

Lost along the way

The cost of the UK's international development programme



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Contents

Executive Summary	2
1. Introduction	3
2. Unpacking UK international development spending	5
3. Partners in development	7
4. Conclusions	14

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Executive Summary

International development is a key priority for all UK political parties. All are pledged to the UN target of spending 0.7 per cent of gross national income on overseas assistance by 2013. Amidst the frenzied efforts to locate significant and sustainable public expenditure savings, the Conservative party have promised to ring-fence the development budget. Whichever party is in power next year, the Department for International Development's (DfID) share of total departmental spending is set to grow.

However our current approach to development is not delivering the progress many hoped. Although the recession has caused major problems for the world's poorest countries, successful attainment of the Millennium Development Goals looked unlikely for many countries even before the collapse in trade and remittances. The causes for this are various, but as donor countries look to improve the effectiveness of their aid spending, the actual *costs of doing business* must be borne in mind.

- **In 2007-08, approximately £685 million of DfID's budget (13 per cent) was lost to the administrative and other non-front line costs** of DfID, multilateral organisations (UN, EU) and NGOs (Oxfam, Red Cross).
- DfID's total spending in 2007-08 was £5.2 billion. **DfID's administrative costs constituted 5 per cent of total spending.**
- Of the £2.5 billion directed through multilateral organisations by DfID in 2007-08, **another 15.4 per cent was lost to the administrative and other non-frontline costs of multilateral organisations.**
- Of the £313 million directed through NGOs and civil society organisations (CSOs) by DfID in 2007-08, **another 20.5 per cent was lost to the administrative and other non-frontline costs of NGOs and CSOs.**

If we assume that roughly the same proportion of total DfID spending is lost in this way each year (i.e. 13 per cent to non-front line costs) in 2008-09 the total lost would have exceeded £741 million. If DfID's budget increases as planned – and efficiency is not improved – in 2010-11 over £1 billion of the UK's development effort will be lost to administrative and other non-front line costs.

Are UK taxpayers and those in need getting the best deal from our current approach to development? This paper provides an estimate of the cost of our current strategy, a cost likely to grow if planned spending increases and ring-fencing are upheld. DfID has begun to address such issues, but before more resources are channelled through the same well-tried bureaucratic systems UK taxpayers must be reassured that this approach really is delivering good value for money.

1. Introduction

Among the many victims of the global recession, poor countries have fared particularly badly. The decline in foreign direct investment, currency instability and a drop in remittances have compounded problems wrought by the contraction in international trade. The poorest countries have been left with a substantial financing gap and economic growth – which was already poor – will be weak for some years to come.¹

In this context, the potential value of overseas development assistance should not be underestimated. Emergency aid can help prevent famine and limit the spread of disease. Financial investment can enable businesses to expand employment and prosperity. It is in the UK's interests – both moral and economic – to support developing countries. Despite the pressures to cut UK public expenditure, the objective of improving living standards in developing countries should not be forgotten.

Not that cuts look likely however. The UK has rushed to reaffirm its commitment to foreign aid, and by 2012-13 the UK's development budget is set to exceed £9.8 billion, part of a global push to see donors redistribute over 0.7 per cent of their gross national income.² Non-governmental organisations (NGOs), working alongside Government directed programmes, will raise and spend further billions.

But while plans are being made to increase development spending, donors, academics and aid practitioners are increasingly of the opinion that 'aid' is not delivering as it should.³ Progress has been patchy (particularly in Africa) and the Millennium Development Goals – so cherished by the international development industry – were unlikely to be met even before recession took hold.⁴ As Roger Riddell – himself no opponent of international aid – argues: "more aid without addressing aid's systematic problems is likely to [...] mean more aid unnecessarily wasted".⁵

What those systematic problems are is itself a matter of considerable contention, (evidenced by the burgeoning literature on the subject) but this report suggests that the very structure in which international development is currently organised poses significant problems.

¹ World Bank (March 2009) *Swimming against the tide: how developing countries are coping with the global crisis: Background paper prepared for the G20 Finance Ministers and Central Bank Governors Meeting March 2009*, p 1

² A UN commitment first signed up to by countries in a 1970 General Assembly motion, but repeatedly reaffirmed since. The UK plans to achieve the 0.7 per cent of GNI target by 2013. The IMF estimates that GDP (an equivalent measure to GNI) will be £1.39 trillion in 2013, 0.7 per cent of which is £9.8 billion.

