International Development Committee Inquiry: The FCDO's approach to value for money

CAFOD Response – January 2025

About CAFOD

1. CAFOD is the official aid agency for the Catholic Church in England and Wales; part of the global Caritas confederation of national organisations, each governed by their national Bishop's conference and linked to national Catholic commissions on health, education, and peace/justice issues. CAFOD partners with diverse local NGOs in its operations, including faith-based groups and others working on humanitarian, development, peace building, human rights, and other issues regardless of religion or culture. Localisation and the strengthening of capacity of local and national civil society actors is at the heart of CAFOD's mission and way of working.

   Note: Throughout this submission, civil society actors are referred to as local and national non-governmental organisations (NGOs) and local actors interchangeably.

Introduction

2. The 2011 DfID definition of value for money[1], which laid the ground for the current FCDO approach to ODA spending, may be well intentioned, but the practicality of how ODA, and aid funding more broadly, is spent and monitored requires improvement to ensure best value for communities across the world and the British taxpayer.
3. CAFOD wishes to highlight three main areas regarding value for money that this inquiry should give attention to:
   a. Localisation – gaps and need for improvement in the current approach

[1] "maximising the impact of each pound spent to improve poor people's lives"

    b. Financial instruments – the need for better practice, particularly on debt relief
    c. Strategy alignment, including financial delivery partners – lack of broader vision, including on ODA spent via BII and multinational development banks.
4. This information is gathered from CAFOD and partner analysis and experience in programming; CAFOD and partners have personnel available to provide more information as required.

Localisation

5. CAFOD welcomes an increased focus on local context by the FCDO in recent years. The management of programming, however, requires improvement to better deliver on value for money.
6. The UK Government has committed to a localisation agenda and as such the measure of value for money needs to change; the current metric doesn't take into account many risks and costs, during and beyond programming cycles, and so is not an accurate assessment of value for money.
7. Current funding approaches, both ODA and more broadly in the sector, are not maximising empowerment of local and national organisations in the global South – there is a gulf between rhetoric and practice in terms of engaging such actors.
8. Analysis, such as research by Share Trust, estimates more efficient programme delivery of ODA by local actors compared to international organisations (32% more cost effective).[2]
9. Despite this, international targets for funding delivered to local actors are persistently missed. For example, the Grand Bargain, to which the UK is a signatory, has a global target of 25% of humanitarian funding reaching local

[2] Passing The Buck — The Share Trust

actors as directly as possible, yet just 4.5% of all trackable humanitarian funding went directly to local and national actors in 2023.[3]

10. The majority of international aid funding goes to the 'usual suspects' of international NGOs, international organisations and government bodies; and there is a lack of transparency on how intermediary organisations and funding mechanisms disperse funding to local actors. For example, CAFOD research with Development Initiatives found across the Horn of Africa "humanitarian assistance within the food sector that is provided directly to LNAs [local and national agencies] has not accounted for more than 5% of total food sector funding in any year between 2017 and 2022."[4]
11. More broadly, there needs to be more clarity on the flows of UK aid spending, particularly on the amount that is reaching local and national non-governmental and civil society organisations. The UK's contribution to civil society organisations declined from 17% of bilateral ODA in 2020 to 15% in 2021. Only 11% of this was directed to developing country-based civil society organisations.
12. Decreasing aid budgets generally mean more competition for smaller pots of funding, with local organisations often losing out. Complex funding processes and challenges around consortia, along with reductions in funding (which is then often funnelled to bigger organisations) pose a challenge to civil society organisations. Despite the UK government's commitments in the Women and Girls Strategy, funding to women-led organisations is lacking in amount and access.
13. Some UK government grants that are prioritising locally led/based organisations have requirements don't support locally led NGO bids. For example, a requirement that the expected annual expenditure of a proposed programme

[3] https://devinit-prod-static.ams3.cdn.digitaloceanspaces.com/media/documents/Falling_short_Humanitarian_funding_and_reform.pdf

[4] CAFOD and Development Initiatives. (2023). Food insecurity in South Sudan: Financing to local actors. Available here: https://assets.ctfassets.net/vy3axnuecuwj/4NOemEHEMC8Mz7CasKRBUc/338a9b25b003a222b7f9d5f200f0b946/Food_Sector_Financing_to_Local_Actors_in_South_Sudan.pdf

must be no more than 25% of the lead agency's average annual turnover/income figure can rule out a number of small, impactful and ambitious partners who are unable to apply for funds with such and other rules.

