DFID Department for International Development

GOVERNANCE PORTFOLIO REVIEW SUMMARY

Summary Review of DFID's Governance Portfolio
2004–2009

July 2011

1. Introduction: What is the Governance Portfolio Review?

1.1 DFID's investment in governance aims to support the development of capable, accountable and responsive states that provide security, enable growth, reduce poverty and improve the delivery of public services.[i] It also seeks to build peace and stability and strong state-society relations in fragile states. Between 2004–9 DFID's investment in governance averaged 17% of DFID's development assistance. Making the most of the money – spending it in the most effective and efficient way to achieve the most impact – is a priority for the UK Government.

1.2 In 2009-10, DFID undertook a review of its governance portfolio and the impact of its spending at country and global levels in governance related programmes. It is a retrospective look at how DFID has been engaging in this area over the five-year period 2004 to 2009 for which complete project data is available. The purpose of the review was to assess the results of DFID's expenditure in governance, and how DFID could better allocate resources to further improve value for money (vfm) in the future. The findings are already being be used to support DFID's renewed focus on achieving and demonstrating the results and vfm of UK development assistance for governance. The review posed three questions in relation to the governance portfolio:

- Is DFID investing in the right things in the right areas?
- Is the quality of these investments high?
- Is the governance portfolio providing vfm?

1.3 The governance portfolio review (GPR) was a complex undertaking given the scope, range and variety of the portfolio. It consisted of an analysis of DFID spend by project input sector codes, based on OECD-DAC conventions to provide the raw data. The quality of spend on performance data was problematic, with miscoding and under-reporting of governance spend, necessitating careful checking and recoding of the data. Centrally generated data was supplemented by four country-case studies (Bangladesh, Ghana, Nigeria and Vietnam) to fully understand how DFID supports governance in a range of country contexts. In-depth studies in four governance sub-sectors – public financial management, taxation, elections and political systems, and security and justice – were also undertaken to triangulate the findings. These were complemented by a review of secondary sources and evaluations as well as additional surveys of DFID staff.

1.4 This summary will outline briefly the quality of the evidence for why DFID invests in governance, the areas DFID has been investing in, what we have achieved and assess the vfm for the portfolio. The final section captures the recommendations and highlights the steps DFID is taking to improve the quality of the portfolio.

2. Evidence: Why does DFID invest in governance?

2.1 The GPR assessed three sources of evidence: existing research evidence on the significance of governance on development outcomes; analysis of macro data from international indicators; and reviews of existing evaluations and assessments of the impact of aid on governance. The GPR does not provide an

independent assessment of the quality of evidence nor of the robustness of the methodologies in the studies reviewed here. It points to a new agenda to strengthen the evidence base.

2.2 **Research evidence** shows a **strong relationship** between effective governance and development, including:[ii]

- Better governance is positively associated with increasing primary education and adult literacy, and reducing infant mortality.
- Effective political governance is critical to economic growth including through improved investment and productivity.
- Improved governance is essential for achieving the MDGs.
- Democratic governance tends to provide developmental benefits through responsive governance over the long term, but other forms of government have also proved to be highly effective at reducing poverty.
- Political instability and policy uncertainty have significant negative effects.

However, the direction of causality on these outcomes is less clear, probably running in both directions.

2.3 **Research evidence** also shows that it is **not necessary to address all aspects of governance** before development outcomes can be achieved.[iii]

- Improvements in a few governance areas can catalyse positive improvements in poverty reduction, and stimulate broader processes of reform that lead to improvements in other areas of governance.
- Prioritising and sequencing the governance reforms needed to achieve these improvements is complex.
- Determining the priorities and sequencing of governance reforms is country context specific and dependent on a deep understanding of the political economy of the country concerned.

2.4 **Statistical evidence** on the link between governance and progress on the MDGs in DFID's Public Service Agreement (PSA) countries is weak and limited.[iv] Two issues were explored in relation to PSA countries: trends in governance; and correlation between the number of on-track MDGs and governance. No donor has yet systematically monitored the linkages between MDG outcomes and governance performance due to measurement difficulties and problems of attribution. The GPR found that international governance indicators do not show clear trends and their short duration and changing coverage limit their usefulness.

2.5 **Evaluation evidence** from donor engagement in governance reform has a number of limitations, including:[v]

- Many project and thematic evaluations report positive outputs and results, but few measure impact on development outcomes.
- None attempted to measure value for money.
- A common finding was that governance projects are often not designed in a way that facilitates systematic monitoring and evaluation.
- The absence of common indicators makes it difficult to measure performance.

2.6 **Evidence of donor impact** is limited, but it is clear that interventions based on technical solutions alone have a limited sustained value. A stronger focus on politics and changing incentives would be needed if governance interventions are to have the desired impact.

3. What has DFID been doing on governance between 2004 and 2009?

3.1 This section looks at how DFID's approach to governance has evolved both theoretically and in practice, and it sets out the lessons learned in order to guide DFID's future investments in this area.

3.2 **DFID's approach to governance has evolved** through several phases, which have been reflected in the type and balance of interventions. The late 1990s saw an increasing emphasis on the role of government in facilitating growth that benefited the poor; the importance of political stability for eliminating poverty; and the importance of law and regulation to empower poor people. From 2006, governance became increasingly central to DFID's approach to poverty reduction, based on an integrated Capability, Accountability and Responsiveness (CAR) framework (Chart 1). The CAR framework emphasised the importance of political economy and 'working politically', leading to the introduction of mandatory Country Governance Analysis (CGA) to inform country planning in DFID's priority countries. The most recent phase in DFID's approach to governance has seen an increased emphasis placed on building peace and stability in conflict-affected and fragile states, through an approach focused on peace-building and state-building.[vi]

