Rapid Review: Management of the 0.7% ODA spending target

Annotated bibliography

November 2020

Any enquiries regarding this publication should be sent to us at enquiries@icai.independent.gov.uk.

@ICAI_UK www.icai.independent.gov.uk

Table of contents

1. Introduction 1
   1.1 Overview 1
   1.2 Approach 1
2. Background and evolution of the UK's 0.7% target 1
   2.1 Origins of the UN Target 2
   2.2 Background to the UK commitment to the 0.7% target 3
   2.3 How has the 0.7% target contributed to changes in how government spends ODA? 4
   2.4 Perceptions of UK aid: quantity and quality 5
   2.5 Appraisals of the target by the media 7
   Further reading 8
3. Literature on good practice and challenges associated with managing the UK's ODA spending target 8
   Further reading 14
4. Core government financial management and delivery guidance documents 14
   Further reading 16
5. Literature on the UK's non-ODA spending targets 17
   Further reading 19

References 20

1. Introduction

1.1 Overview

This annotated bibliography has been written to inform the rapid review by the Independent Commission for Aid Impact (ICAI) on the UK's management of its 0.7% official development assistance (ODA) target. The review focuses exclusively on how well the UK government has managed the target between 2013 and 2019 and does not take a position on whether the target is appropriate or should exist.

This annotated bibliography lists publicly available sources covering the following topic areas:

- background and evolution of the UK's 0.7% target
- core government financial management and delivery guidance documents
- literature on good practice and challenges in how the UK government manages the target
- the UK's non-ODA spending targets.

1.2 Approach

This annotated bibliography is based on a rapid survey of publicly available literature on each of the above topic areas, with a focus on literature published since 2010, the year in which the UK government committed to reach the 0.7% target. The purpose of this annotated bibliography is to present a selection of sources for each of the above topics and summarise key arguments and debates. It is not intended to be an exhaustive survey of all the available material.

This annotated bibliography presents an overview of literature from the following sources:

- government/intergovernmental bodies
- think tanks and policy-oriented organisations
- academic peer-reviewed publications
- civil society organisations
- media.

There is a limited amount of publicly available material that specifically addresses the management of the UK's 0.7% ODA commitment. Given this, we have opted to include broader, more contextual sources that focus on the background of the 0.7% target and its implications, as well as a section on other non-ODA UK spending targets. Therefore, in some cases the literature referenced has been chosen due to its relevance to understanding the context in which the UK government has managed the 0.7% ODA spending target, rather than relating specifically to the management, which is the focus of the main review.

2. Background and evolution of the UK's 0.7% target

In the spending review of 2004, the UK Labour government made a pledge to reach the UN's 0.7% ODA target by 2013. In 2005 the Conservative Party also backed the 0.7% pledge, with all the major UK political parties committing to the 0.7% target ahead of the 2010 UK election.

The UK first met the 0.7% commitment in 2013 and has consistently met the commitment since. In 2015, the UK government made the target a legal requirement through passing the International Development (Official Development Assistance Target) Act.

The management of the 0.7% target has traditionally been coordinated between HM Treasury and the Department for International Development (DFID), recently merged with the Foreign and Commonwealth Office (FCO) to form the Foreign, Commonwealth and Development Office (FCDO). DFID acted as the 'spender or saver of last resort' – increasing or decreasing ODA spending towards the end of the calendar year as required in order to meet (but not exceed) the spending target.

2.1 Origins of the UN Target

- *History of the 0.7% target*, original text from the DAC Journal 2002, OECD-DAC, Vol. 3, No. 4, pages III-9 to III-11, revised March 2016, link.

This short document presents a brief history of the 0.7% ODA target, charting its evolution from a concept to what is now the best-known international target in the aid sector. The target was initially a suggestion to transfer 1% of donor countries' incomes to developing countries, proposed in the 1950s as part of the UK Labour Party's political platform. The definition of what constituted the target was refined and debated throughout the 1960s, with the World Bank's Pearson Commission proposing in 1969 that ODA be raised to 0.7% of donor gross national product (GNP) by 1975. The target was formally recognised at the UN General Assembly in 1970 and included the flow of grants and loans from the donor's public sector, less repayments of capital and not including interest. Throughout the 1970s the target gained acceptance with many UN members, with some notable exceptions – most prominently the US, which generally accepted the aims, but not the target or timetables. Sweden first declared that it had met the target in 1974, although once its GNP figures were revised it only met the target in 1975, along with the Netherlands. Denmark and Norway also met the target during the 1970s and the four countries have met the target regularly since, although the Netherlands has not always been consistent in meeting the target in the years leading up to this paper's publication, mainly due to fluctuations in refugee costs. Luxembourg first met the target in 2000 and the UK in 2013, and both countries have continued to do so. By 2016, no other Development Assistance Committee (DAC) countries had met the target,[1] and the weighted average of DAC members' ODA had never reached more than 0.4% of GNP. The document concludes by noting that since 1993 GNP has been replaced with GNI (gross national income) in the framing of the target.

- *Ghost of 0.7%: origins and relevance of the international aid target*, Michael Clemens and Todd Moss, Center for Global Development Working Paper 68, September 2005, link.

In this paper, the authors document the development of the 0.7% ODA target by examining the concept's origins, including the basis on which it was proposed and how it was originally calculated. They detail how the 0.7% target had been largely used by the international community as an aspirational target until 2005, when 15 EU member states pledged to reach this goal by 2015 and the target was formalised in an international agreement for the first time (by the EU states that were members of the G7). The authors assess the rationale for using the target as an international benchmark by replicating the original calculation methods using contemporary data. On this basis they argue that, due to changed conditions such as higher savings and capital rates in developing countries and higher GDP in developed countries, aid levels of only 0.01% of donor country GNI are required for low-income countries, and that the aid target is actually negative when middle income countries are included. The authors stress that this finding is not intended to show that current levels of aid are unnecessary, but to draw attention to the problems with the financing gap model that was originally used to calculate the target.

Finally, the authors question the relevance of using a percentage target for determining aid budgets since it assesses aid requirements using donor income levels, rather than looking at the needs and requirements of recipient countries. The authors conclude that not only does the 0.7% target not represent a coherent metric for determining appropriate levels of ODA, but that it was never intended as such, given that it was originally conceived as an aspirational lobbying tool to encourage richer countries to increase their aid budgets. Furthermore, the authors warn that basing real-life spending targets on a calculation that does not cohere with current economic and political realities could eventually serve to undermine the target entirely.

- *Financing the end of extreme poverty: 2019 update*, ODI Briefing Note, ODI, September 2019, link.

This briefing note begins by noting the Overseas Development Institute (ODI) projections that 430 million people will be in extreme poverty by 2030, an increase of 30 million from its projections in 2018. Although the authors' projections suggest that poverty rates will fall by a third by 2030, they also note that this will leave the world off track to meet the first Sustainable Development Goal (SDG) of eliminating extreme poverty. The briefing then goes on to state that, for the 46 countries identified as unable to self-finance the investments needed in human

[1] The only DAC country to have met the target since the time this article was revised in 2016 was Germany, which met the target once, in 2017.

capital to meet SDG 1, almost half of the funding gap (44%) could be filled by the countries themselves through realistic increases in their efforts to collect tax and other revenues, with the remainder requiring aid financing from donor countries. The authors note that this gap could be filled if all donors met the 0.7% target for ODA spending and ensured that half of all their aid went to the poorest countries. Over time, donors would also need to scale back existing funding to countries that are able to meet their own funding needs, and direct this funding to the 46 countries that cannot. Therefore, the problem is twofold: most DAC donors are providing less than half the aid required by the 0.7% ODA/GNI target, and current aid flows do not target the poorest countries. The briefing note concludes that the commitment to ending extreme poverty is unlikely to be met unless DAC donors double their collective aid to meet the UN target, focus their aid on least-developed countries (LDCs) and press multilateral agencies to target their support to the poorest countries.

2.2 Background to the UK commitment to the 0.7% target

- *UK aid: frequently asked questions*, House of Commons Briefing Paper number 7996, May 2020, link.

The paper provides an overview of ODA, including how it is measured and some of the current debates around what can be considered ODA spending, the different types of aid and how it is delivered, and what aid is used for. The paper notes that arguments for the 0.7% aid target include: aid levels would have been even lower without the target, the overall performance of developing countries would have been weaker without the aid provided, this level of aid spending protects the security of donor countries, and it is morally justified due to the scale of the challenges faced by developing countries. The arguments presented against the target mentioned are that it incentivises unwise spending decisions in order to ‘get aid out the door’, that aid is often wasted, contributing to fraud and corruption, and that aid spending is immoral when there is need for greater funding of domestic public services. The paper follows the history of the target in the UK, from endorsement in 1974 to being formally enshrined in UK law in 2015. Since then, the Conservative Party has pledged to help change the way aid is defined within the Organisation for Economic Co-operation and Development (OECD), and despite renewed commitment to the target, the debate continues in government about increasing the amounts considered as ODA-eligible in areas such as the BBC World Service and peacekeeping operations.

