BOD/2011/05—DOC 09

Meeting of the EFA FTI Board of Directors

Kigali, Rwanda, 18-19 May 2011

Results-Based Replenishment

For Decision

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1. Purpose

The purpose of this paper is to seek the endorsement of the EFA FTI Board of Directors of a results-based replenishment approach and the approval of the EFA FTI Board of Directors for the EFA FTI Secretariat to continue its development.

2. Background

This report outlines a results-based approach that underpins the EFA FTI replenishment effort to be launched in the fall of 2011.

3. Proposed Decision

The EFA FTI Board of Directors is requested to approve the following decision:

> **BOD/2011/05-XX – Results-Based Financing:** The EFA FTI Board of Directors endorses the results-based approach to replenishment outlined in Annex 1 to BOD/2011/05—DOC 09 and requests the EFA FTI Secretariat to provide to the EFA FTI Board of Directors by 31 August 2011 the detailed report on the mechanism described in Annex 1, for further endorsement.

4. Reasons for Recommendation

The EFA FTI has shifted from an input-oriented approach to a results framework as the main mechanism for tracking progress and determining success of the in-country programs it supports. This mechanism will support the preparation of a mutual accountability matrix by which all EFA FTI Partners will indicate their financial and policy commitments to the EFA FTI Partnership, as well as proposed accountability mechanisms. The results framework and the accountability matrix will be fully operational in August

2011. It is critical now to develop a concrete approach to link the EFA FTI results/objectives with financing to enforce accountability within the EFA FTI Partnership. This paper addresses this financing approach.

The main objective of the results-based replenishment approach is to increase donor financing for education, including through the Education for All Fund. A results-based approach is being taken to ensure that the replenishment exercise supports the key EFA FTI goal of improved effectiveness of education financing. This will be achieved through additions to the EFA FTI Compact:[1]

- Donors will be asked to increase their financial support to education and to contribute to the new Education for All Fund.
- In return, the EFA FTI Partnership will commit to achieve critical results in terms of access and quality.

This system will facilitate donor accountability for the impact of their funds in the education sector and is intended to strengthen political support within donor countries for their development budget in the sector. At the country level, the EFA FTI will support the development of results-based financing mechanisms. The results expected will be defined in terms of the EFA FTI's three current priorities: quality, out-of-school children and fragile states. These mechanisms will ensure that strong incentives are given to developing country partners and to stakeholders involved in service delivery at the school level.

The EFA FTI Secretariat will put in place an effective accountability system through the implementation of the monitoring and evaluation strategy. A specific reporting system will be developed for donors supporting the Education for All Fund.

The details of the strategy are provided in Annex 1.

5. Next Steps

The EFA FTI Secretariat will provide a more detailed report on the results-based replenishment mechanism by 31 August 2011. The Secretariat will work closely with partners that have been

[1] The EFA FTI Compact is described in the Governance of the Partnership document.

significantly involved in this field. The questions that will be addressed in the paper are listed in the final section of Annex 1.

6. Costs of Initiative and Source of Funding

The EFA FTI Secretariat will hire a consultant for three months to support its work in finalizing the proposal. This is expected to cost approximately US $40,000 and is included in the budget for the EFA FTI Secretariat which will be presented to the EFA FTI Board of Directors for approval at its meeting on 18-19 May in Kigali, Rwanda.

7. Contact

Board members and others with questions on these matters are invited to contact the Global Good Practices Team Coordinator, Luis Crouch, at: lcrouch@educationfasttrack.org.

ANNEX 1: RESULTS-BASED REPLENISHMENT

Making the Case

The EFA FTI will undertake a replenishment exercise for the Education for All Fund in 2011. This exercise has two main objectives:

- To increase external financing for basic education in EFA FTI countries in predictable and sustainable ways.

- To attract financing for the Education for All Fund.

