

Global Britain, Global Challenges



How to make aid more effective

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Executive Summary

- The Prime Minister Theresa May has confirmed that Britain will maintain its commitment to spend 0.7% of national income on overseas development. At the same time however, she argues that we need to look again to ensure that this money is being spent in the most effective way.
- The commitment to the 0.7% target is controversial. Nearly three times as many think we should decrease the aid budget as increase it. Many people are concerned that foreign aid achieves little, fuels corruption and represents a poor use of resources at a time of austerity in domestic spending.
- In this paper, we look at the big questions about international development: what are the most important global challenges, and what role can aid play in tackling them? Are the public right to worry about aid effectiveness? Most importantly, how can we do better?

Global Britain and Global Aid

- Many commentators associated Brexit with a worldwide increase in insular nationalism, and some have argued that the same trends are likely to lead to government succumbing to pressure to cut the aid budget. While many commentators have been quick to interpret Brexit as part of a widespread backlash against globalisation, the real factors were far more nuanced than this. The UK does not have the same tradition of trade scepticism as a France or America. An important part of the pro-Brexit coalition was the so-called 'liberal Leavers', often long-standing supporters of freer trade and increased global links. A recent survey showed that twice as many (46%) Britons agreed that "globalisation was a force for good in the world" as thought it was a force for bad (19%).
- Even if Britain wanted to turn its back on the world, it would rapidly find itself drawn back in. As the world's economies, technologies and cultures become increasingly intertwined, what happens over there soon matters here. Many of the most important market failures of the twenty-first century, from growing antibacterial resistance to unpriced carbon emissions, are inherently global. There are clear synergies between Britain's hard and soft power, as well as between the national and wider global interest in accelerating innovation and encouraging free trade.
- In 2016, the UK was the third largest donor of aid worldwide after the US and Germany, giving just over £13 billion. Over the last six years, British aid has

helped finance, among other things, many millions of school places, vaccinations, and bed nets. The UK's Department for International Development (DFID) has a good reputation internationally not just for the amount spent, but for trialling new methods of improving effectiveness.

- The British public, however, are more sceptical about the effectiveness of aid. According to the most recent UK Aid Attitudes Tracker, 48% now believe aid should be cut, compared to just 18% who believe it should be increased and 28% who believe it should stay the same. Most evidence suggests, however, that this is not because they believe that 'charity begins at home', but instead that they worry that aid makes little difference. The vast majority (87%) are unaware of the radical recent fall in global poverty, while another survey found that 57% believed "corruption in poor countries makes it pointless to donate money".

What are the most important Global Challenges?

- Over the last thirty years, the combination of global markets and new technology has helped halve the proportion living under \$1 a day, taking one billion people out of extreme poverty. While free markets will always remain the most important driver of growth, they cannot do everything. Over the last few years, there has been increasing recognition of the need for individual nations to work together to tackle global challenges and deliver global public goods.
- Defined narrowly, in 2014 the UK was the fourth largest donor for development-relevant global public goods (GPGs), giving \$1.6 billion or 9% of the total Overseas Development Assistance (ODA) budget. If you use a broader definition, including wider R&D, defence and aid spending, the UK is second to the US, contributing \$80 billion compared to America's \$695 billion.
- In order to prioritise resources, we should focus them on the challenges that are most important, are relatively neglected and have tractable potential solutions. Prioritisation is complicated by philosophical disagreements over appropriate distribution, discount rates and risk aversion. The right balance needs to be struck between full exploitation of known effective interventions, and exploring new innovations. One rule of thumb is that major or non-experimental interventions should be at least as or more cost effective than direct cash transfers to the poorest.
- In practice, there is reasonable consensus over the most important global challenges, with most experts agreeing the importance of:

1. **Eliminating extreme global poverty.** *Magnitude of Challenge: An approximate \$70 billion international gap between the extreme poor and a \$1.90/day poverty line.*
2. **Decreasing suffering from avoidable disease and disability.** *Magnitude of Challenge: A third of all potential healthy life years are lost globally to disease, the equivalent of 80 million lives lost in 2015.*
3. **Reducing the risk from a future pandemic outbreak or growing antimicrobial resistance.** *Magnitude of Challenge: Past global pandemics have killed 3-5% of world population. By 2050, 10 million lives a year could be at risk from drug resistance.*
4. **Improving energy sustainability and reducing the risk from climate change.** *Magnitude of Challenge: Estimates of the impact of climate change range between 1-20% of world GDP. The heat impacts of using biomass for cooking are estimated to be around 3.5 million preventable deaths a year.*
5. **Increasing and protecting access to food, water and sanitation.** *Magnitude of Challenge: Global water demand is expected to be 40% higher than current supply by 2030, while global food production is likely to have to increase by 70% by 2050.*
6. **Encouraging state stability, strong institutions and the rule of law.** *Magnitude of Challenge: Around 60% of countries are potentially unstable, and just 40% of the world population living in countries estimated to be free or enjoy democratic values.*
7. **Protecting against the risks from hostile states, terrorism and large scale involuntary migration** *Magnitude of Challenge: Approximately 200 million people died in wars or conflicts during the twentieth century. Around 1% of the world population today are refugees or internally displaced people (IDPs).*
8. **Insuring against the danger from catastrophic natural disasters or existential risks.** *Magnitude of Challenge: Estimates suggest a 3-10% chance of global warming exceeding 6° C, while the median expert forecast is for human-level AI to be achieved by 2050.*
9. **Encouraging international trade and economic liberalisation.** *Magnitude of Challenge: Achieving universal catch-up growth for developed economies would increase world GDP by 370%.*
10. **Accelerating the process of scientific and technological innovation.** *Magnitude of Challenge: Accelerating the process of innovation by 20% would create an additional \$300 billion of economic value a year.*

Does aid work?

- International aid has traditionally exhibited a micro-macro paradox: while the majority of individual projects seem to achieve their immediate objective, it is much harder to demonstrate systemic impact on overall growth.
- The most successful growth take-offs we know of, such as China, India or Indonesia, came about as those countries moved towards open economic institutions. Without high quality institutions, it is very hard to see sustained growth. Outside countries only have limited power to influence the evolution of a developing country's institutions.
- Decades of cross-country regressions have failed to settle the debate over the impact of aid on economic growth. Given the limitations of data and the number of other things going on, it is unlikely we will ever get a concrete answer from this line of analysis.
- Equally, however, most accept that aid has played a key role in more specific successes. The elimination of smallpox alone is estimated to have saved between 60 million and 120 million lives. Over the last forty years, child mortality in Africa has halved, and the total years of education more than doubled. Many countries now see a majority of under-fives sleeping under a bed net, helping cut the malaria mortality rate by near two thirds.
- In order to outweigh these successes, aid would have had to have very negative side effects elsewhere. Many aid sceptics worry that it can act as a type of resource curse, making it easy for corrupt and extractive elites to remain in power. While this probably did happen in some historic cases, it is much harder to believe that this is true for other types of aid, such as vertical health interventions or direct cash transfers. Well-designed aid does not have to undermine local institutions or the social contract between taxpayers and government.
- Despite the caricatures in the press, there is more agreement between leading aid sceptics and proponents than you might think. We should work to de-politicise the current often overly polarised debate. Almost everyone agrees that aid is not the only or even the most important factor in driving growth, that other factors such as trade or institutions matter as much or more, and that we be spending more on 'for country' types of aid such as increased R&D spending.

How well targeted is UK aid?

- Compared to other international donors, British ODA is reasonably well targeted at countries that either have high numbers or high proportions of people living in poverty. 47% of UK bilateral aid goes to countries with more than 10 million people living in extreme poverty. However, this targeting is not perfect, with next to no correlation between the amount of UK aid and the depth of poverty.
- Similarly, health-related ODA is relatively well targeted at those countries with the largest disease burden. If you exclude China and India, there is a good correlation between per country disease burden and the amount of health-related ODA donated by the UK. Seven out of 15 top recipients of UK's aid to health are also among the top 15 countries with the highest burden of disease.
- One possible metric of traction is the correlation between the amount of aid and the quality of a country's institutions – but there is no correlation between the amount of bilateral aid donated by the UK and its level of political freedom as ranked by Freedom House. Neither does the UK seem to be targeting relatively neglected causes, with the breakdown of its aid, whether by sector or country, largely matching other donors.
- Unfortunately, these kind of big picture correlations only give us limited data on the overall effectiveness of the aid budget. At the level of specific interventions, we know that cost-effectiveness can vary by multiple orders of magnitude – and there is little comprehensive data on how much of the UK aid budget is allocated to well-evidenced interventions.

How can Britain best tackle Global Challenges?

- How can we ensure resources are spent most effectively, boost public support for the aid budget and go still further to help Britain take a leading role in tackling the world's most important challenges?

We suggest four principles to follow:

1) Maintain the commitment to a Global Britain

- The Government should maintain its dual commitments to spending 2% of GDP on defence and 0.7% of GNI on aid. With budgets guaranteed, there should be a greater focus on achieving outcomes rather than cash spent.
- The Government should commission a short-term update to the 2015 Aid Strategy. This should take account of changed post Brexit

circumstances, and look at a wider development strategy beyond aid, including trade, agriculture and security.

2) Create a more efficient and innovative aid budget

- The Government should create a new Office for Aid Effectiveness as part of the What Works network to collate and commission evidence. Working with DFID, it should ensure that all major new programmes are at least as effective as cash transfers.
- Over the medium term, the Government should substantially raise the proportion of the ODA budget going to Global Public Goods, with at least 10% spent on R&D. A further 10% of DFID's budget should go on experimental programmes such as Development Impact Bonds, making market commitments or an expanded Aid Match scheme.

3) Stand up for democracy, the rule of law and a free press

- There is a strong correlation between economic development and open institutions such as the rule of law, a free press and fair elections. While aid is increasingly likely to be concentrated in fragile states, the UK should always be careful not to prop up authoritarian states, enable predatory elites or undermine the wider rules-based international order.
- DFID should publish annual analysis on the quality of developing country institutions, and draw attention to countries where aid makes up a high proportion of government spending.
- DFID should work with GDS to offer technical support and open source platforms for digital government in developing governments, increasing transparency and bypassing opportunities for public sector resources to leak out.
- New due diligence criteria for engagement should be adopted to ensure that funding and recognition is not given to those whose views and practices are antithetical to democratic principles and the rule of law.

4) Reduce trade barriers with the developing world and act as global champion of free trade

- The UK should go beyond the EU's duty-free and quota-free approach for developing countries, simplifying rules of origins regulation and working towards unilaterally eliminating remaining tariff and non-tariff barriers.

- The Government should substantially reform the Common Agricultural Policy after 2020, creating a modern British Agricultural Policy that focuses on supporting the local environment, as opposed to the current system which subsidises UK food production and insulates UK producers from overseas competition.

Foreword

The United Kingdom is a force for good in the world, and British aid has transformed millions of lives for the better. For example, since 2011 UK aid has helped educate 11 million children, immunise 67 million against preventable diseases and distribute 50 million insecticide-treated bed nets to protect from malaria.

I believe passionately that international aid is not just in the interests of the countries that receive aid, but is in our national interest too. UK aid is a great projection of our soft power, helps steady chaotic regions, and reduces the risk from pandemic diseases, terrorist recruiters or destabilising migration.

While there are some who say we should scale back our global commitments, I believe that Britain is a country that has always shouldered its share of the burden in the world. As the United Kingdom chooses to leave the European Union, it is vital that we demonstrate to friends in the international community that we will continue to lead on tackling global challenges.

As this report argues, there is a strong centre-right case for putting overseas aid at the centre of a Global Britain, working alongside our commitments to strong defence and becoming a global champion for free trade. To defeat poverty, we will need to support both aid and trade, markets and global public goods - not create an artificial dichotomy between them.

While our aid system is rightly well-regarded worldwide, there is still more we could do to make it better and more effective. Waste isn't just unfair to the British taxpayer - it hurts many of the poorest in our world too. It isn't enough to spend money if we can't see any measurable results. As someone who strongly supports aid spending, I always want to be able to show to critics the real difference our money makes.

In the coming decades, the world will see many challenges from increased antimicrobial resistance to finding more sustainable sources of energy. Whether it is scientists working to improve agricultural yields or former soldiers helping clear landmines, the UK is often at the front line in tackling the world's problems.

Moving forward, we should continue to lead from the front. That would create a Global Britain to be truly proud of.

Rt Hon Ruth Davidson MSP

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Global Britain and Global Aid

Britain's new global role

Brexit is the most momentous change to Britain's geopolitical role in at least forty years.

For much of the post-war period, Britain seemed torn between its traditional alliances and the new European project. By closing off one pathway, leaving the European Union looks to settle finally that question: Britain's future is to be global.

In her January speech on Britain's post Brexit plan, the Prime Minister argued that, "the great prize for this country – the opportunity ahead – is to use this moment to build a truly Global Britain. A country that reaches out to old friends and new allies alike. A great, global, trading nation. And one of the firmest advocates for free trade anywhere in the world."¹

For many people, the idea of Brexit leading to a more global Britain might seem strange. Many have been quick to interpret Brexit as part of the global backlash against globalisation, leading to the rise of the populist right across Europe, increased concerns over immigration and the election of President Trump. They fear that, post Brexit, Britain will retreat behind its strengthened borders into a new era of isolationism, erecting new trade barriers and cutting support to international programmes such as development aid.

However, we should not be too quick to oversimplify the factors lying behind the referendum. It is true that Britain has experienced the same increased political polarisation and extremism as experienced in many advanced economies. The full story, however, is more complicated than a simple rise in nationalism.

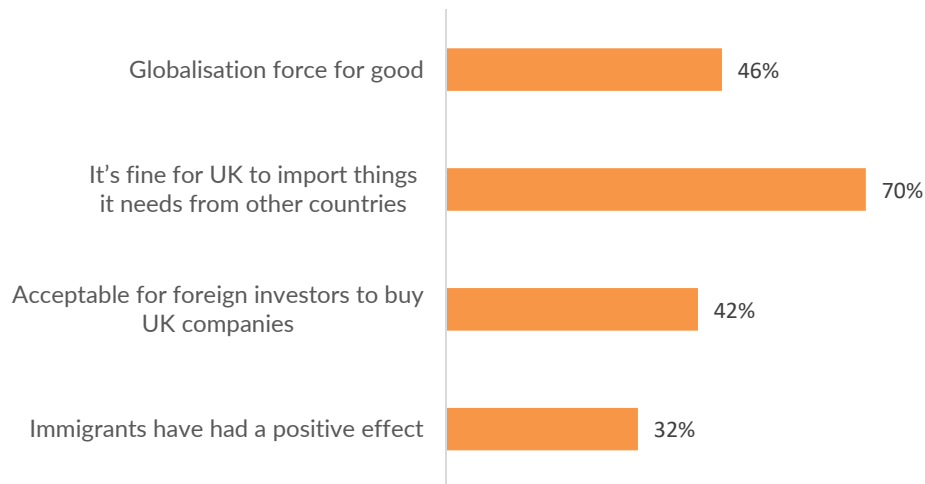
Firstly, while the concept of globalisation can be a helpful abstraction, it is not clear that it plays a major role in how ordinary people think about the world. It is not necessarily a contradiction that many British voters both feel immigration is too high and have positive feelings about trade.

Instead of treating it as single thing, most people have subtly different views when it come the globalisation of ideas, goods, capital or people. While almost nobody believes in censoring ideas from other countries – a 'British Internet', perhaps – few, conversely, are in favour of offshoring the military.

The UK has never had the same tradition of trade scepticism as has been seen in France or even America, and the explicit protectionist wing in British politics is virtually non-existent. Polling undertaken by YouGov in October 2016 found that just 21% of Britons were in favour of complete autarky, compared to 38% of Americans and 51% of the

French. Similarly, only 34% of Britons thought takeovers unacceptable, compared to 41% of Americans, or 51% of the French.²

Figure 1: British Opinions on Globalisation (2016, YouGov)³



Even when you do ask people for their views on globalisation overall however, more than twice as many (46%) Britons agree that “globalisation is a force for good in the world” as think it is a force for bad (19%). In the US, by contrast, globalisation is only seen as a force for good by a margin of 40% to 27%, while in France opinion is evenly divided 37% to 37%. Other polling by the Pew Research Centre finds similar results, with global economic engagement agreed to be a good thing by 64% of Britons, compared to just 44% - a minority - of Americans.⁴ Ipsos-Mori finds 56% of Brits believe globalisation to be good for the UK, compared to 49% of Americans and 31% of the French.⁵ Globalisation is not as popular in Britain as it is in emerging economies, where its growth-catalysing impact is most visible - but that is not the same as saying it is unpopular.

Secondly, it is important to break down the full Brexit coalition, and its different motivations. Not everyone voted Leave for the same reason – and from what we can tell, relatively few seem to have voted out as a protest against economic globalisation or the aftermath of the financial crisis.

According to British Social Attitudes Data, support for Brexit has been broadly growing since the early 1990s. The final Leave vote seemed to be largely made up of a roughly equal coalition of more affluent Conservative Eurosceptics and more working-class or ‘just about managing’ voters, who were more likely to support UKIP or not vote at all.⁶ There is only a small correlation between an individual’s income and how that individual voted, suggesting economic motivations were relatively unimportant. What mattered more was an individual’s cultural values, and their beliefs about issues such as

sovereignty and immigration.⁷ Many Brexit voters worried about loss of control within their own borders, but that is not the same thing as wanting to ignore the world outside them.

Similarly, if you look at many of the figures who actually ran or campaigned for the Vote Leave campaign, many of them formed part of the so-called 'liberal Leavers', long-standing supporters of freer trade, increased global links, and a generous attitude to immigration.

In short, while there may be an outright isolationist element of the British population, it remains a minority. Since at least the mid nineteenth century and the abolition of the Corn Laws, Britain has been a key proponent of what we would today call economic globalisation. Brexit has not changed this.

The Links between National and Global Interest

Britain enjoys links across much of the planet, sharing the benefits of a common language, historical, cultural and sporting heritage, and convenient time zone. Arguably no city in the world has benefited as much economically from globalisation as London, becoming a world crossroads for, among other things, finance, technology, business services, fashion, and film.

Even if Britain wanted to turn its back on the world, it would rapidly find itself drawn back in. As the world's economies, technologies and cultures become increasingly intertwined, what happens over there soon matters here. The biggest killer of the twentieth century may not have been either World War, but instead the 1918 Spanish Flu, killing off 3-5% of the entire global population. Terrorist extremism transcends borders, while a new pandemic emerging in Africa could soon land in Britain. Many of the most important market failures of the twenty-first century, from growing antibacterial resistance to unpriced carbon emissions, are inherently global.

While often controversial, Britain has a long history of active humanitarian interventionism, from enforcing the abolition of slavery in the nineteenth century to modern interventions in Kosovo and Afghanistan. As Policy Exchange's report *The Cost of Doing Nothing* argued, intervention from both a military and humanitarian perspective has been a crucial part of British foreign policy for over two hundred years. While the UK is no longer a superpower, it still has the resources to make a significant difference on the world stage, including: the world's fifth largest economy⁸, fifth largest military⁹ and second largest international aid budget; membership of the UN, G7, NATO, Commonwealth, and intelligence sharing in the "Five Eyes" group; two of the world's top ten universities, second only to the US in citations for health, life and social sciences, and more Nobel prize winners than any other European country.

In many cases, as in the past, Britain should act to tackle global challenges for no other reason than it is the right thing to do. You do not need to believe that there are huge economic costs or a major security risk created by modern slavery to want to address it.

