ICAI Independent Commission for Aid Impact

# How UK aid is spent

**February 2025**

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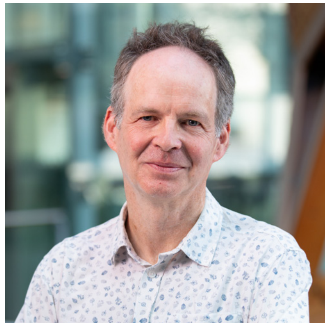
The idea for this work came from our desire as newly appointed Commissioners for an overview of how the UK was using its development budget. Despite being familiar with global development, we found it surprisingly hard to follow where UK money was going and what the recent trends were. What initially started as an internal exercise quickly became something that we realised could have wider benefits for the public.

The report provides an accessible account of where the changes in recent years have left the UK's development spending, as of the latest available data. It forms a 'baseline' of aid allocation for the new Commission, which for the first time in a decade coincides with the start of a new government. We intend to repeat this exercise at the end of this Commission, to reflect on the impacts and performance of the government's choices for international development funding.

This work has also enabled us to identify themes that will shape our work and our reporting to Parliament and the UK public. We want to take a strategic approach, building evidence on both specific issues and cross-cutting themes across multiple reviews to develop a full picture of the impact and value for money of UK aid.

The role of international development in helping to tackle the world's challenges is continually changing. The government's choices about how to use the official development assistance budget are critical to its effectiveness. These choices sit in the context of wider policy decisions, such as those related to climate and trade. All these factors influence effectiveness and value for money, which it is the role of the Independent Commission for Aid Impact (ICAI) to assess. This report provides a snapshot of where spending currently goes, to inform our future work and our approach as the new Commission gets underway.

**Jillian Popkins**
Chief Commissioner



**Harold Freeman**
Commissioner

**Liz Ditchburn**
Commissioner

The Independent Commission for Aid Impact (ICAI) works to improve the quality of UK development assistance through robust, independent scrutiny. We provide assurance to the UK taxpayer by conducting independent reviews of the effectiveness and value for money of UK development aid.

This report provides an account of the UK's official development assistance (ODA) at the beginning of ICAI's latest Commission, following several turbulent years that resulted in major changes to the development budget. It is a purely factual account, providing a baseline against which ICAI and other interested parties can judge future choices about the development budget.

The report briefly describes a global context in which development progress has faltered. It also reminds us that there have been areas of significant progress, where well-designed and coordinated development assistance at scale has made an important contribution. The report highlights the challenging geopolitical context for development and that conflict, climate change and extreme poverty are increasingly intertwined. It also places UK development funding in the broader context of the different types of finance available to countries for their development – both public and private, domestic and external. It reminds us that ODA is a minor part of global development finance, yet critical for a particular set of countries.

The focus of this report is how UK development funding is currently being spent. We examine this through a series of lenses that could be described broadly as "how much", "for what", "where" and "how". The report illustrates how the allocation of UK development funding has changed in recent years and where it remains consistent. It shows the reductions in development funding arising from the COVID-19 pandemic, the decision to reduce the aid target from 0.7% of gross national income until fiscal conditions improved, and the rise in spending on refugees and asylum seekers in the UK. It shows the increasing importance of UK development finance delivered through British Investment Partnerships, including British International Investment, as well as international climate finance. Altogether, this analysis illuminates some of the choices facing the government about the future of UK development aid.

The report is not evaluative. It is based on publicly available sources, capturing information available in late 2024. It is necessarily selective in its presentation of a complex picture. The report ends with some questions that we intend to scrutinise further over the next four years of this Commission, as the new government determines its priorities in a changed context.

Foreign, Commonwealth and Development Office

# 02 Global context

This section briefly summarises ICAI's review of the global development context. It summarises the current challenges in implementing the UN Sustainable Development Agenda 2030 and the Paris Climate Agreement, highlighting the lack of adequate funding for developing countries to manage growing climate disruption. It highlights the rise in global conflict and the strain that is being placed on the international humanitarian system. Finally, it explores how global economic turbulence since the COVID-19 pandemic has led to severe shortages in development finance.

## 2.1 The Sustainable Development Goals are significantly off-track

With only five years until 2030, the UN describes the Sustainable Development Goals (SDGs) as "woefully off-track". Fewer than a fifth of the targets are likely to be achieved by 2030. The majority show little or no progress, and some have regressed below the 2015 baseline. Reasons include the disruption brought by the COVID-19 pandemic and the global economic turbulence that followed it, and an overall shortage of development finance.

The most positive results have been in expanding access to basic services (such as education and healthcare) and infrastructure (such as access to electricity and clean water).[1] Progress is closely tied to levels of public and private investment, with support from development aid. There has been less progress on complex policy and institutional challenges, such as industrialisation and food security.

