

**DRAFT REPORT – for comment not for citation**

**Linking Budget Support to Progress Towards Education MDGs and  
EFA Goals**

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This report was commissioned by the World Bank on behalf of the Fast Track Initiative Partnership. The findings, interpretations and conclusions expressed herein are those of the authors and do not necessarily reflect the views of the FTI Partners.

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## **Acronyms**

DAC	Development Assistance Committee of OECD
DFID	UK Department for International Development
EFA	Education for All
FPP	Fund for Programme Preparation
FTI	Fast Track Initiative
GBS	General Budget Support
MDBS	Multi Donor Budget Support
MDG	Millennium Development Goal
NETF	Norwegian Education Trust Fund
OECD	Organisation for Economic Cooperation and Development
PBA	Programme based Approach
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
SBS	Sector Budget Support
SWAP	Sector Wide Approach

## Executive Summary

This initial scoping study was commissioned by DFID on behalf of the FTI donors in order to ‘provide insights on the relation between budget support aid modalities and education outcomes and guidance on how to map progress towards EFA goals and education MDGs through an analysis of newly emerging evidence in different country contexts.’ It was based on a brief review of literature, the main objective being to make proposals on how more definitive conclusions on these issues might be reached.

### *Methodology*

External assistance impacts on education outcomes through three main routes: - influence on education policy and the design of education programmes; increasing the financial resources available for implementing education programmes; and improving the effectiveness with which policies and programmes are implemented. Aid instruments can be defined in terms of three types of reciprocal agreement aimed at influencing these impacts: - agreements on policy actions to be taken; agreements on what the aid funding will be spent on; and agreements on procedures to be used for managing the funds. General budget support relies on policy agreements to achieve its objectives, with the aid provided as general budget resources without earmarking, and relying on Government systems to manage the funds. Sector budget support also provides resources to the budget and relies on Government procedures, but allocates and accounts for the aid in terms of expenditure in the education sector.

The report uses a framework for assessing the impact of budget support compared to other aid modalities based on the following assumptions and observations: -

- There should be a single strategy to achieve the EFA goals in each country, jointly supported by Government and development partners.
- The strategy will require actions to be taken at various levels of Government: - by Cabinet or central economic ministries on issues such as the allocation of the budget and improvements in the management of public expenditure and of the civil service; by the education ministry on matters of overall policy and national curriculum; possibly by sub-national levels of Government where basic education is a decentralised responsibility.
- Government and donor partners may engage in policy dialogue and reach agreement on aspects relevant to education at any or all of these levels – or at none of them if aid is confined to the support of projects selected and designed by Government.
- The report tries to assess the experience of policy dialogue for how it reflects and supports Government policy processes and organisation structures, and how effectively it has supported the development and implementation of a sound strategy. This involves assessing the arrangements for coordination between and within levels, and the arrangements for policy dialogue and agreement, for how effectively the actions required have been defined, agreed, coordinated between levels, and implemented in practice.
- The earmarking of aid to specific expenditure programmes for disbursement and accounting purposes is assessed according to whether it is likely to have achieved a beneficial impact on the allocation or disbursement of resources. Earmarking aid to specific expenditure programmes for disbursement and

accounting purposes will usually not be sufficient to achieve expenditure goals unless accompanied by agreement on the allocation of domestic funding. If an agreement on the allocation of expenditure is in place, it will not usually be necessary to earmark. Earmarking imposes additional costs and rigidities on public expenditure management that are undesirable in principle. In comparing GBS with SBS or other earmarked aid forms, the report looks for specific justification for earmarking.

- In principle, a cost-benefit approach is used for comparing direct budget support using Government systems with the use of parallel procedures for development assistance- though in practice, missing data means that assessments rely heavily on judgements from incomplete information. Parallel procedures impose additional costs in the expectation that the resources provided will achieve higher benefits through cost-effective procurement, quicker disbursement, improved management, reduced misallocation to low priority uses, and reduced leakage through corruption or waste. Where possible, the cost and impact of expenditures through parallel routes is compared with similar expenditures funded through the budget. Such a comparison is biased against using Government procedures, since it is difficult to take full account of external costs, such as the negative impact that donor-specific procedures have on the resources available for managing Government-funded expenditures. Government procedures should therefore be used unless there is reason to believe that parallel arrangements are significantly more cost-effective.

The remainder of this executive summary does not follow the structure of the main report, but draws on it to offer tentative answers to the explicit questions set out in the terms of reference at Annex 1.

### *Education Outcomes*

Budget support appears to have a positive impact on access and equity. It has helped Governments to finance the incremental recurrent costs of lowering the cost barriers to access to education (e.g. Uganda, Tanzania), in marked contrast with project approaches, where the focus on investment has improved physical access but not been able to address the need for a higher subsidy of the recurrent budget (e.g. Ghana). The movement towards budget support therefore has greater potential for supporting improved poverty and gender content of education policy, because the critical interventions often need to include policies to shift the burden of financing non-salary recurrent costs from parents to Government.

It is a little early to judge the impact on efficiency and learning outcomes. Countries that have experienced huge increases in enrolment following the abolition of school fees, as Uganda and Tanzania have done, will inevitably face a short term decline in the quality of education due to teacher and classroom shortages, and may as a consequence continue to experience high drop-out rates. However, it would be unfair to attribute this to the movement towards budget support. In principle, by permitting a better balance between the salary and non-salary budget and between investment and recurrent spending, budget support should prove beneficial across all four aspects of outcomes. Although the counter-factual can not be known, it seems probable that in Uganda, the quality problems would be considerably worse in the absence of budget support which has helped to facilitate an unprecedented in Africa speed of increase in the classroom stock, significant improvements in textbook availability, increased

funding directly to schools, and promising early results from establishment of an education standards agency<sup>1</sup>. The budget support approach released resources to support policy dialogue, while finance through the budget enabled more decentralised funding approaches to be implemented<sup>2</sup>.

### *Financing and Flexibility*

In the countries we looked at, increased budget support has been accompanied by increasing spending on education and on basic education. Budgets for primary or basic education are specifically protected from cuts in Uganda and receive a less explicit degree of priority in Tanzania<sup>3</sup>. Predictability of budget support is often better than for project aid, with higher disbursements of committed funds<sup>4</sup>, and Government can more easily manage fluctuations in donor funds provided through the budget than project disbursements through parallel routes, where reporting continues to be incomplete making it harder for Government to adjust for changing donor support levels. Budget support does not always achieve better results, however: - in Zambia, Government inability to comply with reporting requirements resulted in late release of budget support, while over-centralised Government procurement proved slower than donor alternatives<sup>5</sup>. Predictability of course also depends on the quality of overall public expenditure management. The advantage of budget support is that weaknesses in budget management can be addressed through policy dialogue and monitored over time, while disbursements on critical programmes such as basic education can be the subject of negotiation and agreement. Issues of longer-term commitments of predictable funding, and the need to minimise donor interruptions of support for policy or political reasons, remain to be resolved.

Budget support can provide a mechanism for monitoring and addressing problems in the flow of funds down to school level. In Uganda, for example, problems in funds not getting to schools have been addressed, with 90% of funds now getting there compared to 25% previously. Problems of late disbursement remain and need to be addressed, but dialogue on public expenditure management provides a mechanism for doing so. Alternative approaches such as pooled funding have not performed better in getting funds down to school level, and are by their very nature less sustainable.

General budget support appears to offer increased benefits at lower cost compared to other aid forms. In the examples we looked at, the additional management costs of parallel funding routes normally exceed their benefits, as would be expected in a sector where the budget is spent in small amounts across a large number of sites. Although budget support can in principle be coordinated with project aid and other aid instruments, there are cost penalties for doing so, and it seems likely that achieving lower transactions costs requires a general movement towards budget support modalities. Costs also seem to be positively related to the number of active donors participating in the partnership, suggesting that some limit should be placed on donor numbers supporting each sector programme, either through donor specialisation or through sleeping partner arrangements.

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<sup>1</sup> Ward et al.

<sup>2</sup> IHSD

<sup>3</sup> Daima Associates and ODI, 2004.

<sup>4</sup> FTP International

<sup>5</sup> IHSD

There are some justifications for continuing with earmarked and project forms of support alongside budget support, particularly in less aid dependent countries, and in order to support informal and non-Government solutions to the problems of enrolling marginal groups. There may also be a case for retaining the capacity to provide quickly responsive technical assistance with a degree of external quality assurance to help resolve policy issues. However, with the exception of reaching groups who have a difficult relationship with Government, most of the objectives of earmarking and projectising could in principle be met from budgeted support, even if the services are provided by non-Government agencies. The Government route should be considered as it will usually be a more sustainable source of funding, and will often be more cost effective once management costs are included. Innovation and piloting of new approaches can be integrated within the strategy for the sector, and the results will be both more representative and more likely to be picked up for replication if implemented within Government's own plan and using budget procedures. Project approaches have caused major problems in aid dependent countries, and there remains a need to redress the balance<sup>6</sup>. We therefore recommend that budget support should be the default route, and explicit justification should be required for deviating from it.

#### *Policy Dialogue and Reforms*

Policy decisions relevant to education take place at macro, sector and local Government level. Although Government can in principle choose to coordinate between the levels and hold a single dialogue with donors, in practice there are benefits to both parties from dialogue at several levels, enabling interaction and professional exchange of experience to take place more easily by involving those with appropriate experience. The organisation of policy dialogue needs to reflect the allocation of responsibility within the Government. Dialogue between the different levels needs to be coordinated with regard to both content and timing, with the macro dialogue relying on sector reviews to determine education specific content<sup>7</sup>. The annual budget cycle can provide an appropriate mechanism for achieving this, with annual sector reviews feeding into crosscutting public expenditure reviews and the preparation of budgets and medium term expenditure frameworks, as in Tanzania and Uganda.

Flexible donors able to provide budget support should continue to be staffed to enable them to participate in sector discussions, to avoid the sector dialogue being dominated by the project perspective.

If budget support is accompanied by good sector level dialogue linked in to the macro discussions, it has the potential to address a wider range of issues effectively, opening up opportunities for reforming overall management systems and for support that focuses more effectively on coordinating investment and recurrent spending. Although Uganda provides impressive testimony that these benefits can be achieved in practice, it remains the case that achieving results on the ground will depend on the success that Government has in putting in place effective public expenditure management systems. However, off-budget systems will also perform poorly in situations where the expenditure management systems are weak, while dialogue on

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<sup>6</sup> See WDR 2004; Brautigam; IMG; Knack and Rahman; Foster, 2003.

<sup>7</sup> World Bank, PRSC documents Uganda and Ethiopia

moving towards budget support does at least provide a forum for beginning to address the problems.

The new aid ‘architecture’ of poverty reduction strategy papers and policy-based budget support creates strong incentives for countries to focus on achieving progress towards EFA/MDG goals, and a strong structure for agreeing on policy to achieve the goals and reviewing progress. In Tanzania, the GBS evaluation suggests that the PRSP priorities were selected in part in order to please the donors and keep the aid flowing, and that actual Government priorities differ in significant respects, in particular by giving higher priority to the productive sectors. Partly as a consequence, in year budget revisions over the last two years have favoured programmes outside the PRSP priorities. Similar differences of perspective are present in Vietnam and in Ghana, and a range of other PRSP countries. The belief that the PRSP process has excessively privileged the social sectors over investments to support the economic growth that will be needed to sustain them in the longer term is not necessarily an unreasonable one. One of the major benefits of general budget support is that it encourages a dialogue between Government and external development partners on these issues of strategic resource allocation, whereas sector level forums tend to lobby for a larger share of the budget without considering the costs to other sectors.

Aid provided as budget support is likely to be fully fungible, unless supported by some agreement on the Government share. Earmarking of budget support funds to a specific sector is therefore largely redundant. However, there is a case for being as clear as possible as to how future donor commitments will be influenced by Government performance, and this may require a portion of GBS to be associated with reforms and performance in the education sector. The support would still be GBS and there would be no direct linkage between expenditure and disbursement in the education sector, but the Ministry of Finance would know what weight the donor was placing on performance in the education sector when making decisions about future aid commitments. One advantage of earmarking is that it can provide a direct and non-discretionary link between Government expenditure performance and donor support, providing an incentive to Government to allocate its own funds while avoiding the need for contentious discussions on whether donor funding should be released. Support for the Indian SSA programme, for example, is structured such that donor funding will be a percentage of total spending on SSA above an annually rising threshold<sup>8</sup>.

### *Ownership and Capacity*

The enhanced policy dialogue that comes with budget support inevitably carries the risk of increasing accountability to external partners at the cost of undermining domestic accountability and ownership. A strong Government able to direct donors to finance the projects it wishes to see implemented may prefer to keep policy discussion within the Government by confining donors to implementing projects that it has devised. This model may be relevant and preferred by countries with relatively low aid dependence, but does not reflect the reality in aid dependent African countries, where the development budget has been an unplanned aggregation of donor initiated projects, resulting in a lack of control or ownership of the sector development plan. In this situation, it seems probable that Government can achieve more of its objectives

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<sup>8</sup> DFID India, April 2004.

and establish stronger ownership by leading a policy dialogue aimed at securing reliable funding for the plan that Government has approved, even if external partners had significant influence in preparing it. It seems likely in principle, and seems to be supported by some of the country evidence, that ownership is stronger when funds use the Government's own budget than when donors keep a tight reign on releases via pooled funding arrangements. In most of the countries looked at in preparing this report, the main challenges are to strengthen service delivery of a strategy on which there is now a reasonable degree of consensus. Establishing a productive partnership with strong Government ownership appears to be reinforced by reasonable policy and staffing continuity within Government, and a small number of external agencies providing the bulk of the required funding, with the latter relying where possible on resident staff with relevant expertise and able to establish good relations with their Government counterparts.

Budget support can play a crucial role in capacity building. The critical capacity issues include inability to recruit and motivate staff to serve in remote areas, inadequate availability of books and teaching materials to enable them to do good work, lack of funding for effective supervision, lack of a results-based approach to funding and management, all of which are feasible to address through budget support but not significantly influenced by technical assistance if the cross-cutting budget and staff management issues have not been addressed. There are one or two significant examples of the pace of implementation picking up with the transition to budget support, suggesting that it has the capacity to unlock and develop capacity across the system. It also has the capacity to reinforce accountability to local communities by helping to finance direct transfers to schools with an increased role for community management. Of course, whether benefits are achieved will depend on Government policy: in Zambia, budget support has been provided in a context in which the Ministry of Education remains over-centralised and Government procedures are sluggish and ineffective in getting resources to schools. Although direct transfers to schools can be financed on a small scale through project pilots, the costs of disbursing small sums to schools on a national scale will tend to make it prohibitively expensive using any route other than established budget channels.

### *Country Context*

This report proposes some criteria for the design of policy dialogue and financial support mechanisms in different policy contexts. In summary, policy dialogue needs to reflect how Government responsibilities are allocated, should involve a single dialogue involving all major actors within each level, and strong coordination between levels, preferably organised around the Government budget cycle. The degree of support offered will need to reflect the track record of making effective use of aid. Stable macroeconomic management and supportive budget allocation and management policies are required in order to maintain an environment in which progress at sector level can be achieved and sustained. Donor indications of support should be long-term, modifications in the light of better or worse than expected performance should be slow enough to give time for the country to adapt, and should be signalled as far in advance as possible.

### *Indicators for measuring progress*

The terms of reference call for the report to: 'Identify appropriate intermediate outputs, using the FTI framework as an existing basis, for measuring progress towards

education MDGs and changes in education outcomes. Where possible, the aim is to identify a set of more general intermediate outputs and more specific intermediate outputs that can be categorized from country experience and grouped according to different political/macro-economic contexts.’

The report argues that intermediate outputs and indicators for monitoring need to be country specific, and chosen to reflect Government targets, and the data that is locally meaningful and can be collected within reasonable costs. The most important points are not the selection of specific indicators but: -

- Establishing a monitoring and evaluation structure that relates indicators to verifiable targets of the education strategy, and enables the full chain of logic to be monitored, from resources to activities to outputs to outcomes, with explicit assumptions about the underlying linkages;
- Supporting the development and use of information to inform decision-making at all levels from school upwards, rather than a hierarchical structure in which lower levels pass information to the centre without using it themselves. Country experiences show that it takes persistent and patient capacity building over a sustained period to achieve a real change in behaviour.
- Minimising the burden of data collection by working towards a single education information system in each country. Many countries are far from having reached agreement on a single set of data, with different Government Departments requesting data in different formats before even considering the needs of donors. For this reason, it is important to recognise that the definition of indicators needs to be a locally specific negotiation: a new set of global EFA indicators would be likely to become simply another imposed record-keeping chore.
- Effective arrangements need to be put in place for independent checking of data on a sample basis, especially in situations where there are financial incentives for e.g. inflating enrolment data.