These two objectives are linked to the core EFA FTI Partnership goal of improved effectiveness of education spending. Low effectiveness of public expenditure diminishes a Ministry of Education's bargaining power during its negotiations with the Ministry of Finance. At the same time, donors need to see short-term results/impacts to maintain the political support necessary for increasing their development budget.

Education represents a substantial share of public expenditures in EFA FTI developing country partners (often the largest share), and low-income countries have made a significant financial effort over the last decade. In these countries, education spending as a share of Gross National Product (GNP) increased from 2.9% in 1999 to 3.8% in 2008 (EFA Global Monitoring Report 2011). However, the financial crisis could stop this momentum.

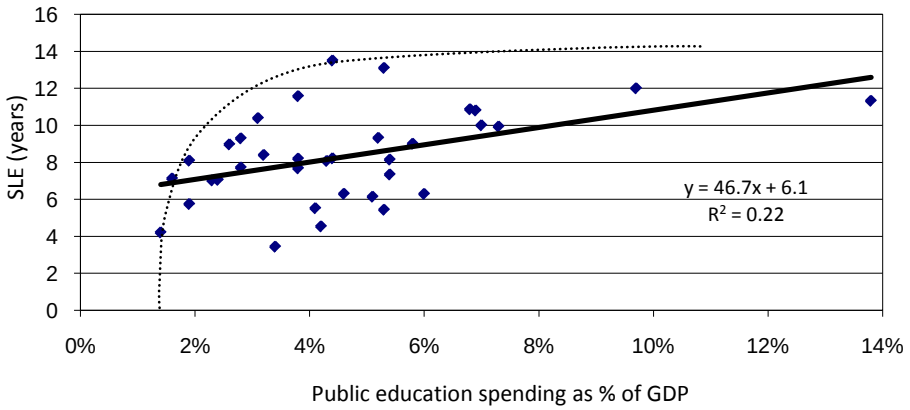
Moreover, the effectiveness of education expenditures is not as high as it can be, and varies widely across countries, which demonstrates that there is room for improvement. The following figure[2] compares public expenditure on education as a share of Gross Domestic Product (GDP) and education coverage measured in terms of school life expectancy. The more countries spend on education, the higher the school life expectancy. However, this relationship is weak; and increased spending for education explains only 22% of the increase in coverage.

The curve in Figure 1 below (represented by the dotted line) identifies countries that are most efficient at achieving a higher level of educational coverage for a given volume of public spending. Countries close to the curve achieve the most coverage while those below the curve are less efficient.[3]

[2] Mingat and Majgaard (World Bank-EFA FTI, forthcoming), Education in Sub-Saharan Africa: A Comparative Analysis: 2011.

[3] Note that this "efficiency" may be true productive efficiency in turning money into school access, or may be due partly to the fact that public spending is capable of leveraging private spending, due to a high demand for education in the country. This may represent a high degree of fiscal efficiency (public funding leveraging private effort), but not necessarily a higher degree of true or productive efficiency, and the latter is more important than the former.

Figure 1: School Life Expectancy and Public Education Spending in SSA Countries, 2005



It is important to underline that the allocation of public financing is also inequitable. Mingat and Kirsten (forthcoming) find that, on average, the 10 percent most educated in the low-income sub-Saharan African countries benefit from 43 percent of public spending on education.

Therefore, it is critical to improve the effectiveness and equity of education financing to attract more funding from governments and donors. However, getting results is not a sufficient incentive for donors to allocate funds to education. Some bilateral donors need to be visible at the country level especially those with strong socio-economic links with a number of developing countries.

In some cases, development coordination at the country level works against visibility; and thus may prevent some donors from increasing their presence in the sector via *pooled* funds and other such sector-wide financing arrangements. Since the spending of such funds may be more efficient because they decrease transaction costs, the need for visibility, which can help generate funding but militates against *pooled* funding, may work against efficiency. These are complex trade-offs that need to be analyzed and understood. At the same time, at the global level these donors may not have enough incentives to support a pooled Education for All Fund, which does not offer enough visibility for their contributions and prevents them from providing the results reporting expected by their tax payers and constituents. Rather, their visibility would be stronger with bilateral support to their "preferred" countries.