There has been moderate progress towards the SDG1 target of eradicating extreme poverty,[2] but with diverging regional pathways. Poverty reduction at scale has been primarily an Asian phenomenon. In sub-Saharan Africa, the rate of poverty reduction in recent years has been slower than population growth, leading to growing numbers of people living in extreme poverty.[3] It is projected that, in 2030, 590 million people will remain in extreme poverty (6.9% of the global population), with the majority living in Africa and in countries affected by conflict.[4]

The geopolitical environment is increasingly challenging for international development. The global spread of democracy that followed the Cold War has gone into reverse, with more countries now moving towards autocracy than towards democracy.[5] More than half of the world's countries have placed serious restrictions on civil society organisations, with groups representing women, the environment, workers' rights, LGBT communities and youth most affected. The UN and human rights groups are warning of a global backlash against women's rights and gender equality.[6]

### What are the Sustainable Development Goals?

The 2030 Agenda for Sustainable Development was agreed by all UN member countries in 2015 as a global development blueprint for promoting peace and prosperity, for people and the planet. Its 17 Sustainable Development Goals and 169 targets provide a shared agenda for both developed and developing countries. They take a comprehensive approach to social, economic and environmental issues, with roles for governments, business and civil society. They are supported by a pledge to 'leave no one behind' by prioritising the poorest, most vulnerable and disadvantaged people.

**Figure 1:** The majority of the Sustainable Development Goal (SDG) targets are off-track

Bar chart showing global progress towards meeting the 17 United Nations SDG targets, 2024

**Note:** Excludes 34 of the 169 targets, for which there is no data.

**Source:** United Nations. 'The Sustainable Development Goals report 2024', June 2024, page 4 (viewed on 1 February 2025)

## 2.2 International climate finance falls significantly short of developing country needs

Developing countries are among the most exposed to the consequences of climate change, despite contributing little to historical emissions. Impacts such as more variable rainfall and more frequent extreme weather are already disrupting national development efforts, undermining food security and contributing to population displacement.[7]

Climate impacts are likely to accelerate in the coming years. According to the UN Global Stocktake, the world is not on track to meet the Paris Agreement goal of holding the global average temperature rise to well below 2°C above pre-industrial levels. Current voluntary commitments on emissions reductions are not collectively ambitious enough, and global spending on climate is trillions of dollars below the levels required. There has been limited progress on transitioning away from non-renewables, with fossil fuel subsidies reaching $7 trillion in 2022.[8]

At COP29 in November 2024, agreement was reached on a new international climate finance target of at least $300 billion per year for developing countries. However, many commentators have pointed out that this is well below the sums needed to adapt to increasing climate disruption.[9]

**Figure 2:** Global spending on climate change is well below what is required

Line chart showing global spend on climate finance, 2011-12 to 2021-22, and the estimated amount needed in future up to 2050

**Source:** Barbara Buchner and others. 'Climate Policy Initiative: Global landscape of climate finance 2023', November 2023 (viewed on 20 January 2025)

**Figure 3:** Climate finance provided for adaptation measures is currently just one third of developing country needs

Column chart showing climate finance provided for adaptation measures, 2018 to 2022, and the estimated amount needed in future up to 2050

*Estimated future annual averages according to the Climate Policy Initiative

**Source:** Baysa Naran and others. 'Climate Policy Initiative: Global landscape of climate finance 2024', October 2024 (viewed on 20 January 2025)

## 2.3 Rising conflict is placing heavy strain on the international humanitarian system

Over the past two decades, there has been a marked rise in conflict and violence around the globe. The three most violent years since the end of the Cold War were 2021, 2022 and 2023, with almost 600,000 people killed in conflict over that period, including in large-scale wars in Ukraine, Ethiopia and Gaza.[10] There has been a sharp rise in 'internationalised civil conflict' – that is, civil wars in which other countries have intervened – which can prolong and intensify the fighting.[11]

**Figure 4:** Global conflict has risen sharply over the last two decades

Stacked area chart showing the number and types of global conflicts, 1946 to 2023

**Source:** Shawn, Davies and others. 'Organised violence 1989-2023 and the prevalence of organised crime groups', Journal of Peace Research 61(4), 2024 (viewed on 1 February 2025)

Conflict, climate and extreme poverty are increasingly interconnected, presenting a challenging new frontier for poverty eradication. In 2022, 73% of all those in extreme poverty lived in fragile contexts affected by both conflict and climate change, and this is projected to rise to 86% by 2030.[12]

Numbers of forcibly displaced people reached a record 123 million in June 2024 – up from 50 million a decade earlier. More than half (71 million) are displaced within their own countries. Of those displaced across borders, two-thirds remain in neighbouring countries, many of which are themselves fragile.[13]

**Figure 5:** Forced displacement has increased dramatically over the past decade

Stacked column chart showing the number and categories of people displaced each year, 2000 to 2024

*Data is currently only available for the first half of 2024

**Source:** United Nations High Commissioner for Refugees (UNHCR). 'Refugee data finder', 2025 (viewed on 1 February 2025)

More frequent crises are placing the international humanitarian system under considerable strain. According to UN figures, 300 million people were in need of humanitarian relief in 2024, compared to 100 million in 2014.[14] The gap between needs and the humanitarian funding available has grown rapidly, forcing humanitarian actors to make hard choices about which crises to prioritise.

