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Final Draft[1]

Issues Paper: Extending the Scope of the EFA FTI

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Summary

This paper has been prepared for the FTI Secretariat. Its purpose is to provide some background for the work of the Task Team established to explore the implications of expanding the scope of the FTI as recommended by the (then) Danish FTI Co-Chair in a discussion paper presented at the April 2009 meeting of the FTI Steering Committee.

The Danish paper suggests three options for revising the scope of the FTI: (i) Retain the present limitation to MDGs 2 and 3, i.e., universal primary completion and gender equity; (ii) Support all six EFA goals; or (iii) Adopt a "whole sector approach" where FTI may support the entire national education plan in terms of "capacity development, guidelines and financing eligibility". The paper recommends Option (iii). Importantly, it also notes that: "It would potentially be possible within the three options proposed to distinguish between the scope of the FTI generally and the eligibility for financing under the Trust Funds" (my underlining, p.5).

The present paper argues that to make this distinction is fundamental to a discussion of how to extend the coverage of FTI **in a way that enhances the partnership's value-added**. The paper aims to demonstrate that there is **considerable scope for doing so if FTI –** beyond dealing with the FTI trust funds -- were to engage more on **strategic global coordination and monitoring issues regarding the mobilization of resources at the country and global level, resource allocation and use of education aid**. In fact, the extent to which extending the scope of FTI **enhances the Initiative's value added** as compared to other international cooperation and funding mechanisms should arguably be the **main criterion** used to decide on any possible extension. This would broaden the principle set out in the Mid-term FTI Evaluation to the effect that "The Catalytic Fund should do things that would not happen in its absence" (paragraph S79) to apply to "scope of the FTI generally".

In view of the above, the present paper discusses separately the pros and cons of extending, respectively, the eligibility of funding under the FTI Trust Funds (Sections 1 and 2 below), and "the scope of the FTI generally" (Section 3). It recommends that the FTI Board may want to extend the scope of the FTI in the following manner:

[1]This paper was first prepared in October 2009, and has been updated to include comments from members of the "Task Team on Expanding the Scope of FTI" as well as from members of the FTI Secretariat. It has also benefitted from the (i) "Final Conceptual Design Document" on the PACE (dated November 2009, (ii) Executive Summary of the Draft Synthesis Report of the "Mid-Term Evaluation of the EFA FTI" (19 November 2009), and (iii) discussion of the FTI in the 2010 EFA Global Monitoring Report (GMR).

1) The eligibility for funding under the Policy and Capacity for Education (PACE) program (successor to the EPDF) should be extended to cover analytical, program preparation and capacity-building work for the **whole education sector**. This corresponds to Option (iii) recommended in the Danish paper;

2) The eligibility for funding under the Catalytic Fund (CF) should, as is now the case, be made on the basis of a sector-wide plan. All EFA goals[2] should be eligible for funding, i.e., Option (ii) in the Danish paper. Unless the CF is replenished at a level well above the current level, extending CF funding to the whole sector would spread the Fund too thinly. By targeting neglected areas in primary education (quality and equity) and other EFA goals so far largely neglected by governments and donors alike, the CF would add value by: "…doing things that would not happen in its absence" as recommended by the FTI Mid-Term Evaluation. The cost implications of extending CF funding to EFA goals other than primary education would need to be assessed. However, given the chronic underfunding of areas such as female literacy and "second chance education", even small allocations could have significant catalytic effect;

3) "The scope of the FTI generally" should be extended beyond the FTI Trust Funds to **engage much more on strategic global coordination and monitoring issues regarding the mobilization of resources, both global and at the national level, allocation and use of all aid provided by the FTI donors**. The paper highlights *as examples* ten such **global** issues which are not adequately dealt with in the current education aid architecture: (i) Education's low share of ODA; (ii) Monitoring of delivery on aid commitments; (iii) Urgent need for counter-cyclic aid during the crisis to preserve gains since 2000; (iv) Avoiding uncoordinated donor withdrawal from/entry to a country or sector; (v) Addressing aid dependency and sustainability risks; (vi) Using aid strategically where it can have the strongest catalytic impact; (vii) Redressing the uneven distribution of aid among countries; (viii) Strengthening technical expertise of aid agencies; (ix) Addressing the severe underfunding of "global public good" functions in the education sector; and (x) Developing a better understanding of when and what type of budget support funding instruments to use to support education.

An extension of the scope of the FTI to take on this wider role would significantly strengthen the partnership's value added and help fill a vacuum within the international education aid architecture that now hampers education aid effectiveness. Taken together, actions in the above three areas would go a long way towards **making FTI *the* central coordination mechanism now sorely lacking in the education sector**. However, most of the types of global issues highlighted above are unlikely to be resolved at the technical level at which education aid issues normally are discussed. Therefore, new modalities for FTI to effectively address them will need to be developed. These may include a combination of (i) Solid analytical work by the Secretariat to develop options; (ii)

[2] As discussed later, CF funding may not be equally effective in supporting all the other five EFA goals. Also, the type of support may vary from analytical work and policy development in areas where sustainable policies need to be developed, to implementation support in areas where such policies are already available.

Decisions by the Board or by special ad hoc or regular high-level political/management-level meetings for FTI donor countries, aid agencies and policy makers from recipient countries; and (iii) Effective monitoring of the implementation of these decisions.

