National Audit Office

Managing reductions in Official Development Assistance spending

Foreign, Commonwealth & Development Office

REPORT

by the Comptroller and Auditor General

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Key facts

£14.5bn

the UK's Official Development Assistance (ODA) expenditure in 2020, as reported in the Statistics on International Development (September 2021)

£10.3bn

ODA budget for 2021-22 allocated in the 2020 Spending Review, following reduction from 0.70% to 0.50% of the UK's Gross National Income (GNI)

15

of the 44 Foreign, Commonwealth & Development Office (FCDO) country and regional offices with spending in 2020-21 which had their ODA budgets reduced by more than 50% (2021-22 budget compared with 2020-21 spending)

53% reduction in FCDO's ODA budget at the time of the Spending Review 2020 for bilateral programmes in 2021-22 compared with actual spending in 2020

£1.66 billion UK's ODA expenditure in 2020 on the global COVID-19 response, including setting up and supporting COVAX, a mechanism for delivering vaccines to 92 of the world's poorest countries

2024-25 financial year the Office for Budgetary Responsibility (based on its October 2021 forecast) expects the fiscal conditions set by government for a return to the 0.70% ODA target to be met

Summary

1 Since 1970, the United Nations has endorsed a target for developed countries to spend 0.70% of their Gross National Income (GNI) on overseas aid spending, known as Official Development Assistance (ODA). The UK met this target each year between 2013 and 2020 and is one of only 14 countries to have ever met the target. Five other countries met the target in 2020.[1] The UK made meeting the target a legal requirement in 2015. The UK looks to meet but not exceed the target. For example, between 2013 and 2020 it aimed to spend exactly 0.70% of GNI on ODA.[2]

2 In September 2020, the Foreign & Commonwealth Office and the Department for International Development merged to become the Foreign, Commonwealth and Development Office (FCDO). The merger is intended to unite development and diplomacy in one new department and enable the Foreign Secretary to make decisions on aid spending in line with the UK's priorities overseas. When announcing the merger in June 2020, the government reiterated its commitment to meeting the legal target for ODA spending at 0.70% of GNI. However, in the November 2020 Spending Review, the government announced that it would spend only 0.50% of GNI on ODA in 2021, because of the continuing economic impacts of the COVID-19 pandemic and its assessment of the impact of this on public finances. It also set out, at that time, that it intended to return to the previous target of 0.70% "when the fiscal situation allows". The reduction in the target, along with changes in GNI, meant that the government set the 2021-22 ODA budget at £10.3 billion, an actual reduction of 29% compared with expenditure in the calendar year 2020.[3,4]

3 In December 2020, the then Foreign Secretary set out a new strategic framework for ODA to focus aid spending on the UK's strategic priorities through:

- the introduction of seven new strategic priorities for UK aid spending, to prioritise the areas where UK spending can "make the most difference"; and
- focusing aid spending only on countries where "the UK's development, security and economic interests align, such as east Africa and the Indo-Pacific region".

1 The countries which met the 0.70% target in 2020 are Denmark, Germany, Luxembourg, Norway, Sweden and the UK.
2 This figure is calculated to two decimal places.
3 The government sets departmental budgets on a financial year basis. The ODA spending target is set for a calendar year by combining budgets from two financial years. The government monitors progress towards the target on this calendar year basis.
4 The figure of £10.3 billion is made up of the 2021-22 financial year departmental ODA allocation of £10 billion (which excludes non-departmental ODA spending such as Gift Aid and the BBC World Service) set out in the published Spending Review 2020, and non-departmental ODA of £300 million. Allocations made as part of a Spending Review are adjusted over time to take account of the latest fiscal forecasts, and forecasts are subject to change due to various factors.

4 Since 2015 we have published three reports on ODA spending, all in the context of increasing budgets.[5] We identified risks to value for money from the management of increasing ODA expenditure, including the risk that departments felt incentivised to propose spending without challenging its value for money as rigorously as for other spending, and without making sure they had sufficient programmes to match the increased spending. We also identified risks around year-end spending to meet the target, accuracy of forecasting and the government's ability to assess performance across its ODA portfolio.

Scope of this report

5 In this report we examine the government's management of the reduction in ODA expenditure and the extent to which the government has considered how to protect value for money in implementing this reduction. The majority of ODA is spent through FCDO, but other government bodies also have responsibility for ODA spending. We do not review the basis of the government's decisions to reduce the overall ODA budget or to reduce the ODA spending target from 0.70% to 0.50% of GNI. Instead, we examine the way these decisions were implemented and their initial impact. In particular, we examine FCDO, HM Treasury and other government departments with responsibility for ODA spending, and assess:

- the strategy and decision-making process for reducing ODA spending in 2021;
- the approach to implementing the reductions in ODA spending; and
- the understanding of the impact of reductions in ODA spending and consideration of future challenges.