³ OECD (2007) *Better Aid: 2008 Survey on Monitoring the Paris Declaration*, p.11

⁴ World Bank (2009), *World Development Report 2009*, Table 2, p.354; World Bank (December 2008) *Poverty Data: A supplement to the Development Indicators 2008*, p.10

⁵ Riddell, R (2008) *Does Foreign Aid Really Work?* Preface, p.XXI

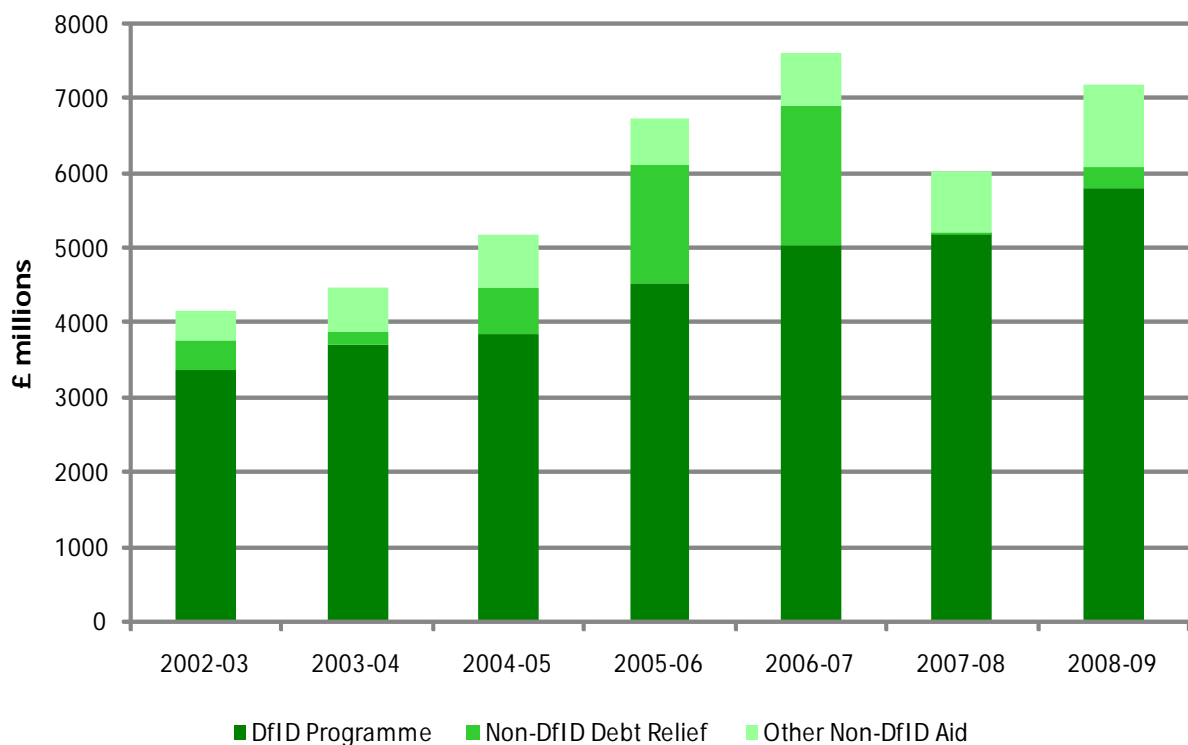


This report does not attempt to deal directly with the issue of aid effectiveness. Instead it aims to inform debate over how current mechanisms for delivering aid work, and (by calculating how much of each taxpayer's pound actually gets to the intended recipient) how much our cooperation with intermediary organisations (such as the UN, EU or Oxfam) costs the UK taxpayer. The pressure for UK spending on development to increase – regardless of concerns about its effectiveness – comes most voraciously from such intermediary bodies, and while international structures and organisations are critical in the global effort to tackle world poverty, the iron triangle between DfID, recipient governments and multilateral institutions/NGOs must not push donor governments into believing that financial inputs are more important than actual outcomes.