#### *Use of Catalytic Fund*

Regarding the preparation facility, the main implication arising from the analysis in this report would be the importance of analytical support being owned and driven by the Government of the country itself, but with broad stakeholder consultation to ensure that issues relevant to obtaining external support are addressed. Almost by definition, this will tend to argue against making recommendations either on geographical coverage or content of such support. It is also felt that this brief study has not been comprehensive enough to yield confident recommendations on issues that require cross-country analysis.

#### *Proposals for Follow Up*

The terms of reference envisage a Phase 2 involving case studies to further analyse the links between budget support and education outcomes and progress towards the EFA goals, and request proposals for case studies. However, countries have been subjected to a succession of case studies on these and similar issues, and there is in particular a major on-going multi-donor evaluation of general budget support. The increase in budget support related to education is recent and affects a small number of countries. In so far as there are lessons to be learned, it should be possible to fill many of the remaining gaps in our knowledge by drawing on existing literature, and the

findings of studies that are currently under way. It is therefore recommended that modest additional resources be made available to expand the current phase of the study, in order to more thoroughly capture the available grey literature, and conduct interviews with a wider group of key informants, but that no detailed case studies are planned at this time.

Rather than a backward looking series of ‘evaluation’ style case studies, we recommend that, during the course of the coming year, countries should be invited to request support to further develop the modalities by which the donor community provides financial support to their education strategy. This would involve analysis and discussion of the benefits and problems of existing arrangements for providing financial and technical support to the sector, but would use this as the basis for a facilitated process to work with Government and donors to reach agreement on improvements. Generic terms of reference for local adaptation and development are at Annex 3. These terms of reference are country specific, but there would be advantages in taking this forward as a multi-country programme, perhaps funded from the FPP. The terms of reference are mainly aimed at facilitating improvements in the arrangements for donor support in country. However, they will also generate analysis of the costs and benefits of alternative approaches in different contexts, and will contribute to the design and negotiation of improved arrangements. Developing a multi-country programme could ensure each mission was informed of existing country experience, and would facilitate cross-country transfer of experience and the further development of the knowledge base of both Government and donor best practice. The success of the missions would be improved by being able to draw precedents from other countries to the attention of Government and donor field staff.

## **1. Introduction: Objectives and Background to the study**

Achieving the Millennium Development Goals will require significantly increased flows of external assistance. Some agencies argue that it will only be efficiently and sustainably used if a large share is provided as direct support to the Government budget. Budget support is not new. Indeed, the balance of payments assistance provided in support of structural adjustment programmes was a form of general budget support, and constituted a significantly larger share of external resources in the early 1990s than budget support does today. The main development in recent years has been a more explicit linkage between budget support and the funding needed to implement poverty reduction strategies and make progress towards the millennium development goals. Because of the relatively recent development of this focus for budget support approaches, there is a lack of good evidence of effectiveness, although that will change as a consequence of a major multi-donor evaluation of budget support that is being undertaken under DAC auspices. In addition to this broader study of the effectiveness of general budget support, the Fast Track Initiative donors felt that it would be useful to look more specifically at the impact of external resources and the mix of aid instruments on education outcomes<sup>9</sup>. This initial study is based on a brief literature review, and was intended mainly to develop more detailed proposals for taking this work forward. The terms of reference are at Annex 1. The study was

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<sup>9</sup> FTI News June 2003, Annex 3, FTI Finance Working Group, Summary of Teleconference of 16 June 20 (sic).

commissioned by DFID as a contribution to the work of the Finance Working Group of the Fast Track Initiative.

Section 2 sets out the approach used for defining different aid types and assessing their impact. It proposes that external assistance impacts on education outcomes through three main routes: - influence on education policy and the design of education programmes; changing the financial resources available for implementing education programmes; and changing the management arrangements of aid-supported policies and programmes.

The following sections then use this framework to review the limited information we were able to find on the impact that changing aid modalities have had on the education sectors of FTI countries, including drawing on secondary sources to look at the experience of a number of specific countries. Section 3 looks at the impact on education policy, planning and budgeting, including the nature and content of policy dialogue, and the implications for Government ownership and donor influence. Section 4 looks at the impact on the level and content of expenditure. Section 5 recognises that not all education is provided or financed by Government, and looks at the role of the non-Government sector, with particular reference to development assistance. Section 6 looks at the costs and benefits of alternative instruments for delivering aid in relation to the effects on transactions costs, implementation capacity, cost-effectiveness, and effective stewardship and accountability for resources used. Section 7 responds briefly to the section of the terms of reference that requested advice on indicators for tracking progress towards EFA goals. Section 8 sets out proposals for follow up.

It is important to stress that this phase of the study is based on just 20 days work, and on available secondary sources. There are relatively few good case studies on which we could draw. Further work is needed to test and verify our conclusions and recommendations.

## **2. Methodology**

### **2.1 Types of Aid and their effects**

The taxonomy in Table 2.1 characterises different types of aid according to the reciprocal obligations that are agreed between the partners in return for the aid. These are of three types: -

1. Policy agreements: Policy measures which the partner Government agrees to implement. The link to funding can be relatively tight (explicit conditions for fund release), but it is becoming increasingly common for funding decisions to be made based on an overall assessment of progress in implementing the agreed programme rather than a semi-automatic link to the completion of specific actions.
2. Earmarking: Limitations placed on what the aid must be spent on.
3. Procedures: Agreement on how the funds will be disbursed, accounted for, and audited.

The table characterises the main aid forms in use by aid donors in terms of these three criteria. For simplicity of exposition, the descriptions are in terms of pure types, though in practice there are hybrid forms also in use that exhibit only some of the features. For the purposes of this report, budget support refers to financial assistance where funds are provided for the Government budget, through the Ministry of Finance or equivalent, and spent by the partner Government using their own financial management and accountability systems. We use the term ‘General Budget Support’ when there is no or only notional earmarking; ‘Sector Budget Support’ refers to budget support earmarked for use within a specific sector, which for our purposes would be the education sector.

**Table 2.1: Characteristics of Main Aid Forms**

Aid Form	Policy Agreement	Earmarking	Disbursement & Accounting Procedures
Balance of Payments support	Macro	None	Minimal
General Budget Support	Macro and budget	None or nominal	Govt systems
Aid financed debt relief	Macro & budget	None or poverty virtual fund (Uganda)	Govt systems
Sector Budget Support	Sectoral	To sector	Govt systems
Sector earmarked	Sectoral	Within sector	Govt systems
Projects using Govt systems	(Sector and) Project	Project	Govt systems
Projects using parallel systems	Limited by low ownership?	Total	Donor

**Source: Adapted from Mick Foster and Jennifer Leavy, The Choice of Financial Aid Instrument, ODI Working Paper 158.**

The Learning Network on Programme-Based Approaches (LENPA) reports a strong trend towards programme-based approaches to aid. At the first meeting in June 2002, many donors pointed to the problems of making a commitment to PBAs, whereas in November 2003 most had made that commitment and were busy overcoming internal constraints to implementation of PBAs, for example through the writing of guidelines<sup>10</sup>. For example, the European Commission’s *Guidelines to EC Sector Policy Support Programmes* aim to put into practice the EC policy that states that “Whenever possible, the EC should withdraw from direct control of projects and utilise Budgetary Aid and Sector Approaches.” However, programme based approaches may still use donor-specific procedures and need not imply budget support. Sector wide approaches have embraced the need for broader policy dialogue and coordination around a common strategy, but continue to earmark expenditures and to use parallel procedures: SPA monitoring of African SWAPs has found that 75% of the financial support is still in project form<sup>11</sup>. The recent evaluation report on General Budget Support to Tanzania points out that DFID and the EU are unusual in drawing a clear distinction between budget support and ‘programme based approaches.’ Most donors, including the World Bank, Af DB and Japan, have no policy to reduce project support in Tanzania, and express no strong preference for

<sup>10</sup> Forum on Alignment Challenges.

<sup>11</sup> Quoted in Foster and Keith, The Case for Increased Aid.

budget support over pooled ‘basket funding’ using harmonised procedures that are not fully aligned with those used by Government for domestic funding<sup>12</sup>.

In examining the impact of changes in aid modalities for supporting education, a critical methodological problem is that all countries are supported with a mix of types of aid instrument. A recent analysis<sup>13</sup> of 14 countries that have received general budget support, including all of the countries that have received World Bank PRSC support, found that, on average, for every \$1 of aid disbursement reported by the donors: -

Direct donor spending (TA and direct payments) not recorded in balance of payments	\$0.30
Recorded in Balance of Payments, but not reported as part of Government spending	\$0.20
Aid earmarked to specific projects	\$0.30
Provided as Budget Support	\$0.20

Even in the highest users of budget support (Uganda, Tanzania, Rwanda), it accounts for only 40% or so of total aid flows, making it difficult to attribute the contributions of different aid forms.

## 2.2 Assessing the Choice of Aid Instrument

In principle, aid donors could provide all of their support entirely by transferring funds to the Government budget in support of an agreed poverty reduction strategy that incorporates a set of policy and programme measures to achieve the MDGs, including those in education. In practice, external partners place restrictions on the aid transaction because: -

- They wish to influence Government to modify or further develop some aspects of the policy or plans.
- They wish to ensure that Government allocates funds more in line with their preferences than would be the case if Government determined the pattern of expenditure. (This could include a belief that funding would be better used by non-Government recipients.)
- They wish to reduce the risk that funds may not be used effectively for their intended purpose or properly accounted for.
- They wish to be able to report what has been achieved with the aid, though this is increasingly as a part of the overall achievement in the sector, without attribution to specific donors.

This report considers the choice of aid modalities from the point of view of maximising progress towards achieving the objectives of the agreed poverty reduction strategy. The perspective needs to be wider than simply the objective of maximising progress towards the EFA goals, because Governments need to balance the priority of the EFA against other equally important objectives. This has practical implications for the design of aid instruments. Earmarking aid to education or providing donor support in ways that by-pass budget procedures may seem attractive from an education perspective but not from the objective of sustained and balanced overall development. Arguments that donors should retain the ability to quickly provide funds outside the budget to overcome specific bottlenecks can seem appealing, but risk delaying major

<sup>12</sup> Daima Associates and Overseas Development Institute September 2004, Joint Evaluation of General Budget Support to Tanzania, 1995-2004, Phase 2 Report.

<sup>13</sup> Mick Foster, Lessons from Country Experience in Implementing the health-Related Millennium Development goals: Synthesis Report. October 2004.

reform of public expenditure management systems by enabling Ministries to by-pass the worst consequences.

We do not address any requirement to accommodate specific donor objectives (e.g. commercial or political objectives) that do not contribute to the EFA goal.

Table 2.2 provides a framework for choosing between aid instruments. It looks at the design of aid instrument for supporting EFA goals in terms of where decisions need to be taken (macro, sector, sub-sector or sub-national level) and in terms of the relevance of the three types of restriction that could be placed on the aid transaction (policy agreements, earmarking, procedural requirements). This report uses the same framework for assessing the impact of GBS and SBS on education sector outputs and outcomes.

### **Policy Agreements**

Policy agreements are needed to ensure that the education sector policies and programmes that donors are asked to support are equitable, efficient, and effective in making progress towards the EFA goals. Table 2.2 proposes that policy dialogue and associated agreements should normally be with the institutions responsible for ensuring that agreed measures are taken.

Macro-economic issues, inter-sectoral allocation of the budget, the reform of public finance management are issues for discussion with the Ministry of Finance, and will feature in general budget support discussions. General Budget Support may also address dialogue on other crosscutting issues of interest to more than one department, including poverty reduction strategy and monitoring, civil service reform, and decentralisation. Ministry of Finance may not be directly responsible for these, but may take responsibility for coordinating donor dialogue and following up to ensure agreed measures are implemented.

The macro level dialogue could in principle also address sector issues, relying on the Finance Ministry to coordinate a multi-sector action plan. The approach of focusing all of the dialogue relevant to education at one level has the theoretical advantage of reducing intrusive donor involvement in domestic policy-making, but the finance ministry may lack the capacity to coordinate or the authority to ensure compliance, and Government may welcome direct donor involvement in supporting the development and implementation of sector level policies.

Where there is a sector level dialogue on issues within the responsibility of the Ministry of Education, it needs to be nested within a broader understanding with Government on the policy and budgetary context for sector plans and budgets. Donors operating only at sector level otherwise risk being co-opted to support sector level priorities and solutions that may tend to distort national priorities and undermine crosscutting reforms.

Basic education is often a decentralised function of local Government, and may be funded via a block grant over which the line ministry has little influence. There may still be a need for discussion at sector level, since the Ministry will retain responsibility for a range of important functions that set the context within which local government education services operate, for example length of cycle, teacher

qualifications, curriculum and approved textbooks, language policy. Nevertheless, there are dilemmas to be faced on how best to support education services delivered by local Government: -

- Direct donor inter-action at sub-national level faces high transactions costs and can achieve only partial coverage. It may make more sense for external partners to work indirectly via those national bodies that are tasked with interacting with sub-national levels of Government.
- Decisions also need to be made regarding whether the donor support should be sector specific, or should be integrated within a more general programme of policy and capacity building support to local Government. The decision should be based on how the Government is itself organised. The same distinctions between the responsibility for sectoral and crosscutting issues exist at local level as at national level. To avoid wasteful duplication, it makes sense to support functions such as improving budgeting and public expenditure management through a multi-sectoral intervention.

Where dialogue with donors is at the sub-sector level (usually basic or primary education), it needs to be nested within a broader strategy that addresses intra-sectoral issues such as the impact of expanded primary enrolment on the demand for secondary education. A strong sector ministry that is able to direct donor support towards its own strategy may be content and able to manage this without requiring a donor coordination structure. However, in highly aid-dependent education sectors, the Ministry may face great difficulty in coordinating donor-driven initiatives supporting different aspects of the education system, and will need an overall dialogue on the sector as a whole as an indispensable part of its aid coordination machinery.

The transactions costs faced by the Ministry are likely to be positively related to the number of subsidiary groups that are established to discuss specific sub-sectors, programmes or projects. This report proposes that the principle to aim for should be an architecture of dialogue that reflects what Government finds to be helpful. This might involve any or all of a single sector level dialogue, or sub-groups mapped to institutional responsibilities (e.g. higher education may be administratively distinct from schooling), or permanent or ad hoc functional groups supporting e.g. curriculum development or planning and budgeting. The key point is to evolve towards an approach in which Government is able to choose how it wishes to interact with donors, rather than this being the unplanned outcome of atomistic donor-driven decisions.

The report tries to assess arrangements for coordination between and within levels, and the arrangements for policy dialogue and agreement, for how effectively the actions required have been defined, agreed, coordinated between levels, and implemented in practice. The experience of policy dialogue is assessed for how it reflects and supports Government policy processes and organisation structures, and how effectively it has supported the development and implementation of a sound strategy.

### **Earmarking**

This report defines ‘earmarking’ as the practice of allocating donor support to specific expenditure programmes within the budget, and accounting for the disbursements

accordingly. Earmarking in this sense is distinguished from the practice of associating the aid with policy measures to be taken within the sector but without an accounting link to the level of sector expenditure. General budget support can include programmes in which there is an explicit link between the level of funding and the implementation of policy measures within the sector, including policy agreements on the level of sector expenditure. It is the practice of relating aid disbursements and accounting directly to evidence of expenditure in the sector that is defined as sector budget support.

The need for dialogue at multiple levels need not imply any need for a funding modality that earmarks money to a specific sector. There is no reason in principle why general budget support donors should not participate in sector level dialogue<sup>14</sup>.

External agencies will be concerned to ensure that funding is in place to implement the agreed sector plan. If donor and Government expenditure priorities differ, the issue is best addressed by negotiating an agreement regarding the level or share of expenditure to be allocated to the education sector and/or to sub-programmes within education. To avoid distorting priorities in ways that may not be desirable, the discussion needs to take place with Ministry of Finance in the context of a broader discussion of the resources available for public spending, and how they should best be allocated, particularly in situations where aid forms a large share of the budget. If there is agreement on the overall budget, preferably in the context of a medium-term expenditure framework, then there should be no need to earmark donor commitments to specific sectors such as education. Where aid dependence is low, it may be inappropriate to seek agreement on the allocation of the budget as a whole, but it will still be necessary and appropriate to reach agreement on the level of sector expenditure that Government and donor partners will jointly finance.

In principle, anything that can be achieved by earmarking could be achieved by negotiating agreements on the allocation of the budget and the protection of specific budget lines from in-year cuts, while simply earmarking donor support is unlikely to achieve desired expenditure allocations unless supported by agreements on the allocation of domestic revenues. For aid dependent countries, earmarking significantly reduces the flexibility available to the Ministry of Finance for managing the budget in line with national priorities. Nevertheless, there are still circumstances where earmarking linked to Government disbursements can be helpful, by providing an automatic incentive for Government to meet its own expenditure obligations without requiring the development partner to risk souring relationships by making a discretionary decision on whether to disburse. Where earmarking has been used, the report will review the specific justification for the practice.