6 We do not look in detail at the performance of individual projects or organisations but focus on whether FCDO and other departments have mechanisms to understand performance and the impact of the spending reductions overall. Full details of our scope and audit approach are set out in Appendices One and Two. Appendix Three sets out information on our case studies at five of FCDO's country and regional offices.

5 Comptroller and Auditor General, *Managing the Official Development Assistance target*, Session 2014-2015, HC 950, National Audit Office, January 2015; Comptroller and Auditor General, *Managing the Official Development Assistance target – a report on progress*, Session 2017–2019, HC 243, National Audit Office, June 2017; Comptroller and Auditor General, *The effectiveness of Official Development Assistance expenditure*, Session 2017–2019, HC 2218, National Audit Office, June 2019.

Key findings

Reducing ODA spending for 2021-22

7 **In the 2020 Spending Review, the government announced a reduced target for spending on overseas aid, from 0.70% to 0.50% of UK Gross National Income.** The UK first met the target of spending 0.70% of Gross National Income (GNI) on ODA in 2013. It continued to meet it each year until 2020, with small increases in spending each year reflecting movement in GNI. GNI was forecast to reduce in 2020 due to the impact of COVID-19, although this reduction (and the resulting change in the ODA budget) was lower than initially forecast. In 2015, the UK government passed legislation to make meeting the target of 0.70% a legal requirement.[6] In 2020, the government spent £1.66 billion – some 11% of its total ODA spending – on interventions in response to COVID-19, reducing the budget available for other activities. In the 2020 Spending Review, the government announced a reduction in the ODA target from 0.70% to 0.50% of GNI.[7] It considered that sticking to 0.70% was not an appropriate prioritisation of resources in the light of the impact of COVID-19 on the economy. This decision reduced the total ODA budget for 2021-22 to £10.3 billion, compared with spending of £14.5 billion in the 2020 calendar year and £15.2 billion in the 2019 calendar year (before the pandemic)[8] (paragraphs 1.2, 1.3, 1.8, 1.9 and 1.11).

8 **Reducing the total ODA budget by £4.2 billion through a one-year Spending Review, with a very short time for allocation decisions, increased risks to value for money.** The government's decision to reduce the UK's ODA budget by around one third was taken less than a month before it was announced in the 2020 Spending Review. FCDO had to move from planning a multi-year continuation of ODA programmes to planning for a significant reduction in spending in the coming year. FCDO's initial allocations were completed quickly. As a consequence, it did not complete a thorough review of the impact on outcomes or long-term value for money ahead of high-level allocations of ODA budget across government's priorities for aid spending. In addition, a one-year Spending Review meant that FCDO's options for managing the reduction in spending by delaying payments to subsequent years were reduced. This exercise followed an in-year budget reduction exercise in 2020 due to COVID-19 pressures. Bilateral programmes, which tend to be multi-year and focused on specific outcomes and are inherently less flexible than multilateral spending, were disproportionately affected in both. The government's decision to meet and not exceed the target also limited flexibility in its spending choices (paragraphs 1.8, 1.9, 2.2, 2.11, 2.14, and Figures 3 and 4).

6 International Development (Official Development Assistance Target) Act 2015. Available at: www.legislation.gov.uk/ukpga/2015/12/contents/enacted

7 Spending Review 2020. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938052/SR20_Web_Accessible.pdf

8 These are outturn figures for total ODA spending in a calendar year and include departmental and non-departmental ODA.

The approach to implementing reductions in ODA spending

9 **FCDO had a clear, centralised approach to allocating a reprioritised and reduced ODA budget, but this did not fully consider the impact on outcomes.** Following the 2020 Spending Review, FCDO took on more responsibility for allocating ODA across government than had previously been the case. FCDO led a three-stage approach, starting with ring-fencing significant longterm commitments and multilateral payments, followed by allocating funding to other government departments, and finally allocating the residual budget across FCDO.[9] The approach focused on the seven new strategic priorities and two geographic priority areas for where UK ODA should be spent that had been set by ministers. High-level allocations of the available budget between the priorities were set by the then Foreign Secretary and used to inform cross-government discussions about ODA spending. However, due to the short time available, there was limited consideration of the impact on development outcomes or of different scenarios for allocations across the seven strategic priorities to help inform ministerial decisions (paragraphs 2.2 to 2.6 and Figure 6).