2. Unpacking UK international development spending

The UK's public expenditure on development has increased substantially in recent years. Between 2002-03 and 2008-09 spending rose by 72 per cent, from £4.16 billion to £7.18 billion (see chart below).⁶ In addition to this, an unspecified proportion of the UK's annual contributions to the EU have also been directed towards international aid and development, as have the millions raised from the public in the UK by charities and NGOs.⁷

Figure 2.1: UK gross public expenditure on development (GPEX), 2002-03 to 2008-09, £000



As the graph above shows, in 2008-09 non-DfID debt relief constituted £0.28 billion of total development spending and non-DfID aid (Foreign Office programmes, Ministry of Defence initiatives) another £1.1 billion.⁸ (Non-DfID EU contributions are not included.)

The remaining £5.8 billion represents DfID's dedicated aid programme. This is the spending most directly associated with the UK's efforts to tackle world poverty. It

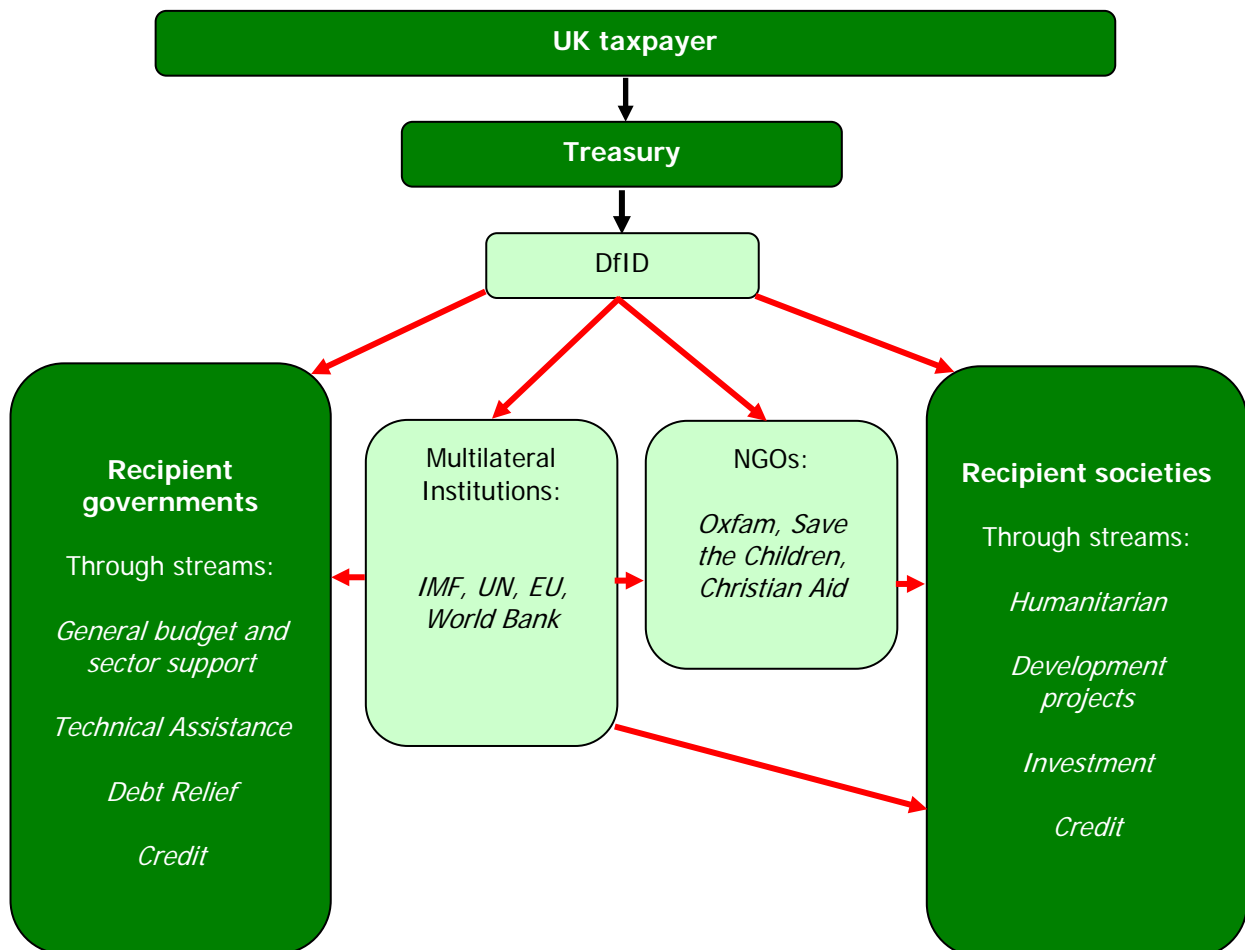
⁶ Department for International Development, *Statistics on International Development 2002/03-2006/07 & Statistics on International Development 2004/05-2008/09*