Donor projects represent an extreme form of earmarking resources to specific purposes. The main donor arguments for projects relate to the promotion of innovation and policy reform. Although innovative projects can in principle be integrated within the national planning and budget process, it is often felt that they will receive lower priority than they merit, and that the project mode helps to ensure that they are better designed and managed and can be set up to ensure that lessons are

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<sup>14</sup> “...all donors who are providing fully flexible budget support, or flexible PAF support, should be invited to participate in the review of any sectors where they can contribute useful expertise”. Government of Uganda, Poverty Eradication Action Plan, Vol. III.

learned. Contrary arguments would stress that ‘pilot projects’ are rarely taken to scale, that they often fail to generate useful evaluation experience for replication, and that their heavy reliance on technical assistance by definition renders them unreliable as a source of replicable approaches. The arguments in favour of technical assistance projects and of projectising external analytical work on policy may be stronger, though here too the alternative of financing technical assistance resources within an agreed sector budget should be considered. The strongest argument for project approaches using parallel procedures is to support non-Government actors, an issue we return to in section 3.3.

**Procedures**

The need to protect aid programmes from justified allegations that the funds have been used corruptly or inappropriately is perhaps the strongest reason why donor agencies impose restrictions on how they are used, and particularly on aspects of financial management. Government fiduciary management in many countries is weak, and is a major reason why donors have set up parallel systems to manage and account for their funds.

From a cost-benefit perspective, donor disbursement modalities impose additional costs in the expectation that the resources provided will achieve higher benefits through improved management, cost-effective procurement, improved timeliness, reduced misallocation to low priority uses, and reduced leakage through corruption or waste. Where possible, the cost and impact of expenditures through parallel routes is compared with similar expenditures funded through the budget. Such a comparison is biased against using Government procedures, since it is difficult to take full account of external costs, such as the negative impact that donor-specific procedures have on the resources available for managing Government-funded expenditures. A failure to find significantly better cost-effectiveness from parallel expenditures would therefore be persuasive evidence that better overall results would have been achieved using Government procedures.

Donor specific disbursement modalities may also achieve higher benefits as a result of sustaining donor confidence and willingness to provide aid. This is a weaker argument: - if the evidence suggests that donor procedures do not lead to higher net benefits, it could be argued that it is the responsibility of the donor agencies to minimise the costs of their procedures whilst making the case for budget support to their domestic constituencies.

The following sections will use this overall framework to review some empirical evidence on the impact of different aid instruments, drawing on published and grey literature and on experience in a few countries.

**Table 2.2: Factors influencing the Design of Aid Instrument**

<b>Restrictions or Agreements</b>	<b>Policy Dialogue/Conditions</b>	<b>Earmarking of funds</b>	<b>Disbursement, monitoring and accounting modalities</b>
Macro level agreements	Can address cross-cutting and central department issues, those relevant to education include stable macro economy, domestic tax effort, budget shares to education, public expenditure management reform, civil service	Un-earmarked GBS supports Govt role in managing public expenditure. Aid is treated as part of general resources available for funding the budget. Budget is likely to be subject to overall agreement	Govt systems meet all donor accountability requirements. Monitoring and commitment cycle linked to budget cycle, based on Govt reporting. Use Govt budget systems, possibly with additional

<b>Restrictions or Agreements</b>	<b>Policy Dialogue/Conditions</b>	<b>Earmarking of funds</b>	<b>Disbursement, monitoring and accounting modalities</b>
	reform, decentralisation, while major budget issues (teacher salaries and numbers, sector investment programme) may also require MoF approval. Could in principle also address sector level issues, but depending on MoF to coordinate a multi-sector action plan: depends on a strong MoF & a budget process that is effective in securing results.	with the external partners. Resources may be earmarked within broad expenditure categories, e.g. poverty expenditures, but usually fungible & better achieved by policy agreement.	checks and capacity support, monitored action plan to address problems; agreed monitoring indicators, standard reporting agreed with Govt & other donors.
Sector level agreements	May be the best way to agree and monitor progress on issues within MoE responsibility. May also cover some cross-cutting issues, e.g. on budget share, with MoE responsible for securing cross-Govt agreement, but may be more efficient and less distorting if sector level agreements are nested within a broader PRSP/GBS policy dialogue.	Commitments earmarked to the sector may not increase education spending unless they are also underpinned by an agreement on Govt contribution.	Standard monitoring & reporting should be based on reports Govt requires; disburse using Govt systems, may be linked to capacity building, sector level checks and feedback on e.g. PETS or service delivery surveys.
Local Govt agreements	Where primary education is a delegated local Govt responsibility, with block grant funding, it may require a cross-sectoral approach to local Govt reform, and agreement involving several departments. GBS could then be appropriate	Where there is weak capacity and/or a history of funds intended for schools being withheld for use at district offices, there can be a case for earmarked conditional grants- though the earmarking can be by Govt and need not be earmarking of the donor funds.	Standard monitoring & reporting should be based on reports Govt requires; disburse using Govt systems, may be linked to capacity building, checks and feedback on e.g. PETS or service delivery surveys.
Sub sector/ Project level agreements	Sub-sector or project agreements focus on the commitments of Govt to support earmarked projects, and are damaging unless they take careful account of the wider sector implications, e.g. effects of salary supplements on staffing and motivation, implications of counterpart contributions for funding of other sector priorities.	Earmarking within the sector is used to ensure budget holders spend more on the specific item than they would otherwise have chosen, e.g. technical assistance, non-salary recurrent spending, support to non-Govt service providers. If there is agreement on the sector strategy and expenditure plan, it should be unnecessary. If there is a case for earmarking to ensure e.g. that front line staff do not withhold money intended for schools, it can in principle be done through Government budget decisions e.g. to make some aspects of central grants conditional.	Few benefits from separate project level systems for supporting public expenditure. Arguments of speed risk delaying pressure to solve systemic problems; innovation projects can be funded inside the budget; TA may need pooled arrangements to begin with to secure commitment and quality, but arguments for ring-fencing it are arguably no stronger than for other aspects of the budget.

### **3 The Impact of changing Aid Modalities on Education Policy**

#### **3.1 Education Strategy in Country Examples**

Table 3.1 summarises the education strategies of a small number of sample countries, and presents limited information of the impact to date on outputs and outcomes. The countries have been chosen to reflect a range of experiences: -

- Ethiopia: very low income and limited Government resources, low per capita aid, federal structure in which sub-national levels of Government take many key decisions including the budget to be allocated to education. Doubled enrolments from very low starting point, but still has very low primary enrolment, only one third of those who start complete, quality very poor.
- Ghana: had a relatively good education system that fell into decline in 1960s-1970s, with poor quality reflected in test scores suggesting that leavers were illiterate and innumerate. Low average class sizes, but teaching force concentrated near urban areas. Major emphasis on classroom construction & improved book supplies has seen improvements in quality and completion rates, but gross enrolments have stagnated in recent years at about 81%. Just 3 major donors to primary education, mainly project focus until recent development of general budget support with education as one area of focus.
- Uganda: education collapse in 1970s and 1980s, enrolments limited by high parent costs, low quality. UPE policy has seen doubling of enrolments. Major achievements in classroom construction, teacher recruitment and training, book availability, flow of funds to school, but scale of enrolment increase means quality has remained low. Major emphasis on improving coordination of a large group of donors (over 20), nearly all education finance is now on budget.
- Vietnam: has reached 92% NER and 71% PCR mainly by own efforts. Now focusing on targeted programmes to reach the hard to enrol groups- in remote areas, ethnic minorities, children of illegal urban migrants. Primary education is a province responsibility, but big differences between poor and rich provinces and districts in their ability to raise revenues. National Government sets standards, offers additional targeted support to poorer communes to enrol excluded groups. In 2004, minimum budget levels were set for each Province for education and training in respect of capital, recurrent, and NTP expenditure

**Table 3.1 Education Strategy and Outcomes, Country Examples**

Country	Issues	Education Strategy	Inputs & Outputs	Outcomes
Ethiopia	Low income, low demand, lack of physical access, poor teacher discipline, single room schools with multi-grade teaching, teachers not trained for it. Large gender gaps in some regions. Large classes. Drop out 23% in G1, 9% repetition. High unit costs of primary construction.	Decentralised to region and woreda. Expand classrooms, village multi-grade schools, mobile schools for pastoralists. Teacher residences. Improve quality via increased books & teaching materials, school clusters, inservice training. Mainly supply driven, but school feeding expanded.	Education budget share increased from 13.8% FY01 to 17.6% FY04, 17.2% pre-actual, but spending in FY03 is only 63% of ESDP plan level, real recurrent spending p.c. is 20% lower than in 1996/7, per pupil spending only \$6.50, salaries over 90% of recurrent spending. Regional capital spending on education <50% of budget. From 1995/6 to 2002/3: % qualified teachers increased 85% to 97%, 29% increase in number of primary schools, but student:section ratio	GER more than doubled (30% to 64%); G1 drop out rate remained at 28% (target was 14%); G5 completion rate up from 18% in 1994 to a still low 34%. No learning outcome assessment, PRSC condition to undertake one, but quality felt to be v low.

Country	Issues	Education Strategy	Inputs & Outputs	Outcomes
			deteriorated 53 to 70 with higher enrolments. School capitation grants underfunded, few books.	
Ghana	Good education system in 1960s, but enrolments, quality collapsed in 1970s. Lack classrooms, books & teaching materials, teachers poorly paid and motivated, low overall pupil:teacher ratio but high in rural schools, poor payroll management with ghosts & irregular pay, 1988 primary leaver tests suggest no literacy or numeracy acquired.	FCUBE free universal compulsory primary education. Substantial donor-funded classroom building & improvements in books & materials. Book cost recovery policy was dropped when found to exclude the poor. Action on ghost workers. Deconcentration, emphasis on community management. Increased share for education & for primary, financed in part by secondary/tertiary cost recovery.	Improvements in quality of physical facilities, availability (& utilization) of textbooks & teaching materials, but lower than expected cost recovery, higher teacher numbers and salaries squeezed non-salary recurrent budgets.	GER up slightly from 79% (1990) to 81% (2003), girls GER 78%. By 2003, 92% of G1 entrants complete Junior Secondary School (grade 9). Improved test scores in maths and English. 15-24 literacy rate up (49% 1988 to 68% 2003), 57% due to improved schooling quality, balance due to improved enrolments.
Uganda	Pre UPE policy, demand was limited by school fees & low quality. Poor physical facilities, 1 book between 6, absent & poorly motivated teachers, 90% of resources intended for primary schools diverted.	Abolish fees, parents pay only for writing materials, uniforms, lunches. Fees replaced by school facility grant on per pupil basis, publicity helps ensure 90% reaches schools though often late, school management committees to improve accountability. Classroom building, decentralised to district management. School-based book purchasing, limited choice of approved titles to maximise print runs & keep costs down. Plan for post-primary education & training. Improved coordination of donors within the budget. Overall increase in education spending and in primary education share, part funded by diversified University revenue.	Inputs: education share increased sharply after UPE, declined slightly from 4.3% to 4.1% of a growing GDP 2000/1 to 2003/4, 24.1% to 23% of budget. Primary share maintained at 75% - way ahead of ESIP 69% undertaking. Unprecedented in Africa success in building classrooms quickly & at lower cost & acceptable quality-though rapid enrolment increase means class sizes still over 70. Improved availability of cheaper & better textbooks, ahead of target. University enrolment increased at lower public cost. SMCs not operating quite as hoped, display of budgets etc widely ignored, school level corruption still high.	Access doubled 3.4 - 7.0m 1996 – 2002. Primary gender gap disappeared in GER, so has income gap in primary enrolment, but boys primary NER 85%, girls 74% female in 2000, 2/3 survive to G5. No of teachers increased 120% 1996-2003, with 77% now trained cf 52% in 1996.
Vietnam	Successful development, over 90% functional literacy rates, small gender gap. Reaching excluded groups (remote, mountain communities, ethnic minorities, children of	Decentralised to provinces, but EFA Action Plan establishes national standards for the quality of basic education. From 2004, minimum province education spending. Developing sector MTEF. Targeting of poor	Services are considered low in quality, in terms of the type of teaching, language skills of teachers, relevance of curriculum, length of school day and year, textbooks and teaching materials.	NER 92% (2002) Completion 71% 2000 cf 46% 1990

<sup>15</sup> Michaud, Jean - Turner, Sarah - Roche, Yann Mapping ethnic diversity in highland Northern Vietnam [GeoJournal](#) 2002 - 57 - 4 - 305 [Kluwer Academic Publishers](#) ISSN 0343-2521 electronic: 0343-2521

Country	Issues	Education Strategy	Inputs & Outputs	Outcomes
	the illegal migrants in the towns and cities) hinges on financing & targeting. Remote communities are multi-ethnic, multi-lingual, multi-religious, differently resource-endowed, and classes will be multi-grade, mixed (in terms of gender and age), need individual solutions'. Will need active, informed participation by the community, which could be a slow process.	communes & households with federal funds to meet the minimum standard, including fee exemptions. School building in remote areas. Expansion of community learning programs to all communes, prioritising remote and disadvantaged areas. The number & heterogeneity of languages within small geographical areas complicate use of the mother tongue, but this <sup>15</sup> .		

### 3.2 The content and impact of policy dialogue on education

#### *Dialogue at multiple levels*

Table 3.2 summarises how Government responsibilities for education are allocated, and how policy dialogue related to education is organised, in our country examples; Annex 2 provides some more detail on the content and impact of policy dialogue at macro, sector and sub-sector level.

Responsibility for developing and implementing policies and programmes that are relevant to the achievement of the EFA goals takes place at multiple levels of Government. There is similar complexity on the donor side, with donors using a mix of different aid instruments focused on macro, sector, sub-sector or project level objectives. Each of these involves the negotiation of agreements or undertakings setting out what Government and development partners are jointly trying to achieve. Multiple level dialogues are therefore inevitable, and the task facing Government and development partners is to ensure that these over-lapping contacts are as coordinated and consistent as possible.

All of our country examples provide evidence of the benefits of interactions at more than one level, but they also reinforce the importance of clearly designating the roles and responsibilities and how to avoid confused or conflicting messages.

The Ghana case illustrates the importance of crosscutting issues, as well as the need for the form of the aid to reflect the nature of the financial requirement. Ghana has until recently been supported primarily via project approaches, even the sector adjustment credits of the early 1990s were administered via a project management unit and were spent on additional capital expenditure (classrooms and books). The credits were accompanied by policy conditions, but the focus on the investment budget meant that no additional resources were available to meet recurrent costs, and the policy measures focused heavily on cost recovery. A ceiling was agreed on teacher numbers, reflecting a situation where the number of teachers was more than adequate, but they were allocated badly, clustered around urban areas, with poor payroll management resulting in 'ghosts.' Book supplies were provided by the Bank funds, with the expectation that cost recovery would fund their replacement. The

share of basic education was to be increased by cost recovery in secondary and higher education. In the event, the books were supplied and the classrooms were built, but Government faced political difficulty in implementing the ceiling on teacher numbers and in introducing the agreed degree of cost recovery for secondary and higher education and for textbooks. The budget target was met through overshooting on teacher numbers and costs, while non-salary expenditure was reduced as donor resources for books increased. Other policy measures also lagged, probably reflecting in part the lack of non-salary budget for implementing them. Weak macro-economic and budget management, resulting in budgets that were insufficient and were released late and incomplete, undermined progress within the sector. It is too early to be confident of success, but education policy issues are now being addressed in the policy actions agreed in the context of general budget support, including implementation of the non-salary recurrent budget.

Some of the macro and crosscutting issues have proved easier to address in policy dialogue than others. It is natural for the Ministry of Finance to take the lead on issues of budget allocation and overall public expenditure management. It has proved more difficult to find a fully satisfactory way to take forward complex programmes of reform in genuinely crosscutting areas. Uganda has found that the Sector Working Group structure that has been established could only partially address crosscutting administrative issues such as recruitment and staff posting systems, pay and performance monitoring, procurement. The evaluability study finds that they have not been well catered for by the PRSC design and monitoring process, or by the Poverty Eradication Working Group, and (as of late 2002) GoU and donors were still working to find an appropriate mechanism for leading a “joined-up” process of improvements in these areas<sup>16</sup>.

There are clearly some issues where the main interlocutor needs to be the Ministry of Education. This remains true even in a highly federal structure such as in Ethiopia, where regions and woredas/districts are responsible for managing block grant budgets with freedom to decide how much to allocate to education (Table 4.1). Although regions have budget discretion, they have to abide by national policies on teacher qualifications, on the length of the primary cycle, on the curriculum, and on recommended school sizes. By setting unaffordable standards, it has been argued that both quality and access have been constrained, with salary costs representing over 90% of the recurrent budget, rural schools unable to recruit teachers, and larger and costly schools limiting enrolments, especially by girls, as a result of increased travel distances. Analysis and dialogue at sector level in the context of the SWAP has contributed to on-going review of policies in each of these areas (Annex 2).