- *National interests and the paradox of foreign aid under austerity: Conservative governments and the domestic politics of international development since 2010*, Emma Mawdsley, The Geographical Journal, 2017, link.

This paper looks at the recent history of how, between 2010 and 2017, successive UK governments maintained ‘foreign aid’ commitments at the same time as they imposed deep budget cuts in the name of domestic austerity – sparking considerable political and popular criticism. The author notes that the decision to meet the ODA target for the first time in 2013 was also atypical among EU donors, most of which were reducing ‘foreign aid’ along with other budget cuts. The decision to increase and maintain levels of aid spending during this period runs counter to the popular opinion that ‘foreign aid’ is an outward projection of a country’s stance on domestic redistribution.

Mawdsley argues that three Conservative-led governments from 2010 to 2017 linked UK soft power to ‘foreign aid’, in particular through the influencing opportunities that a significant aid budget afforded the UK in international forums and multilateral institutions. These links also emerged through the UK government’s focus on global public goods, such as increased security and stability (which improve with development), and the economic benefits that result from supporting countries to develop, and are among the ways that consecutive governments have argued that UK aid is in the national interest. The paper concludes that while the government is now legally required to meet the 0.7% of GNI target for ODA, this does not fully explain the current commitment to what Mawdsley describes as an unpopular policy position. Looking at this seeming paradox through the prism of ‘aid in the national interest’ helps to explain the consistency of support for maintaining the aid budget. She does raise a concern, however, that the long-term status of the 0.7% target is not secure, particularly in the face of negative media attention and public perceptions of aid.

2.3 How has the 0.7% target contributed to changes in how government spends ODA?

- *The changing landscape of UK aid: Briefing Note*, Sonya Krutikova and Ross Warwick, Institute for Fiscal Studies, May 2017, link.

This briefing note provides an overview of ODA spending in the UK from the 1960s to the present day, noting that ODA spending levels remained largely stagnant from 1960 to 2000, falling as a percentage of GNI. Since then, UK aid spending has increased, and nearly doubled from £7.4 billion in 2005, at the time of the G8 Summit Pledge at Gleneagles, to £13.6 billion in 2016.

The Institute for Fiscal Studies (IFS) notes that this period of increasing UK ODA to reach the 0.7% target is set against a backdrop of overall fiscal austerity and cuts to most departmental spending after 2010. In fact DFID, which received most of the ODA budget, was one of the few departments to have seen a real-term increase in spending, while others saw substantial cuts. The IFS also notes that since DFID's budget made up less than 2% of total public spending at the time, these large budget increases were much smaller in value terms than more moderate increases to departments with significantly larger budgets, such as education or health.

This note highlights that 64% of UK aid in 2016[2] was delivered bilaterally, with Africa receiving the highest level of regional support. Of the remaining spending, which was channelled as core contributions to multilateral organisations, most went to two partners, the World Bank and the EU. The briefing note quotes findings from reports which point out that 'foreign aid' is one of the most well-monitored parts of UK government spending, with three bodies – the International Development Committee (IDC), ICAI and the National Audit Office (NAO) – all providing scrutiny. In addition to the large increase in the levels of UK aid, there has been a significant shift in the way different departments spend this aid, with non-DFID departments receiving greater allocations since the 2015 UK aid strategy, although DFID remained the largest ODA spender. This change in ODA allocation and spending raised some concerns, as departments other than DFID have been perceived to have less of a focus on poverty alleviation and routinely score less well in international rankings on transparency and accountability of aid spending.

- *How the UK Treasury can allocate £15 billion of aid to "greatest effect"*, Ian Mitchell and Arthur Baker, Center for Global Development blog, 30 July 2019, link.

This blog, written in anticipation of the 2019 one-year spending round, provides reflections on the limitations of the previous spending review with regard to the UK's ODA budget and makes suggestions about how ODA could be allocated to "greatest effect". In the 2015 spending review, DFID's budget was kept static, despite an increase in the overall ODA budget in line with meeting the 0.7% target. The remainder was spread across a greater number of non-DFID departments. The authors point to a number of sources (including ICAI) that find evidence this 'spreading' of the ODA budget led to poorer value for money. The authors make five recommendations on how HM Treasury could help to improve the value for money of the aid budget during the 2019 spending allocation. First, they advocate for a reform of the Ministerial Group to include in its remit oversight of the UK's overall aid strategy. Second, they recommend that ODA budgets be allocated to departments on the basis of new business cases where spend has been reclassified, and through considered evaluations of past performance. This would avoid 'rewarding' departments that have struggled to spend ODA previously by increasing their aid budgets, and instead provide positive incentives to departments that have spent effectively in the past. Since the allocation is for a one-year period only, departments would be free to make new bids the following year. Third, all spending should be likely to reduce poverty (if spent under the International Development Act) and any trade-off with national interest should be made clear. Fourth, departmental plans must include ODA delivery plans, noting how these contribute to the 2015 aid strategy. Finally, departments should also include in their bids for ODA budgets how non-spending tools – such as business and trade policy – will be used to pursue development goals.

2 Based on provisional figures. DFID's Statistics on International Development report that 63% of UK aid was spent bilaterally, 18% was spent bilaterally through multilaterals and 45% was spent through other bilateral means. Statistics on International Development, DFID, 2016, link.

2.4 Perceptions of UK aid: quantity and quality

- *The economic impact and effectiveness of development aid*, Select Committee on Economic Affairs, 6th Report of Session 2010-12, House of Lords, March 2012, link.

This report says that despite DFID's considerable international standing as an effective aid agency, reforms are needed to deliver aid better. Aid should be used to complement UK foreign policy, and long-term graduation away from aid should be the goal. The report does not accept that meeting the 0.7% target should be a pillar of British aid policy because:

1. It prioritises the amount spent rather than the results achieved.
2. It makes managing and achieving the goal of meeting the target more important than programme effectiveness.
3. The speed of increases in spending to meet the target risk reducing the quality, value for money and accountability of the aid programme.
4. Reaching the target increases the risk that aid will have a corrosive effect on local political systems, through large long-term programmes that could lead to stagnation.

By dropping its commitment to the target, the report claims, aid policy would shift its focus towards choosing and funding the best ways of achieving international development, rather than finding new ways to spend its increasing budget.

- *Hitting the 0.7 per cent aid target misses the point*, TaxPayers' Alliance, 17 December 2015, link.

This article, released a day after an NAO report confirming that the UK had met the 0.7% of GNI ODA spending target, moves past the question of whether the aid target is a good idea, and questions whether aid spending is worthwhile at all. The article argues that giving aid may even do harm, by undermining the development of tax collecting and spending structures in recipient countries, thereby breaking down the social contract between the state and the citizen. While the TaxPayers' Alliance concedes that humanitarian assistance is justifiable, they suggest that aid reduces the need for governments to be legitimate. Furthermore, the article argues, much of the money spent on aid is actually routed through large multilateral organisations, including the EU, and much is wasted on the bureaucratic structures of these organisations. Having an aid budget that is ringfenced in law implies that this spend will remain in perpetuity – and that 'development' will therefore never achieve its ends. Finally, the article argues that the target is too focused on inputs and policy should be instead focused on what it achieves. The article concludes that credible alternatives to aid should form the future focus of international development efforts, including reducing aid spending in favour of assisting governments to build democratic processes and fight corruption. It also notes that wealth transfer in the form of remittances sent to developing countries is often greater than bilateral aid spending, and thus argues that reducing the aid budget and cutting taxes will mean that many UK taxpayers are more able to contribute to development through sending money overseas.

- *The state of UK aid 2017*, UK Aid Network, 2017, link.

This report provides a comprehensive overview of the quality of UK aid, looking at major trends in UK aid up to 2015. The first section focuses on the changes brought about by the 2015 UK aid strategy, including the commitment to enshrining the 0.7% target in law. Poverty eradication is one of the pillars of the UK aid strategy, and here the report notes that the UK also reached the UN-agreed goal of providing 0.15% to 0.2% of GNI to LDCs in 2012, against a backdrop of declining bilateral aid to LDCs from other international DAC donors. In addition, the UK continued to invest more in fragile states during the period studied, and maintained increases in climate finance. The report identifies a strong focus on aid to the poorest countries, noting a relative stability for the UK's aid partners during the period of increased spending to meet the target.