⁷ Total income for the 81 NGO's funded by DfID in 2007-08 (excluding DfID's contribution) was in excess of £2 billion. Much of this will have been raised outside the UK, but a significant proportion would have come from charitable donations from within the UK.

⁸ Department for International Development, *Statistics on International Development 2004/05-2008/09*, p.12

includes humanitarian and disaster relief, financial support for the Governments of developing countries, technical assistance and DfID support for those multilateral institutions (such as the UN, EU) involved in development.

Figure 2.2: From taxpayer to recipient, 2007-08



UK development assistance is delivered in a variety of ways, some direct and others indirect. Debate focuses predominately on how effective these different kinds of aid have been. But how many links there are in the chain (between the UK taxpayer and the intended recipient) is of crucial importance when trying to establish the costs associated with actually *doing* development work. With progress on the ground in the developing world faltering, and spending on development set to increase at the rate it is – in a context where tax receipts are falling and debt spiralling – that cost of ‘doing business’ matters.

The following chapter explores exactly how much DfID’s partnership with multilateral and non-governmental structures costs the UK taxpayer. The three areas of interest are coloured light green in the graphic above.

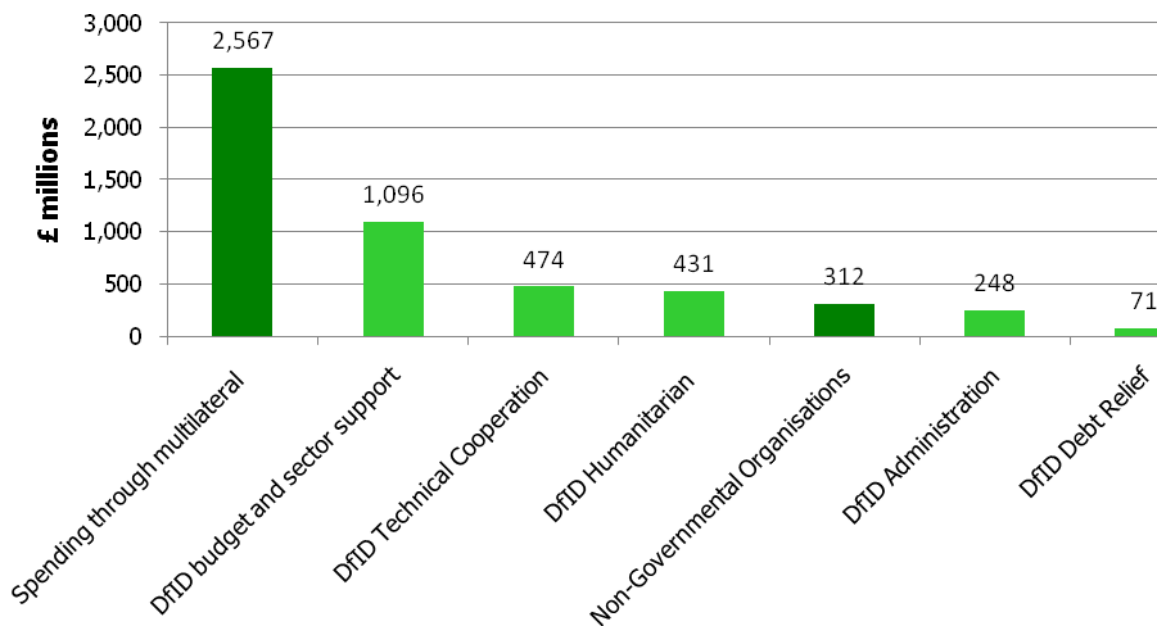
3. Partners in development

3.1 Department for International Development (DfID)

DfID was established in 1997, swiftly following the election of the new Government. Its creation signified a new commitment and approach to international development, in which the Foreign and Commonwealth Office (with its focus on British interests) would be increasingly marginalised. Its financial clout and unusual atmosphere (sometimes more NGO than department) have helped cement DfID firmly within the global development architecture, a position which – considering the Conservative’s green paper on development – is unlikely to change in the near future.⁹

