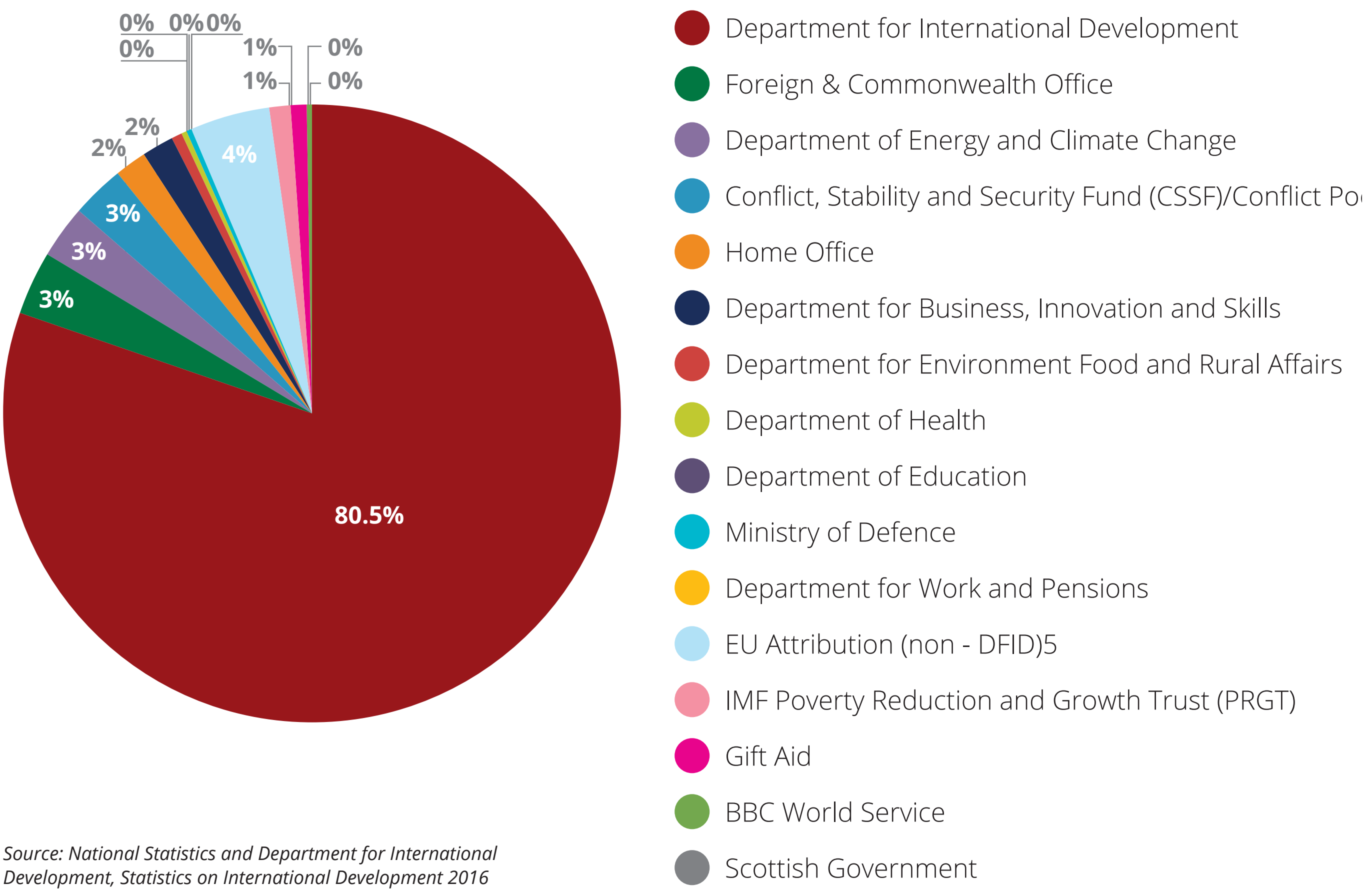
Chapter 4: The who and the how – aid modalities and delivery channels

This section looks at the question of who is delivering UK aid and how it is delivered – a key part of the puzzle in better understanding both the quantity and quality of UK aid. This is an area that has seen substantial changes in recent years that raise more potential concerns about the impact these changes will have on the quality and poverty focus of UK aid.

Key trends:

- *Other government departments are and will spend an increasing proportion of UK aid – growing from just over 10% to almost 30% by 2020.*
- *The balance of multilateral to bilateral aid has remained relatively steady (approximately 60% and 40% respectively). EU institutions are the second biggest multilateral recipient of UK aid so changes may be expected in the future.*
- *Other key delivery partners, including civil society, remain important disbursal channels for UK aid but there is not yet enough data to analyse how significant any shift towards private contractors has been.*
- *Aid modalities have remained relatively static but the signs are that there will be significant changes in the future. The virtual disappearance of general budget support, plunging from 8.1% in 2010 to 0.8% in 2014, alongside indications of shifts towards more use of returnable financing like loans presage changes to come.*

Aid budget by government department 2015



Source: National Statistics and Department for International Development, Statistics on International Development 2016

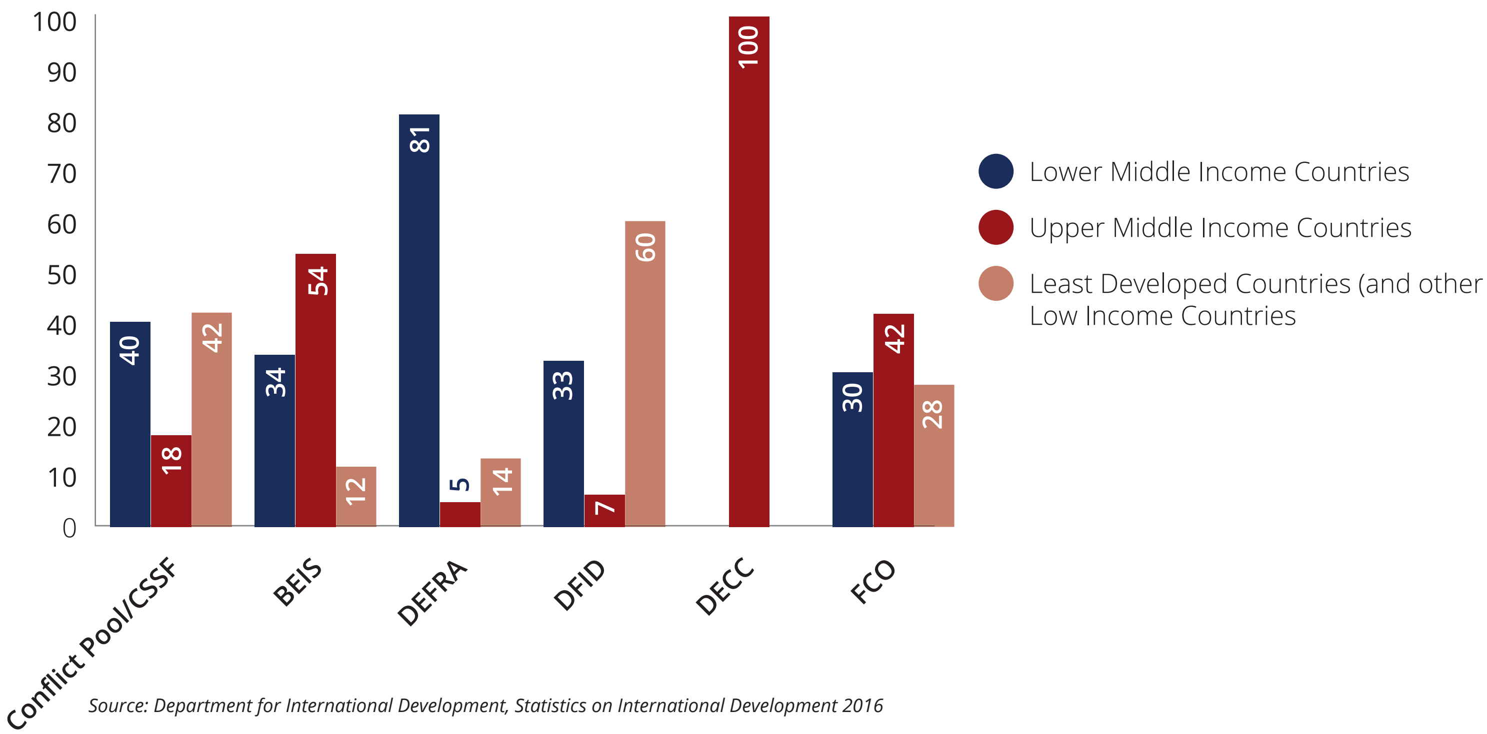
Who is spending UK aid? ODA across Whitehall

UK aid is becoming more dispersed across more government departments. Who is disbursing UK aid matters – the decisions they make about priorities, what they want to achieve, what kind of aid to use, who to work with, where to work... These are all important questions and require people with the right expertise to answer them. The picture for the UK as a whole is becoming more complex, affecting the coherence of UK development efforts.

In 2015, DFID spent 80% of the aid budget while other departments' expenditure increased to 20%. The FCO increased its share to remain the second largest aid-spending department, followed by DECC and the Conflict, Security and Stability Fund. Overall, DFID's aid share is expected to decrease by a further 10% to around 70% of all ODA by 2020, with the remaining 30% managed by other government departments, cross-department funds and other sources.[63]

The transfer of increasing proportions of the UK aid budget to other government departments will also potentially have an impact on its country focus with a significant shift possible to MICs. For example, the biggest recipients of FCO administered aid are middle-income countries, in particular, China (£19.2m), Brazil (£10.5m), Colombia (£7.8m), Egypt (£7.2m) and Mexico (£6.2m). As the figure above shows, departments other than DFID focus substantially less on LDCs and LICs – what effect this will have on the poverty eradication impact of UK aid is not yet clear in the data but it is an area worth watching.

Share of ODA by department and country income - 2015



Source: Department for International Development, Statistics on International Development 2016

Other government department aid allocations 2015

Department	Percentage of UK aid	Amount (£ million)
FCO	3.2%	£391
DECC	2.8%	£336
CSSF and Conflict Pool	2.7%	£324
Home Office	1.8%	£222
BIS	1.6%	£191
DEFRA	0.5%	£57
Health	0.3%	£32
Education	0.2%	£29
MoD	0.1%	£9
Work and Pensions	0.1%	£9
HMRC	0.0%	£2
DCMS	0.0%	£1

Source: National Statistics and Department for International Development, Statistics on International Development 2016

The cross-departmental funds include the Conflict, Security and Stability Fund and the Prosperity Fund, both of which are managed by the National Security Council, an executive body whose decision-making processes are not public. Similarly, the Foreign and Commonwealth Office, which historically has a poor record on aid transparency and accountability, will control a greater share of ODA through such funds.[64] Further analysis of the new or reformed funds will be explored in relevant sectoral or other sections below.

