



**A preliminary investigation of Official Development Assistance  
spent by departments other than DFID**

**Terms of Reference**

**1. Introduction**

1.1 The Independent Commission for Aid Impact (ICAI) is the independent body responsible for scrutinising UK aid. We focus on maximising the effectiveness of the UK aid budget for intended beneficiaries and on delivering value for money for UK taxpayers. We carry out independent reviews of aid programmes and of issues affecting the delivery of UK aid. We publish transparent, impartial and objective reports to provide evidence and clear recommendations to support UK Government decision-making and to strengthen the accountability of the aid programme. Our reports are written to be accessible to a general readership and we use a simple ‘traffic light’ system to report our judgement on each programme or topic we review.

1.2 During our consultation on our Year 4 work plan, a number of stakeholders raised concerns regarding UK Official Development Assistance (ODA) spent by departments other than DFID (‘other government departments’). There were queries about both the quality of the activities being funded and whether ineligible activities were being reported as ODA. We note that there is relatively little information about non-DFID ODA in the public domain, making it difficult for stakeholders to satisfy themselves that it is being spent appropriately.

1.3 We have, therefore, decided to conduct an investigation into ODA spent by other government departments. We have recently reviewed ODA spent by the Foreign and Commonwealth Office (FCO) and the International Climate Fund (which comes from the budgets of the Department of Energy and Climate Change (DECC) and the Department for Environment, Food and Rural Affairs (DEFRA)), as well as DFID.<sup>1</sup> This investigation will cover the remaining departmental ODA expenditure, apart from that spent by the devolved Scottish and Welsh administrations, which is not overseen by the UK Parliament.

1.4 Our investigation will explore the extent and purpose of non-DFID ODA, whether it is appropriately managed and coordinated and whether ODA reporting is accurate. It will not include field visits or an assessment of the effectiveness or value for money of non-DFID ODA. It will, however, help us to identify ODA-funded activities that might merit a full ICAI review in the future. For this reason, we are calling this a ‘preliminary investigation’.

1.5 These Terms of Reference outline the purpose and nature of the investigation and identify its main lines of enquiry. A detailed methodology will be developed during an inception phase.

**2. Background**

2.1 A breakdown of UK ODA in 2012 by spending department is included in the Annex. It shows that DFID spent 86.6% of the UK’s £8.76 billion ODA in that year. Of the remaining £1.17 billion, £282 million was spent by FCO (3.2% of UK ODA) and £246 million by DECC (2.8%). Other major items included:

- non-DFID, ODA-eligible expenditure by the Conflict Pool, primarily for international peacekeeping (£176 million);
- non-DFID UK contributions to the European Union’s (EU’s) development assistance (£109 million);

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<sup>1</sup> *Terms of Reference: The UK’s International Climate Fund*, ICAI, <http://icai.independent.gov.uk/wp-content/uploads/2014/01/ICAI-Study-The-UK-International-Climate-Fund-ToRs.pdf>.

- funding for CDC Capital Partners PLC, a UK Government-owned enterprise investing in private sector activities in developing countries (£103 million); and
- the ODA-eligible portion of expenditure on Gift Aid (£91 million).

2.2 The remaining £142 million in ODA was divided across ten departments or agencies:

- Department for Business, Innovation and Skills;
- Home Office;
- Department for Environment, Food and Rural Affairs;
- Export Credit Guarantee Department;
- Department of Health;
- Department for Work and Pensions;
- Ministry of Defence;
- Department for Culture, Media and Sports;
- Scottish Government; and
- Welsh Assembly.

