



House of Commons
Committee of Public Accounts

**DFID: Working with Non-
Governmental and other
Civil Society Organisations
to promote development**

**Eighteenth Report of
Session 2006–07**

*Report, together with formal minutes, oral and
written evidence*

*Ordered by The House of Commons
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The Committee of Public Accounts

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Kitty Ussher MP (*Labour, Burnley*)

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Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Philip Jones (Committee Assistant), Emma Sawyer (Committee Assistant), Anna Browning (Secretary) and Luke Robinson (Media Officer).

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Summary

The Department for International Development (DFID) channelled £328 million of its development aid expenditure through Civil Society Organisations (CSOs) in 2004–05. Although this sum was nearly double the equivalent figure for 1997, as a proportion of expenditure it declined from 9.8 to 8.5%. CSOs include large international charities based in donor countries and local collaborative and mutual assistance groups based in developing countries. They play a variety of roles in development. They deliver services in areas including health and education, give a voice to the poor and help hold governments accountable for poverty reduction.

DFID has several funding streams for engaging with CSOs, including in-country funding of local CSOs, strategic partnership agreements (called Partnership Programme Agreements) with key non-governmental organisations, and funding of UK CSOs through a Civil Society Challenge Fund (**Figure 1**, page 8).

On the basis of a report by the Comptroller and Auditor General,¹ we examined how DFID is engaging with CSOs. This Report covers four themes:

- **How and when to engage with CSOs.** DFID recognises the important role which CSOs can play in development, but does not systematically assess their effectiveness. DFID is increasing its funding of CSOs which promote accountability and lobby for change;
- **Targeting the poorest.** Some CSOs have a vital role in providing services to the poorest people. But these CSOs are often small and informally structured which makes it hard for DFID to engage with them. To target its assistance well DFID needs good co-ordination, both internally and with other development partners;
- **Measuring achievements.** On projects where DFID worked with CSOs, almost half of project indicators were not robust. A particular area of weakness was DFID's support for capacity building and advocacy projects. Only a quarter of Programme Partnership Agreements had specific and measurable indicators; and
- **Improving value for money.** DFID's projects and Agreements have largely met their objectives. But formal monitoring arrangements provide little insight into value for money. DFID needs to assess not just effectiveness but also cost-effectiveness. It could make more use of competition to promote better value for money.

¹ C&AG's Report: *Working with Non-Governmental and Other Civil Society Organisations to promote development*, HC (2005-2006) 1311

Summary of conclusions and recommendations

- 1. Weak assessment by DFID of the strength and distribution of CSOs within developing countries hinders well-targeted assistance and the ability to track their effectiveness.** DFID should develop an assessment framework to enable it to rate the nature, strength and location of these organisations since CSOs' performance can affect both the delivery of aid and oversight of its effectiveness. DFID should then make, and periodically update, assessments for all significant country programmes.
- 2. Donors are less well coordinated in assessing and supporting CSOs than in their support for developing country governments.** DFID should develop and apply its assessment framework jointly with other donors and multilateral organisations and share the associated costs with them.
- 3. In fragile states, such as the Democratic Republic of Congo, the roles that CSOs can play in poverty reduction are limited by insecurity and the risk of physical violence.** DFID should frame its country programmes to deal explicitly with aspects such as security, judicial independence and the rule of law, so that CSOs can contribute fully to poverty reduction in circumstances where the state lacks capacity.
- 4. DFID's emphasis on CSOs' roles in lobbying developing country governments on behalf of the poor and holding governments to account for service delivery creates risks that governments come to see CSOs as a threat to their authority.** DFID should discuss these risks with CSOs before starting a project to ensure that potential consequences are well understood. And it should develop its policy on how to respond if beneficiary country governments react adversely to CSO activity, including contingency planning where appropriate.
- 5. CSOs have often performed better than developing country governments in providing benefits for the poorest.** But as DFID puts more emphasis on budget support to governments, CSOs' skills may not be fully used. DFID should periodically assess how well donor and beneficiary country government funding is targeted at the poorest groups, and promote increased funding through CSOs where this is likely to be more effective at reaching the poor.
- 6. Donors, developing country governments and CSOs have all said that they do not have a clear view of DFID's policy on engaging with CSOs.** Any misunderstanding with CSOs undermines the flow of high quality project proposals. Poor communication with donors or developing country governments raises the possibility of gaps and overlaps in support. DFID should present its policy more clearly to others in the field and check that they understand it.
- 7. DFID has little idea of the results of almost half of its projects and three quarters of its strategic agreements, because performance indicators are not sufficiently specific or measurable.** DFID also lacks effective ways of measuring the overall success of each funding scheme. To address these weaknesses DFID should:

- a) ensure all indicators are specific and measurable to provide a better basis for measuring progress against the key intended benefits;
 - b) make greater use of baselines to permit assessment of progress;
 - c) make better use of organisational capacity, management and governance indicators in measuring results; and
 - d) evaluate the impact of the Challenge Fund against its wider objectives such as providing services in difficult environments, rather than just at project level.
- 8. DFID funding of Partnership Programme Agreements has been based on historical funding levels of the partners rather than their performance.** DFID spent £30,000 on a consultancy to suggest appropriate performance criteria but rejected the consultant's recommendations without establishing suitable alternatives. It should identify and adopt appropriate criteria covering the policies, capacity and performance of partners such as ability to influence others, to innovate, and to deliver projects cost-effectively. It should use them to judge how successful partners have been to date in meeting its objectives, and to inform future partner funding.
- 9. By leaving the initiative with CSOs to bring forward project proposals, DFID may not be identifying the most cost-effective pattern of civil society actions.** The resulting mix of proposals cannot readily be compared, or matched to strategic objectives. DFID should set out what it wants to achieve with the available funds and let CSOs bid to deliver those objectives. DFID also needs to improve its cost analysis of assistance proposals using techniques such as unit cost analysis and benchmarking.

1 How and when to engage with civil society organisations

The importance of engaging with CSOs

1. The Government has recognised the important role which CSOs can play in development. There are many CSOs worldwide, ranging from large charities based in developed countries to small and informal bodies based in developing countries. CSOs can provide a variety of roles, including delivering basic services to the poor, challenging country governments about their services, or advocating policy change. In 2005–06 DFID provided £328 million to these organisations, or 8.5% of its total funding (**Figure 1**).² This is a similar percentage to countries such as Denmark and Canada (8 and 9% respectively), higher than France (2%) but much lower than some of the Scandinavian countries where the average is approximately 25%.³ The proportion of DFID’s funding channelled through CSOs has remained stable despite DFID’s increasing use of budget support to developing country governments.⁴ The most recent White Paper published in 2006 signals that this trend will continue.⁵

2. DFID sees funding of CSOs as a means to pursue development objectives, not an end in itself.⁶ Country teams decide how best to use this route to pursue poverty reduction targets. In most countries DFID teams consider civil society as part of the overall country planning process. But the depth of analysis in country planning documents is varied, even taking into account different country circumstances.⁷ Only three countries have specific strategies for engaging with CSOs. DFID reported that country teams had developed strategies where CSOs were critical to their approach to achieving development benefits.⁸ For example, in Nigeria country staff wrote a separate strategy in response to difficulties in providing services to poor people there.

3. DFID use CSOs to deliver important development benefits in a number of different ways according to country context. First, CSOs can give voice to the poor and improve accountability, by holding public officials to account. Encouraging citizens to challenge their governments on issues such as service delivery provides DFID with some assurance that governments are acting to reduce poverty. CSOs can deliver services to poor people, by activities such as building schools or digging wells. They can often respond quickly to humanitarian emergencies, providing vital supplies. Some CSOs also engage in lobbying and advocacy to raise key development issues and influence policy.⁹ DFID tailors its assistance according to country circumstances.

2 Q 29

3 Q 56

4 Q 74

5 DFID White Paper: *Eliminating World Poverty—Making Governance Work For The Poor*, 13 July 2006; Q 30

6 Q 1

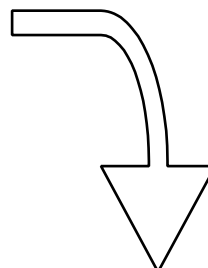
7 C&AG’s Report, *Summary*, para 7, Figures 4, 5

8 Qq 1, 20, 63

9 Q 1

Figure 1. DFID total expenditure 2004–05 and a breakdown of funding to CSOs.

Type of assistance	Funding 2004-05	Percentage
Civil Society (incl. humanitarian)	£328 million	8.5%
Other Bilateral	£1,539 million	39.8%
European Community	£883 million	22.9%
Other Multilateral	£573 million	14.8%
Humanitarian Assistance (excl. CSOs)	£347 million	9.0%
DFID Administration	£192 million	5.0%
Total	£3,862 million	



£328 million funding to CSOs is broken down as follows:

Funding route	DFID funding 2004-05	Brief description
Country programmes	£154 million	To provide funding directly from DFID country programmes to CSOs in country. Includes small scale funding to individual CSOs and contributions to joint funds pooled with partners.
Partnership Programme Agreements	£65.3 million	Strategic level Agreements between DFID and UK CSOs to encourage advocacy and policy dialogue, and to help large non-governmental organisations build the capacity of smaller CSOs (26 CSOs currently have these strategic Agreements)
Civil Society Challenge Fund	£10.1 million	UK CSOs bid for funding to engage with small scale aid projects, focusing on areas such as capacity building, advocacy, and service delivery.
Development Awareness Fund	£6.6 million	To raise public awareness of international development in the UK
Strategic Grant Agreements	£0.8 million	To help UK CSOs without specific international development interest to make a contribution to poverty reduction.
Humanitarian and disaster relief	£91.2 million	To support CSOs working in conflict prevention and to provide emergency response. This covers the Conflict and Humanitarian Fund and Disaster Relief.

Note: Shaded rows indicate the main funding agreements covered in this report.

