

Ensuring resources for the EFA plan



2nd Africa Region Education Capacity Development Workshop
« *Country Leadership and Implementation for Results in the*
***EFA-FTI Partnership* »**
Tunis, December 3, 2007

Daniel Tommasi

Objective of the session

- ❑ Usually the Ministry of Education prepares the EFA plan with donors. There may be some formal commitment from Ministry of Finance, but finally when it comes to annual budget allocations, there are not enough resources.
- ❑ This may come from different factors such as
 - An insufficient consideration of the macro-economic context in the EFA Plan
 - Weak procedures and/or technical capacity
 - Budgeting partly governed by informal rules
 - Lack of political commitment from government
- ❑ This session is aimed at giving some elements for addressing these issues, but they will need to be specified to take into account the context of each country.

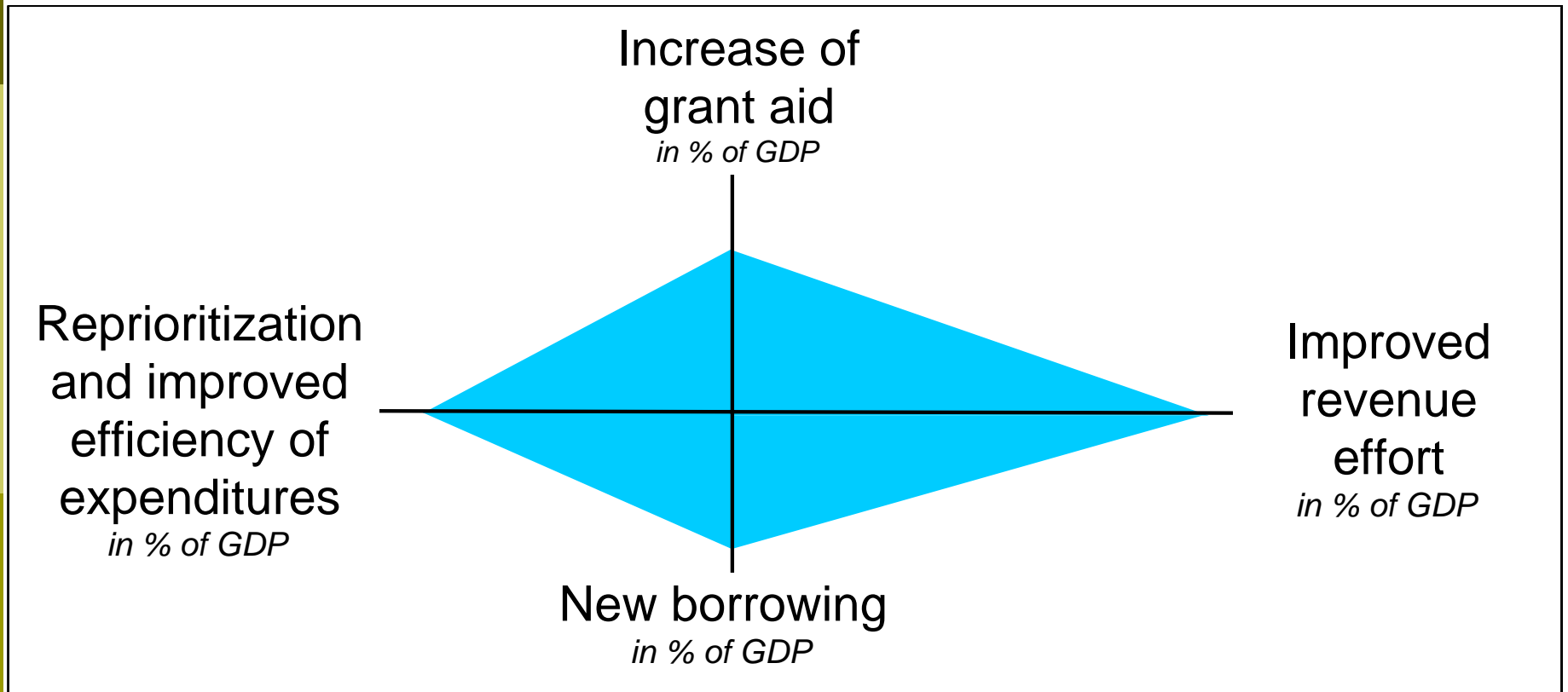
Outline of the session

- Review of two policy issues
 - To which extent resources for EFA (and other priority sectors) can be increased? The concept of fiscal space.
 - How to assess the additionality of aid?
- Procedures and instruments for resource allocation
 - How can the link with the EFA plan and the budget be established?
- A word on building capacity for an effective dialogue MoF-MoE

What is a fiscal space?

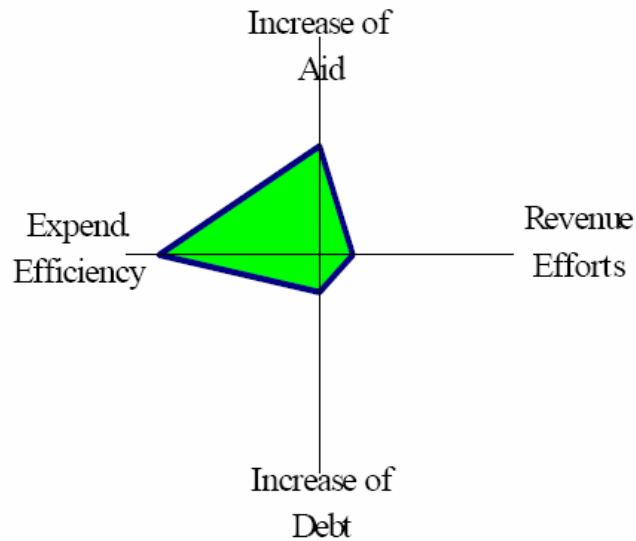
- Definition: Room in a government's budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy.
- How can a fiscal space be created? The fiscal space diamond