Chart 1: Capability-Accountability-Responsiveness (CAR) Framework

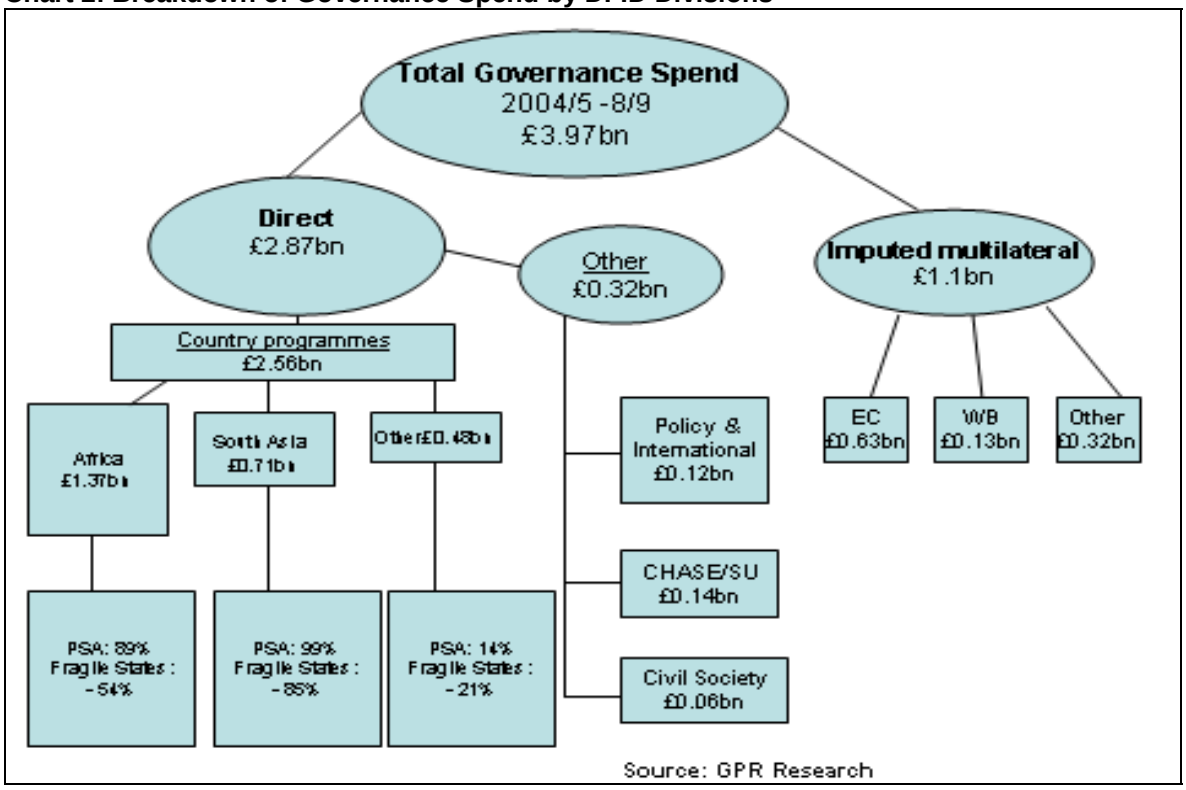
3.3 **What has DFID learned from its Governance engagement?** DFID has learned a number of lessons from its governance work in recent years, which this review sought to test through an analysis of research evidence and portfolio results. DFID's experience suggests that:

- Governance is a **complex political agenda** that is both an enabler of development and poverty reduction, and a desirable end in itself.

- **Politics and the political process** are central to governance, determining how society makes choices, competing interests are mediated, conflicts resolved, and resources are allocated. [vii]
- **Sequencing and prioritising governance reforms** over a longer period of time and understanding their impact on broader political and societal processes are critical to successful governance reform.[viii]
- Governance programmes need to be **flexible** enough to exploit unexpected opportunities and to draw back at more difficult times without withdrawing altogether.[ix]
- **Democracy needs to develop organically**, supported where necessary, and when the underlying conditions allow, by the international community.

3.4 **How have DFID's programmes reflected these changes?** The GPR evidence shows that DFID's engagement on the governance agenda has evolved in line with the new thinking, grounded in an improved understanding of governance and politics in each country. DFID's governance work includes programme investment, policy and influencing work, at country level, and on global issues, often in collaboration with other donors. The priority and expertise that DFID has allocated to governance has given DFID considerable influence and recognition. In the period 2004/5–8/9, DFID invested £4 billion in governance, averaging 17% of DFID's total programme. This included £1.1 billion of core funding to multilaterals on governance, most of which went to the EC and the World Bank.

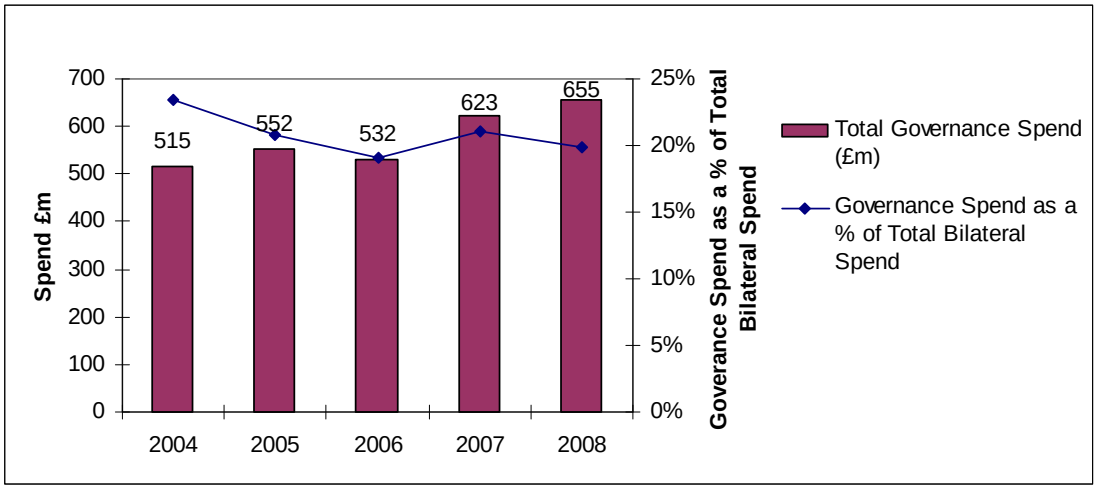
Chart 2: Breakdown of Governance Spend by DFID Divisions



3.5 Whilst the **bilateral spend** on governance increased over the period in actual terms, it marginally decreased as a percentage of total bilateral spend (see Chart 3). The share of programme spend on governance was higher in fragile states than elsewhere. The top ten spending countries (Afghanistan, Tanzania, Sierra Leone, Bangladesh, Nigeria, Sudan, West Bank/Gaza, India,

DRC and Zambia), all spent more than 25% of total programme spend on governance, and accounted for 46% of total direct governance spend. In total 89% of direct funding was through country programmes; 54% of this was in Africa. Governance projects were not scored as significantly riskier than others.