**Figure 6:** There is a growing gap between humanitarian funding appeals and the amount of funding received

Line chart showing the amount of humanitarian funding requested and how much was received, 2015 to 2024

**Source:** United Nations Office for the Coordination of Humanitarian Affairs (OCHA) Financial Tracking Service. 'Coordinated plans 2024' (viewed on 1 February 2025)

## 2.4 Global finance is now flowing away from developing countries

To achieve the SDGs, developing countries need finance from a wide range of sources – not just development aid, but also private investment and domestic revenues (see **Table 1**). Overall, official development assistance (ODA) represents only a minor share of development finance – much less than commercial lending, foreign direct investment or remittances. However, it remains a vital source of finance for low-income countries and those affected by conflict and fragility.[15]

**Table 1:** Types of development finance flows

| | |
|---|---|
| • Tax and other revenues<br>• Public borrowing<br>• Sovereign wealth funds | • Bilateral aid<br>• Multilateral development banks<br>• South-South cooperation |
| • Domestic private investment<br>• Domestic bank loans<br>• National stock exchanges | • Foreign direct investment<br>• International bank loans<br>• Portfolio investment<br>• Remittances<br>• Private philanthropy |

Even before the COVID-19 pandemic, the financing gap for implementing the SDGs was estimated at $2.5-$4 trillion per year.[16] Since the pandemic, global economic turbulence has led international investors to seek out safer markets, causing lending to developing countries to fall. At the same time, it is costing developing countries more to service their debt on the back of higher interest rates and a stronger US dollar.

This is taking resources away from national development and leading to a growing debt crisis. Ten countries have defaulted on their sovereign debt in the past three years – more than in the two previous decades.[17] Since 2023, the net flow of international finance has gone into reverse, with developing countries collectively paying back more to international lenders than they are receiving in new funding.[18]

Global ODA reached a record $214 billion (£176 billion) in 2023.[19] Increases were driven in large part by the Ukraine war and higher expenditure on refugees in donor countries, causing some diversion of development aid away from the poorest countries. Yet over the past decade, development funding for least developed countries has trended upwards.

**Figure 7:** Net finance flows to developing countries turned negative in 2023

Line chart showing the net flow of international finance to developing countries, 2000 to 2022, with projections to 2025

**Source:** ONE data and analysis. 'Net finance flows to developing countries turned negative in 2023', April 2024 (viewed on 1 February 2025)

**Figure 8:** Bilateral aid to least developed countries continues to trend upwards

Line chart showing the amount of UK bilateral aid allocated to least developed countries, 2000 to 2023

**Note:** The data shown has been adjusted to 2022 constant prices to account for inflation

**Source:** Organisation for Economic Co-operation and Development (OECD). 'DAC member countries' net bilateral official development assistance (ODA), 2000-2023', April 2024 (viewed on 1 February 2025)

**Figure 9:** Development funding remains essential to low-income countries

Stacked bar chart showing the composition of international development finance flows to developing countries by income level, 2021

**Source:** Development Initiatives. 'International finance flows 2000-2021', September 2023 (viewed on 1 February 2025)

The past four years have been a turbulent period for UK official development assistance (ODA). There have been large and often unplanned changes to the UK's development budget and a major reallocation of spending away from well-established purposes. This section analyses the latest statistics to explore these changes. The UK spent £15.3 billion in development funding in 2023 – the latest year for which UK ODA statistics are available. The statistics break down UK development funding in various ways, such as by spending channel, country or region, type of aid or financial instrument.

**Figure 10** shows that 35% (£5.3 billion) was allocated as core funding to a multilateral institution, such as a UN agency or a multilateral development bank ('multilateral aid') – that is, funds given to the organisation without specifying where or how they should be spent. The remaining £10 billion was allocated as 'bilateral aid' – that is, ODA provided for a specific purpose, such as for specific projects in one or more developing countries. Of the bilateral aid, £2.7 billion (26.5%) was allocated to specific countries or regions, and £4.3 billion (42.7%) was spent on supporting refugees and asylum seekers in the UK.