The Welsh and Scottish regional governments contributed to the provision of UK aid in the sum of £1m and £12m respectively (approximately 0.01% and 0.1% of overall 2014 ODA).

Scottish ODA was mainly delivered through partnerships with NGOs; in Sub-Saharan Africa, its focus areas were food security, renewable energy and climate change mitigation. In South Asia, ODA was provided to Pakistan, Bangladesh and three states in India (Orisha, Bihar and Madhya Pradesh) for initiatives in those same sectors, as well as maternal health.

The Scottish government also set up a Climate Justice Fund, which is focused on water and natural resources management projects as means to mitigate and adapt to climate change in developing countries. The Fund financed projects in Malawi and Zambia which have both grappled with a 0.2% increase in mean annual temperatures in recent decades. In Malawi, about 90% of the population is active in subsistence agriculture that depends on rains, while Zambia has been experiencing an increase in drought and flooding.

Aid partners for devolved nations

Donor	Recipient	Amount (£)
Scotland	Malawi	6,364,000
Scotland	Pakistan	902,000
Scotland	Zambia	627,000
Scotland	Rwanda	486,000
Scotland	Tanzania	411,000
Scotland	Bangladesh	395,000
Scotland	India	311,000
Wales	Uganda	108,000
Wales	Lesotho	85,000

Sources Scottish Government: http://www.gov.scot/Topics/International/int-dev; DFID Annual Report and Accounts 2015-16

Partnering up – who delivers UK aid?

From the global to the national - multilateral and bilateral aid

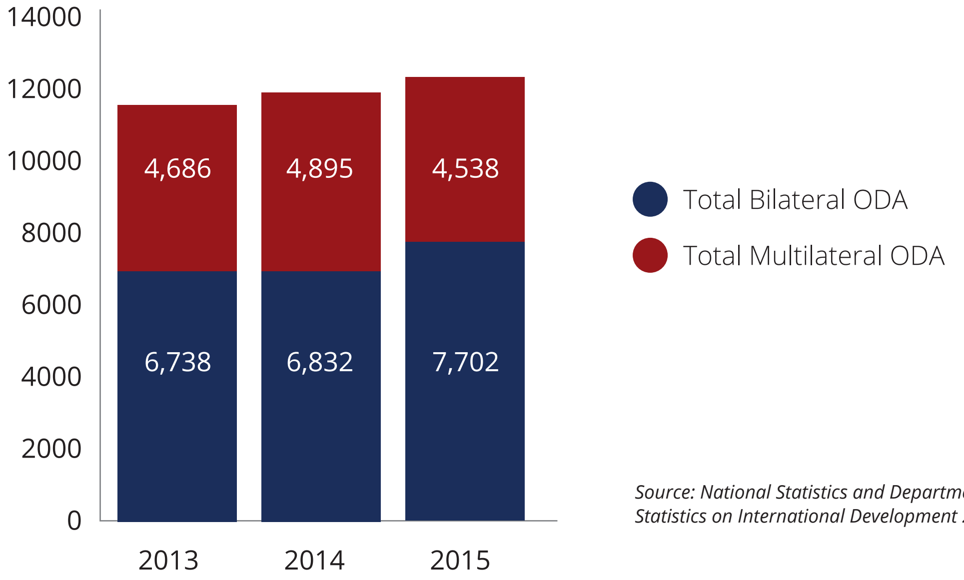
A balanced mix of bilateral and multilateral aid provides the UK with a combination of greater reach, influence and scale through its multilateral partners as well as enabling a greater focus on those priority countries where the UK may have an interest and comparative advantage, or which it sees as left behind. For the past five years, the percentage of bilateral and multilateral aid in the UK has been consistent, with approximately 60% of all ODA being spent on the former and around 40% on the latter. For 2015, the numbers show a slight increase in bilateral ODA at 63%,[65] and a concomitant decrease in multilateral aid to 37%.

The top recipients of UK multilateral aid were the World Bank's International Development Association and the European Commission's Development Share budget, which received £1,195m and £935m respectively in 2015 – amounting to 48% of all multilateral ODA and up from 40% the previous year.

Working together

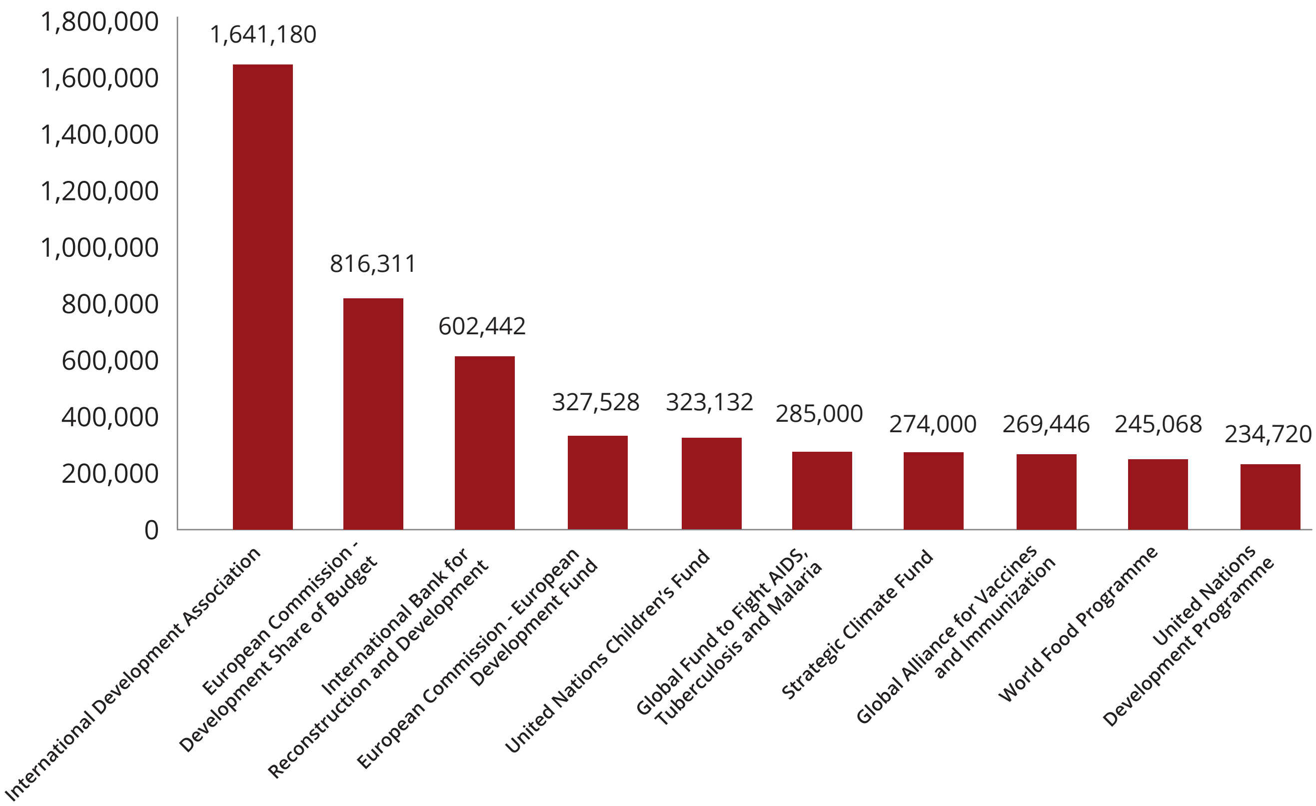
DFID ODA is disbursed through a variety of types of organisation, two of which have been referred to earlier in this report, namely governments and multilateral, multi-government organisations. ODA is also channelled via NGOs, contractors and others. The choice of delivery partner matters; different kinds of organisations work in different ways and can be more or less effective at reaching different beneficiaries or tackling particular issues. So, while government to government aid remains an important and effective vehicle for UK aid, working through different kinds of partners allows the UK to reach places and people the UK government cannot reach directly or where direct inter-governmental aid is inappropriate. As such, maintaining funding and delivery partnerships with a range of actors enables UK aid to be more flexible with a variety of tools and routes to reach those most in need.[66]

UK ODA 2013-2015 (£m)



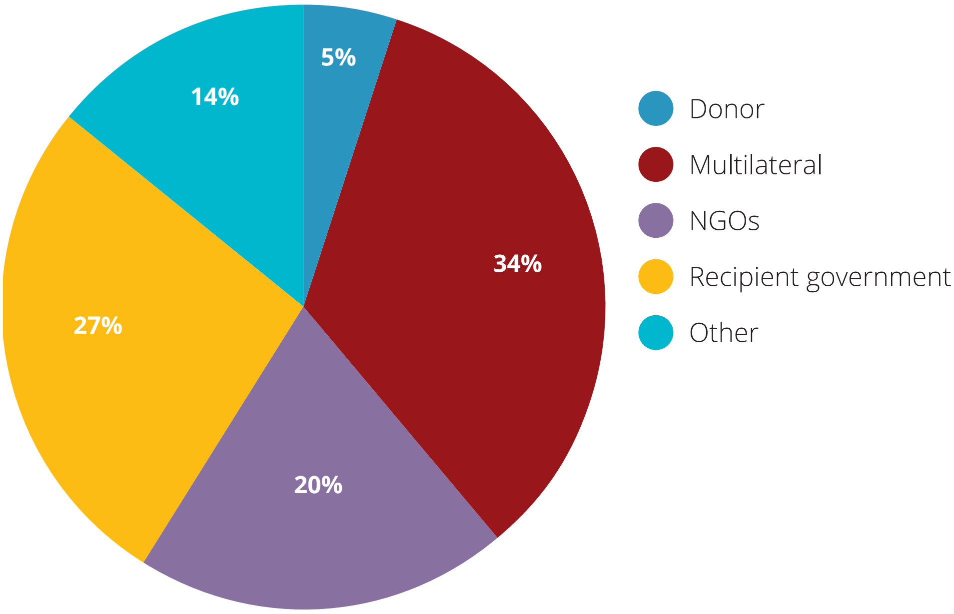
Source: National Statistics and Department for International Development, Statistics on International Development 2016

Top ten recipients of multilateral ODA



Source: National Statistics and Department for International Development, Statistics on International Development 2016

Delivery partners for UK bilateral ODA 2015



Source: National Statistics and Department for International Development, Statistics on International Development 2016

(1) Civil society and NGOs

Civil society has long been a key player in the development world. And while it plays many roles – from supporting better accountability to enabling people to claim their rights – it is also a means to deliver aid. DFID engages with NGOs in a range of different ways including the provision of grants.