Chart 3: Total Bilateral Governance Spend, 2004 - 2008



Source: GPR Research

3.6 The bilateral spend is spread across a **range of thematic areas**. One third of direct governance investment was through budget support (£931m), with budget and financial management the main focus. Other major areas of investment were public financial management, including taxation (£365m), strengthening civil society (£266m), national government (£239m), decentralisation and local government (£192m), and conflict prevention and resolution (£154m). Most of the funding for the broad thematic areas increased significantly over the period except for budget support, which was almost static. Support for civil society rose most (84%) while other categories increased at a broadly similar rate (30-41%).

3.7 Most **sector projects** include an element of governance, which is often critical to their success, but this is under-reported. A sample of health, education and water projects shows that DFID data systems captured less than half the governance component on account of classification problems.

3.8 The **main instruments** for spending the governance budget are direct budget support, technical co-operation, civil society grants and multilateral allocations, but these are not well disaggregated. Significantly, there is a long tail of small projects. The 15% of programmes/projects that spent over £1m account for 85% of expenditure; but there were 1,471 allocations to governance projects under £1m during the review period that did not require full project cycle management processes.[x]

3.9 DFID's **policy, research and influencing work** required a significant amount of staff time. A survey for the GPR found that UK based governance and conflict advisers spent over 50% of their time on influencing work with partner governments and other donors.

3.10 **Multilateral spend is substantial but gets limited attention.** Over the period 2004-9, 42% (£1.67bn) of DFID's total spend on governance was through multilateral institutions. Of this, 66% (£1.1bn) was the proportion of multilaterals' spending from core funding that is estimated to have been spent on governance (imputed spend). The remaining 34% was directly allocated by DFID country offices and departments for governance programmes implemented by multilaterals. Of the £1.1bn imputed spend, the European Commission (EC) accounted for £630m and the World Bank (WB) for £132m. A large proportion of the governance spend by the WB (98%) and EC (71%) is on government administration, public financial management and economic and development policy and planning. The EC puts 24% of its governance spend into strengthening civil society, elections and human rights. Data on UN imputed governance spend is too incomplete to analyse but the UN spend has a significant emphasis on conflict, elections, gender and rights.

3.11 **DFID has increased its focus on global governance issues,** ranging from regulating trade in tropical timber, diamonds and other minerals, to international tax evasion, money laundering and stolen asset recovery. This work was often found to be complex and slow moving because of the number of stakeholders; but because of its potential global impact, it has the potential for high returns. Global initiatives have often involved close working across Whitehall.

4. Performance and impact of the Governance portfolio

4.1 This section summarises overall performance trends, analyses governance performance by theme, and draws out key cross-cutting aspects of the portfolio. Performance measurement is based on DFID project scores.

Box 1: Headline impacts from DFID's governance investments

Tax. Projects in 18 countries, focused on reform of revenue authorities and customs, have produced large and measurable increases in tax/GDP ratios and customs revenue.

Anti-corruption. Projects focusing on asset recovery have generated high rates of return on investment. In Nigeria, for example, £163m of corruptly obtained assets have been recovered or frozen and the UK has secured its first conviction for foreign bribery. Anti-corruption efforts were financed in 16 countries, alongside support for international anti-corruption initiatives.

Public Financial Management. A significant achievement was the introduction of a public financial management assessment framework through an international initiative which DFID helped establish. The framework has been applied in over 100 countries. These include six PSA countries with repeat assessments, all of which showed a net improvement in PFM indicators.

Elections. DFID provided support in 25 countries with a combined electorate of over 600 million. Benefits included increases in voter registration and election turnouts and greater acceptance of results. There was also a trend towards wider public support in these countries for deepening democracy.

Security and Justice. Security and justice programmes in 65 countries – 75% in fragile states – were often a catalyst for increasing access to legal services for poor people and improving the capability of justice systems.

Multilateral Performance

4.2 **Multilateral spend produces uneven impact and performance was difficult to judge.** DFID's multilateral spend on governance is 42% of the total governance portfolio, but the evidence base on which to judge effectiveness is limited. The World Bank has a strong emphasis on economic governance and performs relatively well, but needs to have more local flexibility and to improve political economy analysis. UNDP is often seen as having the comparative advantage as a co-ordinator, particularly in relation to political governance work, but project implementation was judged to have considerable scope for improvement by country offices. The EC was found to be in need of translating central policies into more flexible and effective project implementation. DFID published its Multilateral Aid Review (MAR) in March 2011 which provides a robust assessment of multilateral performance and now guides DFID's approach to improving their effectiveness. The findings of the GPR were broadly consistent with those of the MAR.

Bilateral portfolio performance

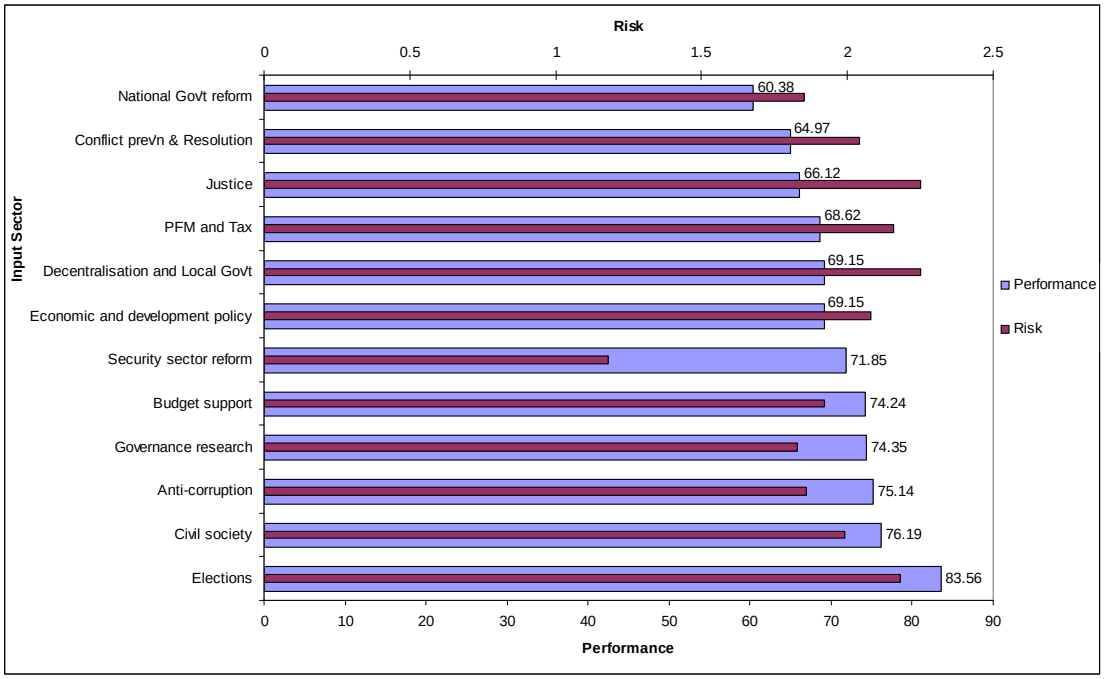
4.3 The average performance score for governance is 71%, very slightly lower than for DFID programmes overall. Regional differences in portfolio performance are not significant, although performance is scored higher in Asia (73%) than Africa (70%) and in PSA countries than others. There are no significant differences in overall performance between fragile and non-fragile states.