However, in many cases, there are also clear synergies between Britain's national interest and the wider global interest:

- **Power.** The combination of hard and soft power can be stronger the sum of its parts, working together to British influence and support the wider rules-based international order. Britain the only major nation to achieve both targets to spend 2% of GDP on defence and 0.7% of GNP on international aid. On the one hand, maintaining defence spending underpins global stability, while on the other Britain's record of both generous and innovative aid spending works with a disproportionate cultural influence to boost soft power. Britain is second only to the US in global soft power,¹⁰ with some evidence that targeted, sustained, effective and visible aid can substantially improve recipient perceptions of the donor.¹¹
- **Innovation.** Alongside creating a Global Britain, the new Government's other major commitment is to pursue an ambitious, modern Industrial Strategy, centred on discovering and nurturing the industries of the future. Equally, meeting many of the most pressing Global Challenges will require substantial investment in research and development of new technologies. Evidence suggests that there are substantial crossover benefits between public and privately funded research, with both dependent on efficient funding mechanisms, liberal regulation and a shared ecosystem of skills and ideas.
- **Trade.** Britain has already committed to seeking out multiple new trade deals once the process of leaving the European Union is complete. To achieve maximum effectiveness, however, Britain will have to be careful that its decision to become a 'global champion for free trade' is seen as an expression of long standing principles, and not just a mercantilist attempt to secure a greater export share. Many of the most effective trade deals come from multilateral as well as bilateral negotiations, and Britain will have greater moral authority in those talks to the extent that it is seen to be acting in global best interests.

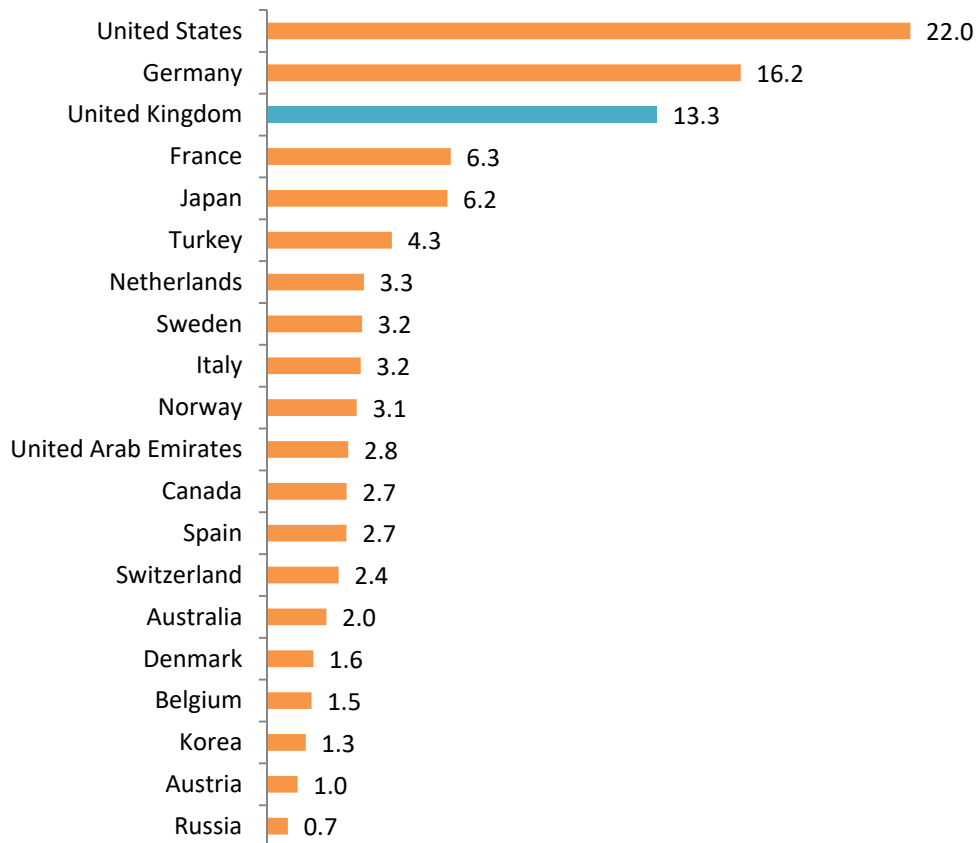
In the short term, Brexit has the potential to endanger the UK's soft power, and especially so to the extent that it is narrowly interpreted as being a backwards nationalist vote in favour of greater isolation.¹² Ultimately, the hope is that Brexit will come to be seen as the first step towards creating a more agile, innovative and open country. This, however, is likely to take time - and will require steady commitment to our global responsibilities.

The UK Aid Budget

One area where Britain is already globally recognised as a world leader is in overseas development.

In 2016, the UK was the third largest donor of aid after the US and Germany, giving just over £13 billion. UK aid has been relatively stable since the 0.7% benchmark was first set in 2013, but over the longer term, it has grown significantly faster – by 48% in real terms since 2006. The UK is one of only eight countries to meet the 0.7% target, although it is by no means the most generous spender – Norway, for example, donates almost half again proportionately, at 1.1% of GNI.

Figure 2: Official Development Assistance by Donor Country (2016, £bn, OECD)



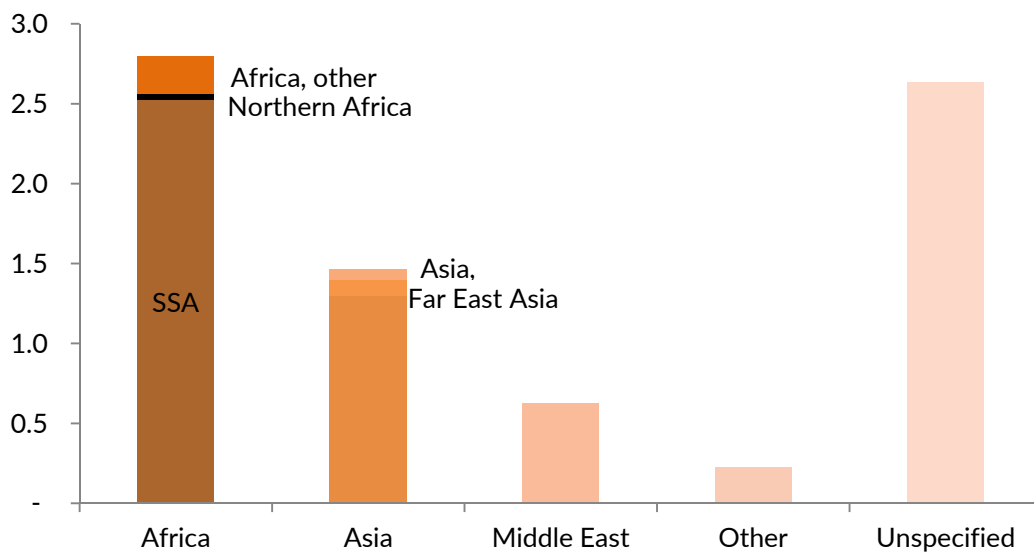
Around two-thirds of UK aid (63%) is delivered bilaterally to a specific country, although the UK also makes relatively high use of international multilateral organisations for delivery of aid (28%), compared to an OECD Development Assistance Committee (DAC) average of only 6%.

As you might expect, the breakdown of aid spending varies significantly by country. Technical co-operation prevails in middle income countries like Nigeria (75%) or India (46%); whereas, countries in crisis receive much greater shares as commodity or food aid, such as Syria (34%), Ethiopia (20%) or South Sudan (20%).¹³

The majority of UK bilateral aid goes to Africa, with another significant proportion (34%) used to fund joint projects, research institutions or NGOs. Compared to other DAC donors, where the average is just 24.4%, the UK consistently gives a majority (54%) of its aid to Least Developed Countries (LDCs).

In 2015, the top recipients of UK aid were Pakistan (\$572 mn), Ethiopia (\$518 mn), Afghanistan (\$458 mn), Nigeria (\$402 mn) and Syria (\$398 mn). There is reasonable continuity in these overall allocations, with 11 out of the top 15 countries staying in that top 15 for each of the last five years. However, there have been some changes: significant increases to Pakistan (+69%), Kenya (+64%) and Tanzania (+57%), but falls for the Congo (-44%), Bangladesh (-32%), and notably India (-54%), once the UK's most significant target.

Figure 3: UK Official Development Assistance by Recipient Country (2015, £bn, Development Initiatives)



What has all this money achieved?

Since 2011, DFID estimates that UK has helped provide¹⁴:

- 30 million pregnant women and children with food and nutrition
- 69.5 million people with financial services
- 11.3 million children in primary and lower secondary education

- 5.6 million births with oversight from skilled birth attendants
- 67.1 million children with immunisations against preventable diseases
- 49.7 million insecticide-treated bed nets to protect from malaria

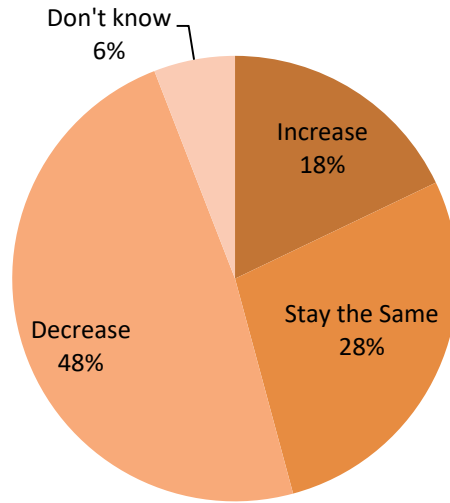
At the global level, the UK's Department for International Development has a high reputation. Alongside the high quantity given, the UK has a reputation for genuinely targeting its aid to where it is needed, not forcing aid to be tied to commercial interest and seeking new methods to improve effectiveness such as performance agreements, country-based cost-effectiveness evidence, payment-by-results mechanisms, and leveraging co-financing.¹⁵ The most recent OECD peer review was relatively glowing, concluding that the UK "continues to lead in shaping the global development agenda... Its peers value the UK's leadership in driving the development agenda... DFID has engaged in innovative approaches to allocate its resources effectively... The UK is a top performer on transparency... DFID is a leader on evaluation internationally... The UK has taken major steps to produce evidence about what works in development."¹⁶

The Growing Concerns over International Aid

Back home however, there is more scepticism. While the British may not have turned against globalisation and a global role for Britain, it is difficult to ignore concerns around the international aid budget.

There has been a noticeable increase in aid sceptic stories across the mainstream press, leading some on the left to fear that now leaving the EU has been achieved, the aid budget is "the right's next target", the next Brexit.¹⁷ According to the most recent UK Aid Attitudes Tracker, even after being told the full cost and proportion of aid spending, 48% believe aid spending should be cut, compared to just 18% who believe it should increase and 28% who think it should stay the same. Despite the sceptical tone of much of the press, support for cutting aid has actually fallen moderately over the last three years, down from 53% in November 2013.¹⁸

Figure 4: Should government aid spending be increased? (UK Aid Attitudes Tracker)

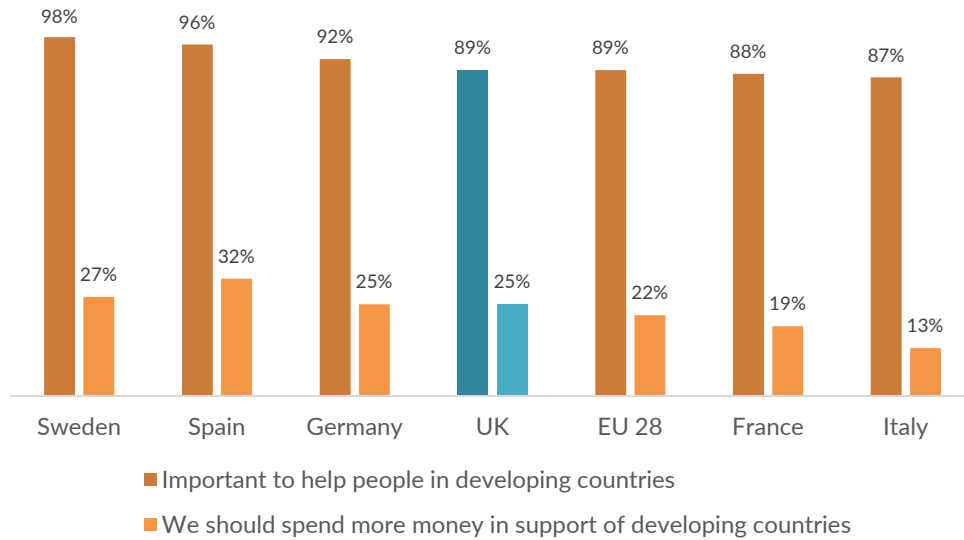


Many in the development community have argued that low public support is the result of misconceptions and low levels of background knowledge. While a majority of the public consistently believe that the Government should give some amount, almost every survey internationally finds the public drastically overestimating the proportion of public spending already spent. One survey in 2006, for example, found that less than 9% of Britons believed it was less than 1% of national income, with 44% believing it to be over 5%.¹⁹

It is likely, however, that this gets the causation the wrong way around. False perceptions over the amount spent on aid are as likely the result of pre-existing scepticism as the cause of it. Repeated polls have found that providing the public with accurate information does not seem to change opinions. One 2012 YouGov poll for Chatham House found 56% believing overseas aid was over £10 billion, with 31% believing it to be over £ 50 billion. However, even after being told the actual amount was £8.5 billion, 61% believed this was too much with just 7% believing it too little.²⁰

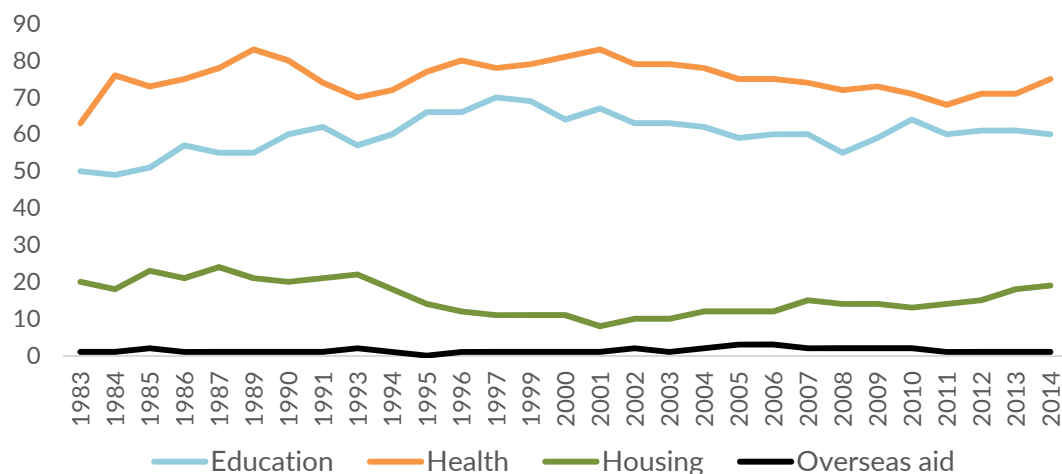
Compared to other European countries, British public opinion on aid is around the middle of the pack – not noticeably more sceptical, but not more confident either.

Figure 5: European views on development (2017, Eurobarometer)



That said, in electoral terms at least, it is unlikely that aid is the ‘next Brexit.’ International aid has too low salience to make much difference to the outcome of an election. The British public are fairly consistent in their views over the long term: prioritising greater spending on health and education, and seeing the economy, immigration and health as the most important issues for politicians to confront. Everything else is of second order importance.

Figure 6: Public Priority for extra Government spending (%), British Social Attitudes)

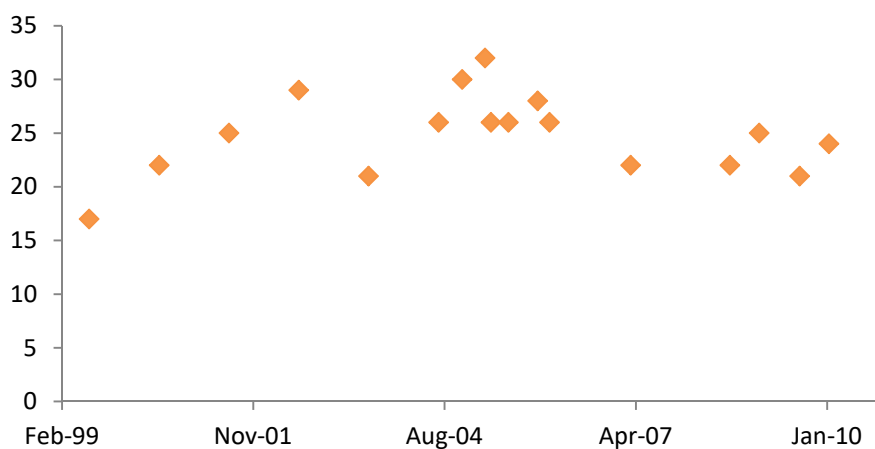


We should be careful with drawing too strong conclusions on public opinion from any one poll. The supposed view of the population can change drastically depending on how

questions are worded. Eurobarometer, for example, finds almost twice as many people in the UK believing aid levels should stay roughly where they are (46%) as thinking they should be cut (17%). Nevertheless, some big picture trends are relatively clear.

Concern over global poverty has been drifting downwards for over a decade, and arguably ever since its peak in the ‘Make Poverty History’ moment at the Gleneagles G8 meeting in April 2005. The combination of the financial crisis, significant increases in the budget, political polarisation, and ‘compassion fatigue’ brought about from by some of the over promises of the Live Aid era has created a public that is cynical about the potential for aid to make a real difference. Between September 2008 and February 2010, for example, on DFID's own now discontinued survey, support for increased government action fell from 49% to 35%.²¹ The last three years have seen declines across many metrics of public behaviour related to global poverty, including donations and fundraising. (That said, as shown in figure 7, self-reported concern over global poverty has remained relatively stable since at least 1997, at a long term average of around 25%.)

Figure 7: Levels of ‘very concerned’ over global poverty reported by UK public (% , Darnton and Kirk)²²



Why is support for the aid budget so low?

Just as many people blame Brexit on increased tribalism, many blame low support for aid on the view that ‘charity starts at home’. Over the last few years, under this argument, there has been a growth in what you might think of as national self-interest.

This, however, is to underestimate the public. Even if you believe that charity should start at home, almost nobody on reflection believes it ends there. According to the latest World Giving Index, the UK is the most generous nation in Europe for private giving,²³ with 10% of donations in 2016 going to overseas aid and disaster relief.²⁴ For

all the stereotypes of cold-hearted conservatives, even after you adjust for income and religiosity, there is no statistical difference in charitable generosity between conservatives and liberals.²⁵

While it is always tempting to assume the worst motives of those you disagree with, when you break out many of the public's other beliefs around international aid and poverty, it is not actually that surprising that many have concluded aid should be cut.

In the most recent survey for DFID, the public's most identified cause for poverty was corrupt leaders (56%), with over population (18%) third most popular. 57% agreed that "corruption in poor countries makes it pointless to donate money", with 53% agreeing that most aid is wasted. In the latest Aid Attitudes Tracker, only 11% of the public believe aid is effective, with 55% believing corruption made it pointless to donate money. Eurobarometer finds similar results, with the main obstacles to development identified by Britons as corruption (62%), conflicts (40%) and bad policies (38%). Many do not realise the progress that is being made, with just 1% in the UK in a recent survey knew that extreme poverty had halved in the last twenty years. 87% believed it had stayed the same or increased.²⁶

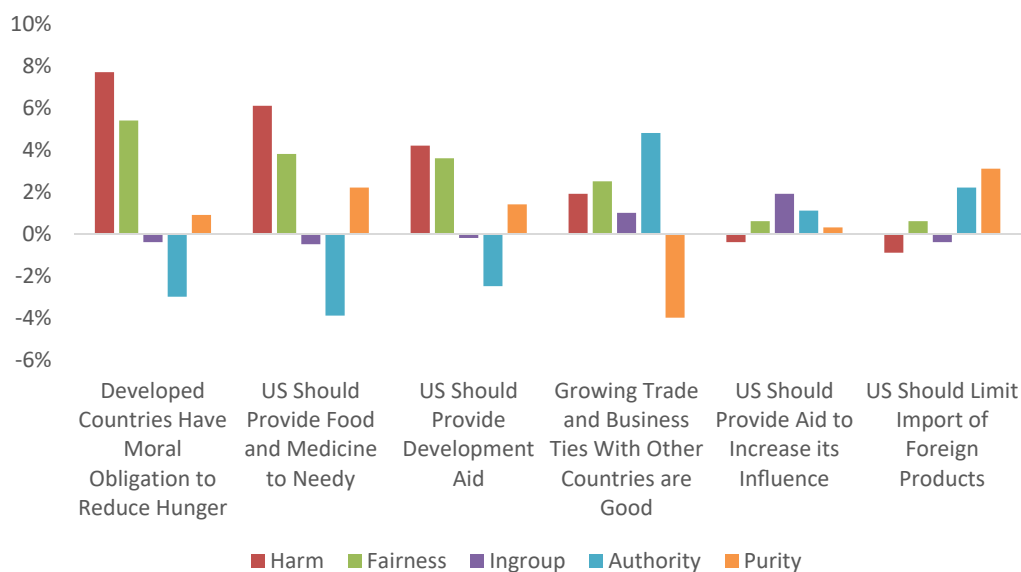
Should we take these views at face value, or are they simply an excuse for underlying tribalism?