DFID engages with and supports civil society through a range of mechanisms including strategic funding and match funding. Current data shows that CSOs were contracted to deliver a fifth of the bilateral aid budget in 2015. In the 2016 Civil Society Partnership Review, the government affirmed the importance of supporting civil society and, in particular, local actors as delivery partners, except in those fragile contexts where international groups have an advantage.[67] The review also reaffirmed the importance of NGOs' performance as contractors meeting high standards of value for money and effectiveness. Following the Review, new funding tools will be available to "support coalitions of CSOs, think tanks, public, private and third sector organisations to help find solutions to current complex situations"[68] from 2017.

Programme Partnership Arrangements (PPAs) provide an interesting and much-reviewed example of DFID's engagement with NGOs in the UK. In 2000, DFID established this now-closed strategic funding programme supporting civil society organisations.[69] Between 2011 and 2014, the last funding round for PPAs, DFID spent £90m a year, in particular with Oxfam, Save the Children, International Planned Parenthood Federation and Christian Aid (see table below). Oxfam, Save the Children, Christian Aid and ActionAid delivered humanitarian and development programmes through such funds, while funding for IPPF and Marie Stopes went to the implementation of programmes on sexual and reproductive health and rights. The PPA allocation was equivalent to 0.8% of the yearly aid budget. PPAs allowed DFID to broaden the reach of UK aid to cover fragile and conflict-affected states, as ICAI noted.[70]

Top ten recipients of PPA Funding 2011-2014, total figures

Organisation	Amount (£)
Oxfam	33,513,105
Save the Children	28,225,986
International Planned Parenthood Federation	25,800,000
Christian Aid	21,767,781
Marie Stopes International	13,059,156
WaterAid	12,604,920
CAFOD	12,532,929
ActionAid	12,357,015
Fairtrade Labelling Organisation	12,000,000
International HIV/AIDS Alliance	11,674,869

Source: DFID official website; available at https://www.gov.uk/guidance/programme-partnership-arrangements-ppas

(2) Private contractors

The rhetoric from the UK government around the role of the private sector in development has certainly included an important role as delivery partners – bringing different expertise, business 'know-how' and different ways of working as well as supporting British businesses. Understanding the evolution of DFID's relationship with private contractors is challenging as a breakdown of how much UK aid is delivered by private contractors is not included in the data released to date – the latest statistical release from DFID showed only that "other service providers", an undefined category that may extend to private companies, managed 14.5% of the bilateral aid budget in 2015[71] - however, other analysis provides an outline of how this has developed.

In 2013, ICAI evaluated DFID's work with private contractors who, in 2010-11, were the delivery partners for 9% of UK bilateral aid according to their internal calculations. The study concluded that "contractors delivered positive results at competitive fee rates", although there were some shortcomings in monitoring and evaluation, and re-orienting future programmes according to lessons learnt.[72] DFID is now reviewing its supplier practices, with a view to improving contract management, increasing transparency of fees and costs charged by contractors, and bringing more competition into its supplier market.

Almost 90% of contracts are delivered through UK-based contractors – sometimes referred to as 'informally tying' aid. Data for these contracts is published on official government websites, such as Contract Finder and DevTracker, however there are gaps in the information shown, in particular for DevTracker.[73] Using these publicly available resources, UKAN conducted a random survey of about 40 contracts between DFID and private contractors for tenders between 2013 and 2016. Nearly all of the service providers were British firms or locally owned subsidiaries of British firms; there was almost zero involvement of domestic firms from the partner country, and many of the contracts did not provide all the project documents. This may represent a missed opportunity for contractors based in recipient countries whose involvement would have created jobs and helped to build capacity.[74] It is not possible to say how sub-contracts are awarded, what proportion of these are UK or non-UK based or what sort of partnerships are developed at the local level, but it is worth noting that this is an area

DFID is exploring, including through improving the transparency of UK aid through the supply chain and encouraging local suppliers. How this will influence the partners the UK uses, whether it will strengthen local suppliers and partners or see little in the way of fundamental change is not yet apparent but is an area to watch.

The how of aid – modalities

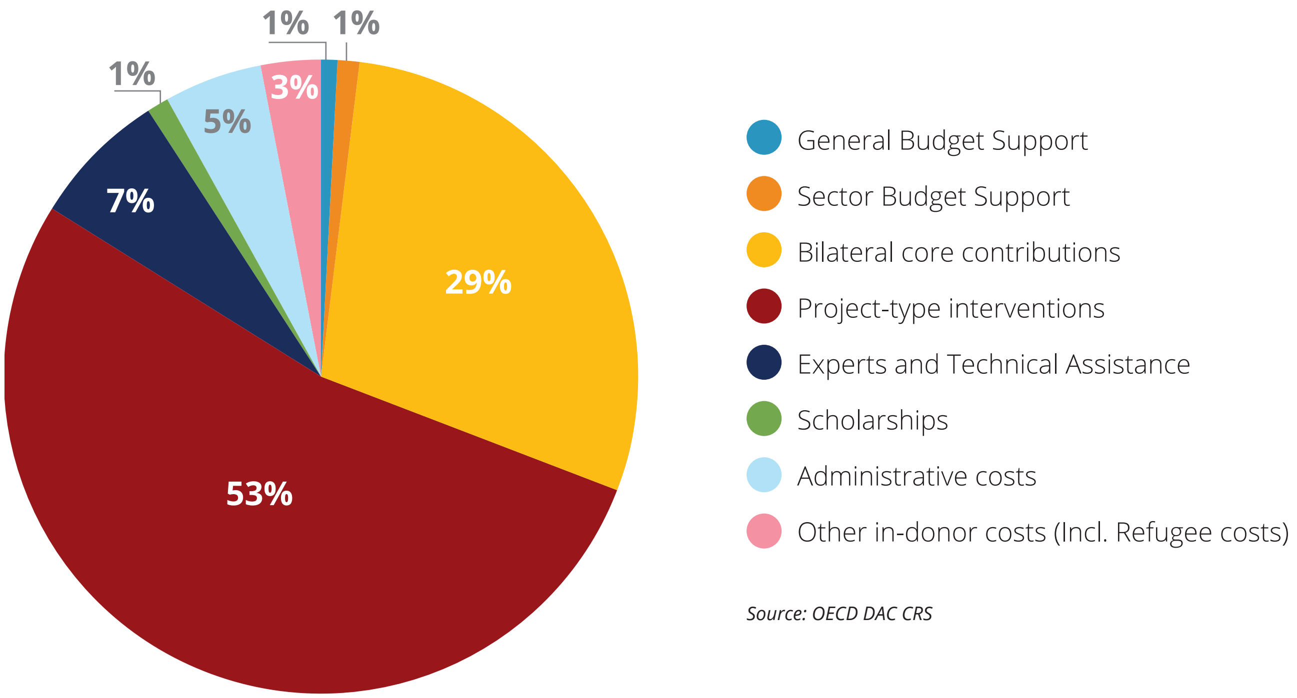
How aid is delivered can have as big an impact as how much is delivered. While the subsequent section on aid quality will look at this in more detail, the question of what kinds of aid the UK disburses and how distribution across those modalities has evolved over time are an important part of the picture.

Although the UK continues to spend a considerable amount of its aid budget as grants, aid modalities in the UK are evolving and potentially moving away from traditional grant-based aid. While the biggest and potentially most symptomatic shift to date has been in budget support, there are indications that other, bigger changes may be coming in the future.

As discussed in more detail in later sections, the increased focus on other delivery channels such as the CDC (see below) alongside the growing strategic rhetoric on economic development may presage a move to using more market-based instruments such as equity or other forms of non-grant financing. Already it is possible to see a small but relatively significant increase in the use of loans,[75] which in 2014 amounted to £594m gross and £336m net, in contrast to a relative decline in the period 2009-2013.

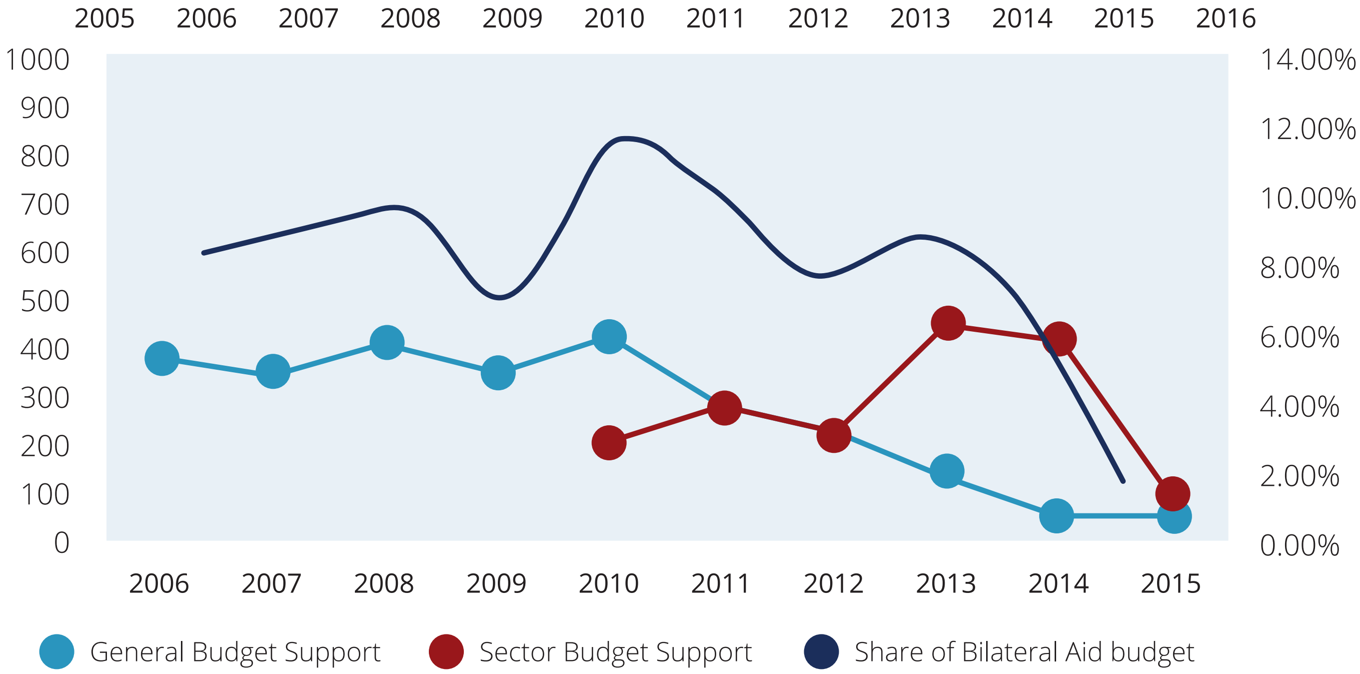
There are challenges with these forms of funding. Loans expose debtor countries or companies to additional risks and potential shocks, as several debt crises have shown in the past decades.[76] In 2014, the International Development Committee encouraged DFID to use more loans, in particular to lower-middle income countries, however concessional loans still represent a small fraction of the ODA budget at around 4%. The UK has currently not resorted to this practice, as its ODA has largely been targeted towards LDCs and fragile states, where concessional grants are a more appropriate form of financing to achieve poverty eradication goals.

