




# Evaluation

*Comparative Review of Austrian  
Development Cooperation's  
Budget Support Operations*

*Country Report Cape Verde*



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Austrian  
 Development Cooperation



## **Imprint**

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This is an independent evaluation report. Views and conclusions expressed do not necessarily represent those of the contractors.

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## Table of acronyms

ADA	Austrian Development Agency
ADC	Austrian Development Cooperation
AECID	Spanish Agency of International Development
AfDB	African Development Bank
AfDF	African Development Fund
BS	Budget Support
BSG	Budget Support Group
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DFID	Department for International Development
DGA	General Directorate for the Environment
DGP	General Directorate of Planning (Ministry of Finance)
EC	European Commission
GBS	General Budget Support
GDP	Gross National Product
GNI	Gross National income
GOCV	Government of Cape Verde
GPRSP	Growth and Poverty Reduction Strategy Paper
HQ	Headquarters
IMF	International Monetary Fund
LDC	Least Developed Country
MAP	Municipal Action Plans
M&E	Monitoring & Evaluation
MFA	Ministry of Foreign Affairs
MoF	Ministry of Finance
MoU	Memorandum of Understanding
NGO	Non-governmental Organization
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PANA	National Action Plan for the Environment (Plano de Acção Nacional para o Ambiente)
PBA	Programme Based Approach
PFM	Public Finance Management
PIC	Indicative Cooperation Programme (Programme Indicatif de Cooperation)
PSI	Policy Support Instrument
SBS	Sector Budget Support
SIAP	Inter-sectoral Action Plans
TYP	Three-year Programme (TYP)

# 1 Introduction

ECORYS Nederland BV (ECORYS) has been contracted to undertake a Comparative Review of Austrian Development Co-operation's Budget Support (BS) Operations.

The overall objective of the Review is to provide an assessment of the use of BS<sup>1</sup> as an aid modality since 2005/6 to date, and how BS creates synergies with other modalities used by the Austrian Development Cooperation (ADC). The Review aims to achieve this by (i) comparing ADC's policy documents, internal procedures and human resources regarding BS with those of two other comparable European donors (Belgium and the Netherlands); and by (ii) assessing ADC's BS operations in four case study countries (Cape Verde, Mozambique, Nicaragua and Uganda).

The purpose of this report is to present the findings from the review of ADC operational experience with BS operations in Cape Verde since 2005/6, as part of the Review's second phase. Particular attention is paid to the value added of ADC's involvement in BS operations including a review of ADC policies, capacities and procedures as determining factors, using the open-systems model. In line with the Terms of Reference, the review team focussed on analysing Austria's involvement with BS in support of the Environment Sector.

The field mission to Cape Verde took place from 8 to 12 February 2010 (excluding travel) and was carried out by one senior expert (Albert de Groot), accompanied by a local consultant (Antonio Lopes). In preparation of the field mission, the most relevant documentation of ADC policies, capacities and procedures as well as Cape Verde's aid effectiveness context were examined. During the mission, ample attention was paid to gathering the relevant information and perceptions of the ADC Coordination Office in Cape Verde and relevant representatives from Government of Cape Verde (GOCV), development partners and civil society. A debriefing session took place on 12 February 2010, where the major preliminary findings were discussed with the Head of the Coordination Office.

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<sup>1</sup> For the purpose of this report the term Budget Support will be used to denote both General Budget Support (GBS) and Sector Budget Support (SBS). If something applies specifically to either of these types of BS, this will be communicated accordingly.

## 2 Country Context

### 2.1 General political, economic and social country context

Cape Verde, located off the west coast of Africa, is a small archipelago (land area is 4,000 sq. km.) of ten islands inhabited by around 542,422 (2008 estimate) people. It has a parliamentary representative democracy and a track record of more than ten years of multi-party democracy (from 1991 on) with peaceful political transitions. It has an independent judiciary and a free and diverse press (World Bank, Country Brief, 2009).

In 2009, Cape Verde was ranked 2<sup>nd</sup> out of 53 African countries on the Ibrahim Index of African Governance, which is a comprehensive ranking of African countries according to governance quality. It scored particularly well in the categories of National Security, Accountability and Corruption, Rule of Law, Rights, Participation, and Personal Safety.

Cape Verde is a net importer of most of the products it consumes, has few natural resources, and suffers from serious water shortages and cycles of long-term drought. It is, highly energy-dependent and its economy is poorly diversified. The service sectors account for around 80%, agriculture for 11%, and industry and energy for about 9% of total Gross Domestic Product (GDP). The tourism sector is particularly important for Cape Verde, it accounted for around 20% of GDP in 2007<sup>2</sup>.

Since 2006 the Government has a programme with the International Monetary Fund (IMF) in the form of a three-year economic Policy Support Instrument (PSI). The sixth review under the economic PSI in June 2009 concluded that the economic and financial policies were being well implemented. All but one of the quantitative objectives were achieved. In follow-up, the IMF has granted the Authorities' request to extend the programme by one year until 2010.

In 2008, Cape Verde has graduated, after a decade of robust growth, from the Least Developed Country (LDC) category to the Lower Middle Income Country category. Cape Verde's 2008 Gross National Income (GNI) per capita was US\$ 3,130 (Atlas method; current US\$) and it achieved the fourth-highest ranking in Africa in the UNDP's 2009 Human Development Index, after Mauritius, Seychelles and Algeria. It ranked 121 out of the 182 countries included in the Human Development Index<sup>3</sup>. It has a strong track record of macroeconomic performance.

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<sup>2</sup> World Bank, Country Brief, 2009; World Development Indicators database, September 2009.

<sup>3</sup> UNDP, Human Development Report 2009.

While Cape Verde has performed relatively well in terms of economic growth and human development, socio-economic inequality within the country is high and poverty widespread. In addition, Cape Verde scores poorly on the economic vulnerability index<sup>4</sup>.

Its development is highly dependent on the efficient and effective use of international development aid resources and remittances received from Cape Verdeans abroad<sup>5</sup>. These remittances<sup>6</sup> and aid flows together represent about 30% of the GDP of Cape Verde<sup>7</sup>.

## 2.2 Aid effectiveness context

Cape Verde enjoys one of the highest levels of Official Development Assistance (ODA) per capita in the world. Total net ODA disbursements to Cape Verde amounted to US\$219 million (current prices) in 2008 and accounted for 13% of the country's GDP<sup>8</sup>.

There are 17 bilateral donors and 9 multilateral donors present in Cape Verde. The main donors, in terms of disbursements, are Portugal, the European Commission (EC), the World Bank (IDA), Spain, Luxembourg and the United States. Table 2.1 presents the top twelve donors of gross ODA in 2007/08. The average gross ODA disbursement of Austria in these two years was US\$ 2.6 million.

Table 2.1 Top twelve donors of gross ODA to Cape Verde, 2007-08 average

	Country or multilateral	Gross ODA (US\$ million)
1	Portugal	65.9
2	EC	22.1
3	IDA	21.8
4	Spain	20.6
5	Luxembourg	17.7
6	United States	15.5
7	Netherlands	11.9
8	France	7.8
9	African Development Fund (AfDF)	4.2
10	Japan	3.6
11	Italy	3.2
12	Austria	2.6

Source: Own calculations based on OECD-CRS Aid Activity Database (OECD.stat).

Graduation from LDC status is a major challenge for Cape Verde as it may presage a gradual reduction in access to ODA. At present two donors, Austria and the Netherlands,

<sup>4</sup> It faces considerable environmental challenges and is over-dependent on imports and external transfers (African Economic Outlook 2010: [http://www.africaneconomicoutlook.org/en/countries/west-africa/cape-verde/#/macro\\_economic\\_policy](http://www.africaneconomicoutlook.org/en/countries/west-africa/cape-verde/#/macro_economic_policy)).