**Table 3.2: Government Responsibilities and the Organisation of Policy Dialogue**

Country	Allocation of Government Responsibility	Organisation of Policy Dialogue
<b>Ethiopia</b>	Regions are responsible for both primary and secondary education, and are funded via	Ethiopia has a well-developed sector-level dialogue on education in the context of the sector wide approach. The problem of regional decentralisation has been partly addressed by involving the regions in both the initial appraisal of the

<sup>16</sup> Oxford Policy Management and Overseas Development Institute (2002), General Budget Support Evaluability Study, Phase 1, Draft Synthesis Report, Report to UK DFID, 17 November.

Country	Allocation of Government Responsibility	Organisation of Policy Dialogue
	<p>single-line block grants with discretion over how much to spend on education. Decentralisation is being further extended to district and woreda level, with block grants again the main mode of financing. Local level authorities are being issued with guidelines on budget allocation, but are free to ignore them if their priorities differ. Plans and policies may be set centrally, but lower levels of Government may choose to allocate their resources differently. For example, the most recent sector review found that the resources allocated on a per pupil basis to schools were far short of recommended levels, and in many cases were not being passed on in cash as the central policy advised.</p>	<p>SWAP and in the subsequent monitoring and review processes. Donor resources earmarked to education are almost entirely projectised and spent on capital items, while Government offsets donor commitments by adjusting its own contributions in line with regional allocation formulas, thereby ensuring that regions have little incentive to seek or accept donor project funds- which as a consequence suffer from lower disbursement. The cross-sectoral organisation of Government is being increasingly recognised by donors and reflected in new funding modalities. World Bank support for education will in future be provided as part of the PRSC general budget support; a number of donors are involved in a SWAP that is not allocated by sector but aims to build the capacity of Government generally at each of the different levels. The Government have expressed a strong desire for future assistance to be provided as multi-sector budget support, reflecting the reality of the way that Government is organised. The PRSC comments that: 'the existing capital funding mechanisms available for basic services and infrastructure, particularly the sector specific mechanisms funded by a variety of donors, require immediate review in light of the basic thrust of Ethiopia's fiscal decentralisation objectives.'</p>
<p><b>Ghana</b></p>	<p>'Deconcentration' model, in which the Ghana Education Service is tasked with delivering education services.</p>	<p>World Bank has been the dominant donor to primary education, with successive credits using mainly a 'project' methodology (including the two education sector adjustment credits), with funds overwhelmingly used for physical construction and book supplies. Although there are only three major donors to the sector, efforts to achieve a SWAP approach did not succeed, partly due to WB use of an investment instrument with resources channelled via a project implementation unit and largely to be spent on capital items. Views of the different donors have subsequently converged, with multi-donor budget support enabling the recurrent funding issues in education to be directly tackled. There is almost complete overlap between MDDBS and PRSC 2 policy measures, covering economic growth, prudent management of public finance, and development of human capital. With donors continuing to provide earmarked support to the sector using a project approach, and with no sector SWAP in place, the PRSC agreement includes significantly more detail on education sector policy measures, with a focus on the 3 most deprived regions and on sustainable financing arrangements that protect access by the poor. The move to GBS has enabled more meaningful dialogue on critical issues of recurrent budget allocation &amp; management &amp; teachers.</p>
<p><b>Uganda</b></p>	<p>Uganda decentralised to districts in the early 1990s using a block-grant formula, but then imposed a conditional grant approach on local authorities in response to evidence that resources were being diverted from their intended use and were not reaching the schools. This provides a financing vehicle that enables General Budget Support donors to have a dialogue with MFPEP on overall inter-sectoral budget allocation, while sectoral donors can discuss policy and resource allocation within the sector with</p>	<p>Until the late 1990s, Uganda had over 20 donors providing primarily project support to the education sector, absorbing capacity and resulting in an uneven and unsustainable pattern of expenditure that did not address the most critical priorities. From 1999, Uganda has developed an education sector SWAP, and major donors now provide their aid in coordinated fashion via the budget, two remaining projects are inside the system. The education SWAP forms part of a highly developed framework for dialogue integrated with the annual budget cycle, and drawing on the priorities of the Poverty Eradication Action Plan (Uganda's PRSP). Sector plans and progress are reviewed each year and rolled forward within the guidelines set by the Medium Term Expenditure Framework (MTEF) managed by the Ministry of Finance Planning and Economic Development (MoFPED). Donors of general budget support reach agreement with MoFPED on the MTEF and assess whether the budget is being satisfactorily implemented, but they leave the SWAP</p>

Country	Allocation of Government Responsibility	Organisation of Policy Dialogue
	Ministry of Education.	donors to address education specific issues. The overall PRSC policy matrix simply says that undertakings agreed in the April joint sector review should be satisfactorily addressed, and leaves it to the October joint sector review to determine if they have been. There is a link between the sector level discussions and the overall MTEF via donor participation in an education sector Budget Working Group, intended to help prepare the MTEF budget submission on behalf of all stakeholders, though this has been less active than donors would wish. Use of joint monitoring framework, open dialogue enables problems to be identified and tackled- e.g. transparent discussion of problems of school level corruption, transparency provisions lapsing, delays in fund release.
<b>Vietnam</b>	Primary education is a district and province level responsibility, but a significant share of national funds are targeted to help disadvantaged districts reach defined national standards for primary education. From 2004, minimum budget levels were set for each Province for education and training in respect of capital, recurrent, and National targeted program expenditure.	In Vietnam, there is no formal sector wide approach (possibly inappropriate anyway given that the need is to focus narrowly on those who have been left behind), but there is a sector working group, and there have been significant opportunities for dialogue. A background paper on education was prepared by a joint Government, donor and NGO 'poverty task force' that was constituted as part of the PRSP process. The issues raised (ethnic minorities, girls, street children) were picked up in the national EFA strategy produced a year later. The May 2003 multi-donor 'Primary Education for Disadvantaged Children project' used the approach of defining a 'fundamental school quality level' that all schools should meet, and may be the basis for the national standard that was subsequently adopted. The PRSC, co-financed by the World Bank and several other donors, has begun to address education sector issues, though the policy content is limited to an agreed education share in the national budget and the aforementioned agreement to national standards.

*Based on long term relationships*

The multi-donor evaluation of support to basic education in four countries found that there had been remarkable policy continuity in all four cases, and that this contributed to higher aid flows. The major issues in the education sector appear not to be differences over policy. A striking aspect of policy dialogue at sector level is that it is a process of ongoing review and modification, with first stage reforms often subsequently modified. Failure to achieve immediate agreement on a reform agenda is not the end of the story, but may signal the need for a longer period of analysis and consensus building. Difficult reforms are built on relationships of trust and mutual respect established over years. They also found that the cooperative relationships required for successful implementation were, not surprisingly, greatly assisted by staff continuity in both Government and donor agencies, with resident staff playing key roles<sup>17</sup>.

The opportunities provided by the annual sector review process have been extremely important in flagging key issues, commissioning further work on them, and reaching agreement on how to move forward. Changes have been required to donor positions and practices as well as Government ones: -

<sup>17</sup> Netherlands Ministry of Foreign Affairs, 2003, Joint Evaluation of External Support to basic Education in Developing Countries:

- i. In Ghana, World Bank modified its position on charging for books in the light of emerging evidence that the costs were having an adverse impact on access by the poor. In Uganda, the initial concept of decentralising purchasing of textbooks was retained, but costs were reduced and availability and quality increased as a result of limiting the number of titles.
- ii. In Uganda, a major reform to decentralise school construction to districts proved far cheaper and quicker than previous project approaches, and resulted in Uganda subsequently refusing bilateral aid not using the recommended approach.

The intensity and persistence of dialogue and technical support that was important to achieving many of the changes summarised in Annex 2 could not easily have been achieved without an active forum and process for sector level review of policies and performance. The actors involved needed to draw upon specific sectoral expertise and experience, and could not easily have been substituted by generalists, nor by short-term consultants lacking understanding of the institutions and the history. It is also doubtful whether technical assistance alone could have achieved the same results, without active agency support to keep bringing key issues to the attention of senior policy-makers. Moreover, the more ‘technical’ choices are not issues of lower level detail, but fundamentally determine the resources that will be needed, how they should be allocated, and what should be done with them. Within the FTI countries, there are few if any education ministries that will not continue to need and benefit from such support to 2015 and beyond. The need for a process and forum for sector level interaction on policy and progress need not imply any need for earmarked sector finance, but it does benefit from appropriate donor expertise in the sector.

#### *Implications of Decentralisation for Sector Dialogue*

Decentralisation poses a different set of challenges. In a highly decentralised state, such as Ethiopia and in some respects Vietnam, it may be inappropriate to organise dialogue in terms of the whole education sector. As already discussed, there may be aspects of education sector policy that are set centrally and that may benefit from dialogue with donors, but there is no such thing as an education sector plan with a clear national budget.

At present, the Ethiopia SWAP seeks to solve the problem of sub-national responsibility by working directly with regional Governments. This is becoming untenable as decentralisation moves further down to block-funded woredas. We suggest in Section 2 that donor interaction with sub-national Government needs to be indirect, working through national level authorities to provide support. Dialogue and support needs to reflect how Government is actually organised. Dialogue with the sector ministry is needed on aspects of mandatory policy or guidance issued from the centre, some of which will involve outreach to lower tiers of Government, but it is not evident in Ethiopia that it makes much sense to think in terms of working through the Ministry of Education to support a ‘sector wide approach.’ Support to lower tiers of Government might be more cost-effective if delivered through ‘horizontal’ support to each tier, as with the Ethiopia capacity building SWAP, rather than each sector ministry seeking to independently develop capacity within its specific sector.

In Uganda in contrast, Government is earmarking grants to lower tiers of Government and it still makes sense (at least for the time being) to work within a sectoral framework. We argued in section 2 that direct donor interventions at sub-national level face high transactions costs. The same problem can arise if national ministries impose an excessive planning and reporting burden on lower levels of Government. It has been argued in Uganda for example that the conditional grant system imposes an unreasonable burden of administration on schools and local Governments, yet does not improve the allocation or management of resources because the centre lacks the capacity to review all of the material that it asks for. There are some cases where heavy planning and reporting burdens have been introduced at donor request, probably as a legacy of slow adaptation from detailed project approaches to a more strategic sector approach. Lack of capacity and fear of misuse of funds are usually advanced as the rationale for retaining detailed earmarking and onerous reporting requirements, but capacity will not develop unless accompanied by resources and discretion over how they are used. Successful examples of building capacity have minimised the risk by requiring decentralised units to reach certain criteria before being given authority to manage their own funds, a neat way to provide incentives to improve performance and build capacity while retaining some safeguards.

Vietnam provides an example where basic education is a district responsibility, but central Government recognises that some districts face particular problems (higher cost of enrolling remote or ethnic minority populations), or have lower local revenues. The problem is not sector wide, but is district specific, and the dialogue with the Ministry concerns how to target the resources, and what types of intervention will be effective in enrolling excluded groups. There are also issues concerning whether Government is best placed to reach some of the groups currently outside education, with some funds using alternative channels.

Dialogue in many countries has focused on the primary education sub-sector. Uganda illustrates the benefits of a broader donor focus, with support to the University reforms having released significant resources for spending at primary level.

#### *Budget support and the content of sector policy dialogue*

The shift from project to programme approaches or to general budget support requires increased attention to coordination and requires effort to establish agreement on common procedures. The focus of dialogue tends to shift from professional issues such as teacher education and curriculum development, towards issues of programme development and management<sup>18</sup>. This can be positive if it results in a focus on the key constraints to sector performance, but this has not always been the case, and sector wide approaches in particular have been criticised for a tendency to focus narrowly on mechanisms to coordinate the flow of funds, with too little attention to issues of vision and strategy for the sector. Although national programmes have made policy shortfalls more visible and have increased the opportunity for dialogue, government-donor discussions tend to centre on where the money is going and whether there is a

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<sup>18</sup> Netherlands Ministry of Foreign Affairs, 2003, Joint Evaluation of External Support to basic Education in Developing Countries:

poverty-oriented public expenditure management framework, while less is said on issues of policy choices<sup>19</sup>.

One advantage of going the whole way to general budget support, is that it releases staff time from the tracking of donor funds, and should facilitate a focus on strategic policy issues, as seems to have occurred in Uganda<sup>20</sup>. According to the 2002 study of General Budget Support evaluability, the sharp reduction in off-budget spending brought about by the GBS process combined with the creation of Sector Working Groups has permitted rapid advances in the quality of policy and spending. The study also comments favourably on the speed with which the agenda of the sector working groups has evolved. Policy dilemmas have been essentially resolved, consensus has quickly been reached over the appropriate intra-sector resource allocations and the agenda turned to focus on service delivery. How can classroom utilisation be most effectively increased? How can school building costs be reduced? The study argues that successes achieved in these areas have been built upon hard work by government and other partners – attention to the detail of the Memoranda of Understanding governing how sector groups operate, careful attention to information and how it is analysed, presented and circulated; and a willingness to confront problems – for example, over raising expenditure allocations to the facility level.

The pooled funding provided under the education sector investment programme in Uganda had required six monthly reviews to trigger fund releases, with detailed undertakings on Government financial commitments, financial management, attaining quality and gender parity indicators, teacher recruitment, and monitoring and evaluation. Government staff felt that this level of intrusive conditionality undermined ownership of the programme. As donors have shifted towards general budget support, it seems that the nature of the dialogue has shifted, and the donor voice is listened to and taken more seriously than when it took the form of a series of bilateral dialogues about projects or programme aid conditionalities<sup>21</sup>. Donor representatives are present in large numbers in a host of different policy forums, and some play highly influential roles as advisers or collaborators of key ministries. A point made repeatedly in interviews with donor representatives was that, if this positive transition is to be achieved, it is important that those donors who are willing to provide general budget support continue to be strongly represented in sector level dialogue, and do not leave the sector working groups to be dominated by donors who represent project approaches and interests, and may lack staff with appropriate skills<sup>22</sup>.

#### *Coordinating the approach to policy dialogue on education*

The previous sections illustrate the point that dialogue needs to take place at more than one level, and needs to reflect the way that Government allocates responsibilities for education, and for cross-cutting functions that enable the education sector to

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<sup>19</sup> Forum on Alignment Challenges in Programme- Based Approaches, Enhancing implementation effectiveness of Programme-Based Approaches through programme and stakeholder alignment, 17 to 19 November 2003, Berlin

<sup>20</sup> Michael Ward & others (get full reference and title), 6 case studies on uganda education reform

<sup>21</sup> Oxford Policy Management and Overseas Development Institute (2002), General Budget Support Evaluability Study, Phase 1, Draft Synthesis Report, Report to UK DFID, 17 November.

<sup>22</sup> Netherlands Ministry of Foreign Affairs, 2003, Joint Evaluation of External Support to basic Education in Developing Countries:

function. Table 3.2 provides some illustrations of how dialogue between the different levels can be coordinated. Key points are: -

- To avoid confusion, there needs to be close coordination, and preferably a single dialogue, within each tier. The World Bank and the general budget support donors within our sample countries are aligning around a single policy dialogue and matrix of actions, to avoid confusion and enable action to be prioritised.
- There needs to be close coordination between tiers, on the content, timing, and assessment of performance of the sector. In Burkina Faso, for example, the EU inclusion of results-based conditionality on enrolment rates in their GBS, without involving the sector, was not regarded as a success<sup>23</sup>. Emerging good practice is for the general budget support donors to rely on the sector review process to both set the content of sector policy agreements, and to assess whether progress has been satisfactory. This is the approach in both Ethiopia and Uganda, with sector reviews timed to enable their assessments to inform GBS decisions.
- There should be a reciprocal willingness at sector level to ensure coordination with national level processes, including the national budget and national programmes to introduce improved management of financial and human resources. Practice here is more variable, with sectors in a hurry still frequently seeking and obtaining technical support that ignores, overlaps, or is even incompatible with reforms being promoted by central ministries. Weak linkage to over-arching reforms partly reflects external agency education staff lacking in broader policy analysis skills<sup>24</sup>.
- The annual budget cycle and, where it exists, the MTEF are increasingly being seen as the obvious framework within which sectoral and macro level dialogues can be coordinated. This is formalised in Uganda and Tanzania, where sector-level budget working group involving Government and donors are directly involved with sectoral budget submissions- though even in Uganda, it requires considerable effort to secure and maintain active involvement by the working group.