2.3 The definition of ODA is agreed at the international level through the Organisation for Economic Cooperation and Development (OECD). It has three main components:

- it must be provided by official agencies, including state and local governments or their executive agencies;
- it must have the 'promotion of the economic development and welfare of developing countries as its main objective'; and
- it must be sufficiently concessional in character (that is, grants and 'soft' loans).<sup>2</sup>

2.4 Certain types of expenditure are specifically excluded from ODA, including military aid, counter-terrorism activities and the enforcement aspects of peacekeeping operations. The OECD maintains a list of countries that are currently ODA eligible, which includes all low- and middle-income countries other than those that are members of the G8 or the EU. Contributions to the core budgets of multilateral organisations may be claimed as ODA according to the proportion agreed internationally, ranging from 100% for specialised development agencies like the World Bank to just 4% for the World Meteorological Organisation.<sup>3</sup>

2.5 UK Government departments and agencies report on their ODA-eligible expenditure to DFID, which submits the combined UK ODA return each year to the OECD. Statistics on UK ODA are published twice yearly by DFID. The UK Statistics Authority has designated them as 'National Statistics', which means that they are subject to its independent scrutiny. Reporting agencies have an obligation to ensure that the statistics are well explained and readily accessible, are produced according to sound methods and are managed impartially and objectively in the public interest.<sup>4</sup>

2.6 A key background factor to this investigation is the combination of the recent scaling up of UK ODA to the internationally agreed target of 0.7% of gross national income (GNI) and substantial cuts to the budgets of many UK Government departments. Some stakeholders have raised with us their concern that other government departments may seek to increase their level of ODA as a way of protecting their budgets.

### 3. Purpose of this review

3.1 To improve the transparency of ODA spent by other government departments and investigate whether this is properly managed and accurately reported.

<sup>2</sup> *Is It ODA?*, OECD Development Assistance Committee, November 2008, <http://www.oecd.org/dac/stats/34086975.pdf>.

<sup>3</sup> See <http://www.oecd.org/dac/stats/annex2.htm>.

<sup>4</sup> *Code of Practice for Official Statistics*, UK Statistics Authority, January 2009, <http://www.statisticsauthority.gov.uk/assessment/code-of-practice/code-of-practice-for-official-statistics.pdf>.

#### 4. Relationship to other studies

4.1 A number of past ICAI reviews have examined ODA spending by departments other than DFID. Our review of the Conflict Pool examined the system for reporting on Conflict Pool ODA and found it to be 'largely effective'.<sup>5</sup> Our review of the FCO's response to the Arab Spring included an overall assessment of the management of the FCO's and the British Council's ODA portfolio but did not directly test the accuracy of their ODA reporting.<sup>6</sup> Our ongoing review of the International Climate Fund is examining ODA spent by DECC and DEFRA, as well as DFID. This investigation will draw on the findings of those reviews without duplicating their work. This investigation will, therefore, concentrate on ODA spending by the departments and agencies listed in paragraph 2.2, apart from the devolved administrations.

4.2 The National Audit Office (NAO) is currently undertaking a review of DFID's management of the increase in UK ODA to the internationally agreed target of 0.7% of GNI. This will include an assessment of how DFID has worked with other government departments to manage their ODA spending targets. The NAO will engage primarily with DFID, with some interaction with FCO and DECC. Our investigation has a distinct purpose and focus to the NAO's review. We have, however, discussed with the NAO the relationship between the two processes and made arrangements to avoid duplication and overlap, including by sharing findings.

4.3 The UK Statistics Authority (UKSA) plans to conduct a review of DFID's National Statistics publication, *Statistics on International Development*, which includes data on ODA spending across the UK Government. This review, which is part of a programme for all designated National Statistics publications, will assess DFID's compliance with the Code of Practice for Official Statistics, including its quality assurance processes and its engagement with end users of the statistics. It is scheduled to begin in 2014. We have met with UKSA and agreed that the two exercises are complementary, rather than duplicatory. UKSA encourages the bodies responsible for preparing National Statistics to test the accuracy of their data. UKSA took the view that our investigation would help DFID to meet that obligation.

4.4 In 2013, DFID's statistics team conducted a short quality review of the systems that DFID uses to produce its National Statistics publications, using a template developed by the Office for National Statistics. The review identified a number of areas in need of further attention, including improving the process for estimating ODA expenditure by other government departments. In this investigation, we will check whether the points for action noted in this quality review have been adequately followed up, so far as they are relevant to the subject of our investigation.

