



Independent
Commission
for Aid Impact

DFID's Support to Montserrat

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 examine how the UK Government manages its aid to Montserrat as part of its support to British Overseas Territories. In particular, we will evaluate the Department for International Development's (DFID's) arrangements for capital investment in Montserrat.

1.3 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

Overseas Countries and Territories

2.1 Four European Union member states have 26 Overseas Countries and Territories¹ (OCTs) between them: Denmark (1), France (7), the Netherlands (6) and the United Kingdom (12). OCT nationals are, in principle, European citizens. These countries, however, do not form part of EU territory and, as a result, they are not directly subject to EU law. Nevertheless, they do benefit from a special 'associate' status conferred on them by the Treaty of Lisbon. The purpose of this association is 'to promote the economic and social development of the countries and territories and to establish close economic relations between them and the Union as a whole'.²

British Overseas Territories

2.2 The UK has 12 British Overseas Territories,³ in addition to Gibraltar and the Sovereign Base Areas of Akrotiri and Dhekelia in Cyprus. The UK's Overseas Territories vary in:

- **Size:** from 7 km² to 1.7 million km²;
- **Geographical distribution:** from the Antarctic and Europe to the Atlantic, Indian and Pacific Oceans; and
- **Population:** from estimates of 3,000 to 64,000 (of the 11 Overseas Territories that are permanently inhabited).

¹ OCTs share common characteristics: none of them is a sovereign country, they are all parliamentary democracies, they are all islands, their populations are very small and, between them, they have much greater ecological diversity than continental Europe. They are all relatively vulnerable to external shocks and are, in general, dependent on a narrow economic base that revolves mostly around services. OCTs face many challenges such as remoteness, vulnerability to economic shocks and climate change and difficulties in building and maintaining infrastructure and a sustainable energy supply. *EU Relations with Overseas Countries and Territories (OCTs)*, European Commission, 2012, http://ec.europa.eu/europeaid/where/octs_and_greenland/index_en.htm.

² Decision 2001/822/EC of the Council of 27 November 2001 on the association of the overseas countries and territories with the European Community, OJ L 314, 30.11.2001, p. 1. Decision as amended by Decision 2007/249/EC (OJ L 109, 26.4.2007, p. 33) http://www.gov.ms/wp-content/uploads/2012/12/Montserrat-SPD_final-2012.pdf.

³ Anguilla; Bermuda; British Antarctic Territory; British Indian Ocean Territory; British Virgin Islands; Cayman Islands; Falkland Islands; Montserrat; Pitcairn, Henderson, Ducie and Oeno Islands (commonly known as the Pitcairn Islands); St Helena, Ascension Island and Tristan da Cunha; South Georgia and South Sandwich Islands; and Turks and Caicos Islands. *DFID Overseas Territories Department Operational Plan 2011-2015*, DFID, June 2012, <http://www.dfid.gov.uk/Documents/publications1/op/ovseas-terr-dept-2011.pdf>.

2.3 The UK Government is obliged under the UN Charter 'to promote to the utmost ... the well-being of the inhabitants of these territories', including the development of self-government; political, economic, social and educational advancement; just treatment; and protection against abuses. The obligations under the charter, together with the UK's constitutional relationship with the Overseas Territories, means that the UK has the ultimate liability for defence, security, international relations and overall good governance of the Overseas Territories and the well-being of their citizens. The inhabited Overseas Territories are mostly self-governing but Governors appointed by the Foreign and Commonwealth Office (FCO) retain reserved powers in areas such as security, good governance and external relations. All citizens of Overseas Territories also have the automatic right to British citizenship and each Overseas Territory has its own constitution.

DFID support to the Overseas Territories

2.4 The Overseas Territories can be divided into two categories:

- **Non-aided territories:** these are not eligible to receive Official Development Assistance (ODA). Therefore we will not be covering expenditure on these Overseas Territories in this review as this lies outside ICAI's mandate; and
- **Aided territories:** these are eligible to receive ODA. Of the 12 Overseas Territories, four are aided territories. Three territories – Montserrat; Pitcairn; and St Helena and Tristan da Cunha (but not Ascension Island) – receive regular DFID aid. The fourth country, Anguilla, which technically is an ODA-eligible territory, is currently self-sufficient.