## Explaining UK official development assistance (ODA)

**What is ODA?** The UK follows the international definition of official development assistance (ODA) agreed by members of the Organisation for Economic Co-operation and Development (OECD). To qualify as ODA, development funding must be provided by governments and official agencies to ODA-eligible countries and territories, must have the promotion of economic development and welfare of developing countries as its main objective, and must be concessional in character. UK legislation further requires that, before spending development assistance, ministers must be satisfied that it "is likely to contribute to a reduction in poverty" and must consider providing it in a way that contributes to reducing gender inequality.[20]

**What is the UK's development spending target?** In 2005, the UK and other major donors pledged to increase ODA to 0.7% of their gross national income by 2015. The UK achieved that in 2013 and in 2015 enshrined the target in legislation.[21] The target was met each year until 2021 when, at the height of the COVID-19 pandemic, the then government announced a temporary reduction to 0.5% of gross national income.[22] It set out a fiscal test for returning to 0.7%,[23] which has been adopted by the current government. The test is unlikely to be met before 2028-29, at the earliest.[24]

**Figure 10:** How was development funding allocated in 2023?
Column chart showing the split between bilateral and multilateral spend and pie chart showing the composition of UK bilateral spend

**Source:** Foreign, Commonwealth and Development Office (FCDO). 'Statistics on International Development' (viewed on 1 February 2025)

## 3.1 The UK development budget has seen dramatic reductions since 2020

From 2020 onwards, the UK development budget faced two years of significant reductions, falling by £700 million (4.6%) in 2020 due to the impact of the COVID-19 pandemic on the UK economy. In 2021, the government decided to reduce development spending to 0.5% of gross national income, until fiscal conditions improved, which led to further reductions of £3.1 billion (21.1%). This required in-year reductions to existing programmes, with significant consequences for partnerships and intended beneficiaries around the world. These consequences are summed up in our report UK aid under pressure: a synthesis of ICAI findings from 2019 to 2023.[25]

Since 2022, there has been a sharp rise in development spending on refugees and asylum seekers in the UK (see box on following page). Uniquely among major donors, the UK treats its development spending target as both a floor and a ceiling.[26] The rise in in-donor refugee costs (IDRC) has therefore displaced other development expenditure. While total development spend increased in 2022 and 2023, bilateral aid (excluding IDRC) continued to decline to £5.7 billion in 2023, which was £4.2 billion (42%) below its 2019 peak.

The government mitigated the impact of rising IDRC on the development budget by permitting the Foreign, Commonwealth and Development Office to exceed the 0.5% limit by £2.5 billion over 2022 and 2023. Despite this, if IDRC is excluded, UK development spending dropped to just 0.36% in 2022 – its lowest share of gross national income in 15 years.

**Figure 11:** UK bilateral aid has fallen in each of the last four years

Stacked column chart showing the composition of UK development funding, 2016 to 2023

**Source:** Foreign, Commonwealth and Development Office (FCDO). 'Statistics on International Development' (viewed on 1 February 2025)

**Figure 12:** The UK's effective development spending has fallen well below the 0.7% legislative target

Line chart showing the ratio of UK development spending to gross national income, with and without in-donor refugee costs, 2000 to 2023

**Source:** Foreign, Commonwealth and Development Office (FCDO). 'Statistics on International Development' (viewed on 1 February 2025)

## 3.2 A substantial share of UK development funding is currently spent within the UK

In recent years, the UK's development spending on in donor-refugee costs (IDRC) has risen dramatically, from £628 million in 2020, or 4.3% of UK ODA, to £4.3 billion in 2023, or 27.9%. Figures for 2024 will not be released until spring 2025.

The UK's reported IDRC per refugee or asylum seeker is many times that of other major European donors (see **Figure 14**). This is due in large part to a shortage of accommodation, which has led to the Home Office housing refugees and asylum seekers in hotels at a reported cost of £6.8 million per day in 2022.[27]

The UK records the share of development finance spent within the UK. In addition to IDRC, this includes the administrative costs of development spending and scholarships for students from developing countries studying at UK universities. Altogether, in 2023, a third of all ODA was spent within the UK.

**Figure 13:** The UK's in-donor refugee costs have soared since 2022

Column and line chart showing UK development spend on in-donor refugee costs, and as a percentage of total UK aid, 2010 to 2023

**Note:** Percentage rounded to the nearest whole number.

**Source:** Foreign, Commonwealth and Development Office (FCDO). 'Statistics on International Development' (viewed on 1 February 2025)

**Figure 14:** The UK's in-donor refugee costs per asylum seeker is well above other donors'

Line chart showing the UK's costs per asylum seeker compared to France, Germany and Sweden, 2014 to 2023

**Source:** ICAI calculations based on Organisation for Economic Cooperation and Development (OECD). 'Creditor Reporting System', European Union. 'Eurostat' and Home Office. 'Immigration system statistics' (viewed on 30 November 2024)

### What are in-donor refugee costs?

Under the rules governing official development assistance (ODA) reporting, some of the costs of supporting refugees and asylum seekers in their first year in a donor country (reported as 'in-donor refugee costs') qualify as ODA. This was first included in the international ODA definition in 1988, on the basis that supporting refugees is a form of humanitarian assistance, wherever they are located. Several donors, including the UK at the time, argued against its inclusion on the basis that the spending takes places in the donor country, rather than a developing country. The UK opted not to report any in-donor refugee costs (IDRC) until 2009, and for the next few years reported only minimal amounts.