### **Policy Dialogue, Conditionality, and Sanctions**

Research on aid effectiveness has led donors to a broad consensus around two major conclusions, firstly that aid works better in a supportive policy and institutional environment, and secondly that creating such an environment requires policymakers to be convinced, it can not be created by donors imposing conditions on reluctant Governments. There is also increasing recognition that achieving the millennium development goals will require long-term commitments from Governments and from donors. There has therefore been increasing recognition that aid needs to place less

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<sup>23</sup> FTP International, Evaluation of EC support to the education sector in ACP Countries, Synthesis Report, may 2002

<sup>24</sup> Netherlands Ministry of Foreign Affairs, 2003, Joint Evaluation of External Support to basic Education in Developing Countries. The study includes case studies of Burkina Faso, Zambia, Bolivia and Uganda.

emphasis on ‘buying future promises’, but more emphasis on prior actions and on reviewing the track record of performance<sup>25</sup>.

The Poverty Reduction Support Credit (PRSC) is one of the instruments by which the World Bank is responding to the aid effectiveness literature. The World Bank introduced the PRSC as the main policy based instrument for supporting low-income countries with PRSPs. It is not the sole or even main vehicle for World Bank support in these countries, but is an instrument that enables the World Bank to provide support for agreed policies and an agreed action plan, with PRSC finance provided in a way that is indistinguishable in its effects from general budget support.

The PRSP/PRSC framework is intended to allow donors to combine their effort in a single programme, focusing on results at project, programme, and country level, and with consistent and harmonised monitoring and evaluation. A series of two or three annual PRSCs is envisaged, to support the country’s medium term development and reform programme to implement the PRSP. The PRSC is a development from conventional structural adjustment credits, and is governed by bank guidelines on programmatic adjustment lending and adopts many of the same tools: - a satisfactory macro-economic programme supported by the IMF has to be in place, the policies and programmes to be supported are set out by Government in a Letter of Development Policy, and the policies and actions to be implemented are set out in a multi-year policy matrix.

A major difference from conventional structural adjustment is that tranches are released based on an assessment of prior actions completed, rather than being dependent on promises of future reform. This should make the timing of release more predictable and easier to coordinate with the budget cycle, by reducing the uncertainties that resulted from the need to either implement or obtain waivers for large numbers of specific conditions before funds could be released. There is still a strong forward element to the PRSC, since each annual PRSC will include ‘prior actions expected to precede and policy areas expected to be covered’ in subsequent PRSCs. The main difference is that the assessment is more flexible, based on satisfactory progress in carrying out the medium-term programme, using results-based monitoring indicators and progress benchmarks. Each annual PRSC is normally disbursed as a single tranche, with good practice recognising the importance of committing the funding in principle early enough for it to be taken account of in budget preparation. Two annual tranches can be used where the track record in implementation of the agreed programme is poor.<sup>26</sup>

A critical issue in the move to general budget support concerns how donors should react to partial shortfalls in performance. During the structural adjustment period in the 1980s and 1990s, programme aid was an even larger share of external support than it is today. It was criticised for the ‘stop-go’ nature of the support, with aid interrupted whenever the IMF programme went off track or when a country failed to implement all World Bank tranche release conditions on time. The World Bank PRSC is able to make a more nuanced response to shortfalls in performance. If progress lags, a

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<sup>25</sup> For a brief discussion of this literature, see Mick Foster and Andrew Keith (2003), *The Case for Increased Aid*, Final Report to the Department for International Development, December.

<sup>26</sup> WB, *Interim Guidelines for PRSCs*

judgement is made on whether to adapt the medium-term programme, reduce the amount of the subsequent PRSC, or delay the next operation until progress is made.

One troublesome aspect of the new approach is that the donor reaction to partial policy shortfalls is subjective and to some extent unpredictable. One partial solution used by the EU and by some bilateral donors including the Netherlands is to be explicit regarding the share of funding that is potentially at risk if performance slips in specific areas of the programme. In Uganda, for example, the Netherlands associates one third of budget support funds with the education sector. If performance on education is judged to be weak, those funds are at risk of being reduced, delayed, or not disbursed. The EU have experimented with going further, defining variable tranches that are directly linked to specific performance indicators, and reduced pro rata if there is a quantifiable shortfall. This is an interesting approach, but risks penalising performance that is the result of factors outside the control of Government.

A second major issue is that aid is fungible, and donors cannot determine who benefits or is punished as a result of sanctions for not meeting conditions. This is true to some extent for all types of aid, but is especially the case for aid given through the budget as part of the general revenues of Government. In the Dutch Uganda case, failure by the education ministry to perform satisfactorily may result in the loss to Uganda of one third of Dutch assistance, but this does not imply a similar reduction in the budget of the education ministry. Ministry of Finance will decide how the cuts are allocated between departments, and could decide to preserve the education budget. The Ministry of Finance may have strong incentives to comply with the donor conditions and thereby secure the required resources for the budget, but the incentives for individual ministries are much weaker, unless the finance ministry is strong enough to impose its will.

Discussion of the country examples may in any case lead us to the conclusion that traditional conditionality is increasingly irrelevant, and should be used sparingly if at all. A recent evaluation of country experience of moving to sector-wide approaches found that imposition of conditions tended to reduce ownership of the resulting programme<sup>27</sup>. This is in line with the findings of the large body of research on donor conditionality. Successful policy reform usually requires Government to be convinced of the case and able to negotiate sufficient political support for implementation. There are many examples where patient and sustained dialogue achieved results when rigid insistence on ‘conditions’ would have been unhelpful, particularly in sensitive areas such as cost recovery. Many of the major issues in the sector (not least teacher performance) require long-term commitment to complex change processes. They are not amenable to being tackled by ‘actions’ that can be included in a policy matrix and simply ticked off when they have been achieved.

This suggests that the ideal relationship between performance and the level of support would be one in which: -

- Donors make long-term indications of their probable level of support, based on assessment of the track record and stated policies of the country;

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<sup>27</sup> Netherlands Ministry of Foreign Affairs, 2003, Joint Evaluation of External Support to basic Education in Developing Countries:

- Annual commitments are firmed up in time to inform budget preparation, and irrevocably confirmed (and ideally disbursed to the Treasury) before the budget year begins;
- The annual review of progress influences the level of annual commitment, with a measured response to stronger or weaker performance, with variations in annual spending limited to a speed of change to which the country can reasonably adapt.

The aim of this approach is not to reward good performance or punish poor performance, but to move over time towards allocating aid where it will do most good. It recognises that it is both ineffective and inappropriate to use sticks or carrots to try to change the policies of sovereign and (increasingly) elected Governments. It also recognises the need for longer time horizons in designing and implementing education strategies and assessing their performance. Of course, this pure model will in practice need to recognise donor political realities, and that there will always be some actions taken by partner Governments that can not be countenanced and that will lead to suspension of aid. It may be possible and helpful for donors to be more specific in defining the ‘red lines’ that cannot be crossed without forfeiting aid.

#### **4. How are changing aid modalities affecting public expenditure on education?**

Section 2 suggests that earmarking of aid to the education sector or to sub-programmes within it is neither necessary nor sufficient for ensuring that funding is in line with the requirements for implementing the EFA plans. The EU has recognised this explicitly, shifting away from the practice of earmarking program aid in favour of reaching agreements to ensure that education, and within that basic education, receives a minimum share of the national budget.<sup>28</sup>

It has not been possible in this brief study to set up a rigorous test to assess how the changing pattern of aid modalities has affected education. This would in any case be difficult, given that education systems are still supported by a range of instruments, and the difficulty of assessing what would have happened in the absence of a shift towards budget support and programmatic forms. The study limits itself to briefly reviewing what has happened to spending on primary education in a small number of countries in order to at least ascertain whether the changing pattern of aid modalities has been accompanied by significant changes in the level or pattern of education spending, whether positive or negative.

The movement towards budget support should have a positive impact on the level and structure of disbursement. It is available to finance recurrent costs, usually the area of the budget that is under most stress and is easiest to disburse in full; and it is free of burdensome procurement regulations and independent of the implementation progress of specific contracts. In the case of the EU, for example, a May 2002 evaluation reported that 74% of the program aid resources available for EDF 8 had been

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<sup>28</sup> FTP International, Evaluation of EC support to the education sector in ACP Countries, Synthesis Report, May 2002

committed compared to only 44% of project aid<sup>29</sup>. Projects faced long delays due to inflexible procedures and unclear decision-making, risking irrelevance by the time they were approved. It is perhaps unfair to quote this EU example, since similar if less extreme results would apply to most donors, and it is common to find significant shortfalls in spending on the donor-funded development budget, normally attributed by the donors to lack of ‘absorptive capacity’, which too often means the capacity to cope with burdensome procedures. In Ethiopia, the donor-funded projects achieve far lower utilisation than Government funded development spending; in Uganda, moving responsibility for school construction on budget was accompanied by a very significant improvement in implementation. However, achieving higher disbursement performance requires Government itself to put in place reasonably effective procedures: - in the case of Zambia BESSIP, Government over-centralised procedures inhibited disbursement. Procedural problems can afflict budget support, Rwanda for example has struggled to meet donor budget expenditure reporting requirements on time, resulting in late commitments and contributing to MINEDUC disbursing only 83% of the 2003 budget<sup>30</sup>.

Table 4.1 sets out some examples of trends in education spending in countries that have experienced increased use of budget support, including some degree of focus on education within the budget support policy agenda. The first point to make is that the movement away from earmarking in these cases has not been accompanied by any diminution of support for the education sector, which appears to have increased or maintained budget share in all four cases. There is also some evidence of improved structure to the budget in the case of Uganda, with a big increase in the share devoted to primary education and, within that, in spending on non-salary recurrent costs. In other countries, it is a little early to judge the impact of general budget support on the structure of the education budget, but dialogue does appear to be focusing attention on some important issues. In Ghana, the attention to the level and execution rate of the non-salary budget, and the focus on poor districts and hard to enrol groups, represents a welcome re-balancing of attention and resources, a re-balancing that was greatly assisted by donors shifting their own support from investment projects towards the overall budget. In Vietnam, it seems probable that the increase in budget share stemmed from Government decision rather than donor influence, while the additional external financing for an increased focus on those groups currently outside school is mainly being funded under a World Bank project. Very recently, the World Bank have also approved budget support for assistance to excluded groups, using a similar approach to the project funds but utilising Government disbursement channels<sup>31</sup>. In Ethiopia, increased spending can be encouraged from the centre, but depends on decisions by lower tiers of Government.

A number of propositions suggest themselves as worthy of further investigation: -

- i. Where the Ministry controls policy, but not the budget, as is the case in Ethiopia, it seems sensible to focus the main attention on policy dialogue and support, which should be de-linked from

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<sup>29</sup> . FTP International, Evaluation of EC support to the education sector in ACP Countries, Synthesis Report, may 2002

<sup>30</sup> Rwanda, May 2004 Joint Review of Support to basic Education.

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financial resources for education as such. Where lower tiers of Government are given delegated authority over the allocation of budget funds, it seems unhelpful to retain a centralised and sector-specific decision-making process that applies only to donor funds, especially if this requires setting up parallel disbursement arrangements to those of Government. One consequence of de-linking the dialogue and technical support from the finance would be that the incentive effects of offering or withholding aid would no longer be available, unless exercised by the central economic ministry via the budget. On balance, the de-linking is probably beneficial. Imposed technical assistance is often ignored, while the evidence on conditionality suggests that success requires at least a degree of ownership by key stakeholders.

- ii. Within a sector in which budgets are delegated, there may still be targeted national programmes, as in Vietnam and India. These could in principle be supported as part of general budget support, but there may be no great harm, and possibly great benefit, in using a project modality to support them, particularly if the approach is new to the country and will benefit from access to donor agency expertise and experience.
- iii. For the major increase in recurrent costs that will be needed by most FTI countries if they are to achieve their goals, general budget support does appear to be a convenient mechanism for both providing additional resources, and linking sector level expenditures to an overall process of reforming budget preparation, execution and accountability.
- iv. The evidence of our case studies is consistent with the suggestion that agreements on budget shares in the context of general budget support are necessary and may be sufficient to ensure desired levels of spending on education, whereas earmarking to the sector is neither necessary nor sufficient unless linked to the level of Government spending, as in India.

**Table 4.1: Dialogue on Education Financing**

Country	Policy agreements on expenditure	Commitments earmarked to education	What has happened to education spending
Ethiopia	ESDP2 has a target to raise the education share of the budget to 19% in 2004/5; this is monitored though not the subject of formal conditionality.	ESDP project commitments are earmarked, but there has been a sharp increase in GBS (not earmarked) to 4% of GDP.	Rose from 9.5% of Govt spending in 1999/2000 to 17.6% in 2003/04, 6.3% of GDP but only \$6.50 p.c.
Ghana	PRSC/GBS conditions focus on execution rate of non-salary budget, and on resources for deprived districts.	Strong movement towards GBS linked to policy conditions rather than previous approach of SBS commitments earmarked for local non-salary recurrent funds. Complementary projects remain in place.	Rising share of GDP from mid 1990s, reached 6% of GDP in 2003, 55% on basic education, but 85% on wages & salaries.
Uganda	Undertakings on financial commitments and releases to education & to basic education as % of Govt	Most donors have been earmarking to education, WB and DFID moving towards GBS not earmarked.	2.9% GDP 1997/98 to 4.3% 2000/1, 27% share of recurrent budget maintained, PE share to 67% budget FY03, 75% of that

	expenditure.		allocable by level. Non-wage primary education increased to 40% of total.
Vietnam	Raising education share of national budget was a prior action for PRSC 3.	Project approach by WB focused on helping poor districts reach minimum standards in primary education. Now complemented by earmarked budget support.	Raised expenditure share of education and training from 13.8% 2002 to 17.1% of 2004 national budget.

## 5. Aid to the Non-Government sector

The non-Government sector plays a significant role in most countries. Private for profit primary schools are most prevalent where costs of the Government system are high and quality is perceived to be low. In most countries, private primary schools are mainly a feature of urban areas and mainly used by the better off, though in Ghana they account for 20% of primary enrolments and have reached rural areas<sup>32</sup>. There are also examples of private companies providing schooling for the children of their workers, and of natural resource extraction companies providing services to encourage good relationships with the communities where they work. Private sponsorship also makes a contribution in some cases, though companies tend to be more interested in higher education. Though it may be worth exploring opportunities for encouraging private involvement in providing primary education, it is unlikely to provide a major part of the solution to the problems of those mainly rural and mainly low-income children who are currently out of school.

Not for profit non-Government service providers are also significant in some countries. In Bangladesh, BRAC runs 40,000 primary schools, achieving better results than Government at 40% of the cost, based on small local schools, local recruitment of mainly female teachers, given minimal training but effective supervision. Faith based schools are significant in many countries. In some countries, they draw teachers and some funding from Government revenues, and the distinction between Government and non-Government schools is blurred.

By far the largest private contribution to primary education is the costs incurred by parents and guardians of schoolchildren, though there is now very strong evidence that out of pocket costs to parents are a major barrier to access. Even after fees are abolished, parents are usually faced with high cash costs for uniforms, writing materials, transport, lunches; they may be asked for ad hoc payments or in-kind contributions, whether authorised or not; and opportunity costs of losing contributions of child labour may also be significant. In some countries, there is an informal privatisation of the school system, with pupils learning little and standing little chance in external examinations unless they are able to pay for additional private lessons from their teacher.

The NGO sector is particularly important for bringing education to the hard to reach groups that will comprise the last few percent of children to benefit from primary completion. NGOs have greater freedom to adopt non-formal techniques to reach nomads and others who can not attend regular schools, and they may be the only bodies willing and able to provide services to groups who live on the margins of

<sup>32</sup> World Bank Ghana Primary School Development and basic Education Sector Improvement projects, project performance Assessment Report; and OED project evaluation impact assessment.

society and may distrust Government, for example illegal migrants, those living on the street or in illegal squatter settlements, members of ethnic or religious minorities that fear persecution, those living in zones of conflict. Some of these services cannot be funded via the budget for obvious reasons. Where there are no objections in principle, it can be valuable to channel funds for NGOs via central or local Government budgets, building towards a stable long-term solution by encouraging Governments to begin to budget for maintaining these services in the longer term<sup>33</sup>. There are successful examples (e.g. in Bangladesh) of Government funds being used to sustain NGO service provision, although Governments are usually reluctant to pass on the funds, and NGOs may wish to keep an arms length relationship in order to maintain an advocacy role that is not influenced by state patronage.

There have been concerns that the movement towards programme-based approaches has tended to reinforce centrist approaches, and marginalize non-Government actors<sup>34</sup>. There are also plentiful examples to suggest that non-formal routes can achieve better results in terms of literacy and numeracy than Government schools at much reduced cost. Nevertheless, although there are important roles for the non-Government sector, and that role should probably expand, the vast majority of primary school enrolments in nearly all countries are accounted for by Government schools, funded via central or local Government budgets. Alternative options for large-scale provision would need to find some way to solve the problem of financing a system in which achieving universal completion will require costs to be heavily subsidised for most pupils. This implies that, even if the service provider is non-Government, a significant share of the costs will need to be met from the Government budget.