The fiscal space diamond

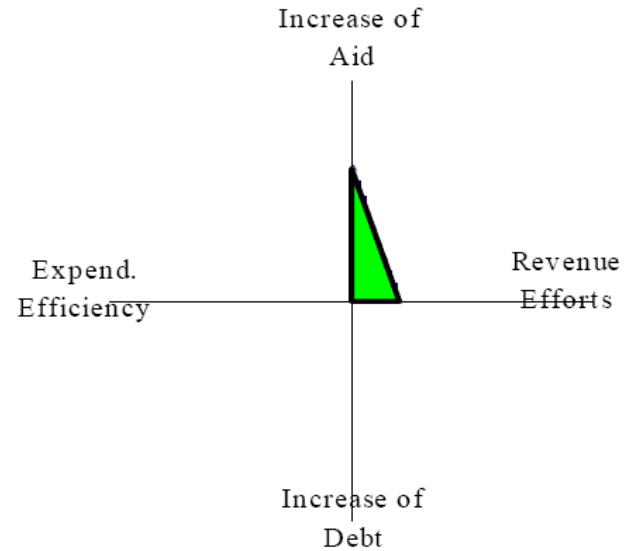


Fiscal space: typology

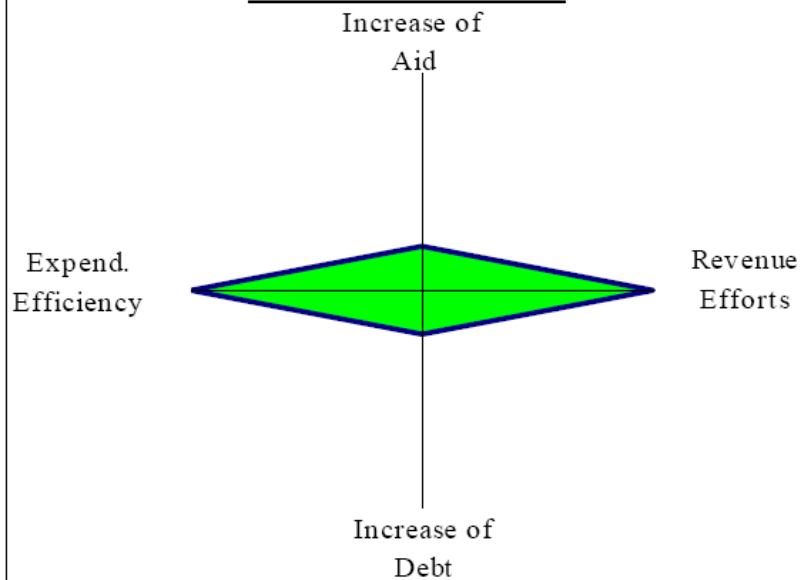
Fiscal Space: Ethiopia



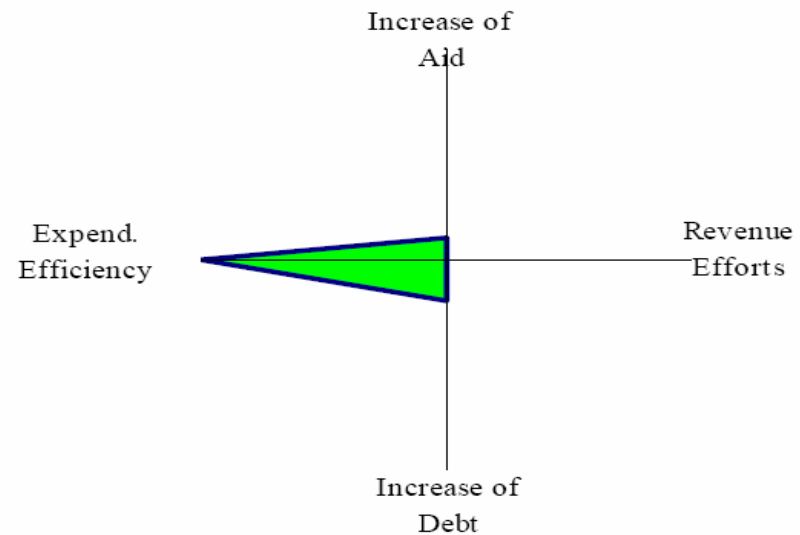
Fiscal Space: Fragile States



Fiscal Space: India



Fiscal Space: Brazil



Increased aid flows: some concerns

- Increased aid flows may have undesirable outcomes
 - Inefficiencies because weak technical absorptive capacity.
 - “Dutch disease”, economy less competitive because rise in the exchange rate
 - Netherlands, in 1960s, after the natural gas boom.
 - The various other perverse effects of windfall revenues
 - See the situation in several oil producing countries
 - E.g. Relaxed efforts on revenue side, wastes, etc.

What are the implications for the EFA Plan?

- To take into account these concerns the EFA plan should:
 - Consider measures to increase the level of technical absorptive capacity
 - In different areas: organizations, rules and procedures, infrastructure, human resources.
 - Take into account macro-economic and macro-fiscal issues
 - Coordination with the MoF
 - Deal with the efficiency face of the diamond
 - E.g. Review the construction costs, monitor the deliveries to diminish losses, etc.
 - The aid should not discourage from searching efficiency gains

Additionality of external aid

- Additionality refers to the changes resulting from the external aid, which would not otherwise have occurred.
 - The idea of additionality may be applied to input (financial additionality), outputs or outcomes.
 - E.g. the impact on the sector policy of the policy dialogue
 - Measuring additionality requires defining the baseline scenario *without* the aid
- The financial additionality conditions are aimed at ensuring that the aid will contribute to increased expenditures in the sector

The financial additionality:

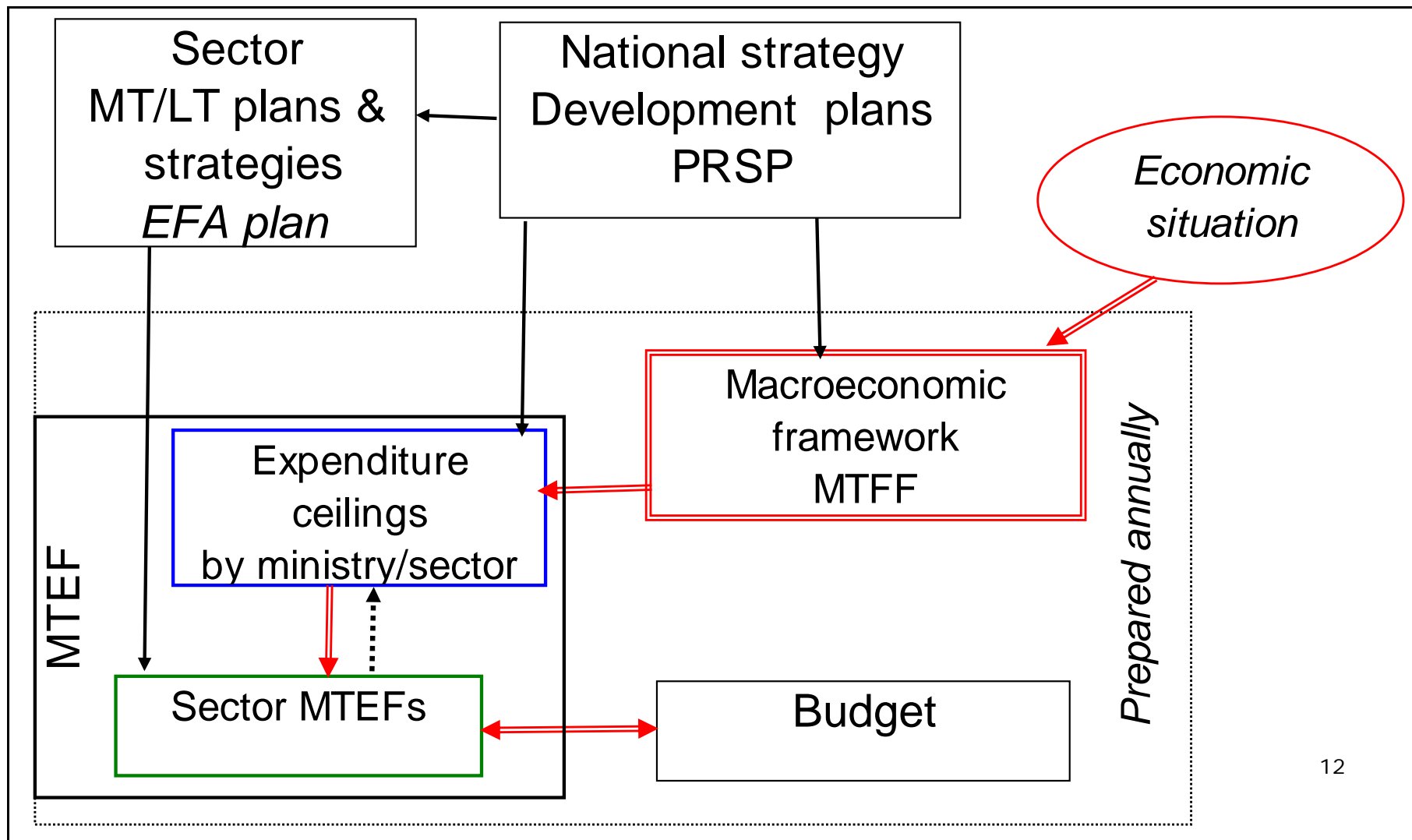
Defining the baseline *without aid*

- ❑ Defining the baseline “without increased aid” is not straightforward.
- ❑ The assessment is in a large part judgmental and, ideally, it should be based on several criteria and take into account the overall fiscal context.
- ❑ *For example, what should be considered: Total expenditures or externally funded expenditures?*
 - Domestically financed expenditures are generally seen as reflecting better the government effort. *However,*
 - Domestic resources should balance the shifts of project aid between sectors
 - Switches from project aid to budget support must be taken into account