Its aid programme is officially broken down into two main streams: ‘bilateral’ (direct assistance to partner countries) and ‘multilateral’ (contributions to and assistance through international organisations). However the reality of DfID’s spending is rather more complex than this division allows, as bilateral aid is often delivered through multilateral channels and multilateral objectives are frequently pursued through bilateral spending. For instance a proportion of DfID’s financial support for multilateral institutions is given on the understanding that such money will be directed to recipient countries as budget or sector support; this is then recorded as bilateral expenditure, despite the involvement of multilateral partners.

Figure 3.1: DfID spending 2007-08¹⁰



⁹ Conservative Party (July 2009) *One World Conservatism: A conservative agenda for international development*, Policy Green Paper No.11

¹⁰ Department for International Development (November 2008), *Statistics on International Development 2003/04-2007/08*

A more helpful distinction is between UK aid managed directly by DfID, and that managed on the UK's behalf by intermediaries. In 2007-08 a third of DfID's budget (£2.8 billion) was spent by or through external organisations. The graph above provides an illustration of how DfID's 2007-08 budget (£5.2 billion) was allocated, and the spending streams coloured in dark green represent spending directed through external organisations, the light green spending handled directly by DfID itself.

3.2 DfID: An efficient operator?

To a casual observer, DfID appears an efficient mechanism for redistributing UK wealth to countries and communities in need. Of its £5.2 billion budget in 2007-08, only £248 million was spent on administration (5 per cent), a relatively small amount considering the Department had interests in over 100 countries and worked with a wide variety of partners.¹¹

This impressive efficiency is not exactly what it seems though. In 2007-08 DfID agreed to support 553 new development projects (both multilateral and bilateral).¹² It also continued to support 1,043 outstanding projects begun before 2007-08.¹³ If the total administration budget for 2007-08 is divided by the total number of operational projects in that year (1,596), each project cost (on average) £155,388 to oversee.

Furthermore, over half of DfID's budget (£2.88 billion in 2007-08) is disbursed through multilateral organisations and NGOs. Although some systems have to be maintained to evaluate contracts and monitor implementation, most of the costs associated with 'doing development' are devolved down to the partner organisations.¹⁴ Of the 1,596 operational projects in 2007-08, 870 involved NGOs or multilateral organisations. It is likely that for all of these, the cost involved for DfID is significantly lower than the average £155,388 (per project) established above.

Of the spending within DfID's direct control (i.e. not handled by an intermediary) a large proportion is made up of budget and sector support (£1 billion in 2007-08). While such contracts represent an avowedly hands-off approach to development, concerns over corruption or misappropriation demand high levels of monitoring from donors.¹⁵ Therefore while the costs involved in doing development may be transferred to the recipient government, DfID's involvement should be significant.

¹¹ Department for International Development (November 2008), *Statistics on International Development 2003/04-2007/08*; (including China and India.)

¹² DfID Project Information – <http://projects.dfid.gov.uk/home.asp> - All contracts awarded between 1 April 2007 and 31 March 2008

¹³ Ibid – All contracts 'operational' or 'completed' in 2007-08

¹⁴ In terms of on-the-ground monitoring, evaluation and actual implementation, such process will be carried out by the partner. DfID relies on information provided by these partner organisations.

¹⁵ OECD (March 2007) *'How does General Budget Support affect ownership and accountability?'*, Joint Evaluation of General Budget Support 1994-2004

Emergency aid, technical cooperation and debt relief constitute the remainder of DfID's spending (£976 million). It is fair to assume that, as other forms of development assistance exhibit a low administrative cost, these demand a higher share of DfID's administrative resources. For instance the logistics involved in wide scale humanitarian relief are liable to be expensive. The costs involved with technical assistance, and its efficacy as a development strategy, requires further investigation.

