



# Rebuilding Britain's reputation as a reliable development partner: The state of UK Aid in 2024

## Briefing Series

The government's commitment "to rebuild Britain's reputation on international development" is both welcome and urgently required, given the scale of the sustainable development challenges we face globally. Rebuilding the UK's reputation will require the new government to take a different and wholly more ambitious path than that of recent years, as it sets out its plan for achieving this commitment.

As a tool for redistributive justice, overseas development assistance (ODA) should play a foundational role in the new government's plan to deliver on its ambition to restore the UK's reputation and rebuild trust with partner countries. The development finance landscape has changed drastically since the last Labour government. ODA is under pressure to respond to increasingly complex challenges, including exacerbated inequalities, climate change and increased conflict and fragility. At the same time, the UK's ODA budget is being stretched thin as it is used by an increasing number of agencies and a variety of financing instruments, often with questionable impact.

In a series of briefs, Bond will set out some of the key trends in development finance, including some of the challenges that the new government has inherited, and why and how the government can set a new path for financing sustainable development. The government will need to set out ambitious development and reform policies to deliver on its promise to rebuild the UK's reputation as a development partner.

## Part I: UK aid under pressure: An overview of the key challenges

The first brief of this series examines two decisions the previous government made which significantly affected both the quantity and quality of the UK aid budget and subsequently damaged the UK's reputation as a reliable development partner:

- 1) The decision to reduce the ODA budget from 0.7% of gross national income (GNI) to 0.5%.
- 2) The policy decision to continually inflate the level of ODA spent on refugees and asylum seekers in the UK, which has been widely criticised by UK and international oversight bodies.

These decisions are combining to lead to renewed extreme pressures on ODA spending in 2024.

### 1. The challenge of a reduced aid budget

Since 2020, there have been repeated cuts to the UK's ODA spending, especially 'overseas' programmes. UK ODA was cut by £0.7bn in 2020 due to Covid-19-related contractions in the UK economy, and by another £3bn in 2021 when the UK's ODA budget was reduced from 0.7% to 0.5% of GNI. The reduction in 2021 was undertaken with little notice or consultation with partners and included large cuts to existing programmes. These decisions undermined trust in the UK as a development partner, reduced value for money as programmes were not completed, and led to support being withdrawn from millions of people in the world who are the most marginalised and in need of assistance.

At the same time as these cuts were being made, UK ODA budget allocated to cover the costs of supporting refugees in the UK rose from £0.5bn in 2019 to £4.3bn in 2023. Despite the allocation of an additional £2.5bn

for 2022/23 and 2023/24 in ODA above 0.5% of GNI, the cuts and reallocations have resulted in an enormous reduction in 'overseas' programmes. When excluding spending on refugees in the UK, total UK ODA fell from £13.8bn (0.68% of GNI) in 2020 to £11.1bn (0.42% of GNI) in 2023. These spending pressures are expected to worsen in 2024.

As we will explore in more detail in the next part of this briefing series, these cuts and reallocations have led to major reductions in UK ODA spending in key areas. UK ODA for the countries most in need of support has been hit particularly hard, with UK bilateral ODA focussed on the least developed countries more than halving between 2019 and 2022. UK ODA has also been savaged in many sectors that are critical to the aims of reducing poverty and 'leaving no one behind'; substantial cuts have all occurred to UK bilateral spending on education (cut by 37% since 2020), health (cut by 39% since 2020), water and sanitation (cut by 58% since 2020) and humanitarian support (cut by 42% since 2020). These cuts have made the effective allocation of the remaining UK ODA all the more crucial.

Among other issues, these cuts have made it difficult for the UK to meet its commitment to provide £11.6bn in financing to support low- and middle-income countries to respond to climate change between 2021/22 to 2025/26. As a result, the UK has recently changed the way it reports on the delivery of this commitment by reclassifying existing UK aid spending as climate finance.

While cutting the ODA budget from 0.7% to 0.5% of GNI in 2021, the previous government introduced fiscal tests that need to be met to restore the ODA budget to the legally-required 0.7% of GNI. These fiscal tests state that a return to 0.7% of GNI can only happen if and when the country is not borrowing for day-to-day spending and when underlying national debt is falling. These conditions are unreasonable and nearly impossible to reach, having only been met once in the last 20 years.<sup>1</sup>

## **2. The challenge of an increased spending of ODA on in-donor refugee costs**

The Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) allows donor governments to count as ODA certain categories of spending in their own countries to support refugees and asylum seekers in first 12 months of their arrival. This is termed 'in-donor-refugee costs' or IDRCs. The OECD-DAC's guidance requires donors to apply a 'conservative approach' to reporting IDRCs as ODA to avoid overcounting this support and to prevent ODA being diverted to IDRCs from other important needs, especially in low- and middle-income countries. Before 2010, and even during a significant spike in asylum applications in the late 1990s and early 2000s, the UK government refused to report IDRCs as ODA on the premise that it diverted ODA away from its core focus of poverty reduction.