Source: Ev 13 and C&AG's Report

4. DFID country teams need a sound understanding of the strengths and weaknesses of civil society, whether or not DFID chooses to provide significant funding to CSOs in-country. How effective national CSOs are in challenging the policies and services of their governments, for example, can highlight risks or provide a degree of assurance if DFID decides to provide assistance through support to the government budget. But in practice the mapping of the strengths, position or skills of CSOs is limited.¹⁰ A “drivers of change”

analysis has now been used in 20 countries.¹¹ While these studies have confirmed the importance of civil society to poverty reduction, the analysis was often narrow in scope and did not assess the strength or capacity of CSOs beyond the broadest qualitative terms.¹² DFID acknowledged that it did not always have a detailed knowledge of CSO activity in-country, although it highlighted their desire for assessments to be proportionate to DFID's engagement.¹³ This lack of awareness may lead to missed opportunities, with some good CSOs or projects potentially falling through the net and not able to attract DFID funding.¹⁴

5. There is no generally accepted way of rating CSO activity used by DFID or the wider development community—in contrast to joint ratings of other areas such as governance and financial management. This means that DFID and others have not established a baseline for monitoring of progress in developing civil society.¹⁵ DFID mentioned a number of organisations which are seeking to measure the strength, participation and impact of civil society, including Civicus, the Overseas Development Institute's World Governance Survey, and the World Values Survey (**Figure 2 – see overleaf**).¹⁶ DFID had not yet systematically used these indicators in its analysis, and in any case the indicators available do not cover all the issues or countries of interest.

11 Q 1

12 C&AG's Report, para 1.12

13 Q 66

14 Q 33

15 Q 1

16 Q 24

Figure 2: Measures for rating civil society are partial

Sources for rating civil society	Description	Coverage	Suitability
CIVICUS's civil society index	Detailed assessment using 74 indicators of civil society, grouped around structure, environment, values and impact	Assessments completed for 54 countries. But only 8 of the 25 countries covered by DFID's Public Service Agreements	Good quality indicators, but not yet covering many of DFID's target countries.
Overseas Development Institute's world governance survey	Matrix has 36 indicators, of which 6 relate to civil society, covering fairness, decency, accountability, transparency, efficiency and participation.	16 pilot assessments carried out in 2001-02 and a second phase underway (no outputs yet)	Provides useful information on freedom of expression and quality of media. Does not provide insight into issues such as geographical location or types of organisation, sectoral engagement.
World values survey (conducted by World Values Survey Association)	Survey covering changes in values such as religious beliefs.	A range of countries worldwide. The majority are European, though the survey does cover three Sub-Saharan African countries.	Findings are broadly regional, showing few differences between DFID's target countries. The focus is on broad changes in values. It does not assess how active civil society is or its relationship with government.

Source: NAO analysis of websites

The advocacy role of CSOs

6. DFID has increased its emphasis on supporting CSOs who promote accountability and engage in advocacy and lobbying, although it still funds CSOs fulfilling more traditional service delivery roles.¹⁷ Providing an appropriate challenge function to the State is more important as DFID increases aid provided directly to the national budgets of developing country governments in support of their own national poverty reduction strategies. The aim is to improve accountability for the use of national budgets in support of the poor and thus improve the capacity of the developing country to tackle poverty. Strengthening the state through providing budget support may harm the development of CSOs, however, if governments come to see CSO efforts to monitor public services and advocate policy reform as a challenge to their authority.¹⁸ This is one of the issues DFID has to assess through country appraisals when deciding to use budget support. Promoting a more accountable environment is also complicated as donors, CSOs and poor people have different priorities for CSO activity. For example, there is often a gap between the donor's emphasis on advocacy and capacity building and the demand of poor communities for improved infrastructure and service delivery.¹⁹

7. DFID does not have robust indicators to measure progress in encouraging CSOs to achieve change through promoting better accountability and more effective advocacy on behalf of the poor. Donors are divided on the role of CSO advocacy, with some viewing it as potentially beneficial and others as a high risk strategy.²⁰ DFID highlighted an example in East Timor of advocacy helping the poor to improve service delivery. Here, CSOs have successfully put pressure on the government to complete a roads project according to the specification.²¹ But in other country situations, such as that of the Democratic Republic of Congo, advocacy may be less successful or even dangerous. For example, in weak states there are risks that it will undermine an already weak government. Similarly, funding fledgling CSOs to act as advocates for change in countries with a poor policy environment may lead to persecution and DFID's funding being ineffective. DFID has not yet explained how it manages these risks.²²

17 C&AG's Report, para 2.26, Figure 3; Qq 29–30

18 Q 6

19 C&AG's Report, para 3.11

20 C&AG's Report, para 1.13

21 Q 5

22 Qq 5–6

2 Targeting the poorest

How DFID's funding choices affect the poorest

8. DFID's targets are aligned with the Millennium Development Goals for poverty reduction, but its 2006 White Paper also considers tackling the very poorest to be very important. DFID believes that CSOs can often reach the very poorest more effectively than state providers.²³ For example, they provide many of the anti-retroviral drugs currently being distributed in Africa.²⁴ But DFID is increasing the proportion of its funds channelled through budget support, which puts the onus on the state to provide services and which may mean that CSO skills are not fully used. In practice, some developing country governments may contract CSOs to provide some services.²⁵ But DFID does not systematically collect information on the extent to which CSOs are used to target government funds to the poorest.

9. Even where DFID funds CSOs through its various UK-run schemes and its country programmes, it can be difficult to benefit the very poorest in a country. Although some of the smaller CSOs can provide assistance effectively to the poorest of the poor, they are also often less formally structured and lack the management capacity to bid effectively for funding, or give DFID confidence that they can deliver.²⁶

10. DFID's Challenge Fund scheme predominantly funds UK-based CSOs to deliver specific small scale development objectives. These organisations normally form partnerships with local CSOs to do so, thus helping DFID to engage with the poorer groups. But DFID has to strike a balance between reaching the poorest and ensuring that partner organisations have sufficient management capacity to safeguard DFID funds at reasonable cost.²⁷ Some CSOs have expressed concern that in practice the very smallest organisations are excluded and they believe that DFID should better target its funds to encourage smaller organisations working at the grass roots.²⁸ The funds available under the scheme are limited and applicants without sufficient capacity do not win funding, though if DFID rejects bids it advises organisations on how they need to improve.²⁹

11. Different country programmes have taken different approaches to targeting their assistance. In Tanzania DFID worked through a Foundation for Civil Society, which administered funding requests from individual CSOs. The Foundation had an overview of the situation in-country and could communicate widely with CSOs.³⁰ In Bangladesh, where CSOs receive 25% of country programme expenditure, a review of CSO activity showed that DFID funding was not always reaching the poorest. This finding led to a realignment

23 Q 35

24 Q 61

25 Q 35

26 Qq 22–23

27 Q 59

28 C&AG's Report, para 2.18

29 Q 60

30 Q 25

of the work which those CSOs were doing to improve targeting of their assistance to the poorest.³¹ Such analysis is not systematically undertaken throughout DFID, even where it has a significant programme of funding for CSOs.

12. One of the ways through which DFID country teams can target assistance to poorer groups is through funding banks and other credit and lending bodies who provide microfinance. DFID spent nearly £70 million on microfinance over the past three years through financing programmes in six countries.³² Most of these programmes have built the capacity of small scale lending bodies to serve greater numbers of poor people. For example, the Credit and Savings for Household Enterprise project in India has worked with a large number of self-help groups and credit co-operatives.³³ DFID also promotes financial sector reforms and provides technical assistance to developing country governments and central banks on issues such as regulation.³⁴

Improving targeting through working with others

13. Donors are increasingly harmonising the provision of aid in-country but developing countries still receive funding through a large number of streams, including budget support, projects and technical assistance.³⁵ Country offices are responsible for ensuring coherence between their own programmes, other donors' approaches, and DFID funds managed from the UK. This means that communication is very important if DFID is to target its assistance effectively. Country offices do this through a series of meetings with development partners and with recipient governments. But donors, government officials in beneficiary countries and CSOs all reported dissatisfaction with DFID co-ordination on its policy for engaging with CSOs.³⁶

14. Funding decisions for UK schemes do not always draw on in-country expertise. The NAO found that, for a sample of proposed Challenge Fund projects, just 55% of requests for advice made over the last five years were answered by country teams.³⁷ The response rate has since increased to 70%.³⁸ But this still leaves a significant minority of cases where DFID is not making full use of its expertise when deciding whether or not to invest in a particular project.

31 Q 35

32 Ev 13

33 Q 52

34 Q 54

35 Qq 31–34

36 C&AG's Report, paras 1.14–1.17

37 C&AG's Report, *Summary*, para 9

38 Qq 64–65

3 Measuring achievements

Using performance indicators

15. It is not easy to measure the results of aid given the difficulties in attributing change to particular donors, the impact of external events and lack of robust data. DFID uses logical frameworks for each project or partnership agreement to define key performance indicators, to track progress within the project itself, then its main outputs and ultimately the outcomes achieved against overall project goals.³⁹ DFID has tried to set tighter objectives and improve monitoring arrangements in recent years. But the indicators for recording achievements under both project and strategic funding to CSOs have significant weaknesses, preventing DFID from identifying the development benefits achieved through working with CSOs.

16. The Partnership Programme Agreement indicators are less robust than those for projects, due to the more strategic focus and greater flexibility of these Agreements. Indicators often include improving organisational capacity, encouraging pro-poor policies in developing country governments and improving partnerships as well as better outcomes for poorer people. DFID has consciously chosen to rely on a lower level of detail in monitoring these activities. But the NAO found that only a quarter of the Agreements had indicators which were specific and measurable.⁴⁰ DFID faces a dilemma in finding sufficiently measurable objectives which are not so tightly specified that it loses the benefits of encouraging more strategic outcomes. Current indicators are often process oriented so it is hard to identify development outcomes.⁴¹ And although some partners identify desired outcomes such as improving market access, agreements seldom have baseline information to enable DFID to assess any subsequent progress made against these objectives.