4.5 We are not aware of any other studies or investigations of non-DFID ODA.

#### 5. Approach and methodology

5.1 This investigation will be conducted according to a bespoke methodology, rather than ICAI's standard assessment framework. It will involve three main elements:

- 1) **Mapping:** It will map the extent, pattern and purpose of ODA spending by other government departments over the past five years and present it in an accessible fashion, so as to increase transparency for the public;
- 2) **Management:** It will examine whether non-DFID ODA is being appropriately managed and coordinated. For each department and agency, it will assess whether ODA activities have clear and appropriate objectives, whether adequate programme management procedures and capacities are in place and whether there is sufficient coordination with other government departments; and
- 3) **Audit:** It will involve an audit of ODA reporting by non-DFID departments and agencies. This will include:

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<sup>5</sup> *Evaluation of the Inter-Departmental Conflict Pool*, ICAI, July 2012, paragraph 2.52, <http://icai.independent.gov.uk/wp-content/uploads/2013/12/Evaluation-of-the-Inter-Departmental-Conflict-Pool-ICAI-Report.pdf>.

<sup>6</sup> *FCO and British Council Aid Responses to the Arab Spring*, ICAI, June 2013, <http://icai.independent.gov.uk/wp-content/uploads/2013/12/FCO-and-British-Council-Aid-Responses-to-the-Arab-Spring-Report.pdf>.

- i) reviewing the methods used by these departments and agencies to calculate their ODA expenditure;
- ii) assessing the adequacy of controls over ODA reporting by DFID; and
- iii) testing the accuracy of each department's ODA return, either in full or on a sample basis.

5.2 The methodology for the investigation will include:

- interviews with responsible OECD officials regarding international ODA definitions and reporting practices;
- compiling and analysing departmental ODA returns over the past five years, to identify spending patterns over time;
- assessing the adequacy of the systems used by each department to record and account for ODA expenditure;
- checking each departmental ODA return against internationally agreed ODA definitions, either in full or on a sample basis;
- interviews with the responsible departments on the scope, purpose and management arrangements of their ODA activities;
- collection and review of programme documents for ODA activities;
- interviews with DFID on its role in the oversight, coordination and verification of ODA spent by other government departments; and
- where necessary, telephone interviews with recipient or partner organisations.

5.3 The investigation will not seek to assess the effectiveness or value for money of ODA activities and will not include field work. Because of this, we will not rate the performance of the programmes at this stage.

## 6. Indicative questions

6.1 This investigation will not use the standard ICAI criteria or assessment framework. Instead, it will use a bespoke assessment framework, including the following questions:

### 6.2 Mapping of non-DFID ODA spending

- 1) What have been the main trends and patterns in non-DFID UK ODA spending over the past five years?
- 2) What policy goals are served by non-DFID ODA? How is it intended to contribute to the economic development and welfare of developing countries and is this its main objective?
- 3) Is there evidence of ODA-spending departments increasing their ODA expenditure to protect their budgets?

### 6.3 Management

- 1) Do the responsible departments have clear objectives for their ODA, linked to the welfare and economic development of developing countries?
- 2) For programmable ODA,<sup>7</sup> are there appropriate systems, procedures and capacities in place for managing ODA activities throughout the programme cycle, including designing quality operations, effective implementation and robust results management?
- 3) Are there appropriate inter-departmental coordination arrangements in place for ODA expenditure?
- 4) Does DFID play an appropriate role in supervising and/or supporting ODA expenditure by other departments?

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<sup>7</sup> 'Programmable ODA' means expenditure directed to a specific development initiative, rather than contributions to international organisations or non-discretionary expenditure such as Gift Aid or Colonial Pensions.

#### **6.4 Audit**

- 1) Do the responsible departments have appropriate systems in place to report accurately on their ODA expenditure?
- 2) Does DFID conduct adequate checks on the accuracy of ODA reporting by other departments?
- 3) Are the ODA returns of the departments in compliance with the internationally agreed ODA definition?

#### **7. Timing and deliverables**

7.1 The review will be overseen by Commissioners and implemented by a small team from ICAI's consortium. The lead Commissioner will be Graham Ward CBE. The review will take place during the third quarter of 2014, with a final report available during the first quarter of 2015.