<sup>5</sup> See UN Cape Verde, "One Programme" Joint Resource Mobilization Strategy 2008-2011, 2009.

<sup>6</sup> The number of Cape Verdeans living abroad is estimated to be double the number of domestic residents.

<sup>7</sup> European Commission (EC), Country Strategy Paper and National Indicative Programme 2008-2013, [http://ec.europa.eu/development/geographical/regionscountries/countries/country\\_profile.cfm?cid=cv&type=short&lng=en](http://ec.europa.eu/development/geographical/regionscountries/countries/country_profile.cfm?cid=cv&type=short&lng=en).

<sup>8</sup> See OECD-DAC Development Database on Aid Activities: <http://www.oecd.org/dataoecd>.

have decided to phase out their development cooperation relationship with Cape Verde because of this graduation<sup>9</sup>. In the case of Austria, it is expected that the development cooperation relationship will be transformed into a relationship between more equal partners. Within this new relationship, scholarships and concessional lending for export promotion will probably become important tools.

Graduation out of the LDC category also provides opportunities. Cape Verde is now considered a “blend” economy, and as such will get access to financing that were hitherto unavailable. Over the medium term, the country will have to shift from depending on external support to reliance on domestic revenues to finance its public investment. It will thus need to maintain sound budgetary discipline by, for example, trimming government expenditure and running costs, as well as improving tax collection<sup>10</sup>.

Over time, donor practices in Cape Verde have become more in line with the principles of the Paris Declaration. Nevertheless, the latest Paris Declaration Monitoring Survey has stressed that further progress is needed<sup>11</sup>. Cape Verde scores ‘moderate’ on ownership, alignment, harmonization, mutual accountability and managing for results. A major challenge is to receive a larger share of aid in the form of Programme Based Approaches (PBAs) and to make more use of Government systems.

## 2.3 The role of Budget Support in the public budget in Cape Verde

Since 2006, Cape Verde receives a part of the ODA in the form of BS. A BS Group (BSG) was created in 2005, and included the World Bank, the EC and the Netherlands. The BSG has followed a coordinated approach to align and harmonize their support for poverty reduction around the Growth and Poverty Reduction Strategy Paper (GPRSP). This approach has helped to bring in new partners. The African Development Bank, ADC and Spain joined the BSG in 2006. ADC has decided to join the BSG with the intention to provide BS and focus more on harmonization and alignment.

These six BSG donors signed on 6 December 2006 a Memorandum of Understanding (MoU) “Partnership Framework for a Common Approach to BS between the Government of the Republic of Cape Verde and Budget Support Partners”. The main objective of the Partnership Framework has been to increase the efficiency and effectiveness of external aid and to harmonize donor partners’ BS programmes, while supporting the institutional development and improving governance of Cape Verde<sup>12</sup>. Portugal joined the BSG in 2008 while also France and possibly Luxembourg seem interested to join in the near future.

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<sup>9</sup> Austria has planned to phase out the development cooperation with Cape Verde by 2010 and the Netherlands has indicated to phase out by the end of 2011 (OECD Development Assistance Committee (DAC), Austria peer review, 2009; and Dutch Ministry of Foreign Affairs).

<sup>10</sup> African Economic Outlook, 2010: [http://www.africaneconomicoutlook.org/en/countries/west-africa/cape-verde/#/macro\\_economic\\_policy](http://www.africaneconomicoutlook.org/en/countries/west-africa/cape-verde/#/macro_economic_policy).

<sup>11</sup> OECD/DAC, 2008 Survey on Monitoring the Paris Declaration Country Chapter – Cape Verde.

<sup>12</sup> See MoU, 7 December, 2007.



The GOCV considers BS as a useful mechanism to implement the GPRSP and to harmonize donors' policies<sup>13</sup>. In this way, BS has been catalytic for donor harmonization around key policy measures. Discussions in other areas on harmonization and aid effectiveness in have been relatively limited compared to other aid receiving countries.

The BSG conducts a joint annual review, with review missions twice a year, with the aim of consensus-building and lowering transaction costs for the Government. The Government and donors have developed a joint, streamlined matrix that highlights the main policy and result indicators to be supported. This matrix is used as a basis for discussions and disbursement in the donors' respective operations.

In 2009, the GOCV received an amount of US\$ 73 million in the form of BS<sup>14</sup>. Roughly one third of this amount was received in the form of grants. Three European bilateral donors (Austria, the Netherlands and Spain) have provided Sector Budget Support (SBS) grants, the EC and Portugal gave General Budget Support (GBS) grants, while IDA and the African Development Bank (AfDB) / African Development Fund (AfDF) provided concessional loans (see Table 2.2).

Table 2.2 Budget Support to Cape Verde (in millions, committed or disbursed)

Partner	Type of BS	2006 disb.	2007 disb.	2008 disb.	2009 disb.	2010 comm.	2011 comm.	Comments
AfDB	GBS		US\$ 5.2		€ 20.0	€ 20.0	Tbd	Concessional loan
AfDF	GBS				US\$ 5.0	US\$ 2.5	Tbd	Concessional loan
Austria	SBS	€ 0.9	€ 0.5	€ 0.4	€ 1.0	€ 1.5	€1.5 <sup>a</sup>	Environment
EC	GBS		€ 3.175	€ 5.425	€ 8.5	€ 8.5	€ 8.5	Regular GBS and Special Partnership (security)
IDA (World Bank)	GBS		US\$ 10.0	US\$ 10.0	US\$ 15.0	US\$ 10.0	US\$ 10.0	Concessional loan (PRSC)
Netherlands	SBS	€ 5.0	€ 7.5	€ 6.5	€ 3.5	€ 2.8	€ 1.0	2004/07: Environment 2008/11: Technical & Vocational training
Portugal	GBS			€ 1.5	€ 1.5	€ 2.0	€ 2.0	
Spain	SBS	-	€ 3.0	€ 3.375	€ 3.675	€ 3.075	tbd	Environment

Notes:

a: Austria considers disbursing this last tranche already in September 2010, depending on the findings of the BS Review in May 2010.

<sup>13</sup> See Programme Indicatif de Cooperation (PIC), 2006.

<sup>14</sup> After converting from Euro to US Dollars against an exchange average rate of 0.72 for 2009.

b: Spain has committed for 2010 a fixed tranche of € 3 million and a variable tranche of € 1.5 million. Based on Cape Verde sector performance in 2009 Spain decided to disburse only a small part (€ 75,000) of this variable tranche in 2010.

Source: Aide mémoires, BSG, 2008 and 2009.

In 2007, Cape Verde received 31% or US\$ 47 million of its aid in the form of PBAs. From this share, two-third (21% of the total aid) was provided as BS. This share of PBAs in Cape Verde is significantly lower than in most other countries in the region or in other priority countries of ADC.<sup>15</sup>

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<sup>15</sup> See OECD/DAC, 2008 Survey on Monitoring the Paris Declaration. For the other three countries that receive BS from Austria, these shares were 46% for both Mozambique and Nicaragua and 66% for Uganda.

### 3 ADC Country Programme

Austria has a long-standing engagement with Cape Verde. Cape Verde has been a priority partner country for development cooperation of Austria since 1986. In 1987, ADC and the GOCV signed a bilateral framework agreement for technical and financial cooperation. Building on this agreement, both Governments signed a first bilateral Programme Indicatif de Cooperation (PIC) in 1993 covering the period 1993-1995.