17. In almost half of the projects reviewed by the NAO the indicators were not sufficiently robust to track progress.⁴² DFID has to balance the requirement for sufficient performance data to provide assurance with the need to avoid onerous reporting requirements for small CSOs. Achieving this balance requires careful planning and sometimes results in delays to projects.⁴³ Nevertheless, there are few indicators which assess the achievements of CSOs working in areas such as advocacy and capacity building, despite DFID's increased expenditure on these activities. Measuring results in these areas requires a different type of assessment than for service delivery projects. Service delivery project results are often tangible, such as increased number of water pumps, whereas advocacy and capacity building projects may require more qualitative assessments of institutional change, using available models of organisational capacity.⁴⁴ DFID does not consistently use such models. Governance indicators such as participation levels in community meetings or rights awareness are another under-used source of information, particularly when assessing

39 Q 4

40 C&AG's Report, para 2.12; Q 71

41 Q 71, 73

42 Q 2

43 Q 17

44 C&AG's Report, para 2.26

results of advocacy projects. The lack of robust indicators not only hinders project monitoring and evaluation, but also makes any fraud and corruption harder to identify.⁴⁵

Results measurement of individual schemes

18. In addition to specific indicators of individual projects and Agreements, results measurement is important in monitoring the performance of the major funding schemes. DFID measures the results of each project under the Challenge Fund scheme but does not attempt to evaluate how the scheme as a whole is performing against its wider objectives such as facilitating dialogue with smaller CSOs.⁴⁶ Nonetheless DFID increased the funding for this scheme by 40% in 2005–06. DFID explained that the increase was due to broadening the objectives of the scheme to cover service delivery in difficult environments. It accepted that further work was needed to evaluate the impact of the Challenge Fund as a whole.⁴⁷

19. DFID did not establish performance indicators for the Partnership Programme Agreements scheme. The first ten Agreements were awarded to CSOs which already had long standing relationships with DFID and funding levels were set at broadly similar levels to previous years' funding under other schemes.⁴⁸ DFID recently paid consultants £30,000 to propose a new performance measurement system for the Agreements. They recommended the use of criteria such as organisational effectiveness, influence and innovation, with implementation from 2005.⁴⁹ But no such performance framework has yet been adopted. DFID now intends to put a system in place from 2008.⁵⁰

20. Funding received by partners from DFID varies significantly. For example, Voluntary Service Overseas received £96.38 million between 2002 and 2004, while WaterAid received just over £2 million, both through partnership agreements. These differences do not relate to the performance of the organisations, but reflect their ability to secure funds from other sources.⁵¹

45 Q 9

46 Q 3

47 Q 3

48 Qq 36–37

49 Qq 41–42

50 Qq 45–46

51 Qq 47–49

4 Improving value for money

Assessing cost-effectiveness

21. DFID uses annual reporting and project evaluations to assess the effectiveness of its funding to CSOs. These enable it to demonstrate development benefits—the NAO found that 80% of the projects it reviewed had largely met their objectives.⁵² But current monitoring and results measurement arrangements provide little information on the cost-effectiveness of its funding.⁵³ DFID has checks and balances which it believes provide assurance that it achieves value for money for individual projects. These include its logical frameworks which define inputs and outputs.⁵⁴ But DFID seldom uses tools like benchmarking procurement activity or unit cost analysis to question whether the same outcome could have been achieved more cheaply. In many cases a lack of baseline data on, for example, how much it should cost to build a classroom, constrained analysis of impact and cost-effectiveness.

22. Achieving cost-effective outcomes relies on working with CSOs with satisfactory organisational capacity and governance arrangements. DFID assesses the adequacy of governance arrangements before providing funding. Although the governance of charities is the responsibility of trustees, DFID's review helps it to gain assurance that its funds will be safeguarded from corruption.⁵⁵ This assurance is particularly important for the Partnership Programme Agreements where DFID's oversight of expenditure is more limited. The NAO found that partner governance arrangements were largely satisfactory but there was room for improvement. For example, over a quarter of Boards reviewed by the NAO had not formally reviewed their organisational performance within the last 12 months and almost half said that they had not formally assessed their own performance measurement during that time.⁵⁶

23. To date DFID has not been as active in reviewing other aspects of organisational effectiveness such as procurement and employment policies and financial structures. The Department plans to improve its assessment of communications capacity when funding CSOs dealing with global advocacy. It also intends to ask larger agencies holding Partnership Programme Agreements to provide data on the ratio of administrative to programme costs.⁵⁷ If properly implemented these areas will help DFID judge whether organisations have the capacity to spend DFID funding effectively.⁵⁸

52 C&AG's Report, *Summary*, para 15; Q 13

53 Qq 13–14

54 Q 8

55 Qq 38–39

56 Q 38

57 Q 13

58 Q 14

Competition

24. One way to achieve value for money is to specify the development outcomes required and then allow CSOs to compete to deliver those outcomes at the lowest cost. The Challenge Fund and Partnership Programme Agreement schemes are partly competitive. CSOs submit applications for project support according to general criteria, but in respect of substantively different projects so DFID cannot readily compare the cost-effectiveness of different bids.⁵⁹ Thus the incentives for bidders to minimise costs are weak. To compensate DFID intends to make greater use of more detailed cost analysis of individual proposals. DFID also plans to develop benchmarks which would help to assess the cost-effectiveness of bids received for both the Partnership Programme Agreements and the Challenge Fund.⁶⁰

59 C&AG's Report, para 3.16

60 Q 4

Formal Minutes

Monday 12 March 2007

Mr Edward Leigh, in the Chair

Mr Richard Bacon

Helen Goodman

Mr Sadiq Khan

Mr Austin Mitchell

Mr Don Touhig

Mr Iain Wright

Draft Report

Draft Report (DFID: Working with Non-Governmental and other Civil Society Organisations to promote development), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 24 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Eighteenth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Wednesday 14 March at 3.30 pm.]

Witnesses

Monday 20 November 2006

Sir Suma Chakrabarti KCB, Permanent Secretary, **Mr Richard Calvert**, Director, Finance and Corporate Performance Division, **Ms Joy Hutcheon**, Director, Communications and Knowledge division, Department for International Development, **Mr David Stanton**, Head Office, Department for International Development, Tanzania

Ev 1

List of written evidence

Department for International Development

Ev 13

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Oral evidence

Taken before the Committee of Public Accounts

on Monday 20 November 2006

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Annette Brooke
Mr Sadiq Khan

Mr Austin Mitchell
Mr Alan Williams

Sir John Bourn KCB, Comptroller and Auditor General, and **Mr Nick Sloan**, Director, Performance Measurement, NAO, were in attendance and gave evidence.

Mr Marius Gallaher, Alternate Treasury Officer of Accounts, was in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Department for International Development: Working with Non-Governmental and other Civil Society Organisations to promote development (HC 1311)

Witnesses: **Sir Suma Chakrabarti KCB**, Permanent Secretary, Department for International Development, **Mr Richard Calvert**, Director, Finance and Corporate Performance Division, DFID, **Ms Joy Hutcheon**, Director, Communications and Knowledge Division, DFID, and **Mr David Stanton**, Head of Office, DFID Tanzania, gave evidence.

Chairman: Good afternoon and welcome to the Public Accounts Committee. Today we are considering the Report of the Comptroller and Auditor General entitled “Working with Non-Governmental and other Civil Society Organisations to promote development”. We welcome back to the Committee Sir Suma Chakrabarti, who is the Permanent Secretary at the Department for International Development. Would you introduce your colleagues please, Sir Suma?

Sir Suma Chakrabarti: Thank you, Chairman. On my right is Richard Calvert, the Director of Finance and Corporate Performance. On my immediate left is Joy Hutcheon, who is Director of Communications and responsible for the centrally funded schemes that the Report covers. On my far left is David Stanton, who is the head of DFID’s Tanzania office. He is here to help the Committee on questions about country programme funding of civil society organisations, which also are covered by the Report.

Q1 Chairman: Perhaps we can start by analysing the nature of civil society organisations. Paragraph 8 of the executive summary states: “However assessment of the capacity and effectiveness of such bodies was often quite limited and did not provide a baseline for detailed monitoring of progress in the development of civil society”. How can we measure and track the progress of civil society in developing countries when, apparently, you do not know whether the millions that you have spent have made a significant difference?

Sir Suma Chakrabarti: Civil society is clearly not a development end in itself. Those ends are the Millennium Development Goals. Civil society is an important part of the development process, however, and we are trying to measure its impact in a number of areas. One is giving voice to the poor, and another is accountability—holding public officials and institutions to account. A third area is provision of public services on occasion, and a fourth is raising key development issues.

What we have been doing in the last few years is to measure impact in those areas through various exercises. One is the pioneering “Drivers of Change” analysis that DFID has initiated in the international community, and we have done some 20 such studies. As the National Audit Office Report rightly says, that helped us to gauge how civil society is doing in each country. We also cover civil society in the country assistance plans—the NAO covered civil society engagement in each of the four countries it visited. And in three countries—Nigeria, Cameroon and South Africa—we have civil society strategies. So quite a suite of work has already been done on how civil society is engaging in the development process. The next stage will be to analyse more deeply how civil society impacts on governance in many such countries. The UK Government produced a third White Paper on international development just before the summer, and one of its key proposals was country governance assessments as part of the country planning process. Civil society will figure largely within that.

The available data are fairly qualitative at the moment—that is one of the biggest issues, and we can talk about it. But there are several sources of

data that are now available and that have been developed over the last four or five years, including with DFID help.

Q2 Chairman: Let us try to get further on and consider the partnership programme agreements. Paragraph 14 of the executive summary states: “we found that in almost half of the projects we reviewed, the indicators established were not sufficiently robust for tracking progress against objectives.” Can you be sure, Sir Suma, that such agreements lead to development benefits and not just process improvements?

Sir Suma Chakrabarti: I think we can. We now have 26 PPAs, as they are called. In fact, at various other points, the Report commends progress against the objectives. We have made quite good progress on setting tighter objectives and monitoring agreements. A good example—that of the WaterAid PPA and how that has improved over time with our help—is given in the Report in box 18 on page 31. There is already evidence of effectiveness, but that is not to say that we do not want to tighten up the work further so we agree very much with the Report’s conclusions on how we might go about doing that.

Q3 Chairman: Let us find another example of when sometimes the measures of what you are achieving may be a bit weak. The civil society challenge fund is dealt with in paragraph 12, which states that DFID “measures the success of individual projects under the scheme but it does not currently have adequate mechanisms for assessing performance against the scheme’s wider objectives.” Paragraph 3 of appendix one, entitled “History of the scheme”, on page 34 of the Report, tells us that you increased the civil society challenge fund by 40%, but apparently you have no analysis of its overall performance. Why did you do that?