2.5 The UK Government's priorities for the Overseas Territories are set out in its June 2012 White Paper, *The Overseas Territories: Security, Success and Sustainability*.⁴ The White Paper reaffirms the UK Government's commitment to meeting the 'reasonable assistance needs' of the aided territories as a first call on the aid budget. It also sets three policy goals:

- to strengthen the engagement and interaction between the UK and the Territories;
- to work with the Territories to strengthen good governance arrangements, public financial management and economic planning where this is necessary; and
- to improve the quality and range of support available to the Territories.

2.6 The Overseas Territories Directorate in FCO takes the overall lead on managing the UK's relationship with its Overseas Territories. DFID is responsible for providing financial and advisory support to the aided territories through its Overseas Territories Department (OTD) and also provides advisory support to FCO as required (on areas of mutual interest such as human rights).. The OTD operates from East Kilbride and London. DFID also has representatives in Montserrat and St Helena. The OTD has three programme teams (South Oceans, Montserrat and the Caribbean Overseas Territories) that also draw on specialist support. DFID draws on independent reviewers for its more significant and complex projects.

2.7 The Overseas Territories unique constitutional relationship with the UK means that DFID support to aided Overseas Territories is not discretionary and the International Development Act 2002⁵ specifically exempts aid to the Overseas Territories from the poverty reduction criteria that apply to the rest of the DFID aid budget. As a result, DFID's Overseas Territories programme is different from the rest of DFID's work. Nevertheless, DFID has indicated its intention to be 'vigilant to ensure that DFID spending in the Overseas Territories is subject to rigorous VFM [value for money] screening and evaluation'.⁶ DFID has also committed itself to publishing clear and concise information about its Overseas Territories programmes.⁷

2.8 DFID's Overseas Territories policy aims to attract investment and stimulate private sector-led growth in the aid-dependent Overseas Territories, while still providing direct support. At the same time, the UK Government expects Overseas Territories governments to reduce and eventually

⁴ *The Overseas Territories: Security, Success and Sustainability*, Foreign and Commonwealth Office, June 2012,

<http://www.fco.gov.uk/resources/en/pdf/publications/overseas-territories-white-paper-0612/ot-wp-0612>.

⁵ *International Development Act 2002*, UK Parliament, 2002, http://www.legislation.gov.uk/ukpga/2002/1/pdfs/ukpga_20020001_en.pdf.

⁶ *Montserrat – A British Overseas Territory*, DFID, November, 2012.

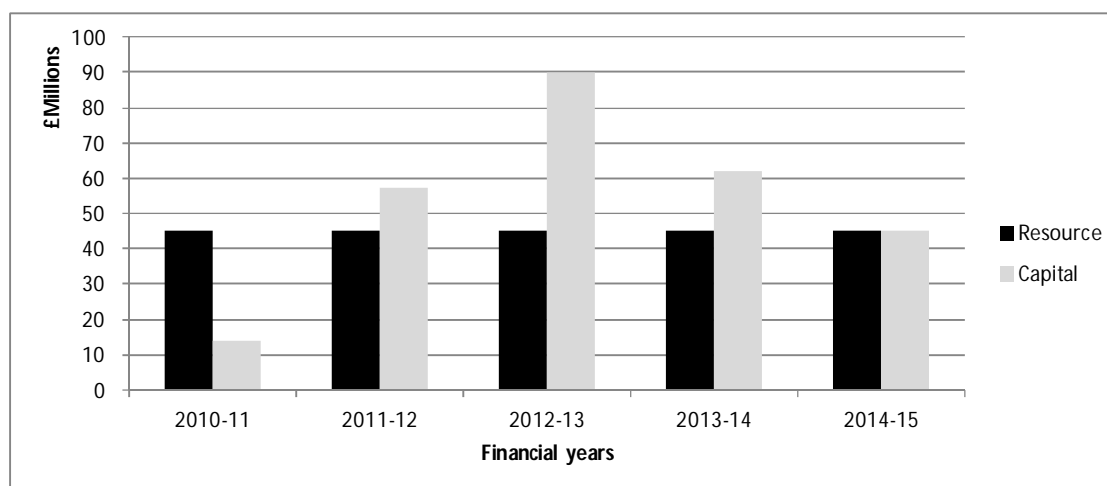
⁷ *DFID Overseas Territories Department Operational Plan 2011-2015*, DFID, June 2012, <http://www.dfid.gov.uk/Documents/publications1/op/ovseas-terr-dept-2011.pdf>.

eliminate their dependence on UK aid. Accordingly, the Overseas Territories *Operational Plan*⁸ contains three priorities:

- 'to meet the reasonable assistance needs of Overseas Territories citizens cost effectively';
- 'to accelerate aid-dependent Overseas Territories towards self-sufficiency';⁹ and
- 'to manage the UK Government's financial liability for non-aided Caribbean Overseas Territories in crisis', by working closely with the FCO.

