

HM Treasury and FCDO response to the Independent Commission on Aid Impact recommendations on: Management of the 0.7% ODA spending target

The Government welcomes the Independent Commission for Aid Impact's (ICAI) review on the Management of the 0.7% ODA spending target.

The Government is fully committed to ensuring that the management of the UK's Official Development Assistance (ODA) budget delivers value for money for the British taxpayer and achieves the maximum impact. This report has recognised the progress made by the Government since the 2015 Aid Strategy to minimise the value for money risks in the administration of the UK's aid budget.

At the 2020 Spending Review, the Government announced that the UK will spend the equivalent of 0.5 percent of our national income (GNI) as ODA in 2021. The Government intends to return to the 0.7% target when the fiscal situation allows.

Recommendation 1

HM Treasury should consider assigning spending targets for the first three quarters of the financial year to ODA-spending departments and cross-government funds that better reflect the structural nature and spending profile of their programme portfolios and reduce negative effects for suppliers.

Partially agree

HM Treasury has historically set departmental spending targets to ensure the ODA target was met each calendar year. Following Spending Review 2015, HM Treasury adjusted these as necessary to reflect departments' delivery of programmes. A target that is uniform across ODA-spending departments and funds has previously allowed some in-year flexibility for underperforming departments to be offset by overperforming departments. Spending targets have been instrumental in the UK meeting the ODA target.

However, since the 2015 Spending Review it has become clearer that some elements of departments' ODA spend have not been able to achieve the targets set.

The future of departmental spending targets will be considered and determined by HM Treasury as part of the 2021 Spending Review.

Recommendation 2

The UK government should lessen the value for money risks associated with managing the 0.7% target by establishing a spending floor for FCDO (as the new spender or saver of last resort) that gives it a degree of certainty over its share of UK ODA spending.

Partially agree

HM Treasury determines the amount of ODA needed for the spender and saver of last resort to meet the ODA target and therefore the equivalent of a spending floor already exists by the

nature of our allocations. This is based on not only the extent of other Government department spend, but non-departmental ODA flows such as Gift Aid and debt relief, and the constitution of FCDO's budget and the split between bilateral and multilateral programming. A fixed spending floor would not be practical as it would need to account for changes in those elements for each specific year.

Recommendation 3

The UK government should ensure that a sufficient share of the UK's ODA portfolio is allocated as multilateral aid, so that ministers have the flexibility they need to manage the target at calendar year end, without compromising value for money or adversely impacting programme delivery (or supplier operations).

Agree

FCDO will continue to use a full range of funding instruments to deliver aid, including contracts, grants and multilateral funding. All our partners, whether private sector, NGO or multilateral, are subject to rigorous scrutiny of their effectiveness and value for money, in advance and throughout delivery of the programme. The Foreign Secretary has confirmed his commitment to increasing the effectiveness of our spending. The decision on which spending instrument to use is taken on a case by case basis in the Business Case for each programme in order to give us the most effective delivery route and ensure maximum impact and value for money. FCDO contracts are competitively tendered following a set of standard processes set out in the Public Procurement Regulations.

Recommendation 4

The UK government should explore ways of introducing greater flexibility into the management of the 0.7% target, including, for example, introducing a 'tolerance range' for hitting the target of between 0.69% to 0.71% of GNI, or specifying the target as a three-year rolling average.

Agree

We agree with the principle of introducing greater flexibility into the management of the ODA budget. HMG will need to review possible approaches including those mentioned in the recommendation above, carefully to fully understand their benefits and potential drawbacks. The OECD DAC reports ODA to two decimal places, which provides a degree of tolerance in meeting the ODA target.