The report identifies increases in aid spent by non-DFID departments, a move to reduce budget support and increase development capital spending to help meet HM Treasury's target, at the time of writing, for DFID to deliver £5 billion of non-fiscal expenditure. The report concludes that the UK has maintained its status as a global leader in aid, and that the achievement of the 0.7% target has strengthened this. However, the report argues that recent trends that have accompanied the UK's increase in aid spending – shifts towards spending on new aid partners and towards new aid modalities – risk a loss of aid effectiveness and may endanger the UK's commitment to poverty reduction.

- *Attitudes survey*, DevCommsLab, link, *Development engagement lab dashboard,* June 2020, link and *Public opinion matters, so what does the public think?*, Will Tucker, April 2018, link.

The Aid Attitudes Tracker is a longitudinal panel survey conducted in the UK, France, Germany and the US. The weighted survey was conducted in the UK on a six-month basis by YouGov and DevCommsLab from November 2013 until 2018, when the project was transferred to Development Engagement Lab. It found that between 2013 and 2017, support for the aid budget staying the same or increasing rose slightly and support for cutting the aid budget decreased. The most recent data from the project's first phase showed that support for aid spending to stay the same or increase rose from 43% to 46% between 2014 and 2018, while support for aid to be cut decreased from 53% to 47% over the same period. However, there was still widespread public concern about the effectiveness of aid, with 49% of respondents saying that aid was ineffective, 28% being neutral and only 9% believing that aid was effective. In a blog accompanying these survey results, Tucker argues that this difference between the public support for aid in general and the perception of its effectiveness is important and is directly related to the target, because, in the words of the then secretary of state, Penny Mordaunt, it is "not legislation that protects the 0.7%, it is the attitude and commitment of the British public". Since 2018, the data has been presented in a different way, via a series of annual dashboards for each country and mini-reviews on individual subjects, but some comparisons can be made. For example, by 2019, public perceptions of the effectiveness of aid had slightly increased, with 11% of respondents now saying they thought UK aid was effective, and 45% believing it was ineffective. The 2020 dashboard reveals, however, that support for changing levels of aid spending was more or less static, with 46% of respondents believing that aid should increase or stay the same in September 2019, dipping slightly to 45% in June 2020.

- *Global Britain: a twenty-first century vision*, Bob Seely MP and James Rogers, Henry Jackson Society, 2019, link.

This report is part of a series of papers by the Global Britain programme, and recommends a new 'National Global Strategy' to promote British values and interests abroad, encompassing foreign policy, trade, aid and culture.

The report notes that DFID was able to spend ODA more effectively than most other government departments. Rather than reverse the legal commitment entirely, the authors argue that some of the rules around the target need to be relaxed to avoid the 'use it or lose it' mentality of hitting the target at the end of the financial year, and potentially spending on projects that have not been fully developed and appraised. The authors note, however, that this practice has decreased in the years since the target was introduced. The report advocates for a redefinition of what constitutes ODA spend, away from the OECD-DAC definition of economic development, so that funding can be made available for non-economic development financing, including peacekeeping operations and the projection of values and principles through, for example, the BBC World Service. It states that if ODA were more broadly defined, the UK would already be spending more than 0.7% of its GNI on ODA. The report concludes that the UK should lead a push to reform the OECD rules to enable all DAC countries to broaden the definition of ODA, that international development spending should not exceed more than 0.7% of GNI per year, and that the practice of spending money to reach year-end targets should be discontinued, with any money unspent at the end of a budgetary year placed into a 'UK Development Fund' to be drawn upon at need. Finally, the report proposes three rules for future aid spending:

1. Greater spending on humanitarian and life-saving aid.
2. ODA to be delivered to countries with advanced military or space programmes only if there is a clear strategic need.
3. Spending on economic infrastructure and services should be redirected towards leveraging private capital and redirected to other core strategic aims.

- *Aiding and abetting: foreign aid failures and the 0.7% deception*, Jonathan Foreman, Civitas: Institute for the Study of Civil Society, 2012, link.

This paper argues that radical reform is needed of the UK's "foreign aid" policies. While not advocating for a complete end to "foreign aid" and acknowledging that DFID compared well to other donors in terms of transparency and efficiency, the author proposes that uncritical support for aid be reconsidered. The author considers that increasing and ringfencing "foreign aid" at a time when the UK was facing austerity during a financial crisis probably had more to do with improving the government's brand than sound financial decision-making, and says that many hard questions need to be asked about the aid industry. The author argues that there is little mainstream public debate about the effectiveness of ODA, and that the aid sector is under-scrutinised, despite the concentration on "aid-effectiveness" under the coalition government and the establishment of an independent watchdog, ICAI. The paper claims that the majority of DFID staff were not convinced by the "aid-effectiveness" agenda, that the department had done little in response to critiques, and that it was an enterprise whose core assumptions "may be fundamentally flawed and hubristic". An example of this is the UK's commitment to the 0.7% target and the Millennium Development Goals, both of which have their origins in "rich-country" political ambitions rather than empirical research. The author suggests that any attempt to measure the amount of money needed to cure poverty should be based on an estimate of the projects needed, not a proportion of donor wealth. The paper concludes that UK aid is too ideologically led and often the opposite of "evidence-based". The author proposes that the mission statement of UK aid should be 'do no harm', and that assigning money to the aid budget through a target should be immediately dropped.

2.5 Appraisals of the target by the media

- *Did the UK's 0.7% aid spending commitment backfire?*, William Worley, Devex, 27 July 2020, link.

This article contrasts the UK's high international standing as a regular spender of 0.7% of GNI on ODA with the decision to merge DFID with the FCO, and questions whether the ringfencing of the target in law ended up being counterproductive, leading to a backlash against development aid overall. At the time the target was made law in 2015, 40% of Britons agreed that spending 0.7% was the right thing to do, compared with 21% who disagreed. However, the article asks if enshrining the target in law, rather than simply meeting it without using legislation, may have drawn more attention to it and therefore attracted more criticism. Sources from two think tanks, the Center for Global Development and the ODI, comment in the article that a vocal group of Conservative Party members and press have focused attention on the target, especially since it has resulted in an increasing ODA budget during periods of budget cutting elsewhere in government. Nevertheless, in the 2019 general election all major parties made manifesto pledges to maintain the 0.7% commitment. The article notes that a criticism often made of the target is that it prioritises the quantity of aid spend over the quality. However, supporters point out that ODA is one of the most comprehensively scrutinised areas of government spend, with DFID's own evaluation department, the NAO and ICAI all analysing aid spending and effectiveness. Former secretary of state for international development, Andrew Mitchell, comments in the article on the efficacy of having a target, so the budget does not become a political argument every year, and says that tying it to GNI means that it reflects domestic economic realities. The article closes by revisiting the results of surveys assessing whether Britons are for or against the ODA spending commitment, finding that since 2015 public attitudes have remained broadly similar. However, increases in the proportion of people strongly agreeing with the target (11% in 2015 to 18% in 2020) and strongly disagreeing with the target (2 in 10 in 2015 to 3 in 10 by 2020) suggest that there has been a hardening and polarisation in the UK aid debate.

- *Was the UK's 0.7 percent aid benchmark a mistake?*, Molly Anders, Devex, 14 June 2016, link.

In this article for Devex, Anders reports on a debate held in Parliament in June 2016 – a debate that was largely in favour of the 0.7% target and the decision to enshrine it in legislation. The debate had been triggered by a protest petition started by the Daily Mail newspaper and signed by over 260,000 UK residents – well over the 100,000 required to automatically qualify for a parliamentary debate.

Anders notes that a small but significant group of MPs had raised questions over whether a spending benchmark is a useful tool for improving aid, whether this places too much of an emphasis on quantity over quality, and whether focusing on such a specific number undermines the ability of aid-spending decisions to be made in a way that is flexible and reactive. Advocates for a target posited that a budget which is consistent and stable has the benefit of reliability, while noting that it can encourage a lack of accountability if departments feel that the size of their budget is not linked directly to performance. Others argued that the target encourages the wrong kind of scrutiny – that it is an emotive subject which attracts sensational coverage in the UK press, and the negative media focus on aid that it generates is more trouble than it is worth.

Even many of those who disagreed with the 0.7% benchmark for the above reasons maintained that DFID's management of the target had been successful, disputing the view that the target led to rushed spending towards the end of the year. However, looking at the experience of the UK, Anders says that some commentators may advise other donors considering the benchmark to adopt it as a goal, rather than enshrine it in law.

Further reading

- BOND (2015). *Aid-Z the no nonsense guide to UK aid and development*, Bond, October, link.
- Development Initiatives (2013). *Factsheet: 0.7% aid target*, 28 August, link.
- Development Initiatives (2017). *ODA modernisation, background paper*, September, link.
- Griffiths, J. (2018). *Aid for the private sector: continued controversy on ODA rules*, ODI, 17 October, link.
- House of Commons (2018). *Oral evidence: definition and administration of ODA*, HC 547, International Development Committee, 27 March, link.
- Maxwell, S. (2013). *What is the future of (UK) ODA?* 7 February 2013, link.
- Mitchell, I. and Ritchie, E. (2018). *How should UK development finance count as aid?,* CGD blog, Center for Global Development, 18 October, link.
- DonorTracker (2019). *Poll finds that two thirds of UK Conservative Party members want the UK 0.7% ODA/GNI removed*, 21 May, link.