In recent years, the proportion of the total UK ODA that is reported as IDRCs has increased rapidly, driven by a dramatic rise in the number of refugees arriving in the UK and a significant increase in the amount spent on each refugee. Between 2019 and 2021, the UK reported the highest spending on IDRCs per refugee among G7 governments, which is equivalent to three times the average reported by OECD-DAC countries.<sup>2</sup> As a result, the volume of UK ODA reported as IDRCs rose from £0.6bn in 2019 to £4.3bn in 2023 (28% of total UK ODA). The OECD-DAC has criticised the UK government for not applying a conservative methodology to reporting IDRCs. The Independent Commission for Aid Impact has also been critical of this maximalist spending approach, which it describes as one "that seeks out and includes every type of cost that can be deemed to be ODA-eligible". In contrast, other donor countries exclude or moderate certain cost categories to reflect the conservative reporting principle; for example, Austria and Netherlands do not include administrative costs, France and Spain do not include primary schooling, and all except two donors (one of which is the UK) do not include child benefit.<sup>3</sup>

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<sup>1</sup> See Keep, Matthew, 21 May 2024, 'Research Briefing: The budget deficit: a short guide', House of Commons Library, London.

<sup>2</sup> Same Hughes and Ian Mitchell, 26 September 2022, 'Projections of UK-Hosted Refugees, and the Implications for the UK's Aid Budget and Spend', Center for Global Development

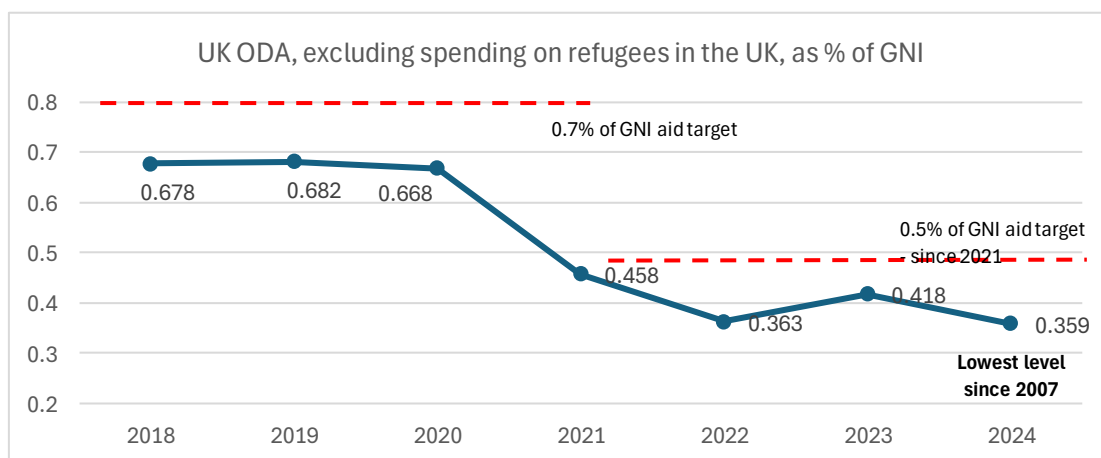
<sup>3</sup> Independent Commission for Aid Impact, 10 April 2024, 'ICAI follow-up: UK aid to refugees in the UK', ICAI, London.

Another important implication of this increase in IDRC is that the Home Office has become a significant spender of the UK's ODA budget. In 2023, the Home Office was allocated nearly £3bn (19.2%) of total ODA, up from £2.4bn (18.7%) in 2022, and since 2020 the allocation of UK ODA to the Home Office has increased by nearly 395% (£2.4bn). At the same time, the Foreign Commonwealth and Development Office's (FCDO) share has steeply declined, falling below 60% in 2022 with a small increase to 61.5% in 2023. Given a recent report by the Institute for Fiscal Studies highlighting the Home Office's mismanagement of the asylum budget, this is of great concern.