4.4 **There are some surprising variations in perceived risk** with little difference between fragile states and the average. The highest perceived risk was in South East Asia, at 2.23 (with 1=high, 3=low), while Africa also exceeded the average at 2.09, and South Asia's risk matched the portfolio average. Among governance sub-sectors, justice and local government had the highest risk scores, while research, national government, and security and conflict and anti-corruption were lowest. There is no obvious explanation for these variations. At country level the correlation between risk and scored performance is weak.

Thematic performance

4.5 **Differences in performance by theme were more marked**, than for location or country-type. Chart 4 maps performance in different governance themes against risk. The scores suggest greatest success with support for elections, anti-corruption and civil society and least with civil service reform, conflict prevention and security and justice. In part this may reflect the scope of interventions in some areas of governance being more narrowly defined or measured. As part of the GPR a number of in-depth studies of particular themes were undertaken. These provided additional insights into the performance of the portfolio in particular areas and served to enrich the findings.

Chart 4: Performance against Risk by major Input Sector Code



Source: GPR Research

4.6 **Public Financial Management (PFM):** DFID invested £260m in PFM (excluding taxation) in the period 2004-9. DFID investments included projects focused on government budget, financial management, procurement and audit systems, and PFM components in sector projects and budget support programmes. PFM projects averaged a slightly higher risk than overall governance and performance scores, which have been slightly but not significantly lower.

Box 2 Mozambique Public Financial Management Reform (SISTAFE Phase II 2003-9)

This large multi-donor project, costing £11.6m, aimed to strengthen public expenditure management systems through the introduction of an electronic budgeting system. It gave a high degree of implementation autonomy to GoM. Although the project took longer than planned, outputs were largely achieved, with a purpose score of 2. But it was confined to technical improvements, with no overall PFM reform plan to provide a framework for addressing institutional weaknesses associated with the budget process.

4.7 Data on changes in PFM performance over time is limited, but repeat Public Expenditure and Financial Accountability (PEFA) programme assessments allow a country's progress to be monitored. There are 21 countries with comparable repeat PEFA assessments, 16 of which show net improvements. Six of these countries were PSA countries and all of them showed net improvements.

4.8 **Taxation:** DFID spent £71m on tax reform in 2004-2009. The main objective was macro-economic stabilisation in countries with poor revenue performance. Value for money was better than the overall governance average and risk slightly lower than the governance average. Programmes in middle

income countries scored significantly lower (58.2) than the rest of the portfolio. The performance of tax projects in fragile states was highly variable; successful tax reform programmes in fragile states (such as Afghanistan and Rwanda) were especially dependent on domestic political commitment as well as strong technical design. The impact of DFID's investment in tax reforms in Africa on revenue was very high relative to costs and offered good value for money (Box 3).

Box 3: Impact of Revenue Authorities in Sub-Saharan Africa

In Uganda the tax/GDP ratio almost doubled from 5.7% to 11% in the first phase of DFID support to the Uganda Revenue Authority. Following stagnation in the late 1990s it rose again from 12.4% in 2004/5 to 13.8% in 2008/9, generating additional revenue of £80 million over the four-year period. This was more than 8 times the total donor expenditure of £9.5 million.

In Tanzania tax collection performance 2000–06 had stagnated at around 11-12% of GDP. The tax reform programme supported by DFID significantly improved revenue collection, raising the tax/GDP ratio to 14.5% by 2007/8.

In Rwanda revenue collection as a percentage of GDP moved from 12.8% at the end of 2006 to 13.8 % at the end of 2008; revenue collections as a percentage of recurrent expenditure moved from 79.7 % at the end of 2006 to 90.5% in June 2009.

In contrast, country evaluations in 2008 found that less progress was achieved in Zambia and Sierra Leone where Revenues Authorities did not achieve measurable improvements in tax to GDP ratios due to inability to overcome policy bottlenecks and capacity constraints.

4.9 **Anti-Corruption:** Direct support to combat corruption is shown in DFID's systems as totalling £36m in 2004-9 but is likely to be understated as anti-corruption also features under other themes. Average risk was lower than the governance average while performance scores were higher. In addition to country programmes the UK has played an active role internationally in initiatives to combat corruption affecting developing countries, strongly supporting the UN Convention Against Corruption (UNCAC) and promoting international action on money-laundering. DFID has worked closely with the FCO and the UK police service to pursue stronger action on recovering stolen assets in UK banks, with good results (Box 4).

Box 4: Nigeria Asset Recovery

Approximately £220 bn was stolen by Nigeria's rulers between 1960 and 1999. UK investigations into money laundering in Nigeria began in 2004, led by the Metropolitan Police. The support of the FCO and DFID has been critical, both in Nigeria and in the UK. Since November 2006, DFID provided £4.7m to the Metropolitan and City of London Police to strengthen UK's capacity to investigate allegations of international corruption, while DFID Nigeria supported the Economic and Financial Crimes Commission (EFCC) in Nigeria. DFID in London and Nigeria have also facilitated the work of the Met through advice and guidance on challenges faced. The outcome of the investigation includes: £20m of corrupt assets have been recovered by Nigeria through criminal and civil procedures; £143m of allegedly corrupt assets have been frozen; a UK citizen has been sentenced to 3 years for money laundering assets of a Nigerian State Governor; two associates of another have been sentenced to five years, and the UK has secured its first conviction for foreign bribery. In Nigeria 338 people have been charged; and the work of the EFCC and the Met has had a significant impact within Nigeria with positive coverage by the media.