ADC has formulated and approved its last Country Assistance Strategy (Landesprogramm) for in 2006. This Strategy covered the period 2006-2008. Based on this Strategy, both Governments signed a PIC, which summarizes this Strategy. The implementation of this Strategy is guided by the Austrian Development Agency's annual work plans for Cape Verde (Arbeitsfeldprogramms) prepared by the Coordination Office in close cooperation with Austrian Development Agency (ADA) Headquarters (HQ). These plans are strongly aligned with the GPRSP of the GOCV<sup>16</sup>.

The Country Strategy describes the main objective of ADC's development cooperation for the period 2006-2008 in Cape Verde. This objective has been to improve the living conditions of the poor in the rural and semi-urban communities of Santiago<sup>17</sup>. ADC supports Cape Verde in an integrated manner to reduce poverty with a strong focus on the rural areas. The Strategy 2006-08 also stressed the implications of ADC as a small donor. It underlined focusing itself stronger to offer its specific know how in the dialogue with the GOCV and only on the two interrelated programmes 'Integrated Resource Management' and 'Decentralization and Regional Development'. In order to concentrate its activities and to make best use of its specific expertise and know how, ADC has identified, within the integrated resource management programme, the water sector as priority sector. Gender and environment were considered to be cross-cutting themes.

The development cooperation activities are, according to the Country Strategy, being based on Cape Verde's GPRSP. The majority of this support should be provided by means of project aid, while sectoral BS (SBS) is suggested to support the Second National Action Plan for the Environment, PANA II (Plano de Acção Nacional para o Ambiente II 2004-2014).

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<sup>16</sup> The GOCV prepared, in close collaboration with the beneficiaries and the development partners, its first GPRSP in 2004. The GPRSP provided a reference framework for the intervention of the Government and its partners regarding the formulation and implementation of public policies. In May 2008, the GPRSP-II was launched. PRSP-II covers the period 2008-2011.

<sup>17</sup> Kap Verde, Landesprogramm 2006-2008, Bundesministerium für auswärtige Angelegenheiten Österreichische Entwicklungs- und Ostzusammenarbeit, November 2006.

ADC has decided in March 2009 to phase out the bilateral development cooperation with Cape Verde. It has done this physically (i.e. closing its office) in March 2010 and will do it financially in 2011. With the perspective of its phasing out, ADC decided not to prepare another Country Strategy but to extend its current Strategy (2006-2008) without revision.

## 4 The Sector Budget Support programme

The main objective of the SBS to the environment is to support the GOCV in the operationalization of its environmental policy, outlined in the National Action Plan for the Environment II (PANA II). This Plan has a time horizon of ten years (2004-2014) and covers a range of environmental issues relating to various sectoral areas.

PANA sets out four priority areas for intervention: (i) sustainable management of water resources, (ii) sanitation, (iii) biodiversity, and (iv) land planning and management. The implementation of PANA II follows an integrated approach based on two pillars: the sectoral and municipal levels. To operationalize PANA II, two types of action plans have been prepared and monitored: Inter-sectoral Action Plans (SIAP) and the Municipal Action Plans (MAP).

ADC started to provide SBS to the environment sector in Cape Verde in December 2006, after the Dutch decided to stop its provision of SBS to this sector and jump into vocational training. This Dutch decision was political, driven by aid management policy concerns at HQs, and in spite of its positive assessment of Cape Verde's government's environmental management. Since 2007, the Spanish Agency for International Cooperation and Development (AECID) has joined the environment sector and committed SBS for the environment sector. The amounts of commitment of ADC to BS operations in Cape Verde will be discussed in Chapter 5.

The model that ADC and AECID are using for managing their SBS arrangements draws largely on the model developed by the Dutch. A joint SBS sub-matrix has since 2007 been used for the policy dialogue and for the assessment of the Government's performance in the environment sector. This sub-matrix is fully aligned with the joint GBS matrix of the BSG, which ensures that the overall public sector governance assessment and the environment-specific performance assessment are linked<sup>18</sup>.

In the annual review of SBS to the environment sector, three components are considered. The first component includes three sine qua non indicators from the joint GBS matrix. The second and third component deal with the environmental sub-matrix. The second component covers governance indicators for the environmental sector linked to organisation (laws, monitoring, etc.) while the third deals with the status of the sector in terms of outputs and outcomes (e.g. real effects, implementation, coverage, etc.). ADC and AECID decide annually during the review whether they will disburse their SBS to the environment sector in a next year. This decision is conditional on a satisfactory assessment during the joint annual review of the sine qua non indicators and an average

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<sup>18</sup> See ODI 2008, Evaluation of Sector Approaches in Environment, Cape Verde Desk Study, p.14-15,21.

achievement of at least sixty percent of the targets of the respective sector indicators (component 2 and 3). This assessment has taken place during the sector reviews in which both government and development partner's representatives jointly participate.

In the last two years, the Cooperation Office has also been actively involved in the preparation of a new set of environmental indicators for the period 2009-2011, the next phase of its SBS operation. This process started in 2008 and was completed only early 2010.

## 5 Inputs

### 5.1 Policies

This Chapter describes the BS and complementary activities of ADC in its bilateral country programme in Cape Verde and assesses the extent to which these activities are in line with ADC policies provided in a) the Three-year Programme (TYP), b) the BS strategy and c) the conditions defined in ADC's Country Strategy for Cape Verde.

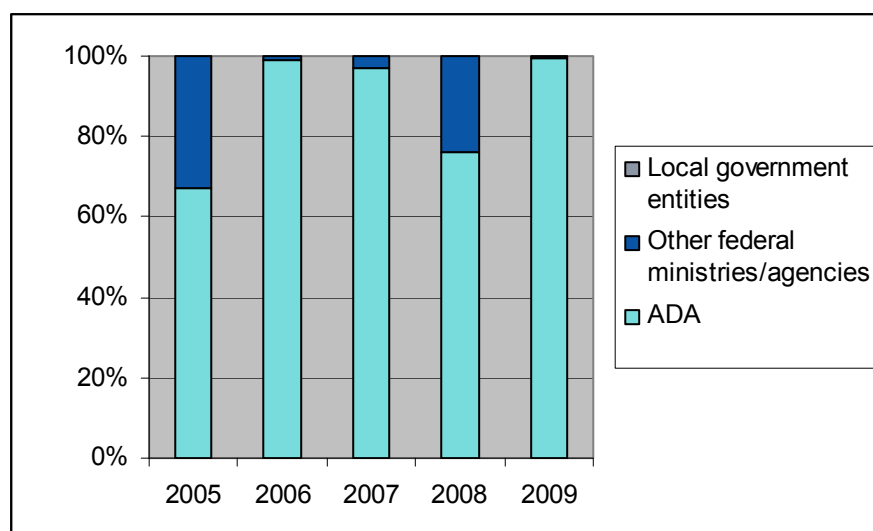
#### *Implementation of the TYP 2006-2008 strategic objectives*

The *Three-year Programme* sets some general principles:

- the up-scaling of aid;
- the shift towards more aligned aid modalities;
- a thematic concentration; and
- a greater transparency and dialogue with the civil society organisations.

**General scaling up of aid.** From the Austrian ODA commitments to Cape Verde, an increasing share has been allocated through the ADA budget. This budget accounted for 67% of the total Austrian ODA to Cape Verde in 2005 and 76% in 2008. The ODA allocations to Cape Verde by other federal ministries and agencies were 33% in 2005 and 24% in 2008. The share of local government entities was below 0.2% in all four years (see Figure 5.1).