With all those complications, it is impossible to establish exactly the administrative cost of each spending modality. Therefore for DfID, when considering it as part of a larger chain, the average administrative cost must be used.

For every pound given by the taxpayer towards international development and humanitarian assistance, 5 pence is lost in the administration of DfID itself.

3.3 Multilateral Organisations

Overseas assistance is, to a significant degree, organised through multilateral structures. Institutions such as the United Nations, World Bank and European Union enable donor countries to coordinate their efforts and scale up ambitions. Their size and international basis (with the supposed neutrality that brings) makes it possible for them to address global or regional problems (such as health and the environment) where politics or the limited capacity of most donors may preclude bilateral involvement.

DfID is an active member of multilateral organisations. In 2007-08 it directed over £2.5 billion of overseas assistance through such structures; as the table below shows, the European Union received the largest proportion of this spending, followed by the World Bank. In addition to DfID's stated contributions to these institutions, DfID also channelled over £570 million worth of bilateral assistance (i.e. budget support) through multilateral organisations.

Table 3.2: DfID financial support for multilateral organisations, 2007-08¹⁶

Multilateral Organisation	DfID Funding, £000, 2007-08
EU Commission	991,408
<i>of which</i>	
European Development Fund	280,041
EC attribution	711,367
World Bank	493,387

¹⁶ Department for International Development (November 2008), *Statistics on International Development 2003/04-2007/08*, p110-111; Corporate documents 2007, 2008, 2007-08 were used for all multilateral organisations.

Multilateral Organisation	DfID Funding, £000, 2007-08
<i>of which</i>	
International Development Association	493,333
World Bank Group TC	54
Regional Development Banks	98,121
<i>of which</i>	
African Development Bank	4,150
African Development Fund	59,564
Asian Development Fund	28,534
Caribbean Development Fund	5,873
Commonwealth	13,876
<i>of which</i>	
Commonwealth Foundation	253
Commonwealth Fund for Technical Cooperation	11,004
Commonwealth Youth Programme	1,299
Other Commonwealth	1,320
UN Agencies	249,854
<i>of which</i>	
Food and Agricultural Organisation	13,800
International Fund for Agricultural Development	14,255
International Labour Organisation	6,750
Office for Co-ordination of Humanitarian Affairs	7,170
UN Agency for Palestinian Refugees	15,600
UN Aids	19,000
UN Children's Fund	26,000
UN Development Programme	65,718
UNESCO	14,379
UN High Commission for Refugees	20,000
UN Industrial Development Organisation	5,595
UN Population Fund	20,000
World Food Programme	5,000
World Health Organisation	5,678
Other UN Agencies	10,909
Direct funding of multilaterals	1,846,646
Bilateral spending through multilaterals	576,809
Total DfID spending through multilaterals	2,566,993

While these international structures may enable greater coordination of donor effort, they do so at a cost. The involvement of multiple members demands significant administrative and bureaucratic capacity, not least to mediate between the diverse interests of contributing donors.

Using the same method applied to DfID above – percentage of total budget lost in non-front line functions – an approximate cost can be calculated for the multilateral organisations DfID works with.

In 2008 the EU had a development and humanitarian budget of £6.4 billion. Administration and management of that budget cost £226 million, 4 per cent of the total.¹⁷ The Regional Development Banks had an average administrative cost of 14 per cent, while Commonwealth programmes had an average of 18 per cent.¹⁸ The administrative cost of UN agencies varied from 6.4 per cent to 49 per cent, giving an average of 25.5 per cent.¹⁹ No data was available for the Caribbean Development Fund or World Bank.

The (unweighted) average 'non-front line cost' of DfID's multilateral partners in 2007-08 was 15.4 per cent; which means that a further 15.4 per cent of the total DfID budget directed through these organisations is lost.

For every pound given by the taxpayer (towards international development and humanitarian assistance) and then **spent by DfID through multilateral organisations**, 5 pence is lost in the administration of DfID itself. Of the remaining 95 pence, approximately **15 pence** (on average) is lost in the administration of the multilateral organisations.