4.10 **Political Systems and Elections:** Political Systems and Elections (PS&E) spans a number of input sector codes. It accounted for 8% of the governance portfolio with spend of £234m from 2004/5 to 2008/9. Half the total spend was for projects with an explicit electoral component, while the remainder mostly covered parliamentary strengthening, political parties, voice and accountability, and political rights, captured under deepening democracy. Risk was very similar to the portfolio average but performance scores 65.5% were lower than the governance average of 71.1%. The score for elections alone was significantly higher at 83.6%. Box 5 shows selected country results.

Box 5: The impact of DFID's support to political systems and elections

In **DRC**, the government contributed only 10% of its election costs. Elections would not have taken place, and the electoral commission would have collapsed between elections without the joint support of DFID and other members of the international community.

In **Bangladesh**, technical support from the international community including DFID was critical to the 2008 elections. Voter turnout was around 85% in a free, fair and credible process. Effective voter registration took place under the Preparation of the Electoral Roll with Photographs programme, with DFID support covering 14m out of 80m people who registered. The Government of Bangladesh is now funding the majority of the cost of the upkeep of the electoral roll.

In **Nepal**, DFID support for political inclusion of Janjati (indigenous tribal groups) and others, helped ensure a voice at the table during the peace process and led to other donor/INGO support. DFID's work was found to be of 'primary importance' in affirmation of agendas and rights of excluded groups.

4.11 **Security and Justice (S&J):** Over the period 2004-2009, DFID provided £161m of support to S&J programmes, accounting for 6% of DFID's expenditure on governance.[xi] Expenditure for legal and judicial development (£134m) was substantially larger than for security system management and reform (£38m). The overall performance for legal and judicial development projects is not significantly lower than the average. Legal and judicial development projects received the highest average risk rating in the governance portfolio. DFID's S&J programmes demonstrate an impressive list of substantial achievements, often in highly challenging environments (see Box 6).

Box 6: Bangladesh Legal Aid Services Trust

DFID is supporting legal aid services for 10 million poor people, 80% of which are women. Direct returns to the poor from one part of this programme (BLAST) amounted to more than 50% of DFID's investment of £2.9m. Assets accumulated by the poor likely to exceed DFID's project investment (£2.9m). Public interest litigation reduced vulnerability in a number of fields (health, workplace, transport, under trial prisoners etc). Litigation in the courts and mediation outside the courts enabled women in particular to strengthen their voice within their communities and increased their safety.

Cross-cutting findings of Governance portfolio performance

4.12 **Getting the analysis and strategy right at the country level matters**. At the country level, good analysis and strategy were confirmed as being of central importance to successful projects. Country Governance Analysis (CGA) was an important activity, especially in influencing overall country strategies. The

key challenge is to ensure that country political economy analysis also feeds into design and implementation.

4.13 **Governance in sector projects is critical but evidence is limited**. Analysis of performance for governance elements of sector projects is difficult as scores relate to the overall project rather than just for governance. Governance components in sector projects are often among the most difficult to deliver, partly due to difficulty effecting change in one sector in isolation, but they can be critical in shaping service delivery outcomes. Governance problems limit the effectiveness of sector institutions, for example through weak financial management, poor procurement, corruption, or a lack of accountability and responsiveness to users.

4.14 **Gender is not prominent enough in governance investments and poverty impacts are hard to measure.** Direct spending on projects for women's' organisations is very low and relatively few governance projects focus explicitly on gender issues. While the gender and distributional impacts of governance projects are hard to measure there are some notable successes (see Box 7).

Box 7: Women's political participation in Ghana

DFID Ghana funded a small project in advance of the 2008 elections to raise the profile of gender issues with political parties and increase the representation of women in the national legislature. A televised meeting of party leaders on their gender policies galvanised widespread media coverage and public interest. Several hundred women leaders in 10 localities were trained to campaign on gender issues and support female candidates. The campaign called for a 40% quota in parliamentary seats for women, a position adopted by the winning party in its election manifesto.

Some impressive results have been achieved. For the first time a woman was elected speaker of the national parliament. Of 32 ministerial portfolios, 8 are now headed by women, with a further seven in junior ministerial positions. Increased ministerial representation is beginning to yield benefits for gender policies, with a stronger policy focus on maternal mortality and girls, and moves to introduce gender responsive budgeting.

4.15 **The performance of small projects is not systematically monitored but they can have a substantial impact.** There are no systematic performance data for small projects because projects under £1m were not required to be scored for risk or performance prior to 2011. Small projects focusing on country plan priorities can, nevertheless, have a far higher return than large ones for the resources invested; in other cases they open up opportunities for more substantial interventions and influencing.

4.16 **DFID's research has influenced academic thinking and governance policies.** The four main research programmes produced 130 peer-reviewed journal articles, 19 books or edited volume and 138 book chapters. Research has been central to the development of DFID's policies, but has been less influential at a country level, due in part to weak communication and outreach strategies.

Box 8: Examples of Governance Research Impact

Research outputs from the Centre for the Future State and the Citizenship DRC were particularly influential in the process of putting governance at the heart of the DFID policy, including the key policy paper on *Governance, Development and Democratic Politics*.

Research undertaken by CRISE and the Crisis States Research Centre (CSRC) programme has helped to put issues of conflict and fragility on the DFID policy map, and heavily informed the core argument that it is the nature of political settlement, rather than finance or technical expertise, that determines the success or failure of development policies in fragile and conflict-affected states. This research directly informed the development of the 2010 DFID Practice Paper, *Building Peaceful States and Societies* and the work of OECD-DAC on conflict and fragility.

Research has also fed into DFID operational guidance. For example, work on "Drivers of Change" and political-economy analysis stemmed largely from research findings which underlined the importance of "thinking and working politically" to development outcomes.

Examples of research that have been evaluated as having a global impact include CRISE work on conflict and inequality; Centre for the Future State research on taxation; Citizenship research centre on strengthening accountability for better services; and the CSRC research on state-building and cities.