Remarks on some possible baselines

- ❑ Ratio of domestically financed sector expenditures to government domestic revenues (or to GDP)
 - This ratio is aimed at showing the government effort, but it must be complemented with an analysis of total expenditures
- ❑ Share of sector public expenditure in government expenditures
 - Relevant, only if there are no higher priority expenditure needs (e.g. in the health sector).
 - Salary increases may account for the main increase, driven by civil service issues, not by sector priorities
- ❑ Sector public expenditures per-capita ratio
 - The more relevant on a social point of view, but it does not take into account changes in the overall fiscal situation.

Instruments for resource allocation



MEDIUM-TERM FRAMEWORKS

MTFF
For aggregate fiscal discipline

Global MTEF (MTBF)
Intersectoral resource allocation; framing budget preparation

Sector MTEF
Intrasectoral resource allocation

	Year t-1 Actual	Year t Budget	Year t+1	Year t+2	Year t+3
			Projection		
Medium-Term Macro-economic Framework Projection of national accounts including the government account (i.e. the MTFF)					
Medium-Term Fiscal Framework (MTFF)					
Revenue and grants					
Total expenditures					
<i>Personnel</i>					
<i>Goods and services</i>					
<i>Interest</i>					
<i>Transfers</i>					
<i>Capital</i>					
Global MTEF (MTBF)					
Defence					
<i>Personnel</i>					
<i>Goods, services and transfers</i>					
<i>Capital</i>					
Education					
<i>Personnel</i>					
<i>Goods, services and transfers</i>					
<i>Capital</i>					
Education ministry MTEF					
Administration					
<i>Personnel</i>					
<i>Goods, services and transf.</i>					
<i>Capital</i>					
Primary Education					
<i>Personnel</i>					
<i>Goods, services and transf.</i>					
<i>Capital</i>					
Secondary Education					
<i>Personnel</i>					
<i>Goods, services and transf.</i>					
<i>Capital</i>					
Tertiary education					
<i>Personnel</i>					
<i>Goods, services and transf.</i>					
<i>Capital</i>					
<i>Etc</i>					
Tourism					
<i>Personnel</i>					
<i>Goods, services and transfers</i>					
<i>Capital</i>					
<i>Etc</i>					
Financing					

The EFA plan and the MTEF

□ A sound MTEF

- Should be driven by the financial constraints
- Is prepared and rolled over annually
- Covers a medium-term period (3-4 years)
- Its first year must be consistent with the Budget
- There is an **unified budget-MTEF preparation procedure**
 - See the South African example later

□ The EFA plan

- Covers a comparatively long-term period (>5 years).
- Should be costed. Its costing must be realistic, but it is less dependent from financial constraints than an MTEF
 - It may include financing gaps to negotiate future grants/loans
 - It must be updated time to time, but not every year

Is the MTEF always required?

- ❑ Because the discretionary expenditure margin on a year-to-year basis is small, preparing an MTEF is desirable, *but*
- ❑ The results of MTEFs implementation are uneven
 - For example, some sector MTEFs prepared in isolation from the budget processes have no impact on the budget
- ❑ A building block implementation approach is generally required in implementing an MTEF.
- ❑ Therefore, this section discusses issues in budget preparation that are relevant whether an MTEF is prepared or not.