14. CAFOD's experience in working with local partners to deliver programmes is that a lack of risk sharing, a heavy risk management approach to programming, and a lack of provision for core costs are all detrimental to delivery for local organisations. FCDO engagement and funding take a heavy risk approach to programme management, and lack substantial support in risk sharing. This puts funding out of reach for local and national civil society organisations.
15. Similarly, a lack of funding for core costs can negatively impact local actors; anecdotal examples show local actors unable to meet core costs or provide basic facilities for staff such as functional latrines. Such funding is vital not only for operational needs, but for broader capacity development, which in itself is sometimes not allowed to be included in project-based funding proposals. Greater risk sharing needs to be put into practice to better empower local civil society actors. Processes such as due diligence passporting need to be better resourced, to reduce the duplicative burden on agencies.
16. There is also a lack of recognition of the role of faith communities and faith organisations in terms of value added to aid delivery. Faith leaders, actors and communities are key players in civil society who are often overlooked in aid delivery. Faith actors are well placed to engage with communities, in humanitarian response and for longer term developmental and peacebuilding work. CAFOD and other UK faith based NGOs commissioned the "Keeping the Faith" report in the follow up to the Ebola response in West Africa; the report found faith leaders were pivotal in engaging with communities to achieve required behavioural change to stop the spread of the disease, for example in adapting burial practices to reduce disease transmission.

17. Recommendations for improved value for money in line with localisation (and aligned with the new UK Government proposed approach of "genuine partnership"[5] with the global South):

    a. Ensure localisation is at the heart of any value for money metric by the FCDO, and investigate missed and future potential opportunities for better aid spending and capacity strengthening of local actors.

    b. Investigate and propose improvements to ODA funding mechanisms and their lack of accountability to localisation targets. This includes funding to multinational organisations. Global and context specific targets for increasing direct and indirect funding to local actors would be a positive move, including for example, clarity on the passing on of overhead costs from prime signatories to local and national organisations.

    c. Investigate the management of programming contracts, to ensure that risks are properly shared with downstream local and national actors, rather than a top-down, risk averse approach, which passes the buck to local organisations.

    d. Consider proposed changes to FCDO and Embassy structures to ensure better value for money of ODA spending. For example, accountability loops and feedback channels direct to the FCDO for local actors, including tools for monitoring partnerships, and having dialogue with global actors on such issues, as well as ensuring embassies are equipped with mechanisms and staff to support local leadership.

    e. Consider the role of intermediary organisations, such as commercial organisations, UN agencies and INGOs, in terms of the partnerships with local and national organisations, in areas such as risk sharing, commitment to capacity strengthening, and fair cost sharing, for better long term development strategies and ultimately better value for money.

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[5] https://www.gov.uk/government/speeches/minister-for-development-speech-at-chatham-house

f. Analyse the portfolio of local actors that are engaged through ODA funding, specifically around faith and women-led organisations, and recommend improvements. Key recommendations include engaging faith and women-led organisations in planning for recovery and in health emergencies, in restoring health systems; undertaking further research in mapping the capacity of faith and women-led organisational impact; and avoiding instrumentalising faith leaders (treating them as passive actors for change).

Financial instruments – debt relief

18. Aid spending is important and lifesaving, but will not produce development without reforms to the global economic structures and processes within which the UK Government has influence. Aid spending must be complemented by UK leadership within global financial architecture systems to deliver value for money. This requires leveraging other financial instruments, such as debt relief, and considering the advantages of UK action on the global debt crisis and broader financial reform agenda.
19. Looking at Kenya, for example: in 2024 the country was on track to spend around USD 5,149 million on external debt payments (USD 2,981 million to private creditors), and received circa USD 60 million (GBP 48 million) from the UK Government in aid in 2023.[6] Comparing these two figures, Kenyan external debt payments are around 80 times more than the country received from the UK in aid. Christian Aid and Debt Justice have found that in 2023 "the UK's entire aid budget to Africa was £1.2bn ($1.5bn equivalent). Comparing this to the African external debt payments of $85 billion, means African countries spent more than 50 times more on external debt than they received in aid from the UK."[7]

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[6] Figures from Debt Justice and https://assets.publishing.service.gov.uk/media/67055997080bdf716392f012/Statistics_on_International_Development_Final_UK_ODA_Spend_2023.pdf
[7] https://www.christianaid.org.uk/sites/default/files/2024-05/j474500-media-report_aw_spreads.pdf

20. The case is clear that there is need to reform the structures that are keeping people poor, to achieve value for money for UK and other aid spending. The UK is in a special place to act with regards to private creditor debt specifically. Ensuring private creditors take part in debt relief with lower- and middle- income countries would represent much-needed progress, with 90% of low-income country bonds governed by English law.
21. More broadly, the UK could show leadership by advocating for better international systems, e.g. a UN debt resolution framework, and committing to suspension of debt payments when a climate impact hits a country, and when a country in crisis applies for debt relief. The UK should use its position in institutions including the IMF and G20 to advocate for better representation of developing nations, the furtherment of more equal systems, and, in turn, better value for money in UK aid spending
22. Recommendations for improved value for money regarding financial instruments
    a. Consider the impact of the introduction of private creditor legislation in the UK in improving the value for money of UK and other aid spending.
    b. Consider other reforms the UK can support in international financial institutions to improve equity and value for money of UK and other aid spending. Such reforms should include an increase in World Bank and IMF transparency and accountability mechanisms to make governance more democratic and representative and increasing the allocation of IMF Special Drawing Rights (SDRs) to climate vulnerable countries.[8] Indeed, if the UK wants to be considered the leader here, it will at least have to match Japan's SDR recycling rate commitment, which stands at 40%.