4.17 **Influence and expertise means DFID punches above its weight.** DFID's governance expertise has often provided a higher level of influence than the size of the aid programme would warrant. The review found good evidence of DFID influence at country and global levels over and above project work (examples in Box 9). DFID's governance expertise, mainly but not exclusively provided through its advisory cadre, has often provided DFID with a high level of influence at country and global levels over and above project work.

Box 9: Some successful outcomes from governance influencing

Sudan: DFID's work on influencing the development the Juba Compact in Southern Sudan led to the development of a major agreement between donors and the Government on PFM.

Afghanistan: Examples include securing major reform commitments on corruption, justice and economic reform at the London conference; the UK brokering international agreement on co-ordination of sub-national governance reform; the UK securing a first draft national policy on state engagement with traditional justice providers; and shaping the focus and approach of HMG's planning processes in Helmand by contributing lessons of stabilisation experience.

PFM: DFID has played a very significant role in the PEFA initiative, which has led to much better data on standards of PFM in developing countries. DFID is also taking a leading role in developing a multi-donor approach to PFM training.

Conflict: DFID contributed to development of Geneva Declaration on Armed Violence which aims to reduce levels of armed violence by 2015; 108 countries have now signed up; also contributed to production of an OECD DAC Policy Paper on Armed Violence Reduction.

Corruption: DFID contributed to securing a G20 focus on increasing transparency in tax havens; helped secure international agreement to a review mechanism for the UN Convention against Corruption; and in the UK DFID helped secure agreement of the UK Bribery Bill and Anti-Corruption Strategy.

5. Do governance investments provide Value for Money?

5.1 The review considered value for money, within the framework of economy, efficiency and effectiveness. There is growing recognition of the need to measure value for money in delivery of DFID funded project inputs, outputs and outcomes, in quantifiable terms; this largely post-dates the period covered by the GPR.

Measuring value for money of governance investments is a challenge due to the variability of sub-sectors, outputs and contexts. No international cost comparators have been developed by DFID or other donors for sub-sector inputs, outputs or achievement of governance outcomes.

Economy

5.2 Standard unit cost analysis for governance inputs was not available. Consultancy fee rates vary by source but systematic data were not available for review. But the environment for governance projects, the processes through which change is achieved and the role of DFID are so variable and may require so different a combination of inputs in each case, as to make attempts at cross-country comparisons misleading at best. There is evidence that DFID buys some services at lower rates than other UK public sector users and some other donors; more work is needed on fee rates and on differing sources of expertise. DFID's commercial strategy introduced after the GPR review period has an important contribution to make on this issue, leading to improvement in negotiation of fee rates as well as stronger emphasis on performance-based contracting.

Efficiency

5.3 Some governance outputs are quantifiable but the underlying measures, the conditions and variables affecting achievement, as well as the range of sub-sectors in governance are so different as to make comparisons either impossible or misleading. Problems with baseline data and indicators as well as the subject matter of governance reforms or of the difficulty of achieving change compound the difficulty of measuring the efficiency by which governance outputs are delivered.

5.4 Efficiency might be enhanced if the pattern of staff deployment on governance more closely reflected the size of programme, longer postings were considered to provide greater continuity, and advisers focused on functions where they add greatest value.

Effectiveness

5.5 There is scope for increasing vfm by reallocating resources to stronger sub-sectors or by driving up performance in weaker areas, though performance scores alone do not provide a clear prescription for action. The evidence suggests that resources are not focused on the countries with the greatest governance problems; this is a matter of policy priorities and appetite for increased risk. There are issues of selection of sub-sectors and countries which are determined as a result of other choices which DFID makes based on comparative advantage and complementarity of overall portfolio. This review has highlighted a number of other factors that are relevant to maximising effectiveness and value for money. On programme content, these include:

- **Getting the right balance between capability, accountability and responsiveness**, so as to increase the incentives or pressures on those responsible to deliver better governance.
- **Ensuring the quality and application of governance and conflict analysis**. Failure to address political and informal constraints on change is the most frequently cited cause of project failure.

- **Ensuring an integrated and sequenced approach** that does not overload limited partner capacity and that seeks out opportunities for synergy, for example between national and sector programmes.
- **Getting an appropriate balance between aid instruments.** Even in countries where budget support is the centrepiece of DFID's programme, there remains a role for other instruments, to finance more targeted change programmes, small strategic projects and interventions outside the public sector.
- **Considering how the governance agenda can be furthered through budget support programmes and dialogue**.

5.6 Project cycle and other management issues that are relevant to vfm include:

- **Improving project design.** This report has highlighted weaknesses such as poorly specified purpose statements, lack of clear and monitorable indicators and unrealistic time frames.
- **Improving lesson learning.** Given the lack of well-proven approaches on governance, effective lesson learning from both good and bad experience is crucial to improving vfm.
- **Improving performance management of consultancies** is a particular example. Although contract management requires assessment of whether payments are justified, this does not translate into a systematic capturing and sharing across DFID of experience of different suppliers and approaches.

6. Key conclusions, recommendations and next steps

6.1 Much of DFID's governance work deals with structural and institutional challenges in countries where DFID works. DFID governance interventions are often enabling, and integral to, the realisation of a broader set of development objectives. Political accountability and responsiveness are also valued in their own right. This means governance work should not be considered just as a sector of aid but also as a cross-cutting approach that affects what can be achieved across the whole programme. In governance one size definitely does not fit all due to variability in investments across sub-sectors. Success in governance work depends on political conditions in specific countries and particular times. Improvements in governance generally come in discontinuous steps rather than steadily and in direct proportion to DFID efforts over a longer period of time. The following are therefore high level conclusions.

- The main focus of DFID's governance spend has been on **strengthening governance capability**. Overall performance is slightly lower than the DFID average with stronger performance in areas as diverse as taxation and elections. Projects designed to strengthen central government institutions have performed least well.
- DFID's governance work increasingly emphasises work on **accountability and responsiveness**.
- Governance in **sector projects** is central to DFID's governance portfolio but under-reported.