Figure 5.1 Austria's ODA commitments to Cape Verde by way of funding, 2005-2009



Source: Own calculations and graph based on ADA Statistics.

Note: 2009 figures are provisional.

ADA's total ODA commitments to Cape Verde have fluctuated substantially. Around € 2.1 million was committed in 2005 and 2006, €1.6 million in 2007, €0.9 million in 2008, and €4.2 million in 2009<sup>19</sup>.

Given its small size, Cape Verde has only received a small share of the ADA budget. In 2008, Cape Verde received 1.6% of the bilateral ADA funds and 2.8% of the ADA funds to priority countries<sup>20</sup> (see Table 5.1).

Table 5.1 ADA's ODA disbursements to Cape Verde

	2005	2006	2007	2008	2009 prov.
ADA's total bilateral ODA funds (in €million)	0.96	2.41	1.81	1.64	3.04
As share of total ODA of ADA	1.1%	2.5%	2.0%	1.6%	3.3%
As share of total ODA of ADA to priority countries	2.1%	4.7%	4.0%	2.8%	n.a.

Source: Own calculations based on ADA Statistics.

**Qualitative shift of ODA to more aligned aid modalities.** ADC has been successful in increasing aid to government and in making increased use of national systems and PBAs, promoting national ownership and systems alignment.

Over the period 2005-2009, ADC has successfully managed to phase BS into its bilateral country programme in Cape Verde. ADA's BS to Cape Verde has increased from zero before 2006 to €1.8 million for the period 2006-2008 (committed in 2006) and €4.0 million for the period in 2009-2011 (committed in 2009). Table 5.2 provides an overview of ADA's SBS commitments/disbursements share of ADA's total bilateral ODA to Cape Verde<sup>21</sup>.

Table 5.2 ADA's SBS as share of ADA's ODA funds to Cape Verde

	2005	2006	2007	2008	2009 prov.
SBS commitments as share of ADA's ODA	0% 83%		0%	0%	95%
SBS disbursements as share of ADA's ODA	0% 37%		28%	24%	65%

Source: Own calculations based on ADA Statistics.

ADA's non-BS portfolio to Cape Verde has mainly consisted of projects and for a small part of Technical Cooperation (TC) (see Figure 5.2). In the last few years, the share of projects has been reduced, not only because of an increase in the amount of SBS but also

<sup>19</sup> ADA Statistics. 2009 figure is provisional.

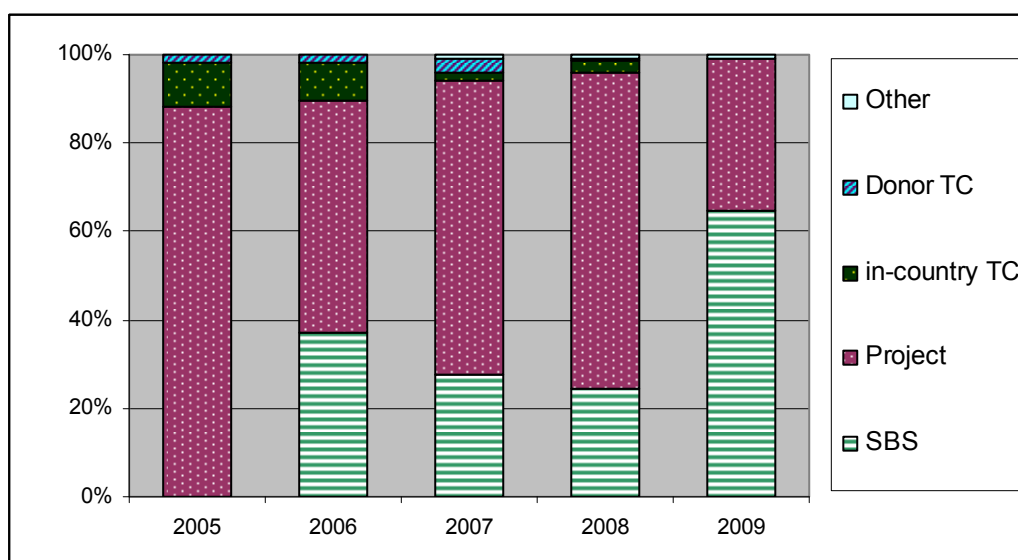
<sup>20</sup> It should be noted that only 57% of total ADA funds were disbursed to priority countries in 2008; Source: ADA Statistics.

<sup>21</sup> The figures on commitment basis show larger fluctuations because the full amount SBS commitment for a period is registered in one year.



because most projects have been completed and no new projects have been started. Most of the project funds have been included in the budget of the GOCV.

Figure 5.2 ADA budget to Cape Verde by modality, 2005-2009 (net disbursements)



Source: Own calculations and graph based on ADA Statistics.

Note: 2009 figures are provisional.

**Thematic concentration.** The mix of modalities of ADA in Cape Verde seems to be well balanced and in line with the focus, indicated in the Country Strategy, on two interrelated programmes ‘Integrated Resource Management’ and ‘Decentralization and Regional Development’. ADC’s BS as well as the majority of the ADC projects focussed on environmental and regional planning, public capacity building and natural resource protection (see Table 5.3). The ADC projects in the period 2005-2009 amounted to €5.0 million.

The focus of ADC on the environment sector, in terms of programmes, its related projects and its SBS is largely based on Austrian historical engagement. This focus seems to be coherent and fits well within the three of the six concentration themes stated in the TYP, good governance, rural development and water & sanitation. ADC has been successful in consolidating and streamlining its country portfolio in Cape Verde in the last four years and has found a useful niche strategy as a small donor in an area where it can make a difference.

Table 5.3 Core projects of ADC to Cape Verde

Project Title	DAC Sector	Period	Amount disbursed (in €,000)
Community development: support to communities and community offices in land use planning	151: Government & Civil Society	2006-2007 535	
Santiago regional development (decentralisation programme)	151: Government & Civil Society	2003-2009 (four successive projects)	443

Project Title	DAC Sector	Period	Amount disbursed (in €,000)
Digitalization of rural local administration, Santiago	151: Government & Civil Society	2005-2009 538	
Integrated development programme for Santiago water catchment areas (natural resource protection)	140: Water Supply & Sanitation	2005-2010 1,371	
Organisational development for rural communities	151: Government & Civil Society	2007-2010 1,057	
Support for the directorate of land use planning – DGOT	151: Government & Civil Society	2010 400	
<b>TOTAL</b>			<b>4,346</b>

Source: Own calculations based on ADA Statistics.

Gender-related issues have been assessed in the ADC projects and have also been considered to a lesser extent in the SBS preparation. Some environmental indicators in the BS matrix do have a gender dimension, such as illegal sand extraction, but no explicit attention has been paid to gender issues in the preparation of the sub-matrix.

**Greater dialogue with Non-governmental Organizations (NGOs) and civil society.** It is not clear from the Country Strategy whether civil society organisations have been consulted throughout the process of drafting the last Country Strategy in 2006. The nature of Austrian engagement with civil society in Cape Verde has changed over time as a result of the aid paradigm and the aid effectiveness agenda. Early support from ADC to Cape Verde largely took place through city partnerships and involved NGOs. In recent years, there have been no activities or projects financed by ADC in which NGOs have participated in the design, implementation or monitoring. ADC is currently working much more with ministries of Cape Verde, Austrian educational institutes and in particular with Austrian consultancy firms as implementing agencies.