2.9 The *Operational Plan* forecasts resource expenditure of £45 million per annum to 2014-15, with capital development aid increasing by £13.4 million in 2010-11 to a peak of £90.1 million in 2012-13, as shown in Figure 1.

Figure 1: DFID resource and capital expenditure on aided territories, 2010-11 to 2014-15



2.10 Of the total aid budget provided to the Overseas Territories in 2010-11 (£56 million), some £20 million or 36% was allocated to Montserrat¹⁰ for financial support to the Government of Montserrat's budget, capital development and technical assistance. Given that this is a significant proportion of the Overseas Territories aid budget, our review will examine DFID's support to Montserrat. In addition, consistent with DFID's priority of accelerating aid-dependent Overseas Territories towards self-sufficiency and the need to rebuild Montserrat's infrastructure following its natural disasters (see paragraph 2.11), the review will have a particular focus on capital expenditure.

Montserrat

2.11 Montserrat was mostly self-financing until the island was hit by a major hurricane in 1989. Its progress back towards financial self-sufficiency after the hurricane was reversed by major eruptions of its Soufrière Hills volcano between 1995 and 1997. The eruptions devastated the island, destroying the capital, Plymouth. Two-thirds of the island remains uninhabitable (due to the risk of future eruptions).

2.12 Since the eruptions, Montserrat has remained heavily dependent on UK development aid. As with other Overseas Territories with small populations, Montserrat's limited fiscal and human resource capacity presents a significant challenge to economic growth and social development. It can also hinder good governance and the effective delivery of government services. Since 1995, DFID has provided a total of £350 million to Montserrat for emergency assistance, construction and financial support. In 2012-13, DFID is providing a subsidy of up to £14 million to Montserrat's recurrent budget, equivalent to 55% of total recurrent expenditure.¹¹

⁸ DFID Overseas Territories Department *Operational Plan 2011-2015*, DFID, June 2012,

<http://www.dfid.gov.uk/Documents/publications1/op/ovseas-terr-dept-2011.pdf>.

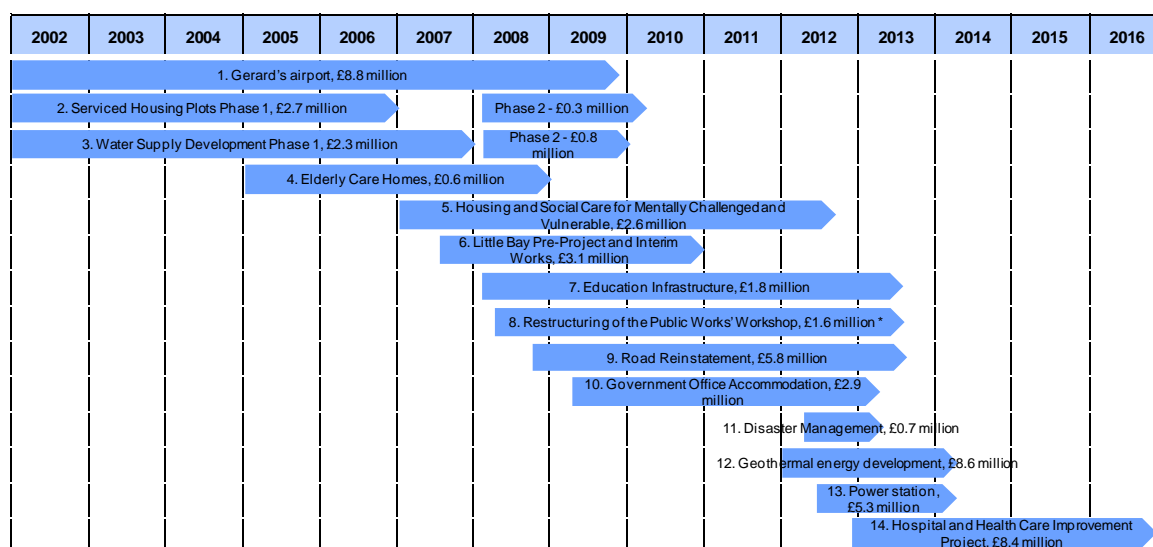
⁹ DFID's *Operational Plan* states that strategic investments to deliver this are 'unlikely to be appropriate for a small OT such as Pitcairn with little prospect of self-sufficiency'.