There is also a risk that an increase in education funding at the global level may lead to a decrease in both country-specific external funding (bilateral and multilateral) and domestic funding from government budgets. Due to the current financial crisis, all donors are making trade-offs as they look at the most effective use of their limited resources. Increased external aid for basic education increases the risk for inter-sectoral or sub-sectoral substitution at the country level, as more fiscal resources are re-allocated to sectors or sub-sectors (like tertiary education or vocational training) which traditionally benefit from less external support.

What is the EFA FTI Experience?

The EFA FTI Mid-Term Evaluation report concluded that "global evidence does not suggest that the EFA FTI has had a large positive effect on the level of external or domestic financing for education or basic education as envisaged at its inception."

The Evaluation states that a large catalytic effect may not have been achieved for different reasons, including:

> "(a) the lack of understanding of local donors of their intended role in the FTI partnership; (b) the fact that changes in donor support were related mainly to HQ decisions based on internal donor incentives or to political changes in country; (c) the fact that the FTI is not seen by local donors as a major influence on strong education sector planning and donor coordination." Moreover, "the absence of FTI mechanisms to monitor donor performance against commitments at country level or globally, indicates that the donor part of the FTI "compact", which was supposed to ensure accountability for aid commitments to basic education at country level, is extremely weak."

Most fiscal transfers, even within countries and even when countries use their own funding, do not have the catalytic effect that was originally desired, unless they are very tightly linked to results. So original expectations on EFA FTI funding may have been naïve, or inconsistent with the statement of results expected. In addition to reporting results and funding based on results, creating catalytic effects requires a significant amount of policy dialogue and conviction, not mere agreements, tracking and benchmarking. This is because there is never a good counterfactual; one never knows how much a country *would* have spent in the absence of the transfer. Drawing a historical baseline is not enough. Thus, the policy dialogue within the countries (not just between donors and countries), including the mobilization of civil society organizations, is needed to alter the "preference structure" for education spending and to create "ownership" of the desired spending pattern.

Finally, there has not yet been clear evidence that EFA FTI developing country partners achieved better results as against education indicators after their endorsement.

In the EFA FTI Framework document (published in 2004), finance was identified as one of the key constraints to accelerating universal primary education. It was assumed that an increase of external and domestic resources combined with an improvement of coordination would enable countries to focus more attention and resources on service delivery.

However, the EFA FTI Mid-Term Evaluation Report underlined that "SWAps and associated coordination mechanisms, have focused on and improved upstream policies and plans and the alignment of aid. However they also have not focused downstream." They did not manage to affect the behaviors of domestic stakeholders involved in service delivery. Therefore, reforms have failed to "ensure the delivery of high quality, pro-poor services."

Proposed Approach and Mechanism

The EFA FTI Partnership should take into account the points described above to ensure that its replenishment effort leads to improved results in education. The new approach consists of strengthening the EFA FTI Compact through better accountability. Donor partners would provide more predictable aid and developing country partners would commit on concrete results and a sustained level of domestic resources for education. The EFA FTI Secretariat is finalizing a monitoring and evaluation strategy for the EFA FTI Partnership. One of its components is an accountability matrix that will describe the roles, responsibilities and commitments of EFA FTI Partners. This tool will enable the EFA FTI Board of Directors to monitor both donors and developing country partners, and ensure that they are on track to meet their commitments. Furthermore, because it is difficult to tell how much a country would have spent, or would have achieved, in the absence of the external financing, results-based financing must be accompanied by an internal policy dialogue (e.g., through the encouragement of civil society organization efforts to demand results and sustained spending) that will firm up internal ownership of the need to invest in education, and the need to focus on results.