3. Literature on good practice and challenges associated with managing the UK's ODA spending target

- *Managing the Official Development Assistance target*, National Audit Office, 2015, link.

This report, which supported the IDC inquiry into DFID's 2013-14 annual report and accounts, investigates how DFID managed to achieve the ODA target for the first time in 2013, including managing the substantial increase in ODA budget required to reach the target. The report describes how despite the fact that UK government department budgets are managed in line with the financial year, international reporting rules require that the ODA target be reported in line with the calendar year, which involves using two year-ends for managing ODA spending and complicated forecasting to adjust spending to reflect changing forecasts and hit the target. To ensure that the target was reached, DFID had to manage the ODA spending forecasts of other departments, introducing further complexity. When it looked like the target was in danger of not being met, spending was concentrated on activities that could be funded in 2013 and contribute to that year's ODA spend. The target was met in part by first increasing and then reducing contributions made to multilateral organisations, through the use of promissory notes.

Overall, the NAO concludes that DFID took a number of positive steps in order to prepare for the large 33% increase in its budget in 2013-14 and acknowledges that by 2014 the department had brought in a number of changes to improve project management, enhance staff capabilities and meet future requirements. However, it was not until the spring of 2014 that there were a sufficient number of projects across sectors to provide adequate choice, which could have undermined value for money. The report notes that despite the successful achievement of the target and improvements being made to DFID's business and project management processes, difficulty remained inherent in managing a target based on cash expenditure in a calendar year, and on spending through budgets accounted for on an accruals basis in a financial year, which could potentially result in major spending decision-making late in the year at short notice.

- *UK aid: allocation of resources*, House of Commons International Development Committee, Seventh Report of Session 2016-17, March 2017, link.

This IDC report focuses on how DFID decided where to allocate its resources. The report notes that both main political parties remain committed to the 0.7% target despite widespread criticism in the press, and allegations that the target prioritises the amount spent rather than its effectiveness. The report also looks at how the 0.7% target interacts with other types of allocation targets and spending rules, including those on budget support, 'non-fiscal' spending, and payment by results. In these areas the IDC raises concerns that DFID had been set or was setting itself arbitrary rules or targets that were not necessarily evidence based. For example, the report found that, while its level was appropriate, the £5 billion non-fiscal spend rule could force DFID to spend large amounts through limited channels, principally CDC (the UK's development finance institution) and multilateral channels such as the World Bank's International Development Association. In the report, the IDC reaffirms its support, and the government's support, for the 0.7% commitment, recognising that there is sufficient global need for it to be necessary. Examples of less effective spending identified were not found to be a consequence of the 0.7% target and not found to be significant. The IDC concluded that overall DFID was effective in its spending, and that future improvements should be focused on increasing the effectiveness of spending, rather than the amount of spending. It also advised that any rules surrounding targets should be kept under constant review in order to retain the ability to spend flexibly.

- *Managing the Official Development Assistance target – a report on progress*, National Audit Office, 2017, link.

This report provides an update to the NAO's original 2015 report, reflecting on the passing of the International Development Act 2015, which made achieving the target a legal obligation, and the UK government's 2015 UK aid strategy, which proposed that a greater proportion of aid should be spent by non-DFID departments. The report finds evidence of cross-government work to support meeting the target, but also highlights that responsibilities were fragmented across government, and the target was ultimately underwritten by DFID having acted as spender and saver of last resort. To help manage the target, a Senior Officials Group was established by HM Treasury and DFID in 2016 to provide non-DFID departments with guidance on meeting their targeted expenditure. Two accountability gaps were identified in the new ODA spending structure, namely that no party had been assigned responsibility for the aid strategy as a whole, nor any single department assigned responsibility for the effectiveness or coherence of ODA expenditure as a whole. DFID improved its management of its own ODA budget, and smoothed its spending profile, creating choice and allowing for improved value for money considerations. Even so, the growth in the use of promissory notes, which by 2015 accounted for 19.8% of total ODA, was noted by the NAO as a potential danger to the credibility of the ODA target. The NAO noted that non-DFID departments' governance arrangements for ODA spending had to be developed in tandem with increases to their ODA budgets, and that they found this increased spending hard to manage, with large amounts of budget being spent in the last quarter of the calendar year. However, monitoring and evaluation practices were put in place to evaluate ODA expenditure, though these arrangements were more developed in non-DFID departments that had previously been managing ODA.

The report concludes that the focus across government had been on establishing the governance, reporting and monitoring arrangements required to manage and meet the 0.7% target. The NAO recommended that, as the ODA spending environment continued to allow for a greater share of ODA to be spent by non-DFID departments, DFID and HM Treasury should develop ways to measure the overall effectiveness of ODA spend across government.

- *Landing a helicopter on a handkerchief*, Vel Gnanendran, Aid Unplugged blog, January 2018, link.

The title of this blog, written by a former DFID staff member after completing the internal work to deliver the 0.7% aid target for 2017, refers to how a former DFID minister compared this process to trying to 'land a helicopter on a handkerchief'. The blog walks the lay reader through some of the complexities involved in achieving this commitment. The complexity lies not so much in the commitment itself, but rather the requirement to hit but not exceed this target.

To calculate the ratio of ODA to GNI, all combined DFID, non-departmental (such as Gift Aid, EU spend), cross-governmental and non-DFID departmental ODA was divided by the UK GNI for the calendar year. This means that many of the elements involved in the calculation were in fact outside DFID's direct control. DFID worked closely with other departments to understand what their spend was likely to be towards the end of the year. At the same time, it worked with the Office for Budget Responsibility, which publishes estimated forecasts of GNI which DFID would use to estimate the value of the target (the actual value of GNI is only published by the Office for National Statistics the following November). The non-departmental component of ODA is also not known and DFID therefore worked with estimates. This creates a great deal of uncertainty, and DFID acted as the buffer to manage this by using complex judgements on the timing of spending decisions between calendar and financial years.

To help meet the target, DFID increased its efforts to develop a pipeline of reliable projects to allow for greater choice and more opportunity to consider value for money when making spending decisions. In addition, DFID used some flexibility in its obligations to multilaterals to ensure the target was met, although in past years that led to a spike in spending towards the end of the year. To conclude, the blog finds that DFID improved the way it managed the target and was able to focus more on value for money and impact. However, it notes that because of the use of estimates and because the actual value of GNI is not known until almost a year after the target is supposed to be met, hitting the 0.7% target is a difficult task.

- *What does UK law say on aid?: How new development secretary Mordaunt can meet her aid effectiveness pledge*, Ian Mitchell, Center for Global Development blog, January 2018, link.

This blog looks at the secretary of state for international development's commitment in 2018 to make UK aid spending more effective, and identifies a number of ways to improve aid spending in non-DFID departments. There are four acts of Parliament governing international development spending which apply across government, and it is well understood that the government has by law to spend at least 0.7% of GNI on ODA. However, there are a number of idiosyncrasies in these acts of Parliament that make effective spending difficult. For instance, though the 2002 International Development Act makes explicit that aid spending must be "likely to contribute to a reduction in poverty", only the international development secretary (and therefore DFID) were bound by this rule, with non-DFID departments in general using the OECD-DAC definition as their principal qualification test for what may constitute ODA.[3] Also, although the international development secretary was ultimately responsible for deciding what counts as ODA, the target for aid spending might discourage them from disqualifying any substantial projects if these put reaching the target in danger. While the Center for Global Development confirms that the UK has a strong performance record on aid effectiveness measures and that UK aid is well scrutinised, there remain sufficient gaps in accountability and complexity in non-DFID spend to cause concern. They suggest several measures that could improve effectiveness, including:

1. The international development secretary chairing a cabinet committee on development which is less narrowly focused on ODA and spend, and focuses instead on the impact of aid, such as on poverty and gender.
2. The international development secretary having enough resource headroom in the overall ODA budget to be able to halt spend that is not deemed to meet ODA criteria without endangering the target. One approach would be to budget to spend, for instance, 0.72% of GNI on ODA, creating headroom to halt or reclassify questionable projects.

- *How the UK spends its aid budget*, Chapter 8 in the IFS Green Budget, Institute for Fiscal Studies, 2018, link.