The local NGOs in Cape Verde are mainly active in rural areas. They expressed their concerns about their limited involvement in donor projects. It seems to have become harder for them to get access to donor funds as well as to funds from the central government and the municipalities. They argue for the establishment of a special donor fund to finance grassroots activities of NGOs. Greater dialogue with NGOs and civil society on strategy and planning of Austrian support activities in Cape Verde could help to create more awareness of ADC activities, strategy and profile in Cape Verde. The Coordination Office recognises the importance of the role of civil society.

#### *Implementation of the ADC Budget Support Strategy*

The country programme in Cape Verde has well applied the major pillars of the ADC BS Strategy but its implementation has highlighted a number of challenges. Box 5.1 below repeats the major elements of this BS Strategy while Table 5.4 confirms the fulfilment of these pillars of ADC's BS Strategy in Cape Verde.

ADC has successfully managed to rapidly phase BS into the bilateral country programme, see section 5.1. In Cape Verde, ADC has provided only non-earmarked SBS (and no GBS).

Box 5.1 ADC's BS Strategy main pillars

- ADC will follow a phasing-in scenario for BS to achieve a target of 10-15% of BS to ADC's total operational bilateral aid, whereby not an entire country programme will be implemented through BS but that an appropriate, complementary mix of modalities is maintained;
- ADC will only consider BS in priority countries in order to employ the know-how and experiences gained through cooperation to date, and to participate actively in donor coordination and policy dialogue through local Coordination Offices;
- ADC will prefer to give BS in the priority sectors in order to promote a clear value added in the policy dialogue and cash-in on specific ADC expertise;
- ADC will only give BS in cooperation with other donors to handle the increased effort and transaction costs that come with engaging in BS, especially for a relatively smaller donor.

Source: Austrian Development Cooperation, Budget Support Strategy, Vienna, December 2009.

ADC's BS Strategy highlights that only parts and not an entire country programme will be implemented through BS and that an appropriate complementary mix of modalities is maintained. More details on how Coordination Offices should translate this into practice are yet to be spelled out in the draft BS Guidelines.

This mix of modalities, SBS and projects, has been quite complementary and coherent in Cape Verde and offered opportunities for cross fertilisation. On the one hand, the provision of SBS has offered ADC a forum for regular policy dialogue with the GOCV to improve planning and solve capacity bottlenecks of municipalities. On the other hand, its involvement in projects has provided ADC first hand information on the latest developments. This has been of great use for the identification and monitoring progress of the environmental indicators in the BS matrix. Furthermore, complementary activities have focused on promoting capacity building and accountability for results.

The successive evolution from projects towards more SBS has provided good learning experience and developed a good understanding of the sector specific context, strategy and implementation issues and built relationships with state and non-state actors. Various levels of fiduciary risks, government commitment and absorption capacities have determined the use of different modalities.

The GOCV is very much in favour of BS funding compared to project aid because BS funds can be used in a more flexible manner, especially for recurrent cost financing. Also within the civil society there seems to be broad support for BS as aid modality.

Cape Verde is one of ADC's priority countries and therefore it complies with another requirement of ADC's BS Strategy. ADC has also provided its BS to Cape Verde in cooperation with other donors. There are currently six other donors in the BSG.

Table 5.4 Fulfilment of the pillars of ADC Budget Support Strategy in Cape Verde

Objectives of ADC BS Strategy	Implementation experiences with ADA Country Programme in Cape Verde
BS only in priority partner countries	✓
BS only in priority sectors	✓
BS only in cooperation with others	✓
Focus on SBS	✓

#### *Implementation of BS in line with the conditions of the country programme*

ADC's BS Strategy and its general development cooperation policies and principles provide a strategic framework, while the national & sectoral policies and joint reviews in the partner countries outline the objectives and Monitoring & Evaluation (M&E) arrangements for BS operations themselves. So far, ADC has not formulated how it intends to translate its BS Strategy in the context of the country programme in Cape Verde<sup>22</sup>. Given the phasing out of ADC's bilateral programme in Cape Verde in 2010, this translation would also not make much sense anymore.

The BS Strategy has only been formalised in 2009, while the BS Guidelines still exist in draft form and went through an extensive round of consultation with, among others, the Coordination Offices. Due to a lack of operational guidance on BS at the outset of the preparation of the last Country Strategy in 2006, the objectives, value added and niche, the modality mix and the supplementary measures to BS were not clearly defined. As such, it is not possible for the review team to assess to what extent ADC's experiences with BS in Cape Verde are in line with the conditions defined in the Country Strategy. What can be seen in practice is that the Coordination Office pursued a rapid phasing in of BS, while the project portfolio has quickly declined and the overall programme activities have become more focussed on key interventions. The choice for the environment sector for the BS operations is the result of ADC's maturing engagement with this sector over time.

## 5.2 Financial resources

The total amount of public resources that are spent in the environmental sector in Cape Verde is not clear, mainly due to classification problems. A number of ministries are responsible for different parts of this sector.

The cooperation agreement between ADA and the Government of Cape Verde committed, in 2006, a total of €1.8 million of SBS for the period 2006-2008, to support the implementation of the Government's policy in the environment sector. The new three-year financing agreement 2009-2011, totalling €4 million, was signed end of February 2009. Spain committed for the period 2007-2009 a total of €9 million as SBS for the environment sector<sup>23</sup>.

<sup>22</sup> The BS strategy itself only became formally approved in September 2009.

<sup>23</sup> Over this period Spain has annually disbursed a fixed tranche of € 3 million and (part of) a variable tranche.

With the amount of €4 million in the latest financing agreement, ADC is a relatively small donor within Cape Verde as a whole, but an important player in the environment sector, also due to the small size of the sector within a small country<sup>24</sup>.

ADA's disbursement of the first tranche of the new agreement of €1 million took place in March 2009, while it disbursed the 2010-tranche in February 2010. The last 2011-tranche of €1.5 million is scheduled for the first quarter of 2011, but ADC considers disbursing this tranche already in September 2010, depending on the findings of the BS Review in May 2010. Due to the phasing out of the traditional bilateral development cooperation, this financing agreement will be the last of its kind between ADC and Cape Verde.

After ADC's phasing out of bilateral cooperation in 2010, Spain will be the only donor which provide SBS to the environment sector<sup>25</sup>. Spain intends to maintain its SBS contributions in the coming years at least at the same level, i.e. a fixed tranche of €3 million per year and a variable tranche of €1.5 million, but it is considering some up scaling. The Spanish embassy in Praia will take full responsibility for the daily monitoring of the performance in the sector. Spain regrets ADC's phasing out and would be keen to keep ADC on board in one way or another, given its large technological expertise in the sector and the larger power in the sector dialogue of two instead of one SBS donors. Spain would be in favour of setting up a silent partnership with ADC, while it would definitely need technical support for the joint annual reviews.

### 5.3 Human resources and technical assistance<sup>26</sup>

#### *Staff profile and expertise*

In the last few years, the Coordination Office in Cape Verde operated most of the time with one Head of Cooperation, one Financial Administrator, one secretary and a driver. The current Head of Cooperation joined ADA in 2008. All staff except the Head of Cooperation are national staff (see Table 5.5). National staff has best understanding of the country context and political economy issues and has provided institutional memory built-up and continuity.

In Cape Verde, the Coordination Office has managed the bilateral development cooperation on behalf of ADA. The Ministry of Foreign Affairs (MFA) depends on the Austrian embassies that in formal terms are also involved in development cooperation. The embassies, however, do not have specialised staff to carry out these tasks. Another complicating factor in the case of Cape Verde is the absence of an Austrian embassy. The embassy responsible for Cape Verde is located in Senegal. Therefore, the diplomatic staff of the embassy is not involved in development cooperation in Cape Verde. The Head of the Coordination Office in Cape Verde does not feel restricted to act and represent

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<sup>24</sup> The GOCV also indicated in an interview that ADC's BS of € 1.5 million per year is a substantial amount for the environment sector in such a small country.