Bilateral ODA - Modalities 2015



Source: OECD DAC CRS

Budget support 2006-2015



Source: OECD DAC CRS

Budget support – aid that goes directly to recipient governments - peaked in 2010, when it amounted to 11.5% of the bilateral aid budget; since then, it has fallen steadily to just 1.7% of bilateral ODA in 2015. Out of this share, as shown in the chart below, there has been a stark decrease in general budget support which dropped from £220m in 2012 to £52.6m in 2014, and an increase in sector-specific budget support, which soared from £213m in 2012 to £415m in 2014. The 2015 aid strategy ruled out general budget support altogether and the data shows that goal is on track to be met.

The CDC (the UK's Development Finance Institution) will be explored in more detail later in the context of aid quality – and critiques of this form of aid spending (see Chapter 5) – but it is important to note that a growing emphasis on the CDC as a key part of the strategy to deliver economic development will have potentially significant impacts on UK aid modalities in the future. According to DFID, CDC's equity investments have been accounted for as ODA, and the returns also accrue to the aid budget though the differential ODA treatment of CDC loans and equity investments ended in 2014.[77] In 2014, UK ODA saw a significant drop in equity investment, down to £12m from £72m in the previous year. For the financial year 2015/16, equity investments amounted to £37.6m, debt instruments to £13m and other returnable grant arrangements to £24.5m. However, while it may not be as evident in the data – as it largely 'nets out' to £0 due to returns on investment – there is little question that with CDC potentially receiving up to £10.5 billion more in capital from UK ODA, there will be an increase in the amount of UK aid disbursed not as grants, but as various forms of returnable capital – loans or equity investments in particular.

In 2015, the UK Treasury set a £5 billion target for DFID in non-fiscal expenditure until 2020;[78] this expenditure will not add to public debt as it is accounted for differently, paving the way for DFID to move beyond traditional grants and concessional loans. DFID uses a number of such financial instruments, referred to as "development capital", which are "investments made by DFID to achieve development objectives while retaining an ongoing, recoverable interest in the assets funded. These include equity investments and returnable grant arrangements, the terms of which will vary depending on programme circumstances".[79] To that extent, they also include the UK's development finance institution, the CDC Group whose loans were not classified as ODA, while its investments were. This differential treatment changed in 2015 when DFID moved to simply reporting capital outflows to CDC as ODA. For example, in 2013, CDC made an equity investment in a healthcare business, Rainbow Hospitals, in Andhra Pradesh in India, worth $17.3m. Following this investment, the company built four hospitals. In 2016, CDC financed a further expansion to the business for $15m.[80]

63 UK Parliament, 15 September 2016, Overseas aid: Written question 45924, answered by Rory Stewart MP, http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2016-09-12/45924.

64 Publish What You Fund (2016) 2016 Aid Transparency Index.

65 17.7% of the bilateral budget refers to bilateral aid delivered via multilateral channels. See Office of the National Statistics, DFID Statistics on International Development 2016, p. 11.

66 Official figures for bilateral aid in 2015 indicate that 34% was disbursed via multilateral organisations (so-called "bilateral via multilateral aid"), 26.3% via the recipient government and 20% through NGOs. "Other" channels, which include private enterprises, contractors and research institutes, amounted to 14.5% of bilateral ODA, while administrative costs incurred by other donor governments to deliver aid only accounted for 5.2% of UK aid delivery.

67 Department for International Development (2016) Civil Society Partnership Review, p.8.

68 Department for International Development (2016) CSPR p.12.

69 As well as PPAs, DFID also offered NGOs other financial means through the Aid Match, Aid Direct and the International Citizens Service.

70 Independent Commission on Aid Impact (2013) DFID's Support for Civil Society Organisations through Programme Partnership Agreements, p.4.

71 Department for International Development (2016) Statistics on International Development, Additional Tables, Table A5 says the definition includes "universities, research institutions, think tanks, schools and any other implementers that cannot be placed in another category". Further data from Parliamentary Questions (52069, 52070, 52071) to the Department for International Development show that in FY 2013/14 10.3% of DFID's budget was disbursed through a public procurement process, followed by 12.7% in FY2014/15 and 13.5% in FY 2015/16. See http://www.parliament.uk/business/publications/written-questions-answers-statements/written-questions-answers/?page=1&max=20&questiontype=AllQuestions&house=commons%2clords&uin=52069.

72 Independent Commission for Aid Impact (2013) DFID's Use of Contractors to Deliver Aid Programmes, p.1.

73 International Development Committee (2016) Committee Evidence, Claire Provost, Fellow, Centre for Investigative Journalism, Further written evidence on DFID's use of contractors, para. 7, available at http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/international-development-committee/dfids-use-of-contractors/written/34530.html.

74 Ellmers, B., Eurodad (2011) How to spend it. Smart procurement for more effective aid and Overseas Development Institute (2013) Localising aid project, available at https://www.odi.org/projects/2696-localising-aid-budget-support-southern-actors.

75 The provision of concessional loans is also considered ODA when the grant element is at least 25% of it and the interest rates are below market rates. OECD DAC factsheet (2008) Is it ODA?

76 Ellmers, B. Eurodad (2016), "The evolving nature of developing country debt and solution for change", available at http://eurodad.org/files/pdf/1546625-the-evolving-nature-of-developing-country-debt-and-solutions-for-change-1474374793.pdf.

77 Department for International Development (2014) Statistical consultation – The reporting of Official Development Assistance from Development Finance Institutions, p. 4.

78 HM Treasury, (2015), Spending review and autumn statement 2015 https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents/spending-review-and-autumn-statement-2015.

79 Department For International Development (2016) Annual Report and Accounts 2015-16, p.91.

80 National Audit Office (2016) Department for International Development: Investing through CDC, p.53.

Chapter 5: Better aid – assessing the quality of UK aid

Effective development – aid that is good value for money and delivers sustainable, long-term change – is vitally important in the current context. A more complex and comprehensive development agenda, alongside pressures on public spending, has put increasing pressure on ensuring and demonstrating that all UK aid is used effectively and delivers real impact and results. This is doubly important as an increasing proportion of the aid budget is being spent by other departments and funds – ones with little to no track record on development effectiveness and with clearly competing mandates. As such, the development effectiveness agenda has never been more important but, ironically perhaps, never more at risk of being lost or de-prioritised.

The globally agreed development effectiveness principles, agenda and monitoring are key measures of UK aid quality in practice. Independent biennial monitoring of effectiveness commitments[81] provides an evidence-based snapshot of the UK's performance, seeks to improve understanding, and track progress on how development effectiveness is implemented at country level. The effectiveness agenda is the only globally agreed set of principles that pull together evidence about what matters most to donor countries, to developing countries and to the people living there. These principles provide a best practice guide that puts developing countries in charge of their own development while also ensuring that aid is used effectively to deliver real impact and value for money. This principle of ownership of development by developing countries is also very much at the heart of Agenda 2030 and, as such, success in development effectiveness will also define to some extent how successful the UK is in achieving its broader sustainable development ambitions.

This section provides an overview of the development effectiveness agenda. It also looks at what the monitoring data tells us about the UK's performance and the quality of UK aid as well as looking beyond that data to look at effectiveness in action. It will also take a quick look forward to some key emerging issues and areas of work in development effectiveness.

Key trends:

- *The UK has historically been a champion of development effectiveness and promoted the agenda – but that may be changing as it receives less political attention and progress seems to falter on some effectiveness indicators.*
- *Transparency is a clear exception to this – the UK has championed transparency both politically and practically, demonstrated that it can be done and the impact that it can have. Other government departments and cross-government funds are significantly further behind.*
- *But there are concerning trends: UK aid seems to be driven increasingly by UK priorities less clearly aligned to partner countries' development strategies; aid remains 'informally' tied with most contracts going to UK-based firms; a more low-cost as opposed to value for money results agenda; and, worryingly albeit anecdotal, signs of declining engagement with non-state actors.*
- *There are challenges in aligning the UK's aid in the national interest agenda with effectiveness principles and, equally, the development effectiveness agenda is striving to align itself with a new and more complex development framework. The Grand Bargain (see below) is a useful example of how the effectiveness principles can be taken and applied to different contexts.*
- *Other government departments, cross-Whitehall funds and arm's length organisations such as the CDC are substantially further behind than DFID in meeting and implementing effectiveness commitments.*
- *Work is needed to improve the monitoring data collected on other, newer parts of development effectiveness. For example, in the area of inclusive development better information on how non-state development actors – such as the private sector or civil society – are meeting their commitments, and being supported and included in development processes would help to provide a more comprehensive picture.*

What is development effectiveness?

The UK played a pivotal role in developing and promoting the aid and development effectiveness principles, as set out in the Paris (2005), Accra (2008) and Busan (2011) declarations. The Paris and Accra declarations on aid effectiveness set out "a practical, action-orientated roadmap to improve the quality of aid and its impact on development".[82] The agreements hinge on guiding principles that would change and improve the efficiency and impact of aid: country ownership, alignment, harmonisation, managing for results and mutual accountability. Country ownership is a key tenet to understand development effectiveness; it maintains that aid best fulfils its potential when it is aligned behind nationally and inclusively developed national development strategies,[83] putting the recipient country in the driving seat. In practice, this means things like untying aid, committing to use country systems to manage and evaluate aid (for example using recipients' public financial management structures), ensuring aid is linked to recipient country finances (making it 'on budget'[84]) and using local contractors.