¹⁰ *Montserrat – A British Overseas Territory*, DFID, November 2012.

¹¹ *DFID Montserrat Budget Aid 2012/13, Business Case*, DFID, April 2012, <http://projects.dfid.gov.uk/iati/Document/3744965>

2.13 In addition, DFID is funding a range of capital development infrastructure projects, including geothermal exploration, a power station, the upgrading of disaster management facilities and its main arterial road, as well as the expansion of a primary school and government buildings. As of December 2012, DFID had eight live capital projects in Montserrat, totalling £35 million. Figure 2 shows these projects, indicating their start and planned finish dates and budgets, as well as a selection of completed projects.

Figure 2: DFID's live capital projects in Montserrat¹² and a selection of completed capital projects



* Restructuring of the Public Works' Workshop is a project to manage a fleet hire and servicing operation to the public and private sectors.

2.14 Government administration is currently centred in Brades and a new capital at Little Bay is planned. Montserrat's current population is 4,922¹³ (down from over 10,000 in 1995¹⁴). In May 2012, the UK Government signed a Memorandum of Understanding with the Government of Montserrat, committing Montserrat to implement 32 policy reforms that aim to:

- improve the business environment, with a specific target for the private sector to contribute more than 50% of the economy by 2020 (from 34% in 2011);
- develop Montserrat as a tourist destination; and
- strengthen the Government of Montserrat's capacity to facilitate growth and to implement institutional reforms.

2.15 DFID's *Operational Plan* also involves engaging with partners to broaden the support that Overseas Territories can receive. DFID aims to strengthen Overseas Territories' involvement with regional bodies such as the Caribbean Regional Technical Assistance Centre (CARTAC), funded by the International Monetary Fund, the East Caribbean Central Bank, the Caribbean Development Bank and the University of West Indies. For example, a strategic partnership with the Caribbean Development Bank is currently being pursued in the financing and procurement of new power generation capacity for Montserrat, to get the best value for money on the overall funding package.¹⁵

¹² Projects live as of December 2012; information provided to ICAI by DFID.

¹³ *The Overseas Territories: Security, Success and Sustainability*, Foreign and Commonwealth Office, June 2012, <http://www.fco.gov.uk/resources/en/pdf/publications/overseas-territories-white-paper-0612/ot-wp-0612>.

¹⁴ *An Evaluation of HMG's Response to the Montserrat Volcanic Emergency*, volume I, Evaluation Report EV635, December 1999, <http://www.dfid.gov.uk/Documents/publications1/evaluation/ev635.pdf>.

¹⁵ *DFID Overseas Territories Department: Operational Plan 2011-15*, DFID, updated June 2012, <http://www.dfid.gov.uk/Documents/publications1/op/ovseas-terr-dept-2011.pdf>.

3. Purpose of this Review

3.1 To assess the effectiveness and value for money of DFID's support to Montserrat, with a focus on capital investment.

4. Relationships to other evaluations/studies

4.1 In 1999, DFID published an evaluation of the UK Government's response to the Montserrat Volcanic Emergency¹⁶ that was undertaken by a seven-person team from the Overseas Development Institute in London.

4.2 The report describes the response to the disaster as 'an achievement for Montserratians and a qualified success for HMG'. The report identified delays arising from the absence of a clear budgetary ceiling or jointly accepted standards on what was appropriate for meeting the 'reasonable assistance needs' of Montserrat.

4.3 Key lessons identified in the report included the need for:

- fast-tracking disaster preparedness and emergency responses and investment in the Overseas Territories;
- promoting partnership in the Overseas Territories;
- clarifying appropriate standards to which the 'reasonable claims' of the Overseas Territories on UK Government aid are to relate, especially in an emergency (here the report also noted that the size of Montserrat raises a special problem in terms of its diseconomies of scale);
- facilitating post-disaster reconstruction; and
- providing volcano-seismic monitoring and scientific advice (to which the UK Government has responded with the establishment of the Montserrat Volcano Observatory).