Sir Suma Chakrabarti: The Government decided to increase the size of the scheme between 2004–05 and 2005–06 from £10 million to £14 million because they widened the scope of the scheme to cover service delivery in more difficult environments. That was the reason for the increase.

At the moment, we have a lot of evidence on the effectiveness of individual projects under the civil society challenge fund and work is now under way to do an evaluation of the impact of the whole civil society challenge fund.

Q4 Chairman: Let us look at another area where assessment is weak. Paragraph 3.16 on page 33 of the Report tells us that the “mechanisms for selecting projects and agreements provide a limited assurance on value for money.” Why have you chosen to respond to proposals for funding rather than specify the benefits that you want to secure?

Sir Suma Chakrabarti: Actually, we believe that the process does guarantee value for money, but we want to go further. The current process is very competitive—that is fundamental to guaranteeing value for money. Both the CSCF and the PPA agencies bid for project work and we then manage to a tight very framework, including what is called

logical frameworks, which DFID has pioneered in the international system. It sets out the purpose, the outputs, the inputs, the risks and assumptions, and the objectively verifiable indicators. Other agencies do not go that far. We have quite a tight framework. We would like to ratchet up that further in terms of value for money and, over the next year or so, work very strongly to develop benchmarks that would help to assess some of the bids that we get for both the PPAs and the CSCF.

Q5 Chairman: I shall come to that in a moment, but I now want to look at the role of CSOs in challenging local governance. Figure 3 on page 11 is supposed to be about the role for civil society organisations in challenging governments and acting as advocates for the poor. It says that one of their roles is: “Giving voice to people in the communities to hold their parliamentarians and governments to account”. I have just spent eight days in Congo and, up to now, there was absolutely no way in which it was good for your health to hold the Government to account. It could well have been a very dangerous thing to do. In countries such as Congo, how do you make that laudable aim a reality?

Sir Suma Chakrabarti: Countries such as Congo are much further back from making such things a reality. Countries come in different shapes and sizes. China and Vietnam, for example, have made outstanding progress against millennium development goals, but have no civil society to speak of, compared with many other countries.

I will give you several examples of activities that we have funded that have made a difference to exactly that sort of accountability. My favourite happens to be from East Timor. Funded through the Catholic Fund for Overseas Development PPA, it helped a local non-governmental organisation hold the Government and a contractor to account on a roads project. The contractor had simply not performed according to what had been agreed, and the contractor, under pressure from the Government, who were under pressure from a local NGO funded by CAFOD, ensured that the contractor actually did then finish the contract at no extra cost.

That is the sort of thing that works when it works well, but in Congo the process is much further back. The fundamental thing in Congo at the moment, after the elections, is to build up the basic institutions of the state to function and then—hopefully at the same time—to get civil society to function.

Q6 Chairman: You are trying to give more money through Governments, are you not? That is not going to work in a country like Congo, where there is virtually no civil society and the Government are corrupt at all levels. If you were to channel more money for the Government, it would just make the civil society organisations even weaker, would it not?

Sir Suma Chakrabarti: I think that it would be extremely dangerous in Democratic Republic of the Congo to move to budget support. We would not support that. As you will have seen when you were

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there, most of our money there is humanitarian assistance, but in a place like Tanzania the situation would be quite different.

Q7 Chairman: I asked a series of questions earlier about how you are assessing the effectiveness of the schemes. Would it be a fair criticism to say generally that project management or aid by project has failed, so you now have a different approach of just giving money away without knowing enough about how it is being spent? Is that an unfair criticism?

Sir Suma Chakrabarti: I think that that is unfair.

Q8 Chairman: Explain to us why.

Sir Suma Chakrabarti: They are different schemes. In the case of the PPAs, they basically involve larger NGOs or CSOs that have a track record of performance. Even in those cases, we specify three to five strategic outcomes and we have indicators for each of those outcomes, logical frameworks that set out the purpose, outputs, inputs, risk assumptions and indicators again. We have annual reviews of how they are doing; the organisations have to send in financial accounts and we have an independent final evaluation on top of that. That is for more strategic projects. For the civil society challenge fund—

Q9 Chairman: So you are sure that none of that money is being siphoned off?

Sir Suma Chakrabarti: We have a zero tolerance policy on fraud, as you know, and we investigate any allegations.

Q10 Chairman: Yesterday the Prime Minister announced that £500,000 was given to the President of Pakistan to improve the educational system there. Were you consulted about that?

Sir Suma Chakrabarti: Yes, we were.

Q11 Chairman: And are you sure that the money will be adequately accounted for, followed and audited?

Sir Suma Chakrabarti: We have a very strong team in DFID Pakistan. We already have a large programme there, and that programme is going pretty well. There are no allegations of fraud there that I know of. How that money is to be spent or channelled will have to be worked up anyway after the Prime Minister's visit. That has not been decided yet.

Q12 Chairman: So it has not been worked up yet.

Sir Suma Chakrabarti: No, because it will require, through our usual planning processes, our team there to work with the Government of Pakistan to decide how it should be spent.

Q13 Mr Khan: My questions will range over a number of topics, so I apologise in advance for skipping. You will have seen part 2 of the Report, which deals with the value for money of the help you give. How do you respond to the NAO's criticism that DFID's monitoring and results measurement

arrangements provide little information on the economy and efficiency of its projects and agreements?

Sir Suma Chakrabarti: I rest on the NAO's conclusions at various points. The NAO Report notes on value for money, that 80% of projects meet most of their objectives, that work with civil societies leads to benefits in line with development objectives and that "all projects and agreements could demonstrate progress against objectives", but I do think that there is a need to tighten up on value for money issues further. Where we are is state of the art in terms of international donors working with CSOs, but we want to go further, including on costs and economy. One of the things that we would like to do in the next 12 months is to look at benchmarking costs. It is interesting in the CSCF context that at the moment, we ask the smaller agencies to provide us with a ratio of their administrative to programme costs. We think that we should do that for the bigger PPA agencies too.

Q14 Mr Khan: You mentioned benchmarking procurement activities. What about unit cost analysis?

Sir Suma Chakrabarti: Yes, that is the sort of thing that we want to develop further. We would look at procurement policies, employment policies, corporate governance structures and financial structures. In the case of several of the agencies, because they are also involved in global advocacy, we want to look at their communications capacity. Are they really up to doing the sorts of things they say they want to do?

Q15 Mr Khan: When should we have you back here to give us an update on the work that you think needs to be done?

Sir Suma Chakrabarti: I would have thought in about 14 or 15 months' time, because the idea would be to get that work done in time for the 2008–09 financial year.

Q16 Mr Khan: Thank you. Paragraph 2.3 refers to the fact that you have not investigated the relative cost-effectiveness of each of the main funding mechanisms used to engage with civil society. It says, "DFID has not to date evaluated the cost-effectiveness of these different approaches." Do you not think you should do that? Can we expect that when you return in 13 months' time you will have dealt with it?

Sir Suma Chakrabarti: These are very different schemes. One is a strategic scheme, the PPA scheme, so you are funding strategic outcomes. Essentially, it is a bit like budget support, because these are rather good agencies in terms of the track record. Then there are the smaller agencies, which are getting CSCF project funding. A table further on in the Report shows the administrative costs to DFID of managing these different schemes. Not surprisingly, the project funding approach costs us more to try to manage. It would be quite difficult to measure across the schemes the relative cost-effectiveness, but I think there is an issue within the schemes and that is

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what we want to follow up on. Within the PPAs, is this PPA being run more efficiently than that one? If so, why? That is where I think we can get some cost comparison.

Q17 Mr Khan: Linked with that, how do you balance the need to restrict monitoring burdens placed especially on smaller CSOs with your need to provide assurance to taxpayers and the Public Accounts Committee?

Sir Suma Chakrabarti: Part of the discussion with many of the CSOs is on how great a monitoring burden they can bear. Obviously, as you say, they are thinly staffed and their capacity is often quite thin, so part of the process of discussion with them up front, before funding is agreed, is whether the project has been specified in such a way that they can manage it. Somewhere in the Report it mentions that 18 months were taken with one CSCF project. That was partly because we were checking whether there was the capacity to run the project.

Q18 Mr Khan: One of the things touched on by the Chairman was managing the risks to CSOs and encouraging them to criticise their Government. Do you think it is the function of DFID to do that?

Sir Suma Chakrabarti: I do not think it is the function of DFID to encourage CSOs to take a particular position on anything. It would be quite wrong of DFID to specify in its agreements, whether at strategic level or project level, that the agreement should say something about what line they should take with their Governments. That clearly would not be right.

Q19 Mr Khan: There are no strings attached to funding to local bodies?

Sir Suma Chakrabarti: No, and I think Hilary Benn would say that the last couple of years have proved that conclusively in terms of NGO criticism of the Gleneagles agreement.

Q20 Mr Khan: You mentioned Nigeria, Cameroon and South Africa as the three countries that have civil society strategies. Why only three?

Sir Suma Chakrabarti: Because in those three countries our work depended particularly on civil society taking forward the agenda—the country strategy. In other countries, we were trying to lock it much more into the “Drivers of Change” analysis, which underpins our country strategy. In Bangladesh, where we pioneered this approach, some 25% to 30% of our funding in the Bangladesh country programme now goes through civil society. Why? Because part of the “Drivers of Change” analysis showed that government was failing but civil society was succeeding in reaching the poor, particularly in schools, for example.

Q21 Mr Khan: So you are saying that is not a good objective for measuring—the fact that only three countries are involved.

Sir Suma Chakrabarti: The objective is: did more kids get to school and what is the best route for getting there?

Q22 Mr Khan: Another criticism in the Report relates to the smallest CSOs, run by the poorest people for the poorest people. The criticism relates to their inability to access the challenge fund. How do you respond to that?

Sir Suma Chakrabarti: We cannot reach every single CSO. We have a fixed budget, clearly, and the line has to be drawn somewhere in terms of ability to deliver on the sort of projects they talk about. Going back to your first question, management capacity is one of the key issues. Can the very small CSOs deliver on the projects? Undoubtedly that is what would worry us.

Q23 Mr Khan: Are you saying you will never be able to reach those small CSOs?

Sir Suma Chakrabarti: It depends on whether they improve their management capacity. Funding is clearly available in each three-year cycle, so they can make bids. When we reject bids, we often give advice as to why bids have been rejected—I think we always do—so CSOs can work on that.