Background

At the April 2009 meeting of the FTI Steering Committee, the Danish FTI Co-Chair presented a paper aimed to initiate a discussion among FTI partners on the desirability of revising the scope of the FTI. The purpose of the current paper to provide some *pros* and *cons* on the recommendations in the Danish paper as background for the work of the Task Team that was established to explore the implications of these recommendations.

The Danish paper points out that, as FTI has evolved, inconsistencies have developed between its stated objective -- universal primary school completion for boys and girls by 2015 -- and the practices of providing support for a much broader set of activities. The paper outlines three options:

1) "The FTI scope stays defined by MDGs 2 and 3, universal primary completion and gender. The current practice and policy interpretation of supporting all basic education, including up to nine years of schooling, is regularized, clearly stated and communicated to all. This would include all basic education in the FTI scope, including in terms of capacity development, guidelines and financing eligibility.
2) All six EFA goals could be supported by the FTI. This would still encompass all basic education as in the first option, but would put additional focus on learning needs, life-long learning, adult literacy and all aspects of quality of education.
3) Adopt a whole sector approach of FTI where the entire national education sector plan, at all levels, may be supported in terms of capacity development, guidelines and financing eligibility".

The paper recommends that: "…option 3 is pursued and that the Steering Committee endorses that further investigations on related contents and financial needs be explored in the coming months".

What is the issue?

The 2004 FTI Framework Document (FD) specifies that the endorsement for FTI financing is based on a "sector-wide program for education" (p.5), and that "For FTI endorsement, the primary education component of the sector plan is assessed in full consideration of the benchmarks of the FTI Indicative Framework" (p.6). Thus, for all the above three options, "the scope of the FTI generally" (using the term of the Danish paper) is "the whole sector approach" in the sense that a "credible" national sector plan, covering the whole education sector, will form the basis for FTI endorsement. The main issue raised in the Danish paper is whether **FTI *funding* under the FTI trust funds should go beyond primary education** (in some instances, this is already the case).

However, the Danish paper also makes an important point in noting that "It would potentially be possible within the three options proposed to distinguish between the scope of the FTI generally and eligibility for financing under the Trust Funds" (p.5, my underlining). In discussing a possible extension of the scope of FTI – and, more generally, in addressing some of the weaknesses of FTI identified in the recent FTI

evaluation **-- it is very important to keep this distinction in mind.** In fact, over the last few years, the FTI partnership has focused on the process of endorsing countries for eligibility for funding under the FTI funds, and on replenishing these funds. The partnership has given less attention to what the FTI could do -- beyond the two trust funds -- **to address more global aid mobilization, coordination, allocation and monitoring issues within the education sector**. Since the creation of the CF, there has been a tendency to equate "FTI" with "FTI funding through the CF" (and later the EPDF) -- rather than considering the CF as constituting only a part the global FTI effort, and CF funding only as a (small) part of the FTI donors' total education funding. This has tended to underestimate the actual as well as the potential benefits of this partnership. After all, neither of the two funds existed when FTI was first established.

This paper will argue that perhaps the most important scope for the partnership to enhance its **value added** within the emerging global education aid architecture is to pay much more attention to such global issues which today are not effectively address by existing aid coordination mechanisms. This lack of attention is to the detriment of the overall effectiveness of education aid. However, as discussed later, to do this successfully would require establishing a more effective mechanism for decisions and follow-up at **high political/management level within donor countries and agencies and probably better representation of partner countries in these decisions.**

In view of the above, the present paper discusses separately the pros and cons of extending, respectively, the eligibility of funding under the FTI Trust Funds (Sections 1 and 2 below), and "the scope of the FTI generally" (Section 3).

1. Should the eligibility for PACE funding be extended to cover the whole sector?

Only one of the four objectives for support from EPDF limits funding to primary education[3], i.e., funding for Objective 2 ("Capacity Development") is limited to "strengthen government technical and institutional capacity to develop and implement policies and programs to enable children to complete a full cycle of primary schooling of good quality". However, for detailed program preparation work, EPDF funding has largely been limited to primary education. But the EPDF will be replaced by the Policy and Capacity for Education (PACE) Program, and there is nothing in the three main objectives of that program (as stated in "Final Conceptual Design Document" dated November 2009) limiting PACE funding to primary education. Hence, the PACE program is designed to cover the whole education sector, in accordance with Option 3 recommended in the Danish paper.

Pros: Extending the scope of EPDF/PACE funding to analytical, program preparation and capacity-building work for all levels and types of education would help strengthen FTI's goal of promoting "sound sector policies in education" (FD, p. 3). The Danish paper notes that while there are differing opinions about whether the FTI coverage is too narrow, "…there seems to be agreement that FTI support must be based on a comprehensive education sector plan with coverage of the whole sector. Even if only a

[3] The four objectives for EPDF financing are outlined in the "Guidelines and Application Form" for EPDF funding dated February 2009.

part of the sector will receive financial support by FTI, development of that sub-sector is dependent on an integrated view of development in the respective country in general and in the whole education sector in particular" (p. 2). Consequently, as suggested by the Danish paper, it seems non-controversial – and highly desirable – that the preparation of comprehensive education sector plans should be eligible for PACE funding.