The EFA FTI strategy will focus on specific results in terms of education quality, access for marginalized children (especially girls) and support to fragile states. At the heart of this approach is the design and implementation of new financing mechanisms aimed at strengthening the link between continuous and scaled up financing and these specific results. The approach will have two parts:

i) at the global level, linking external financing to the total results in all EFA FTI developing countries; and

ii) at the country level, linking external financing to specific results within each developing country.

Global Level: The first part consists of improving the link between aid and results at the global level, especially for financing provided by the Education for All Fund. This would be accomplished by improving accountability between donors and the EFA FTI Partnership at the global level. Education for All Fund donors will be able to claim specific results achieved at the country level. In return, they will be expected to commit to providing financial support to the Education for All Fund and to the EFA FTI Partnership more broadly. This would be done by linking allocations from the Education for All Fund for country-level activities with a specific set of results and achievements. The EFA FTI Secretariat would be responsible for negotiating with each donor the set of results that would trigger a part of its disbursement. Each donor would have different triggers in order to mitigate the risk of non-disbursement.

This approach will not be compulsory and some donors will continue to contribute to the Education for All Fund without expecting specific results. In this case, the implementation of the new monitoring and evaluation strategy will provide these donors enough information to assess the progresses achieved within the EFA FTI Partnership.

For the donors who need to link their allocations with specific results, the EFA FTI Secretariat will have to ensure that the triggers will be linked to elements over which the Partnership has some control. One

of the main challenges would be the long time lag between investing the resources and achieving educational results such as learning outcomes. Only the indicators with a potential improvement expected within three years would be used, which is coherent with the time lag of most traditional donor-based spending. Hence, it will be possible to use indicators such as the rate of improvement in access or in learning outcomes in grade 2. However, it will not be possible to link the disbursement with an improvement in learning outcomes in grade 6 which depend mainly on the policies applied 6 years ago.

If we consider a three-year replenishment period, for instance, the disbursement profile for ESP implementation grants could be as follows:

- A core level of financing could be agreed, with additional "challenge" amounts to be agreed, each one in return for obtaining results from a package of results.

- During the second and third years, additional financing would be disbursed fully or partially based on the degree of accomplishment of the stated results.

To enforce complementarity and avoid substitution, it would be important at a minimum that the mechanism take into account all the resources available at country level; some of which the Education for All Fund does not provide, nor does the EFA FTI Partnership control directly. The results framework and the accountability matrix will have to provide this information.

Country level: The second part of this approach consists in developing a mechanism by which money invested in developing country partners generates the results agreed at global level (first part). This mechanism will ensure that clear incentives are filtered down to the delivery points at the school level.

This mechanism would be strengthened at the local level by ensuring that EFA FTI Partners are accountable for results that are critical for the EFA FTI. Allocations for country-level activities from the Education for All Fund would be based on a request describing a program or a project with specific objectives and activities to finance. In addition, the developing country partner would commit to specific goals that would be consistent with the results identified at the global level, and would depend on management and policy factors within the government's control. For added incentive, an additional disbursement of funding would be made available contingent upon successful achievement of the agreed results at the end of the program/project and after an independent verification. An example would be achievement of an agreed level of reading success.

Operational Implications

At the country level, the main challenge will be to shift the preference and the interests of the local and lower level units (decentralized departments of the government, municipalities, schools heads, inspectors, etc.) so that they agree to meet the expected results identified at the global level.

Supervising Entities will have to be identified. They will have to be both able and willing to implement the potential complexities of this innovative financing system.

It should be noted that the World Bank is developing a new financing instrument, the Program for Results lending. This instrument would be adapted to the needs of the new policy of the EFA FTI.

Disbursements would finance defined borrower expenditure programs designed to achieve specific results. Disbursements would not be based on individual transactions or vouchering of expenditures, but upon achievement of results and performance indicators.

Other multilateral and bilateral partners are likely to be able to implement results-based financing mechanisms. Budget support programs are already in place in some EFA FTI developing country partners, and it would be easy to identify results that would give clear incentives for improvement and that would be coherent with EFA FTI priorities.