Linking the EFA plan with the budget (and the MTEF if any)

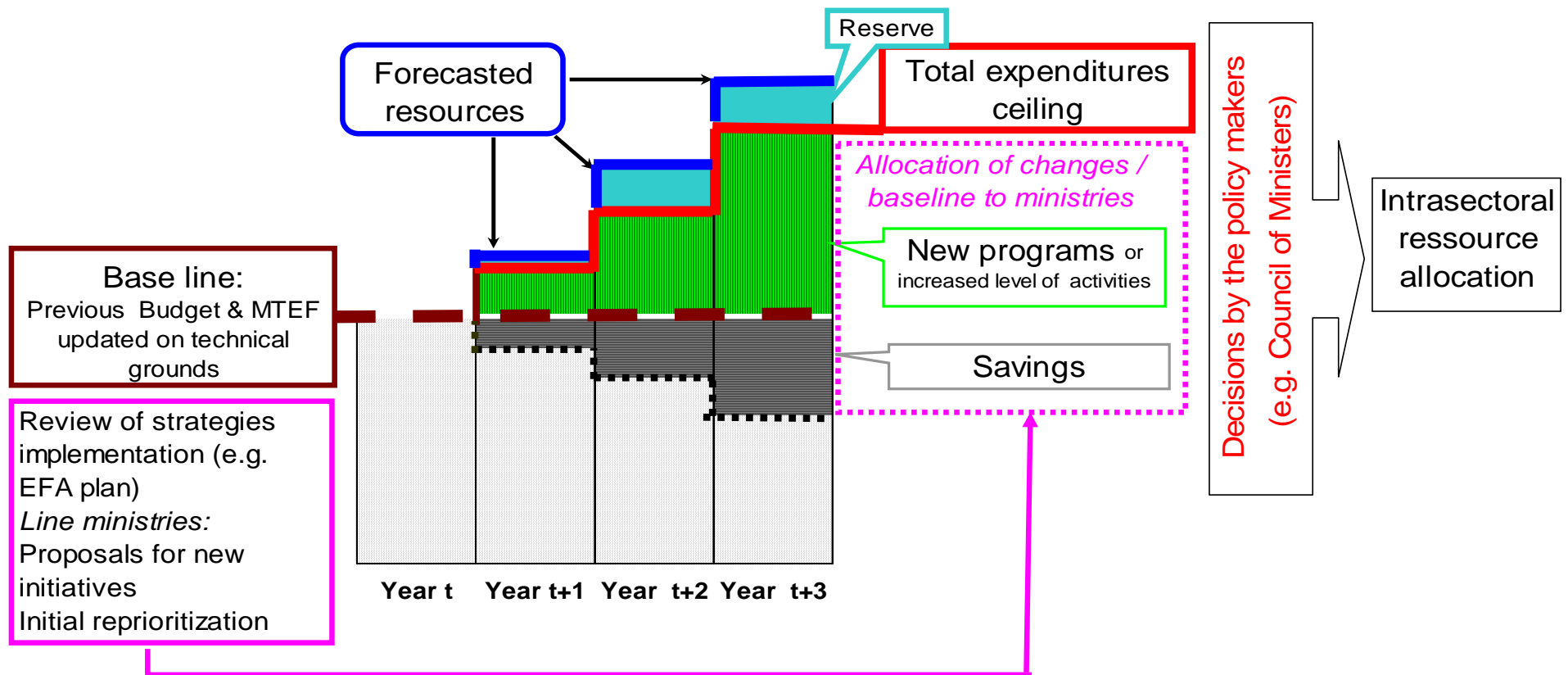
- ❑ A effective EFA plan-budget link is required, because resources are allocated through the budget processes
- ❑ Intersectoral resource allocation involves, all ministers not only the MoE and the MoF, whether the process is formal or not. If the process is only informal, it should be made visible.
- ❑ Therefore, the main policy decision makers (MoF, Prime minister, Council of Ministers, etc) should be involved in both:
 - The formulation and the monitoring of the EFA plan; and
 - Intersectoral resource allocation decisions made during budget preparation