In 2022, global ODA spending on IDRC more than doubled, reaching \$31 billion (£25 billion) or 14.5% of global ODA.[28] This was due to large-scale movements of refugees and asylum seekers into donor countries, particularly following the Russian invasion of Ukraine.

## 3.3 Allocations to longstanding UK country partners have been significantly reduced

In 2023, the UK allocated £2.7 billion in bilateral aid (26.5%) directly to specific countries or regions. The amount of UK development aid allocated directly to partner countries has been heavily impacted by budget reductions and rising in-donor refugee costs, falling from £5.9 billion in 2019 (57% of bilateral aid).

The UK's 20 largest country allocations in 2023 are shown below. The ranking has remained fairly stable in recent years, with changes mainly reflecting shifting humanitarian need. In particular, Ukraine became the top recipient of UK development aid in 2023, following the 2022 full-scale Russian invasion.

In absolute terms, however, allocations to longstanding partners were reduced suddenly, resulting in considerable loss of continuity in programming and partnerships.

The UK provides just over half of its country-specific bilateral aid to low-income countries. While this proportion has not changed significantly in recent years, the absolute amount has fallen by 60% since 2019.

**Figure 15:** Top 20 countries that received UK bilateral aid in 2023
Stacked column chart showing the amount of UK bilateral development funding allocated to the top 20 country recipients

**Source:** Foreign, Commonwealth and Development Office (FCDO). '[Statistics on International Development]' (viewed on 1 February 2025)

**Figure 16:** Allocations to many of the UK's longstanding partners have been sharply reduced
Bar chart showing the amount of bilateral development funding allocated to a selection of UK country partners in 2019 and 2023

**Source :** Foreign, Commonwealth and Development Office (FCDO). '[Statistics on International Development]' (viewed on 1 February 2025)

**Figure 17:** The UK provides just over half of its country-specific bilateral aid to lower income countries
Stacked column chart showing bilateral aid allocated to countries in different income categories, 2016 to 2023

**Source:** Foreign, Commonwealth and Development Office (FCDO). '[Statistics on International Development]' (viewed on 1 February 2025)

## 3.4 The UK delivers most of its bilateral aid through UK or international partners

Most UK development programmes are delivered by implementing partners. In 2023, 43% of bilateral aid was delivered by multilateral organisations, 20% by non-governmental organisations (mostly UK-based or international), 13% by research institutions, and 11% by private sector firms, while 8% was delivered by UK government agencies (see **Figure 18**). Development spending through recipient governments was the smallest category, at 6.4% (£133 million). This reflects a long-term shift in UK development aid away from providing financial assistance directly to recipient governments.

For development programmes delivered by the private sector, around 85% of UK procurement contracts are awarded to UK-based firms, and another 13% to firms from other donor countries, leaving just 1-2% for firms based in developing countries.[29]

**Figure 18:** Most UK bilateral aid is spent through UK-based or multilateral organisations

Bar chart showing the amount of UK bilateral aid spend by different actors/channels in 2023

**Source:** Foreign, Commonwealth and Development Office (FCDO). '[Statistics on International Development]' (viewed on 1 February 2025)

Leaving aside in-donor refugee costs, the largest sectors for UK bilateral aid in 2023 were humanitarian (15.3%) and health (13.3%). These have consistently been the largest sectors in recent years. Looking at the past decade, the UK has scaled back its assistance in education by two-thirds and in water and sanitation by around 80% – both trends that predate the COVID-19 pandemic.

**Figure 19:** Humanitarian aid and health were the two largest sectors for UK bilateral aid in 2023

Treemap showing composition of UK bilateral development funding by sector (excluding in-donor refugee costs) in 2023

**Source:** Foreign, Commonwealth and Development Office (FCDO). '[Statistics on International Development]' (viewed on 1 February 2025)

## 3.5 The UK's ability to respond to humanitarian crises has been reduced

Before the COVID-19 pandemic, humanitarian aid averaged around 15-16% of UK bilateral aid. In 2021, bilateral humanitarian aid was reduced by half, from £1.5 billion to £743 million, falling from 16.1% to 10.3% of bilateral aid. It recovered some ground in 2022, but was reduced again in 2023, to £878 million or 8.8%.

According to UN figures, the UK's share of global humanitarian financing fell from 9.5% in 2019 to 2.9% in 2023, before recovering to 5.9% in 2024.[30]

The UK has nonetheless been able to mount substantial responses to humanitarian crises in Afghanistan, following the Taliban takeover in August 2021, and in Ukraine, following the February 2022 full-scale Russian invasion. In 2022 and 2023, the UK provided £592 million to Ukraine and £467 million to Afghanistan, making them the top recipients of UK development funding over the period. The UK has also announced a major increase in its humanitarian support for Sudan, to £226.5 million.