There have been experimental schemes that have aimed to focus the subsidy on the child rather than the school. Doing this directly through ‘voucher schemes’ and the like requires very high transactions costs and faces high risk of leakage, but more success has been had with schemes that extend parental choice by basing school budgets on the numbers of pupils enrolled. This is being done in a small way in many countries as a replacement for school fees, with the capitation fee contributing to non-salary recurrent costs and to school maintenance. There are inevitably problems of inflated enrolment figures, but the approach does provide useful incentives and increased flexibility to manage schools. To date, the technique has been aimed mainly at reinforcing decentralised community management rather than transferring ownership. There could be some arguments for funding the entire budget, including teacher salaries in this way, not least because it would free schools to recruit local teachers willing to serve in the area, and pay them what is required. Centrally determined qualification requirements can be unhelpful, failing to identify the best teachers, but closing access to teaching posts by those who are willing and able to teach. Non-formal schools in Ethiopia and Bangladesh, and private schools in Ghana,

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<sup>33</sup> In Bolivia, for example, the Vice minister responsible for non-formal education argued that the donor preference for financing NFE via NGOs was weakening the Government Ministry with responsibility and undermining progress towards an approach that could be sustained without aid. Netherlands Ministry of Foreign Affairs, 2003, op cit.

<sup>34</sup> ‘Country studies offered further examples of the fact that PBAs have led to a concentration of resources and decision-power at the national level and within government rather than among non-state actors (*Islam; Hodne Steen*)’. Forum on Alignment Challenges in Programme- Based Approaches, Enhancing implementation effectiveness of Programme-Based Approaches through programme and stakeholder alignment, 17 to 19 November 2003, Berlin

all provide examples of non-Government schools achieving better results than Government while using teachers with lower formal qualifications. A per capita fee payable to public, NGO or private schools able to comply with minimum quality standards could be an alternative way to fund primary schooling.

However, although alternative models could be considered, and may have attractions, the decision of whether and on what scale to introduce them must be for Government. Those countries that have achieved UPC have mainly done so based on public provision and financing of primary education. With 10 years to go to 2015, this may not be the right time to be promoting large-scale adoption of major innovations that would inevitably face powerful opposition, not least from the teaching profession, and would involve a considerable period of disruption before achieving benefits. There is a strong case for encouraging innovation and piloting of new approaches, but there is no case for obliging countries to adopt radical solutions involving a greatly enhanced private sector role if they choose not to do so.

Summarising this discussion: -

- i. There are extremely important roles for non-Government service providers in reaching marginal groups that are not reached by conventional schooling. These niche problems will become increasingly important as countries approach UPC. There are good reasons why some of the required finance should go direct to the NGOs rather than via the Government budget. Nevertheless, for sustainability reasons, the Government budget route should normally be preferred, and explicit justification should be required for direct funding of non-Government providers.
- ii. Although there are opportunities for expanding the range of providers of primary education and for exploring options that give more voice to parents and guardians, universal primary completion will require the majority of costs to be subsidised, and Government (whether local or national) remains the only credible long-term option for financing those subsidies. To achieve and sustain national targets, rather than local small-scale improvements, the bulk of the funding will need to be provided via the Government budget, though with a larger share spent via non-Government service providers.

## **6. How are changing Aid modalities affecting implementation capacity, transactions costs, cost-effectiveness, and accountability?**

We suggested in section 2 that a cost-benefit framework might be helpful in looking at the impact of changes in donor procedures.

### **Transactions Costs**

The evidence for the effect on transactions costs of moving from projects to sector-wide approaches is mixed. The Netherlands-funded joint evaluation found that the movement towards programme aid may not have reduced administration costs in their four country cases, due to the high burden of planning, coordination and monitoring in the short-term, made more difficult by uneven progress in developing common procedures. Most SWAPs have continued to be supported using a range of project and

programme approaches, with the consequence that the additional coordination costs have not been balanced by a sufficient reduction in the burden of managing projects. Monitoring by the Strategic partnership for Africa has found that three quarters of donor support to SWAPs is still in project form, with no tendency for budget support or pooled funding approaches to increase<sup>35</sup>. The Dutch study found that, although a core group of donors had tried to harmonise procedures in Burkina Faso, Uganda and Zambia, there continued in all three cases to be an ‘outer circle’ of donors using their own procedures, not all of whom were working within the overall policy and program framework<sup>36</sup>. The potential benefits were also reduced because, with the exception of Uganda, the programme arrangements applied only to primary or basic education, not to the entire sector or even the entire ministry.

In addition to the impact of differing donor procedures, the burden of coordination increases with the number of donors to the sector. The 2004 World Development Report provides evidence of the proliferation of donor agencies becoming involved in more sectors in more countries. Knack and Rahman (2003) find evidence that high donor fragmentation is associated with a decline in bureaucratic quality in Africa. The donor group in Uganda has explicitly recognised that it is in large part the sheer number of donors that keeps transaction costs at a high level. Accordingly, several donors have started to adopt shared responsibility for portfolios- though the attempt by the EC, Netherlands and DFID to share a single education adviser in Uganda did not prove feasible in practice. The Netherlands nevertheless intends to make increasing use of such ‘sleeping partner’ arrangements in order to support FTI countries with financing gaps without adding to the coordination burden.

It is sometimes argued that increased transactions costs may be compensated for by increased benefits as a consequence of focusing attention on strategic rather than project issues. Investments in improved planning, policy dialogue and financial management involve costs, but these costs may yield greater benefits for recipient countries than is the case when merely preparing reports for large numbers of projects or fielding large numbers of donor missions<sup>37</sup>. The Netherlands joint evaluation of support to basic education found for example that the movement towards program approaches had seen improvement in monitoring data and systems in all 4 countries

Where harmonised arrangements for pooled or basket funding have been put in place, donors have sometimes been reluctant to accept local procedures as adequate, imposing procedures that have sometimes involved a level of bureaucracy that is more in keeping with a large project than the more strategic approach that would be required in order to unlock administrative capacity. Some of the extra costs may be transitional and associated with the effort in putting the SWAp arrangements in place. The additional costs are more likely to pay off if effort is put into improving core Government procedures rather than setting up specific and separate arrangements for donor flows. In Uganda, transactions costs increased in the short term while a single donor wanting to provide budget support worked with the Ministry of Finance to improve procedures. The increased effort paid off in benefits to overall public

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<sup>35</sup> Foster and Keith, *The Case for Aid*.

<sup>36</sup> Uganda has subsequently achieved a comprehensive sector programme, the last remaining projects are coordinated within the same framework and fully aligned.

<sup>37</sup> Forum on Alignment Challenges in Programme- Based Approaches, *Enhancing implementation effectiveness of Programme-Based Approaches through programme and stakeholder alignment*, 17 to 19 November 2003, Berlin

expenditure management and in reduced costs when other donors followed the move towards budget support.<sup>38</sup>

Although the impact of SWAP arrangements on transactions costs is unclear, there is stronger evidence that moving to budget support does yield significant cost reductions. In Uganda for example, the report of the GBS evaluability study found that it was virtually the unanimous view of the Government and donor staff interviewed that transaction costs *had* fallen with the shift to budget support<sup>39</sup>. They pointed in particular to the significant reduction in project-related missions (design, monitoring, evaluation) and related reporting, to the closure of significant numbers of project implementation units and to the strengthening of planning units which has resulted from the consequent reassignment of staff.

### **Benefits of Donor procedures**

If the costs of donor procedural requirements that differ from those used by Government are higher, do they nevertheless yield higher benefits as a result of more cost-effective designs, improved procurement practice, reduced leakage of budgets to unproductive or corrupt uses, and enhanced implementation capacity? The limited evidence we have been able to find suggests not. Indeed, it suggests that donor requirements increase costs, drain capacity, and reduce sustainability, without resulting in measurable improvements in implementation.

The World Development Report 2004, which has an excellent discussion of the implications of donor practices, quotes two evaluation reports finding that Project Implementation Units (probably the most widely copied approach to project management) have no positive effect on project outcomes, yet reduce sustainability as a consequence of by-passing Government structures, poaching Government staff. Brautigam (1999) finds high aid levels contribute to reduced institutional effectiveness, attributing the effect to the fragmentation of project approaches and the bypassing of Government structures. By way of contrast, a recent EU evaluation finds that budget support is more cost effective, reducing management costs and achieving more cost-effective procurement<sup>40</sup>.

Six case studies on the education reform process in Uganda provide some specific examples to illustrate how the move from project aid to budget support can release implementation capacity and improve cost-effectiveness. The benefits were threefold: - a reduction in administrative costs associated with projects, the release of both Government and donor staff time to focus on major policy issues, and the flexibility to adopt radically different options in areas such as school construction and direct funding of schools. It is not necessary to oversell the case, and there remain major problems and issues: - corruption remains a significant problem at school level, some of the provisions aimed at improving accountability to local communities are widely ignored, quality of education remains low, Government has itself imposed high transactions costs on lower levels through the bureaucracy associated with conditional grants, and Government does not always make active use of the machinery that has been put in place to encourage broader dialogue on the budget. Nevertheless, the evidence seems clear in this case that the movement to provide aid via the budget has

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<sup>38</sup> Tim Williamson, quoted in Forum on Alignment Challenges, op cit.

<sup>39</sup> OPM and ODI.

<sup>40</sup> FTP International 2002, op cit.

been beneficial, and there is a strong process in place for continuing to address those problems that remain.

This positive case contrasts with the experience of many of the countries that have continued to rely on parallel donor procedures. In Burkina Faso, the Dutch funded evaluation of aid to basic education found that donor procedural requirements prevented full absorption of available aid. In Ethiopia, the low utilisation of donor project aid relative to Government investment funding strongly suggests that transactions costs are higher, and that from a Government perspective those higher costs are not perceived to be balanced by higher benefits. Costs of donor funded classroom construction appear to be relatively high.

Ghana projects did have significant improvements to point to, with improved buildings and access to textbooks contributing to an improvement in the performance of school leavers in maths and English tests, and some improvement in enrolments, though the overall enrolment ratio showed only marginal improvement while equity of access remained poor. With just three major donors, the transactions cost issues were less marked than in Uganda, but the project approach prevented aid being used to address the lack of balance in the budget, with quality compromised by lack of spending on non-salary recurrent costs, while equity was undermined by poor distribution of staff and financial resources. The project approach funded large numbers of textbooks, but did not contribute to finding a sustainable longer-term solution to ensuring adequate and timely availability of books and teaching materials.

Higher costs of donor approaches are sometimes rationalised on the grounds of supporting ‘pilot projects’ with the scope to yield significant benefits when replicated. ‘Pilot projects’ have become a rather loose rationale with more pilots than could ever be taken up for replication: the joint evaluation of aid to basic education comments on Burkina Faso having a culture of pilot projects never taken to scale, and argues the need to integrate projects within the overall sector programme. They can be undertaken within the budget, and are then more likely to be a realistic test of the approach, and more likely to be owned and replicated.

Project approaches may have greater relevance in countries that are less aid dependent and are closer to achieving UPC. Vietnam, for example, needs to focus specifically on hard to reach groups, where a range of quite specific challenges require professional support as much as financial assistance. Although it may be helpful to reinforce Government focus by highlighting some education measures through budget support, the multi-donor project supports a degree of targeting and integration of technical and financial inputs that would be difficult to achieve through budget support alone, though the parallel budget support that World Bank is also providing for the same general purpose will provide an interesting direct test of the two approaches.

Donors have been especially reluctant to place technical assistance within the budget. The policy dialogue is facilitated by good evidence and analysis of what works, most of it financed by donors outside the budget. There is a fear that much of this would not have been undertaken or would have been of lower quality or delivered too late if required to comply with Government procedures for procuring consultants. Discussions at the Berlin forum on programme approaches argued that there also

remains an important role to be played by technical assistance at the implementation level, especially at sub-national level.

Although the timeliness and quality arguments should be given some weight, the donor fear that Government would give technical assistance too little priority in budget decisions needs to be balanced against the widely held belief that at present too much aid is devoted to technical assistance, and that much of it is spent badly. Technical assistance is poorly coordinated between donors, often overlapping, and poorly prioritised, yet efforts to coordinate it better have often met particularly strong donor resistance. In a situation where 100 days of consultancy support can equal the annual cost of paying 100 teachers or keeping 5000 children in school, a more sceptical and better coordinated approach to evaluating technical assistance proposals would be welcome.

The discussion of technical assistance links to the debate on capacity building. The Berlin forum on programme approaches reported that, among 20 benchmark criteria, ‘the least absolute progress has been made on support for capacity development, even though capacity issues are the most important constraint to development in all countries. It is increasingly understood that effective capacity improvement has less to do with training and more with the retention and effective use of available capacities ... Low salaries in general and a lack of incentives to work in rural areas, in particular, were repeatedly identified in country case studies as a main factor hindering the delivery of key services to poor people... These issues need to be addressed by institutional reform, and although this is essentially a government responsibility, donors need to address these issues more explicitly instead of shying away from them as has often happened in the past.’ Budget support is helpful in two ways: by engaging central Government in debate on the policy issues, and by directly helping Government to be able to finance salary reforms and incentives. Approaches such as defining minimum standards for schools to achieve (Vietnam) or ‘readiness criteria’ for managing funds (Ghana) provide a means to ally capacity building support and improved accountability to the financing of improvements in education.

### **Accountability**

It is unlikely that parallel donor procedures make any positive contribution to the accountability for resources, except possibly in a very narrow technical accounting sense not related to the underlying quality of the transactions. Particularly with respect to recurrent costs which form the bulk of the incremental costs for achieving UPC, the sound stewardship of the funds and of in-kind supplies procured centrally has to depend on the same geographically dispersed workforce whether they are provided via the Government budget or via some parallel arrangement. Parallel arrangements must inevitably increase the risk of accounting errors and fraud, while the transactions costs of effectively supervising two systems presumably reduce the capacity for supervising either of them effectively. It seems self evident that a better approach is to rely on the Government system for planning, reporting, accounting, and auditing all funding sources, but to ensure that necessary improvements are initiated and that the underlying performance of the system is monitored through timely audits, tracking studies and so on. General budget support focuses heavily on supporting improvements in public finance management.

### **Summary**

Summarising this discussion of rather fragmentary information, budget support appears to offer the prospect of lower transactions costs and better value for money as a means of supporting public sector provision of primary education. If allied to action plans for improving public expenditure management, it appears to offer the only credible route to improved accountability, because the costs of achieving meaningful (as opposed to nominal) accountability for aid to primary education using donor procedures are prohibitive. Particularly in the case of primary education, where costs are geographically dispersed in individually small spending units, budget support should be the default position, since other approaches will require significantly higher costs that should require explicit justification.

**Table 6.1: Country Examples of Aid Modality, cost-effectiveness, and accountability**

Country	Main Aid Modalities	Capacity	Evidence on Cost-effectiveness	Accountability
Ethiopia	Donor resources earmarked for education used for capital construction, suffered under spending linked to difficulty complying with multiple donor procedures, only 30% of project aid disbursed 1996/7-2002/3 compared to 82% of domestically financed capital spending (PRSC).	Government has an innovative approach to capacity building with a dedicated Ministry supported by a capacity-building SWAP.GBS policy matrix focuses on many aspects of improvements to public expenditure management and incentives.	High cost of buildings (\$16,000 per classroom block), and of teachers.8 year primary cycle and large schools raise unit costs.	Corruption is low despite low salaries. Projects using different disbursement modalities absorb capacity. GBS focuses on overall improvements in financial management at each tier of Government.
Ghana	Has been mainly project support with focus on buildings and books, though two of three major donors shifting to GBS to support education.	Staff badly deployed. Some key roles filled by expatriates. Improvements in management undermined by late & unreliable budgets.	High cost due to low pupil: teacher ratio but teachers poorly distributed, not supported with adequate recurrent non-salary budget.	Fund tracking evidence embarrassing, suggesting large-scale fund diversion, but readiness criteria helpful for driving up standards.
Uganda	Majority of education sector aid is either SBS or GBS.	Evidence of successful implementation of a succession of challenging policy reforms suggests new approaches have released & helped build capacity.	Huge improvements in classroom construction (faster, cheaper, quality OK), school books (cheaper & better), university (reduced cost to public purse yet more students & better education). Big reductions in PIUs and projects, released capacity for major policy reforms.	Tracking studies reveal concerns (corruption at school level, transparency provisions on posting budgets not observed, delays in fund getting to schools), but 90% of funds now getting to schools c.f. 25% in project era, problems openly discussed, and huge advances in cost-effectiveness detailed in column 3 suggest the new approach is a big improvement on what went before.
Vietnam	Policy dialogue on education related to PRSC, but a multi-donor project focused on poor districts and on enrolling	Vietnam has made great strides with little external support, suggesting substantial capacity down to school level, though	Donors have argued for longer school day and school year to make better use of facilities.	GOV policy reform programme being supported by PRCS and technical assistance includes actions aiming to improve public finance

Country	Main Aid Modalities	Capacity	Evidence on Cost-effectiveness	Accountability
	minorities is main funding modality.	more weaknesses in remote mountain areas.		management. Projects are managed by Government project coordination units. Corruption is a problem.