Strategy alignment, including financial delivery partners

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[8] CAFOD "Fair Finance for the Climate Fightback" report: https://assets.ctfassets.net/vy3axnuecuwj/4pVsomRx2BBAx4K5kt2elU/829a5037914c0185676ea29df3d91c45/Fair_finance_for_the_climate_fightback_-_CAFOD_discussion_paper.pdf

23. There is a lack of coherence across ODA spending with regards to value for money. Two examples highlight the discrepancy in such approaches across climate finance, and agriculture and food systems:

24. Climate finance

    a. There is no internationally adhered to definition of what does (and does not) count as climate finance. Recent accounting changes in the UK mean a significant amount of general aid spending in climate-vulnerable countries is counted as International Climate Finance (ICF), even if it is nothing to do with climate. Funding channelled through international financial institutions (even though much of their climate spending is given out as loans, which are worsening debt crises in many vulnerable countries) has attracted criticism from experts.[9]

    b. Government policy in this area could be improved, in turn improving value for money, by committing to a robust definition of what does and does not count as climate finance (as well as clarity on their intended funding contribution to the New Collective Quantified Goal). The UK's ICF spending would benefit from greater scrutiny to ensure public money labelled as finance for climate action is spent accordingly, leading to greater clarity, effectiveness and transparency of climate finance and climate action, and in turn ensuring better value for money.

25. Agriculture and Food Systems

    a. There is a misalignment between FCDO priorities and how ODA is spent in these areas, which negatively impacts value for money on UK aid spending. Priorities on environment, climate and gender equality should also be considered. The FCDO highlights "sustainable and inclusive agriculture and food systems as a key priority," alongside a commitment

[9] https://icai.independent.gov.uk/uk-climate-finance-commitment-at-risk-as-aid-resources-stretched/

"to implementing a campaign to improve global food security and nutrition."[10] ODA funding through channels such as the World Bank and British International Investment (BII) may not be coherent with this approach or other FCDO priorities.

b. The World Bank has just announced a new focus of its funding directed towards agri-business, which includes a doubling of "agri-finance and agribusiness commitments to $9 billion annually by 2030."[11] BII's 2020 sector strategy for food and agriculture identifies agri-inputs for industrial agriculture as one of their priority investment areas; the report outlines "Agri inputs (fertilizers, agchem, seeds, distribution, micro-irrigation, farm mechanization)" and "Animal protein (including animal feed and dairy)" as priority subsectors, both of which run counter to priorities to reduce greenhouse gas emissions from agriculture production and shift away from fossil-fuel intensive food production.[12] They also focus on "select staple and traded commodities", which prioritises the interests of agribusiness rather than smallholder farmers, and commercial interests rather than food production for food security.[13]

c. Closer scrutiny is required in this area to improve efficacy, coherence and consistency of UK ODA spending and aims of the FCDO, to increase efforts towards poverty reduction, climate change alleviation, gender equality and preservation of nature and biodiversity. UK ODA spending on agricultural development is a small percentage of overall ODA (around 5% according to a 2023 ICAI report[14]) and spending on sustainable agriculture is a tiny percentage of that. This is despite spending on agricultural development

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[10] FCDO response to the Independent Commission for Aid Impact (ICAI) recommendations on UK aid to agriculture in a time of climate change - GOV.UK
[11] https://www.worldbank.org/en/news/press-release/2024/10/23/world-bank-group-announces-strategic-pivot-in-agribusiness-doubles-financial-commitment
[12] https://assets.bii.co.uk/wp-content/uploads/2020/11/18114720/Food-and-Agriculture-Sector-Strategy.pdf
[13] https://assets.bii.co.uk/wp-content/uploads/2020/11/18114720/Food-and-Agriculture-Sector-Strategy.pdf
[14] https://icai.independent.gov.uk/html-version/uk-aid-to-agriculture-in-a-time-of-climate-change/#:~:text=By%20contrast%2C%20agriculture%20is%20a,often%20carried%20out%20by%20women.

being highly impactful in poverty reduction – "in general two to three times more effective at reducing poverty than an equivalent amount of growth generated in other sectors."[15] If funding through one ODA stream is in conflict and undermining funding and strategy in other streams, then this is counterproductive to progress and not a strategic use of taxpayers' money.

26. Recommendations for improved value for money regarding strategy alignment
    a. Focus on climate finance and agriculture and food system programming expenditure through ODA, both directly and through BII, World Bank and multinational development agencies, as case studies of how value for money is not achieved, due to conflict of aid aims and expenditure.

[15] https://blogs.worldbank.org/en/jobs/five-new-insights-how-agriculture-can-help-reduce-poverty