However, given a reduced humanitarian budget, this left fewer resources for other long-running crises, such as in Syria and Yemen.

**Figure 20:** UK humanitarian aid has been sharply reduced

Column and line chart showing the amount of UK bilateral humanitarian aid spend each year and as a percentage of total UK bilateral aid, 2016 to 2023

**Source:** Foreign, Commonwealth and Development Office (FCDO). 'Statistics on International Development' (viewed on 1 February 2025)

**Figure 21:** A declining budget has forced the UK to prioritise its humanitarian responses

Line chart showing the amount of UK bilateral humanitarian aid to Syria, Yemen, Ukraine and Afghanistan, 2016 to 2024

**Note:** Spending figures from the OCHA Financial Tracking Service are in US dollars. These have been converted to British pound sterling using His Majesty's Revenue and Customs (HMRC) exchange rate from December each year.

**Source:** United Nations Office for the Coordination of Humanitarian Affairs (OCHA) Financial Tracking Service. 'United Kingdom, Government of 2024' (viewed on 1 February 2025)

## 3.6 The UK has held to its £11.6 billion international climate finance target

In 2019, the UK announced that it would double its international climate finance (ICF) by providing at least £11.6 billion in the five years to 2025-26. Within this amount, it also committed to maintaining a balance between funding for climate change adaptation and mitigation measures, and to providing at least £3 billion for the protection and restoration of nature, including £1.5 billion for forests.

The commitment was backloaded, with most of the expenditure scheduled for the final two years. Reductions to the UK development budget during the COVID-19 pandemic led to reduced ICF expenditure in the earlier years, making the required increase in the final two years even steeper, and potentially displacing other spending priorities.

Despite the pressures on the development budget, the UK has held to its ICF commitment. However, it has also changed its ICF accounting methods to ensure that all eligible expenditure is included. For example, it now includes 30% of humanitarian funding to the most climate vulnerable countries, as well as a higher share of core contributions to multilateral development banks. It also reviewed its existing bilateral portfolio to identify additional ICF-eligible programming. An ICAI report found that these changes had effectively “moved the goalposts” by bringing the UK closer to its £11.6 billion target without involving any new spending.[31]

**Figure 22:** Spend contributing to the UK’s five-year £11.6 billion international climate finance target has been backloaded towards 2025-26

Column chart showing actual and planned international climate finance spend, 2021-22 to 2025-26

**Source:** Independent Commission for Aid Impact (ICAI). ‘UK aid’s international climate finance commitments’, February 2024, page 13 (viewed on 1 February 2025)

## 3.7 UK multilateral aid has remained relatively stable through the budget reductions

The UK traditionally allocates around 40% of its development funding as multilateral aid (that is, core contributions to multilateral organisations like the UN). Around another 20% is allocated to bilateral programmes implemented by multilateral partners (referred to as 'multi-bi').

Since 2020, bilateral and multi-bi aid have reduced, but multilateral aid has remained relatively stable. Multilateral contributions often take the form of fixed legal obligations or multiannual agreements, which are binding for the UK government. Most of the year-on-year changes to multilateral aid since 2021 have come about through the rescheduling of planned payments, without affecting the amount of funds received by the multilateral institution (see box).[32]

However, there have been some reductions. The UK's contribution to the International Development Association (part of the World Bank that provides grants and low-interest loans for low-income countries) was reduced to £1.4 billion for the 2022-25 replenishment cycle, compared to £3.1 billion for the previous cycle.[33] It partially recovered for the 2025-28 cycle, to £1.98 billion.[34] Some UN agencies have also been affected – most notably, the United Nations Population Fund, which in 2021 suffered both a 60% reduction in its core grant and an 85% reduction in UK funding for the purchase of family planning supplies.[35]

The UK's largest multilateral contributions fall into five broad categories, summarised in **Table 2**.

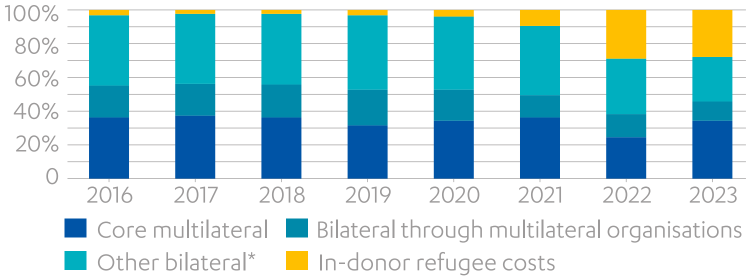
**Table 2:** Top 20 multilateral recipients of UK core funding in 2023, by category

| | | |
|---|---|---|
| Multilateral development banks | International Development Association, International Bank for Reconstruction and Development, International Finance Corporation, African Development Bank, African Development Fund, International Monetary Fund | £2,310m |
| Global health bodies | World Health Organisation, Global Fund, International Finance Facility for Immunisation, Global Alliance for Vaccines and Immunisation | £1,495m |
| European Union | European Development Fund, European Commission development budget | £457m |
| Global climate funds | Green Climate Fund, Global Environment Facility | £586m |
| Other UN agencies | United Nations, UN High Commissioner for Refugees, UN peacekeeping, Central Emergency Response Fund, World Food Programme, United Nations Children's Fund | £253m |