## 7. Indicators for measuring progress

The terms of reference call for the report to: ‘Identify appropriate intermediate outputs, using the FTI framework as an existing basis, for measuring progress towards education MDGS and changes in education outcomes. Where possible, the aim is to identify a set of more general intermediate outputs and more specific intermediate outputs that can be categorized from country experience and grouped according to different political/macro-economic contexts.’

The FTI Indicative Framework indicators are reproduced in Table 6.1. They illustrate some of the problems that are intrinsic to any global listing. Some potentially important indicators for all countries are missing: - no data on attendance (as opposed to enrolment), no indicators of educational outcomes in terms of student attainment, no indicators of demand side barriers (out of pocket costs, travel times), no indicators of the quality of physical facilities, no indicators of the availability of books and other materials to pupils. The issue of ‘contract teachers’ is only relevant to a few countries. Indicators that may be more relevant in other countries are missing, e.g. information on distance to school, availability of running water and toilet facilities, timeliness of budget releases and proportion of capitation fee actually recorded as being received by the school, no indicators of inequality or disaggregation of data on any basis except gender. The indicators are defined precisely in the framework, which is good, but may not match the indicators and targets that have been used locally. The quoted values in ‘successful’ countries risk provoking highly contentious arguments as to whether these should be thought of as targets for other countries to reach. The point of these comments is not to criticise the specific indicators in the framework, but to make the point that any global list of indicators will need local adaptation.

**Table 7.1 FTI Indicative Framework Indicators**

<b>Indicator</b>	<b>Average for some successful countries</b>
Resource Mobilisation	14-18
Public domestically-generated revenues as% of GDP	
Public recurrent spending on education as % of total public recurrent discretionary spending	
-Including grants	20
-Excluding grants	20
Primary education share of Public recurrent spending on education	42-64
Student Flows	
Intake into first grade, %of age group,- total	100
-girls	100
-boys	100
Primary completion rate, total	100
Primary completion rate, girls	100
Primary completion rate, boys	100
% repeaters among primary school pupils	10 or less
Service delivery	

<b>Indicator</b>	<b>Average for some successful countries</b>
Pupil teacher ratio, publicly-financed primary schools	40:1
Average annual salary of primary teachers as a multiple of GDP p.c.	3.5
Contract teachers	
Numbers recruited this year	
Total stock	
Average salary	
Civil service teachers	
Numbers recruited this year	
Total Stock	
Average salary	
Non salary share of recurrent spending on primary education	33
Annual instructional hours	850-1000
Private share of enrolments (%)	10 or less
Unit construction cost of classrooms	

The choice of intermediate outputs and indicators for monitoring needs to be country specific and chosen to reflect Government targets and the data that is locally meaningful and can be collected within reasonable costs. The most important points are not the selection of specific indicators but: -

- Establishing a monitoring and evaluation structure that relates indicators to verifiable targets of the education strategy, and enables the full chain of logic to be monitored, from resources to activities to outputs to outcomes, with explicit assumptions about the underlying linkages;
- Supporting the development and use of information to inform decision-making at all levels from school to Cabinet and parliament, rather than a hierarchical structure in which lower levels pass information to the centre without using it themselves. There are some nascent examples, such as the use of league tables and school performance assessment meetings in Ghana, and access to budget and staffing data in Uganda, but these experiences show that it takes persistent and patient capacity building over a sustained period to achieve a real change in behaviour.
- The need for minimising the burden of data collection by ensuring that there is a single education information system in each country, with no duplication of reporting for different purposes, and with agreement on the definitions of a core selection of data and indicators. Many countries are far from having reached agreement on a single set of data, with different Government Departments requesting data in different formats before even considering the needs of donors. For this reason, it is important to recognise that the definition of indicators needs to be a locally specific negotiation: a new set of global EFA indicators would be likely to become simply another imposed record-keeping chore.
- Given the likelihood of arithmetic errors, it is important that each level supplies the underlying data rather than simply indicators defined as percentages, since anomalies cannot otherwise be checked and verified.
- The task of consolidation and reporting of primary school data is a major burden, especially in countries where data is entered by hand at school level and where capacity to enter, analyse and transmit data electronically may be missing even at district level. The burden can be eased by distinguishing between a minimum list of crucial performance data that is needed for every

progress report and must be analysed quickly (e.g. quarterly financial and physical progress reports) and a longer list of more detailed data that may be needed only annually and can be prepared in slower time with work scheduled for less busy periods (e.g. grade-age enrolment data).

- Effective arrangements need to be put in place for independent checking of data on a sample basis, especially in situations where there are financial incentives for e.g. inflating enrolment data.

## **8. Next Steps: Follow-up to this report**

### **8.1 Knowledge Gaps and the use of the catalytic fund**

The terms of reference ask for proposals for the use of the catalytic fund, based on identification of key policy issues and knowledge gaps emerging from this work.

The FTI Catalytic Fund is a multi-donor trust fund at the global level, established in 2003, that helps to finance FTI-endorsed education sector plans that mobilize insufficient resources at the country level. It is aimed at providing bridging finance to under-aided countries pending reaching agreement on longer-term commitments to support their EFA programmes. The fund is expected to remain small relative to support provided by the development partner community as a whole. However, the Catalytic Fund provides important backing to the FTI commitment that realistic financing needs in all qualifying countries will be met. World Bank administers the fund. After an initial period of uncertainty that delayed disbursements, it has now been agreed that the fund can use a policy based funding modality that enables funding to be provided as, in effect, budget support.

As a separate aspect of the fund, a multi-donor Fund for Program preparation (FPP) is being established to prepare sound and sustainable national education policies, strategies and plans. The development objectives of the proposed FPP are:

- Increase the number of low-income countries with sound and sustainable education sector programs, embedded in Press, which prioritise the achievement of the MDG for primary education with gender equity by 2015,
- Strengthen Government technical and institutional capacity to develop policies, reforms and programs capable of providing and sustaining complete primary education for all children of acceptable quality through a consultative process, and
- Strengthen donor partnerships at the country level.

Only work in low-income countries that have PRSPs or are working towards PRSPs may qualify for support under the preparation fund. Eligible activities would include studies, technical assistance and other activities that strengthen country technical and institutional capacity, stakeholder consultation processes, consensus building and donor coordination and harmonization in the process of country-driven preparation of national education sector plans. This may include multi-country analytical work and sharing good practice. However, the bulk of the FPP resources would be targeted toward country driven preparation of national education plans.

Support may be provided to sector wide planning including higher, primary, secondary, etc as long as there is a linkage between the different levels of education but the Fund should not be used to finance plan development exclusively for other levels of education. The Fund would be administered by the World Bank, the model being the Norwegian Education Trust Fund that was set up in 1998 with very similar objectives but covering only Sub-Saharan Africa. The NETF has provided support to preparation of education sector plans in 35 African countries as well as supporting regional knowledge transfer, and was favourably evaluated in 2003. The FPP would extend this approach to other regions.

Operating principles for the FPP are to:

- Seek Additionality. FPP resources should not substitute for other available financing and should seek to leverage resources through cost sharing with other partners.
- Support national and regional capacity building. The use of regional institutions and consultants should be given priority.
- Promote synergy and harmonization with the work of other agencies. As a rule, many of the knowledge sharing activities would be expected to be conducted jointly with other agencies.

The expected benefits are that:

- More low-income countries have credible national education sector plans, endorsed by the donor community supporting that country,
- Key systemic/endemic constraints are being addressed in more countries in supply, demand and finance,
- Stronger donor partnership at the country level and greater use of harmonized procedures (with those of the Government where possible),
- Ultimately, most countries progressing at a pace that will enable them to reach MDG #2, and
- Knowledge sharing and dissemination of good practice.

Regarding the preparation facility, the main implication arising from the analysis in this report would be the importance of analytical support being owned and driven by the Government of the country itself, but with broad stakeholder consultation to ensure that issues relevant to obtaining external support are addressed. Almost by definition, this will tend to argue against making recommendations either on geographical coverage or content of such support. With one exception, it is also felt that this brief study has not been comprehensive enough to yield confident recommendations on issues that require cross-country analysis. Other more experienced and professionally competent groups and institutions (UNESCO, ADEA, NTEF) are better placed to make such assessments.

The one suggestion that would be worth further discussion would be using FPP to facilitate further progress towards budget support at country level. This is one area where there is clear value added from tapping into the experience of other countries, and where a donor-led effort makes particular sense. A proposal is developed in the next section.

## **8.2 Proposals for Follow Up**

The terms of reference envisage a Phase 2 involving case studies to further analyse the links between budget support and education outcomes and progress towards the EFA goals, and request proposals for case studies. However, countries have been subjected to a succession of case studies on these and similar issues, and there is in particular a major on-going multi-donor evaluation of general budget support. The increase in budget support related to education is recent and affects a small number of countries. In so far as there are lessons to be learned, it should be possible to fill many of the remaining gaps in our knowledge by drawing on existing literature, and the findings of studies that are currently under way. It is therefore recommended that modest additional resources be made available to expand the current phase of the study, in order to more thoroughly capture the available grey literature, and conduct interviews with a wider group of key informants, but that no detailed case studies are planned at this time.

Rather than a backward looking series of ‘evaluation’ style case studies, we recommend that, during the course of the coming year, countries should be invited to request support to further develop the modalities by which the donor community provides financial support to their education strategy. This would involve analysis and discussion of the benefits and problems of existing arrangements for providing financial and technical support to the sector, but would use this as the basis for a facilitated process to work with Government and donors to reach agreement on improvements. Generic terms of reference for local adaptation and development are at Annex 3.

The draft terms of reference are country specific, but there would be advantages in taking this forward as a multi-country programme, perhaps funded from the FPP. The terms of reference are mainly aimed at facilitating improvements in the arrangements for donor support in country. However, they will also generate analysis of the costs and benefits of alternative approaches in different contexts, and will contribute to the design and negotiation of improved arrangements. Developing a multi-country programme could ensure each mission was informed of existing country experience, and would facilitate cross-country transfer of experience and the further development of the knowledge base of both Government and donor best practice. The success of the missions would be improved by being able to draw precedents from other countries to the attention of Government and donor field staff.

## **Annex 1: Terms of reference**

Team Education for All, Policy Division

Area of Work Quality

Title Linking budget support to progress towards education MDGs and EFA goals: a sectoral look at how budget support effects education outcomes and how this can be monitored

### **1. Objective**

To provide insights on the relation between budget support aid modalities and education outcomes and guidance on how to map progress towards EFA goals and education MDGs through an analysis of newly emerging evidence in different country contexts.

### **2. Rationale**

The last 10 years has witnessed a shift in the delivery of ODA. A rising number of donors have moved from project support to more coordinated and programme-based aid instruments, in particular general budget support (GBS), channelled through government budgets in support of national development plans. Budget support has gained currency among donors such as DFID and EC and is the aid instrument of choice in certain contexts. This emphasis on budget support<sup>41</sup> places new demands on measuring the effectiveness and impact of the instrument. A pressing concern is to assess the impact of budget support on sectoral outcomes. This is important to be able to demonstrate progress toward the MDGs, which tend to be sectorally focused, and the education MDG whose first target is set for 2005.

Currently there is little empirical or concrete evaluative evidence to suggest that direct budget support is more successful than other aid modalities at delivering improved sector outcomes. Part of the problem is methodological: it is too early in many cases to assess the impact of GBS and gather robust evidence; it is hard to attribute GBS (by its nature non-sector specific) allocations by sector; and it is hard to attribute the impact of GBS on sector-specific goals.

The need to test out the validity of GBS as an aid modality is recognized as a priority by DFID (senior management, policy teams etc) and other agencies and is the focus of various DFID and multi-donor studies. The growing experience of DFID together with other international partners (WB, EC, bilateral donor agencies) is generating valuable lessons on how budget support operates in different contexts and how it may contribute to macro-economic reform processes (Public Administration Reform and Public Expenditure Reform). It is also generating some insights into the linkage between broader institutional, governance and financial reform and sector realities.

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<sup>41</sup> For the purpose of these TOR, general budget support (GBS) is understood to refer to financial assistance channelled to a partner government using its own allocation, procurement and accounting systems. Sector budget support refers to financial aid earmarked to a discrete sector or sectors.

This work will add value by providing a sector dimension to broader GBS assessment. It will do this by analysing newly emerging experience at country level on the possible effects of GBS and sector budget support on education outcomes in different contexts. This experience needs to be captured, underlying assumptions tested and evidence analysed and organized in a structured and systematic way. Outputs of the study will contribute to knowledge generation and provide practical instruments and policy guidance on effective sectoral application of budget support modalities. The work will build linkages with on-going policy work and with other organizations. In particular it aims to complement:

- 1) A scoping work undertaken on behalf of DFID, the World Bank and European Commission: “Accounting for Donor Contributions to Education for All: How should finance be provided? How should it be monitored?”
- 2) A joint evaluation with DAC donors and national partners on the relation between GBS and poverty reduction.

### **3. Specific questions to be addressed by the study:**

#### Education Outcomes

What effect do GBS and SBS have on education outcomes, defined in terms of access, equity, efficiency, and learning outcomes, than project support or other aid modalities?

#### Financing & flexibility

What effect does GBS/sector budget support have on the predictability and share of public spending allocated to education?

How efficient is GBS/sector budget support as an aid instrument:  
at ensuring timely and equitable budget allocations at macro level?  
at ensuring funds flow to the right place and to school level?  
in terms of costs/benefits relative to other forms of aid delivery?

How well does GBS coexist with other modalities of education financing, including project support?

#### Policy dialogue & reforms

Do GBS and SBS leverage more effective policy dialogue, from the perspective of both policies adopted and implemented and whether they are anchored in the macro and public expenditure dialogue of the country?

How does GBS/sector budget support create incentives for progress towards EFA/MDG goals?

How is education sector policy dialogue maintained and/or strengthened under GBS?

How can donor groups ensure that GBS managed at macro level is used to pursue, and help finance, education targets?

What is the evidence of GBS/sector budget support in strengthening government systems and acting as a driver to improve education outcomes?

What are the practical merits of Sector Budget Support vs GBS in pursuing education outcomes?

How effective are GBS benchmarks at promoting progress towards EFA/MDG goals?

What evidence is there of a pro-poor focus and attention to out-of-school and girl children in relation to GBS/sector budget support, education policy and progress towards MDGs and EFA goals?

What is the contribution of donors and donor harmonization to GBS and improved education sector outcomes?

#### Capacity building

In what ways does GBS/sector budget support contribute to increased government ownership, commitment and capacity to deliver improved education services and outcomes?

How are innovative approaches in education provision and international experience addressed as part of GBS/sector budget support programmes?

#### Contextualization and Intermediate outputs

What does experience at country level demonstrate about the significance of different policy contexts ie: in setting criteria for how budget support is delivered; for creating the conditions for sector reform and progress towards education MDGs; for setting timeframes etc?

What intermediate outputs and indicators are appropriate to demonstrate the impact of GBS/sector budget support on progress towards MDGs and EFA goals?

#### Governance

Do GBS and SBS result in higher levels of voice and accountability in public expenditure and service delivery compared with other aid modalities?

### 4. Scope of Work

The work will be done in two phases. The focus will be on GBS but it is envisaged that a wider range of aid modalities may be considered in the course of analysis to reflect the combination of aid instruments operating at country level.

**Phase 1:** a rapid scoping of existing literature, bringing together existing evidence on the impact of direct and sector budget support on education outcomes in different contexts compared with project funding.

**Phase 2:** a more thorough assessment of evidence, using case study analysis to identify the processes that are more or less likely to result in improved service delivery and education sector outcomes in the budget support environment and to refine intermediate outputs and indicators accordingly.

#### **Tasks to be addressed under Phase 1 and in the draft report:**

Provide an overview of the experience and lessons emerging from the shift to GBS and sector budget support and linkages between budget support modalities and education outcomes.

Identify key policy issues and knowledge gaps with regard to a) linkages between budget support and progress towards international education goals; b) attribution of linkages between budget support and progress towards EFA/MDG goals; c) the significance of different country contexts. Use these findings to make some proposals for the use of the Catalytic Fund.

Identify appropriate intermediate outputs, using the FTI framework as an existing basis, for measuring progress towards education MDGS and changes in education outcomes. Where possible, the aim is to identify a set of more general intermediate

outputs and more specific intermediate outputs that can be categorized from country experience and grouped according to different political/macro-economic contexts. Map out options, possibly in the form of a framework, that will allow linkages between budget support and education outcomes/progress towards EFA goals to be analysed in a structured and systematic way.