In 2011, the effectiveness agenda and process entered a new phase with the intergovernmental, multi-stakeholder Global Partnership for Effective Development Cooperation (GPEDC) agreed in Busan which reiterated and reframed these commitments. The GPEDC marked a shift from aid to development cooperation, aiming to re-balance uneven relationships between donors and recipients. It also included new stakeholders: private sector enterprises, foundations, parliamentarians, local governments and civil society organisations are now engaged in the effectiveness agenda.

The development effectiveness principles explained

The four principles agreed in Busan are a standard for effective development co-operation, which includes, but is not limited to, aid.

Ownership: partnerships for development are led by developing countries, and are tailored to country needs.

Focus on results: investments have a meaningful impact on eradicating poverty and inequality, on sustainable development and strengthening developing countries' capacity.

Inclusive development partnerships: all actors – including business and civil society organisations – contribute to achieving development goals.

Mutual transparency and accountability: mutual accountability between development partners, as well as accountability to the beneficiaries of development co-operation and their citizens. Transparency encourages better accountability.

Development effectiveness - in the monitoring data

The monitoring process, as highlighted above, can provide data on how the UK is performing although it is not yet a complete picture as it does not capture all UK aid. This section looks at that data while later sections look at more qualitative analyses or data, to try to provide a more complete picture and pick up on some of the political, technical and capacity related issues that support or impede progress.

The first GPEDC monitoring survey took place in 2014 ahead of the High Level Meeting (HLM) in Mexico and the second ahead of the next HLM in Kenya in 2016. Results were mixed – though largely off-target. Nevertheless, the 2014 and 2016 monitoring did highlight that some progress has been made, and there remains appetite to drive further improvements.

The UK's overall record on development effectiveness has been mixed, performing well and leading globally in certain areas such as aid transparency while lagging behind in others such as getting aid on budget. Nevertheless at the political level, former DFID Secretary of State Greening, amongst others, emphasised that value for money and efficiency were priorities across the department and their work[85] and that effectiveness was mainstreamed across the department, but there was (and is) still work to be done to fully turn this aspiration into a reality.

Looking back at the data – the 2006, 2008, 2011 reviews

Three monitoring surveys were also undertaken under the former aid effectiveness process prior to the birth of the GPEDC. The UK initially seemed to be on track to reach some of the objectives set out in the 2005 Paris Declaration, but by 2010, there had been steps backwards.

- The UK exceeded targets on strengthening national capacity through technical cooperation, using country procurement systems, untying aid and using joint missions.
- However, by 2010 it had lost ground on two targets that it had fully achieved by 2007:
  - The use of programme based approaches, (71% in 2007 dropping to 60% of aid in 2010: the target was 66%); and
  - Mutual accountability between donors and recipients (decreased by 10% between 2007- 2010).
- The alignment of aid flows to national priorities also lost ground between 2007 and 2010, down from 69% to 48%.
- Less UK aid was 'on budget' and used public financial management systems, as the UK missed the targets that it had previously appeared near to achieving.
- Furthermore, while the UK in 2007 seemed to be on track to end aid fragmentation and improve predictability in the medium and long term, the final survey showed a decline in these areas.

A glass half full – 2014 Mexico and 2016 Kenya HLM monitoring data

In 2014, the top line from the monitoring report was "a glass half full" – where progress had been limited, but equally, many historic gains had been maintained. Similarly the UK made strides in some areas while it lost focus in others.

- The UK did well on transparency, obtaining full marks for publishing timely information, while forward-planning was graded at 85%, and the detail of the information published was assessed at 68%.
- UK aid also registered a very high rate of annual predictability as 89% of ODA in 2013 was delivered as scheduled. A similarly positive record was noted for medium-term predictability, showing adequate forward planning.
- The percentage of aid on budget has stayed the same between 2010 and 2013, at approximately 65%.
- There was a contraction in the use of public financial management and procurement systems, which fell from 75% in 2010 to 59%.

There is a continued sense of political engagement with the Busan principles in the UK. The government acted as co-chair of GPEDC, with Nigeria and Indonesia, and it drove the agenda forward on certain aspects, such as the inclusion of the private sector, as well as paving the way on transparency. The UK also benefitted and continues to benefit from vibrant and engaged academics, think tanks and a civil society sector who are themselves key stakeholders in development effectiveness – whether as implementers where UK NGOs, for example, have helped to lead the way in publishing aid data, or as thought leaders where UK based think tanks or academics have helped to shape thinking on, for example, how effectiveness principles can be turned into practice. However, while DFID claims to be mainstreaming its GPEDC commitments throughout its work, there is no plan or additional monitoring and evaluation mechanism in place and effectiveness often goes unmentioned or only has a relatively low profile in key strategic documents.

Development effectiveness in action

While the GPEDC data provides evidence to start to assess how the quality of UK aid is evolving, this is an inherently qualitative question and the monitoring framework can only ever capture a limited picture. As such, the following sections will seek to explore other evidence or sources to supplement the data in the monitoring surveys and provide a more holistic impression of the quality of UK aid – its challenges, successes and direction of travel.

Who's running the show? Country ownership

Ownership is a fundamental foundation of development effectiveness; it is the principle that underpins delivering on the broader ambition of the effectiveness agenda. As such, it is perhaps unsurprising that it is also the area that has proved the most difficult as it also implies donor agencies giving up some control and a degree of oversight. The UK is no exception – a peer review by the OECD in 2014 highlighted several areas for improvement in the UK's development effectiveness: country ownership and the use of country systems, harmonisation, tied aid and aid modalities.

- It found that DFID has encouraged alignment between its country strategies and national poverty eradication strategies (the recipient country priorities), yet there was also an apparent lack of alignment between DFID country strategies and individual projects.
- Much UK aid remains tied in practice despite being formally untied. The OECD found that 90% of UK aid is informally tied, meaning that almost all its contracts go to domestic suppliers.[86]
- There was less emphasis on using country systems. As of 2014, only five DFID country programmes showed strong support for using country systems: Ethiopia, Mozambique, Rwanda, Tanzania and Vietnam.[87]

General budget support can also be used as something of a proxy indicator for country ownership as it enables countries to drive their own development process[88] and, as such, its decline in recent years is a worrying sign. It must also be acknowledged that the level of budget support provides a limited picture of how DFID is supporting ownership in country – the data does not reflect the political complexities that influence how decisions are made by the UK government or the fact that DFID is increasingly working in more fragile contexts. Even though the scale and rapidity of the decline does suggest a concerning trend and one that is being seen globally, the end to general budget support led to an increase in sector budget support between 2012 and 2014. Currently the UK is set to end general budget support as committed to in the 2015 aid strategy. Given that context, the UK needs to articulate what country ownership looks like for UK aid in practice.

Is it real impact? Focus on results

The results agenda is a complex one and has more than one interpretation – on the one hand there is the version encapsulated in the effectiveness agenda, delivering results that people living in developing countries want, are sustainable and long term. On the other hand, some donor countries, including the UK, have focused more on an input-output model that, while focusing clearly on achieving impact, may be putting more of an emphasis on the cost-benefit analysis than on the type of results achieved. It has also arguably increased risk-aversion in programming that is particularly detrimental to long-term transformational work in fragile states. Results measurement inherently privileges quick, observable and countable results, rather than harder-to-measure and longer-term outcomes such as improvements in governance.

The 2014 GPEDC monitoring survey suggests that the UK has been using country-led results frameworks to design, monitor and assess its aid programmes less than in the past. This must also be seen in the context of the work that DFID has done internally to strengthen its own results frameworks and systems. As part of the development of new operational plans in 2011 following the BAR and MAR, DFID also developed a new results framework[89] for 2011-2015 that built on the past MDG-focused system but also added to it to better capture the impacts DFID seeks to achieve. It looked at 4 levels of DFID's work:

1. Development outcomes in partner countries that result directly from DFID interventions;
2. Results from less direct interventions;
3. Monitoring DFID's operational effectiveness; and
4. Monitoring DFID's internal corporate processes.

This approach has focused on the impacts UK aid achieves and its accountability mechanisms as well as working to drive efficiencies and keep down costs. It has encouraged improvements in monitoring, learning and evaluation with better data on outcomes and outputs versus inputs. However it also comes with risks, not least that the focus on getting the most and most easily measurable results for the minimum cost comes at the price of undermining investment in long-term sustainable development results, assessing the quality of interventions, and their broader impact.[90] ICAI, for example, has emphasised that the results-oriented methodology often translates into aid programmes and partners being risk-averse, losing the capacity to innovate and operating instead only according to established patterns.

This results agenda must also be seen in the context of the value for money agenda that has gained prominence in DFID's strategy and decision-making. Again, there are potentially very different versions of value for money – for donors it could be a drive to the bottom in procurements costs and general expenses; partner countries and beneficiaries would, conversely, prioritise transparency and accountability, and alignment to their own requirements.

As one interesting example of these agendas in action, DFID has been experimenting with new results-based approaches whereby funds are disbursed only after certain results or targets have been achieved. There have been some challenges to this approach as it can limit the ownership of partner countries and prevent less capital-rich partners such as small NGOs from bidding on projects.[91] The DAC also found that DFID's emphasis on payment by results and its prioritising "value for money" approach make it more difficult to coordinate with other partners for joint delivery.

As the last results framework covered 2011-2015 it has now been superseded by DFID's new single departmental plan (SDP)[92] which draws from the 2015 aid strategy to frame top-line results around the 4 key pillars of the strategy. The SDP clearly reiterates a commitment to the world's poor but also the connection between UK aid and the UK's own national interests, a focus on value for money. How this may or may not impact and influence the effectiveness of UK aid is not yet possible to ascertain.

Since its establishment in 2011, ICAI has reviewed a large number of programmes and thematic areas. Overall, almost 5 years of ICAI reports show a world-class development agency that is achieving results across a range of sectors and countries, delivering change and innovating. But, equally, there are areas for improvement, particularly in protecting the long-term sustainability of development results – an issue DFID does include in many of its evaluations – a vital part of the development puzzle and of getting good value for money from UK aid to ensure it delivers real change in the lives of poor people.[93] Aligning or re-framing the UK's current results agenda and framework along these lines would be a substantial improvement in this direction.

Building better partnerships - inclusive development

The Busan principles call for engagement between all stakeholders (donors, recipients, civil society, foundations and business) to achieve inclusive development. The focus on inclusion is based in an understanding of the important and different roles that all stakeholders need to play in development, whether that is civil society strengthening accountability or working with emerging economies – relatively new donors in the development world who bring new forms of financing and knowledge to the table. It is also about development partners working with each other, driving improvements, supporting a diverse and resilient development eco-system and understanding and valuing the roles that different stakeholders play.