Cons: Apart from possible cost implications for PACE, it is hard to see any strong arguments against extending the coverage of PACE funding. Even on the cost side, funding of preparation and capacity-building work prior to program implementation comprises only a small part of the total education aid. Thus, if there were to be funding constraints on the PACE, the effectiveness of total aid as well as of domestic education funding, would be enhanced if, for any given amount of aid, a reallocation were made in favor of the PACE to address such constraints. Such "reallocations" should be facilitated by the decision to move to only one FTI fund covering the existing EPDF and CF.

Recommendation 1: The PACE program should cover the whole education sector, in accordance with Option 3 recommended in the Danish paper.

2. Should eligibility for CF funding be extended beyond primary education?

This is an important question. The CF was not part of the initial FTI design, and since the Fund was established, its role within the education aid architecture continues to evolve. This is normal and desirable: Where the CF can add most value is not static but changes over time in response to changes in both aid priorities and the aid architecture. Since the Danish paper was prepared in April 2009, calls for defining more precisely the CF's role in global EFA financing have also been made by the FTI Mid-Term Evaluation and in the 2010 EFA Global Monitoring Report (GMR), which both also urge for higher priority for CF funding for post-conflict and other countries that currently receive comparatively little aid[4]. This would imply giving higher priority to the CF's original purpose of prioritizing "donor orphans".

These wider questions are among **the global aid allocation issues** that the FTI partnership need to address; they will be discussed in Section 3. This Section will focus on the question posed in the Danish paper, that is, **whether CF funding should be extended beyond primary education**. In turn, the answer depends partly on the answers to the following three questions:

a) Size of the CF: How much resources can be mobilized for the CF?
b) CF's additionality to *global education funding*: To what extent does the CF provide *additional* education aid rather than funding that in the absence of the CF would have been provided through other aid modalities?
c) Additionality for a *sector target by the CF*: To what extent does targeting of CF funding on a particular sub-sector (e.g., primary education) bring additional funds

[4] The FTI Evaluation's recommends that the CF should prioritize "…funding for countries which lose out because of the vagaries of how bilateral agencies allocate their aid". This could imply returning to the CF original purpose of prioritizing "donor orphans". As already noted, the Evaluation also recommends that: "The CF should do things that would not happen in its absence" (paragraph S79).

to that sub-sector, that is, to what extent is "money fungible" so that CF funding means that other domestic and/or external funding is shifted to other sub-sectors?

(a) Size of the CF:

Pros: Extension of CF funding to the whole sector should be considered if, and only if, the CF were to be replenished at a level significantly higher than the current size of the Fund. If the CF were to be replenished at the current level, it **would be unwise to extend CF eligibility to the whole education sector** since this would mean spreading CF funding too thinly. This concurs with what the FTI Mid-Term Evaluation recommends[5].

Cons?: The decision as to whether to extend CF funding to the whole sector would need to take into account whether any of the major current or potential CF donors contribute because they want to target their support on primary education. If so, extending the eligibility of CF funding could impact negatively on CF fund mobilization (unless a special CF "window" is opened to finance post-primary education in general or special sub-sectors such as TVET). The opposite might also be true: Opening up CF funding to post-primary education could perhaps attract other donors who wants to give higher priority to TVET and/or secondary and higher education?

(b) Additionality of the CF to *global education funding*:

Pros: If the CF were to be replenished at a "high" level – turning it into more of a major "global education fund" – **extending CF funding to the whole sector must be considered.** Under such a scenario, continued focus on primary education may have unintended negative consequences for other education levels because a much larger CF is likely to reduce the volume of education aid channeled through other multilateral (e.g., IDA) or bilateral modalities. This means that a "large" increase in the CF is unlikely to mean a corresponding large increase in the total volume of education aid, especially in the current context of economic slowdown and increased competition for ODA from other important concerns such as climate change and food insecurity. This is an additional reason why **the role of the CF within the overall education aid mobilization effort** needs to be better defined**.**

Cons: The aim is to replenish the CF at the current level. In that case, CF replenishment is unlikely to further diminish aid channeled through other modalities. Therefore, to avoid spreading CF funding too thinly, CF funding should not be extended to the whole education sector. However, as discussed below, there are still good reasons why CF funding **should be extended to support all EFA goals** (Option 2).

Furthermore, at the present level of funding, the additionality of CF funding to total education aid is rather modest. Therefore, **the value added of the CF as a funding**

[5] The Executive Summary of the FTI Mid-Term Evaluation concludes that "Decisions about which EFA goals and which education sub-sectors the FTI should support, and the extent to which such support should be financial or merely technical, must be taken in the light of resource availability and the commitment of partners. There is a strong case for more explicitly expanding FTI's focus beyond UPC, but here will be little benefit in doing so unless the financial implications are factored in. In particular, it would be counterproductive to expand the focus of the Catalytic Fund unless there is a commensurable increase in its resources" (my underlining), paragraph S74.

instrument in closing the "funding gap"[6] for the whole sector would be rather modest. But, as argued below, even at the current level of funding, the CF may provide considerably additionality if the funding is targeted on EFA and, especially, on EFA goals which are currently severely underfunded by both governments and donors.