Work by social psychologist Jonathan Haidt suggests that each individual's ethics are structured around at least six basic moral foundations. While liberals rely largely on the moral foundations of avoiding harm, fairness, and dominance, Conservatives also care about protecting the ingroup, maintaining authority and preserving purity.

Using these moral foundations, a recent paper by Lindsey and Lake (2014) breaks down the factors lying behind Americans individual foreign policy views.²⁷ It is true, as you might expect, that those motivated strongly by concerns over avoiding harm and ensuring fairness tend to be the largest supporters of international aid – helping explain the global correlation between support for aid and the left.

However, conversely, there is relatively little connection between in-group motivations – tribalism, in other words – and decreased support for the aid budget. Much more significant was the connection between support for authority and distrust of the aid budget. These traditionally are voters who worry about supporting law and order, social stability and preventing chaos. It is probably not surprising that these kinds of voters also worry about the possibility of aid fuelling corruption or crime overseas.

Figure 8: Foreign policy views by moral foundation (Lindsey and Lake)



In other words, the simplest explanation seems to be the most likely one, and we should take voters at their word. Support for aid is falling because the public increasingly worry that it makes little positive difference, instead fuelling corruption and bad government abroad.

Creating a Global Britain

Brexit was not a vote to turn away from the world. However, to maintain public support for a Global Britain, we will have to do a better job at demonstrating the real differences the UK can make.

The current narrative on aid is not working. While the public remain concerned about overseas poverty, they are unconvinced that aid is making a difference. This is especially true among the moderate Conservative voters that will be the most important swing constituency for maintaining public support in future.

In recent years, some elements of the development community have become unhelpfully politicised, or pushed misleading narratives over global inequality,²⁸ creating inevitable blowback from the right.

This is a shame. As we will see, there is more agreement between leading aid supporters and sceptics than you might think. There is not an either-or between international aid and free trade, open markets and public goods – we need both.

In the rest of this paper, we want to take a look at how a Global Britain can take a lead in tackling global challenges in a way that both left and right could fully get behind.

We will examine four big topics:

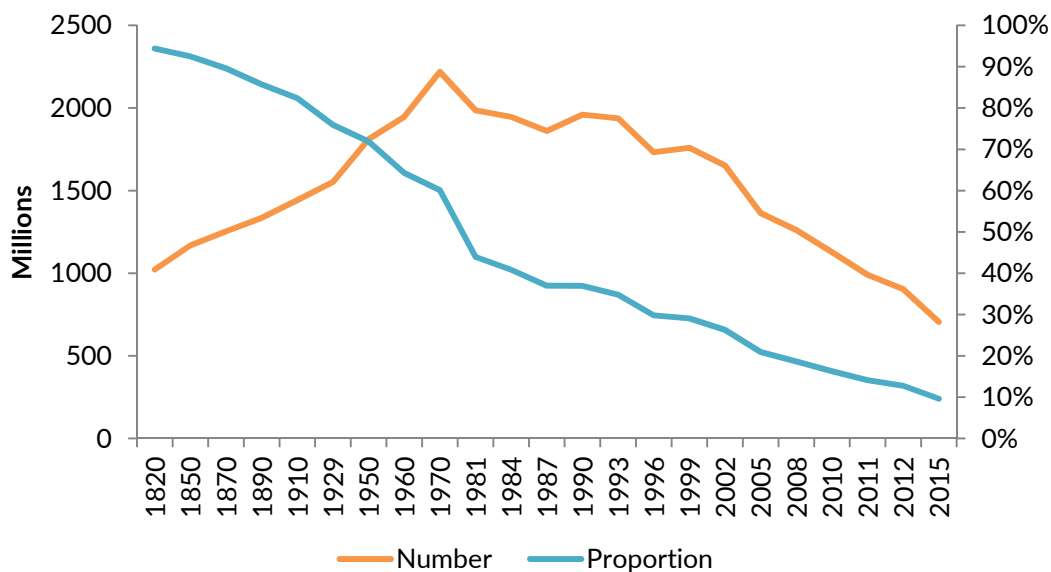
- What are the most important global challenges? Where can Britain make the biggest difference?
- What is the role for aid in meeting global challenges? How seriously should we take the public's worries over corruption?
- How well targeted and efficient is the current UK aid budget? What do we know about its impact, and what don't we?
- How can we improve the effectiveness of the aid budget? What new opportunities are created by Brexit?

What are the most important Global Challenges?

Global Public Goods and Global Challenges

The world is getting better. Over the last thirty years, the proportion of people living on less than the equivalent of \$1 a day has halved, taking one billion out of extreme poverty. Average global life expectancy has increased from 60 to 71 in 2015²⁹ while child mortality has improved from one in five (18.5%) children dying in 1960 to 4.3% today.³⁰ In 1970, roughly half the world population was illiterate. Today it is just 15%. While incomes in advanced economies have not always grown as fast as we would like, technology has continued to progress at rapid speed. Over the last three decades, the cost of computer instructions per second has fallen by something like a million times, while global smartphone penetration is expected to reach 37% by 2020.³¹

Figure 9: Worldwide population living in extreme poverty (Max Roser based on World Bank and Bourguignon and Morrisson (2002))



Much of this happened without a deliberate plan. The bottom-up mixing and merging of ideas in markets and academia created new technologies and business models, driving forward progress. Just as the original Industrial Revolution was not launched by any centralised programme, most economists believe the most significant driver of improvement in the last thirty years did not come from aid, but instead the integration of Asian economies like China into the global economy. Moving forward, free intellectual, cultural and commercial exchange is likely to remain central to global progress and relieving poverty.

Nevertheless, markets can't do everything. Just as governments at a national level have to intervene to tackle market failures and provide public goods, increasingly nations are now having to work together at a global level to address interests and tackle challenges that transcend borders.

Unlike with national public goods, however, there is no single World Government to allocate out resources and design policy. Neither is one likely to exist within the foreseeable future. While multilateral organisations like the United Nations, G7 or European Union can provide a useful coordinating role, they also have to act by consensus, leaving them often too slow, cautious, and bureaucratic to fully address global challenges by themselves. Rather than abdicate responsibility to international bodies, nations, private companies and NGOs will have to co-ordinate in a much more organic, bottom up process. Britain can't wait to be told what to do, but will have to get on with addressing those problems it sees as most pressing.

Global challenges and global public goods, somewhat by definition, should matter to everyone.

However, they can be especially important to the most vulnerable, who both have little buffer when things go wrong and are often at the front line of global spillovers, from pandemic disease to terrorism. In recent years, many in the development community have called for 'development-relevant Global Public Goods', to become a much bigger focus. One recent high-level panel at the Centre for Global Development (CGD), for example, argued that the World Bank's new central mandate should be to "promote global public goods critical to development as its major priority."³²

What is a Global Public Good?

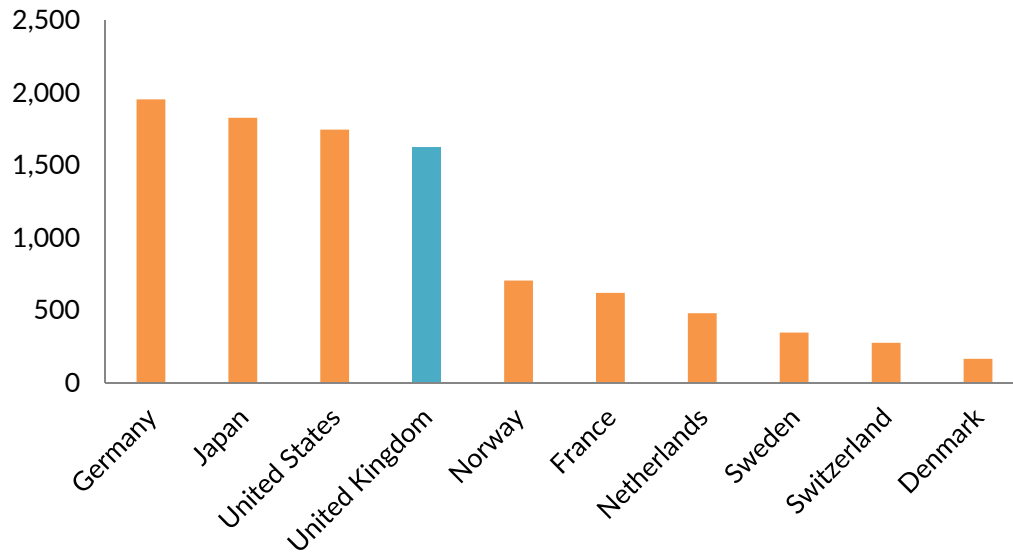
One challenge in discussing global public goods is a definitional one.

Traditionally, a 'public good' has been classically defined by economists as any good or service that is both non-rivalrous and non-excludable. That is, any good where separate individual property rights are hard to define and one person's use does not reduce the amount left over to be used by others - with the archetypal example being a streetlight or national defence.

Working towards this classical definition, and looking at aid that is non-rivalrous, non-excludable and benefits more than one group of countries, we worked with Development Initiatives to classify what proportion of the spending recorded in the OECD DAC CRS database could be classified as global public goods.

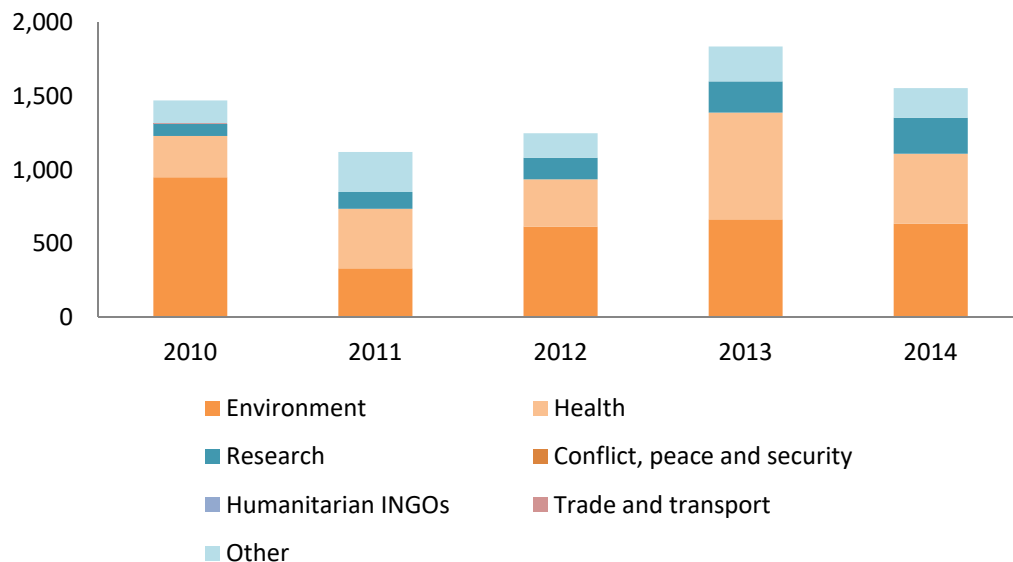
From this perspective, in 2014 the UK was the fourth largest donor for global public goods, giving \$1.6 billion or 9% of the total ODA budget. Other estimates suggest that overall around 10-14% of global ODA currently goes on global public goods.³³

Figure 10: Aid going to Global Public Goods (\$ mn, 2014, Development Initiatives)



Defined this way, by far the most significant GPGs the UK funds are in the environment (39% of the total), health (29%) and research (15%).

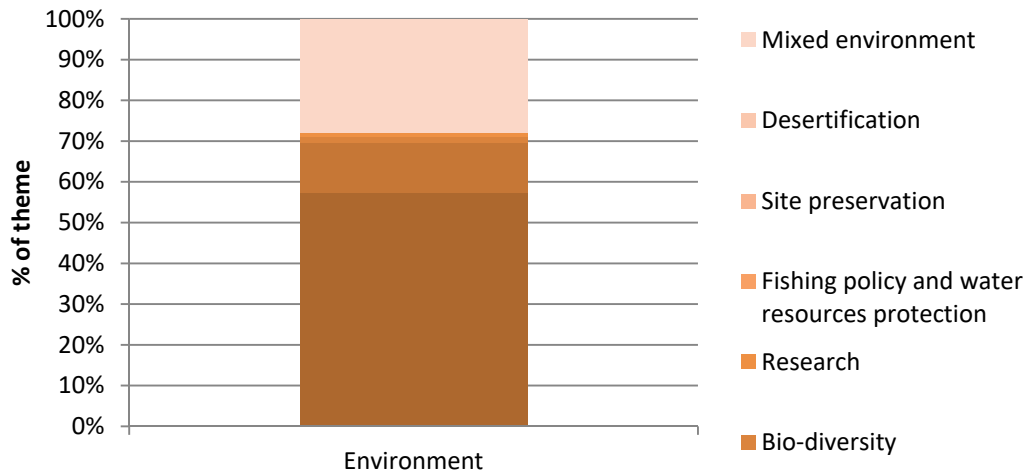
Figure 11: UK ODA spending Global Public Goods by Sector (\$ mn, Development Initiatives)



Looking in more detail at those three sectors, by far the biggest target for environmental GPG spending in is climate change mitigation (\$364 million), with

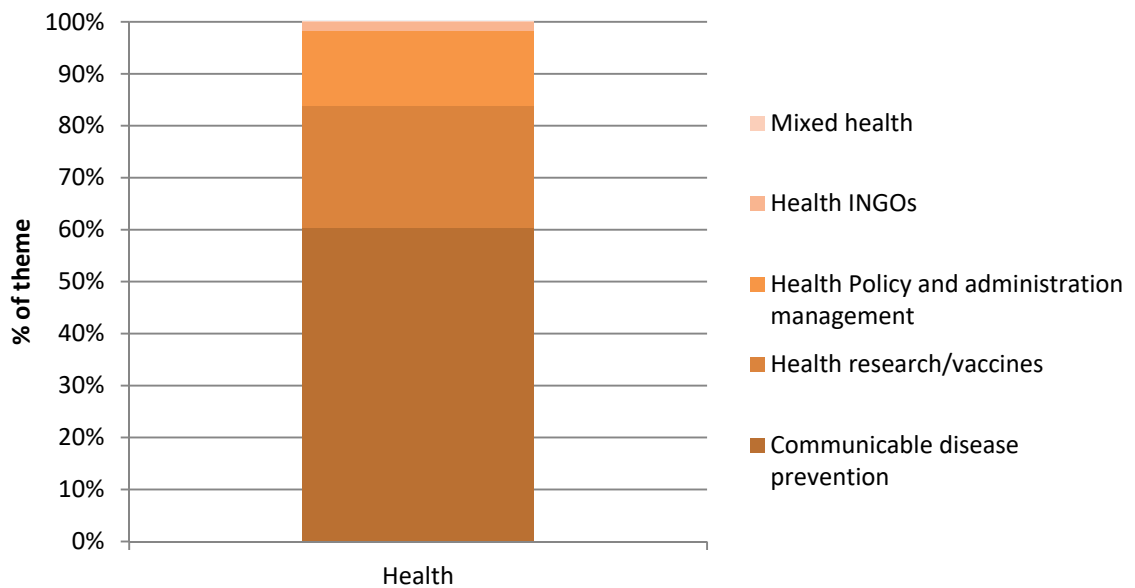
significant amounts also spent on general environmental protection (\$77 million) and bio-diversity (\$11 million).

Figure 12: UK Global Public Goods Spending in Environment (\$ mn, 2014, Development Initiatives)



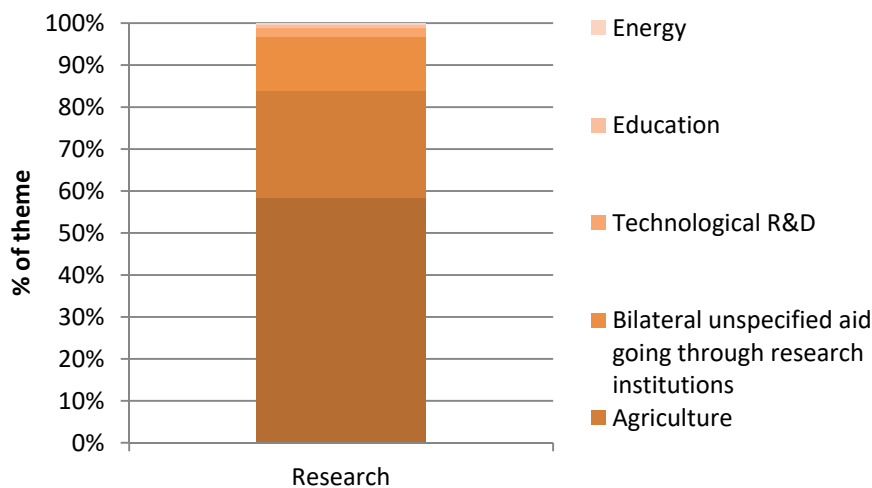
In health, resources were focused at communicable disease prevention (\$287 million), health research/vaccines (\$112 million) and health policy and administration management (\$69 million).

Figure 13: UK Global Public Goods Spending in Health (\$ mn, 2014, Development Initiatives)



The biggest sectoral target of research spending was in agriculture (\$63 million), with much less going towards technological R&D (\$4.7 million), education (\$2.1 million) and energy (\$0.8 million). The majority of the spending was less focussed however, going to general research and scientific institutions (\$143 million).

Figure 14: UK Global Public Goods Spending in Research (\$ mn, Development Initiatives)



The Difference between Global Public Goods and Global Challenges

While technically correct, the textbook definition doesn't match the broader sense in which the concept of public goods is often used in common parlance.