- Governance spending on projects for **women's organisations** is low and gender is not systematically addressed in governance projects.
- Investment **in small governance projects adds value** when focused on strategic priorities.
- **Governance research is having an impact** on policy and programming.
- Working increasingly closely on governance issues and influencing with other **UK Government Departments** has been critical to maximising HMG's overall effectiveness.
- A large proportion of governance spend goes directly or indirectly through **multilaterals with variable performance** and value for money.
- **Governance advisors** can play a crucial role in policy work and in country offices by offering cross-cutting perspectives and a political lens.

6.2 The Governance Portfolio Review was submitted to DFID's Investment Committee and Development Policy Committee (DPC) respectively in September and October 2010, alongside a set of clear recommendations. They agreed with the broad findings and proposed some revisions to the draft report. The Investment Committee requested that an Implementation Plan be drawn up with actions allocated to different parts of DFID to deliver the GPR recommendations.

6.3 The most important step proposed by the DPC was a refresh of DFID's approach to governance based on the findings of the GPR to set out future priorities for DFID's governance portfolio. This will outline in which areas of DFID should increase work, how to deliver clearer results and improved vfm, and how to build stronger partnerships to deliver DFID's objectives. Table 1 below captures the major recommendations of the GPR and the actions for DFID to take to implement them.

Table 1: Key recommendations and what DFID is doing to implement them

Strengthening Portfolio Performance	
Issue	**Action recommended**
Strengthening bilateral portfolio performance Need for greater selectivity in choice of governance investments based on context and track record.	Programme departments to use operational planning process to review governance priorities in the light of variable performance, focusing on how best to achieve vfm and improve performance in weaker areas. *Completed.*
Weak governance undermining other development outcomes Focusing investment (staff as well as spend) on DFID priority countries with weaker governance.	Regional divisions to consider increased advisory support or spend on governance in countries with weaker governance, taking account of policy priorities including the target of 30% spend in fragile and conflict affected states. *Completed.*
Improving performance of DFID's international partners on governance	**Influencing** Use Multilateral Aid Review findings to develop a more systematic approach to governance influencing work and performance and vfm. Identify leads and agree strategies for influencing DFID's key international partners on governance. For UNDP, the emphasis is on strengthening work in fragile and post-conflict states and on elections. *Ongoing.*

	Performance and VfM Identify priority actions to drive up performance and increase value for money of EC and UNDP governance programmes including through improved management, and better monitoring and evaluation. For UNDP this will include a country office feedback mechanism to improve evidence on performance, creation of formalised UNDP-DFID governance dialogue, and improve understanding and awareness of UNDP governance programmes in DFID. *Ongoing.*
Programming: Operational Planning and Business Case	
Issue	**Action**
Systematising peer review and quality assurance of investments	Draft clear procedures for peer review and quality assurance of governance programmes in line with other cadre groups as part of the new CPO/HoPs structure. *Completed.*
Paying closer attention to political feasibility in making investment decisions Applying findings of political economy analysis to strategy and programmes.	**Operational planning** to retain and strengthen requirement to be underpinned by rigorous political economy analysis including Country Governance Analysis (informed by Strategic Conflict Analysis and Gender and Social Exclusion Analysis and updated for major changes in country context), and Fiduciary Risk Analysis. *Ongoing.* **Business case** to retain and strengthen requirement to be underpinned by rigorous political economy analysis including Implications of political economy analysis. Ensure governance project/programme designs and logical frameworks build in flexibility and contingency planning with active risk management. *Ongoing.*
Doing more to address issues of gender equality and women's empowerment (GEWE) in governance programming.	**Operational planning and business cases** to strengthen requirement to focus on women and girls in governance projects. *Ongoing.*
Updating classification of governance work in input sector codes, and improved data entry.	i. Revise guidance with clearer descriptors on input sector codes (ISCs) to eliminate overlaps and ambiguities. *Not yet started.* ii. Improved corporate compliance with ISCs. *Not yet started.* iii. Explore scope for improvements in ISC framework with DAC. *Not yet started.*
Governance Strategy and Policy	
Issue	**Action**
Review and make recommendations on DFID's future strategy for governance.	Review and propose changes to policy, approaches (PE, SBPB etc.) and conceptual framework (CAR) as needed. Taking into account work on the Building Stability Overseas Strategy (arising from SDSR), SRP, and responding to Ministerial priorities. *Ongoing.* ▪ Results ▪ Independent Evaluation ▪ Wealth Creation ▪ Focus on fragile and conflict states

Empowerment and Accountability Focusing more on informal institutions and informal linkages between citizens, officials, and politicians to achieve governance outcomes. Clarity on policy shift and approach to programming and on measures to improve the evidence base.	Consolidate and strengthen empowerment and accountability within governance programming. *Ongoing.*
Civil Service Reform Weaknesses in performance of civil service reform programmes.	Guide multi-donor study on PSR (underway), review reasons for weaker performance of DFID civil service reform programmes and possible actions to improve design and performance, strengthen evidence and guidance to advisers. *Ongoing.*
Evidence	
Issue	**Action**
Building the evidence base on governance impacts measuring efficiency and effectiveness.	Commission research on: i. Suggested indicators for governance sub-sectors, and issue guidance on indicators and baselines linked to new business case template. To work with DAC GovNet Governance Results group. *Completed.* ii. Methodologies for enhanced quantification of impact of governance investments (impact evaluation, RCTs, other), and the contribution of governance reforms to improved outcomes in other sectors. *Ongoing.* iii. Unit costs and benchmarking for governance investments. *Not yet started.* iv. Develop a framework for monitoring and measuring the impact of governance influencing work. *Not yet started*.
Building in impact evaluation into governance project design and implementation	i. Develop a systematic approach to independent impact evaluation for governance projects, based on measurable and attributable outcomes and a clear counterfactual, to include new operational research through governance RCTs. *Ongoing.* ii. Develop methodologies for evaluating governance programming as part of broader DFID guidance on reviews and impact evaluation required in line with increased aid transparency and new Independent Commission for Aid Impact (ICAI). *Ongoing.*
Advisory Staffing and Skills	
Issue	**Action**
Maximising the value of governance advisors	Review deployment by office or department, tour length, and utilisation to review whether in line with emerging priorities. *Completed.*
Continuous Professional Development, Peer Review, and QA Increasing DFID's investment in knowledge management, lesson learning and skills development, ensuring realism in programme design	Design system for continuing professional development comprising requirements to keep updated on research and policy literature and to share experience/lessons within the advisory network, establishing communities of practice linked to the GSDRC, more effective use of Teamsite, newsletter, peer review and QA systems, cadre professional objectives in place for all advisers. *Ongoing.*