Q24 Mr Khan: Can I move on once more to another topic? Paragraph 1.13 on page 13 of the NAO Report begins by saying, “There is no generally accepted way of rating CSO activity, either within DfID or in the wider donor community.” That must be a huge problem for you.

Sir Suma Chakrabarti: It is a big issue. In relation to the Chairman’s question, one of the interesting discussion points is that when civil society seems part of a development process, and you only have qualitative data, how do you make judgments about whether things have got better or worse in terms of civil society impact? Three organisations are now doing quite a lot of the data collection. I ought to mention them, because I am sure that they will come before the Committee at some point.

Civicus provides a civil society index that was first piloted only five years ago and it is now operated in 53 countries; it has some qualitative data that we can use. The Overseas Development Institute, which is based in London, houses what is called the world governance survey; that has six indicators, including ones for civil society. That, too, was piloted five years ago and is now operating in some 50 countries. Finally, there is the World Values Survey, which is a sort of question session, asking questions such as, “What state is your political economy in?”, “How many petitions to Parliament do you have?” and others on those sorts of measures. Those provide very qualitative data. We will be using data sets like that in our country governance assessments and making judgments—I guess that, at the end of the day, there have to be judgments, because those are not hard data—as to whether things are improving or not.

Q25 Mr Khan: I have a question for Mr Stanton. Paragraph 2.24 gives examples of strategic schemes and in-country joint-donor funding channelled through foundations and other third parties in

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Tanzania and Bangladesh. How can DFID ensure that the focus of these in-country schemes is prioritised for the most needy?

Mr Stanton: We have chosen to work through an apex organisation called the Foundation for Civil Society. Civil society is quite young in Tanzania. The foundation was started in 2002 to provide services in terms of communicating with the group of civil society organisations, improving service delivery and providing instruments to fund a whole range of civil society organisations. Our choice to support the foundation was really based on leverage and being able to operate through an institution that could follow, track and communicate the progress of civil society as a whole in Tanzania.

That is not the only area where we support civil society from our local programme resources. A range of other selected institutions provide certain services, whether in health or education, in improving the policy environment for the national poverty reduction strategy, or in challenging the Government to improve the budget process.

Q26 Mr Khan: How would you learn about best practice in other countries' in-country schemes? For example, a country 3,000 miles away may have really good systems in place. How does that feed back into your job in Tanzania?

Mr Stanton: I do think that development partners, as they are called in Tanzania, or donors can add a lot of value, because in-country DFID is decentralised. We have expertise in-country; we have a governance advisor and a social development advisor—many other development partners have the same—and they operate with the Government in what is called a governance working group. That is a forum where we can have a frank exchange of views between Government, civil society and development partners and learn from positive experience in other countries. Having access to that international knowledge has helped to move Tanzania forward and understand the approaches that are likely to be successful in making progress towards the millennium development goals.

Q27 Mr Khan: Presumably, you will say that the checks and balances from DFID HQ in London are pretty robust and thorough in ensuring that you have spent all the money—every penny—wisely.

Mr Stanton: Very much so.

Q28 Mr Khan: Are the checks and balances too strict for you?

Mr Stanton: No, I do not think so. We have a mix of instruments. We are quite clear about the different roles of each financial instrument. We are extremely vigorous on the front end—on the design and planning of programmes. The more you put in at the front end, in terms of the systems, management strengthening and capacity building, the fewer problems you are likely to have in managing programmes as they go ahead.

Q29 Mr Khan: Thank you.

Sir Suma, we know that funding going to civil society has more than doubled since 1997, which is a huge credit to the fantastic Government. Can I ask you about the decision to do so? Was it a corporate strategy decision or did it just happen by accident?

Sir Suma Chakrabarti: No. Basically, the Government produced their first White Paper soon after they first came in, and they have followed it up with two more White Papers. In each of them, the Government have stressed the importance of civil society as part of the government process. That has helped explain the increase in funding. However, there has been a shift in the thinking within the Government about this. Early on, the Government saw civil society mainly as service providers, but now it is much more of a mix, involving service provision in some places, but also holding other Governments to account.

Q30 Mr Khan: Is that direction of travel likely to continue?

Sir Suma Chakrabarti: The third White Paper, which came out just before the summer, signalled quite clearly that things would continue down that path.

Q31 Annette Brooke: Let me start with paragraph 9 on page 4. It essentially makes the point that there are lots of streams of money going into particular countries from different donors. How does the local DFID office get a handle on what money is coming from elsewhere, so that it can make balanced decisions?

Sir Suma Chakrabarti: That warms my heart as a manager. I am sure that David will want to speak about that issue first hand.

Streams of funding from different donors are coming in from all over the world, not just DFID. The first priority for people such as David, who runs a country office in Tanzania, must be the funds that he directly manages himself—the bilateral country programme, which represents the vast bulk of the money that we put into Tanzania. As part of that, David also has to work with other key donors that are really important to the development of Tanzania, such as the World Bank, the UN agencies and some of the other key progressive donors. At the same time, he has to work with the Government of Tanzania and, in all this, to try to improve the policy framework to keep it in the right direction with them. At the same time, he and other country officers are interested in the civil society money coming into their countries and trying to help improve that.

Again, the NAO Report notes that sometimes country officers have not had enough time or have been under other pressures. Quite often, they have not been able to help out in adding value, if you like, to the civil society challenge fund-type projects. Since the Report was finalised, the real advance has been in the latest round of civil society challenge fund proposals, 70% of which received comments from country officers. So we are more integrated

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now than we used to be between the headquarters' stream of funding and the country officer's local knowledge, on which we depend.

David, do you want to say a bit about that? Joy, you might want to say how you react to advice coming from the field.

Mr Stanton: That is absolutely correct. In Tanzania, we have looked at all the proposed funding arrangements for civil society organisations that have been managed by the challenge fund in the UK. We are asked to check whether the activities of the agency are consistent with our country assistance plan and we have the power of veto if we feel that they are not. We have also checked that the activities being undertaken represent proper dialogue between the UK-based NGOs concerned and their counterpart partners in Tanzania.

Q32 Annette Brooke: Would you know, for example, whether the Italian Government were putting money into the same NGO as you were?

Mr Stanton: We would, because of the mechanisms of dialogue between development partners in Tanzania. I expect that you are already aware that there is a lot of harmonized activity between development partners in Tanzania. The architecture of the development partners group is such that almost any sector or any thematic area—whether civil society, health, education, roads or water—has a grouping of development partners that shares programme plans together before they fund.

That is an important mechanism in a very heavily populated donor environment such as Tanzania. Broadly speaking, the international view is that the harmonisation of donor activity in Tanzania is quite well advanced. That definitely helps us avoid duplication and overlap of funding instruments.

Q33 Annette Brooke: In the same way, can you avoid, say, a particular excellent project falling through the net and not getting money from anywhere?

Mr Stanton: We do not know the whole of civil society in Tanzania, because it is so diverse, but generally speaking communication is quite good and the capacity of development partners to fund good projects is high, because we tend to share information between ourselves. If one agency, for one reason or another, cannot fund a programme, that information is shared. The problem is that there are some emerging CSOs that, for one reason or another—very often because of poor communications infrastructure—are not connected with sources of funding. In that sense, the CSCF can help, because sometimes it works with small agencies that would otherwise not attract the attention of larger development partner funding.

Q34 Annette Brooke: The multiplicity of funding must make it all the more difficult to monitor and evaluate.

Mr Stanton: It does, but Sir Suma is absolutely correct. The job of the country office is to ensure coherence between the different funds. We

concentrate very much on our own programme investments, which are larger scale, while ensuring that there are proper checks and balances, and policy coherence with the funds that are managed from the UK, so there is not a particular problem.

Q35 Annette Brooke: May I change question, because I have limited time? One area that I particularly want to delve into is the extent to which, throughout setting your objectives in London and out in the field, we are tackling the very poorest. I can see that the answer will vary from country to country, with the balance being between whether the money goes to the Government in a country or the NGOs. I can see that the money is getting to the poorest in Bangladesh and is going through the NGOs, but I am particularly interested in microfinance, so can you assure me that there is the same thrust of getting the money to the very poorest in other countries, which would be a key to achieving the millennium development goals?

Sir Suma Chakrabarti: One of things that civil society organisations are often better at than state providers is getting to the very poorest. It is a shame that you mentioned Bangladesh, because that was the example that I was going to cite, although I will anyway. DFID leads a lot of work on trying to improve the reach of CSOs to the very poorest. There was a big NGO study a few years ago—BINGO, as it was called—that showed that even though there were some very good CSOs in Bangladesh, they were sometimes not reaching the very poorest. That led to some recalibration of the work that those CSOs were doing, so that they are now much more focused on the poorest.

As a general principle, I think that CSOs are much better at that than state providers. That is one of the reasons why in many countries I would rather go with CSOs for public service provision. Even where we put money into Governments, we would like to talk to them about not necessarily always using state providers but CSOs to deliver public service.

Ms Hutcheon: We do often find in the challenge fund a strong prioritisation towards the very poorest, so, we have a number of projects which are looking at the slum and shack dwellers and trying to give them rights and a voice in being rehoused and relocated as urban centres are developed. In our portfolio of civil society projects, the very poorest are often prioritised.

Sir Suma Chakrabarti: A rather good example from Peru comes to mind that involved street kids who were not getting to school. It was funded through the civil society challenge fund and operated in Lima. The CSFC funded a Peruvian NGO that worked with the local community and the Government, by essentially showing child labour to be a bad thing and starting to get these kids off the streets and into schools. That is one of the things we funded—indirectly, obviously.

Chairman: Could everybody speak up please? This is a big room and there are people sitting behind you who have difficulty hearing what you are saying.

Q36 Mr Bacon: Sir Suma, may I ask you about paragraph 2.5? It says of the partnership programme agreements that “The first 10 Agreements were awarded to CSOs which already had long-standing relationships with DFID, and relatively high levels of DFID funding.” It then lists those 10. How can you satisfy yourself that your agreements are providing the most effective route and value for money, when the CSOs on this list were essentially chosen for reasons to do with historical relationships?