This chapter provides a descriptive analysis of aggregate UK aid spending and its composition. The IFS confirms that the UK has successfully reached its target to spend 0.7% of GNI as ODA for five consecutive years, with the ODA budget reaching £14 billion in 2017. The IFS notes that ODA is one of only a few areas of spend that is linked to the size of the overall economy, which can be difficult to predict, and unlike other minimum spend targets, the

3 Certain funds, including the cross-government Prosperity Fund and the Newton Fund, derive their authority to spend from the 2002 International Development Act, whereas the Science and Technology Act and Higher Education Act form the legal bases for the Global Challenges Research Fund.

ODA target is written into legislation. Finally, though the legal interpretation of the target is that it is a spending floor, the government treats it more like a ceiling. The IFS finds that since 2013, the actual ratio has not deviated by more than 0.005 percentage points from the target. Choosing to meet this target so precisely can exert an influence over what ODA is spent on, for example by classifying some projects as ODA in order to meet the threshold. Meeting the target also involves an administrative cost, to accurately manage project spend along with forecasts of GNI, as well as managing coordination across government departments. DFID's ability to smooth its budget across the year improved between 2013 and the time of writing this chapter in the IFS Green Budget, partly by making use of the flexibility offered by promissory notes paid to multilateral institutions – though overuse of this function has been criticised elsewhere – and also through flexible budget management of multi-year projects.

- *United Kingdom – DAC mid-term peer review of development cooperation*, OECD, 2018, link.

In its mid-term peer review of UK development cooperation,[4] the DAC followed up on its 2014 review – which concluded that the UK had done well to meet the UN ODA spending target – by looking at recent developments in UK aid since the target was met and how the UK has managed its aid spending in the intervening period. The DAC noted that since the peer review in 2014, the 2015 International Development Act officially obliges the UK to meet the 0.7% target, while the aid strategy set in place commitments to transparency and value for money, as well as further extending responsibility for a greater share of aid spending to non-DFID departments. The peer review notes that the UK has achieved the ODA target since 2013 while also maintaining programmatic continuity and funding predictability to partners.

Since 2015, a number of structures have been put in place to manage cross-government funds and greater spending by non-DFID departments. While DFID was responsible for meeting the precise target of 0.7% of GNI, the peer review reports that the introduction of structures such as the Senior Officials Group,[5] as well as the extensive training, guidance and capacity building provided by DFID, have strengthened procedures relating to managing ODA spend across government. In particular, the Smart Rules have provided the basis for flexible and adaptive programming, reducing procedural rigidity in the context of an increasing ODA budget. The mid-term review concludes that overall UK ODA spending shows balanced risk taking and innovation along with meeting the requirements for transparency and value for money, even as the UK has continued to meet the ODA target and adapt to its new aid strategy. It does note, however, that departments which are comparatively new to ODA management will need to continue to build capacity and ensure a commitment to development principles and results.

- *Definition and administration of ODA*, House of Commons International Development Committee, Fifth Report of Session 2017-19, May 2019, link.

This report from the IDC examines the evidence gathered from its inquiry into the definition and administration of ODA – looking particularly at the government's commitment to spending increasing amounts of ODA outside of DFID in an effort to engage other departments' skills, expertise and networks. The report finds that the UK's commitment to the international system and the 0.7% target might be endangered if the definition of ODA were to be broadened unilaterally, and if ODA spending were to be moved to areas of government that do not have the same well-developed levels of coherence, transparency and focus on poverty reduction that DFID developed. The inquiry found evidence that at the time, DFID, with the support of HM Treasury, had taken a lead in providing support and guidance to government departments on administering ODA, through providing direct support, guidance documents and workshops on issues such as ODA eligibility, managing ODA programmes and achieving value for money. The inquiry also found that while individual departments were ultimately responsible for their own ODA spend, a number of cross-government groups had been established to oversee ODA – the Cross-Ministerial Group, the Senior Officials Group and the new Ministerial Committee for the Cross-Government Funds. The inquiry found that these mechanisms worked well to foster a joined-up approach to ODA and were

4 As noted, the last full peer review for the UK was completed in 2014 – a more recent peer review was scheduled to be published in 2020, but has been delayed due to the COVID-19 crisis.

5 Established by HM Treasury in 2016 and now co-chaired by the FCDO to support management and delivery of the UK's ODA target.

successful in sharing skills and experience, but that there remain gaps in the current mechanisms, particularly as no one department has overall responsibility for ODA as a whole.

- *The case against spending targets*, Andy Mayer, Institute of Economic Affairs blog, May 2019, link.

This blog from the Institute of Economic Affairs (IEA) looks at the concept of spending targets more broadly, proposing that their popularity stems from their simplicity, and their making allocative decisions transparent and easier to explain for politicians. However, the IEA warns that not all aspirations are necessarily better achieved with greater resources, because:

1. areas of spend should be driven by need
2. quantity of spending does not equal quality
3. spending can have unintended consequences.

The IEA suggests that the aid target is a case study for all these problems. Simply increasing the quantity of aid spending on countries in need is relatively easy, but making sure that aid is well spent on addressing these needs is not. The author claims that when the target was introduced, DFID experienced difficulties in finding enough new projects that met value for money criteria. Increased spend could have unintended consequences, such as price inflation for goods, services and jobs when a sector experiences a sudden injection of investment as a result of moving towards target-driven spending – although the author doesn't provide examples of where these effects have occurred. Finally, the blog questions whether target-driven spending encourages other countries to follow suit, given that few countries have matched the UK in their own ODA spend and years of high military spending by the US have not encouraged other NATO countries to do the same. The blog concludes that spending targets may undermine fiscal prudence and encourage complacency in other countries, and advocates for limited government, which spends resources only where no better alternatives exist and in response to clear and identifiable needs.

- *The effectiveness of Official Development Assistance expenditure*, National Audit Office, June 2019, link.

This report finds that responsibilities for measuring the effectiveness of ODA across government are fragmented, with HM Treasury considering the business cases for ODA expenditure, but not their impact. Individual departments consider value for money for their own budgets, but there is a limited focus on the effectiveness of UK ODA spending as a whole. The number of departments and cross-cutting funds using ODA has created overlap and may undermine efforts to assess performance across government and to align objectives with the UK strategy.

While the NAO notes that departments have been measuring and evaluating programme performance, a framework for measuring progress in achieving the aid strategy across all ODA spending departments was only agreed in 2019. ODA spending departments need to improve the transparency of their ODA expenditure, with only DFID meeting the government's 2020 departmental target of being ranked as 'good' or 'very good' against an independent assessment of transparency. The NAO found that the majority of departments have put structures in place to support target setting and performance assessments, although the approach taken by each department is particular to its own circumstances, which has impacts on overall oversight.

The NAO concludes that the government has been successful in meeting the 0.7% ODA spending target consistently, as well as in providing clear reporting on which departments and funds are spending ODA and on which types of activities. However, there is not enough emphasis placed on whether departments have the capacity to implement programmes, and not enough has been done to measure programme effectiveness. The limited central use of performance information and oversight across ODA spending department activities also makes it difficult to assess whether the government is achieving the objectives set out in the 2015 UK aid strategy. The NAO concludes that this represents a risk to value for money for the aid portfolio as a whole.

- *The effectiveness of Official Development Assistance expenditure*, One Hundred and Seventeenth Report of Session 2017-19, House of Commons Committee of Public Accounts, September 2019, link.

This report by the House of Commons Committee of Public Accounts, based on interviews with DFID, the Department for Business, Energy and Industrial Strategy (BEIS), the FCO and HM Treasury, provides conclusions and recommendations on how to achieve value for money and ensure ODA is spent effectively. The report finds that the government has done well to meet the 0.7% target since its introduction, and also introduced an aid strategy in 2015 which has seen a greater proportion of ODA spent by non-DFID government departments. Although the committee found that HM Treasury, which is responsible for setting departmental budgets, had established some oversight mechanisms and guidance materials for aid spending, it had taken more than three years following the introduction of the aid strategy for it to develop a framework for assessing progress against its four objectives. Not enough had been done to ensure value for money was being assessed in relation to aid spending across government.

To conclude, the report found that while the UK government had successfully met the ODA target, HM Treasury's assessment of effectiveness and value for money of ODA had been weak during a period of increased spending to meet the target, and with an increasing proportion of the ODA budget going to non-DFID departments. The committee recommended that HM Treasury develop its monitoring processes to incorporate issues such as value for money and impact, and to make use of DFID support in the allocation and oversight of ODA expenditure. The committee also found that since a large portion of ODA spend actually goes through the EU, more preparation is needed to be able to meet the ODA target in case of a no-deal Brexit.

- *Government should show £14bn spending on ODA is effective*, Public Accounts Committee, September 2019, link.

This briefing by the Public Accounts Committee (PAC) sets out the findings from their inquiry into the effectiveness of ODA spending. It finds that although spending targets for ODA have been consistently met, there are concerns over what this ODA has achieved.

