



Independent  
Commission  
for Aid Impact

## The Management of DFID's Budget Support Operations

### Terms of Reference

#### 1. Introduction

1.1 The Independent Commission for Aid Impact (ICAI) is the independent body responsible for scrutinising UK aid. We focus on maximising the effectiveness of the UK aid budget for intended beneficiaries and on delivering value for money for UK taxpayers. We carry out independent reviews of aid programmes and of issues affecting the delivery of UK aid. We publish transparent, impartial and objective reports to provide evidence and clear recommendations to support UK Government decision-making and to strengthen the accountability of the aid programme. Our reports are written to be accessible to a general readership and we use a simple 'traffic light' system to report our judgement on each programme or topic we review.

1.2 In this review, we will look at how the Department for International Development (DFID) manages its budget support operations. These Terms of Reference outline the purpose and nature of the review and identify the main themes we will investigate. A detailed methodology will be developed during an inception phase.

#### 2. Background

2.1 Budget support is a form of aid where assistance is provided through the recipient country's own budget to support the implementation of its development programmes. General budget support is untied assistance<sup>1</sup> which supports the country's national development plan as a whole. Sector budget support is provided for a particular sector or development programme.

2.2 According to DFID figures, in 2010-11 it provided £644 million in general and sector budget support to 14 countries (of which 9 were in Africa and 4 in Asia), which was 20% of the bilateral aid programme.<sup>2</sup> The other major budget support donors are the World Bank and the European Commission.

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<sup>1</sup> Untied assistance is aid which enables goods and services to be fully and freely procured in all countries, unlike tied aid which stipulates that goods and services can only be purchased from the donor country or from a limited selection of countries.

<sup>2</sup> *DFID Annual Report and Accounts 2010-11 Volume 1*, DFID, 2010, page 97, [www.dfid.gov.uk/Documents/publications1/departmental-report/2011/Annual-report-2011-vol1.pdf](http://www.dfid.gov.uk/Documents/publications1/departmental-report/2011/Annual-report-2011-vol1.pdf). The 14 countries were Ethiopia, Ghana, Malawi, Mozambique, Rwanda, Sierra Leone, Tanzania, Uganda, Zambia, India, Nepal, Pakistan, Vietnam and Moldova.

2.3 According to a 2008 report by the Public Accounts Committee: 'DFID and many other donors consider that budget support can help to strengthen government capacity in developing countries, increase harmonisation between donors, expand service delivery and ultimately assist in poverty reduction.'<sup>3</sup>

2.4 Unlike with traditional project aid, DFID has no direct control over how the funding is used.<sup>4</sup> The funds could be exposed if there are weaknesses or corrupt practices in the recipient country's budget processes and public accounting systems. It can also be difficult to obtain hard evidence that the intended benefits are being realised.

2.5 Whether the benefits outweigh the risks may depend on DFID's policies and practices regarding the quality of the management arrangements in place.

2.6 Establishing whether budget support offers better value for money than other forms of assistance is difficult. A 2008 National Audit Office (NAO) review<sup>5</sup> found that the evidence on whether budget support has yielded better value for money than other forms of aid was inconclusive.

### **3. Purpose of this Review**

3.1 To assess the evidence base behind DFID's approach to budget support and assess whether the processes by which DFID manages its budget support operations are appropriate and effective.

### **4. Relationships to other evaluations/studies**

4.1 In 2006, a major joint evaluation of budget support in seven countries was commissioned by a consortium of donors and partner countries. Although too early in the life of most budget support operations to yield definitive evidence on results, it contains a detailed exploration of the possible benefits of budget support and how they can be maximised.<sup>6</sup> Elements of the methodology and findings from that evaluation will be used to inform this review.

4.2 The 2008 NAO review of DFID's budget support operations included evidence on impact (both in delivering poverty reduction and improving country systems),

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<sup>3</sup> *The Department for International Development: Providing Support for Developing Countries*, House of Commons Committee of Public Accounts, HC 395, June 2008, [www.publications.parliament.uk/pa/cm200708/cmselect/cmpubacc/395/395.pdf](http://www.publications.parliament.uk/pa/cm200708/cmselect/cmpubacc/395/395.pdf).

<sup>4</sup> Although given the fungibility of aid, the same can be said for earmarked or project assistance, if it displaces expenditure by the partner countries into other areas.

<sup>5</sup> *Department for International Development: Providing budget support to developing countries*, National Audit Office, February 2008, <http://www.nao.org.uk/idoc.ashx?docId=211fc6ec-249c-4651-9da1-5b380344faf6&version=-1>.

<sup>6</sup> *Evaluation of General Budget Support: Synthesis Report*, IDD and Associates, May 2006, [www.oecd.org/dataoecd/25/43/37426676.pdf](http://www.oecd.org/dataoecd/25/43/37426676.pdf).

monitoring and evaluation, risk management and the basis on which funding decisions were taken.<sup>6</sup> The methodology included a review of DFID documentation, a mapping of donor policies and practices on budget support, four detailed case studies (Ethiopia, India, Rwanda and Zambia), desk reviews of ten other countries (with and without budget support) and a survey of DFID country teams on their rationale as to whether or not to provide budget support. The study provided DFID with 26 detailed recommendations on how to improve its management of budget support. Since the NAO report, DFID has conducted an internal review of its budget support operations and formulated new objectives. The NAO report offers a useful baseline for this evaluation, against which we can assess what level of institutional learning has taken place.