<sup>25</sup> Spain has recently set up an embassy in Praia. In the first years of its involvement in SBS, it operated from Dakar.

<sup>26</sup> Largely based on information provided by the Coordination Office.

Austria where needed, but does not have the formal authority to deal with political issues<sup>27</sup>.

Table 5.5 Staffing of Coordination Office in Cape Verde, 2006-2010

Staff & role	International/National	2006	2007	2008	2009	2010
Head of Office	International	FT	FT	FT	FT	Until end of June
Programme officer, Finance & Admin.	National	FT	FT	FT	FT	Until end of February
Secretary	National	FT	FT	FT	FT	Until end of January
Driver & Logistics	National	FT	FT	FT	FT	Until end of March

Notes: FT = full time.

Source: Coordination Office, Cape Verde.

The staff of the Coordination Office seems dedicated and well qualified, especially in its contribution to the BS dialogue in the environmental sector<sup>28</sup>. Nevertheless, the Office has a minimum of staff in light of the scope and nature of its tasks, with one international (Head of Office), one national expert (Programme officer, Finance & Administration) and two persons support staff. The Head of Office joins the monthly meetings of the development counsellors and of the Heads of Missions, but he is physically not able to attend all meetings of the working groups. He assessed that BS requires one specific expert who can only deal with BS related issues. He underlined that the workload for his Office has been manageable, but mainly due to two reasons. First, the Office has been responsible for the management of contracts and the monitoring of project activities, but has limited involvement in project implementation because it has outsourced this either to Austrian consultancy firms or has aligned it to the ministries of the GOCV. Second, the sector dialogue with the Ministry of Environment has mainly been light and restricted in time to the bi-annual review missions. Outside these review periods, seldom dialogue meetings have taken place, while the BSG only meets on an ad hoc basis. This dialogue has also been rather narrow, focusing mainly on output and outcome indicators and baselines, but not on policies or inputs.

With regard to the dialogue between the GOCV and the BSG there is a need for calendarization and institutionalization. Some progress in this regard has been made recently or is foreseen. First, Spain as the rotating chairman of the BSG, took the initiative in 2009 to set up a permanent secretary for the BSG<sup>29</sup>. Furthermore, during the interview at the Ministry of Finance (MoF), the Director General expressed its intention to institutionalize the dialogue with the BSG by setting up a permanent secretariat within the Planning Directorate (DGP) of Ministry of Finance responsible for the timely preparation of documents for the review missions and for the policy dialogue. This

<sup>27</sup> In some situations, the Head of Office feels he lacks authority to act, such as to influence political discussions about the sand extraction.

<sup>28</sup> This view was confirmed by the Spanish embassy in Praia. They have been impressed by the high level of technical expertise of the staff of the Coordination Office involved in the BS discussions in the environmental sector.

<sup>29</sup> The Cooperation Offices expressed its hope that Portugal as new rotating chairman of the BSG for 2010 will continue this initiative.

secretariat should include one representative of all the sector ministries involved in BS and one person from the Ministry of Finance. In this way, it should also be possible to reduce the durations of these missions from two weeks to one week.

The Head of Cooperation has built good knowledge of the sector of engagement, financing modalities and of country specific circumstances. He has gained most of this experience by training on the job in his current and his previous job, rather than by formal trainings<sup>30</sup>.

#### *ADC as learning organisation*

Engaging with new aid modalities, such as BS, requires systematic and regular exchange of knowledge and targeted capacity building measures across the entire organisation, in order to rapidly expand new ideas and working practices and develop a critical mass of experienced staff. Such capacity building should not be limited to technical advisory staff, but preferable benefit also support staff involved with BS operations (e.g. administration, legal and finance departments). The Head of the Cooperation Office in Cape Verde assesses that his Office has received sufficient technical and need-based support from ADA's regional and thematic desks, especially during the joint sector reviews.

Experiences with knowledge exchange around BS related matters between MFA and ADA in Vienna and the Coordination Office in Cape Verde are mixed. The Office has received good technical support from HQ, especially in the area of environment and Public Finance Management (PFM), but there are limited opportunities to exchange experiences on BS. There is an annual event for Heads of Cooperation and recently a bi-annual event for programme officer staff has been launched. More sector-related exchange of experiences across staff from different Coordination Offices or with the thematic desks in HQ rarely takes place.

ADA has invested into capacity building around BS, in particular with trainings on PFM and gender-budgeting. This has built crucial skills and knowledge within the entire organisation of ADA. The Head of the Coordination Office has participated in the PFM training in Addis Ababa in 2009. Yet, overall training organized by ADA on sector-specific issues, (macro-)economic skills and wider PFM and aid modalities training has been limited and so are the opportunities for joint-donor training in Cape Verde.

If ADA aims to pursue greater attention to gender issues in the policy dialogue, then more technical support and attention to capacity development in this area will be needed and a more strategic approach to the interventions financed. The gender-sensitive budgeting workshop in Vienna in 2009 has been a useful first step.

The career perspective and recruitment of Heads of Coordination Offices is a point of concern in Austria. ADC's human resource capacity would be strengthened if it could employ Heads of Coordination Offices on a longer-term basis and offer the possibility to

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<sup>30</sup> Before 2008, he was involved in donor coordination in Mozambique and hence has brought in useful experience with donor coordination and BS operations.



rotate between the field and HQ. Career opportunities and staff rotation across offices and HQ have also been very limited within the ADA organisation<sup>31</sup>.

Handover times between exiting and arriving Head of Offices or programme officer staff are limited. In the case of Cape Verde in 2008 there was no handover time at all. As was pointed out in the inception report, there is a lack of a strategic approach to capacity building around BS and more generally as regards preparatory trainings for field missions within ADC.

## 5.4 Lessons learned from other donors

There are a number of major lessons from other bilateral donors at strategic level. Most other bilateral donors that have selected Cape Verde as its partner country have disbursed significantly higher amounts of aid than Austria (see Table 5.6, second column).

Most of the donors in Cape Verde have relatively limited experience with BS. The Netherlands is the only 'like-minded' donor (with a long tradition in BS) that has selected Cape Verde as its partner country<sup>32</sup>. Given this tradition, the share of BS in the aid portfolio of the Netherlands in Cape Verde is significantly higher (83%) than from the other donors (see Table 5.6, third column). The shares from Spain and Austria are similar (24% for Austria and 22% for Spain), while the shares from the other bilateral donors range from very small (2% for Portugal) to zero. As mentioned earlier, France and possibly Luxembourg seem interested to step into BS in the near future.

Table 5.6 Share of Budget Support in the aid disbursement of Austria and the major other bilateral donor agencies in 2008

Bilateral Partners	Total gross ODA disbursement in 2008 (\$ mln.)	Share of Budget Support
Austria 2.6		24%
France 7.8		0%
Luxembourg 17.7		0%
Netherlands 11.9		83%
Portugal 65.9		2%
Spain 20.6		22%
United States	15.5	0%

Source: Own calculations based on OECD-CRS Aid Activity Database (OECD.stat) and Aide Mémoires, BSG, 2008 and 2009.

Most donors are increasingly concentrating their support in fewer sectors in line with the requirements of the EU Code of Conduct on the division of labour. Most other donors operate with a much higher level of staff than the Coordination Office in Cape Verde and

<sup>31</sup> Some opportunities exist for secondment to other development organisations.