3.3 Non-Governmental and Civil Society Organisations

Key players in the development industry, non-governmental (NGO) and civil society (CSO – trade unions, faith and community groups) organisations provide much of the on-the-ground capacity used by donor governments and multilateral organisations. Commonly associated with emergency medical and food relief (Oxfam, Red Cross), many are also involved in the improvement of civil society institutions and education systems within developing countries.

In 2007-08 DfID contributed financially to over 80 non-governmental or civil society organisations, directing at least £313 million towards their activities.²⁰ Over £92 million of this went to the British Red Cross, and the average contribution was £3.9 million.

¹⁷ European Commission (January 2009) *General Budget of the European Union for the Financial Year 2009*

¹⁸ African Development Bank, *Annual Report 2009*; African Development Fund, *Annual Report 2008*; Asian Development Bank, *Annual Report 2008*; Commonwealth Secretariat, *Annual Accounts 2007-08*

¹⁹ IFAD, *Financial Statement 2008*; ILO, *Financial Statement 2007-08*; OCHA, *Financial Statement 2008*; UNAIDS, *Budget 2008-09*; UNDP, *Annual Report 2008*; UNICEF, *Annual Report 2008*; UNIDO, *Annual Report 2008*; UNRWA, *Financial Statement 2008*; WHO, *Financial Statement 2007-08*

²⁰ Department for International Development (November 2008), *Statistics on International Development 2003/04-2007/08*, p. 113

The main funding mechanisms were DfID's *Civil Society Challenge Fund* and *Partnership Programme Arrangements*.²¹

Differences in their structure and focus lead to significant variations in the programme/administration spending balance of NGOs and CSOs. Large groups which depend predominately on charitable donations often have to maintain significant fundraising operations for instance, while groups confident of continued government funding can dedicate a greater share of total resources to their objective. Moreover, not all NGOs and CSOs work on the front-line of development. UK taxpayers support research organisations (such as the Overseas Development Institute) and NGO industry associations (such as the 'British Overseas NGOs for Development'). Many groups are also active campaigners, with advocacy at the centre of their operations.

Table 3.2: Top ten DfID supported NGO/CSO by DfID funding, with non-front line costs²²

Civil Society Organisation	DfID Funding £000	Total Budget Expenditure £000	Project Expenditure £000	Total Non-Project £000	Non-Project, as % of total expenditure
British Red Cross ²³	92,286	234,289	150,383	83,906	35.8
VSO	29,353	43,673	38,811	4,862	11.1
OXFAM	15,804	298,400	193,000	105,310	35.3
Save the Children	11,459	156,279	121,289	34,990	22.4
CARE International	11,283	36,646	27,413	9,233	25.2
IPPF (International Planned Parenthood Federation)	7,668	50,925	47,035	3,890	7.6
ACTIONAID	7,247	68,531	58,290	10,243	14.9
Christian Aid	6,877	82,493	54,006	28,487	34.5
London School of Hygiene and Tropical Medicine	6,614	79,300	58,400	20,900	26.4
Overseas Development Institute	5,978	13,028	11,825	1,203	9.4

²¹ It should be noted that Partnership Programme Agreements do not necessarily entail front-line development work. Considerable DfID funding goes towards education programmes and advocacy work in the UK. For more details, see International Policy Network (September 2009) *Fake Aid* - http://www.policynetwork.net/sites/default/files/Fake_Aid.pdf

²² All spending data is taken from the most recent Annual Report at the time of writing. Wherever possible Annual Reports for 2007-08 were used, but for some this is the Annual Report 2007, for others the Annual Report 2008.

²³ In DfID's official table of NGO funding, it includes both the British Red Cross and The British Red Cross Society; the latter (the 'Society') has not been included in Table 3.2 above, but the figures have been added.

Considering the variety and structure of NGO/CSOs, calculating the 'non-front line costs' is a challenge. Administration costs alone are not a fair proxy, as many groups spend on other 'non-programme' functions.