(c) Additionality of CF for a *sector target by the CF*

The question about the degree of additionality of CF funding is relevant whether or not the CF focuses on the *whole education sector* or is *targeted on one part of the sector*, and it applies to how CF funding impacts on *domestic* as well as *external funding*. The present restriction of CF funding to primary education may increase external funding for primary education in two ways: (i) *directly* by the funding the CF itself provides, and (ii) *indirectly* by the CF acting as a catalyst for mobilizing additional external funding for the sector (the "FTI endorsement effect"). As regards the latter, the Danish paper notes that: "The track record so far does not indicate that significant additional external financing from bilateral or multilaterals follow after FTI CF funding has been approved for a country and its sector plan" (p.5). The FTI Mid-Term Evaluation also found that the "endorsement effect" has been modest.

The extent to which the resources provided by the CF has added to total funding for primary education in countries that have benefitted from CF funding depends on the extent to which the availability of CF funding has shifted other potential external or domestic funding to other education sub-sectors[7] or substituted for domestic funding that would have been mobilized in the absence of CF funding. Unfortunately, available data do not permit to assess this; there is not even reliable time series for major developing regions on how the share of total public education budgets allocated to primary education has developed.

Recommendation 2: If the CF is replenished at about the current level, CF funding **should not** be extended to the whole education sector. However, because of the arguments developed below, **it is recommended that CF funding be extended to supporting all the six EFA goals**, i.e., Option 2 in the Danish paper, but not Option 3.

However, while it is recommended that the FTI Board approves the principle of extending CF funding to all EFA goals, it is necessary to assess the funding implications in order to decide on how to prioritize between different goals. All the five EFA goals other than UPE may not have equal priority for CF funding, nor would the type of support be the same. The most clear-cut priority may be adult (and especially) female literacy and "second-chance" education for youth who missed out on primary education. Cost-effective programs exist in both areas and, as discussed below, the long-term financial sustainability of such funding may be less of an issue than for some other goals. For Early Childhood Care and Education (ECCE) the focus may be on helping develop sustainable polices based on community delivery. Finally, for Goal 3 (appropriate learning and life skills programs), beyond the life skills developed through adult literacy

[6] This paper will not discuss issues related to basing the estimates of the "need" for education aid on the type of "gap analyses" used for FTI assessments. Some such issues are discussed in the FTI Evaluation.
[7] If that were the case, *total* education funding would still increase as a result of CF funding.

and "second chance" education, any CF support for TVET programs should probably be limited to short-term programs for the rural and/or informal sectors.

The ***pros*** and ***cons*** for extending CF funding to all EFA goals include:

Pros: If targeting of CF funding on a particular sub-sector results in little extra funding for that sector (because of the "fungibility of money") and, in addition, has little "endorsement effect", **what is then the value added of the CF as a funding mechanism,** especially if the size of the fund remains at the current fairly modest level? As argued below, there are good reasons to believe that if CF funding were to be extended to the EFA goals now not covered, this will help bring extra resources in support of these goals, where progress is essential **even to reach UPE**. Because of the current severe underfunding, both the direct and indirect additionality of CF funding is likely to be larger for these goals than for primary education. Thus, the CF could give a major extra impetus to address the lack of progress so far. This would add value to the CF as an **EFA funding instrument** beyond other multi- and bilateral funding. It would also respond to the recommendation in the FTI Evaluation that: "The CF should do things that would not happen in its absence". At the present level of CF funding, **this should be the guiding principle for CF funding wherever it is used**.

More specifically, extending CF funding to cover all EFA goals could bring benefits in the following areas:

(i) Create budget additionality: The main argument against targeting is the assumption that there is full *fungibility* between *external aid* and *domestic funding.* If this is the case, no particular attention is needed to the use of aid as compared to domestic funding, the argument goes; aid should be pooled with domestic funds and its use driven by the national budget process. However, the *fungibility between aid and domestic funding often does not work both ways*. While aid may replace domestic funding, domestic funding will not necessarily replace aid, should aid not be available. This is particularly the case in countries with very tight public budgets and where short-term urgencies -- such as paying teacher salaries or responding to the demands from politically vocal groups -- often take priority in allocation of *domestic funds* over programs benefitting population groups with weak political voice, or essential investments rendering benefits only in the long term. In such a context, targeting[8] CF funding on areas that often lose out in the national budget trade-offs is likely to bring additional funding to these areas (also because there is little domestic funding to de-placed).

[8] In principle, targeted funding can be provided either through investment projects or budget support with specific performance indicators targeting EFA outcomes. So far, the former instrument has by far been the one most used for CF funding. In most cases, it will remain the most appropriate instrument also in the foreseeable future to support, e.g. literacy or "second-chance education" programs. First, funding in these areas need to be accompanied with technical support for policy and program development. Second, in the case of the World Bank, practically all budget support for education over the last five years has been through general rather than sector budget support. This is the case for many other donors as well. General budget support instruments have little scope for sub-sector specific performance indicators and are characterized by very little involvement by education specialists in policy dialogue and technical support.