5. Analytical approach

5.1 Our review will examine DFID's overall package of support to Montserrat, including how DFID decides to meet the country's 'reasonable assistance needs' cost-effectively and accelerate progress towards self-sufficiency. This includes financial support, capital projects and technical assistance.

5.2 We will focus particularly on the examination of DFID's policies and procedures for identifying, prioritising, delivering and evaluating capital development projects. An in-depth analysis of a sample of recently completed or current capital investment projects will be undertaken.

5.3 We will also evaluate how DFID identifies and prioritises Montserrat's technical assistance needs in the context of limited human resource skills and capacities within the country and how such assistance is sourced, delivered, monitored and evaluated.

6. Indicative review questions

6.1 This review will use as its basis the standard ICAI guiding criteria and evaluation framework, which are focussed on four areas: objectives, delivery, impact and learning. The questions outlined below are drawn from the questions in our standard evaluation framework, supplemented by others which are of particular interest in this review. The full, finalised list of questions that we will consider in this review will be set out in the inception report.

¹⁶ *An Evaluation of HMG's Response to the Montserrat Volcanic Emergency*, volume I, Evaluation Report EV635, December 1999, <http://www.dfid.gov.uk/Documents/publications1/evaluation/ev635.pdf>.

6.2 Objectives

- 6.2.1 Does DFID's aid to Montserrat (including capital development, financial support and technical assistance) have clear, relevant and realistic objectives consistent with the UK Government's policies for the Overseas Territories?
- 6.2.2 Does DFID's approach use a clear understanding of the needs of the intended beneficiaries?
- 6.2.3 What is the process for identifying and prioritising capital development projects?
- 6.2.4 What methodologies does DFID employ to determine the value for money of each proposed capital development project?
- 6.2.5 How does DFID determine 'reasonable assistance needs' and the amount of financial support?
- 6.2.6 Does DFID have a clear plan for the current and future technical assistance needs of Montserrat and its population?

6.3 Delivery

- 6.3.1 Does the design and roll-out of capital development take into account the needs identified by the intended beneficiaries and are they involved in delivery?
- 6.3.2 How does DFID exercise financial control to ensure its capital developments achieve value for money?
- 6.3.3 How does DFID balance risk and benefit in its capital development decisions for Montserrat, in particular longer-term recurrent costs and potential UK Government financial liability (given the current and expected future level of financial support)?
- 6.3.4 Is there good governance at all levels in Montserrat, with sound financial management and adequate steps being taken to avoid corruption in the management and delivery of capital development?
- 6.3.5 How are the long-term financial implications for the capital developments supported?

6.4 Impact

- 6.4.1 Is the capital development delivering clear, significant and timely benefits for the intended beneficiaries?
- 6.4.2 What benefits have been achieved by specific capital development projects and technical assistance, e.g. have these led to improvements in country systems or economic activity and reduced dependency on the UK Government aid?
- 6.4.3 Does the technical assistance include appropriate long-term capacity-building to ensure the sustainability of such assistance?
- 6.4.4 What is DFID's exit strategy for Montserrat?

6.5 Learning

- 6.5.1 Are there appropriate arrangements for monitoring the impact of DFID's support in the context of DFID's objectives for Montserrat?
- 6.5.2 Is there evidence of innovation and use of global best practice in capital development and technical assistance?
- 6.5.3 Is there anything currently not being done in respect of the support to Montserrat that should be undertaken?
- 6.5.4 Have lessons about the objectives, design and delivery of DFID's support to Montserrat been learned and shared effectively across the Overseas Territories portfolio?

7. Methodology

7.1 The evaluation will have a number of elements:

- a review of DFID's approach to the Overseas Territories in general and Montserrat in particular, with a focus on capital development, through examination of written policies, papers, guidance and interviews with senior management, including FCO and DFID staff in London and East Kilbride;
- a field visit to Montserrat, including meetings with DFID staff, intended beneficiaries, partner country officials (e.g. Ministry of Finance, the Office of the Governor and the aid co-ordination unit) and other stakeholders; and
- an evaluation of the impact and value for money of several recently completed or current capital investment projects, to be selected during the inception phase.

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 in the first and second quarters of 2013, with a final report available in the third quarter of 2013.