In 2019, UK ODA was over £14 billion and for the fifth consecutive year the UK met the target to spend 0.7% of GNI. Since the target was enshrined in law, ODA has been spent by a growing number of departments other than DFID, but this focus on diversification has not been accompanied by an equal focus on effectiveness. The inquiry notes that HM Treasury had only introduced a framework for assessing progress against the 2015 UK aid strategy in spring 2019, but that since the strategy's four objectives are not linked to expenditure, a proper consideration of value for money is not possible. In addition, HM Treasury did not consider the impact that diversification would have on overall ODA effectiveness and had not ensured that all departments were able to measure the value for money of their ODA programmes.

In particular, the PAC recommends that before extending programmes, departments must be able to prove they are delivering value for money. In addition, if the UK leaves the EU without a deal, the 10% of UK ODA that is spent through EU institutions, which are considered to be high performing in terms of value for money, could be lost and the government will have to identify other means to spend this money to meet the target. Having to meet the 0.7% target in such a situation may present a risk to value for money if insufficient planning is in place to ensure that other multilateral partners are prepared to receive and spend additional funds at relatively short notice and according to the government's value for money guidelines. The PAC also finds that there are shortcomings in the measurement and assessment of ODA programmes in some departments. The fact the ODA target is focused on input-based measures can lead to a loss of focus on performance based on outcomes, thereby increasing value for money risks arising from hitting the target.

- *First aid: Fixing international development*, Jeremy Hutton, TaxPayers' Alliance, 2019, link.

This report from TaxPayers' Alliance does not focus on the arguments for and against the target itself, but examines the practices of ODA spending to see if reform could improve its effectiveness. The paper compares the UK pattern of ODA spend to other members of the G7, finding not only that the UK spends a greater proportion of its GNI as ODA, but also that annual ODA spend in other countries fluctuates, giving aid planners greater management flexibility. The paper therefore questions whether the target should be interpreted so rigidly, and whether more flexibility around hitting the target is mandated by the 2015 legislation. The report questions whether the stability of funding which the target allows for leads to greater effectiveness, finding evidence that a significant portion of spending in 2013, the first year in which the target was met, was carried out in the final two months of the year in order to reach the target, and questions whether this late-year spending was effective. While there has been a diversification of the aid spent across government, with a greater amount of ODA being spent by non-DFID departments since 2015, DFID was the only department required to justify any underspend to parliament, and reform is needed to ensure that other government departments are meeting the same high levels of transparency and effectiveness that DFID did. The report concludes that if the UK government remains committed to maintaining the ODA target, reform of the aid system is needed. To reduce the large amount of ODA spent late in the calendar year and to assist financial planning, the report advocates a move towards measuring ODA spend according to the financial year rather than the calendar year, or towards measuring the target as an average across numbers of years, which will also allow for greater flexibility. To ensure that the aid budget is better spent by non-DFID departments, the TaxPayers' Alliance also advocates that there should be a clearer line of responsibility to the secretary of state for international development, and that, given its closeness to rule-making processes and structures, reform of the aid system should be driven and overseen by DFID.

- *ONE's Real Aid Index 2020: The foreign secretary must do more with less*, Romilly Greenhill, ONE Campaign, July 2020, link.

The Real Aid Index, published by the ONE global campaign, assesses the top three to five programmes of each UK department that spends more than £50 million of ODA each year against the principles set out in the ONE Campaign's Real Aid Charter: meeting the 0.7% target, a focus on poverty eradication, aid effectiveness and transparency. The results, published in 2020, show that across government departments, programmes are performing at different levels in various areas. DFID performed well across the board in all areas measured. BEIS and the Department for Health and Social Care performed well in terms of transparency but moderately for poverty focus and effectiveness. All other departments scored moderately, apart from the FCO and the Prosperity Fund, which both scored weakly on poverty focus, mainly as a result of the secondary objectives driving their spending. The report notes that in 2017 there was an increase in transparency, including at the Home Office, and BEIS has increased its poverty focus, spending more ODA in least-developed countries and fragile states.

Further reading

- Crossman, S., Tyskerud, Y. and Warwick, R. (2019). *What does the 2019 Spending Review mean for UK aid?* IFS blog, Institute for Fiscal Studies, London, 1 April, link.
- Williams, H. (2017). *Government struggling to meet 0.7 per cent international aid target*, Church Times, 21 July, link.
- Publish What You Fund (2020). *How transparent is UK aid? A review of ODA spending departments*, January, London, link.

4. Core government financial management and delivery guidance documents

- *Smart Rules – September 2020: Better programme delivery, version XIV*, Better Delivery Department, FCDO, September 2020, link.

The Smart Rules handbook provides the operating framework intended for FCDO programmes, including guidance on how to maintain high standards of programme delivery, due diligence, proportionality, accuracy and accountability in all aspects of programming. Since the recent merger of DFID and the FCO, a twin-track approach is being used at the FCDO, meaning that the Smart Rules at present only apply to DFID budget-funded programmes, while FCO budget-funded programmes continue to use separate guidance until a new single framework is released in April 2021. The Smart Rules are designed to be used by all teams focused on delivery and to bring together in one place all information needed to comply with FCDO/government rules, although they are designed for FCDO ODA spending specifically, not for use across government. Part one of the Smart Rules sets out the principles, rules and qualities underpinning programme design and delivery, while Part two explains the governance structures involved. Parts three and four outline standards required in portfolio development and programme design respectively. The Smart Rules include a number of templates which can be used to standardise reporting such as business cases, logframes and annual reviews. There are four levels of guidance in the Smart Rules framework:

- ten principles staff should follow when designing and delivering programmes
- thirty-seven mandatory rules

- qualities and standards that describe expectations of what is effective
- good practice reference guides which are illustrative, for deeper learning.

The Smart Rules define value for money as "maximising the impact of each pound spent to improve poor people's lives (economy, efficiency, effectiveness and equity)". The document outlines the structure of governance in programme delivery, particularly in terms of accountability for spending from the accounting officer responsible for departmental resources, to the budget holder, to the senior responsible owner who is accountable at the level of an individual programme for budgets and for maintaining accurate and up-to-date financial forecasts. They provide explanations for the annual financial year targets required for meeting Resource Departmental Expenditure Limits, Capital Departmental Expenditure Limits and Annually Managed Expenditure, and identify how oversight and auditing is conducted, but the rules do not cover the 0.7% calendar year target. The rules explain what is defined as ODA, and how it can be spent in compliance with the 2002 International Development Act, including the different categories of bilateral and multilateral spending arrangements, making payments, and rules governing programme closure at the end of a project lifecycle.

- *Managing public money*, HM Treasury, July 2013, with annexes revised as at March 2018, link.

This is a core public document intended for all who work with public money. First produced in 2007, the focus of the document has remained the same: to set out the guiding principles for dealing with resources in UK public sector organisations. The handbook outlines the standards expected in public service, including openness, transparency and accountability, and sets outs the key responsible people and institutions involved in the management of public money. From here the document sets out some of the rules and conditions regulating the use of public funds, when HM Treasury consents may be required, and requirements for securing legal authority for policies and spending. The personal responsibilities of accounting officers are outlined, including expected standards, when they should seek direction and/or advice, and how they should interact with ministers. The handbook details the importance of good quality internal governance, sound financial management and clear responsibilities and mechanisms for internal reporting and performance tracking with the focus on effective procurement and expenditure that minimises waste. Key to this is the ability to properly assess opportunity and risk, control assets and spend efficiently and transparently. The guidance provides explanations of different funding avenues available to public organisations and different methods and conditions for charging for public services. Finally, the handbook provides guidelines for working with others, be they arm's-length bodies, agencies of government, other departments or civil society and the private sector.

- *UK Official Development Assistance: value for money guidance*, HM Treasury and Department for International Development, May 2018, link.

This guidance document, written by HM Treasury and DFID, is aimed at non-DFID ODA spending departments which have not previously managed substantial ODA budgets. It sets out the broad requirements and guiding principles that should inform departmental decisions and processes related to ODA spending, and the statistics which are reported internationally (and as a UK national statistic), and involves compliance with international requirements in relation to eligibility and reporting. The document sets out the role of departments and accounting officers in ensuring that they have the legal authority for ODA expenditure and that the expenditure itself meets the OECD-DAC standards for ODA.

In addition to setting out the general principles for achieving value for money in ODA spending, the guidance sets out the governance and control frameworks required, including recommendations on assigning responsibilities for ODA spending through a senior responsible owner, on programme design and delivery, on meeting open competition and tendering rules, on the need for robust monitoring and evaluation processes in line with the best practices identified in HM Treasury's Green and Magenta books, which respectively provide guidance on how to appraise and evaluate programmes and guidance on designing evaluations, and on the details of ODA expenditure reporting requirements. Finally, the document provides a reminder that ODA spend is reported to the OECD in cash terms on a calendar year basis, while financial accounting of ODA in departmental budgets is undertaken on an accruals basis and reported according to the financial year. It concludes that a good pipeline of programmes in the calendar year will help to ensure value for money and advises that departments should monitor payments in line with the Managing Public Money guidelines.