In short, domestic and external funding are not fully fungible, and the interaction between them is quite complex;

(ii) Promote pro-poor spending: The fact that the poor benefit far less than more well-off population groups from public education spending is very well documented, including in the 2010 EFA GMR. Faced with severe budgetary constraints, the "political economy" for governments of making trade-offs in national budget in favor of groups with weak political voice -- which typically is the case for the groups who would benefit most from funding EFA-related programs – over groups with stronger voice, is often difficult. The good progress towards UPE over the last decade has helped. However, given the resulting strong pressure on post-primary education from more vocal groups, the tendency for weaker groups to lose out in this type of budget trade-offs may increase in the medium term. These are precisely the groups who predominantly now are not enrolled in primary education, are illiterate or need "second chance" education. In short, **to extend CF funding to support EFA beyond primary education would help increase the CF's poverty focus**;

(iii) Promote a more holistic approach to achieving universal basic education: Even if CF funding were to continue to focus on UPE, this goal will be difficult to reach without progress on the other EFA goals. For example:

- To reach UPE will require major efforts to address quality (Goal 6) and equity issues (Goal 2) where, to be successful, more complex, costly and knowledge-intensive programs will be required than those implemented to achieve the general expansion of access achieved over the last decade;
- As pointed out in the Danish paper, ECCE (Goal 1) is recognized to be "an important determinant of success in primary education" (p.2) and, thus an important element of a strategy to improved quality of primary education;
- There is wide consensus on the positive impacts of mothers' literacy (Goal 4) on girls' education as well on family health and nutrition standards, the status of women, and on lowering fertility levels. Still, shockingly little is done to address the fact that almost 50% of women aged 15 years and above are illiterate in SSA and South Asia. This reflects low political priority, lack of awareness of the availability of cost-effective programs, and shortage of funding;
- Finally, second chance education for youth (part of Goal 3) who missed out on regular primary education offers multiple benefits, especially in countries that emerge from conflict.

In addition to the above, there are two more general arguments in favor of extending CF funding to all EFA goals:

(iv) Building policy development and implementation capacity: To develop and implement the type of effective and financially sustainable policies and programs required to address equity and quality issues in primary education, as well as make progress on the other EFA goals, will be both capacity and knowledge

intensive. Targeted CF funding can greatly help in developing the institutional capacity and knowledge required to succeed. In fact, as will be discussed in Section 3, support for this type of longer-term, high-impact "soft" investments are areas where aid may have comparative advantages over domestic funding;

(v) Addressing aid sustainability and dependency risks: Section 3 argues that the FTI should give more attention to the sustainability risks associated with high aid dependency. Suffice it to note here that, for the same level of dependency, the extent to which aid might create harmful dependency risks depends among others on what is financed. For example, in the absence of long-term aid predictability, use of aid (including the CF) to fund a high share of teacher salaries means that an abrupt reduction in aid could cause political risks including teacher strikes. Even with better predictability, long-term sustainability of relying heavily on aid to fund teacher salaries is an issue. Funding literacy and/or "second chance education" programs is likely to pose lower political as well as long-term sustainability risks because literacy instructors normally are not civil servants and because such programs are by nature time bound: The need will decline over time as the level of literacy increases, and thus do not create a permanent funding need.

Cons: One argument against extending CF funding to EFA goals other than UPE might be that this would spread CF funding too thinly. However, this argument is much less valid with respect to extending CF funding to the rest of the EFA goals than if funding were to be extended to the whole sector. First, as discussed above, there are good reasons to believe that extending CF funding to the other EFA goals will provide additional funding for these goals. Second, even if this were to reduce funding for primary education, at this stage in the process towards UPE -- where priority needs to be given to equity and quality -- additional funding to address the other EFA goals is an essential part of a more holistic strategy to address the quality and equity concerns. Therefore, studies should be made of how the CF most effectively can support the other EFA goals as well as of how to prioritize between different goals.

In summary, by targeting funding on neglected areas in primary education (quality and equity) as well as on accelerating progress towards other EFA targets so far neglected, **the CF can provide additionality and increased impetus for countries to focus on these areas**. In doing so, the CF would add value by: "doing things that would not happen in its absence" as recommended in the FTI Mid-term Evaluation.

3. Should "the scope of the FTI generally" be extended beyond dealing with the FTI Trust Funds?

Sections 1 and 2 discussed the pros and cons of extending the eligibility of funding under the FTI Trust Funds. This section discusses the pros and cons of extending the scope of FTI's work beyond dealing with the FTI Trust Funds to **engage much more on strategic global coordination and monitoring issues regarding the mobilization, allocation and use of the total volume of education aid provided by the FTI partnership**.

This question is relevant regardless of whether or not the eligibility for funding under the two FTI Trust Funds is extended. While the question is not put in this way in the Danish paper, it flows from the paper's observation that "It would potentially be possible within the three options proposed to distinguish between the scope of the FTI generally and the eligibility for financing under the Trust Funds" (my underlining, p.5).

To take on this broader role of handling a number of global education aid coordination and monitoring issues, which today are not given sufficient attention by existing aid coordination mechanisms, **would enhance FTI's impact on education development in a much more far-reaching way than the changes proposed with respect to extending the eligibility of PACE and CF funding**. Taken together, these changes could elevate this partnership to become ***the*** **central education coordination mechanism** now sorely lacking within the international education aid architecture, and would represent a real value added to that architecture.