### 3. New pressures on ODA spending in 2024

In November 2022 the Treasury allocated an additional £2.5bn in ODA (above the 0.5% GNI target), which was to be used flexibly by the FCDO while IDRCs squeezed the ODA budget. But this funding was only allocated until the end of financial year 2023/24 (helping UK ODA to reach 0.58% of GNI in 2023). However, in 2024/25 UK ODA is currently expected to return to 0.5% of GNI. This is equivalent to around a £1.8bn cut to UK aid compared to 2023.

At the same time, ODA spending on refugees and asylum seekers in the UK is expected to remain at close to record levels. The recent 'public spending audit 2024-25' carried out by the Treasury found that spending on the asylum system is expected to reach £6.4bn in 2024/25. Based on trends in the last two years,<sup>4</sup> around 60% – £3.8bn – of this spending is likely to be reported as ODA. As a result, **the level of UK ODA, excluding spend on refugees in the UK, is expected to fall to £9.7bn. This is equivalent to just 0.36% of GNI – the lowest level since 2007.** Without the government using the autumn budget to provide additional resources for the ODA budget, significant new cuts are likely to be made in critical 'overseas' ODA programmes in 2024.



Without the government using the budget to provide additional resources for the ODA budget significant new cuts are likely to be made in critical 'overseas' ODA programmes in 2024. We are already aware that FCDO have delayed a disbursement of £707 million to World Bank IDA that was planned for this year.<sup>5</sup> Our calculations<sup>6</sup> suggest that this funding would have been sufficient to support World Bank IDA to provide:

- essential health, nutrition, and population services to nearly 14 million people

<sup>4</sup> Tyler-Todd, Joe et al., 11 March 2024, 'Debate Pack: Estimates Day debate: The spending of the Home Office on asylum and migration', House of Commons Library, London.

<sup>5</sup> Richard Watts (@Richard\_\_Watts), "@FCDOGovUK's budget cuts have begun...The £707 million payment due to be made to @WBG\_IDA this year has been deferred into next (see table).The result? - A further (and large) squeeze on next years aid budget. Expect more deferred payments, then project level cuts if needed.", X, 19 August 2024, [https://x.com/Richard\\_\\_Watts/status/1825527716927475947](https://x.com/Richard__Watts/status/1825527716927475947)

<sup>6</sup> These figures are calculated using the latest available IDA results report (*IDA-18 Retrospective* (p21), [link](#)) and attributing 4.9% (the proportion of IDA-18 that could have been funded by this £0.7 billion) of the results.

- social safety net programs for 2.9 million people
- improved water sources for 1.5 million people and improved sanitation services for 1.1 million people
- job-focussed interventions for 1.2 million people

Lisa Nandy, former shadow international development secretary and current secretary of state for culture, media and sport, criticised these “ongoing raids” earlier in the year and stated that the new government would want to return the ODA budget “to its original purpose” over time.

The government urgently needs to reduce the use of ODA spending on the UK asylum system in 2024, ensuring support for this marginalised group is sourced from elsewhere in government. As a first step, it must reform the methodology of counting IDRC as ODA, with the intention of phasing out the use of ODA for supporting asylum seekers inside the UK, and restore the poverty focus to ODA spend which the UK previously championed.

### **Three steps the new government can take to begin rebuilding Britain’s development reputation**

For the new government to genuinely turn the page on international development it will need to take a new and more ambitious path to financing sustainable development. Appreciating the challenging fiscal situation the government has inherited, we’d recommend the Labour government demonstrate its commitment “to rebuild Britain’s reputation on international development” by taking the following immediate steps:

1. Maintain 0.58% of GNI (2023 ODA level) as the spending floor for 2024/25 and 2025/26 ODA budget to reflect the large volumes of ODA still being spent on refugees in the UK. Without this, we risk further cuts to ODA, especially to critical ‘overseas’ programmes that provide essential support to groups of people who are most marginalised and in need of assistance.
2. Reform the methodology the government has inherited for reporting ODA spending on refugees, and over the long-term fund vital support for refugees from other budgets outside of ODA.
3. Introduce fair, transparent and achievable fiscal tests for a return to 0.7% of GNI, and scale-up ODA as progress is made towards meeting them.

In the next part of this series, we will look closer at the impact of these cuts as well as political decisions around UK ODA allocations in relation to its poverty focus. If you would like to meet with Bond in the meantime to discuss this work, please get in touch.

### **About Bond**

Bond is the UK network for organisations working in international development. Bond unites and supports a diverse network of over 350 civil society organisations from across the UK, and allies to help eradicate global poverty, inequality and injustice.