- *UK National Accounts, The Blue Book: 2019 compendium*, Office for National Statistics, October 2019, link.

The Blue Book, first published in 1952, presents the full set of the UK's national accounts each year and is compiled by the UK's Office for National Statistics, describing all economic activity in the UK – vital information which is then used by decision-makers in all areas of government. The Blue Book compendium summarises the UK national accounts, providing explanations for the data contained in the accompanying tables which make up the publication of the Blue Book each year, and examining the trends in indicators for the economy, such as GDP, population and employment. The publication of the Blue Book in October of each year is also the moment when the Office for National Statistics announces the UK's GNI for the previous year. GNI is calculated as GDP, plus income received from other countries, minus similar payments made to other countries. This indicator is vital in measuring the 0.7% target and confirming whether or not it was reached in the previous year. The first chapter in the compendium provides an overview of the national accounts and sector accounts, explanations of the table numbering system and a series of definitions, which make up a road map for interpreting the accounts themselves. The second chapter provides some of the most instructive headline figures for the economy, including a section on industrial performance, spending and consumption, and institutional sector accounts. Subsequent chapters look in more detail at individual sectors: corporations, government, household, rest of the world and environment.

- *Consolidated budgeting guidance: 2019 to 2020*, HM Treasury, March 2019, link.

This document contains the 2019 to 2020 guidance for all government departments on the budgeting framework that applies to expenditure controls. The document explains how departments are given separate budgets for resources – expenditure on pay and procurement, as well as ownership of assets – and capital – new investment net policy lending. Within resource budgets is a separate line for administration budgets, which includes expenditure on running departments but excludes frontline activities. Both resource and capital budgets are further divided into departmental expenditure limits (DEL), which are limits set at the spending review and cannot be exceeded, and annually managed expenditure (AME), which is set by HM Treasury and may be reviewed with departments. AME can rise above forecast but any increases require HM Treasury approval. Departments must share with HM Treasury monthly outturns and forecasts of spending and risks for their spending. The guidance includes a chapter on budget exchange, a mechanism that allows departments to surrender forecast DEL underspend in advance of the financial year by means of a reduction in the supplementary estimate, in return for a DEL increase the following year. Only underspends forecast in advance of the supplementary estimate may be carried forward, subject to limits based on the size of department, and a formal HM Treasury approval process. The limits are based on the size of the department, reflecting the difficulty that smaller departments face when managing variance. For example, departments with total DEL of under £2 billion have budget exchange limits capped at 2% for Resource Departmental Expenditure Limits and 4% for Capital Departmental Expenditure Limits, whereas for departments with DEL greater than £14 billion these limits are 0.75% and 1.5% respectively. To ensure that spending power is not accumulated over time, budget exchange is only permitted from one year to the next, and any carry-forward from a previous year is netted off at the amount that can be carried forward into the following year. Capital spending by departments appears in the capital budget at the same time and at the same value as it does in accounts, and includes spending on tangible and intangible fixed assets. Financial transactions include loans given and shares purchased net of loan repayments and sales of shares. These transactions are not part of capital expenditure in the national accounts.

Further reading

- House of Commons International Development Committee (2016). *UK aid: allocation of resources: interim report*, Third Report of Session 2015-16, House of Commons, 16 March, link.
- UK Aid Direct (2019). *UK Aid Direct guide to value for money*, August, link.

5. Literature on the UK's non-ODA spending targets

- *UK defence expenditure*, House of Commons Briefing Paper Number CBP 8175, House of Commons Library, November 2018, link.

This paper summarises the UK's defence expenditure, making comparisons with the defence spending of other NATO allies and analysing the financial cost of UK military spending. In particular, the briefing elaborates on the difficulties in making comparisons of defence expenditure internationally, while providing some clarity on how defence expenditure is reported, particularly with reference to the 2% NATO target, which was created in 2006 in an attempt to address the imbalance between US and European aid spending. Although the target does not represent a critical threshold of spending, it is viewed as being politically and symbolically significant.

Since 2010, only six NATO member states, including the UK, have achieved the target. However, making international comparisons, even between NATO members, can give rise to some problems. Although NATO has a definition for defence expenditure – as the OECD-DAC does for ODA – there are differences in what countries include when they report their defence spending. Recent inclusions in UK defence spend include war pensions and contributions to peacekeeping missions which were not included previously, but now have an impact on whether the UK meets its NATO commitment. There are no sanctions or penalties for countries that do not meet the target and there is no fiscal significance of 'tipping point' effects from the 2% target. However, NATO members do endorse the target and, at the NATO summit in 2014, agreed to aim to meet the 2% target within a decade.

- *The two NATO targets: Which countries are hitting the mark?*, Noel Dempsey, House of Commons Library Insight, August 2018, link.

This blog post, written following the July 2018 NATO summit in Brussels, provides background on the spending targets to which all NATO members have committed. The targets were agreed at the 2006 Riga summit, and consist of the well-known and much debated agreement that 2% of a member's GDP should go towards defence expenditure, but also the lesser-known agreement that 20% of defence expenditure should go towards equipment – meaning that there are in fact two NATO targets. The 2% target had been brought in to correct the imbalance in overall spend between the US and European members, whereas the equipment target is to ensure that members have the capabilities to conduct missions. Former prime minister David Cameron noted in 2014 that both targets were in place because it is not just the quantity but the quality of spending that matters. Not many countries have hit both targets – indeed, between 2006 and 2018 only eight members had achieved both targets simultaneously and only the US had achieved both every year. More countries were found to have achieved the equipment target in at least one year than the GDP target. Although most countries have begun to increase spending towards both targets, it is not clear that they will be achieved by the planned date of 2024, and NATO imposes no sanctions or penalties on countries that do not meet the targets. Indeed, some believe that they do not hold any intrinsic significance, but both are symbolically and politically important.

- *UK faces embarrassment over Nato defence spending ahead of summit*, Jon Stone, The Independent, 14 February 2017, link.

This article reports a discrepancy in the UK's reported figures on defence spending, which was first uncovered in a report by the International Institute of Strategic Studies (IISS), which reported that the UK was no longer meeting the NATO commitment to spend 2% of GDP on defence. Before 2017, the UK had been one of only five NATO countries to meet the target and had a long history of endorsing the target in international settings. However, Labour's shadow defence secretary pointed to the IISS briefing as evidence that the UK government had changed accounting methods in order to give the impression of meeting the target, while the IISS measurements showed that in reality it had dipped below the target value.

Although the government disputed the findings in the report, the chair of the Commons Defence Select Committee argued that being just above or just below the target of 2% was not in fact the most important issue, and that in reality defence spending needs to be increased above 2% to match the needs arising from the strategic threats facing the UK. He therefore argued that it should not be viewed as a target, but rather as a 'minimum guide', and claimed that in the past defence spending has often been double the target figure. After releasing the report, a spokesperson for the IISS pointed to the strength of GDP growth for 2016 and how this had had an effect on meeting the target, given that defence spending has been growing at a comparatively slower rate than the economy.

- *Balance and effectiveness of research and innovation spending*, Twenty-First Report of Session 2017-19, House of Commons Science and Technology Committee, September 2019, link.

This report of the findings of an inquiry launched in 2018 to look at the balance and effectiveness of UK research and innovation spending sets out to identify and understand choices available to aid the UK government and UK Research and Innovation (UKRI) in reaching the government's research and development (R&D) spending target. The government first committed in the 2017 industrial strategy to raise R&D investment from 1.69% of GDP in 2017 to 2.4% of GDP by 2027 and 3% of GDP in the longer term. UK R&D spending as a share of GDP was below the OECD average in 2017, and the 2027 target would represent a significant increase in research spending in the UK, requiring substantial private and public sector investment.

The R&D target is identified as representing a path of increased spending that will benefit the entire UK economy through 'spill over' and transformative effects. The report finds that to achieve the target, public investment must be front-loaded to encourage the private sector investment response required. Evidence presented to the inquiry points out that nominal R&D spend will have to increase significantly to reach 2.4% given that the economy is growing, requiring an ambitious allocation for certain departments in spending reviews to maintain that trajectory.

The report concludes by welcoming the target for R&D spending but recognising the significant difficulties inherent in achieving a set target under such a wide-ranging industrial strategy, which would require careful and successful coordination of public spending and private investment. The report also notes that additional funding is not sufficient to increase the capability of UK R&D, and that efficient and effective spending is needed. It argues that the creation of UKRI to assist in monitoring and planning has created a significant opportunity for improving the strategy and coordination of research funding.