As noted in the previous section, the UK maintains a diverse portfolio of partners, not only as channels for delivery but also in terms of relationships across the development world. This can be seen in the diversity of actors DFID work with to deliver aid and also in the important role that the UK plays in many development fora – from the board of the World Bank to the working relationships it has with development partners in the UK. However, although based only on anecdotal evidence and discussion, there are signs that the space for substantive engagement on sustainable development with the UK government is shrinking. While the many parts of DFID and other aid-spending departments continue to engage with non-governmental stakeholders, including the private sector and NGOs, there is a growing sense that the impact of this engagement is declining: that is to say, there is less open sharing of information and less engagement resulting in shared learning or policy change for example.

Nevertheless, the overall picture in the UK is a positive one and, as subsequent ICAI reviews discussed earlier in the report demonstrate, the UK government continues to maintain strategic relationships with key stakeholders in the UK including in particular civil society[94] and the private sector.[95]

Enabling openness - transparency and accountability

In recent years, the UK government has been at the forefront of the aid transparency agenda. This has largely been driven by two key objectives: demonstrating greater value for money to UK taxpayers, and to fight corruption and misuse of public funds, thereby demonstrating that UK aid can work when it is spent well. In 2008, the UK government was a leading founding member of the International Aid Transparency Initiative (IATI). In 2011, DFID became the first organisation to publish using the IATI Standard, a technical framework that allows data from different bodies to be compared. The UK government and civil society have worked together to improve transparency in the UK – creating a virtuous circle with each partner pressuring and supporting the other to improve. The effects of this are clear – UK NGOs and DFID are some of the most transparent aid actors in the sector. However, the same transparency standards have not been applied consistently across all UK aid spending departments.

Publish What You Fund has been monitoring the level of transparency of UK aid on an annual basis since 2011 through its Aid Transparency Index, the only independent measure of major donors' level of transparency. Three UK departments were included in the Index in 2013 and 2014: DFID, the Foreign and Commonwealth Office (FCO) and the Ministry of Defence (MoD). While DFID scored highly, the FCO and MoD were ranked in the 'poor' and 'very poor' categories respectively. No information on individual activities financed by the MoD could be found, while the FCO made limited information available but did not include, for example, contracts or budgets. The last assessment showed that in 2016, DFID had maintained its high standards, ranking in the 'very good' category, but there was very little change in the data available from the FCO, the MoD or other UK departments. The MoD released its first IATI compliant report in 2015 but included only ten activities, all of which have since ended. The FCO has not updated its public records since 2015.

With the new UK aid strategy in place since November 2015, other UK departments are increasingly subject to greater scrutiny to ensure that aid transparency remains a government-wide commitment. Greater transparency across all departments is required, especially in a national context where aid spending is questioned, and at the international level where the achievement of Agenda 2030 will require more and better data on all development flows. In practice, this means ensuring data is published more frequently, more comprehensively and at a greater level of detail.

The government has shown its ambition, announcing that it "will aim for the first time, for all UK government departments to be ranked as 'Good' or 'Very Good' in the international Aid Transparency Index, within the next five years. In addition, it will work with and encourage all implementing partners of UK aid, including private contractors and recipient governments, to meet global transparency standards".[96]

The road ahead – making progress on effectiveness in the UK

It remains challenging to provide a full and up to date picture of how effective UK aid is. While the biennial monitoring undertaken as part of the GPEDC provides both a useful snapshot and evidence on

UK aid in participating countries, it is not as frequent as might be useful and there is little other additional information or data available. The DFID Annual Report does provide some further information on an annual basis but the report focuses more on outputs and numbers than on outcomes and effectiveness.

Equally, it is difficult to make evidence-based projections for the future of UK development effectiveness as there is currently no publicly available implementation plan for development effectiveness commitments. The UK was historically a strong performer on development effectiveness, out-performing the majority of donors in the lead-up to the Paris Monitoring Report on many effectiveness indicators, but that trend seemed to shift post-Busan as the UK moved to be much more in the middle of the pack. One notable exception to this is in aid transparency where the UK has continued to play a leading role, moving from early-adopter and proof of concept to pushing the debate and progress out across the UK government. And transparency is perhaps also a useful example of another hard to quantify but important benefit the UK can draw on – it and other development stakeholders in the UK such as civil society have credibility and a role to play in global debates on development effectiveness. They can and should continue to work together with partners to ensure the global debate on effectiveness matches and keeps pace with an ever-evolving aid and beyond landscape, and that the GPEDC continues to improve monitoring and data so that information can help to drive changes in behaviour and understanding.

So where is the UK on effectiveness?

- Adapting to a changing and evolving development context by innovating, exploring new partnerships and prioritising new ways of doing aid.
- Maintaining leadership and driving progress in areas that line up with domestic priorities and responding to critiques about waste or corruption such as in transparency and value for money.
- Placing more focus on UK priorities and more anecdotal accounts of what countries want, potentially reflective of the focus on fragile and conflict-affected states where traditional state infrastructure is weak.

Beyond Busan – how is UK aid evolving?

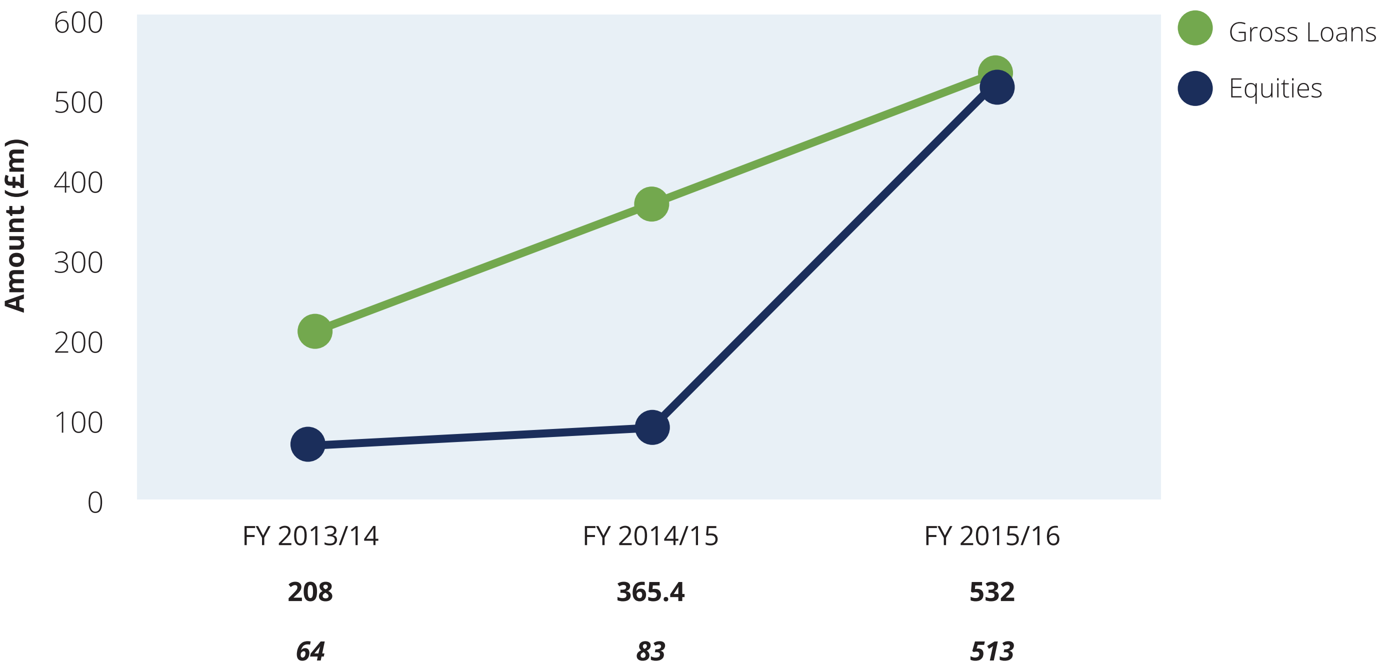
This section looks beyond the more traditional effectiveness agenda to highlight other issues and emerging changes that are shaping the quality of UK aid.

Capital, markets and the private sector

By far the biggest rhetorical shift has been towards the private sector or other forms of market-like interventions. This has seen two big changes in UK aid: engaging more with business and increasing spending through less 'traditional' aid modalities.

In 2015, ICAI identified three main areas in DFID's engagement with business: exploratory discussions to share information; networks, alliance and partnerships; and externally managed funds, providing grants through challenge funds or loans, equity investments or guarantees. They found a mismatch between the ambition of working with business and a focus on poverty reduction at the operational level which raises concerns about the effectiveness of such interventions. Despite positive examples that could have long-term impact, evidence was still lacking at the time of the study due in part to insufficient time or a lack of independent analysis.[97]

DFID Loans and Equity FY 2013/14-2015/16



Source: DFID Annual Report and Accounts 2015/16 and Annual Report and Accounts 2014/15

The CDC

The CDC is the UK's development finance institution, founded in 1948, whose mission is to support the building of businesses throughout Africa and South Asia, to create jobs and make a lasting difference to people's lives in some of the world's poorest places. The CDC invests in businesses either directly or indirectly through funds.

The UK government is earmarking greater financial resources for the CDC Group to deliver its economic development agenda in Africa and South Asia. In November 2016, DFID presented the Commonwealth Development Corporation Bill (now Act, as the Bill received Royal Assent on 23 February 2017) that will lift the current caps on aid that can be provided to the CDC. The limit on CDC expenditure, at present £1.5bn, will be increased to £6bn, and allow for a further increase to £12bn with parliamentary approval. CDC will continue to invest in contexts that are too risky for private investors.

In 2014, CDC invested £472m in Africa and South Asia, and made a total profit (after tax) of £420m. As of 2015, the UK reports only the capital flow from the UK government to CDC as ODA – which amounted to £42m in 2014 (0.4% of all ODA). The National Audit Office acknowledged an improvement in transparency in DFID's oversight of CDC operations while at the same time raising concerns about its ability to achieve development objectives, including wealth and job creation for the poorest.

As discussed in the section on aid modalities, there has also been an uptick in the use of loans – as of the beginning of the financial year 2015/16, official statements show that gross loans increased to £532m, up from £365m in the previous period. From £208m in 2013, gross loans increased by 255% according to the annual figures released by the Department.[98] In parallel with this growing amount in loans, investment in equities nearly trebled from £34m in 2012 to £83m in 2014, before reaching a peak figure of £513 in 2015/16 because of additions to the equity portfolio of CDC.