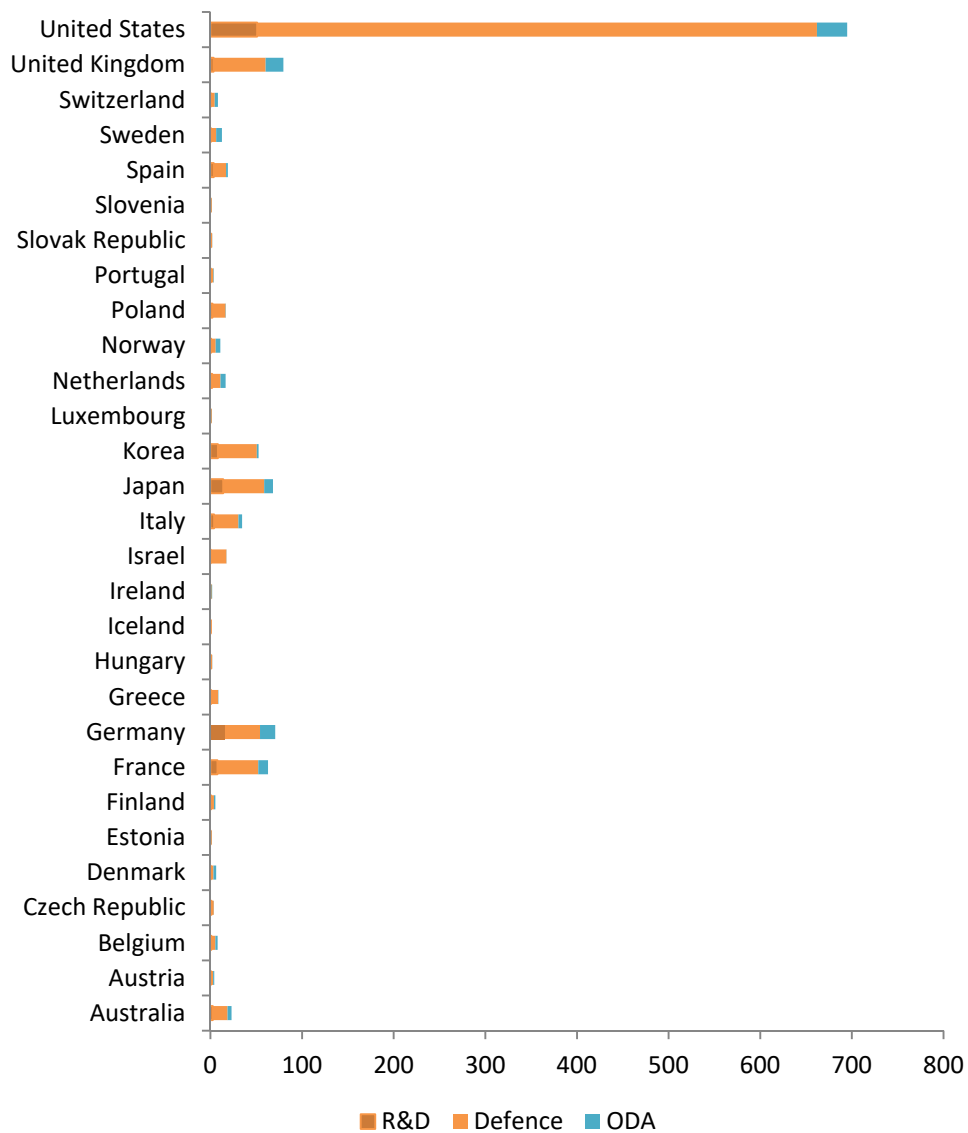
The classical definition, for example, does not include health delivery or education, both of which are eminently rivalrous and excludable. Today, we tend to think of public goods and services as any area in which the relative risk of market failure is high enough to justify significant government intervention.

Similarly, there is an analogous semantic debate over what exactly should count as a 'global public good.'³⁴ At one extreme, some concepts appear so bland that they would cover almost anything. The International Task Force on Global Public Goods, for example, defines them as "issues that are broadly conceived as important to the international community, that for the most part cannot or will not be adequately addressed by individual countries acting alone and that are defined through a broad international consensus or a legitimate process of decision-making."³⁵

At the other extreme, trying to focus purely on the textbook definition risks excluding many of the things we care about. Almost nothing is perfectly non-excludable and non-rivalrous considered over a long enough time frame. While focussing on projects that cross multiple countries or that can be counted within the ODA budget makes sense from within the international development community, it can also be helpful to be able to talk about global public goods in a much broader sense.

There is a reasonable case, for example, that in the broadest sense, the entirety of nations' R&D, defence and ODA budgets are global public goods: creating non-rivalrous goods, ensuring world security and redistributing to the poorest. By this definition, the US is by far and away the largest donor of global public goods at \$695 billion in 2014, dwarfing the UK in second position on \$80 billion. Even if you don't include defence spending as a public good and focus solely on R&D and ODA, the US still spends almost twice as much (\$84 billion) as the next largest donor, Germany (\$32 billion).

Figure 15: 'Broad' Global Public Goods (\$ mn, 2014)



To avoid confusion, for the purposes of this report we will reserve the phrase **global public goods** for the narrow, technical sense of projects that are non-rival, non-excludable and benefit more than one country.

For the broader sense of a problem that crosses borders and presents a clear market failure, we will use the term **global challenge**. These could include initiatives designed to:

- Tackle negative externalities like pollution or political radicalisation
- Subsidise goods with positive externalities like R&D or international trade rules
- Protect global security and peace
- Insure against potential global catastrophic threats
- Work together on common infrastructure in transport and communications
- Agree common rules and standards for international tax and trade
- Support a global welfare state to alleviate extreme poverty and other deprivation
- Improve global public health and reduce the risk of pandemics

What criteria should we judge by?

The world has many problems, and only limited resources. How should we decide which global challenges to confront, and the appropriate level of resources to allocate to each?

One commonly used framework is to judge challenges by their importance, potential traction and how neglected they have been by other funders:

- **Importance:** How significant an opportunity or threat is this cause or need? What is the expected value of addressing it?
- **Traction:** Are there plausible unfunded projects that could help tackle the problem, or better understand it? What is the likely effectiveness and marginal return of additional resources?
- **Neglected:** To what extent is this challenge amply funded by other governments, charitable organisations or the private sector? Will additional spending lead to additional resources at a global level, or simply crowd out existing spending?

However, in practice trying to formally rank challenges by this criteria is complicated by three significant unknowns:

1. **Distribution.** Average GDP per capita in the G7 is an order of magnitude (13.7) times higher than the average in sub-Saharan Africa, or two orders of magnitude (72) times higher than the international poverty line. Based on almost any cosmopolitan social welfare function the most pressing need is likely to come in the developing world – but many also believe that nations have a special responsibility to their own citizens. To what extent should we try to redistribute resources both within and between countries?
2. **Discount Rate.** Many investments for the most important challenges like R&D for new vaccines, slowing climate change or reducing existential risk are only

likely to pay off after many decades. The assumptions made about the appropriate discount rate can substantially alter the expected benefit-cost ratio of any particular option, and has significant feedthrough into other policy variables, like the appropriate Pigouvian tax on carbon. Most economists accept that the appropriate social discount rate is likely to be substantially lower than the going private sector discount rate embedded in market interest rates.

3. **Risk Aversion.** Many global challenges operate in areas of extreme uncertainty, power law like distributions and tail risk. The vast majority of individual R&D projects may make almost no difference, but a single accidental discovery like penicillin can save 200 million lives. On the risk side, as economist Martin Weitzman has stressed³⁶, the real danger from climate change does not come from the central projection of a modest increase in global temperatures, but the non-trivial chance of a truly catastrophic outcome. Should policy makers prioritise more certain, incremental projects, or take the risk on more speculative initiatives? To what extent should we worry about unlikely but potentially calamitous scenarios?

How should we respond to these fundamental unknowns - often based as much on philosophical disagreements as economics - and where crucial uncertainties can dwarf what we do know?

If we focus only on projects with a strong track record and quantifiable evidence base, we risk making the "streetlight effect" mistake, following the example of the proverbial drunk searching for his keys only where the light is. Not everything that matters is measured.

If, on the other hand, we try to reason purely a priori, we risk suffering from a form of "Pascal's mugging": dedicating most of our resources to extremely unlikely scenarios which if they did come true would be catastrophic.³⁷ While the maths may work in the abstract, it is too easy to come up with an arbitrary one-in-a-million doomsday scenario and then fool yourself that it is the one that needs taking especially seriously ("even if we only have a 0.001% chance of creating a perpetual motion machine, the expected value is in the billions").

For the most part, we can avoid the more absurd conclusions by pursuing a fuzzier form of optimisation rather than relying on pure expected value calculation alone: adjusting expected value by the quality of the underlying evidence and our pre-existing priors, while allowing some 'worldview diversification'³⁸, hedging our bets over the right philosophical framework on distribution, discount rates and risk.

In practice, there is a reasonable consensus over what the most important global challenges are on a macro level (see Box 2). Trying to get more specific than this on the ranking of the challenges is likely to be misleading. In practice, you will run out of potential important, tractable, neglected projects to fight malaria before you are forced to trade it off against, say, tackling climate change.

When it comes to individual interventions, however, you are much more likely to run into the 'streetlight effect' dilemma again. High quality evidence is often expensive and sometime impossible to collect – and this is especially true when a project is innovative or the relevant impacts only take place after a long delay.

When it comes to innovation, we are dealing with a relatively well understood explore-exploit trade-off. Mathematically, your optimal strategy is to dedicate the majority of your resources towards exploiting what you already know works, and a minority of resources towards exploring more speculative options altogether in case something better comes along.³⁹

When it comes to other hard to measure factors, there is no perfect solution. This is especially worrying when it comes to potential negative long term side-effects. As we will see later, much of the aid debates centres precisely around how much confidence we should place in the carefully measured impact of specific aid projects versus the more nebulous impact on government institutions.

For the most part, however, we know that any given intervention is more likely to fail than to succeed. Most experiments fail. If a new initiative is to absorb substantial amounts of funding beyond an initial experiment, the burden of proof should be on it to show that it is effective.

Given the significant levels of uncertainty, often the best we can do is make order of magnitude calculations – but these in themselves can still be useful. Equally, when trying to decide whether an intervention is effective, often the best we can do is see whether they plausibly exceed some threshold.

In the case of international development, one potential threshold is to ask whether any intervention has at least as high a return as direct cash transfers to the extreme poor. While this may seem a low bar, in practice many inventions will fall clear to this threshold.

While other interventions may have higher returns, cash transfers work well as a 'null hypothesis'. While other inventions can soon run into diminishing returns, this is unlikely to be an issue with direct transfers. A priori, most market economists would accept that you should at least start by assuming individuals know how to spend resources best. A recent review by ICAI found that DFID's current programme of cash transfers, making up around 2% of expenditure, were succeeding in increasing consumption, income and saving for the poorest households.⁴⁰ Beyond this, cash transfers have one of the strongest evidence bases of any intervention, with many RCTs and long term studies showing high rates of return and little evidence of money being diverted to alcohol, tobacco or other 'temptation goods.'⁴¹

As an order of magnitude estimate, the recent Post-2015 Copenhagen Consensus Center estimated that to "end extreme poverty by money transfers" had a BCR of 5:1.⁴²

Ten Key Challenges

While the world is growing better, we still face significant challenges. In order to address them, we will have to use a combination of instruments: military, cultural, scientific, and economic. In many, the role of aid and international development will be crucial.

Here are ten key global challenges we have chosen with a reasonable consensus behind them (see Box 2), and for which interventions exist that seem likely to pass our threshold of effectiveness:

1. **Eliminating extreme global poverty.** There are currently around 750 million people living on \$1.9 or less per day (2011 PPP)⁴³, the equivalent of around £1.50 in today's money. Since 1981, the proportion of the world population in extreme poverty has fallen from 42% to 11%, and as part of the new 2015 Sustainable Development Goals, the world community committed to ending extreme poverty altogether by 2030. Eliminating the last 10%, however, is likely to be as hard or harder than the fall from 40%, with many of those poor concentrated in fragile states or at the edges of larger societies where they will be difficult to target.

Magnitude of Challenge: An approximate \$70 billion international gap between the extreme poor and a \$1.90/day poverty line.⁴⁴

2. **Decreasing suffering from avoidable disease and disability.** Development aid targeted at improving public health has a much clearer track record of success than pure economic aid. Nevertheless, the global disease burden is still very unequally distributed, with 10 million a year in poor countries dying from diseases that can be cheaply prevented or managed.⁴⁵ Infectious diseases cause 67% of preventable deaths, with half of these attributable to just three diseases: malaria, tuberculosis and HIV.⁴⁶

Magnitude of Challenge: A third of all potential healthy life years are lost globally to disease,⁴⁷ with the equivalent of 80 million lives lost in 2015.⁴⁸

3. **Reducing the risk from a future pandemic outbreak or growing antimicrobial resistance.** Pandemics have been a recurrent risk in human history, with around 10 influenza pandemics alone in the last 300 years⁴⁹ and the WHO estimating around 1,100 epidemic events over the past five years.⁵⁰ While the potential for a repeat of the 14th Century Black Death or 1918 Spanish Flu, killing off a significant proportion of the world population, remains relatively low, the potential for new engineered pandemics creates additional risks. These risks have been further exacerbated by the historic overuse of antibiotics or other

antimicrobials, and growing resistance as new strains evolve to counter old forms of drugs, which is already responsible for 700,000 deaths a year.

*Magnitude of Challenge: Past global pandemics have killed 3-5% of the world population. By 2050, 10 million lives a year could be at risk as a result of drug resistance.*⁵¹

- 4. Improving energy sustainability and reducing the risk from climate change.** The IPCC estimates that in order to meet current targets to limit overall global warming to 2° centigrade, the level where risks start to become serious, overall carbon emissions will have to fall 80% by 2050. At the same time, demand for energy, by far the biggest cause of greenhouse gases, is expected by the International Energy Agency to rise by 30% by 2040 –and this is assuming 500 million people remain without any access to electricity and 1.8 billion reliant on solid biomass for cooking. At present, around 1.2 billion do not have access to electricity, while 2.7 billion are reliant on biomass for cooking.

*Magnitude of Challenge: Estimates for the impact of climate change range between 1-20% of world GDP.⁵² Using biomass for cooking is estimated to contribute to 3.5 million preventable deaths a year.*⁵³

- 5. Increasing and protecting access to food, water and sanitation.** The current world population of 7.3 billion is expected to grow to 8.5 billion by 2030 and 9.7 billion by 2050⁵⁴, creating significant extra strain on food and water resources. Today, 795 million people are still undernourished, 663 million lack access to safe water and 2.4 billion lack access to sanitation. One in four children worldwide suffers stunted growth, while globally 1.8 billion people are using a source of drinking water that is faecally contaminated.⁵⁵

*Magnitude of Challenge: Global water demand is expected to be 40% higher than current supply by 2030, while global food production is likely to have to increase by 70% by 2050.*⁵⁶

- 6. Encouraging stable states, strong institutions and the rule of law.** Economic development is unlikely to take root without a grounding of strong institutions and open societies, based on the rule of law and a free press. According to Freedom House, while the number of free countries grew steadily from the 1970-2000, in the last two decades the proportion has largely been stagnant. For the 11th consecutive year, their most recent index saw a decline in global freedom, with 67 countries seeing reduced political rights and civil liberties.⁵⁷

Magnitude of Challenge: Around 60% of countries are potentially unstable, with just 40% of the world population living in countries estimated to be free or enjoy democratic values.⁵⁸

- 7. Protect against risks from hostile states, terrorism and large scale involuntary migration.** In today's increasingly globalised world, internal state instability is increasingly likely to spill out through extremist ideas, agents or knock-on migration, with digital networks creating new vectors through which hostile actors can attack. While the long term trend has seen a significant decline of full scale conventional warfare, in the last few years the number of armed conflicts and resulting casualties has been rising, driven by an increase in internal conflicts and the rise of international terrorism.⁵⁹

Magnitude of Challenge: Approximately 200 million people died of war or conflict during the twentieth century.⁶⁰ Around 1% of the world population today are refugees or internally displaced people (IDPs).⁶¹

- 8. Insuring against the danger from catastrophic natural disasters or existential risk.** Some natural risks are well understood: extremely unlikely in the short term, but potentially civilisation ending if they do take place. A super-volcanic eruption is estimated to take place roughly every 30,000 to 50,000 years, while it is estimated that there is a 1 in 1,250 chance of a significant asteroid encounter in the next 100 years.⁶² Other risks have less clear probability distributions, but are potentially more imminent, such as the possibility of catastrophic climate change (a 6° C+ increase) or technological risk from uncontrolled artificial intelligence or bio-engineering.

Magnitude of Challenge: Estimates suggest a 3-10% chance of climate change exceeding 6° C, while the median expert forecast is for human-level AI to be achieved by 2050.⁶³

- 9. Encouraging international trade and economic liberalisation.** Liberal markets and growing trade are among the most powerful engines of development we know about – a historic pre-requisite for catch-up growth from Industrial Revolution Britain to today's Asian giants. At present, however, the World Economic Forum estimates that Sub-Saharan Africa has an overall Global Competitiveness Index of just 3.6, compared to 4.8 for Europe and North America. (As an order of magnitude, every 0.1 improvement in the index is correlated to an 18% increase in GDP per capita.) The roots of this are as much historical and ideological as financial, with significant gaps remaining when you look at non infrastructure or environmental variables such as institutions (3.7

compared to 4.5) or good markets efficiency (4 to 4.7)⁶⁴. At the same, advanced economies today are experiencing increasing fears of a backlash against globalisation, with concern that future technological changes will be unable to deliver inclusive growth.

Magnitude of Challenge: Achieving universal catch-up growth for developed economies would increase world GDP by 370%.⁶⁵

10. **Accelerating the process of scientific and technological innovation.** The vast majority of the improvement in Western living standards is (80%)⁶⁶ not because of steady investments in education or infrastructure, but instead transformative new ideas in science, business and technology. At present, however, we still do not understand the fundamental sources of growth well, while many fear that over the last few decades the process of finding good new ideas has been becoming harder, leading to slower innovation. Accelerating the process of innovation not only has very high returns in itself, but would make tackling all the other challenges significantly easier.

Magnitude of Challenge: Accelerating the process of innovation by 20% would create an additional \$300 billion of economic value a year.⁶⁷

Box 1: What do other people think the most important challenges are?

Over the last few years, multiple organisations have attempted to identify the most important, or at least relatively neglected, global challenges:

- The UN's 2015 **Sustainable Development Goals** were designed to replace the expired Millennium Development Goals, providing a common framework for international governments to design policies and prioritise international aid that will help "end poverty, protect the planet and ensure that all people enjoy peace and prosperity."
- The **Copenhagen Consensus Centre** was founded in 2006, to build on the earlier 2004 Copenhagen Consensus conference. Directed by Bjørn Lomborg, the centre aggregates the opinion of international expert panels to form explicit rankings of the most cost-effective, evidence based opportunities to tackle the world's biggest challenges.

- In 2016, the **World Economic Forum** identified 10 key global challenges. Separately, their annual **Global Risk Report** draws together an expert collated list of imminent global risks, trends and technologies.
- The **Millennium Project** was founded in 1996 as a joint initiative of the United Nations and United States as an "independent non-profit global participatory futures research think tank" that primarily works to annually synthesise the views of global futurists and scholars. Every year, the project releases an updated list of the 15 most important global challenges.
- The **Open Philanthropy Project** was founded in 2015 as a collaboration between Good Ventures (created by Facebook co-founder Dustin Moskovitz and his wife Cari Tuna) and **GiveWell**, a nonprofit dedicated to finding the best international giving opportunities. While GiveWell focuses on highly measurable, evidence backed charities, the new initiative is prepared to be more speculative and has invested in a much wider range of causes.
- The **Future of Humanity Institute** is a research centre based out of the University of Oxford, who specialise in using the tools of mathematics and philosophy to analyse the most important long term challenges, with a particular focus on macro strategy and existential risk. They have acted as an incubator and partner for many other organisations interested in cause prioritization, including the **Centre for Effective Altruism**, **80,000 Hours** and the **Global Priorities Project**. The latter, for example, partnered with the **Swedish Global Challenges Foundation** to produce the 2016 report **Global Catastrophic Risks** on threats that could potentially kill 10% or more of the global population.

Given their different philosophical backgrounds, resources and methodologies, there is not complete unanimity in identifying the most important challenges. Nevertheless, there is considerable crossover, with increasing agreement over the importance of causes that were considered quite niche, such as the potential for technological risk. Most people agree on the most pressing problems – it is identifying the most promising solutions that is challenging.



Does aid work?

The Micro-Macro Paradox

Nobody doubts that developing societies contain much higher levels of poverty and disease than advanced economies. Many are on the front line for some of the most pressing global challenges, from future pandemics to local state failure.

By itself however, this is not enough to show that aid is a good use of resources, or a solution to these problems. Poor countries are the result of extractive institutions and unlucky geography rather than just a shortage of financial resources. Done badly, aid could make matters worse.

It is easy to dismiss public concerns on aid as driven by media hysteria over unrepresentative scandals or even 'fake news'. In practice, however, the public's fears over corruption are not that different from the views of many of the world's leading development economists. They may be wrong, but they are not trivially wrong.

Equally however, despite the caricatures that appear in the press or their book titles, both the leading supporters and critics of aid are often much closer in their views than it is often appreciated. Between the two, there is a substantial common ground for building a positive agenda moving forward.

Over the years critics have given many criticisms of aid: if poverty was just a matter of cash, countries would be able to raise the additional money on world capital markets. Western aid budgets are a way for their governments to signal compassion rather than actually make a difference. Too much of the aid budget is lost to direct corruption, or props up predatory elites. Even if we do improve health outcomes, this will only lead to unsustainable rises in population, with the developing world caught in a Malthusian trap.