10 **Prioritising some existing government spending commitments meant that FCDO's budget for its bilateral programmes was reduced by 53%, more than the overall reduction in ODA.** The overall budget for ODA for the 2020-21 financial year was 29% lower than spending in the 2020 calendar year. The first stage of the allocations process resulted in a small increase in FCDO's multilateral spending, with most amounts protected because of legal or political commitments. The budgets for other government departments in the second stage were reduced by an average of 39%. A greater reduction to FCDO's bilateral programme budgets was then required in the third stage. These saw a reduction of 53% compared with spending in 2020 (these programmes had also seen reductions in 2020 compared with the previous year).[10] To allocate the available funding, FCDO set budgets (referred to as 'handrails') for each of its regional directorates, informed by the high-level allocation across the strategic priorities and geographical priorities. All but one of the strategic priorities saw substantial budget reductions compared with spending in previous years, and there was some redistribution of the reduced funding across them. For example, climate change and biodiversity saw its share of the 2021-22 budget more than double compared with spending in 2020, and humanitarian preparedness and response reduced by more than one-quarter (paragraphs 2.7 to 2.13, and Figures 7, 8 and 9).

9 Multilaterals refer to international organisations such as the World Bank, UN agencies and international charities, supported by multiple donors.

10 Bilateral spending is earmarked spending where the donor has specified where and on what the ODA is spent, and is usually to specific countries, regions, or programmes.

11 FCDO's local teams had to make significant reductions in budgets, leading to some programmes being modified or stopped early. FCDO reduced the budget for 35 of the 44 country and regional offices with ODA programmes in 2020-21; 15 of these saw reductions of more than 50%, and a further three were cut entirely. In our five case-study country and regional offices, the reductions in budget ranged from 46% (Myanmar) to 69% (Syria). Despite the scale of changes necessary, FCDO asked country and regional office teams for only limited information and assessments of their new budget proposals, including any projects identified for closure. It did not request information such as spending in previous years, which would have helped put reductions in context. FCDO also did not make any central assessment of the overall impact of the budget reductions, although some local teams have started to assess local impacts on their own initiative (paragraphs 2.14 to 2.17 and 3.2 to 3.7, and Figures 10, 11 and 12; Appendix Three).

12 FCDO's country and regional offices were able to make decisions based on their existing local knowledge and priorities but were not able to consult local partners to inform this exercise. Local offices were responsible for evaluating their own programmes to determine which were best to deliver the priorities and were able to draw on specialist support from central FCDO policy teams. Local teams balanced a range of criteria to make decisions about their programmes, including: a programme's performance; where it was in its lifecycle; the impact of closing or amending it on delivery partners; and whether other donors could take on responsibility for the work. This approach had the advantage of allowing offices to factor in their existing local knowledge and respond to the specific circumstances in their countries, and to focus on highest value and highest priority programmes. However, bilateral programmes had already been through a budget reduction and prioritisation exercise in 2020. This, combined with the scale of the reduction this time, meant that difficult decisions had to be made about programmes which were performing well. There was also limited opportunity to adjust the allocation between priorities if the local office considered that spending on a different priority would be of more benefit in their country. FCDO ministers made the decision that its country offices should not formally discuss planned reductions in budgets with delivery partners. This approach meant that local teams were not able to draw on relevant data and expertise from delivery partners to inform their decisions (paragraphs 3.2 to 3.4).

Understanding the impact of reductions in ODA spending, and future challenges

13 **FCDO has a well-established approach for assessing programme and portfolio performance but could do more to assess the overall impact of the changes.** FCDO reviews the performance of all its programmes on an annual basis and brings this information together to provide an assessment of how well its portfolio is performing, under each of its new strategic priorities. Teams responsible for programmes have revised their programmes' progress and performance criteria and aligned these with the amended budgets. However, FCDO has not yet taken steps to understand the overall impact of these changes on the development outcomes it had originally planned. It also has not assessed the impact of its changed portfolio on the overall value for money of its ODA spending. Such analysis would help FCDO plan for any future increases in ODA budget and inform ministerial decisions on the funding balance between priorities (paragraphs 3.6 and 3.7).

14 **Lack of transparency in the approach to and outcome of ODA changes affected the quality and scrutiny of the allocation decisions and contributed to uncertainty in the sector.** The government's 2015 aid strategy emphasised the importance of transparency in support of value for money. However, stakeholders and delivery partners were critical of the lack of transparency of this exercise, commenting on the delays in finalising budget allocations and the uncertainty created around their future. For example, information on budget allocations was published over several months, and on an inconsistent basis. The International Development Committee concluded that FCDO's approach undermined the Committee's ability to understand and then scrutinise its decisions (paragraphs 3.8 to 3.12).