4.3 The review will also be informed by other studies, including the OECD guidelines on budget support,<sup>7</sup> the Strategic Partnership for Africa annual survey of budget support operations<sup>8</sup> and evaluations of individual country operations.

## 5. Analytical Approach

5.1 This study will test the evidence base behind DFID's approach to budget support, by synthesising available studies and reviews and conducting detailed analysis of three case study countries.

5.2 As mentioned above, there have been various attempts to assess the impact of budget support. Rather than attempting a full impact evaluation, this study will consider the evidence available to DFID on intermediate results (e.g. improvements in country systems) and impact on poor people. This will enable us to form a view on whether DFID's policy on budget support is sound.

5.3 The study will also look in detail at three case study countries, to assess whether these operations are on track to deliver the intended benefits. It will examine whether DFID manages its budget support operations so as to maximise the intended benefits, while minimising the risk of misuse of UK funds. It will consider how decisions are made as to when to provide budget support, whether it should be general or sector budget support and the amount of assistance. It will look at the quality of risk assessments and what arrangements are put in place to minimise risk. It will assess the quality of policy dialogue and the processes used to agree on annual actions and commitments. It will assess whether budget support really 'buys DFID a seat at the policy table' and whether the commitments set out in annual performance assessment frameworks are delivered. It will also assess whether DFID

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<sup>7</sup> *Harmonising donor practices for effective aid delivery: Vol. 2 - Budget support, sector wide approaches and capacity development in public financial management*, OECD Development Assistance Committee, 2006, [www.oecd.org/dataoecd/53/7/34583142.pdf](http://www.oecd.org/dataoecd/53/7/34583142.pdf).

<sup>8</sup> [www.spasurvey.info/](http://www.spasurvey.info/)

conditionality helps to empower citizens in the country in question to hold their own authorities to account.

5.4 This will enable us to form a view on whether these budget support operations represent value for money.

## **6. Indicative Review Questions**

6.1 A detailed review methodology will be developed during the inception phase, setting out detailed questions and the methods to be used for answering them. Likely review questions include:

- Does DFID have a clear policy framework for deciding when and in what form and amount to provide budget support?
- Does the policy rest on a solid evidence base regarding the benefits of budget support, relative to other forms of aid?
- Is DFID making decisions on budget support consistently with this policy framework?
- Does DFID have a reliable approach to assessing the quality of country systems and the level of fiduciary risk? How does DFID balance risk and benefit in budget support operations?
- Given aid fungibility, what measures are put in place to ensure that UK aid does not end up financing the repression by a regime of its people?
- Is budget support linked to credible capacity development processes, to strengthen country systems for budget formulation and execution?
- How effective is DFID's contribution to policy dialogue? Does budget support give DFID greater policy influence?
- Have there been any noticeable reductions in transaction costs for the partner country as a result of budget support?
- What other benefits have been achieved through budget support (e.g. improvements in country systems, increases in pro-poor budgetary allocations)?
- Is there evidence as to the relative effectiveness of general versus sector budget support (i.e. with more earmarking)?
- What level of conditionality is used in DFID budget support operations? What level of compliance has there been with policy commitments in budget support operations? Is there evidence that including results indicators in budget support operations leads to any acceleration in poverty reduction?
- How effective are the processes for performance assessment and mutual accountability?
- Do budget support operations support national accountability mechanisms and the democratic process? Are parliamentarians, Non-Governmental

Organisations (NGOs) or the private sector involved in the process? Do national stakeholders believe that budget support is appropriate?

- Does DFID respond appropriately to non-performance against commitments? What is the exit strategy?
- Under what other circumstances does DFID terminate budget support operations? What is the exit strategy?
- What level of institutional learning has taken place in DFID following the NAO recommendations in 2008?

## **7. Methodology**

7.1 The evaluation will have a number of elements:

- a rapid review and synthesis of evidence available internationally on the impact of budget support;
- a review of DFID's policies on budget support, through examination of written policies and guidance and interviews with senior management;
- an assessment of how DFID responded to the recommendations of the 2008 NAO Report;<sup>6</sup>
- case studies of three major budget support operations, looking at the decision-making process and rationale for the provision of budget support and its amount, the design and management of the budget support operation and surrounding processes and the available evidence on impact; and
- a desk review of how DFID has responded to problems and issues arising within budget support operations, including deterioration in public financial management standards, non-performance against agreed commitments and problems in bilateral relations.

7.2 The case studies will be decided during the inception phase, having regard to the following criteria that the studies should include:

- at least one of the larger budget support operations (e.g. Tanzania, Ethiopia, Pakistan);
- at least one Asian example;
- at least one example of sector budget support; and
- at least one fragile state (e.g., Nepal, Pakistan, Sierra Leone).

7.3 Each case study will involve:

- a review of available documentation, including business cases, fiduciary risk assessments, evaluations, agreements with partner countries and other donors, performance assessment frameworks and associated progress reviews;
- interviews with the DFID regional desks in London; and

- country visits, involving key informant interviews with intended beneficiaries (including civil society representatives), DFID staff, partner country officials (e.g. Ministry of Finance, aid co-ordination unit) and other donors (budget support and non-budget support donors).

## **8. Timing and deliverables**

8.1 The review will be overseen by Commissioners and implemented by a small team from ICAI's consortium. The review will take place during the final quarter of 2011 and the first quarter of 2012, with a final report available in the first quarter of 2012.