Some of these arguments are stronger than others. For example, most evidence suggests that life-saving health interventions have relatively little effect on long term population growth,⁶⁸ suggesting that we shouldn't be too worried about a Malthusian trap. In contrast, historically, we know that improved survival rates have generally preceded smaller family sizes as part of the demographic transition alongside wider economic and social changes.

It is true that the development community has had its share of white elephants, such as the £286 million reportedly unsafe airport on St Helena.⁶⁹ Rapid increases in budgets, such as the 50% rise in aid budget, do make it harder to maintain efficiency. However, there is little reason to believe that development is systematically worse in either than

other public services, however – which similarly struggled to absorb rapid rises in funding in the early 2000s. Now that the development budget is more stable, these strains should hopefully naturally lessen.

Equally, bribery and petty corruption are more common in poorer countries, but this does not necessarily stop aid from being effective. For obvious reasons, being precise about the total amount lost to the fraud that is not easy. In 2015-16, DFID reported that the gross detected amount lost to fraud was £3.2 million, or 0.03% of programme spend. As the National Audit Office pointed out in a report earlier this year, this is in comparison to a rate of 0.7% for DWP or 3% for HMRC⁷⁰, suggesting that a lot of corruption may be going unreported.

In the private sector, we know that it is not unusual in developing countries to lose 5% to bribes, while in the public sector, a significant fraction of resources is often lost or redirected before it reaches the front line. Many public-sector workers regularly simply fail to show up to their jobs.⁷¹ Nevertheless, despite these losses, most aid projects still report being successful in producing the desired immediate outputs – a school gets built, or vaccine delivered. Petty corruption raises the cost of development, but it does not prevent it altogether.

After aggregating thousands of project completion reports, Riddell (2008) found reported success rates of over 75%.⁷² Even allowing for bias and the lack of sustainability of many projects, almost no critic would deny that aid programmes are producing schools, medicine, clean water and so on. The money is not just disappearing into a black hole.

This, however, sets too low a bar.

What really matters are not just immediate outputs, but the systemic outcomes those outputs create. You can build a new school, but does this actually guarantee the quantity or quality of education increases? What if developing governments just cut back on their own school spending? Even if education does increase, are we sure that this will actually result in faster growth? In recent decades, many have worried that aid suffers from a **micro-macro paradox**: lots of successful small interventions do not seem to cumulate into successful macro change.

Why might this be happening?

The Role of Institutions

In the world before the state life was genuinely Hobbesian. Archaeological evidence suggests that pre-state societies could see as much as 15% of their population killed by a violent death, a rate 12,500 times higher than modern Britain. One of England's

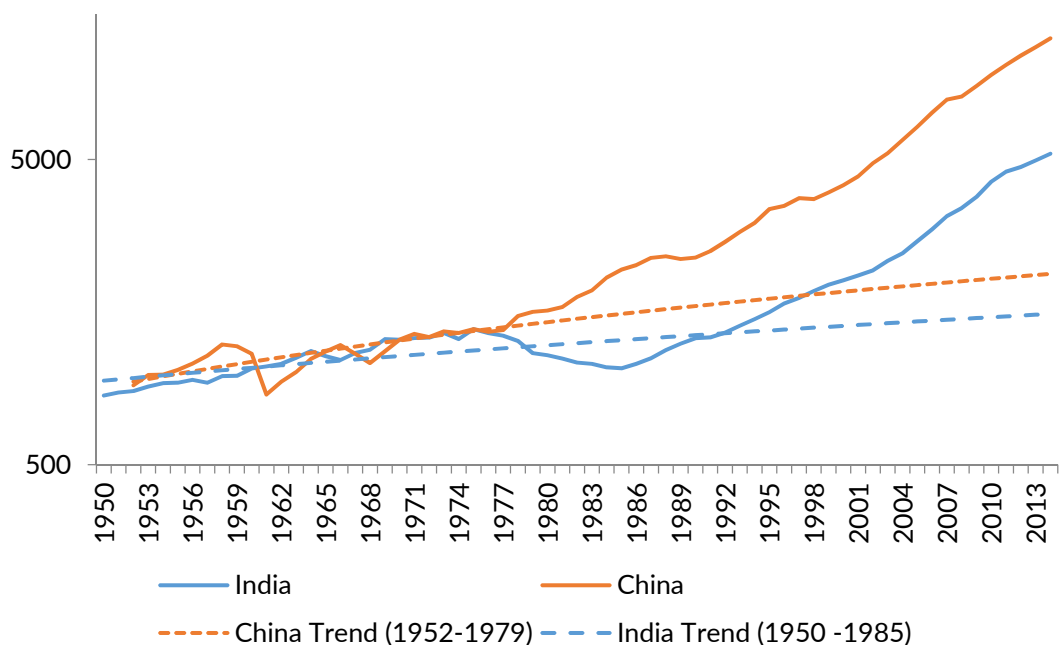
under-appreciated advantages was how early it was consolidated into a single state: as early as 1300, the homicide rate in England was 50% lower than the rate of Germany, and less than half of Italy's.⁷³

Once you have created Leviathan, the next and as hard challenge is ensuring that it acts for the good of its citizens – rather than a vehicle to extract rents and value for the enrichment of the elites. While the basics of a state are ancient, the creation of an open, liberal order is considerably more modern. Britain's Industrial Revolution and the birth of modern economic growth would have been unlikely to take place without the centuries of institutional reforms that led up to it – from Magna Carta in 1215 to the Glorious Revolution in 1688. Credible institutions limit absolute power, create porous elites and provide certainty for individuals to invest in their own future.

While it is hard to perfectly quantify the quality of a country's institutions, there are theoretical, empirical and statistical reasons to believe that good institutions are still necessary for strong growth:

- **Theory.** Free markets struggle to operate where transaction costs are too high – as is often the case in countries where property rights are unclear, or many types of business are banned altogether. Economists from Adam Smith to Ronald Coase, from Friedrich Hayek to Douglass North have stressed the importance of institutions for enabling the power of markets.
- **Comparing similar countries with different institutions.** The twentieth century offered many dramatic examples of countries with the same geographies, culture and peoples split into two halves, with very different institutions. Until 1950, GDP per capita in North and South Korea was largely the same, at around 10% of the contemporary level of the UK or US. Over the second half of the twentieth century, South Korea largely caught up with Western levels, while GDP per capita in North Korea remains only around \$6000 today.⁷⁴
- **Looking at changes in country growth rates after they have liberalised institutions.** It is hard to miss the acceleration in growth rates for China and India that begin respectively in the late seventies and mid-eighties. If the two Asian giants had stayed on their post war growth path, India would be three and China six times poorer respectively. It is hard to identify any other contemporary cause for these accelerations than their respective decisions to open up their economies and adopt more market friendly institutions.

Figure 16: The Increase in Chinese and Indian Growth Rate (\$2011 per capita, Penn World Tables)



- Statistical instruments.** Acemoglu, Johnson and Robinson (2001) famously showed that much of today's differences in income could be explained by which institutions European colonists implanted on new territories.⁷⁵ Rodrik, Subramanian and Trebbi (2002) show that after you have controlled for institutions, geography has a relatively small effect on cross-country income levels.⁷⁶ Other relevant studies are discussed in recent literature reviews by DFID (2013),⁷⁷ Ogilvie and Carus (2014)⁷⁸ or Bluhm and Szirmai (2012).⁷⁹

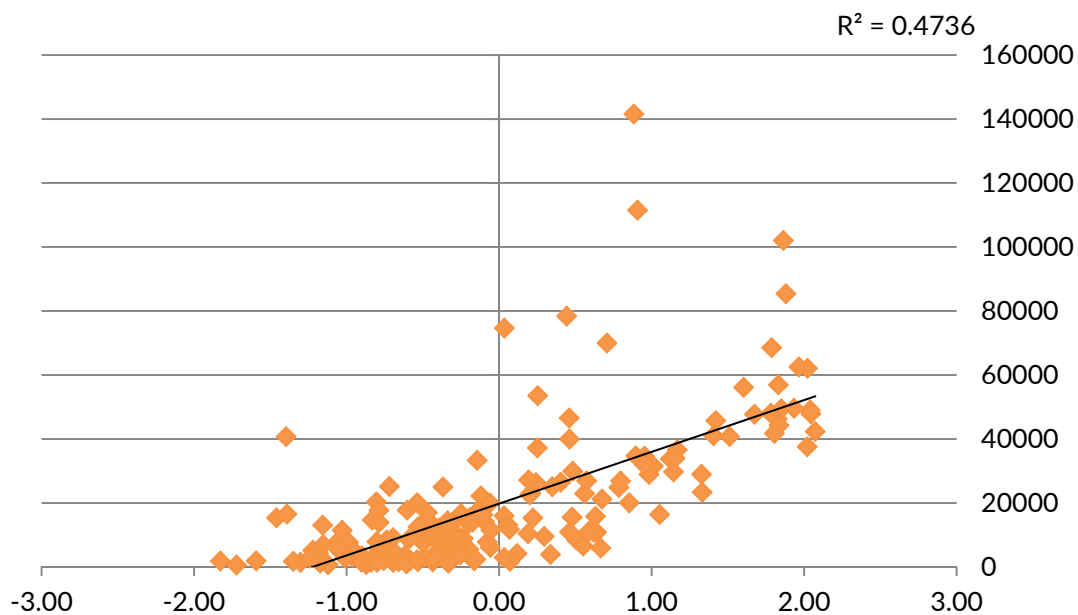
Using data from the World Bank's World Governance Indicators, there is a strong correlation between a country's GDP per capita and perceived government effectiveness (54%), regulatory quality (50%), rule of law (47%) and control of corruption (43%). Increasing the perceived rule of law by one point on a six point scale is associated with a \$16,000 increase in GDP per capita.

None of these sources of evidence are necessarily convincing on their own. The 2001 Acemoglu et al result in particular has been criticised for the reliability of its methodology, while many have questioned the 'Whig' narrative over the importance of Britain's Glorious Revolution and whether strong Parliaments reliably lead to good institutions.

Nevertheless, the range of evidence together seems to paint a compelling picture that good institutions are strongly correlated with growth – and that in many cases, the

direction of causation seems to run from improved institutions to faster growth, rather than the other way around. Good institutions seem to be a necessary prerequisite for growth, although it is less clear if they are sufficient on their own.

Figure 17: The Correlation between Perceptions of the Rule of Law and GDP per capita (World Governance Indicators 2016, World Bank)



There is less clear evidence over which specific institutions are the most important, and how much open political institutions matter in comparison to open economic institutions. As the obvious example of China demonstrates, sustained catch-up economic growth is clearly compatible with what we would regard as fairly closed political institutions. While some economists have argued that China will struggle without further democratisation when it reaches the growth frontier, that remains speculative.

What does all this imply for aid?

While greater financial resources might be enough to overcome the disadvantages of geography, it is far less clear that they can create open or democratic institutions.

Even worse, the central argument of the most influential aid critics is that badly designed aid risks undermining the organic development of those institutions:

- **Daron Acemoglu and James Robinson**, the authors of *Why Nations Fail*, argue that countries fail when they have extractive institutions where elites focus largely on enriching themselves and maintaining their power base. Opportunities

to change this basic dynamic – a ‘critical juncture’ – are next to impossible to predict, and unlikely to be affected by overseas aid. While they are not against overseas aid per se, they believe it needs to be careful not to prop up corrupt regimes.

- **William Easterly**, the author of *The Elusive Quest for Growth*, *The White Man’s Burden* and *The Tyranny of Experts*, argues that aid has repeatedly failed to accelerate growth in developing nations, despite frequent changes of strategy from the international community in the post war era. While he accepts that aid has contributed to the “dramatic improvement in health and education”, he worries that the developing community has too often become too close to autocrats and is not respecting the rights of individuals in the developing world.
- **Angus Deaton**, the author of *The Great Escape*, argues that foreign aid risks undermining the social contract. In the same way that a large supply of oil or diamonds can perversely create a ‘resource curse’, foreign aid makes it easier for corrupt elites to hold onto power and reduces their incentive to develop the rest of the economy. However, while he does not believe in aid spent ‘in developing countries’, he does strongly believe in spending ‘for developing countries’ on global public goods such as R&D or better trade institutions.
- **Dambisa Moya**, the author of *Dead Aid*, argues that foreign aid has enabled dependency and encouraged corruption, and that better accountability would come through borrowing from private financial markets.

Others, such as economist **Paul Collier**, the author of *The Bottom Billion*, remain overall in favour of aid, but argues that it is relatively unimportant by impossible, and in the past has been too dominated by gesture politics.

Aid, Growth and Health

Are the aid critics right? Has aid largely failed to accelerate growth? Are any other beneficial effects outweighed by other negative impacts on institutions?

The first thing to say is that whatever else it might be doing, aid is clearly not holding countries back from making progress.

While everyone would wish that that progress had been faster and substantial challenges still remain, almost however you look at it the story of development is heading in the right direction. While we should not ignore the worrying divergence in incomes between the ‘bottom billion’ and the rest of the world economy, we have still seen significant advances such as:⁸⁰

- **Poverty.** The number of people in extreme poverty worldwide has fallen from 2.2 billion in 1970 to 700 million today, or in relative terms from 60% to 10% of

the world population. Even excluding China, the proportion of extreme poor has more than halved over the last forty years. Since 1999, the share of the Sub-Saharan African population living in extreme poverty has fallen from 57% to 41%.

- **Hunger.** The prevalence of undernourishment has fallen from 31% in South-Eastern Asia in 1991 to 13% by 2015, and in Sub-Saharan Africa from 33% to 23%. Both in absolute and relative terms, famines are significantly down on their mid twentieth century peak.
- **Growth.** Real GDP per capita has increased by 60% since 2000 in Sub-Saharan Africa, implying an average growth rate of 2.4%.
- **Education.** World primary school enrolment has increased from under 50% in 1950 to around 90% today. Average years of schooling in Sub-Saharan Africa has increased from 1 in 1945 to 5.4 today, with literary rates doubling since 1970.
- **Democracy.** Since the end of the Cold War, the number of electoral democracies has near doubled from 69 in 1989 to around 123 today.
- **Technology.** Sub-Saharan Africa already has a 77% penetration rate for cell phones – and by 2020, over half of these are expected to be smartphones.⁸¹
- **Life expectancy.** Over the course of the twentieth century, life expectancy in Asia more than doubled from 28 years to 68, and in Africa increased from 26 to 50 years.
- **Child mortality.** Over the last fifty years, child mortality has fallen in Sub-Saharan Africa from 25% to 10%, and from 24% in South Asia to 6%. Maternal mortality in Sub-Saharan Africa has followed a similar trend, dropping from 1% in 1990 to 0.5% in 2013.
- **Disease.** Global malaria deaths have fallen since 2000 from 840,000 to 440,000 a year. New HIV infections among children have declined by 58% since 2000. Other diseases such as polio or Guinea worm disease are on track to follow smallpox in being eliminated altogether.

How much of this should we attribute to aid?

In terms of growth it is hard to say, with a large literature continuing to argue about the question. Early studies in the 1970s generally found that aid increased total savings, while a second generation in the 1980 saw aid leading to higher investment. A third generation of studies from the mid-1990s built on new data and had more mixed

findings, with many finding that aid only succeeded conditional on good policies or institutions – although even this limited result has been rejected by many. The latest generation of studies over the last decade or so focus on disaggregating aid to look at the conditions under which it is likely to work and often emphasises the long lags before aid impacts and growth.⁸² In general, recent studies have largely found a modest but positive impact of aid on growth, although the debate is not fully resolved, with some such as the meta-analysis of Docouliagos and Paldam (2008)⁸³ arguing that this is largely the result of publication bias.

Cross country regressions are always hard. This is especially true in this case given the limits of the data, and the basic conceptual difficulties in judging a like-for-like exchange rate. Probably the safest conclusion to make is that aid has neither been associated with spectacular growth successes, nor spectacular failures.

Neither are cross-country regressions likely to be illuminating in health. The good news is that health outcomes have far exceeded economic outcomes. In life expectancy we are seeing sustained convergence between the poorest regions of the world and the richest. Contemporary child mortality in Sub-Saharan Africa is significantly lower than historic Britain suffered with the same level of income.

One reason for this is better technology. Even Africa, the world's last major region to start seeing improved life expectancy, has seen steadily longer lives from the 1920s, long before major donations of aid. You do not necessarily need to be rich to enjoy the benefits of modern science and technology. While some health interventions are extremely expensive, others can be relatively cheap. As Charles Kenny argues, in nineteenth century Britain reforming public sanitation played a major part in tackling disease. Today, the much cheaper oral sanitation theory, while obviously not a full replacement, can help tackle cholera much more cheaply.

However, aid has clearly played a part in these successes too. There is a strong correlation between health aid and improvements in life expectancy or under-5 mortality – and no significant correlation between improvements and GDP per capita. Every \$1 billion increase in health aid is associated with 360,000 fewer under-5 deaths, or around \$3000 each.⁸⁴

More specifically, since 2000 the global malaria mortality rate has fallen by 58%, helping avert 6.2 million deaths. A tenfold increase in international financing has seen over 900 million insecticide-treated mosquito nets delivered to sub-Saharan Africa since 2004. In the early 2000s, countries like Gambia, Sierra Leone or Madagascar saw only around 1% of children under five sleeping under mosquito nets. Today, the proportion is around 50% or higher. It is hard to see to how the two are unconnected. We know from some of the highest quality type of evidence possible in the social sciences that on the micro

level bed nets are effective in reducing child mortality. For example, a 2004 Cochrane meta-analysis of 22 randomised controlled trials estimated that insecticide-treated nets could reduce deaths in children by one fifth and episodes of malaria by a half.⁸⁵

Equally, the elimination of smallpox would not have happened without the subsidy and assistance of advanced economies. By one calculation, if all the entirety of the historic \$4.7 trillion global aid budget had achieved was this, this would still be equivalent to spending \$80,000 per life saved – or twice as cost effective as the NICE threshold.⁸⁶

Does aid create a resource curse?

Nobody doubts that both British and ODA in general have helped provide many tens of millions of school places, vaccinations, and bed nets. Even if these interventions had no effect on growth whatsoever, many would be worth doing in their own right. Given the orders of magnitude difference in costs between advanced and developing countries, many of these interventions can be delivered at very low cost.

Given these concrete benefits, in order for the net impact of aid to be bad, it would also have to have dramatically bad side effects elsewhere.

The most plausible story of how this could happen is that aid creates a *resource curse*. While you might assume that discovering valuable natural resources such as oil or diamonds is unvarnished good news, in practice, their impact tends to be a good deal more ambiguous. While commodity booms boost growth in the short term, in the long term they can actually hurt output in countries with poor institutions.⁸⁷

These effects seem to take place through three mechanisms:

- **Dutch disease.** Large influxes of capital from aid or resource exports raises the domestic country's exchange rate, making its trading industries such as manufacturing and slowing structural shifts away from agriculture. For example Rajan and Subramanian (2005) argue that aid creates "systematic adverse effects on a country's competitiveness."⁸⁸
- **Capture.** Large, financially liquid resources are easy for corrupt elites to capture for their consumption, to transfer to their supporters or use to re-enforce their political power.
- **Tax.** By providing a direct source of revenue, aid or natural resources replace the need to tax the local population, and undermine the added accountability and oversight this encourages. Historically, we know that democratic institutions largely co-evolved with the centre's need to collect more resources ("no taxation without representation").

While the existence of Dutch Disease remains a possibility, the data is mixed and African manufacturing industries likely face far more substantial barriers than simply their exchange rate. For most developing countries, aid is no longer about providing foreign exchange, with aid only forming a small part of capital flows. In practice, most economists have instead focussed on the possibility of windfall natural resources or aid hurting institutions.

This is more than just a theoretical possibility. Foreign aid helped prop up Zaire's dictator Mobutu in the 1970s and 1980s, and is alleged to have helped subsidise genocide in Ethiopia. In both cases, any good done by aid was easily outweighed.