To illustrate the potential for FTI to play a more strategic role in addressing global education aid mobilization, allocation and monitoring issues, examples of ten such issues are listed below. Common to these issues is that while some work is done by FTI and other aid coordination mechanisms to address them, much more urgent, systematic and high-level attention is required. In particular, the international aid community gives too little attention to whether the collective impact of donors' individual aid allocation decisions in the aggregate represents effective use of existing aid (in terms of distribution by sector, country, type of aid, etc) and is consistent with aid commitments made (e.g., by the G-8) or with agreed global development goals (e.g., the EFA goals);

The Case for an Enhanced Strategic Aid Coordination Role for the FTI

Pros: If it is agreed that education aid mobilization must be based on a sector-wide education plan, then the need for a sector-wide financing plan follows. If money is broadly fungible between levels of education in the non-symmetric way argued in Section 2, i.e., aid may replace domestic funding, but domestic funding will not necessarily replace aid, it is difficult to assess the funding needs for any particular education level separate from the rest of the system since domestic funding may be shifted to other levels. Furthermore, because of the progress towards UPE since 2000, the budgetary pressure in the reminder of the period up to 2015 will be strongest for post-primary education; this requires extra attention to protect funding for EFA. In short, a global view on education aid mobilization, allocation and use will be even more important in the period up to 2015 than it has been in the past decade.

The FTI already plays a major role in aid coordination. However, as noted above, there are a number areas beyond activities related to the two trust funds where FTI's value added could be enhanced by reinforcing its role and capacity to address global education aid mobilization, allocation and monitoring issues which today are not adequately handled by the international aid community**.** Many of these issues are recognized in the Accra Agenda for Action (AAA) as priority issues for action to reach the 2010 aid harmonization goals. Unfortunately, little concerted action has been taken by the

education aid community to ensure systematic follow-up on the AAA commitments directly relevant to *the education sector*. Examples of such global aid issues include:

(i) Low share of ODA for education: The education aid debate focuses on bridging estimated "budget gaps" to reach EFA. This approach must be supplemented by an assessment of how well the present distribution of *total* ODA by sector reflects the multi-faceted role education plays in the development process. The existing sectoral (and country) allocation of aid is the result of complex processes in each donor country and agency responding to requests from recipient countries, traditional bilateral relations between donor and recipient countries, and advocacy by a variety of national and international constituencies. The outcome is that education aid accounts for only about 10% of total ODA, a share that has not increased as a result of FTI[9]. There is no easy "objective" answer to whether this share is "too low", given the many legitimate demands on aid from sectors other than education. Still, the question deserves more attention. The health sector has increased its share from 11% in 1999-2000 to 17% in 2006-2007 (2010 GMR, p. 226). Can a valid argument be made for increasing education's share of total aid? If so, what would the process be and how can FTI play a leadership role in this process? This goes well beyond mobilizing resources for the CF;

(ii) Poor delivery on past aid commitments: The FTI Evaluation calls for better monitoring of FTI outcomes including of delivery on aid commitments. There are many reasons for the persistent gap between actual delivery and the commitments made at various G-8 meetings to increase the volume of aid, or in the "Paris Declaration" and the AAA on "aid harmonization". In addition to governance and capacity constraints in recipient countries, there may be a lack of realism about what delivering on the promises actually takes in terms of *high-level political leadership in donor countries* and *implementation capacity in aid agencies*. There may also be a tendency to gloss over that donors have different objectives for their aid, that they often have different comparative advantages for providing certain types of aid, and that the complex democratic processes governing aid allocation and accountability in individual donor countries may lead to approaches that are not always easy to "harmonize". It is urgent -- both for donor credibility and aid effectiveness -- that serious attention be given to that aid commitments made are realistic and that constraints on delivering on commitments made are addressed. This point has become even more urgent following the recent conferences in Copenhagen on climate and in Rome on food security: To what extent will the new commitments mean additional aid, or represent reallocations of existing commitments (including for education)?

(iii) Urgent need for counter-cyclic aid during the crisis: The recent rapid progress towards UPE in SSA was made possible by rapid growth in education budgets resulting from strong GDP growth, a rising share of GDP spent on education and

[9] The increase in education aid since 2000 has been due to an increase in total ODA and not due to higher priority for education.

growing external aid[10]. Domestic public and private education funding are both likely to suffer during the crisis[11], and education aid fell by 13% between 2006 and 2007. Given that education aid (in 2006) accounted for about 25% of the education budget of the median SSA country, what happens to the level of aid is likely to play a **decisive role** in preserving the hard-won education gains of the past decade and in avoiding a return to the education decline of the 1980s and 1990s. Therefore, the **top short-term aid priority** should be to help avoid such a setback by **using aid counter-cyclical** to mitigate the impact of the crisis on domestic education funding. Because of the difficulty in reverting education decline, counter-cyclic funding is more important for education than for some other sectors: While construction of a road may stop for a while and then resume, closed-down schools take long time to re-start and will have long-term negative impact on children's life chances. However, aid did declined in past economic crises, and the type of high-level aid coordination required to avoid the same to happen this time is not taking place;

(iv) Avoiding *uncoordinated* withdrawal from/entry to a country or sector**:** This is critical to improved predictability of aid flows, recognized as a central concern in the AAA, and of particular importance in countries with a high level of aid dependence. In particular, there is a risk that the pressure on post-primary education could result in donors reducing support for primary education in an uncoordinated manner. The recent decision by the AfDB to focus on TVET and higher education is illustrative in this regard. This decision may be well-founded, but was "unilateral". Similarly, the share of the World Bank's lending commitments to primary education in SSA declined to 26% as an average for FY05-09 (return to the pre-Jomtien level) from 46% for FY95-99 and 50% for FY00-04. Recent data suggest that other donors are also switching towards post-primary education. While overall aid commitments for education in SAA declined by 13% between 2006 and 2007[12], the decline for primary education was 24%, reducing primary education's share in total aid from 54% to 47%, i.e., below the "pre-Dakar" level of 53% in 1999-2000. Again, it is hard to know whether this decline is justified since the distribution of aid by level of education is the end result of many individual decisions, rather than a coordinated assessment of aid priorities. Finally, new donors are entering the education sector (e.g., China in Africa). What can be done to ensure that their aid is coordinated with that of existing donors?