## Annex: UK ODA by responsible body in 2012

Department	ODA £ millions	% of UK ODA	Includes
<b>UK Government departments</b>			
Department for International Development	7,593	86.6%	
Foreign and Commonwealth Office (FCO)	282	3.2%	<ul style="list-style-type: none"> <li>■ The FCO's contribution to the British Council</li> <li>■ strategic and bilateral programmes</li> <li>■ aid-related frontline diplomacy</li> <li>■ contributions to multilateral organisations</li> </ul>
Department of Energy and Climate Change (DECC)	246	2.8%	<ul style="list-style-type: none"> <li>■ International Climate Fund, managed jointly with DFID, Treasury and DEFRA</li> <li>■ Environment Transformation Fund, managed jointly with DFID</li> <li>■ UK contributions to the International Atomic Energy Agency</li> </ul>
Department for Business, Innovation and Skills (BIS)	48	0.5%	<ul style="list-style-type: none"> <li>■ Funding for the Medical Research Council for health research in developing countries</li> </ul>
Home Office	29	0.3%	<ul style="list-style-type: none"> <li>■ UK Visas and Immigration (formerly UK Border Agency) support for refugees</li> </ul>
Department for Environment, Food and Rural Affairs (DEFRA)	22	0.3%	<ul style="list-style-type: none"> <li>■ International Climate Fund</li> <li>■ Darwin Initiative, which promotes environmental goals in developing countries</li> </ul>
Export Credit Guarantee Department	20	0.2%	<ul style="list-style-type: none"> <li>■ UK Government support for relief to developing countries from commercial debt</li> </ul>
Department of Health	15	0.2%	<ul style="list-style-type: none"> <li>■ ODA-eligible portion of the UK's contribution to the World Health Organisation</li> </ul>
Scottish Government	10	0.1%	<ul style="list-style-type: none"> <li>■ The Scottish Government has its own bilateral aid programme in a number of developing countries</li> </ul>
Department for Work and Pensions	10	0.1%	<ul style="list-style-type: none"> <li>■ ODA-eligible portion of the UK's contribution to the International Labour Organisation</li> </ul>
Ministry of Defence (MoD)	5	0.1%	<ul style="list-style-type: none"> <li>■ Training to civilian officials in developing countries</li> <li>■ Share of the costs of staff in developing countries supporting the aid programme</li> </ul>
Department for Culture, Media and Sports	2	0.0%	<ul style="list-style-type: none"> <li>■ Various initiatives to tackle gender inequality and promote health-related education</li> </ul>
Welsh Government	1	0.0%	<ul style="list-style-type: none"> <li>■ The Welsh Assembly's 'Wales for Africa' programme, providing grants to Welsh development non-governmental organisations (NGOs)</li> </ul>

<b>Other source of UK ODA</b>			
Conflict Pool (non-DFID)	176	2.0%	<ul style="list-style-type: none"> <li>■ FCO and MoD contributions</li> <li>■ UK Peacekeeping Budget</li> <li>■ ODA-eligible share of contributions to international organisations such as the Organisation for Security and Cooperation in Europe</li> </ul>
EC attribution (non-DFID)	109	1.2%	<ul style="list-style-type: none"> <li>■ Share of the EU's development budget that is attributed to the UK</li> </ul>
CDC Capital Partners PLC	103	1.2%	<ul style="list-style-type: none"> <li>■ UK Government-owned enterprise investing in private-sector initiatives in developing countries</li> </ul>
Gift Aid	91	1.0%	<ul style="list-style-type: none"> <li>■ UK Government contribution to donations to UK development NGOs via Gift Aid</li> </ul>
Colonial Pensions	3	0.0%	<ul style="list-style-type: none"> <li>■ Pension payments to former colonial civil servants and their dependants in developing countries. Administered by DFID.</li> </ul>
<b>Total UK Government ODA</b>	<b>8,765</b>	<b>100%</b>	

Source: *Statistics in International Development: Table 6. Breakdown of 2012 ODA by Government Departments and Other Sources of UK ODA; Annex 2 Data Sources*, DFID, 18 December 2013,

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/254053/Table6.csv/preview](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254053/Table6.csv/preview) and [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/254228/Annex2-data-sources.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254228/Annex2-data-sources.pdf).