However, it is much more of a stretch to say that this is always or on average true for all types of aid. The econometric challenges in making a systematic judgement are even more challenging than trying to judge the net impact of aid on growth. Many professional economists are ultimately forced to base their judgment less on a regression, and more on armchair political philosophy over the meaning of the social contract.

If you believe that developing nations are trapped by highly corrupt, highly efficient elites, then giving aid will make little difference – just as giving cash to someone trapped in an exploitative cult will not necessarily raise their standard of living.⁸⁹ In practice, however, the elites of developing countries are neither that corrupt nor that efficient.

It is one thing to worry that untargeted general budget support - now phased out by DFID - might be captured by a corrupt Government. It is quite another to say that corrupt elites will also inevitably capture the value from direct to the individual cash transfers, or giving a child a vaccine. This is nothing like the single, concentrated pot at the centre of most resource curse stories.

If elites simply captured all the surplus value in a country, any growth would be self-defeating. We know from randomised evidence on cash transfers that they both raise the consumption of the recipients and lead to substantial investment in training or capital, increasing profits up to five years on.⁹⁰ If the Government is capturing this value, it is only after a substantial delay.

Even if aid isn't inevitably captured, does it still weaken the social contract by undermining the need to tax?

The problem with this argument is that it places an enormous amount of weight on a fairly weak mechanism. In practice, even in advanced democracies, voters and taxpayers pay very little attention to the efficiency or quality of policy outcomes. Voting is more expressive than rational.⁹¹ It is the combination of all the other institutions, from the free press to democratic competition, that ensure accountability. Even putting that all to

one side, it is not clear why individuals should care any less about their direct tax bill just because some of it has first been donated from overseas.

In short, while aid has occasionally made matters worse, it is a significant stretch to say that it always or usually does, or to blame the majority of institutional problems of developing countries on it. While the aid system isn't perfect, what econometric evidence we do have suggests that is significantly better for growth than a more traditional resource boon such as an oil windfall.⁹² We need to be careful about the way that aid is given, but that doesn't mean it is inevitably captured.

This is one example of a wider phenomenon. Despite the rhetoric that sets them against each other, there is actually substantial common agreement between aid sceptics and proponents:

- There is widespread agreement that aid is unlikely to catalyse catch-up growth on its own, with other issues such as international trade rules being as or more important. Since 1960, total ODA has totalled \$4.7 trillion. While a large amount of money, this still only works to the equivalent of around \$45 per head per year in the least developed countries.⁹³
- Almost everyone agrees that open institutions are critical, and that we need to ensure that aid doesn't undermine them or the rights of individuals in the developed world. There is widespread unease about aid taking up too large a proportion of a recipient country's domestic budget.
- There is near unanimous support for emergency or humanitarian assistance, with almost nobody in of either the public or the experts believing that we should ignore sudden emergencies or disasters.
- There is widespread support for 'for developing country' aid spending, such as subsidising R&D to discover new medicines. After this, there is still substantial support for vertical project interventions, such as vaccination programmes, and reasonable support for programmes that directly transfer cash or resources to individuals or bottom-up communities.
- Most are agreed that general budget support or funding of 'horizontal' public services, such as health or education, can be more challenging.

Even if they have to agree to disagree on the last point, that still leaves a significant common, shared agenda: liberalising trade rules, supporting democratic institutions, and subsidising global public goods.

In summary, we probably need to be more modest about what aid can achieve. Given a vision that it can end poverty now, it is not surprising that many in the public are feeling disillusioned. There are often real challenges in delivering aid that we should be up front

about. By itself, aid probably can't save the world – but it can prevent millions of deaths, deliver new technological solutions and improve the quality of life for the poorest.

How well targeted is UK aid?

While the UK has re-affirmed its decision to meet the 0.7 target for development spending, the quality of aid spending is at least as important as quantity.

In an ideal world, we would judge the efficiency of the UK aid budget by seeing how well it meets our criteria of tackling problems that are important, tractable and neglected:

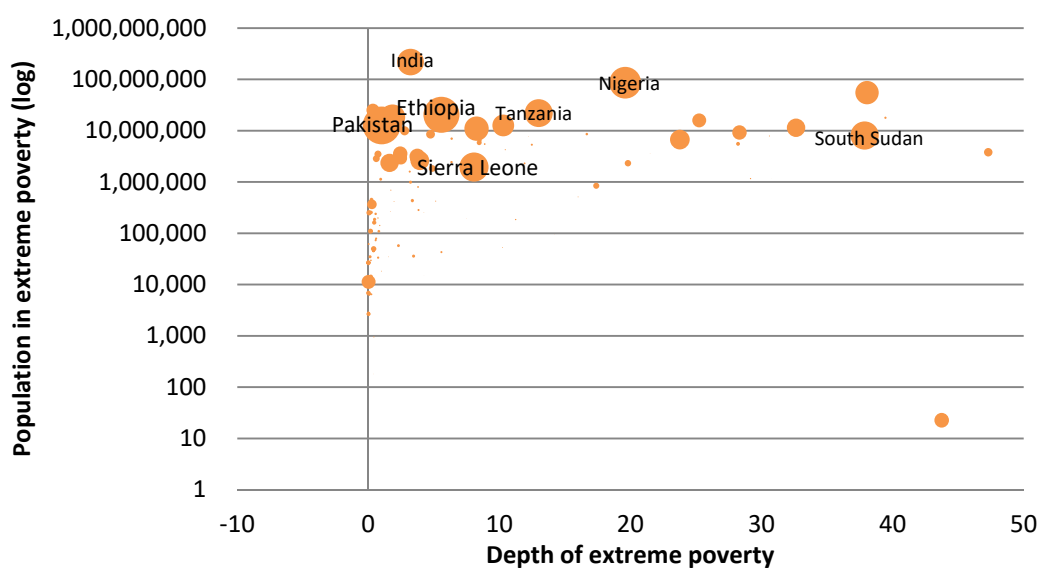
- **Importance.** How well does the aid budget target particular needs, such as poverty or disease?
- **Tractable.** How much of the UK aid budget goes on interventions for which we have good evidence of effectiveness?
- **Neglected.** How much is UK aid focussing on interventions that would not be funded by someone else?

Unfortunately, we have better evidence for some of these criteria than others.

How well does the aid budget target need?

Here, the UK seems to do reasonably well. British ODA is well targeted at countries that either have high numbers or high proportions living in poverty. 47% of UK bilateral aid goes to countries with more than 10 million people living in extreme poverty.

Figure 18: UK Aid and Poverty (Development Initiatives)⁹⁴



10 out of 15 of the countries with the highest number of people in extreme poverty were top recipients of UK aid in 2015. Countries with the largest populations of people in poverty such as Nigeria, India and the Democratic Republic of Congo were among the top 15 recipients of UK aid in 2015 and in previous years. Top UK aid recipients Afghanistan, Syria, Somalia and Myanmar do not have reliable poverty data but are likely to be countries where poverty is high. Overall, there is a correlation of 0.2 between the size of the poor population and the amount of UK bilateral aid – and this correlation increases to 0.33 if you exclude the potential outlier of India.

Figure 19: The Correlation between the Quantity of Aid and Extreme Poverty (excluding India)

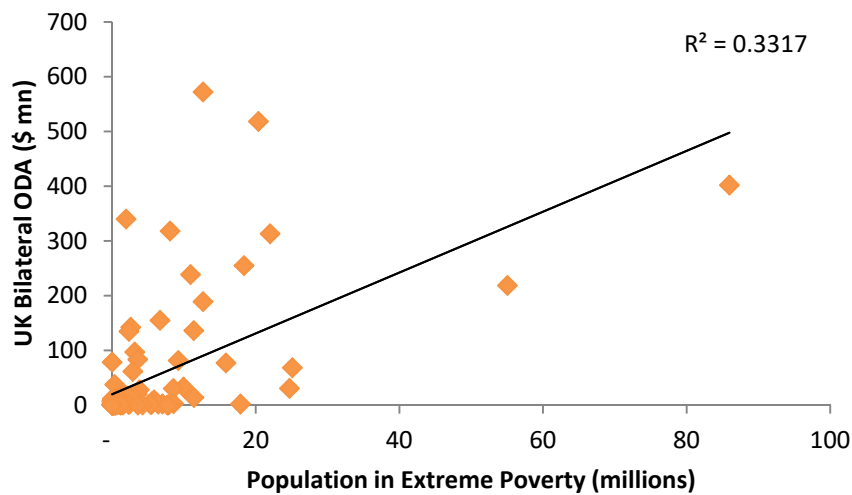
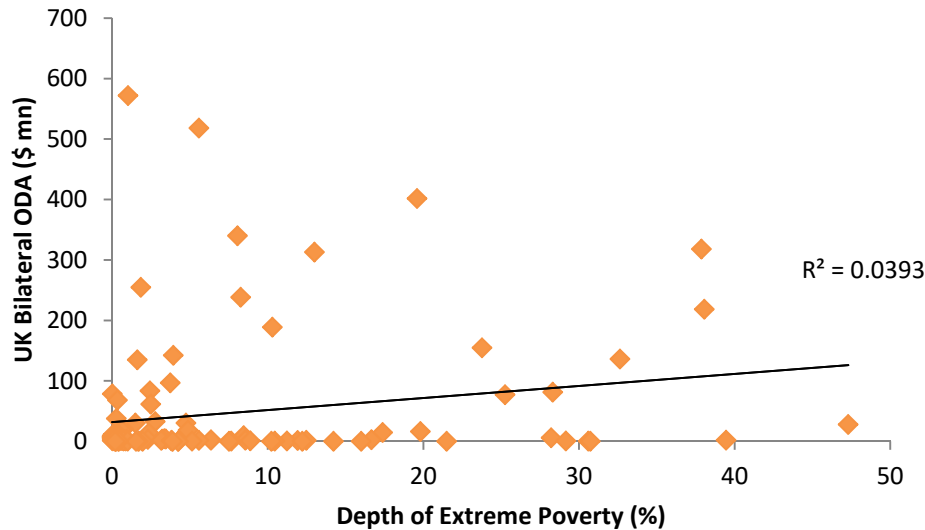


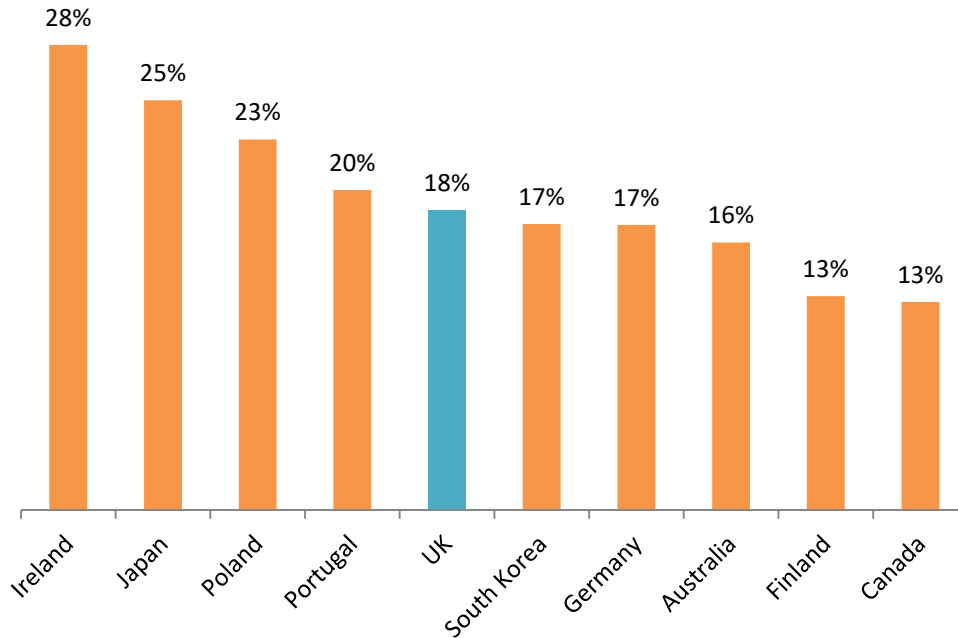
Figure 20: The Correlation between the Quantity of Aid and Depth of Extreme Poverty (excluding India)



Similarly, Madagascar scores highly across all the three dimensions of poverty – absolute numbers, share and depth of poverty – but it only received US\$2 million in UK ODA in 2015. Indonesia and the Philippines respectively have 24.7 million and 11.4 million extremely poor people and only received US\$30.4 million and US\$13.9 million in 2015. Mali with 52% of the population and 8.6 million extremely poor people got US\$2.9 million. Other countries with high depth of poverty such as Guinea Bissau, Burundi, Togo and Lesotho also receive low amounts of UK aid.

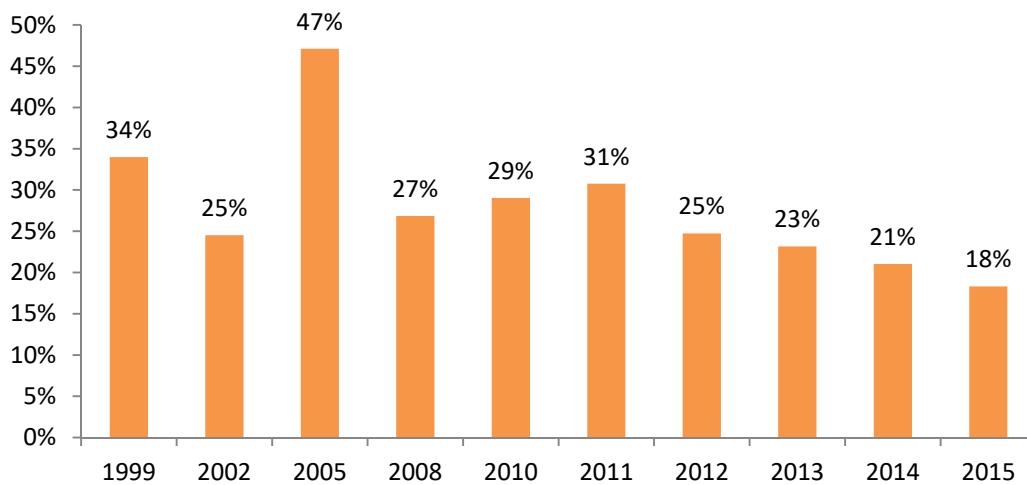
Nevertheless, compared to other donors the UK is effective in focusing on the poorest countries. As a proportion of total bilateral ODA, the UK allocated 18% to the ten countries with the highest numbers of people in extreme poverty, compared to 17% for Germany and 13% for the US. (This proportion would be higher if countries without official poverty data, such as Afghanistan, were not excluded.)

Figure 21: Proportion of total bilateral ODA going to ten poorest countries compared internationally (Development Initiatives)



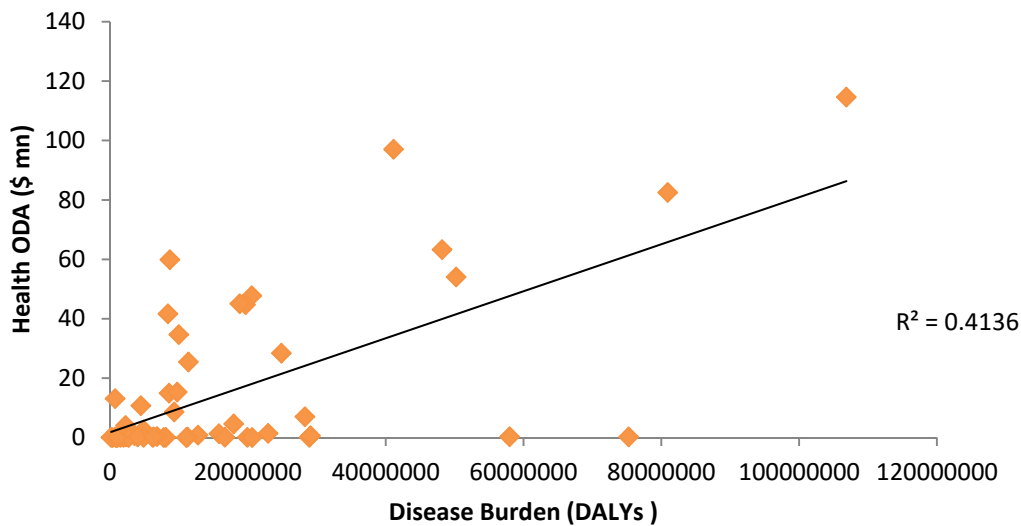
The proportion of bilateral ODA allocated to such countries appears to have declined over time. However, this is largely due to proportionally greater increases to regionally-unspecified ODA (and partly due to increases in aid to countries which do not have poverty data).

Figure 22: Proportion of total UK bilateral ODA going to ten poorest countries over time (Development Initiatives)



Direct poverty, of course, is not the only type of need. Health related ODA is relatively well targeted at those countries with the largest disease burden. If you exclude China and India, there is a 0.41 correlation between per country disease burden and the amount of health related ODA donated by the UK. Seven out of the 15 top recipients of UK's aid to health are also among the top 15 countries with the highest burden of disease. This group of countries accounts for 47% of the UK's bilateral health ODA (excluding country-unspecified aid)

Figure 23: The Correlation between the Quantity of Health Aid and Disease Burden (excluding India and China)

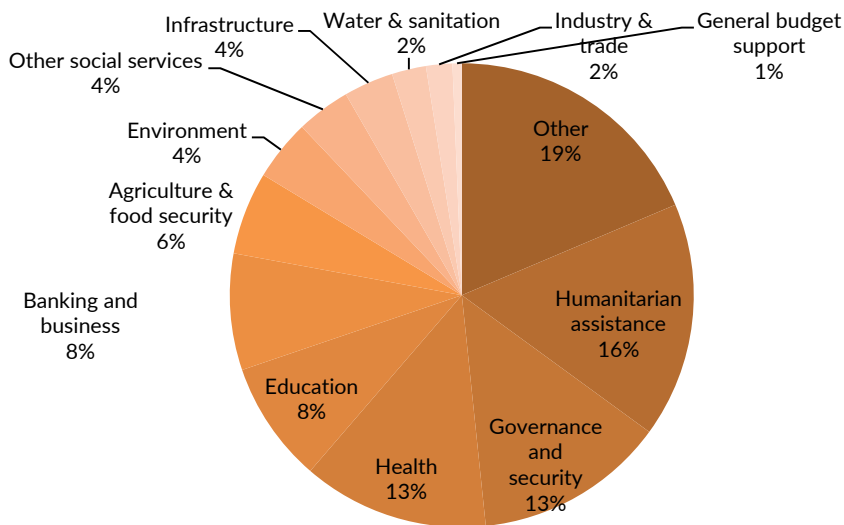


How is the UK aid budget distributed by cause?

Looking by country and need, while perhaps the easiest way to break down the data, is not far from the only way to judge importance. It also matters crucially how that aid is distributed by cause.

In general, the UK aid budget is relatively evenly distributed between different cause areas, with the largest proportions going to emergency humanitarian assistance (16%), health (13%) and government and security (13%).