It is fair to assume however that UK taxpayers (who are not consulted on which groups their resources go towards) presuppose that DfID funding is for dedicated front-line activities. Therefore advocacy and public information campaigns could be legitimately included as 'non-front line costs'. The table above details the top ten NGO/CSO recipients of DfID aid in 2007-08 (for which spending data was available) with their total budget and non-project spend (i.e. all spending not referred to in their accounts as programme expenditure). As fundraising is often not entirely separated from other administrative or non-programme functions, it has been included as non-project.

Taking a weighted average for the 74 NGOs/CSOs for which data was available, 'non-front line costs' constituted 20.5 per cent of their total expenditure.

For every pound given by the taxpayer (towards international development and humanitarian assistance) and then **spent by DfID through NGOs/CSOs**, 5 pence is lost in the administration of DfID itself. Of the remaining 95 pence, approximately **19 pence (on average) is lost in their administrative and other non-front line functions.**

4. Conclusions

International development can never be a unilateral project. Lasting progress depends, in part, on the successful involvement of the societies and governments of recipient countries. The scale of some problems (disease, malnutrition, illiteracy) demands coordination between donors, pooling resources and knowledge to tackle issues in the most effective way. Charities and other not-for-profit organisations provide much of the manpower and local knowledge needed to turn donors' good intentions into reality.

However the business of doing development has its own costs. DfID itself consumes 5 per cent of the development budget (and for those elements of its programme under its direct control, that share is likely to be considerably higher). The billions of UK assistance then transferred to multilateral organisations or NGOs/CSOs are then reduced further through the non-front line costs of those structures.

Combining the costs at DfID, its NGOs/CSO partners and multilateral organisations, more than £685 million of DfID managed UK development assistance was lost in 2007-08. That is 13 per cent of the total DFID budget.

Table 4.1: Total DfID budget lost to 'non-front line costs'; DfID – Multilateral Organisations – NGO/CSOs

	Admin %	Stream	Non-Front Line Costs %	Total Amount £000	Project Spend £000	Admin Spend £000	Total admin %
DfID	4.8%	Multilateral	15.4%	£2,566,993	£2,068,230	£498,763	19%
	4.8%	NGO/CSO	20.5%	£312,934	£236,962	£75,972	24%
	4.8%	DfID directed	4.8%	£2,319,766	£2,209,265	£110,501	5%
Total				£5,199,693	£4,514,457	£685,236	13%

Resources consumed by the development industry are resources that do not get to the front-line. It will never be possible to eliminate all costs, but UK taxpayers must be reassured that their money is going to those that need it most, not bureaucratic structures. For the estimate of £685 million is a conservative estimate. It does not for instance include the UK funds that would go through multilaterals *and then* NGOs/CSOs. It also does not take into account the amount lost in the bureaucracies of recipient governments.

If the same proportion of DfID spending is lost in this way each year (i.e. 13 per cent to non-front line costs) in 2008-09 the total lost would have exceeded £741 million.²⁴ If DfID's budget increases as planned in 2010-11 over £1 billion of the UK's development effort will be lost to administrative and other non-front line costs.²⁵

As members of the international community look to improve the effectiveness of the assistance they give, the costs of *doing business* must be borne in mind. DfID has begun to address these issues, part of the broader push to meet the stipulations of the Paris Declaration.²⁶ But while monitoring costs is important, the UK and other donors risk precluding any real improvements by putting financial inputs before actual outcomes. The determination to tackle the problems facing the world's poorest peoples is laudable, but – however well-intentioned – commitments to spending targets or ring-fenced budgets are potentially counterproductive, locking in problems.

International structures and organisations represent a highly bureaucratic approach to development; one that will consume an even greater share of the UK's overseas assistance as spending grows. New and radical development strategies must be deployed, for as progress in the developing world falters, people would be right to question whether the current approach is delivering the best value for money.

²⁴ Total DfID spending in 2008-09 was £5.8 billion; Department for International Development, *Statistics on International Development 2002/03-2006/07 & Statistics on International Development 2004/05-2008/09*

²⁵ Planned DfID budget in 2010-11 (resource and capital) is 7.8 billion; HM Treasury (April 2009) *Budget 2009: Building Britain's Future*, Table C.11, p.241

²⁶ High Level Forum (February – March 2005) Paris Declaration on Aid Effectiveness;
<http://www.oecd.org/dataoecd/11/41/34428351.pdf>