(v) Aid dependency and predictability: Much attention is given to the need to increase the volume of aid. Little attention is given to how best to manage the risk of

[10] On average for SSA, education budgets grew annually by about 9% between 1999 and 2006 as compared to about 1% during the period 1980-1999.

[11] The 2010 GMR estimates that for SSA, "… the resources available for education could fall by US$4.6 billion a year on average in 2009 and 2010, or more than twice the current amount of aid to basic education in the region", p. 20.

[12] Based on data from the 2010 GMR. The entire decline in overall education aid between 2006 and 2007 was for primary education; aid levels for secondary and tertiary education increased.

increased aid creating harmful dependency and not being sustainable[13]. Concerns about the impact of such risks have increased as a result of the economic crisis, especially in SSA. Higher aid predictability is part of the answer, but this has for many reasons proven hard to achieve. Section 2 of this paper suggests that certain ways of using aid are likely to create less dependency and sustainability risks than other ways. The FTI partnership can play a strategic role in devising modalities to enhance both the additionality and the sustainability of education aid;

(vi) Strategic use of aid to increase its catalytic impact[14]: The catalytic impact of aid on education in a country depends on the purposes for which the aid is used. This is so because, as discussed above with respect to additionality of CF funding, there is not full fungibility between domestic and external funding in a low-income country context of high aid dependency and severe budget constraints. Therefore, FTI should give more concerted attention to how the catalytic impact of aid can be increased through, e.g.,: (a) Enhancing *additionality* by avoiding that aid substitutes for domestic funding thus increasing dependency without increasing the resource base; (b) Using more aid for *"soft investments"* with high long-term impact but that often are difficult to prioritize over short-term urgencies in national budget processes, e.g., analytical and policy work, "south-south" cooperation, piloting innovations, consensus-building on polices, capacity-building; and (c) Ensuring that *aid priorities evolve* to respond to emerging national *education priorities*. For example, the progress towards UPE has shifted the priorities to quality and equity at the primary level, increased funding for EFA goals so far neglected, and sustainable expansion of post-primary education;

(vii) Distribution of aid among countries: The AAA calls for donors to "…work to address the issue of countries that receive insufficient aid", (para. 17). There are huge differences in the distribution of aid among countries. In 2007, aid commitments to primary education per primary school-aged child averaged US$14 for SSA (down from $18 in 2006). Twelve countries received US$5 or less per child while seven received more than US$50. The differences are explained by factors such as traditional links between some recipient and donor countries, the difficulty of providing effective *development* aid in some conflict-affected countries, and last decade's focus on performance-based aid to address low aid effectiveness. However, developments over the last decade, including enhanced national commitment to education, and progress from conflict to post-conflict, necessitate a change in strategy in favor of countries which are far away from reaching the 2015 EFA goals[15]. A key element would be to develop more

[13] Some argue that the relatively high level of aid to Africa over several decades have impacted negatively on the countries' efforts to mobilize sustainable domestic funding for development, resulting in high aid dependency without enlarging the resource base. See for example Dambisa Moyo: "Dead Aid: Why Aid is Not Working and How There is a Better Way for Africa", Farrar, Straus and Giroux, New York, 2009.

[14] See Birger Fredriksen: "The Evolving Allocative Efficiency of Education Aid: A Reflection on Changes in Aid Priorities to enhance Aid effectiveness", The World Bank, Washington, November 2008.

[15] Note however that some of these countries have performed very well the last decade (e.g., Burkina, Ethiopia, Mali, and Niger). The problem is that they started out with less than 10% enrollment at independence compared to the SSA average of around 40-45%.

effective approaches to provide education aid to post-conflict countries. This will not be easy considering the complex issues faced in countries such as DRC and South Sudan. However, as a general rule, the progress towards the global EFA goals is likely to be enhanced *by changing the allocation of education aid by country*. Again, this type of strategic choice should be high on the FTI agenda;

(viii) Capacity of aid agencies to provide technical support: The AAA calls for donors to "…strengthen their own capacity and skills to be more responsive to developing countries' needs" (para. 14). At its inception, ODA focused on technical rather than financial aid. This changed as bi- and multilateral agencies were established to provide both types of aid. The shift towards financial aid has increased in recent years and the capacity of agencies to provide high-quality and well coordinated technical support continues to decline. This happens at a time when developing countries need more, not less, assistance to help build their capacity to develop and implement evidenced-based policies and programs.