<sup>32</sup> The annual aid disbursements of United Kingdom, Sweden, Norway Canada and Switzerland in the years 2007/08 were all less than one million USD, while they were zero for Denmark, Finland and Australia. The portfolio of Belgium as another smaller donor was also less than one million USD.



have also a resident ambassador in country. In terms of knowledge exchange between field offices and HQ, most development agencies operate with regular staff rotation between field offices and HQ.

The graduation of Cape Verde from its LDC status might lead in the near future to lower donor support, especially from more development- and less political-oriented donors. At present, Austria and the Netherlands have already decided to phase out their development cooperation relationship with Cape Verde. The exit of these donors might change the donor landscape within Cape Verde because the more political-oriented donors, such as Spain, Portugal and the EC have a different, often softer, approach in a policy dialogue. The less political-oriented donors often take a more demanding and tougher position in the policy dialogue<sup>33</sup>.

Spain expects to have a stable annual aid budget of €9 million per annum for Cape Verde in the coming years. From this annual aid budget, at least €3 million (33%) will be allocated to BS for environment. Portugal has decided to allocate 10% (i.e. €7 million) of its total aid budget in its indicative programme of €70 million to BS in the period 2008-2011.

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<sup>33</sup> The discussions in the environmental sector in Cape Verde in 2009 can be used as an example. Spain indicated that it probably would have been less demanding to the GOCV in the review missions without the tough position taken by Austria.

## 6 Outputs

### 6.1 Financial resources: disbursements

ADA disbursed a total amount of €2.8 million in the form of BS to Cape Verde between 2005 and 2009 (see Table 6.1). The joint annual reviews certified a positive assessment based on the agreed targets and indicators in the environmental sector. Therefore, ADC disbursed its full commitments for BS. In the sector review of 2009, however, quite some discussions had taken place before the donors came to their positive assessment, because the GOCV initially made too limited progress in some areas.

ADC has been a small to medium-sized donor in the environmental sector, accounting for roughly 5% to 21% of total SBS to the sector (see last row of Table 6.1).

Table 6.1 ADA's BS disbursements to Cape Verde (€ million, unless other indicated)

	2005	2006	2007	2008	2009 prov.
BS disbursements	0.0	0.9	0.5	0.4	1.0
Total bilateral ODA disbursements of ADA to Cape Verde	0.96	2.41	1.81	1.64	3.04
ADA's BS disbursements as share of its total bilateral ODA disbursements to Cape Verde (%)	0%	37%	28%	24%	33%
ADA's BS disbursement as share of total SBS disb. to environmental sector (%)	-	15%	5%	11%	21%

Source: Own calculations based ADA Statistics; Aide mémoires, BSG, 2008 and 2009.

### 6.2 Austria and the policy dialogue

The GOCV and Spain, the only other SBS donor in the environmental sector, highly appreciate the contribution of Austria as equal partner in the sector dialogue with no hidden agendas. Austria is seen as an active partner with a good understanding of local circumstances. Other partners in the BSG also value Austria for living up to its promises and for trying to specialize within the policy dialogue while being a small donor.

Government and other development partners highlight that Austria has been able to play a vital role in the dialogue in the environmental sector, and be visible in spite of being a smaller donor. The Office has focused on the Paris principles of harmonization,

alignment and managing for results and recently also increasingly on mutual accountability.

The Coordination Office has consistently participated and acted as a critical partner in the annual review process and has a good understanding of the functioning and challenges of the budget process. Given its limited staff resources available, it has not been able to take the rotating lead in the BSG in the last four years<sup>34</sup>. As lead donor, one is expected to make more staff capacity available and to get more access to the relevant information in order to lead a well-informed dialogue with the government.

### 6.3 Lessons learned from other donors

A key lesson learned is that smaller donors, in spite of their lower levels of financial contributions, can have a major value added in the dialogue evolving around BS. But this requires clear determination of the strategic objectives and expected contributions, combined with a system that monitors progress.

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<sup>34</sup> Before ADC decided to phase out its bilateral cooperation, the Coordination Office was considering to take the lead in the BSG in 2010 or 2011. The Head of Office assessed this as a realistic option, given the reduction in its project portfolio in the last few years. In the environment sector, both donors, Spain and Austria have been leading jointly. There has not been an official agreement on a rotating lead.

## 7 Institutional set-up and operational procedures

### 7.1 Institutional relationships

Coordination Offices are directly managed by ADA, and have limited direct interaction with MFA<sup>35</sup>. In the absence of a resident Ambassador, the Head of Cooperation in the Coordination Office represents the Head of Mission in certain diplomatic functions as agreed between MFA and ADA. The ambassador responsible for Cape Verde is based in Senegal. The absence of a resident ambassador in Cape Verde has not negatively impacted the implementation of the BS operation. A resident ambassador could, however, have provided Austria with greater access at higher political levels of government.

Currently, ADA operates in a relatively centralised manner without much delegation of mandates to the Coordination Offices when it comes to making financial commitments<sup>36</sup>. The Coordination Office does not have the authority to take any financial decision and has a high reporting load. All financial decisions are taken in HQ, but lines of decision making within ADA are short. HQ has been involved in the elaboration of the indicator matrix for SBS, but does not need to give final approval.

### 7.2 Country strategy design process

ADC has formulated and approved its last Country Strategy for Cape Verde in 2006. This Country Strategy covered the period 2006-2008. This Country Strategy is quite general and vague on amounts of financial support and aid modalities. With the perspective of phasing out, ADC decided not to prepare a new Strategy but has extended its Strategy without revision.

The Guidelines on Country Strategy Development<sup>37</sup> provide a structured approach to the design process and foresee involvement of different stakeholders into the design process. The design process is primarily led by MFA in cooperation with the relevant country and thematic ADA desks.

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<sup>35</sup> The communication guidelines 2004 between MFA and ADA regulate that division VII of MFA can give instructions to ADA and communications can be issued in the ministries name, but that it must communicate with the Coordination Offices through ADA HQ.

<sup>36</sup> The ADA Work Programme 2009 recognises that aid effectiveness, donor coordination and the policy dialogue with partners requires more decentralised structures and authorities. The OECD DAC Peer Review, 2009, also indicated the room within ADA for further decentralisation to the field.

<sup>37</sup> MFA, Strategieentwicklung, not dated.

### 7.3 Programme cycle of budget support operations

The programme cycle for all financing modalities except for BS is governed by the “Prozessbeschreibung” January 2009. In 2009, ADA has prepared draft Guidelines for BS which describe the programming cycle for GBS and SBS operations. Before 2009, there were no guidelines which guided BS operations. Hence, the programming cycle, relevant for quality assurance mechanisms and requirements as regards country analysis and risk assessments, was less elaborate. With regard to the BS operations in Cape Verde that started in 2006, the Coordination Office has followed the procedures as agreed in the MoU for BS that was signed between the GOCV and the six BS donors. ADC has been able to sign this MoU in 2006 without imposing exceptions to the principles and procedures.

Generally speaking, ADC’s programme cycle has been well adhered to the jointly agreed standards, principles and procedures and is well aligned with the budget calendar of the GOCV. In the last two years (2009 and 2010), for instance, ADC has been able to disburse its SBS tranche in the first quarter of the calendar year. Regular monitoring of BS has taken place through the annual review with progress reporting. Furthermore, the Coordination Office reports on a quarterly basis to ADA HQ on relevant developments and information as regards their involvement in the sector.

With regard to partnerships on BS, predictability and mutual accountability are important features. One of the major weaknesses in the programme cycle of ADC is the difficulty to plan country programme funding and make commitments beyond one year, irrespective of the modality. The provision of BS usually requires multi-annual commitments and financial agreements with a Government that include indicative multi-year budget envelopes.