Development finance is also provided through challenge funds, which are a hybrid mechanism merging a concessional grant and a returnable element (basically a loan) for investments in developing countries. Currently challenge funds form a very small part of UK aid (about 0.14% of total budget), but they have been used to promote innovation and inclusive business, that is products and services needed by the poor and with developmental impact.[99] Challenge funds work by offering grants to both private and not-for-profit organisations and their overall management is assigned by DFID to private companies. While this is still a small amount of all ODA and does not yet represent a significant proportion of UK aid, given the emphasis that the UK has put in recent years on economic growth and wealth creation it is a signal of a shift taking place in modalities and allocations.

The National Audit Office (NAO), in its recent review of the CDC,[100] noted improvements since the last review in 2008/9 and the IDC review in 2012, including improved governance arrangements and the efficiency of the CDC's operating model. The concerns the NAO raised over the CDC[101] are standard examples of challenges in this type of spending; achieving and understanding development impact is not straightforward: the evidence chain to show results is often long and more could be done to better and more consistently capture data on the CDC's development impact. Balancing competing interests is also challenging and the dual purpose of many of the UK's instruments makes this more so – as has been highlighted with the Prosperity Fund. Innovation and different forms of development interventions are needed, but the overall picture here is one where more work is needed – to develop the evidentiary and knowledge base, to better target interventions to go beyond 'do no harm' to 'do some good' and to ensure the primary purpose of UK aid remains ending poverty.

Conditionality: the securitisation of aid

The issue of aid conditionality is re-emerging, exemplified in Europe by an unsubtle return to conditionality by using aid as a financial incentive to curb migration on a 'more-for-more' basis.[102] Conditionality – the imposition of conditions from the donor, such as economic conditions around opening markets for example – undermines not only developing countries' ownership, but also the impact and value for money of aid interventions as additional benefits such as strengthening local systems or actors can be lost and this may even result in net negative side effects.

In the past year, the European Union has adopted a controversial approach of using development policy and aid provision to pursue national security aims, in particular migration control, alongside humanitarian and development concerns. The policy aims to reduce irregular migration and forced displacement in the long term by dealing with political, social and economic causes that act as their drivers. In the short term, the focus is on rescuing illegal migrants at sea and establishing safe and legal migration routes out of conflict zones, as well as their repatriation. There have been a number of agreements between the EU and partner countries linking the provision of financial assistance to the recipients' efforts to tackle illegal migration through the establishment of trust funds.[103] The EU Emergency Trust Fund for Africa is targeting 23 countries in the Sahel and Lake Chad area, the Horn of Africa and North Africa. Its budget is currently €2.5bn, an increase from the initial €1.88bn following additional member state contributions and uplifts. The compacts shift the purpose of aid from purely poverty eradication towards migration control – which includes particularly questionable elements in aid spending such as law enforcement.[104]

A recent example in the UK of this approach is an £80m programme in Ethiopia aimed at creating economic opportunities for Eritrean migrants, one of the national groups trying to reach Europe via the Mediterranean route; the project aims to create 100,000 jobs, a third of which would be for refugees.[105] The UK Prime Minister's announcements at the UN General Assembly and Refugee Summit in September 2016 are consistent with the current European approach on securitisation of aid; while falling short of putting overt conditions on aid and emphasising the need for long-term, durable solutions for refugees and migrants, they can be seen to conflate development cooperation policies with migration control.

Effectiveness in action beyond the GPEDC: The New Deal for Fragile States and the Grand Bargain

There has also been a growing debate around assistance for fragile states, and accountability and efficiency in the humanitarian sector which, as areas of UK aid expenditure that are growing substantially, has resonance in the UK. Whilst it is too early to assess the outcomes of some of these processes, they will be important frameworks for the future.

THE NEWDEAL CREATES CHANGES BY...

Addressing what matters most for the 1.5 billion people affected by conflict and fragility

Use the **PEACEBUILDING** and **STATEBUILDING GOALS (PSGs)** as the foundation for progress toward the Millennium Development Goals and as a guide for work in fragile and conflict-affected states

Peacebuilding & Statebuilding Goals PSGs

LEGITIMATE POLITICS Foster inclusive political settlements and conflict resolution

SECURITY Establish and strengthen people's security

JUSTICE Address injustices and increase people's access to justice

ECONOMIC FOUNDATIONS Generate employment and improve livelihoods

REVENUES AND SERVICES Manage revenue and build capacity for accountable and fair service delivery

Putting countries in the lead of their own pathways out of fragility

FOCUS on new ways of engaging by supporting inclusive, country-led transitions out of fragility, based on five elements:

Focus

FRAGILITY ASSESSMENT of the causes and features of fragility, which is country led, as the basis for one vision one plan

ONE VISION AND ONE PLAN which is country-owned and -led to address the PSGs and to transition out of fragility

COMPACT to implement the one vision one plan and to guide partnership between all parties to achieve the PSGs

USE the PSGs to monitor progress

SUPPORT POLITICAL DIALOGUE AND LEADERSHIP for effective peacebuilding and statebuilding

Building mutual trust and strong partnerships

TRUST in a new set of commitments to provide aid and manage reforms for better results:

Trust

TRANSPARENCY in the use of domestic resources, enhanced and at every level

RISK that is jointly assessed and managed for better and greater investment in fragile states

USE OF COUNTRY SYSTEMS building and delivering through them

STRENGTHEN CAPACITIES of local institutions and actors to build peaceful states

TIMELY AND PREDICTABLE AID through simplified, faster and better tailored mechanisms

Source: OECD

The OECD-led Busan High Level Forum paved the way for the New Deal for Engagement in Fragile States, a separate effectiveness agenda which was adopted by 44 donors, multilateral institutions and recipient countries in 2011, and was specifically designed for fragile and conflict-affected states.

The New Deal[106] sets out five principles of aid effectiveness that are specifically tailored to fragile situations, encapsulated by the mnemonic TRUST: Transparency, Risk-sharing, Use of country systems, Support capacity building and, Timely and predictable aid. The New Deal also requires donors to make special efforts to coordinate their efforts in order to reduce fragmentation, to design interventions based on a thorough understanding of local fragility drivers and to measure their success using the 5 'Peacebuilding and Statebuilding Goals' (PSGs). The PSGs represent areas which have traditionally been under-invested in by donors in fragile states, yet are vital to achieving peaceful and sustainable transitions (see box below). The PSGs later formed the basis of Goal 16 of the SDG framework.

Given the greater emphasis of donors, including the UK, on aid assistance to fragile countries, the incorporation of aid effectiveness principles here is a positive step. There has been progress, in fragility assessments in partner countries – in Sierra Leone, Timor-Leste and Democratic Republic of Congo for example – and aid transparency.[107] Some partner countries have also invested in the formulation of national development plans, although there has been less progress in other key areas.

Meanwhile, in 2016 at the World Humanitarian Summit, donors, multilateral agencies and civil society agreed a Grand Bargain for humanitarian assistance;[108] it sets out ambitious goals, which are firmly rooted in the effectiveness principles, for humanitarian reform by 2020. Donors and humanitarian agencies have committed to review their performance against these goals between 2017 and 2018. The agreement included:

- Publishing clear and transparent data to the IATI standard.
- Greater involvement of local humanitarian providers, which aligns with the principle of country ownership and inclusive development.
- Links between the provision of cash-based assistance and criteria such as value for money and focus on results.
- Joint programming between multiple donors.
- Strengthening the predictability of aid through multi-year programming.

The UK has invested considerable political capital in the Grand Bargain and is thus, together with other donors, committed to driving forward the agenda on greater transparency and effectiveness of humanitarian aid. Implementation, however, will also depend on a number of other actors, including multilateral agencies that are notoriously slow in carrying out reforms.

Looking forward – better understanding the quality of UK aid

UK aid remains some of the most effective in the world – not just as measured against indicators and principles, but also in the results it has delivered, the change it has helped to enable and the leadership it has provided. There is much to be proud of in the UK's record on development effectiveness – from shepherding it through the nascent stages to supporting the development of a more holistic and comprehensive agenda. The UK has also pushed progress on the key enabling issue of transparency, pulling others along with it, and ensuring that transparency was on the global agenda.

Equally, regression on some key commitments and a seeming decline in political interest suggest there is reason to be concerned for the future. Perhaps most worrying is the steady and continued decline of developing country ownership – both as measured by concrete indicators such as use of national systems and in the rhetoric that comes at the political level on how UK aid policy is shaped. UK aid shaped to support the national interest and business or trade interests sits uneasily with a commitment to supporting developing countries' leadership of their own development.

Perhaps one of the biggest challenges in looking at the quality of UK aid is the relative paucity of hard data and evidence available – certainly when compared to questions of quantity. It is, of course, more difficult to assess these more qualitative questions and such assessment relies on rather more nuanced research and evidence. Nor is such data part of the government's existing publication requirements. The contributions from ICAI in this area are therefore particularly welcome and useful. However, it is equally clear that more is needed and this is particularly important at a time when aid is under attack. The UK's continued commitment to and support for the development effectiveness monitoring process is welcome – this monitoring forms a useful starting point, but could be bolstered.

Three simple changes to bolster that work could make a real difference to the understanding and quality of UK aid. Firstly, a roadmap to fully implement the Busan principles – this would provide impetus for implementation across DFID, a clearer basis for assessing the UK's progress against its own timetable, and a template for other donor agencies and UK government departments to follow and build on. Secondly, more transparency is needed around non-DFID ODA, in particular on funds and financial instruments as these are currently relatively opaque and represent a growing share of UK aid. All other aid-spending departments and funds must meet the same level of transparency as DFID and implement effectiveness commitments. Finally, more regular data about DFID's internal tracking of development effectiveness commitments would enable a more evidence-based discussion about the UK's progress, areas of challenge and better learning from successes.

These three simple proposals could spark a significant step change in development effectiveness in the UK and build on the history the UK has as a leader in this field.

81 The GPEDC – specifically the joint support team in the UNDP and OECD – undertakes regular monitoring of development effectiveness commitments based on a set of 10 globally agreed indicators. For more information on indicators and monitoring see http://effectivecooperation.org/monitoring-country-progress/explore-monitoring-data/.

82 Organization for Economic Co-operation and Development (2005), The Paris Declaration on Aid Effectiveness: five principles for smart aid.

83 UK Aid Network and Bond (2013) Country Ownership: The only way forward for development cooperation.

84 Aid 'on budget' covers a range of modalities and ideas including direct government to government aid such as budget support, but also more generally aid that is included in the country's budget which could also include aid that runs through national financial systems, is accountable to parliament as part of budget, etc.