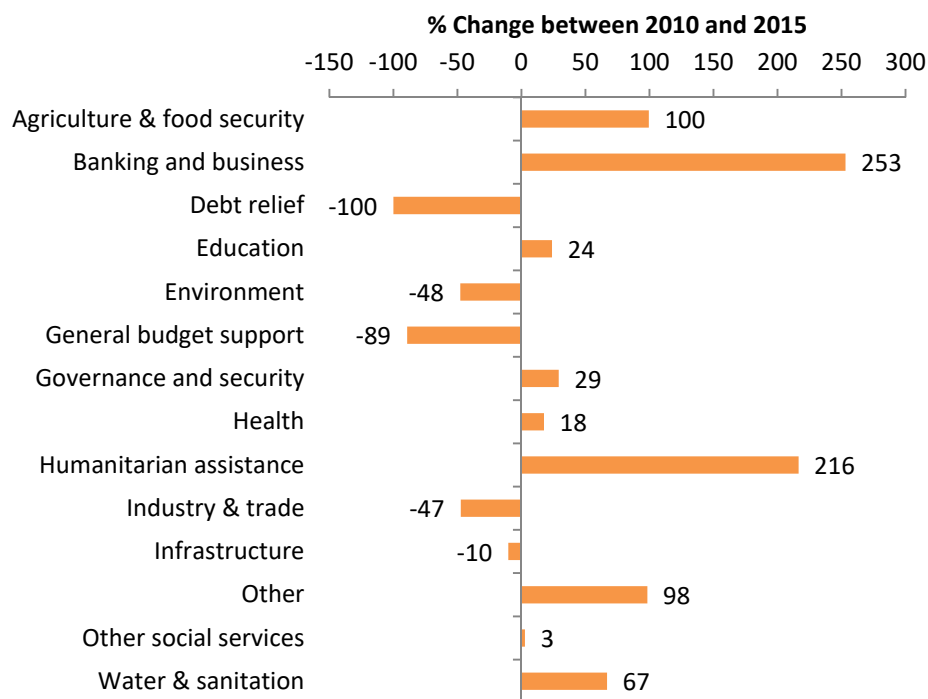
Figure 24: The Distribution of UK Aid by Sector (Development Initiatives)



Between 2010 and 2015, the UK has significantly increased the proportion of its aid going towards banking & business (+253%), humanitarian assistance (+216%), agriculture & food security (+100%) and water & sanitation (67%).

At the same time, it has de-emphasised the environment (-48%) and industry & trade (-47%), while basically eliminating debt relief and general budget support, which in 2010 used to account for 10% of the whole budget.

Figure 25: The Distribution of UK Aid by Sector over time (2010 = 100, Development Initiatives)



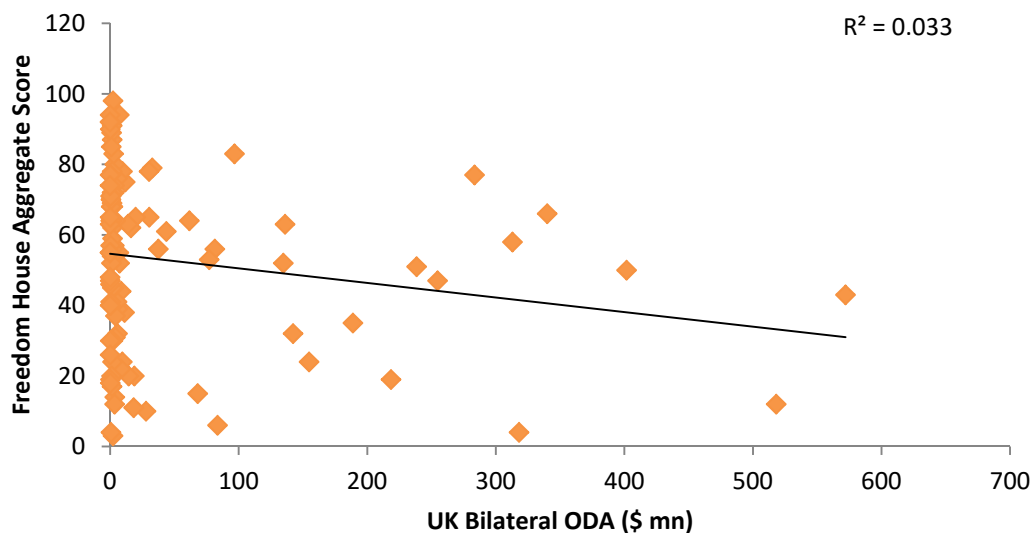
\$ mn, 2015 constant prices	2010	2011	2012	2013	2014	2015
Agriculture & food security	342.5	384.6	397.9	443.6	472.9	683.5
Banking and business	272.0	432.4	299.0	330.6	534.3	960.4
Debt relief	197.0	184.5	113.7	83.8	5.0	-
Education	808.6	1,061.0	1,013.2	1,442.3	1,273.4	1,001.7
Environment	960.7	201.3	410.9	602.5	553.8	501.8
General budget support	699.4	454.4	352.7	212.3	81.4	75.9
Governance and security	1,221.2	1,181.9	1,270.5	1,314.2	1,337.6	1,577.5
Health	1,306.6	1,544.6	1,730.4	2,050.7	1,943.7	1,536.7
Humanitarian assistance	613.9	689.8	683.2	1,297.5	1,729.4	1,942.8
Industry & trade	411.5	252.7	181.9	229.1	233.7	217.0
Infrastructure	457.5	502.9	637.0	615.5	429.0	411.1
Other	1,111.1	1,452.2	1,347.3	1,673.9	1,927.6	2,205.0
Other social services	433.9	392.9	336.9	500.2	312.0	445.8
Water & sanitation	168.9	178.6	172.7	218.7	279.5	282.1

Tractability and Neglect

We should not expect there to be a perfect correlation between importance or need and spending. Both tractability and relative neglect matter too.

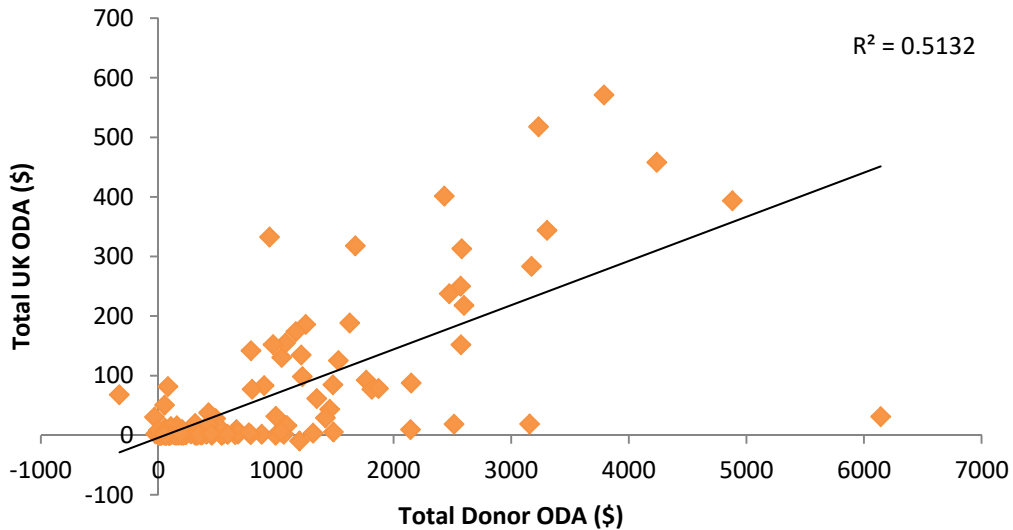
These are harder to measure. One possible metric of traction is the correlation between the amount of aid and the quality of a country's institutions – if a country is more susceptible to corruption, aid is at a greater risk of being wasted. There is no correlation, however, between the amount of bilateral aid donated by the UK and its level of political freedom as ranked by Freedom House - and this holds true even if you adjust for the level of extreme poverty in each country. Neither is there any correlation between the quantity of aid and the World Economic Forum's Institutions index.

Figure 26: The Correlation between the Quantity of Aid and Freedom House Rating



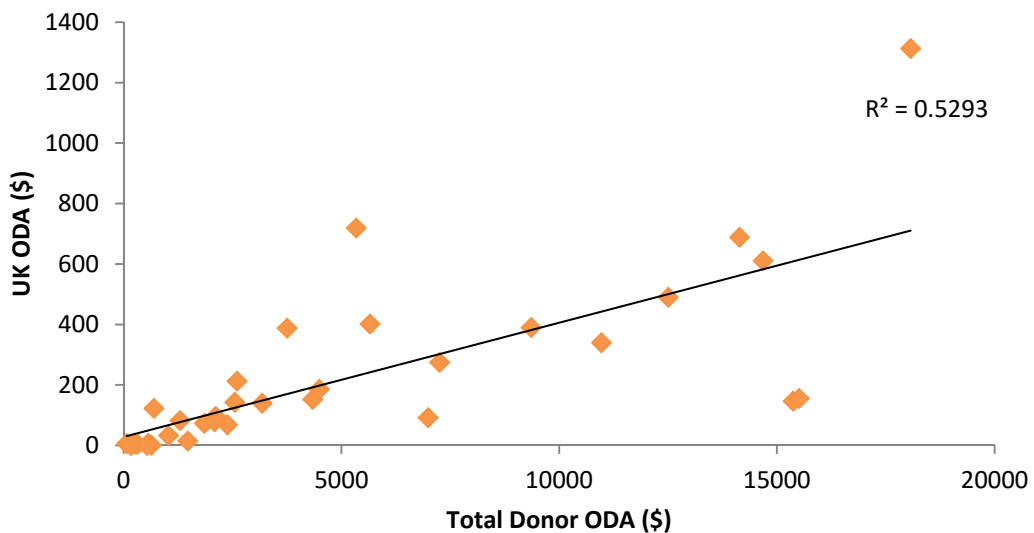
If UK aid effectively targeted countries that were neglected by the rest of the international community, we might expect no or even a reverse correlation between UK aid by recipient country and total global aid to that country. In practice, the UK seems to largely follow the crowd – with a strong correlation between the two.

Figure 27: The Correlation between UK Aid and Total Aid by Country



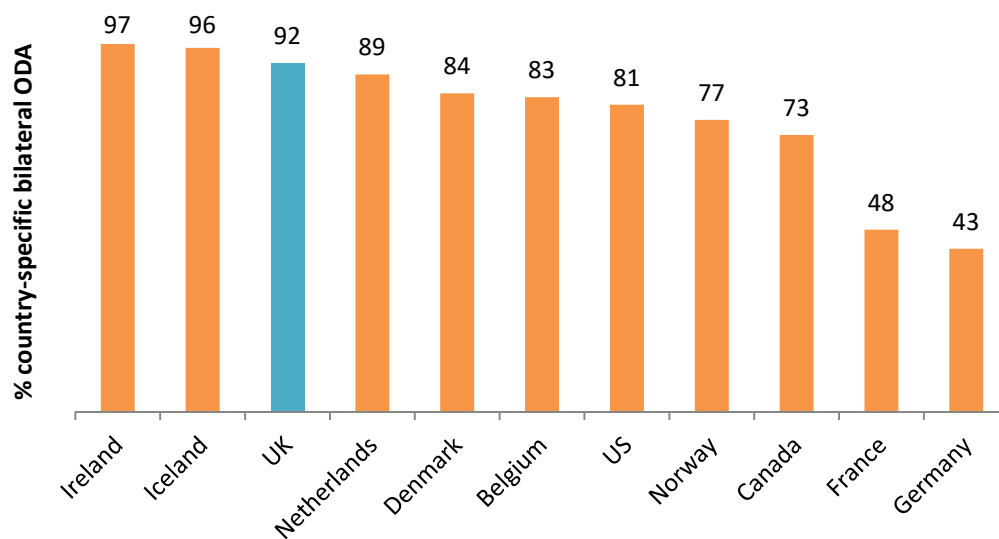
The same is true if you correlate by sector rather than country. While the UK is unusual in some aspects – in 2015, spending less on general budget support, and much more on emergency response – for the most part, the breakdown of its aid looks more or less the same as everyone else.

Figure 28: The Correlation between UK Aid and Total Aid by Sector



Another way to think of neglect is to think of how well UK ODA targets countries which lack the domestic capacity to tackle their own internal problems. By this measure, UK aid is very well targeted. 83% of people in poverty globally live in countries where government spending is less than \$1,500 per capita per year, compared to an average of over \$17,000 per person each year for OECD DAC countries. Looking at countries for which the relevant data is available, 92% of UK bilateral ODA is targeted at countries with both more than 1 million people in extreme poverty and government revenues of less than \$1,500 per capita.

Figure 29: The proportion of UK ODA going to countries with more than 1 million people in extreme poverty and government revenues less than \$1,500 per capita (Development Initiatives)



To summarise, at the macro level, the UK aid budget seems reasonably well targeted at the global poor, and fairly well targeted at global disease burden. In the past, the UK has not been particularly opinionated on which causes and sectors are most promising, largely following the same breakdown as the DAC community.

This conclusion largely chimes with other reviews, such as the Center for Global Development’s (CGD) 2014 Quality of Development Assistant report. CGD argued that the UK’s aid budget was well designed, scoring in the top third of its four dimensions of aid quality: maximizing efficiency, fostering institutions, reducing the burden on partner countries, and transparency and learning. However, the UK could do still better by “allocating a larger share of its aid to well-governed countries, by providing more detailed descriptions of its projects in the DAC CRS and coordinating more of its technical cooperation.”⁹⁵

Table 1: Quality of ODA (2014, ranking, CGD)

Donor	Maximizing efficiency	Fostering institutions	Reducing burden	Transparency and learning
Australia	28	24	19	7
Austria	27	31	20	26
Belgium	12	29	28	27
Canada	11	12	21	1
Denmark	15	2	5	12
Finland	17	7	17	13
France	14	8	26	25
Germany	30	11	22	16
Greece	20	10	14	30
Ireland	4	1	3	2
Italy	25	17	24	29
Japan	16	4	25	22
Korea	29	21	30	24
Luxembourg	8	25	16	31
Netherlands	31	14	8	19
New Zealand	13	15	4	23
Norway	23	16	27	6
Portugal	6	26	6	28
Spain	21	18	18	17
Sweden	22	5	12	8
Switzerland	26	27	29	11
United Kingdom	10	6	10	18
USA	24	20	31	15

What don't we know?

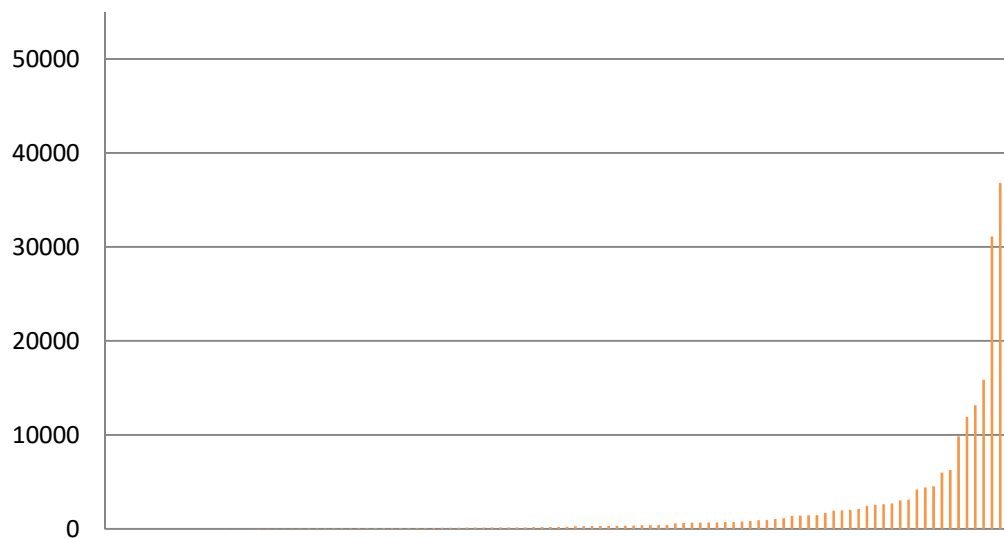
While interesting in themselves, these kind of macro correlations leave out as much as they reveal.

In many cases, there are good reasons why correlations might be weak with causation flowing in both directions. If countries are all targeting the most serious problems, we would expect some herding, with strong correlations between countries. As long as UK aid is focussed on fragile states, there is likely to only be a weak relationship between quality of institutions and aid allocation.

However, even more important, this kind of top down analysis assumes that all interventions are roughly equally likely to be effective.

This is unlikely to be the case. In health spending, for example, we know that the best interventions can be ten, a hundred or even a thousand times more cost effective than the worst. Wider work by other groups such as the Copenhagen Consensus Centre suggests that a similar power law distribution implies across many other types of intervention.

Figure 30: Cost effectiveness of Different Health Interventions (DCP2, \$/DALY)



What can we do to improve the effectiveness of the aid budget?

How can Britain take a lead in tackling Global Challenges?

How can low support for international aid be turned around?

In the past, proponents of aid have often overstated what it can achieve by itself, underplayed the non-financial barriers in the way of development, and allowed aid to become unhelpfully politicised. We suggest instead a more incremental, but still inspiring vision, centred around a Global Britain's role in tackling global challenges. Britain cannot save the world by itself, but it can prevent millions of people from falling ill, or help them achieve an education. Compared to other Whitehall departments, the aid budget is already a pioneer in transparency, open data and evidence based policy, and it should double down this. We should work to de-politicise the current debate on aid, focussing more on projects with near unanimous support, such as global public goods. Looking beyond aid, Britain should be a champion for free trade, democratic values and innovation.

Brexit offers an opportunity to look again at the UK's aid budget, and beyond it our wider strategy to encourage development and tackle global challenges.

As a start, the UK will have to decide what to do with the current £1.3 billion funnelled through EU institutions – but there are also far bigger issues to consider such as the UK's future trade or foreign policy.

Even without Brexit, the aid budget would be inevitably moving into a new era. The years of rapid spending increases are over, putting a new focus on seeking efficiency and effectiveness. At the same time, seeking continued reductions in global poverty is only going to get harder and more complex as poverty becomes increasingly concentrated in fragile states.

How can we ensure resources are spent as effectively as possible and go still further to help Britain take a leading role in tackling the world's most important challenges?

We suggest four principles to follow:

1) Maintain the commitment to a Global Britain

In 2016, world trade grew more slowly than world GDP for the first time in fifteen years.⁹⁶ While the process of globalisation is slowing, it is unlikely to go into reverse. Current and upcoming digital technologies are inherently global, eroding the costs of

distance – but increasing the cost of cutting yourself off from the world. The UK is a small open economy, with imports and exports together equal to 57% of its GDP.⁹⁷ Britain may be leaving the European Union, but it cannot leave the world. If you look at the challenges and opportunities that matter most to our future – from accelerating innovation to combatting extremism – every single one of them has an important global dimension.

If the UK is to prosper in a post Brexit world, it will have to maintain its current status as a leading global citizen, contributing to global public goods, supporting a rules-based international order and helping meet the 17 agreed Sustainable Development Goals – not least, because Britain played an important role in drawing them up. Britain is a pivotal curator of the existing world order and it is in our self-interest to stabilise and strengthen the world we have.

Britain should continue to take a full spectrum approach, contributing to global public goods in the broadest sense:

- Helping keep the world safe through a strong military, and playing its part in global peacekeeping operations
- Subsidising basic science and maintaining a liberal system of regulation to encourage innovation
- Redistributing to some of the poorest in the world through a generous aid budget

The Government should maintain its dual commitments to spending 2% of GDP on defence and 0.7% of GNI on aid. With budgets guaranteed, there should be a greater focus on achieving outcomes rather than cash spent.

The combination of the two commitments acts as an important symbol of Britain's global ambitions, and helps to create a mutually reinforcing dynamic of hard and soft power. While such ring-fences should be avoided at the domestic level – they encourage a focus on cash spent rather than outcomes delivered – for international targets, they can be a pragmatic second-best solution to prevent free riding by other nations.

By setting a good example, Britain's aid and defence spending can act as a multiplier – encouraging our allies to follow suit. That said, it is slightly concerning that total ODA by DAC nations was no higher in 2016 (0.32% of GNI) than thirty years before in 1986 (0.34%). As President Trump has complained about in defence, many nations do not seem to be meeting their international commitments.

Over the last decade, the aid budget has been increased by around 50% in real terms. No budget can increase at this speed without struggling to maintain quality and efficiency. Between 1997 and 2010, total public sector resources were similarly increased by about 50% – and overall efficiency fell.⁹⁸ Now that budget increases will be

limited to more reasonable rates, attention should instead turn to seeking greater impact, rather than just spending more. It is not implausible for DFID to seek to increase its impact by another 50% over the next decade without any greater spending – but this will require hard decisions.

The Government should commission a short-term update to the 2015 Aid Strategy. This should take account of changed post Brexit circumstances, and look at a wider development strategy beyond aid, including trade, agriculture and security.