Linking the EFA plan with the budget

continued

- A two-step procedure is desirable:
 - 1/ preparation of strategic decisions (including an MTFE and line ministries' expenditure ceilings).
 - Strategic decisions are prepared at the technical level by the MoF, but they should be taken at an inter-ministerial level
 - The EFA Plan and its implementation requirements must be reviewed at this stage
 - To avoid in-year cuts during budget execution: (i) revenue projections should be realistic; (ii) external financing should be predictable
 - 2/ detailed expenditure estimates
 - Intra-sectoral prioritization within the ceilings should be made by the MoE in accord with EFA plan orientations ¹⁷

Framework phase: Preparation of the sector expenditure ceilings for the year t+1 budget and the MTEF if any



*Initial reviews
MoE & MoF*

*MoF: Macrofiscal works and proposals for
intersectoral resource allocation*

CoM

19
MoE

An example

South Africa: MTEF and budget processes

- ❑ Initial policy reviews, preparation of the macro-economic and fiscal frameworks. (May-Sept. The fiscal year starts April 1st),
- ❑ Preparation of MTEF/budget submissions by mid-August.
 - Reprioritization within the baseline given by the previous MTEF
 - Proposed changes to the medium-term baseline allocation.
- ❑ Medium Term Budget Policy Statement (MTBPS) presented to Parliament end of October which includes, notably:
 - Adjusted estimates for the fiscal year;
 - A budget execution report.
 - An MTEF and a "global" MTEF aggregated by broad sectors;
- ❑ Finalization.
 - Early November the Cabinet approves MTEF allocations to ministries. Then line ministries draft their budget.

Linking the budget and the EFA plan

Addressing the disjunctions

- In case of significant disjunctions between the EFA plan and the budget (and the MTEF if any), a policy review should be undertaken:
 - Identify the causes of this disjunction
 - Identify required amendments on EFA plan and/or the budget-MTEF
 - Discuss their consequences on intersectoral resource allocation decisions

Ensuring smooth budget implementation

- ❑ Cash, commitment and procurement plans should be in line with the in-year distribution of expenditures
 - E.g. textbooks should be available at the start of the school year
- ❑ Cash rationing and in-year cuts come often from poor budget preparation. Problems should be addressed at this stage.
 - Protecting "pro-poor" expenditures may be needed, but it is only a palliative.
- ❑ Special budget management procedures (e.g. imprest) may be needed in some cases, but adequate control mechanisms must be set up
 - E.g. for school grants or support to community construction₂₂

Financial reporting

- A sound financial reporting is required to make progress in budget management
 - Monthly for domestic financed expenditures
 - Quarterly for externally financed expenditures.
- In some countries, personnel and payroll databases must be upgraded to report personnel expenditures by level of education.
- Significant time may be needed to gather financial information on expenditures made by end users.
 - Because remote schools; several mechanisms for delivering inputs or transferring funds; weak capacity; etc.
 - A program for streamlining financial reporting should be set up, but in the immediate reporting requirements for the disbursement of aids must be suitable to the conditions met by the end users.

Performance reporting

- Develop progressively annual performance reports
- Pitfalls to be avoided
 - Fragmented performance monitoring, because various requirements from different donors and the government authorities
 - Lack of link with budget preparation
- ->a close coordination with existing reporting systems and the budget systems is required, when designing a performance reporting system

Reinforcing the dialogue with the MoF

- Adequate organizational arrangements should be set up within the MoF:
 - The MoF budget department should be organized by sector
 - The staff of the education division of the MoF budget department should include economists aware of education policy issues and sectoral plans
- Awareness seminars and training should be carried out for the staff of the MoF to develop skills in the following areas:
 - Understanding the EFA plan.
 - Reviewing MoE budget requests
 - Understanding the specific procedures (e.g. in the context of SWAP) and be able to make recommendations to improve them.
 - Negotiating with the MoE and the donors.