Sir Suma Chakrabarti: Those 10 were some of the key beneficiaries under what was called the joint funding scheme, which was set up in the mid-1980s. These were the NGOs that performed best under that old scheme. When awarding partnership programme agreements, we look at past performance and set the parameters for future performance. So when considering those NGOs, we looked at their governance structures and set up strategic outcomes and indicators against those outcomes. It was not just a case of saying, “Well you have been working with us and therefore we must finance you”. We looked seriously at their performance in the past and their likely potential performance in the future.

Q37 Mr Bacon: It goes on to say in paragraph 2.5 that: “Other CSOs were not at that stage invited to apply”.

Sir Suma Chakrabarti: Not at that stage because we had limited funding, but as you will note within five years there were 26 PPAs.

Q38 Mr Bacon: You said that they were the 10 best, but if you cast your eyes over part two of this chapter, you will see that in reference to those organisations in paragraph 2.3, the Report states that, “DFID has not to date evaluated the cost-effectiveness of these different approaches” and in paragraph 2.10 it says that, “over a quarter of Boards had not formally reviewed organisational performance within the previous 12 months. Almost half said they had not formally assessed their own performance measurement in that time. Over half stated they do not review the performance of any single Board member”. Paragraph 2.12 says: “Measurement quality varied across the Agreements, but only one-quarter scored well against our rating system” and goes on to state that: “important common objectives for Partnership Programme Agreements, such as building the capacity of local CSOs or acting as better advocates for the poor, were not associated with specific and measurable indicators of results”. That makes it sound as if there was an insufficient willingness to take measurement seriously. There is plainly an issue regarding how much burden of measurement you can have, but it all sounds a little bit cosy to me.

Sir Suma Chakrabarti: I can assure you that they would not call it cosy and neither would we. The relative cost effectiveness point, which I tried to answer when Mr Khan asked the same question, relates to the comparison across schemes. We do need, as I said earlier, to have more bench-marking

on value for money within the PPA scheme including costs and cost effectiveness. On the boards, I am hopeful that the trustees of those boards, whose job it is to think about corporate governance use—

Q39 Mr Bacon: That is a very good textbook answer. It is the answer that the boss of the Charity Commission would give us in relation to any problem with a charity. I have corresponded with the Charity Commission in this country about inadequately performing charities and the standard text book answer is “I hope that the trustees do their job.” However, since trustees in this country very often do not do their job adequately in relation to charitable organisations, within a minority of charities there are sometimes very serious problems that are unaddressed for years. Why should we think it is more likely that trustees would do their job in organisations operating overseas where they are even less visible and less accountable?

Sir Suma Chakrabarti: Because these PPAs are UK civil society organisations and this hearing and Report are clearly public, therefore we would expect the trustees to take it seriously. When we assessed the corporate governance of these CSA organisations we passed those lessons back. We are not failing in our duty to inform and we expect the right people to take the right decisions.

On your other point regarding measurable indicators, we have very good indicators. As I said, we are one of the few donor agencies that applies a log-frame approach—we started it before anyone else about 20 years ago.

Q40 Mr Bacon: Halfway down paragraph 2.14 on page 22 it refers to a team of consultants who were invited in to give advice. Can you tell us which consultants they were?

Ms Hutcheon: It was a team of consultants from the Institute of Development Studies.

Q41 Mr Bacon: From the Institute of Development Studies; is that part of Sussex University? How much was it paid, by the way, as presumably they were good value?

Ms Hutcheon: They were paid £30,000 and I can elaborate on the value for money if you would like me to.

Q42 Mr Bacon: The Report says that following their advice, “a DFID team recommended the adoption of a set of performance criteria covering organisational effectiveness; policy coherence; capacity; knowledge creation and dissemination; influence; and innovation”. Despite what it says in the following paragraph, there was a recommendation that those criteria should be built into the agreements from 2005. Are they now built into the agreements?

Ms Hutcheon: No; not formally or consistently.

Q43 Mr Bacon: Why not?

Sir Suma Chakrabarti: The reason we did not fully implement that recommendation—

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Mr Bacon: It cost £30,000 for what sounds like very sensible advice.

Sir Suma Chakrabarti: Actually we disagreed with the recommendation as put; it is not that we disagree with performance being an important criterion for funding—we agree with that—but the performance has to be related to the objectives. That was not suggested. What we want to do over the next 12 to 13 months, as I said earlier, did not come up.

Q44 Mr Bacon: Do you mean that they did not tell you that when measuring performance you should measure performance in relation to the objective you are trying to achieve? Are you saying that they did not tell you that?

Sir Suma Chakrabarti: No, we believe in a performance system that is related to the objectives that we are trying to carry out.

Mr Bacon: It is hard to think of anyone who would not.

Sir Suma Chakrabarti: Unfortunately, the recommendation did not spell it out very clearly; nor did it say how we should go about doing it in terms of the strategic outcome.

Q45 Mr Bacon: Did you ask for a discount, or for your money back? It sounds so obvious.

Sir Suma Chakrabarti: Absolutely. That is essentially what Joy's team will be doing over the next 12 months. Apart from the value for money benchmarking work that I mentioned earlier, one of the issues is also to have a performance-based system to drive the funding.

Q46 Mr Bacon: The agreements will then have all those things written into them?

Sir Suma Chakrabarti: Absolutely. There will be a new set of agreements from April 2008.

Q47 Mr Bacon: In appendix 3 on page 38 you will see a list showing the first two years of the first agreement, and then a second agreement. As an example, between 2002 and 2004, voluntary service overseas received £96.38 million and Water Aid received slightly more than £2 million; under the second agreement, VSO received £27.9 million and Water Aid received just over £1 million. How do you go about deciding how much money should go to whom?

Sir Suma Chakrabarti: The second agreement is for annual amounts; the other was cumulative. A lot depends on what they bid for and their capacity to raise funds from other sources. Water Aid has a big capacity to raise funds from other sources, but voluntary service overseas does not have that capacity.

Q48 Mr Bacon: Does that in any way reflect the level of activity of those two organisations?

Sir Suma Chakrabarti: VSO is enormously important to development outcomes in many African countries.

Q49 Mr Bacon: What I am saying is that Water Aid is much larger than those numbers would suggest.

Sir Suma Chakrabarti: Absolutely, yes, because is it able to fund raise from individuals as well as corporate bodies.

Q50 Mr Bacon: Mrs. Brooke asked you about microcredit. At the outset, the Report states that £320 million goes through CSOs. That is 9% of your budget is it not?

Sir Suma Chakrabarti: Yes, it is about 8.5 or 9%

Q51 Mr Bacon: It says on page 1 that CSOs encompass a broad range of bodies, including not only NGOs, trades unions and faith groups but business associations. Do microcredit institutions come under that umbrella, or are they classified differently?

Sir Suma Chakrabarti: No. For example, a care project in India—I think it is mentioned in the Report—is about access to microcredit schemes. That sort of work would be counted.

Q52 Mr Bacon: How much does DFID spend supporting microcredit?

Sir Suma Chakrabarti: Overall?

Mr Bacon: Yes.

Sir Suma Chakrabarti: David, as the ex-chief adviser, do you know the answer?

Mr Stanton: It was in the region of £200 million three years ago. I am afraid I do not have an up to date figure.

If it is relevant, the care managed programme in India—the cash programme credit and savings for household enterprise—works with a large number of self-help groups and credit co-operatives. It has managed to provide services to double the targeted number of clients at £60 per group of 60 people, whereas the average of other equivalent programmes in India was between £50 and £300.¹

Q53 Mr Bacon: You are talking about India, although you are head of country for Tanzania, are you not?

Mr Stanton: That is right.

Q54 Mr Bacon: What is DFID doing in east Africa in respect of microcredit?

Mr Stanton: We are doing a lot. The Financial Sector Deepening Trust has a programme to link commercial banks with microfinance institutions. There is an enormous gap at the moment in those linkages, and it must be addressed in order to make financial services more broadly based and to reach poor people. The trust is a privately managed, arm's-length arrangement whereby private companies and banks form coalitions with microfinance institutions

¹ *Note by witness:* There is a difference between this figure and that provided in the supplementary note to question 55. The figure of £200 million, three years ago covers commitments made to all projects and programmes, including joint-funded and multi-sector programmes where microcredit may only have formed one part of the total programme. The figure provided in the note of £70 million over three years relates only to projects which were wholly funded by DFID and records the amount actually spent.

and its purpose is to provide them with wholesale finance for savings, credit, insurance and remittance services to poor people.

We are also involved in the enabling environment for financial sector reforms in two ways. The first is a programme called Best, which is about the enabling environment for business, and support for reforms in land, labour and other laws. We are also involved in the World Bank-funded second financial sector reform programme to accelerate liberalisation of the financial sector and allow private investors to come in.

Q55 Mr Bacon: Sir Suma, I have nearly finished my questions. I asked about microcredit because Mrs Brooke and I were in Kenya and Rwanda together in September and visited a microcredit institution in Nairobi. It was one of the most impressive things that I have ever seen. Some of the people who were being helped were literally street beggars with nothing. In some cases, they received loans of 20,000 Kenyan shillings—a very small loan, equivalent to about £10—and upwards from there. We heard some of the stories.

Could you possibly write to the Committee with a simple little chart—I always find them helpful—that sets out the £328 million and 9% in the context of the overall DFID budget? Basically, a pie chart could show how the budget is split up between different areas. Then could you provide a lot more detail on microcredit? For example, where in the world does it go, what is spent by DFID region—by country would be helpful—and, in particular, what is the money spent on in each place? Does it go to supporting microcredit institutions directly, or does it go to intermediate institutions? Is it used to encourage links between wholesale banks and microcredit institutions?

Sir Suma Chakrabarti: I am very happy to do that. On the second question, is that covering the whole DFID programme—not just the CSO work but our country programmes as well?

Mr Bacon: Yes. An appendix on that in our Report would be most interesting.²

Q56 Mr Mitchell: Support for CSOs sounds commendable. It is an effective way of channelling support into civil society—certainly far more effective than shovelling money into European Union aid programmes, which are inefficient, expensive and, in some cases, corrupt. It is far better to provide support directly than to follow that alternative. What is the balance between UK-based CSOs and those of other nations?

Sir Suma Chakrabarti: Joy can look up the numbers. While she is doing that, let me say that a few years ago I would have very much agreed with your characterisation of European Union programmes.