In 2015, the Government published a new Aid Strategy as part of the Spending Review process: recommitting Britain to the 0.7% target, but at the same time setting out how aid could better tackle poverty and act in Britain's national interest, confronting global challenges. The strategy incorporated four central objectives: strength in global peace, security and governance; strengthening resilience and response to crises; promoting global prosperity; tackling extreme poverty and helping the world's most vulnerable.

In practice, these goals amounted to a new focus on fragile states, where extreme poverty is increasingly likely to be concentrated - 50% of DFID's budget is ring-fenced to be spent within them – and significant new funds for R&D and improving business competitiveness. The proportion of ODA spending directly controlled by DFID is to fall from 86% to 70% with more cross governmental work, an end to all un-earmarked budget support and a greater focus on global public goods.

Leaving the European Union alters many of the fundamentals of Britain's geopolitical situation. As Policy Exchange has previously recommended, the magnitude of the changes imply that it would be wise to update the 2015 Strategic Defence and Security Review,⁹⁹ and alongside this, it would be wise to update the parallel Aid Strategy.

Now that Britain has more freedom on the international stage, this updated strategy should take the opportunity to present aid in a broader context. While aid is important, it is not the only tool available to Britain – and moving forward, other areas of policy such as trade or innovation are likely to be as or more important.

The updated strategy should set a cross government strategy for how a Global Britain will seek to meet the Sustainable Development Goals, and how this will be monitored. It should look at the overall balance between bilateral and multilateral spending, and also consider what proportion of ODA spending should be spent 'for developing countries' as compared to 'in developing countries.'

2) Create a more efficient and innovative aid budget

When overseas aid works, it can be among the most efficient types of public spending available anywhere – often by an order of magnitude. It is hard to think of a better return than vaccinating children to eliminate a cruel disease like smallpox. By one calculation, the total benefit:cost ratio from vaccination is a colossal 44:1.¹⁰⁰ The order of magnitude difference in living costs between advanced and developing economies allows for us to make a significant difference to the lives of the poorest, often at relatively low cost to ourselves. Most estimates suggest that for the most efficient interventions the marginal cost to save a life in sub-Saharan Africa is in the low thousands of dollars.

Unfortunately, we often only have a limited ability to identify those interventions ahead of time. That is especially true for complex societal interventions that aim to improve economic growth or political institutions – and where with the best will in the world, it is always going to be hard to run a double blind randomised-control trial. Seeking the best interventions is always going to require some combination of quantitative analysis and human judgement, rather than rely on one or the other.

That does not mean evidence does not matter. As some within DFID have suggested, arguably the most important thing the organisation can provide is not financial resources but better knowledge of what works and what doesn't.¹⁰¹ Given its size and culture, DFID is in a unique position to take on more risk, and try out new and innovative types of intervention or policy mechanism – a DARPA for aid, if you like. This cannot just teach us how to make aid work better, but also gives us an idea of how to improve policy design in the UK too.

The Government should create a new Office for Aid Effectiveness as part of the What Works network to collate and commission current evidence. Working with DFID, it should ensure that all major new programmes are at least as effective as cash transfers. This would provide a more strategic role than the current Independent Commission for Aid Impact, which currently serves more of an audit function similar to the NAO. The new body would act as part of the What Works network, collating together a continually updated comprehensive literature review on the best evidence we have for effectiveness both at the macro level, and for individual interventions. There are currently What Works centres for health, education, crime, early interventions, local growth, ageing and wellbeing. Easily the most influential of them is the National Institute for Health and Care Excellence (NICE) – which works with the NHS to ensure all new treatments are at least as cost effective per QALY at £30,000 or under.

As the 2014 What Works review of DFID's Use of Evidence concluded that DFID has a strong culture for evidence, the Department needs to become true at becoming not just a consumer, but generator of evidence.¹⁰² The new organisation would be given a wider remit to identify current gaps in the evidence research and commission research to fill them.

At the same time, the organisation's web site would also act as a single destination for DFID's bilateral and multilateral reviews, giving the public better visibility of how their money is being allocated. As well as highlighting the most effective interventions, the organisation could also highlight trusted charities that are carrying them out – making it easier for the public to identify what charities deserve their support. Too often at present the Development conversation seems designed to exclude the public as far as possible.

Just as NICE helps ensure all new treatments in the NHS are cost effective, the new organisation should work with DFID to ensure that all new major projects are based on interventions that are at least as effective as a direct cash transfers. In practice, this is likely equivalent to ensuring that every programme has an expected return of at least 5:1. While it will not always be possible to make such estimates with the kind of evidence base enjoyed by a NICE and country offices will have to judge whether interventions make sense in their local context, the new body can play a similar role to the OBR's relationship with the Treasury. When evidence is uncertain, institutional separation for sense checking and peer reviewing of assumptions and costings can help prevent confirmation bias and politically driven estimates.

Over the medium term, the Government should substantially raise the proportion of the ODA budget going to Global Public Goods, with at least 10% spent specifically on R&D.

Global public goods (GPGs) are among the least controversial parts of the aid budget. Many of them can be funded 'for developing countries' rather than 'in developing countries', avoiding any worries about side effects on a recipient's institutions. While we might hope that over the medium term individual countries will 'graduate from aid', funding their own education or health systems, there will always be a need for advanced economies like Britain to contribute to GPGs as a common goal.

Unfortunately, most evidence suggests that GPGs are significantly under-funded, offering little of the diplomatic benefits of bilateral aid to donors, while presenting the temptation to free ride elsewhere.

As part of this, the Government should double the proportion of ODA going on R&D. In 2015, Britain spent £419 mn on development-related R&D, or around 5% of the total ODA budget. There are good reasons to believe that R&D provides some of the highest potential returns of any intervention, with significant current gaps in the research base for some of our most pressing challenges, from antibacterial resistance to increasing energy sustainability. This would harmonise well with the Government's new Industrial Strategy, a central part of which is an ambition for the UK to become the most innovative country in the world – with R&D funding increasing to the OECD average as part of this.

Later this year, Policy Exchange will release a further paper setting out in greater detail the argument for R&D, identifying important neglected topics for further research, and how we can improve the effectiveness of development related R&D going forward.

A further 10% of DFID's budget should go on more experimental programmes. The majority of DFID's budget should focus on programs with high quality evidence of effectiveness. However, in order to avoid the 'streetlight effect' and to keep expanding out what we know, we also need to allocate some proportion to experimentation, even where evidence is limited. Separating out these programmes from the majority of aid spending allows a clearer distinction in purposes between the two. DFID, in particular, is in a unique position to trial and act as a trailblazer for the global development community. Wherever possible, experimental programmes should follow best practice in measurement, be explicitly time-limited, and be followed up by rigorous evaluation to collate lessons.

This could include programmes like:

- **Payment by results mechanisms such as prizes, Development Impact Bonds, and making markets commitments.** The UK is already a world leader in payments by results, social investment and other outcomes based methods. The UK launched its first Development Impact Bond in 2014 to help prevent sleeping sickness in Uganda, and was a key player in the first Advanced Market Commitment to develop a new vaccine for pneumococcal disease in 2007.

While data limitations mean they are not appropriate in every case, when they do work, outcomes based methods allow us to combine the power of markets with philanthropic goals. Rather than try to identify what might work ahead of time, the taxpayer only has to pay after results are already achieved, remaining open to different methods. Impact bonds can act as the basis for new financial markets, encouraging investment from the private sector and new players.

- **An expanded Aid Match scheme, allowing taxpayers to choose and match donations to a shortlist of ODA eligible targets.** At present, the process of

allocating and evaluating aid is almost completely isolated from the wider public. While private charity donations provide a 'warm glow' to individuals, most taxpayers feel no pride in the results achieved by their government's donations.

Including an element of taxpayer choice could help increase voter engagement with aid, and potentially multiply UK's ODA by encouraging further private donations. Matches should be restricted to a relatively short list of specific efficient interventions, judged by the independent Office for Aid Effectiveness.

- **An audited one page report to all taxpayers, summarising the results their donations have achieved in the last year.** Most charities make sure to send their donors some feedback on what their donation has achieved. DFID could pilot an emailed annual one page report, stating what taxpayer money has achieved in the last year, and providing links back to more details.

While this might increase public engagement, we should do it more for its own sake, than because it will necessarily change perceptions. If you look at private charitable giving, donors do not seem to be much swayed by evidence of impact,¹⁰³ with stressing the right narrative and using the right stories far more powerful.

- **The creation of a prediction tournament and markets to aggregate expert opinion and as a counterweight to potential groupthink.** Making effective aid allocations is about combining high equality evidence with expert judgement. However, the structure of how those judgments are collated and aggregated can make a significant difference to their accuracy or reaction to changing events. Much of DFID's work takes place in an arena of high uncertainty, where geopolitical considerations are critical.

We know of several mechanisms that can aggregate opinion more efficiently bureaucratic hierarchies. Prediction markets can out perform political polls – especially when information is limited - while Philip Tetlock's Good Judgement Project proved itself more accurate than CIA intelligence officers. We should experiment with similar mechanisms to improve provide checks and balances to official plans and forecasts in development.

3) Stand up for democracy, the rule of law and a free press

The ultimate source of modern growth remains hotly debated. Some theorists point to the role of a fortunate geography¹⁰⁴, others the state monopoly of violence¹⁰⁵, or open

institutions and the rule of law¹⁰⁶, or the accelerating progress of technology,¹⁰⁷ or a culture that prizes bourgeois values.¹⁰⁸

Whatever the deep sources of economic growth, almost nobody doubts that institutions play a crucial intermediate role. Even proponents of the role of geography such as Jeffrey Sachs or Jared Diamond accept that getting institutions right is crucially important too.

Both economic and political institutions matter. Many attempts to reform economic incentives without addressing the underlying political institutions, as was sometimes the case in the 'Washington Consensus' era, have proved unreliable. Even if they had no impact on growth, political rights matter for their own sake.

Unfortunately, we do not really understand how to improve institutions. Past attempts at conditionality have not proved particularly successful, with donors reluctant to cut off aid even when conditions have been clearly violated. While we can offer support to community groups and campaigners, too much reliance on foreign support can undermine their legitimacy, making them feel artificial or 'astroturfed.' This creates a real dilemma for international aid, which policymakers and the aid community should be more up front about.

While the UK cannot change other countries' political systems from the outside, it can and should always stand up for the Enlightenment values that powered its own development, and ultimately the modern world. Further, we should always be careful to make sure our aid policy is not making matters worse, or propping up illiberal regimes.

Arguably, one of Britain's most effective types of aid is the BBC World Service, providing a trusted source of news for over 370 million people worldwide. Looking forward, while central governments can censor or control traditional forms of the press, they will find it much harder to control bottom up digital technologies. Smartphone penetration in Africa is rapidly catching up with the rest of the world. Beyond the potential for civil liberties, Africa has the opportunity to leapfrog advanced economics in the digital delivery of public services, bypassing opportunities for resources to be captured: direct transfers of benefits; telemedicine for health; online courses for education. Building off the UK's genuine expertise, DFID should work with the UK's Government Digital Service (GDS) to offer technical support and open source platforms for digital government in developing countries.

New due diligence criteria for engagement should be adopted to ensure that funding and recognition is not given to those whose views and practices are antithetical to democratic principles and the rule of law.

In recent years, DFID and British aid organisations have engaged in humanitarian aid in countries and regions on the frontline in the fight against terrorism.¹⁰⁹ This has included responding to: recurrent famine in Somalia, part of which is controlled by the al-Qaeda affiliate, al-Shabaab;¹¹⁰ renewed conflict in Gaza, home to the proscribed terrorist organisation Hamas;¹¹¹ and the on-going conflict in Syria and Iraq and displacement caused by the Islamic State.¹¹²

There is a growing recognition of the role overseas aid can play in global counter-terrorism efforts. As the 2011 review of the UK counter-radicalisation strategy Prevent makes clear, domestic terrorists 'very often had connections overseas'.¹¹³ At the same time, 78% of global terrorist fatalities occur in Iraq, Syria, Afghanistan, Pakistan or Nigeria.¹¹⁴ Alongside poverty reduction and other priorities, UK overseas development work can also serve to build resilience to terrorism in countries which may, for example, include territory held by terrorist organisations; host terrorist training facilities or extremist institutions; or be home to religious or political institutions and organisations with global influence.¹¹⁵

Central to discussions surrounding aid and counter-terrorism, however, are concerns about the conflation of security and development objectives, which can lead to both governments and aid organisations choosing inappropriate partners.¹¹⁶ DFID has accepted that in the past funding to the Palestinian Authority was not properly managed.¹¹⁷ There is therefore a clear need to identify and mitigate the risks of abuse of UK aid through partnering with either non-state actors engaging in terrorist or extremist activities or with foreign state actors using counter-terrorism measures to repress political dissent.

New criteria for engagement – adopted by both DFID and partner aid organisations – would serve as a key mechanism for creating a consistent and coherent framework for UK international development. Modelled on due diligence practices rooted in counter-radicalisation policy, UK aid – either funding or support – should not be given to 'organisations that hold extremist views or support terrorist-related activity of any kind, in this country or overseas'.¹¹⁸

Criteria should include avoiding state and non-state partners who: support or condone either terrorism or the deliberate targeting of civilians (as defined by the Geneva Conventions) anywhere in the world; call for, or condone, attacks on British soldiers and their allies anywhere in the world or against any forces acting under a UN mandate; call for or condone the destruction of UN member states; or present a threat to rights and freedoms advocated by the Universal Declaration of Human Rights and discriminate or advocate discrimination on the basis of religion, religious sect, race, sexual orientation or gender.¹¹⁹ All activity should be centrally coordinated by a due diligence unit at DFID and subject to impact assessments as well as oversight by Members of Parliament.

At the same time, the Government should recognise that there may be cases where DFID – or its partner aid organisations overseas – may need to engage with partners that it would not choose to fund or support. This could include, for example, the need for contact or dialogue with local partners to negotiate access to civilians living in territory controlled by terrorist or insurgent groups. In such cases, partner aid organisations should be given legal advice and assurances that their actions will not be considered in breach of UK counter-terrorism legislation, such as funding or support for terrorist organisations.¹²⁰

4) Reduce trade barriers with the developing world and act as global champion of free trade

Trade is one of the most powerful tools we know of to speed up growth and reduce poverty. The UK currently imports £34 billion a year in goods and services from developing countries¹²¹ – three times the amount spent each year on ODA. A Global Britain would have the opportunity to go significantly further by striking Free Trade Agreements with more developing countries.

Higher trade volumes are strongly correlated to faster growth, with one study finding that increasing the share of trade from 20% to 40% of GDP increases GDP per capita by 10%.¹²² The impact of trade works through several mechanisms: increasing competition in domestic markets, importing knowledge and capital through FDI and enabling exports and new markets for developing countries to sell into.

On average, trade liberalisations in the second half of the last century increased growth by 1.5 percentage points.¹²³ While Free Trade Agreements between the developed and developing world are not a silver bullet and the varying quality of agreements means there can be a variation in impact, a recent rapid literature review for DFID found widespread evidence that agreements can have a major effect in countries where the basic capacity exists to boost supply.¹²⁴

In 2014, the Copenhagen Consensus Center estimated that completing the Doha Development round of multilateral trade negotiations was by far the most effective intervention they could find to spur development, with total benefits in excess of \$533 trillion and a benefit to costs ratio of over 2000 to 1.¹²⁵

The negotiations for Doha, however, have largely broken down since 2008, with little sign of progress in the interim. The most significant reason for deadlock was disagreement over agriculture – which remains heavily protected behind trade barriers and distorted by extensive subsidies, particularly in the European Union. Both the

European Union and the United States proved unwilling to substantially reform their current schemes of protection.

The UK should go beyond the EU's duty-free and quota-free approach for developing countries, simplifying rules of origin regulations and working towards unilaterally eliminating remaining tariff and non-tariff barriers.

The European Union currently erects significant trade barriers in many areas where developing economies might otherwise have a comparative advantage. The International Trade Centre calculates, taking into account both tariff and non-tariff barriers, that the EU imposes a level of protection to imports equivalent to 18.9% in agriculture, 6.4% in textiles and 9% overall. On top of this, agricultural subsidies through the Common Agricultural Policy (CAP) add the equivalent of another 14.8% in protection, taking the total up to 36.5%.¹²⁶

The EU currently offsets some of this with a range of schemes that offer preferential access to developing countries. General System of Preferences agreements offer reduced tariffs to a broad range of developing countries, while the narrower duty-free, quota free ("everything but arms") scheme applies to the 48 Least Developed Countries (LDCs), leaving 97.9% of agricultural tariffs for them completely duty free. However, this still leaves many still very poor low and middle income countries with often substantial trade barriers, only some of which are reduced by separate Free Trade Agreements or economic partnership agreements.

Leaving the Customs Union offers Britain the chance to set its own trade policy. The Government has announced that the access provided by the current everything but arms scheme will continue for LDCs, and that beyond that it will work to expand trading relationships with other developing countries.¹²⁷ This is a good first step, but there is much more we could do.¹²⁸

Outside the European Union, the UK should work to simplify and streamline standards. Rules of origins regulations are designed to prevent 'trans-shipment' where exports are diverted through a low income country purely to take advantage of low tariff barriers. Making these rules too strict, however, with high thresholds for the amount of 'value added' that has to take place within a LDC, can undermine the working of preferential trade arrangements and stop LDCs from plugging into global supply chains. The UK should explore simplifying and lowering the EU's thresholds for value added, consulting with developing countries themselves and more liberalised regimes such as the Canadian system. At the same time, we should substantially raise the de minimis thresholds before tariffs and VAT are collected, which is currently significantly below the American and Australian level.¹²⁹

In the medium term, the UK should move towards unilateral elimination of remaining tariffs for low income, low middle income and eventually all countries. In the long term, this can be a win-win-win: bringing cheaper goods to British consumers, increasing competitive pressure and helping the developing world grow. The main argument for maintaining tariffs is that they give greater negotiating power in future trade negotiations, but even if you accept this relatively speculative argument it is unlikely to apply much in the case of the poorest countries.

Neither is this unrealistic. Tariffs are already very low in Britain, bringing in only around £2.5 billion a year. Both New Zealand and Australia only apply the equivalent of a 0.4% tariff to agriculture, or 1.3% after you include subsidies.

While unilateral trade liberalisation by Britain would only have small effects on its own, it would help to move on the conversation after the stalled Doha round and build momentum for other countries such as the US or Canada to follow suit.

The Government should substantially reform the Common Agricultural Policy after 2020, creating a modern British Agricultural Policy that focuses on supporting the local environment rather than food production or protectionism.

The European Union currently spends as much as 40% of its budget on subsidising agriculture, while in Britain annual subsidies run to around £3 billion – or a third of the total output of the industry.¹³⁰

While recent reforms have removed some of its worst defects, the Common Agricultural Policy remains one of the European Union's most inefficient policies. While there may be some rationale for public subsidy of natural capital, there is little fundamental economic justification for intervening to try and reduce price instability or increase food 'self-sufficiency.' There is little evidence that price instability is a real problem in practice, while trying to achieve food autarky is likely both impossible and would have massive implied consequences for a range of other industries, from energy to fertiliser. As the Government's 2009 Food Security Assessment concluded, the most important source of food security is maintaining open trade links – not trying to literally grow everything yourself.¹³¹

As the same time, beyond its costs to the taxpayer and consumer, CAP has encouraged lobbying and rent seeking, created environmental harm and over the long term reduced the competitive pressures that increase productivity.¹³²

Furthermore, trying to maintain outdated agricultural subsidies has tied the EU's hands behind its back in trade negotiations with other countries. Leaving the EU offers Britain

the chance to sidestep both issues, and act as a more positive influence on the world stage, arguing for the benefits of free trade.

Direct Pillar I payments for pure food production through the 'single farm payment' should be phased out by 2025, with time-limited means tested compensation to current recipients who are likely to lose out.

At the same time, the 'Pillar 2' payments supporting 'rural development' should be modestly expanded, refocused to focus purely on genuine public goods and natural capital, and opened to non-farming institutions.

This would remove the current unfair subsidies hurting the developing world, while retaining support for the British countryside and environmental diversity. Policy Exchange will shortly be publishing a report looking at these issues in further detail.

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