Provide clear recommendations on taking forward the work in Phase 2. This should include clear guidance on:

- a methodology for conducting the analysis and case studies;
- a strategic choice of possible case study countries, selected on the basis of the lessons they offer and the context they represent (possibly 3 from Africa and 2 from Asia);
- how to address knowledge gaps;
- how to translate analysis into lessons of good practice and policy guidance for governments and donor agencies.

## 5. Methodology and expected outcomes

The consultant/s will plan a programme of work to meet the TOR in consultation with DFID education advisers and the FTI Finance Working Group.

Activities should include but not be limited to:

- Experience of the work of World Bank, European Commission, DFID and other multilateral and bilateral agencies

- Familiarisation with key documentation (Section 9)

- Survey the body of published research using secondary and readily available sources including DFID education project database, research and evaluation materials, literature, reports and online search engines, websites and databases of development agencies and selected academic institutions,

- Key informant interviews/discussion with multilateral and bilateral agencies (Section 9)

- Key informant interviews/discussion with country based advisers and donor groups who should be asked for data/information on country experience (Section 9)

The consultant/s will ensure that a gender sensitive approach is adopted and that the gender dimensions of promoting and measuring progress towards MDGs and other education outcomes are considered and addressed in all elements of the study. The consultants will also ensure that issues relating to hard-to-reach/out-of-school children are considered and addressed in all parts of the study.

The output from this work will consist of a concise paper (up to 25 pages, Arial 12 point plus appendices) and recommendations which will inform the design of Phase 2, including proposals for a framework and further case study analysis.

## 7. Expertise Required

### **Economist with a good understanding of budget processes, public expenditure management, and education sector policy and planning**

Recent and relevant experience of policy development in the field of aid mechanisms  
Knowledge of current thinking/key issues around the comparative effectiveness of aid modalities

Experience of conducting literature reviews and online research

Excellent planning and communication and interpersonal skills.

## 8. Timing, Reporting and Management

Phase 1 of the work should be completed by end September 2004 with up to 6 months time input allocated for the entire piece of work. Close co-operation and consultation with commissioning agency will be essential throughout both parts of the assignment.

Phase 1: 20 person days allocated (including background reading, planning and preparation, setting up and conducting meetings and interviews, literature and web searches, drafting and finalisation of reports and presentation preparation). Phase 1 should be completed and a draft report submitted by end September. A final draft report reflecting feedback and comment is to be submitted by mid October. A planning meeting will be held to discuss and agree finalisation of ToR, starting date, schedule of work, dates for briefing/update sessions, submission of draft reports and completion date.

Interviews with international respondents should be conducted by telephone and email. No international travel is intended.

Phase 2: 4-5 months time input is allocated to undertake case study research, analysis and drafting of the final report. It is envisaged that consultants for the discrete case studies will be selected on the basis of expertise and knowledge of the given country but managed by a lead consultant to ensure a common and comparable approach and analysis is adopted. Arrangements and timeframe for phase 2 will be based on the recommendations made in the phase 1 report. International travel is foreseen for case study analysis.

On a day to day basis consultant(s) first point of contact will be Bridget Crumpton, Education Adviser, DFID.

### **Possible data sources and contact persons**

#### Key Documentation and Background Reading

EFA 1<sup>st</sup> & 2<sup>nd</sup> Global Monitoring Report, UNESCO 2002

Accounting for Donor Contributions to Education for All (Mick Foster 2004)

Local Solutions to Global Challenge: Towards Effective Partnership in Basic

Education (Joint Evaluation of External Support to Basic Education September 2003)

From Projects to SWAPs: An Evaluation of British Aid to Primary schooling 1988-2001 (Sept 2002)  
Sector Wide Programmes and Poverty Reduction (July 2001, ODI)  
Poverty Reduction Outcomes in Education and health: Public Expenditure and Aid (March 2003, ODI)  
Programme Aid: What do we need to learn? (July 2001, Background Paper, Joanna Wilkes, DFID)  
Evaluation of EC Support to the Education Sector in ACP Countries (Development Researchers Network, May 2002)

**Annex 2: Country Examples of Policy Dialogue on Education**

<b>Country</b>	<b>Macro Level Dialogue</b>	<b>Sector level Dialogue</b>	<b>Sub-Sector Dialogue</b>
<b>Ethiopia</b>	<p>Donors have responded to strong Government insistence on channelling an increased share of Government resources as budget support. Focus areas of policy matrix are private sector and rural development and (directly relevant) public institutional performance &amp; human development, Govt set up inter-ministerial working groups to prepare focused list of measures. Strong focus on budgeting and financial management at all levels, &amp; on results-oriented performance management. Budget support group &amp; PRSC have a common process, liase closely with sector working groups, policy matrix for GBS donors &amp; PRSC includes general provision requiring satisfactory compliance with undertakings agreed in education sector reviews, but also has some specific education measures: - introduction of learning assessment to permit outcomes to be assessed, with curriculum revision based on it to follow; and preparation &amp; adoption by all regions of lower cost primary school design options.</p>	<p>The Ministry of Education continues to have important functions that can facilitate or undermine the success of education efforts by regions and woredas. The costs of the primary cycle, for example, have been raised to unaffordable levels by a number of federally mandated policies: on the 4+4 year primary cycle, on teacher qualifications, and on school design and location, with Government favouring large schools with high unit costs. MOE directives to regions &amp; woredas also provide guidelines on strengthening school supervision, SMCs and a capitation based performance grant from woredas to schools to ensure financing for non-salary expenditures. The regions have partially offset the effects of these directives by allowing communities to hire and pay for their own teachers, by permitting non-formal basic education centres to operate using a condensed curriculum and a shorter 3 year 1<sup>st</sup> cycle, &amp; they have been unable due to financial constraints to comply with capitation grants at envisaged rates. In rural communities, the Government is revisiting school construction cost options to include lower cost options that are smaller, cheaper and may be located closer to small rural populations. There is also discussion, but as yet no decisions, on increasing flexibility in teacher recruitment policies. The SWAP Annual review has helped to encourage greater flexibility, calling for assessment of alternative modes of delivery for low-enrolment areas. The Role of sector review process is becoming less clear with decentralisation, October-November JRM calls for study of the implications for ESDP Secretariat. The October 2003 JRM focused on policy papers (teacher requirements, setting minimum standards, proposing unit cost guidelines, research on what works), but also includes recommendations on financial &amp; sector performance reporting mainly needed to meet their own requirements. Some recommendations propose sector level capacity building that cuts across the multi-sector capacity building SWAP.</p>	<p>Donor project aid continues to use multiple procedures and has proved hard to disburse. ESDP requires sub-national dialogue given regional autonomy. In addition to block grants to regions, 50 to 80% of regional grant now passed on as block grant to woreda level, with budget guidelines but no regional control.</p>
<b>Ghana</b>	<p>Agreed actions include financial incentives for girls to attend and complete primary, teacher</p>	<p>Good sector policy &amp; plan. Deconcentration within GES, linked to satisfying 'readiness criteria,' for</p>	<p>But anticipated SWAP did not develop, sector dialogue not well</p>

Country	Macro Level Dialogue	Sector level Dialogue	Sub-Sector Dialogue
	retention schemes in deprived districts, increased budget execution of non-salary expenditure, improved targeting of investment and recurrent budget to areas of greatest need, and (to help pay for it), a financing strategy for tertiary education.	managing budget, performance agreements. Earmarked donor funds help improve motivation by ensuring some non-salary budget. Sector level discussion and awareness of problems of late budget releases, squeezing out of non-salary budget by teacher salaries, not taken up with MoF. Staff numbers & deployment & payroll not being controlled. Sector plan with costing not yet linked to MoF discussion on MTEF.	coordinated until move to multi-donor budget support. Project approaches focused resources on capital expenditures on classrooms and books.
Uganda	Expenditure shares are in line with MTEF agreed with donors providing GBS, including donor support in MTEF, and budget execution satisfactory. Education specific matters are delegated to education donors, condition is that undertakings agreed in April review are satisfactorily implemented, as verified by October joint review.	ESIP pooled funding had undertakings, on govt financial commitments, fm, attaining quality and gender parity indicators, teacher recruitment, m and e. Both monitoring mechanisms and trigger fund release in 6 monthly reviews. Major reforms discussed in joint working groups, donor analytical contributions valued, major reforms to book procurement radically reduced costs, decentralised classroom construction achieved 'unique I Africa' speed and scale of classroom construction at reduced cost with reasonable quality, reform to higher education to release funds for primary while also raising enrolment and quality, capitation grants for schools introduced.	All sig donors inside, turned away \$20mn project not consistent with classroom construction approach.

### **Annex 3: Generic TORs For Assessing Funding Arrangements**

#### *Background*

It has been agreed that future support to the [education sector][Basic and Primary Education sub-sector] will be based on the program as described in the Government document [give reference] presented by Government and appraised jointly by the donors to the sector in [date].

The sub-sector programme that Government and the donor community will jointly finance is defined as total public expenditure on [education][basic and primary education]. At present, the programme has a number of sources of funding. Government finance and general and sector budget support funds use Government systems to disburse and account for the funds. [Pooled funding and] parallel project arrangements also finance part of the expenditure programme, but subject to specific agreements and procedures differing in some respects from those of Government. [There are also project expenditures supporting public expenditures on education, but not forming part of the Government plan for the sector: Government wishes to ensure that all future project commitments for financing public sector education spending are used to finance activities drawn from the plan.]

#### *Objectives*

The objective of the consultancy is to work with Government and donor partners to develop procedures for future support to the sector that meet reasonable requirements for ensuring funds are efficiently used for implementing the agreed programme and can be accounted for, whilst minimising the burden of compliance on Government and development partners. This will be achieved by, to the extent possible, using Government procedures, while putting in place measures to increase the reliability of those systems. If additions or deviations from Government procedures are unavoidable for some donors or some types of transactions, they should be designed to minimise the costs.

#### *Scope of Work*

In order to carry out the exercise, the consultants will review the procedures that are applied by Government for its own funds and by donors accounting for at least 80% of external finance of public expenditure in the sector in order to:-

- Compile evidence on the costs and benefits of current approaches used by Government and major development partners, to support dialogue on the need for changes;
- Review the procedural requirements and objectives of major development partners
- Review the extent to which these requirements are met, or could be met, by: -
  - Government procedures as presently applied;
  - Government procedures if fully complied with;
  - Government procedures with minor changes or additions;
  - Existing procedures used by the donor.
- Assess what would be required to enable each donor to use Government procedures, distinguishing between changes for which there are precedents in other countries, and more fundamental changes that would require an agency-wide change in policy.

- Make outline proposals for progressing towards increased use of budget support using Government procedures, in the form of a first draft of a memorandum of Understanding describing the approach, based if possible on existing procedures used by donors providing general or sector budget support.
- Facilitate discussion and local agreement on a revised Memorandum of Understanding for extending the use of budget support to incorporate more donors.
- Facilitate discussion and local agreement on a code of conduct for those donors unable to comply fully with the procedures set out in the MOU, aiming at minimising the costs of deviation from the budget support procedures.
- Local agreement will need to be subsequently finalised with inputs from legal, procurement and accounting and audit staff in HQs. The consultant will make follow-up inputs to facilitate revision and final agreement in the light of these comments.

### *Costs and benefits*

The starting point for the study will be to review current arrangements by which Government and donor funds are supplied to fund education. While recognising the practical limitations and difficulties in obtaining meaningful information, the aim will be to provide an improved evidential basis for reaching judgements on the costs and benefits of alternative procedures for managing donor funds. To the extent that is feasible with the information that is available or can be obtained at reasonable cost, the study will examine: -

1. **Commitments & Conditions** How donor financing decisions are coordinated with Government planning and budget processes, and the implications of policy agreements and conditions for the predictable flow of funding to finance budget expenditures. The review will cover all of the major routes by which donor funding contributes to public expenditure in the sector. It will identify any problems of timing of commitment decisions, clarity and consistency of agreements and conditions between sources of funding, and responsibility for compliance with conditions, paying particular attention to how compliance is ensured for conditions that may be outside the responsibility of the education ministry (e.g. budget conditions or matters delegated to local Government). The scoping study will suggest improvements for discussion.
2. **Transactions costs.** It will not be possible to quantify costs, but some comparative indicators should be given to permit assessment of the relative burden of meetings, missions, reporting, disbursement, accounting, and audit procedures under the different routes, and of the potential for cost savings from a more harmonised approach based on Government procedures, for example by closing project implementation units.
3. **Fund flow.** Extent to which funds (or physical supplies if centrally procured) using the different routes are reaching their intended destination in full and on time, and being used for the intended purpose.
4. **Cost-effectiveness.** Where alternative routes are being used to fund similar activities, what evidence is there of differences in unit costs? Comparisons should as far as possible include management overheads, including technical assistance and agency costs, and should take account of differences in quality or impact when making comparisons.
5. **Capacity** and ability to be scaled up to meet the targets of the strategy.

6. **Accounting and audit.** Timeliness and adequacy of accounting and auditing, including any evidence from audit reports or tracking studies of the extent of misuse or leakage of funds.

The consultant will use this scoping analysis to inform broad judgements regarding the costs and benefits of the approaches currently in use relative to the use of Government systems. The aim will be to shed light on the extent to which additional costs of complying with donor requirements are balanced by an equivalent increase in benefits through, for example, reductions in waste or misuse of funding, improvements in value for money, improvements in the quality or impact of activities. To the extent possible, benefits to the donor-funded activity should take into account the consequences for Government funded activities, for example as a consequence of diverting Government time to meet donor needs. The study will also consider whether equivalent benefits could be achieved at lower cost and with greater sustainability through improvements in Government systems.

#### *Assessing performance*

Budget support donors will provide their finance in support of Government spending in total or in the [sub-]sector, using Government procedures to disburse and account for the funds, and with donors financing a proportion of the total budget rather than individual transactions. An agreed set of goals, targets, and indicators will be particularly important for those donors providing budget support, since they will no longer be able to attribute their funds to specific activities, and the overall monitoring system for the EFA programme will be the sole means of assessing the effectiveness of their funding. Monitoring data will require some means of independent verification.

The consultants will:

1. Organise consultations with Government and development partners to develop indicators and procedures to be used in monitoring the program and in progress reporting, including linking Government expenditure to intermediate outcomes. This task will as far as possible use Government monitoring and reporting procedures, and will include proposals on a process for reducing duplication of reporting for different purposes.
2. Propose a mechanism and procedure for independent verification of performance indicators mentioned above. To the extent possible it should be linked to or build on other regular surveys (like general poverty assessments, social audits, etc.) which can then accommodate the need for independent, continuous and timely assessments linked to the cycle of progress reporting proposed in the MOU.

#### *Financial and Accounting procedures*

With respect to the disbursement model and financial monitoring, the tasks include (but are not necessarily limited to) the following:

1. Review of Government financial procedures in order to ensure that the proposed procedures in the MOU to be developed by the consultant will be, to the extent possible, in compliance with them.

2. Review of Governments own compliance with these procedures in order to identify possible areas that would need special attention and support from donors.
3. Review the financial and accounting requirements of major donors, the extent to which they could be met using Government procedures, and the progress required in designing and implementing improvements.
4. Propose measures to strengthen financial management capacity and improve compliance in areas as identified in above tasks.
5. Propose additional financial safeguards in order to monitor compliance with financial procedures, to enable any continuing problems to be identified and remedial action taken.
6. Facilitate a process of discussion aimed at achieving local agreement to procedures that will permit a significant increase in the proportion of external finance that is disbursed and accounted for using Government procedures.
7. For those development partners who are providing significant financial support to the sector but who are not able to provide budget support, make recommendations for changes that could be made that would enable these agencies to move towards procedures that are closer to those used by Government and impose lower transactions costs.
8. Proposed measures under all the above tasks to be reflected in a draft MOU, agreed as far as possible between local agency staff, though subject to finalisation based on HQ inputs.

The consultant will draw upon the broad analysis of costs and benefits in developing proposals and in making the case to Government and development partners for changes. Review of financial procedures will draw upon existing diagnostic work as far as possible. Proposals for improvements will be coordinated with existing action plans for improving public expenditure management, and will avoid duplication or inconsistency of approach.

#### *Team Composition*

The team members will require skills in facilitation and negotiation, and will develop and agree their recommendations in a participatory manner likely to require a combination of workshops, one to one negotiation, and e-mail exchange. The team will include specialist skills in: -

Monitoring and evaluation applied to the education sector;

Financial management, with experience of similar budget support arrangements,

donor financial requirements and the financial management system of Government;

Procurement, with experience of the system and regulations of Government and donor agencies;

[Legal requirements of donors and drafting of similar budget support arrangements].

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