Mr Mitchell: You can stop there. That is all right.

Sir Suma Chakrabarti: But the programmes have improved quite a bit in the past few years, particularly the European development fund. There is a difference between the budgetised programmes,

which are still not as effective as I would like them to be, and the European development fund, which is now one of the better programmes in Africa. Joy, can you give the figures?

Ms Hutcheon: The figure for the DFID programme through civil society is about 8%. The figures for other countries are higher or lower than that. Denmark is similar at 8%; Australia is 6%; Canada is 9%; and France is very low at around 2%—it does not publicise its figure. The figure is much higher for some of the Scandinavian countries, which have a long tradition of spend through civil society, at around 25%.

Sir Suma Chakrabarti: I should explain the Scandinavian number. It relates particularly to Sweden. Is that right?

Ms Hutcheon: Yes.

Sir Suma Chakrabarti: Norway is around the 20% mark.

Q57 Mr Mitchell: We do not have partnership agreements with CSOs in developing countries. Why is that?

Sir Suma Chakrabarti: Oh, but we finance CSOs in developing countries through country programmes such as the one in Tanzania.

Q58 Mr Mitchell: Right. So the partnership agreements are for British-based CSOs.

Sir Suma Chakrabarti: Yes, that is right. Country office support for local CSOs amounted to £90 million in the last financial year.

Q59 Mr Mitchell: Let me turn to the challenge fund. It is fairly small, is it not? Yet small as it is, it must be biased against small organisations run by poor people for poor people, which do not have a chance in contesting for the challenge fund. Is that a legitimate criticism? Is it legitimate to say that the very organisations that it wanted to get to cannot compete?

Sir Suma Chakrabarti: I do not think that that is necessarily true. There are a number of organisations, such as the one in Lima, Peru that I mentioned earlier: the Adventist Development and Relief Association. It is not a big organisation; it is a pretty small outfit. Obviously it is Church related—a faith group, really. Small organisations can compete, but they have to reach a minimum level of capability first, otherwise more transaction costs would be transferred to my staff. Box 9 on page 19 sets out the administrative costs to the annual budget for managing such schemes. The ratio is such that the civil society challenge fund is much more transaction heavy for us. The more we allow smaller CSOs, which are perhaps weaker, into the scheme, the more the administrative burden transfers to us.

Q60 Mr Mitchell: It is a double inhibition on such bodies applying, though. They may feel inadequate and badly organised, and on your part you want to play safe on accountability.

Sir Suma Chakrabarti: No. Accountability is very important to us but, as I said earlier, we give advice to many smaller CSOs on how to make themselves

² Ev 13–14

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fit for the next bidding round. We do not close the door on them for ever; we tell them what they may need to do to get there. Do you want to add anything, Richard?

Mr Calvert: It is also the case that many very small organisations work with another partner that may apply for funding. For example, a UK-based NGO may apply for funding, and may work with very local—

Mr Mitchell: So they will have a better chance of getting funding if they attach themselves to a big brother.

Mr Calvert: Yes, and part of their development may well be to find a partner, so that the partner that is better organised can be the vehicle for the funding application.

Sir Suma Chakrabarti: One of the things that we can encourage bidders to do is to show how, during and at the end of the project, they will share their learning with other partners. The project tries to help build the capability of weaker NGOs.

Q61 Mr Mitchell: Paragraph 3 says that: “CSOs can help to hold developing country government accountable for poverty reduction, give voice to the concerns of poor people, secure access to government services for marginalised groups, and promote awareness in the UK and globally.” In other words, their purposes internally—in the country that we are helping—are somewhat subversive. Are they supported by governments? Do you support them as an alternative to giving direct financial support to Governments?

Sir Suma Chakrabarti: In the most extreme cases, such as Zimbabwe, we do not channel funds through the Government—for good reasons. We use civil society organisations, for example, in the HIV/AIDS area in Zimbabwe, where we are having some success. That makes some sense when a Government are not functioning at all and yet one wants to help the poor. CSOs are sometimes also providers of Government services instead of the Government. In many countries, Governments do not have the capacity to provide such services to the required measure. Many of the anti-retroviral drugs that are now being distributed in Africa are provided through civil society organisations.

Q62 Mr Mitchell: But Governments may be suspicious of them, presumably, if the organisations are known to be funded by the UK Government.

Sir Suma Chakrabarti: They may be, but so far what we do is very transparent. We talk to Governments about who we fund and why, and Governments do not say, “Do not fund this or that agency.” The relationship is very open and we do not constrain people to taking a particular line on particular issues. It would be wrong for us to do that.

Q63 Mr Mitchell: Why do you have civil society strategies for only three country programmes?

Sir Suma Chakrabarti: Because at that time in those three countries it was particularly important to take forward our agenda through civil society organisations. To give a classic example of that time,

Nigeria was particularly badly governed; it has gone through a number of such cycles. We were thinking of how we could provide services to poor people in Nigeria and civil society was one of the vehicles that we were looking at. However, we now want to build thinking about civil society and how we use and work through it into our broader country planning process.

Q64 Mr Mitchell: Why does the Report tell us in paragraphs 9 and 10 that: “Staff at DFID country offices do not always have current knowledge about live projects and partnerships arranged from the UK through schemes such as the Civil Society Challenge Fund or the Partnership Programme Agreements, nor are they always responsive to requests for comments on individual projects”, if at the same time, as paragraph 10 says: “an estimated £154 million was given in-country directly by DFID teams to local CSOs.” That seems to be a contradiction; they do not have the knowledge, yet they are handing out the money.

Sir Suma Chakrabarti: Those are two different things. Paragraph 9 is talking about centrally funded schemes financed from Joy’s division in London. The civil society challenge fund proposals go out—

Q65 Mr Mitchell: Why do the local teams not know about them?

Sir Suma Chakrabarti: I was going to say that 70% of the latest round of CSCF proposals elicited comment from country teams, so I think that they are more engaged than the sample might suggest. Paragraph 10 is about using our country programme funds to finance civil society. For example, the Foundation for Civil Society receives a lot of DFID Tanzania’s country programme funds within Tanzania for local CSOs.

Q66 Mr Mitchell: The “Drivers for Change” analysis says—it must be true—that civil society is an important catalyst for change. Why do you have limited mapping to identify the most effective route of engagement? If it is such an important route, why are you not exploring it more?

Sir Suma Chakrabarti: In our key, bigger programmes such as Tanzania, we have a pretty good idea of where civil society is. In smaller programmes such as the Cameroon programme, civil society is very important in the one sector we are in—forest management. Again, we have a very good idea of what civil society is doing in that area. In the Cameroon example, it would be wrong for us—I think that the NAO recognises the proportionality argument—to try to assess civil society across the whole of Cameroon; we need to focus on the sector where we are operating in Cameroon. In Tanzania, it is quite different; clearly, David and his team need to know about civil society across the piece, because we are such a big donor to Tanzania.

Q67 Mr Mitchell: This kind of thing is bound to be a patchwork quilt, is it not? Some will work and others will not. It is very difficult to evaluate in advance. How do you balance the need for

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monitoring arrangements and monitoring burdens placed on comparatively small organisations with the need to give assurance to taxpayers and the need to make the organisations efficient and effective, rather than having them spend all their time ticking boxes?

Sir Suma Chakrabarti: That is the essential conundrum. We think that we have the balance right. We need to ratchet up some of the VFM benchmarking work for the PPAs, in particular, in the way that I talked about earlier. In the case of the civil society challenge fund, we have pretty good systems for improving performance and continuing to monitor it, but there are so many such projects that it would be difficult for us to monitor every single one through project visits, for example.

Joy, your team sees about 10% of civil society challenge fund projects on the ground. Obviously, that is a sampling of what is going on. I do not know how many are in the stocks at the moment, but it would not be possible to visit every single one of them.

Ms Hutcheon: There are 213 live projects at the moment.

Sir Suma Chakrabarti: We are trying to achieve a balance. As you say, we do not want to overburden the agencies with monitoring, but we do need certain basic performance data to do our jobs, as people accountable for public money.

Q68 Mr Mitchell: I would have thought that there was a case for taking more risks and playing less safe than you are doing. That might be an irresponsible thought to urge here, but I would have thought that it was a sensible thought in the development context.

Sir Suma Chakrabarti: Development is a risky business full stop, but I am comforted by the conclusion reached in this report that 80% of the projects are largely meeting their objectives. I do not know many domestic programmes in the UK that can say that. That is a pretty good achievement and speaks well of many of these agencies, as well as of my staff.

Q69 Mr Williams: I get very mixed signals from this Report and I find it somewhat confusing. The NAO makes the point in the background briefing that the Department has not evaluated the cost-effectiveness of its different schemes to date. Sir John, would it be too difficult, costly or time-diverting to carry out the sort of assessment to which you refer?

Sir John Bourn: The difficulty is that if you are trying to evaluate schemes that have the objective of changing the nature of a society, it is difficult to think of criteria that would enable you to say that you had fundamentally and irrevocably succeeded in doing that. However, as the Permanent Secretary has said, that does not mean to say that you therefore give up the endeavour altogether. Although it is not yet completed, the Department—we are happy to continue as its external auditor to advise on this—can look for ways in which you can point to changes and where the activities of the Department have a causal relationship with what has been achieved. So, the task is difficult, because the nature of societies is

difficult, in developed countries as well as less well developed countries. In reporting on where things stand now, we do not mean to say that we regard the issue as an area in which future progress is not possible.

Q70 Mr Williams: Is not possible?

Sir John Bourn: No, we do not regard it as an area where progress is not possible; progress will be possible.

Q71 Mr Williams: Exactly. Otherwise, I was going to say that the criticism was rather a strange one to have made in the first place. You know that we have never been opposed to the work of your Department. We have always been supportive, but, like yourself, we want to get the best value for money.

We are told that the 18 partnership programme agreements, on which £79 million was spent in 2005–06, had the advantage of being more flexible than the projects and allowed the Department to rely on partner-monitoring processes. However, the NAO goes on to say that three quarters of the agreements did not have any indicators that were fully measurable and robust. In making that criticism, were you saying, Sir John, that all those three quarters should have been capable of being more reliable, measurable and robust, or that a significant proportion of them should have been?