The ADA Company Act (§2, Art. 3) allows for 60% of the first year’s funding to be committed for the second year, and 40% for the following years. While this approach to financial management is not unusual in OECD countries, it poses a problem for Austria because it does not have multi-annual aid targets or a multi-annual budget framework against which the MFA, ADA and the Cooperation Offices can commit funds<sup>38</sup>. In the case of Cape Verde, this seems to have restricted ADC commitments of SBS in the first years (2006-08) but less in the last two years.

### 7.4 Lessons learned from other donors

Experiences from other donors highlight that most of them are able to commit multi-annually to government budget funding and that adherence to the disbursement schedules is essential to maintain predictability of aid.

Furthermore, most other partners in the BSG have an embassy in Cape Verde. Hence, the ambassador, in cooperation with the Head of Cooperation, engages in the political

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<sup>38</sup> OECD/DAC, Peer Review Austria, 2008.

dialogue, while the Head of the Coordination Office takes the lead on the development cooperation policy dialogue with the government and the other development partners.

## 8 Conclusions

The major question for the field mission was to review ADC's operational experience with budget support operations in Cape Verde since 2006. In order to address this question, particular attention was paid to the value added of ADC's involvement in budget support operations including a review of ADC policies, financial resources, human resources, capacities and policy dialogue as determining factors, using the open-systems model.

The role of ADC in the budget support operations in the environment sector in Cape Verde is in general perceived as positive. ADC is highly appreciated as a (pro-) active, constructive, and equal partner in the policy dialogue. It shares information transparently and is perceived as not having hidden agendas. ADC is also valued for its technical knowledge and its international aid effectiveness commitments. It has streamlined its small country portfolio and seems to have found a useful niche strategy in a sector where it can make a difference with a coherent mix of activities and mixture of aid modalities.

This approach has enabled ADC to contribute to the sector dialogue in spite of its small financial volumes of budget support. ADC has largely aligned to the national budget procedures and adhered to the procedures and standards jointly agreed in the Memorandum of Understanding of the budget support operations. In Cape Verde, the sector dialogue with the Government has been light and mainly restricted in time to the bi-annual review missions. Outside the review periods, seldom dialogue meetings have taken place, while the Budget support Group only meets on an ad hoc basis. The dialogue has also been rather narrow, focusing mainly on output and outcome indicators and on baselines and less on policies or inputs.

This value added of ADC in budget support is the result of the commitment, determination and capacities of individual staff at the Coordination Office and ADA HQ and MFA. ADC's policies, capacities and procedures, however, have in the past few years insufficiently supported ADC to systematically play this important role.

The Coordination Office has a minimum staffing of only two experts (with two members support staff) in light of the scope and nature of its current tasks. The transformation towards using more aligned modalities and its participation in the policy dialogue has not reduced its workload but led to increasing demands on staff time as well as to changing needs of skills and expertise. Involvement in budget support operations would for instance require one dedicated expert who can deal almost full time with budget support related issues. The Office in Cape Verde could only manage its workload by outsourcing project implementation and by restricting the time spend on the sector dialogue.

With regard to strategies, it should be highlighted that ADC Budget Support Strategy has formally been approved in September 2009, while the draft Budget Support Guidelines are still in the process of being refined.

It is generally recognized that sufficient financial volumes give a donor a more “natural” weight or leverage in a policy dialogue. With its current financial volumes of its country programmes in Cape Verde and other priority countries, ADC remains a small donor. A higher financial volume could probably exponentially have risen ADC’s profile and leverage. A major constraint in this context is the fragmentation of Austrian aid. First, a comparatively low share of Austrian ODA is allocated in favour of Austrian priority countries. The relatively high number of priority countries adds to further fragmentation of Austrian financial aid volumes. The recent tightening of aid budgets, partly as a result of budgetary constraints induced by the financial crisis, might further underline the need for a more targeted and consolidated approach.

In spite of this, smaller donors can have an important value added in the policy dialogue if they are able to distinguish themselves in terms of technical knowledge and specialize thematically in the policy dialogue. In this way, they can make a difference at sector level. In Cape Verde, for instance, ADC has managed to add value in the sector dialogue by specializing in the environmental sector and building on its long-standing engagement in this sector. Within this perspective, ADC’s preference for sectoral budget support instead of general budget support, and its preference to team up with other donors make sense.

Yet, in general terms, ADC could build a stronger comparative advantage in specific themes if it takes away barriers that undermine common understanding, lessons learning, career opportunities and hence staff commitment and continuity for programme officers and Heads of Cooperation. It could invest more heavily in staff capacities in the field offices and stimulate greater learning and sharing of field experiences within ADA. Capacity development, in particular training opportunities, on aid approaches and modalities, PFM, (macro-) economic skills and sector specific expertise have been limited so far and will require more strategic attention in line with ADC’s comparative advantages and particular country programme objectives.

Procedural and organizational aspects have also hampered the role of Austria in the policy dialogue. Engagement in budget support highlights the need for more decentralised aid management in order to create more responsiveness in an environment that demands greater donor coordination, harmonisation and alignment and stronger engagement in the policy dialogue. ADA is currently relatively small but highly centralised with little delegation of financial and technical roles and responsibilities to field offices. The limited staff resources at the Coordination Offices reflects this.

Another major weakness in the Austrian system is the restriction to plan country programme funding beyond one year, irrespective of the modality. Especially for budget support, predictability and mutual accountability are crucial features for success. Provision of budget support usually requires a multi-annual commitment. In the case of Cape Verde, these restrictions seem to have played a role in ADC’s commitments in the first years (2006-08) of budget support operation, but less in the last two years.



Within this framework, ADC has managed surprisingly well in Cape Verde to consolidate the portfolio and to focus on activities and aid modalities with which it could make a difference. Nevertheless, as ADC's engagement with budget support matures, it will be confronted with pressing issues (e.g. appropriate mix of modalities, possible minimum and maximum volumes of budget support, the nature and approach to supplementary measures, guidance on exiting budget support operations) which amplify the need for more strategic and operational guidance and exchange of lessons learned on budget support.

## Annexes

# Annex 1 Interviews conducted in Cape Verde

Name	Position/ Department/Unit	Organisation
<b>Cooperation Office</b>		
Mr. Alexander Bohr	Head of Office	Austrian Development Cooperation, Coordination Office
<b>Government of Cape Verde</b>		
Dr. Moises Borges	Director General, Environment Directorate (DGA)	Ministry of Environment, Agriculture and Marine Resources
Dr. Sandro Brito	Director General, Planning Directorate (DGP)	Ministry of Finance
Mr. Enrico Colombo	Advisor to the National Authorising Officer (NAO/ EDF)	Office of the NAO
Mr. Valter Ferreira de Sá	General Secretary	National Association of Municipalities Cape Verde
<b>Donor representatives</b>		
Dr. Jaime Puyoles	Head of Cooperation, former Lead of the Budget Support Group	AECID, Spain
Eng. Antonio Machado	Head of Cooperation – Current Lead of the Budget Support Group	IPAD, Portugal
Ms. Severine Arnal	Chargée de programmes, responsible for Budget Support	EC Delegation
Mr. Thierry Lippert	Chargé d’Affaire, Acting head	Embassy of Luxembourg
Mr. Antonio Querido	Head of Environmental Unit, Responsible for GEF Programs	UNJO
<b>Civil Society/NGOs</b>		
Mr. Mario Moniz	Executive Secretary	Platform of NGOs
Mr. Januario Nascimento	President	ADAD (local NGO) (and former member of Parliament)

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