**Source:** Foreign, Commonwealth and Development Office (FCDO). 'Statistics on International Development' (viewed on 1 February 2025)

**Figure 23:** Despite annual variations, UK multilateral aid has been relatively protected

Stacked column chart showing the composition of total UK development spend by channel, 2016 to 2023




* Other bilateral aid refers to all bilateral aid excluding bilateral through multilateral organisations and in-donor refugee costs

**Source:** Foreign, Commonwealth and Development Office (FCDO). 'Statistics on International Development' (viewed on 1 February 2025)

### Using multilateral payments to manage the development spending target

The Foreign, Commonwealth and Development Office (FCDO) coordinates the UK's official development assistance (ODA) spending target. This involves managing significant elements of uncertainty, including around the development target itself (as UK gross national income forecasts are revised over the course of the year) and the amount of ODA being spent by other government departments. FCDO does this by acting as 'spender and saver of last resort', increasing or decreasing its own ODA spending to ensure that the overall expenditure meets, but does not exceed, the target. One mechanism to manage uncertainty is to reschedule planned multilateral payments either side of 31 December. This helps FCDO hit the development spending target each calendar year, without impacting on the department's own financial year budget or the amount ultimately received by the multilateral institution.

## 3.8 Apart from in-donor refugee costs, other government departments now spend less development funding

UK development funding is spent by a range of government departments. Departments may be given development budgets as part of a government-wide spending review, and can also bid for funding from the cross-government Integrated Security Fund, which finances projects that address national security challenges. Departments may also use their regular budgets for activities that meet the official development assistance (ODA) definition (such as in-donor refugee costs, or IDRC).

In addition to Foreign, Commonwealth and Development Office (FCDO) spend, 14 other government departments jointly spent £5.5 billion in development funding in 2023. Of this, £4.3 billion was spent on IDRC (mostly by the Home Office), leaving £1.2 billion in other aid spending. The four main spenders of non-IDRC ODA are listed in **Table 3**.

**Table 3:** Which other government departments are involved in spending UK development funding?

| | | |
|---|---|---|
| Department for Energy Security and Net Zero (DESNZ) | £440m | DESNZ primarily spends UK international climate finance (ICF), including contributions to multilateral climate funds |
| Department for Environment, Food and Rural Affairs (Defra) | £165m | Defra also spends ICF, focusing on the protection of nature and prevention of biodiversity loss |
| Department of Health and Social Care (DHSC) | £217m | DHSC spends ODA on global health, health security and health research |
| Department for Science, Innovation and Technology (DSIT) | £167m | DSIT manages a substantial ODA-funded research portfolio |

**Source:** Foreign, Commonwealth and Development Office (FCDO). 'Statistics on International Development' (viewed on 1 February 2025)

As **Figure 24** shows, between 2011 and 2017 there was a steady rise in ODA spending by other government departments, from 7% to 24% of total UK development funding. In recent years, it has increased further, standing at 38% in 2023. However, this was due to the rapid increase in IDRC. If that is factored out, there has been a consolidation of ODA spending back to the FCDO.

Compared to FCDO bilateral expenditure, development spending by other departments is more concentrated in middle-income countries, including in the Asia-Pacific region and the Americas. This is mainly because of the focus on mitigating emissions in rapidly growing emerging economies.

**Figure 24:** Apart from in-donor refugee costs, there has been a consolidation of development spending back to FCDO

Column and line chart showing UK development spending across government and as a percentage of total development spend, 2009 to 2023

**Note:** 2009-2019 FCDO figures are a total sum of former departments, Department for International Development (DFID) and Foreign and Commonwealth Office (FCO). 'Non-FCDO' is the total sum of all other spending departments.

**Source:** Foreign, Commonwealth and Development Office (FCDO). 'Statistics on International Development' (viewed on 1 February 2025)

## 3.9 The UK has expanded its use of non-grant instruments

The UK is making increased use of financial instruments such as loans, equity and guarantees, to help mobilise other sources of development finance. In its May 2022 Strategy for International Development, the Foreign, Commonwealth and Development Office (FCDO) announced the launch of British Investment Partnerships – a collaboration between the UK government and the private sector, with a view to mobilising £8 billion in UK-backed financing per year by 2025, including from the City of London.