- *Meeting the 2.4% target*, Stephanie Smith, Russell Group, November 2018, link.

In this article, a senior policy analyst from the Russell Group – an association which represents 24 leading UK universities – comments on the government's ambition to meet its 2.4% target for R&D by 2027, with a longer-term commitment to reach 3%. Smith points out that although the target sounds ambitious when compared with current R&D spending in the UK, in comparison with other developed nations leading on R&D, the target is much less bold, and was in fact chosen because it was the average amount OECD countries invested in 2015. To reach the goal a significant amount of private investment is needed, but the government needs to commit significant funds – around one third of investment in the sector – to leverage this. The author notes that the higher education sector has made a significant contribution to improving skills for the R&D sector and that structures have been put in place to increase performance. The author also argues that an increase in government support to meet this target is needed.

To avoid missing another target, the author argues, the government needs to better plan and coordinate its R&D strategy, with a focus on implementation across the whole of government. While BEIS and UKRI are the main drivers for the 2.4% target, and represent 70% of the UK's spending on R&D, a third of R&D spending is outside these departments – by departments such as the Ministry of Defence or the National Health Service – and therefore there is a challenge to ensure that these other departments are also on board with any new strategy. Some aspects of meeting the 2.4% commitment are out of BEIS and UKRI's control, including issues such as immigration policy, which has an effect on the influx of global talent for higher education and business needs, but which is managed by the Home Office, where the R&D target is not such a priority. Planning, coordination and shared responsibility across departments to manage and achieve the 2.4% target will therefore be key to any future success.

- *Research and development investment to rise to record £22bn*, Clive Cookson, Financial Times, 11 March 2020, link.

This article reports on the UK government's announcement in March 2020 to increase investment in R&D to a record £22 billion annually within five years, doubling the amount that was spent in the previous financial year – a level well above the target that was set during the general election campaign a few months earlier. The increased investment plans were announced as a landmark expansion in support of R&D, and aim to lift the UK's R&D commitments to a higher level, placing it within the top quarter of OECD nations in terms of R&D spending. The extra investment was to include the creation of an Advanced Projects Research Agency, based on the US Advanced Research Projects Agency of the 1960s.

Overall, this significant increase in spending was intended to provide front-loaded public investment in an effort to boost UK productivity and attract foreign direct investment. According to the Campaign for Science and Engineering, these enhanced spending plans would be sufficient to achieve the UK's 2.4% R&D target by 2027. The article notes that a number of large investments announced by the chancellor were planned to benefit established and internationally recognised specialist research institutions based in the south-east of England, an area that already receives a disproportionate share of public research funding. According to an HM Treasury statement, the geographical distribution was to be further examined during the government's comprehensive spending review. Areas earmarked for funding include defence, cutting-edge technology and space propulsion, and experimental mathematical research.

Further reading

- Allison, G. (2018). *IISS Report: Britain missed 2% defence spending target*, UK Defence Journal, 15 February, link.
- Willetts, D. (2019). *The road to 2.4 per cent: Transforming Britain's R&D performance*, The Policy Institute, Kings College London, December, link.

References

Anders, M. (2016). *Was the UK's 0.7 percent aid benchmark a mistake?,* Devex, 14 June, link.

BOND (2017). *The State of UK Aid 2017*, UK Aid Network Annual Report, May, link.

Clemens, M. and Moss, T. (2005). *Ghost of 0.7%: origins and relevance of the international aid target*, CGD Working Paper 68, Center for Global Development, September, link.

Cookson, C. (2020). *Research and development investment to rise to record £22bn*, Financial Times, 11 March, link.

Morini, P., Hudson, J. and Hudson, D. (2020). *DEL GB Dashboard June 2020*, Development Engagement Lab, June 2020, link.

Dempsey, N. (2018). *The two NATO targets: Which countries are hitting the mark?*, House of Commons Library Insight, 29 August, link.

Dempsey, N. (2018). *UK Defence Expenditure*, House of Commons Briefing Paper Number CBP 8175, House of Commons Library, 8 November, link.

DevCommsLab (2020). *Aid Attitudes Tracker*, accessed July 2020, link.

DFID (2016). *Statistics on International Development 2016*, 17 November 2016, updated 20 March 2017, link.

Emmerson, C., Farquharson, C. and Johnson, P. (2018). "How the UK spends its aid budget", chapter 8 in *The IFS Green Budget*, Institute for Fiscal Studies, October, link.

Foreign, Commonwealth and Development Office (2020). *Smart Rules – September 2020: Better Programme Delivery*, Version XIV, Better Delivery Department, FCDO, 3 September, link.

Foreman, J. (2012). *Aiding and Abetting: foreign aid failures and the 0.7% deception*, Civitas: Institute for the Study of Civil Society, London, link.

Gnanendran, V. (2018). *Landing a helicopter on a handkerchief*, Aid Unplugged blog, 5 January, link.

Greenhill, R. (2020). *ONE's Real Aid Index 2020: The foreign secretary must do more with less*, ONE, 10 July, link.

HM Treasury (2013). *Managing public money*, HM Treasury, July 2013 with annexes revised as at March 2018, link.

HM Treasury and Department for International Development (2018). *UK Official Development Assistance: value for money guidance*, May, link.

HM Treasury (2019). *Consolidated Budgeting Guidance: 2019 to 2020*, HM Treasury, March 2019, link.

House of Commons Committee of Public Accounts (2019). *The effectiveness of Official Development Assistance expenditure*, One Hundred and Seventeenth Report of Session 2017-19, September, link.

House of Commons International Development Committee (2017). *UK aid: allocation of resources*, Seventh Report of Session 2016-17, 21 March, link.

House of Commons International Development Committee (2019). *Definition and Administration of ODA*, Fifth Report of Session 2017-19, 22 May, link.

House of Commons Library (2020). *UK aid: frequently asked questions*, Briefing Paper 7996, 4 May, link.

House of Commons Science and Technology Committee (2019). *Balance and effectiveness of research and innovation spending*, Twenty-First Report of Session 2017-19, 9 September, link.

House of Lords (2012). *The Economic Impact and Effectiveness of Development Aid*, Select Committee on Economic Affairs, 6th Report of Session 2010-12, March, link.

Hutton, J. (2019). *First aid: Fixing international development*, TaxPayers' Alliance, March, link.

Krutikova, S. and Warwick, R. (2017). *The changing landscape of UK aid*, IFS Briefing Note BN204, Institute of Fiscal Studies, May, link.

Manuel, M., Manea, S., Samman, E. and Evans, M. (2019). *Financing the end of extreme poverty: 2019 update*, ODI Briefing Note, Overseas Development Institute, September, link.

Mawdsley, E. (2017). *National interests and the paradox of foreign aid under austerity: Conservative governments and the domestic politics of international development since 2010*, The Geographical Journal, Vol. 183, No. 3, September, link.

Mayer, A. (2019). *The case against spending targets*, Institute of Economic Affairs, 15 May, link.

Mitchell, I. (2018). *What Does UK Law Say on Aid?: How New Development Secretary Mordaunt Can Meet her Aid Effectiveness Pledge*, Center for Global Development, 23 January, link.

Mitchell, I. and Baker, A. (2019). *How the UK Treasury Can Allocate £15 Billion of Aid to "Greatest Effect"*, Center for Global Development blog, July 30, link.

Moreira da Silva, J. (2018). *United Kingdom Mid-term Review*, OECD Development Co-operation Directorate, Paris, 19 January, link.

National Audit Office (2015). *Managing the Official Development Assistance target*, January, link.

National Audit Office (2017). *Managing the Official Development Assistance target – a report on progress*, July, link.

National Audit Office (2019). *The effectiveness of Official Development Assistance expenditure*, June, link.

OECD (2016). *History of the 0.7% target*, original text from the DAC Journal 3(4), OECD-DAC, link.

Office for National Statistics (2019). *UK National Accounts, The Blue Book: 2019 Compendium*, 31 October 2019, link.

Public Accounts Committee (2019). *Government should show £14bn spending on ODA is effective*, 23 September, link.

Seely, B. and Rogers, J. (2019). *Global Britain: a twenty-first century vision*, Henry Jackson Society, February, link.

Smith, S. (2018). *Meeting the 2.4% target*, Russell Group, 27 November, link.

Stone, J. (2017). *UK faces embarrassment over NATO defence spending ahead of summit*, The Independent, 14 February, link.

TaxPayers' Alliance (2015). *Hitting the 0.7 per cent aid target misses the point*, 17 December, link.

Tucker, W. (2018). *Public opinion matters, so what does the public think?*, DevCommsLab blog, 27 April, link.

Worley, W. (2020). *Did the UK's 0.7% aid spending commitment backfire?*, Devex, 27 July, link.