15 **The autumn 2021 Budget provides some certainty for ODA spending in the medium term, but departments need to plan now for potential scenarios for a return to 0.70%.** The government has said it intends to return to a target of 0.70% when two fiscal tests are met – when fiscal forecasts confirm that, on a sustainable basis, the government is not borrowing for day-to-day spending, and when underlying debt is falling. In the 2021 Spending Review, it expected this to be in 2024-25, based on the Office for Budget Responsibility's October 2021 forecasts. However, this is dependent on how the UK economy performs, and different scenarios are possible. A three-year planning horizon provides departments with a degree of stability against which they can plan. Increasing spending rapidly to 0.70% in year three, which would mean a budget increase across ODA spending departments of 40% or £5 billion, could make it difficult to achieve value for money if departments do not plan now for this possibility and develop a pipeline of programmes (paragraphs 3.16 to 3.18).

16 The government's proposed new international development strategy presents an opportunity to provide greater coherence for ODA spending and improve its approach to assessing performance. In our 2019 report, we concluded that the government had placed insufficient emphasis on demonstrating the effectiveness of ODA spending and on progress against the 2015 UK aid strategy.[11] FCDO is leading on the development of a new international development strategy intended, among other things, to provide coherence for development spending across government. This is an opportunity to clarify roles and responsibilities for allocating and spending ODA, and for monitoring performance across government (paragraph 3.19).

Conclusion on value for money

17 The government's decision to reduce its target for ODA spending from 0.70% to 0.50% of GNI meant an overall budget reduction of around 30%, from spending of £14.5 billion to £10.3 billion. The speed and scale of the budget reduction, and the lack of long-term planning certainty, increased some risks to value for money. It also allowed for prioritisation of the highest value and highest priority programmes. However, spending on bilateral programmes had been disproportionately cut in 2020 and 2021, and the extent of this reduction meant that programmes performing well also had to be considered. The government had a clear approach to, and parameters for, allocating its ODA budget. FCDO took a leading role in the allocations exercise and looked to its local offices to make decisions about its programmes, taking into account factors such as programme performance. This involved compromises and difficult decisions across all programmes and geographical areas. The government's decision not to consult delivery partners limited the evidence available to make informed decisions.

18 The speed and depth of reductions, combined with the reprioritisation of spending, has had an immediate impact locally as FCDO country offices looked to modify or bring programmes to an end ahead of schedule. While it is too early to assess the impact of these changes on long-term value for money, building its understanding of this impact will help the government with its approach to future budget allocations – including a return to the 0.70% target – for which it should have more time and certainty.

11 Comptroller and Auditor General, *The effectiveness of Official Development Assistance spending*, Session 2017–2019, HC 2218, National Audit Office, 20 June 2019. Available at: www.nao.org.uk/wp-content/uploads/2019/06/The-effectiveness-of-Official-Development-Assistance-expenditure.pdf

Recommendations

19 The recent budget offers a degree of certainty for the next three years, although some aspects of the landscape such as the new international development strategy are in development and the timing of the return to a 0.70% target is conditional. These recommendations are intended to support the government in its next steps.

a **FCDO and HM Treasury (HMT) should identify lessons learned from the 2021 budget allocation exercise.** While the extent of the 2021 budget reductions was unusual, it will still be useful to draw out lessons from the approach, and from the previous exercise in 2020, to help inform ongoing allocations activity.

b **FCDO and other ODA spending departments should assess the impact of the reduction and reprioritisation of ODA spending on performance in the short, medium and long term.** This should include, but not be limited to, a focus on the impact on bilateral spending, which has to date been affected the most by budget reductions. Among other things, departments should consider how the proposed return to a 0.70% target might help them address any issues that are identified.

c **FCDO and HMT should work with other ODA spending departments on scenario planning for a return to 0.70%.** One scenario already set out is a potential return to 0.70% in 2024-25, but there may be others to consider. As part of this exercise, FCDO and HMT should review their approach to managing changes in GNI forecasts and consider the impact of greater flexibility in the target for ODA spending.

d **Given the intended return to a 0.70% target, FCDO and HMT should maintain oversight of individual ODA spending commitments for future years and use this information to ensure future budgets are not over-committed ahead of time.** Central oversight is important in the context of a fixed spending target and a possible increase in spending in future years. This is to be balanced with departmental flexibility to plan long-term and commit funding to a reasonable level outside Spending Review periods.

e **FCDO and HMT should consider how to improve the transparency of ODA spending decisions.** This includes publishing details of significant changes to ODA spending in a way which allows for like-for-like comparisons over time and an assessment of the impact of such changes on outcomes the government is seeking to achieve. They should also consider how much time may be required for meaningful consultation with, for example, delivery partners.

f **FCDO should set out how it intends to measure progress against the aims and objectives in its new development strategy.** This should include the indicators and data it needs to monitor progress. It should also set out its responsibilities and those of HMT and other government departments for oversight, implementation and monitoring of the strategy.