A central actor is British International Investment (BII) (formerly Commonwealth Development Corporation (CDC) Group), the UK's bilateral development finance institution (DFI). DFIs are publicly owned organisations that invest in businesses and financial institutions in developing countries to produce positive development impact. They recycle any financial returns into new investments.

Since 2015, the UK has scaled up its investment in BII by providing £3.9 billion in new capital – equivalent to 4.1% of UK development finance over the 2015-21 period. BII now has a portfolio value of £7.3 billion, making it one of the largest bilateral DFIs.[36] Each UK investment in BII appears in UK development statistics in the year it is made, even if BII has not yet used the additional funds (see box). BII reports show that it has built up substantial capital reserves in recent years, especially during the COVID-19 pandemic when the pace of investment slowed.[37]

### British International Investment and official statistics

In 2012, the Organisation for Economic Co-operation and Development (OECD) launched a review of how to treat private sector investments in ODA statistics, which is ongoing.[38] There is currently differing practice among donors. Some, including the UK, report their financial contributions to their development finance institutions (DFI) as ODA in the year they are given (the institutional approach). Others report on the balance of funding into and out of the DFI each year (the instrumental approach). The OECD has recognised both options as legitimate,[39] pending the outcome of its ongoing review.

The UK has adopted the institutional approach since 2015. UK ODA statistics therefore show periodic capital contributions to BII, but not its outgoing investments each year (in 2023, it made £1.3 billion in gross commitments). However, more complete data is available in BII's annual accounts.

FCDO has also increased its use of guarantees, which reached £7.4 billion in 2024 from just £217 million in 2021. FCDO guarantees enable multilateral development banks to extend their lending beyond the usual limits, by insuring them against the risk of default. There is no upfront cost to providing a guarantee, but if they are called in, the payout would be charged to the development budget in the year it occurs.

The UK has pledged to provide $7 billion in guarantees to Ukraine, as part of a joint international effort to secure continued financing for Ukraine during the war with Russia. If the Ukraine government were to default on its debt, the UK would take on its repayment obligations, potentially over a 35-year period, peaking at around £375 million per year (roughly 3% of the current development budget).[40]

**Figure 25:** The Foreign, Commonwealth and Development Office (FCDO) guarantee portfolio has grown rapidly

Stacked column chart showing the composition and size of the FCDO's guarantee portfolio in 2021 and 2024

**Source:** Foreign, Commonwealth and Development Office (FCDO). 'FCDO Annual Report and Accounts 2020-2021', July 2022 and 'FCDO Annual Report and Accounts 2023-2024', July 2024 (viewed on 1 February 2025)

Against this complex background, the role of the Independent Commission for Aid Impact (ICAI) over the next four years is to assess how well UK international development funding is delivering on the aims the government has set for international development. At the time of writing, those aims are not set out in a formal strategy, but the government has stated its mission to “create a world free from poverty on a liveable planet” through “a new, modern approach [to international development], based on genuine partnership, trust, and respect”.[41] Other stated priorities include supporting growth and jobs, reforming the international financial system, empowering women and girls, supporting conflict prevention, unlocking climate finance[42] and accelerating the clean energy transition.[43]

In its manifesto, the government also committed to restoring development spending to 0.7% of gross national income as soon as fiscal circumstances allow.[44] This is not projected to occur in the life of the current parliament.[45] Important funding decisions made in a constrained fiscal context will require trade-offs and early decisions give some initial indications of future directions for UK development funding. For example, the government has confirmed that it will meet the existing £11.6 billion international climate finance target,[46] and has begun raising its multilateral contributions back towards prior levels, including £1.98 billion to the World Bank’s International Development Association.[47] It has also stated its intention to reduce the amount of UK development assistance spent on supporting refugees in the UK.[48]

In a world of financial constraints, meeting aspirations will call for a series of strategic choices for the government. We conclude with some questions that we intend to scrutinise further over the next four years:

- **How will the UK deliver its priorities for international development?** How will the government balance multiple priorities, such as climate action, poverty reduction and meeting urgent humanitarian needs? How will the UK focus its efforts as a bilateral donor and contributor to the international system? What does a modern approach to international development look like in practice? What role will the UK play in the international development system? What will its new approach to partnership look like?
- **Which funding channels will the government use and when?** What balance will the government strike between working through partner governments, international institutions and civil society, and managing and delivering development assistance itself? How will the government decide when to fund bilateral programmes or multilateral institutions, or when to provide grants, technical assistance, investments or loan guarantees?
- **How should the UK government best organise itself to deliver development assistance effectively?** How will the international development portfolio be managed across the Foreign, Commonwealth and Development Office and other government departments? How will the government progress its manifesto commitment to restore development spending to 0.7% of gross national income as soon as fiscal circumstances allow? How can the UK best recover its global reputation for clear, transparent and evidence-based development spending? How will the government reduce the amount of development assistance spent on supporting refugees in the UK?

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