Many mechanisms have been developed and applied to link results and external aid, including the following:

- Output-based aid (OBA) consists of output-based payment of a subsidy to cover a funding gap to access basic services by the poor. Few OBAs have been tried in education.[4] The OBA educational schemes in developing countries aim at targeting services mostly to low-income households. OBA focuses on the supply side of education. For example, the Punjab Education Support project, funded by the World Bank in Pakistan, offers a monthly per-student subsidy to low-cost private schools, with complete freedom on how the school spends it.
- Conditional Cash Transfer (CCT) programs provide cash payments to poor households that meet certain behavioral requirements. CCT schemes in education focus on demand-side of education services by providing incentives for families to send their children to school. There is no requirement that parents prove they spent the money on education, instead they must only prove that their children are in school.
- Cash-on-delivery Aid (COD), proposed by the Center for Global Development, involves payments to the recipient government after measurable progress, only for as much as is verifiably achieved, without prescribing the means or the policy to achieve the results (but prescribing the means of verification of results).
- Global and Sector Budget support implemented by many agencies in various countries use results indicators but according to the EFA FTI Mid-Term Evaluation Report, this instrument failed to provide good incentives for local stakeholders to improve service delivery.
- Many federal and quasi-federal countries, such as Brazil and South Africa, have tried similar mechanisms with their own funding.

To implement a new financing system based on results, the main challenge will be to enforce the accountability system. As described above, if the results are not achieved, then the disbursements will not take place. However, what will happen if donors do not respect their bilateral financing commitments at the country level? The same issue will arise if governments do not meet their financing commitments. The Results Framework and the accountability matrix will provide information on the amount of funds committed by donors and governments but there are no means to enforce these commitments.

To make the changes permanent and sustainable, another important challenge is to ensure that forces within the countries (civil society organizations, pro-education and pro-results points of view within the governments themselves, etc.) are strengthened and are able to advocate, manage, and demand long-

[4]Global Partnership on Output-Based Aid (GPOBA), Note Number 32 March 2010.

term accountability for these changes. There will always be competition for funds from other sectors, and a tendency to "backslide" on accountability for results. The trick is to make education investment funding and a results-based orientation "stick" and this requires not just incentives, but conviction to sustain the incentives.

The EFA FTI Secretariat will play a critical role in this mechanism by providing monitoring. The implementation of the monitoring and evaluation strategy will provide information regarding the results achieved and the impact that the EFA FTI has at the country and global levels. Moreover, the EFA FTI Secretariat will provide specific accountability to the donors about the achievement of targeted results they are interested in, as specified when they commit to contribute funds to the Education for All Fund. At the same time, other efforts will be made to ensure policy dialogue and capacity building, including advocacy for both education investment and results, so that the results are sustainable over time.

Expected Results

The EFA FTI Secretariat will provide to the EFA FTI Board of Directors and other partners a more detailed report on the results-based replenishment by 31 August 2011. The document will answer the following questions:

- To what extent can the in-country procedures support a results-based system at the global and at the country- levels: What would be the implication in terms of legal documents and human resources for the EFA FTI Secretariat (and the Local Education Groups)?
- What are good practices for results-based financing mechanisms at the country level in education? In particular, which mechanisms ensure that financial support (or some other form of strong incentives) reaches the schools and poor populations? Special attention will be given to the issue of a system for independent verification of achievement of results.
- What would be the best way to promote the generalization of results-based mechanisms within the EFA FTI Partnership for developing country partners expecting a new grant from the EFA FTI trust funds and for countries currently implementing a program supported by an EFA FTI grant? Identify donors that could serve as Supervising Entities in addition to managing their existing financing instruments and identify countries that would be interested in using those instruments.
- Identify the donors that would support the Education for All Fund, determine what performance indicators they would want to monitor, and ensure the indicators are coherent with the EFA FTI's three current priorities – quality, out-of-school children, and fragile states.