There are many reasons for this development. The shift to budget support and other multi-sectoral operations has led to a shift towards generalists and macro economists managing many operations supporting education, and sometimes acting on behalf of lead education donors at the country level. As a result, what is gained in improved focus on macro and inter-sectoral issues risks being lost by less focus on education-specific issues. Second, increased use of general budget support has reduced aid funding for technical support. In a context of severe budget constraints and many short-term urgencies, it has proven more difficult for education ministries to obtain financing for analytical work, knowledge sharing and technical support *through the national budget processes* than when such support is externally financed through projects. EPDF has been helpful in bridging part of this gap. Third, the "technical assistance market" comprises a large number of suppliers ranging from individual consultants to academic institution, mostly from donor countries. This market is very fragmented and often neither the providers nor the users are well informed about the best expertise available to address the problem at hand. Often, quality assurance is poor, and funding is tied to use of institutions in the donor country. In short, despite concerns expressed by technical staff in aid agencies, there is little concerted action by the international aid community to address the declining technical capacity of aid agencies, though PACE may offer possibilities to address some of the issues related to the distribution between financial and technical aid;

(ix) Severe under-financing of "global public good" functions**:** Donors also urgently need to review the distribution of aid between country-specific and "global public goods" in the education sector. Available funding for regional cooperation, networks and cross-country learning -- as well as for global and regional institutions providing "global public good" functions in the education sector -- is very scarce. While the overwhelming share of aid obviously should go directly to countries, the effectiveness of country-specific aid may improve if donors were to shift even slightly the balance of their aid in favor of strengthening (in addition to

their own technical expertise) the capacity of regional, pan-African and global public good education institutions to provide on-demand technical support and policy advice to countries. Again, this would be in line with the commitments made in the AAA, which stresses the need to support South-South cooperation as well as to enhance the capacity of "…all development actors – parliaments, central and local governments, CSOs, research institutes, media and the private sector" (para. 13). However, networks such as ADEA and organizations such as UNESCO have found it very difficult to mobilize sustainable funding for this type of activities. This is no doubt partly related to the problem of measuring outcomes of this type of support, and the tendency to "treasure (and fund) what we can measure". While this is a complex issue, not addressing it likely undermines the overall effectiveness of education aid at the country level;

(x) Funding instruments. Finally, there is a need to develop a better understanding -- among donors as well as among donors and recipient countries -- about under which conditions and for what purpose different funding instruments work best. *Program-based aid* within the framework of Sector-Wide Approaches (SWAps) is a central pillar of the drive to improve aid effectiveness through better coordinated, performance-based aid in support of country-owned programs. However, views vary on which funding instruments work best to support SWAps. In particular, the respective roles of General Budget Support (GBS) as compared to Sector Budget Support (SBS) need more attention as does the balance between budget support and targeted projects. No single instrument can alone address the variety of issues and contexts found in low-income countries, and the continued search for better instrument is important for enhancing aid effectiveness. Relying on countries' own systems, as do GBS and SBS, has many advantages over aid provided through projects operating parallel to national processes. GBS to ministries of finance also helps to elevate key education issues and inter sectoral linkages (e.g., decentralization and civil service reform) to a higher political level within governments. However, as noted above, use of GBS has had negative impact on the ability of aid agencies to maintain their technical expertise in the education sector, and on recipient countries' ability to fund various types of technical support. There are also questions with respect to the degree of additional GBS funding has provided to the education sector. Finally, and important, **what type of funding mechanism should be developed to address the underfunding of "global public good" functions in the education sector**?

In summary, there is little systematic action at the international level to address the above type of strategic issues regarding the mobilization, allocation and use of external education aid. Presently, FTI promotes coordination at the country level through the Local Education Groups (which often need to be strengthened), and at the central/donor headquarter level through the FTI Board, both supported by the FTI secretariat. As noted in the FTI Evaluation, the Secretariat needs to be strengthened as well. But most such global issues *are unlikely to be resolved at the technical level at which education aid issues normally are discussed.* Therefore, new modalities for FTI to effectively address them will need to be developed. These may include a combination of (i) Solid analytical

work done or sponsored by the Secretariat to develop options; (ii) Decisions by the Board or by special ad hoc or regular high political/management-level meetings for FTI donor countries, aid agencies and policy makers from recipient countries; and (iii) Effective monitoring by the Secretariat of the implementation of these decisions.

Recommendation 3: The FTI Partnership should focus on the Catalytic Fund and should become an effective mechanism for addressing global education aid mobilization, allocation and monitoring issues which **would make the FTI the central education coordination mechanism which is now sorely lacking within the international education aid architecture**.

Concluding remarks

There has been a notable global drive since the 2000 Dakar Education Forum to improve the **quality of national education sector plans and decision making** as a basis for mobilizing more domestic and external resources for education as well as for promoting more effective resource use. FTI has played an important role in this effort. However, the international aid community has not given the same degree of attention to the potential for increasing the catalytic impact of education aid through better **quality decision-making and follow-up on global aid mobilization and allocation issues *by donor countries and agencies***. Many such actions were agreed in the Paris Declaration and the AAA, but there has been little systematic follow-up in the education sector.

An extension of the scope of FTI to take on this wider aid coordination role would significantly strengthen the partnership's role and help fill a vacuum within the international education aid architecture that now hampers the effectiveness of such aid. Taken together, actions to **extend the role** of (i) the PACE to cover the whole education sector, (ii) the CF to cover all EFA goals, and (iii) the FTI partnership (beyond these two Funds) to become an effective mechanism for address global education aid mobilization, allocation and monitoring issues **would make the FTI the central education coordination mechanism now sorely lacking within the international education aid architecture**.