Mr Sloan: I think that what we are driving at is that the logical frameworks and the verifiable indicators that Sir Suma talked about need to be beefed up in the strategic agreements of this nature, so that you can track performance. At the moment, many of them are very process oriented, and occasionally very activity oriented, which makes it quite difficult to see what strategic progress you are achieving.

Q72 Mr Williams: Having made the criticism to which I just referred, the Report says later that the monitoring of projects and agreements was satisfactory overall—that seems rather to run against what we have been told—but less stringent for the partnership programme agreements. Why was the monitoring less stringent for those? I suppose that a specific project has something that you can see at the end, so I have almost answered my own question.

Sir John Bourn: Yes, indeed.

Q73 Mr Williams: Okay, since that was the best answer that I have had in a long time, I shall move on—it pays to ask the right people, does it not?

We are told elsewhere that the partnership programme agreements have been less successful in achieving their objectives than the project funding. Does that mean that they have been less successful or that they have been less successful only in those parts that are quantifiable, which is rather different answer again?

Sir Suma Chakrabarti: I think it means that the outcome specified for the partnership agreements is more generalised than the project-type outcomes. We take the point, for example, at the beginning of

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paragraph 2.27 about the need for more specific, relevant, measurable and timely indicators for the PPAs. If we make them very specific, down to almost looking like projects, the question we will face is, “Why have you got PPAs, as opposed to just running the CSCF for larger CSO organisations as well?”

There is sense in which we still need to remain sufficiently strategic in order to have a PPA scheme. You will see a bit of this also in the country programme context on the difference between budget support and project support. Some of the same issues arise; we debated some of them three years ago here. That is the fundamental question. Nevertheless, I agree with Sir John Bourn that we need to have more measurable indicators for PPAs than we currently have, as well as better VFM benchmarking.

Q74 Mr Williams: The reality is that we are looking at a segment of your budget that is becoming proportionately smaller. Have you made a conscious decision to move away from the CSO element towards Government funding? What proportion now goes to schemes via Governments, with this Government budget support, as opposed to what we are discussing here today?

Sir Suma Chakrabarti: The ratios remain remarkably stable; around 8.5% of our total DFID programme goes to CSOs through a variety of channels, which we have been discussing, so it has not actually dropped off.

Q75 Mr Williams: I know that it is outside our discussion to talk about the Governments, but I do not think that it is an improper question to ask. You are increasingly moving towards the partnership programme agreements and finding them a valuable format. Is that correct?

Sir Suma Chakrabarti: For the stronger organisations, we prefer the PPA route, clearly, but with further improvements to come. With Governments, we are essentially doing two things. When we provide, say, budget support to the Government in Tanzania, we are saying, “This does not mean that you can spend all that money through Government channels or on the provision of public services; some of that could be provided through NGO provision of public services.” So, the budget support as such may be channelled, in the end, through a CSO provider; it does not necessarily have to be channelled through the Government providers.

Q76 Mr Williams: Which route offers the better tracking through the delivery chain?

Sir Suma Chakrabarti: Both can offer good tracking, but I would not go to the budget support approach, except in certain cases. The Chairman mentioned the Congo; I would not go there with budget support. That would be quite a dangerous thing in terms of accountability, because the financial managements systems’ fiduciary risk that we would be taking on

would be far too big and I would not be able to come to this Committee and assure you that we had a sufficient grip in the Congo.

In the case of Tanzania, however, where the Government have clearly made major strides in financial management and running the public expenditure system, and so on, with DFID support, I can give you that assurance much more.

Q77 Mr Williams: We hear so many stories about poor governance. What sanctions do you then have available in the CSO via the programme system? What deals with the CSOs and governance under the agreement?

Sir Suma Chakrabarti: If governance becomes a concern, our funding is tranching so we can always stop a tranche. We have done that in a number of cases, as have been outlined to the Committee before.

Q78 Mr Williams: There was a recent one, but can you give me any other examples? You announced one a few weeks ago.

Sir Suma Chakrabarti: In the past, Uganda has been a good example, as was Malawi three or four years ago. There were some recent ones, such as Ethiopia, where we were going to move towards a budget support arrangement but, because of governance deterioration after the elections, we pulled it.

Q79 Mr Williams: When you pull the plug, do you find that that induces at non-governmental level and governmental level greater discipline or does it just lead to the big collapse of the project?

Sir Suma Chakrabarti: Under the current Government, the key thing is not to withdraw the total aid. The aid might be provided by a different channel. In the case of Ethiopia, the Secretary of State decided to provide the sums but through local government, so public services were maintained in poor areas of Ethiopia, but he was not willing to put it through the central Government under Prime Minister Meles Zenawi because of what happened after the elections. I can give another example that is quite good; in Rwanda where the Secretary of State decided again to withhold tranche budget support because of concerns about Rwanda’s cross-border behaviour some two years in DRC, that led in our view to Rwanda changing its stance and to it being a rather good neighbour during the past couple of years. The view in Kigali, Rwanda, where I was recently, was that it had the right impact in terms of better policy.

Q80 Mr Williams: Coincidentally, the Chairman has told me that my time is up which is at the same time as I have finished my questions. Thank you very much.

Chairman: That ends our hearing, Sir Suma. Thank you very much for coming. You are clearly working in some of the poorest countries in the world. You are showing impressive creativity in dreaming up innovative ideas and we are very impressed with your work, but on some occasions you seem less well equipped with some of the details of how the

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schemes are being implemented on the ground. Clearly, there will be a question mark on their effectiveness in building up civil society if there is not the strongest possible managerial control. We shall have to return to such questions in our Report. Thank you very much.

Supplementary memorandum submitted by the Department for International Development

Question 55 (Mr Richard Bacon) *The DFID expenditure through CSOs in the context of the overall budget is shown in the following table*

Table 1

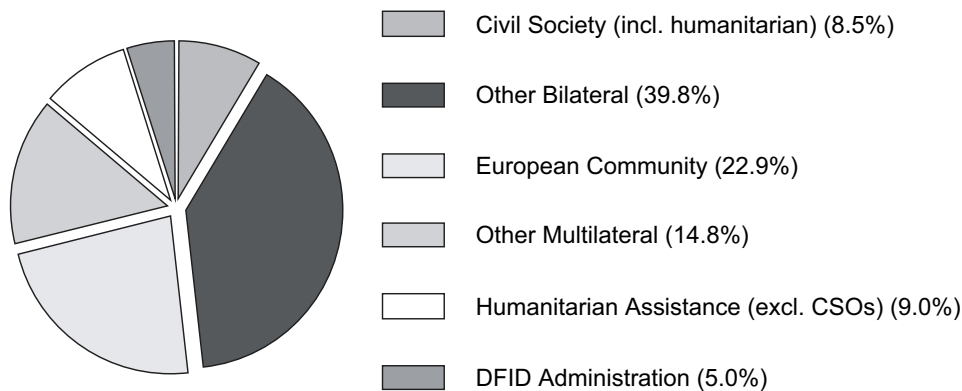
DFID EXPENDITURE ON DEVELOPMENT 2004–05

	<i>£ million</i>	%
Civil Society (incl humanitarian)	£328 m	8.5%
Other Bilateral	£1,539 m	39.8%
European Community	£883 m	22.9%
Other Multilateral	£573 m	14.8%
Humanitarian Assistance (excl CSOs)	£347 m	9.0%
DFID Administration	£192 m	5.0%
	£3,862 m	

Note: All figures relate to 2004–05 in line with the NAO Report.

The same data is also presented in a pie chart:

DFID Expenditure by Type



DETAILED INFORMATION OF DFID SUPPORT FOR MICROFINANCE

DFID has spent about £70 million in the last three years specifically on microfinance, within its wider support to financial sector development. A breakdown by region and category can be found in the table below. The majority of this funding has been to build the capacity of microfinance institutions to serve greater numbers of poor people with a better range of services and at a lower cost.

DFID has dedicated programmes in six countries that provide funding to microfinance institutions and promote more conducive environments for microfinance, and supports initiatives such as the Consultative Group to Assist the Poor (CGAP) that cover many more countries. Enabling (rather than unnecessarily restrictive) policies and regulations are important so that private capital will flow into microfinance in higher volumes, microfinance institutions can expand their operations significantly, and poorer people can be reached.

DFID provides technical assistance to developing country governments and central banks, for example on appropriate regulation for the financial sector and supervision of institutions. DFID also encourages the entry of new financial institutions into the microfinance sector, for example through funding data surveys and supporting the development of “financial infrastructure” such as payment systems and credit bureaux.

Three examples of DFID support to projects where microfinance is a significant element are:

- DFID recently launched a £40 million seven year “PROSPER” programme in Bangladesh that will support legal and policy reform, private sector innovation, and capacity building of microfinance institutions.
- DFID has committed £20 million to the Microfinance Investment Support Facility for Afghanistan (MISFA). MISFA has provided funding and technical assistance to microfinance institutions that has led to over 300,000 Afghans (70% of whom are women) accessing small loans.
- DFID is contributing about £3 million to support the Government of Tanzania’s programme of financial sector reforms in partnership with the World Bank and other donors. DFID will also provide approximately £6 million to the Financial Sector Deepening Trust (FSDT) to support microfinance institutions to innovate and to expand their operations.

Table 2

DFID SPEND ON MICROFINANCE BY REGION AND ACTIVITY

<i>Activity</i>	<i>Data</i>	<i>Region</i>					<i>Total</i>
		<i>Africa</i>	<i>Asia</i>	<i>Eastern Europe, Central Asia</i>	<i>Latin America, Caribbean</i>	<i>Non specific region</i>	
Capacity Building	Commitment	£25.6m	£29.2m				£54.8m
	Spend to Date	£11.1m	£23.8m				£34.8m
Grants	Commitment	£20m	£8.5m	£0.15m		£18.5m	£47.2m
	Spend to Date	£15.3m	£3.9m	£0.14m		£15.3m	£34.6m
Technical Assistance	Commitment				£0.6m		£0.6m
	Spend to Date				£0.4m		£0.4m
Total Commitment		£45.6m	£37.7m	£0.15m	£0.6m	£18.5m	£102.6m
Total Spend to Date		£26.3m	£27.6m	£0.14m	£0.4m	£15.3m	£69.9m