End notes

[i] *Governance, Development and Democratic Politics,* DFID Policy Paper, 2007, p. 6

[ii] See, for example, Davis, Kevin and Trebilcock, Michael (2008) 'The Relationship Between Law and Development: Optimists versus Sceptics'. *American Journal of Public Law*, 56; Rodrik, Dani, Arvind Subramanian and Trebbi, Francesco (2002) 'Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development', *IMF Working Paper WP/02/189,* Washington D.C.: International Monetary Fund, November. For a compelling two-country comparison see Jaramillo, Laura and Sancak, Cemile (2007) 'Growth in the Dominican Republic and Haiti: Why Has the Grass Been Greener on One Side of Hispaniola?' *IMF Working Paper WP/07/63*, Washington, D.C. International Monetary Fund, March. Feng, Yi (2003) *Democracy, Governance, and Economic Performance: Theory and Evidence*, Massachusetts Institute of Technology, Cambridge, MA; Rajkumar, Andrew K., and Swaroop, Vinaya (2002) 'Public Spending and Outcomes: Does Governance Matter?', *Policy Research Working Paper 2840*, Washington, D.C.: The World Bank. Lazarova, Emiliya A. (2006) 'Governance in Relation to Infant Mortality Rate: Evidence from Around the World', *Annals of Public and Cooperative Economics*, Vol. 77, No. 3, pp. 385-394, September. The DFID-funded 2008 International Commission on Growth and Development reviewed the evidence and concluded: 'The high-growth economies typically built their prosperity on sturdy political foundations. Their policy makers understood that growth does not just happen. It must be consciously chosen as an overarching goal by a country's leadership.' Final Report (*The Growth Report: Strategies for Sustained Growth and Inclusive Development.* World Bank; Washington, D.C*.)*, p.26. Seminal sources include Acemoglu, D., Johnson, S. and Robinson, J. A. (2001) 'The Colonial Origins of Comparative Development: An Empirical Investigation', *American Economic Review,* Vol. 91, No. 5, pp. 1369-1401; Aron, Janine (2000) 'Growth and Institutions: A Review of Evidence' Washington D.C.: *The World Bank Research Observer,* Vol. 15, No. 1, February, pp. 99-135; Glaeser, Edward L., La Porta, Rafael, Lopez-de-Silanes, Florencio and Shleifer, Andrei (2004) 'Do Institutions Cause Growth?', *Journal of Economic Growth*, No. 9, pp. 271-303. Knack, Stephen and Keefer, Philip (1995) 'Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures.' *Economics and Politics*, No. 7, pp. 207-27; Rodrik, Danny (2003) 'Growth Strategies', *CEPR Discussion Paper No. 4100*; Alesina, Alberto and Perotti, Roberto (1996) 'Income Distribution, Political Instability, and Investment', *European Economic Review, Vol.* 40, No. 6, pp. 1203-28; World Bank (1997) *World Development Report, 1997: The State in a Changing World*. Washington D.C.: The World Bank. Olson, Mancur, Sarna, Naveen and Swamy, Anand V. (2000) 'Governance and Growth: A Simple Hypothesis Explaining Cross-Country Differences in Productivity Growth', *Public Choice*, Vol. 101, Nos. 3-4, pp. 341-364, March. Leftwich, Adrian (2008) 'Developmental States, Effective States and Poverty Reduction: The Primacy of Politics', UNRISD, Geneva; Growth Commission Final Report, op.cit.; World Bank (2005) *Economic Growth in 1990s: Learning from a Decade of Reform,* Washington, D.C.: The World Bank. Rocha Menocal, Alina (2007) 'Analysing the Relationship Between Democracy and Development: Defining Basic Concepts and Assessing Key Linkages,' Background note prepared for the Wilton Park Conference on Democracy and Development, 23-25 October. Andrews, Matt (2008) 'The Good Governance Agenda: Beyond Indicators without Theory', *Oxford Development Studies*, Vol. 36, No. 4, pp. 379-407; Gerring, John, Bond, Philip, Barndt, William and Moreno, Carola (2005) 'Democracy and Economic Growth: A Historical Perspective', *World Politics,* Vol. 57, No. 3, pp. 323-364.

[iii] Grindle, Merilee S. (2004) 'Good Enough Governance: Poverty Reduction and Reform in Development Countries', *Governance: An International Journal of Policy, Administration and Institutions*, Vol. 17, No. 4, October, pp. 525-548. Hudson, John and Moseley, Paul (2009) 'Core State-building Functions and Sustainable Development'. Paper prepared for DFID. Mimeo. Booth, David and Fritz, Verena (2008) *Good Governance, Aid Modalities and Poverty Reduction,* mimeo, http://222.cmi.no/publications/file. Institute of Development Studies (2010) *An Upside-down View of Governance*, Brighton: Institute of Development Studies.

[iv] These refer to the 22 priority countries covered by DFID's Public Service Agreement (PSA) under the previous government.

[v] An important exception to the paucity of evaluation data is the 2008 Independent Evaluation Group (IEG) evaluation of World Bank Support to Public Sector Reform (PSR). More than 100 evaluations of governance and conflict interventions from other bilateral and multilateral donors were surveyed for this review. Hickson, Claire, 'Overview of Other Donor Evaluations of Governance and Conflict Programmes', April 2010.

[3] Policy papers in 2005 and 2007 emphasised the importance of working effectively in fragile states and on conflict issues, showing that the MDGs cannot be achieved unless governance improves in fragile and conflict-affected states. *Why We Need to Work More Effectively in Fragile States*, DFID 2005; *Preventing Violent Conflict*, DFID Policy Paper, 2007.

[vii] DFID, *Political Economy Analysis How To Note*, July 2009.

[viii] Grindle, Merilee *'*Good Enough Governance: Poverty Reduction and Reform in Developing Countries*"*, in *Governance*, Vol. 17, No. 4, October 2004, pp.525-48..

[ix] *Governance, Development and Democratic Politics*, pp.7-8.

[x] From January 2011 all projects now undergo full project cycle management. This means capturing the lessons and impact from smaller projects will henceforth be possible.

[xi] Conflict Prevention Pool (CPP)-funded projects (covering most defence and intelligence related projects) were excluded from the study, as was a specific focus on violence against women.