85 RT Hon Justine Greening MP, 2 July 2015, Speech: "Changing world, changing aid: Where international development needs to go next". Available at https://www.gov.uk/government/speeches/changing-world-changing-aid-where-international-development-needs-to-go-next.

86 OECD op.cit. p.19.

87 OECD (2014) DAC Peer Reviews United Kingdom.

88 ActionAid (2011) Real Aid – Ending aid dependency.

89 DFID (2013) DFID's Results Framework available at https://www.gov.uk/government/publications/dfid-results-framework.

90 ICAI affirms that "genuine impact […] is very difficult to convey through quantitative indicators. […] Results should be put in the context of the scale of the development challenges facing each country – for example, not just the numbers of children attending school through UK assistance but the progress of each country in eliminating out-of-school children and, ultimately, illiteracy". ICAI (2015) DFID's approach to delivering impact, p.43.

91 Green, D. (2016) "Payment by Results in aid: hype or hope?" https://www.theguardian.com/global-development-professionals-network/2016/apr/12/payment-by-results-aid-evidence-for-against.

92 DFID (2016) Single Departmental Plan: 2015 to 2020, https://www.gov.uk/government/publications/dfid-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020.

93 Ibidem p.46.

94 Independent Commission for Aid Impact (2013) DFID's support for Civil Society Organizations through Programme Partnership Arrangements.

95 The main partners for challenge funds have been large multinational companies such as Coca Cola, Ericsson and KPMG. For further information see Independent Commission for Aid Impact (2015) Business in Development.

96 HM Treasury, Department for International Development (2015) op.cit. p. 22.

97 Independent Commission for Aid Impact (2015) Business in Development.

98 Department for International Development (2014) Annual Report and Accounts 2013-14, p.210. Gross loans for the period amounted to £74.4m.

99 Independent Commission for Aid Impact (2015), Business in Development, p.21.

100 National Audit Office (2016), Department for International Development investing through CDC.

101 For more information on the CDC see http://www.cdcgroup.com/Who-we-are/Key-Facts/#.dpuf.

102 "Europe tries to buy its way out of the migration crisis", IRIN news, 30 June 2016 http://www.irinnews.org/analysis/2016/06/30/europe-tries-buy-its-way-out-migration-crisis.

103 Valletta summit with African governments in November, 2015; Turkey in March, 2016; and 16 African countries in June, 2016.

104 Joint NGO statement ahead of the European Council of 28-29 June 2016 "NGOs strongly condemn new EU policies to contain migration" available at https://www.hrw.org/news/2016/06/27/joint-ngo-statement-ahead-european-council-28-29-june-2016-ngos-strongly-condemn-new; Oxfam International.

105 UK Government, "PM speech at Leaders' Summit on Refugees: 20 September 2016" https://www.gov.uk/government/speeches/pm-speech-at-leaders-summit-on-refugees-20-september-2016.

106 https://www.pbsbdialogue.org/en/new-deal/about-new-deal/.

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Conclusion

State of UK aid

Difficult times, an evolving and more complex landscape and new challenges to face are all high-level factors driving evolution and changes in UK aid. Looking at the evidence and what the data can say has created an equally varied picture of the state of UK aid.

While much has remained the same and stable – from the sectors the UK prioritises to its commitment to transparency – much has also changed. New priorities and new ideas have seen UK aid, alongside continued emphasis on traditional sectors, shifting to look for new approaches to development, as well as starting to diversify the functions of the aid budget.

Still, many of the features of the aid landscape are familiar from five or ten years ago – the UK is still a global leader in development, it is still perhaps the strongest advocate for 0.7% and one of the world's biggest donors, and its strong spending on core poverty eradication work, like supporting health and education systems in the world's poorest countries, continues, at least for now.

Nevertheless there is cause for concern. The trends identified in this paper broadly show a move away from development effectiveness – with some notable exceptions – and towards new actors, new modalities and new partnerships that are largely unproven. It is too early to come to a definitive, evidence-based assessment of the efficacy or otherwise of some of these new approaches but they clearly bear watching.

All of this suggests some key questions, issues and areas of potential concern for UK development to consider.

Key questions and recommendations

- **How can the UK protect the poverty and sustainable development focus of UK aid and the UK's place as a leader in development and aid?**
  - Ensure that UK aid remains focused on its primary purpose of eradicating poverty and promoting sustainable development, including through continuing to provide sufficient funding for vital social sectors such as health and education, and a balanced approach to spending on development and humanitarian response in emergencies.
  - Ensure that more recent focus areas for aid spending, such as economic development, and more recent ways of delivering aid, such as via private sector instruments or loans, have adequate accountability mechanisms and maintain the crucial poverty reduction focus and deliver impact.
  - Maintain the commitment to 0.7% and leverage UK leadership and influence to drive up global ambition and standards.
- **How can the UK ensure the best value for money and impact from UK aid?**
  - Support and strengthen DFID's expertise as the primary disbursal channel of ODA, strengthening the role of DFID in oversight and scrutiny of aid spent through other government departments.
  - Continue the recent focus on tackling inequality, with aid spending on programmes for women and girls, and people with disabilities.
  - Continue to deepen the focus of aid on the world's poorest countries, including those which are fragile or conflict-affected while protecting against the securitisation of aid through the conflation of UK aid policy with national security interests.
- **How can the UK re-inject some energy and action into delivery of aid and development effectiveness?**
  - Share a strategy and coherent narrative for accelerating delivery on development effectiveness commitments, including finishing the 'unfinished business' of aid effectiveness and how to use UK leadership and influence to make sure the effectiveness debate and monitoring process evolves to be fit for purpose in the new and more complex development context.
  - Maintain the laudable transparency of UK aid and DFID's global leadership, extending it equally across government.
  - Demonstrate how DFID and the UK government are promoting developing country ownership – which makes sure aid provides value for money
  - to put it at the heart of development efforts.

- **How can the UK ensure all government departments contribute to development efforts and are effective aid partners?**
  - Where aid is spent via government departments other than DFID, ensure the poverty reduction focus is maintained and demonstrable, including through drawing on the expertise of the UK development community to ensure that all UK aid delivers good value for money.
  - Commit to make development and aid effectiveness a required part of all departmental plans, business cases, guidance and other relevant work relating to UK aid.

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Methodology

The report is the result of desk research from publicly available materials, which have been appropriately referenced. Statistics and data used were all from official sources, including the UK government and the OECD DAC. Additionally, a number of qualitative interviews with policy experts were carried out to gather further information on aid policies and its effectiveness

Glossary

Term	Definition
Administrative costs	The total cost to deliver an aid programme; it includes staff costs, as well as travel, rents and communication expenses.
Bilateral core contribution	Aid provided by a donor to a recipient country, sector or project.
Budget support	The provision of financial resources (aid) directly to a recipient country's budget system.
Conditionality	Financial support is subject to the implementation of a programme of reforms, or other similar activities, by a country.
Country ownership	When recipient countries are leading and implementing their own national development strategies. Country-led development also includes meaningful consultations with parliaments and civil society, so that the development priorities fully reflect the country's specific needs and situations.
Debt relief	Any form of debt reorganisation that cancels the burden of debt. In the OECD DAC statistics, debt relief is counted as negative ODA.
Development awareness	Funding of activities to increase public awareness of development co-operation.
Focus on results	When investments have a meaningful impact on eradicating poverty and inequality, on sustainable development and strengthening developing countries' capacity.
Harmonisation	Donor countries adopt common arrangements on aid flows and programmes at recipient level; by doing so, they avoid duplication and fragmentation of projects.
Inclusive development partnerships	All actors – including business, foundations and civil society organisations – contribute to achieving development goals.
Least Developed Countries	A definition applied to low-income countries that face severe structural impediments to sustainable development. The UN currently identifies 48 countries belonging to this group.
Middle-Income Countries	Countries with a per capita gross national income of US $1,025 to $12,475 per annum, as identified by the World Bank.
Mutual accountability	Mutual accountability between development partners, as well as accountability to the beneficiaries of co-operation and citizens.
Official Development Assistance (ODA)	A form of public finance that promotes the economic development and welfare of developing countries. Aid includes grants, loans (where the grant element is at least 25% of the overall value) and technical assistance. Aid may be provided bilaterally, directly from a government to another, or multilaterally, via international organisations such as the UN and the EU.
Predictability	A greater degree of certainty on the availability of aid flows in the medium and long term which helps recipient governments more effectively plan and manage their development programmes.
Project-type intervention	A form of aid agreed with a partner country to fund projects defined by inputs, activities and outputs, to reach specific development outcomes within a timeframe.
Refugee costs	Public expenditure to support refugees in donor countries during the first year of their stay.
Scholarships	Aid in the form of training and education of people from aid partner countries.
Technical Assistance	A form of development cooperation whereby donors transfer knowledge, training and research to recipient countries.
Transparency	The availability, in a format that is publicly accessible, of information on development cooperation and other resources. Numerous donor countries, private companies and NGOs have been adopting the International Aid Transparency Initiative, which is a common standard for the publication of timely, comprehensive and forward-looking information on aid flows.
Use of country systems	When donors use recipient country's institutions and systems; these typically include public financial management systems, accounting, auditing, procurement, and monitoring of results.
Value for money	An approach that tries to maximise the impact of aid expenditure to improve poor people's lives. The UK Department for International Development defines it as a drive towards an understanding of the main costs behind programmes to assess if they reach "desired quality at the lowest price".

List of abbreviations

BAR: Bilateral Aid Review
BDR: Bilateral Development Review
CSOs: Civil society organisations
CSPR: Civil Society Partnership Review
CSSF: Conflict, Stability and Security Fund
DAC: Development Assistance Committee
DFID: Department for International Development
DPOs: Disabled Peoples' Organisations
EC: European Commission
EU: European Union
FCO: Foreign and Commonwealth Office
GPEDC: Global Partnership for Development Co-operation
IATI: International Aid Transparency Initiative
ICAI: Independent Commission on Aid Impact
IDC: International Development Committee
LDCs: Least Developed Countries
MAR: Multilateral Aid Review
MDGs: Millennium Development Goals
MDR: Multilateral Development Review
MICs: Middle-Income Countries
NAO: National Audit Office
NGOs: Non-governmental organisations
ODA: Official Development Assistance
OECD: Organisation for Economic Co-operation and Development
SDGs: Sustainable Development Goals
WASH: Water, Sanitation and Hygiene

UK Aid Network (UKAN) is a coalition of UK-based NGOs working together to advocate for more and better quality aid through joint policy, lobbying and advocacy work.

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