FUNDING MODALITIES STRONGLY ALIGNED WITH COUNTRY SYSTEMS

Aligned funding modalities essentially follow the same rules, tools, responsibilities, and accountabilities that are used for the implementation of the country's national budget and domestic financing. But this alignment with country systems still allows considerable flexibility and adaptation to different contexts, and development partners' appetite for the management of opportunities and risk.

There are two broad categories of funding modalities aligned with country systems: (i) **Budget support** and (ii) **Aid-on-Budget** (also known as ringfenced budget support)

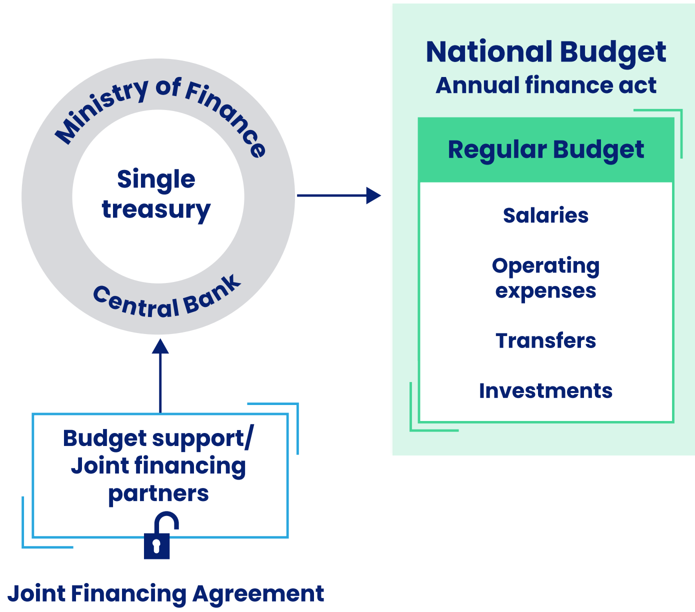
Budget support

Budget support involves financial transfers to the national treasury of a partner country. The financial transfers are fully combined with other resources in the national treasury, indistinguishable from domestic financing and therefore contribute to the implementation of the government's overall budget.

These transfers are conditional on policy dialogue, performance assessments and the attainment of pre-agreed targets, as results-based financing. General budget support will focus its conditions on broad government reform targets, or a mix of targets across several sectors. Sector budget support will focus its conditions on sector-specific targets and sector-specific policy dialogue.

Budget support requires a higher degree of confidence from Development partners and is usually practiced in countries which are perceived to have stronger public financial management systems.

Development partners will use a range of diagnostic tools and benchmarks to make this determination, as well as localized evaluations. Examples of tools include the World Bank's Country Institutions and Policy Assessment (CPIA), Public Expenditure and Financial Accountability reports (PEFA), Public Expenditure Review (PER), Open Budget Survey (OBS), Public Expenditure Tracking Surveys (PETS), Fiduciary Risk Assessment (FRA), etc.]

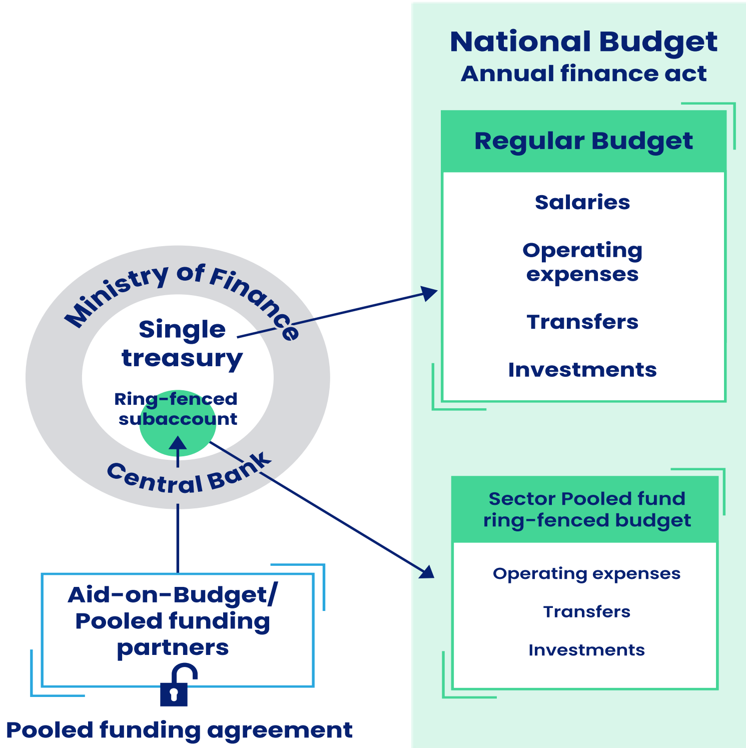


Aid-on-Budget / ringfenced budget support

Aid-on-Budget involves transfers to a separate, or ringfenced account at the national treasury. The financial transfers are not combined with other resources in the treasury and dedicated budget lines will be programmed annually. This **ringfenced expenditure** is planned, programmed and drawn down from the ringfenced account at treasury, and tracked as distinct budget items in the annual finance law voted by the country's parliament, and in the country's integrated financial management information system.

The distinguishing of external funding, both as ringfenced resources and annually programmed expenditure in the national budget, allows many options for additional controls and oversight [joint dialogue on annual programming and eligible expenditure, targeted audits or diagnostics, technical support, etc.]. Aid-on-Budget therefore provides the ability to align aid in contexts where Development partners may have less confidence in national systems and are not willing or able to provide budget support.

Aid-on-Budget also allows governments that are fiscally constrained to program additional resources for education, through their systems rather than through off-systems modalities. This can support system strengthening by covering important funding gaps, not only in capital expenditure but in non-wage recurrent expenditure that is vital for front-line education services to function better. Aid-on-Budget also offers the advantage of shielding ministries of education from cash flow management issues that may occur with the regular national budget.



Funding modalities not strongly aligned with country systems

Aligning funding modalities with country systems may not be feasible in some countries and contexts, or relevant for all types of interventions. This will depend on the nature and scope of the proposed funding, the supply of modalities that development partners are able to offer – including the required capacity and expertise of development partners to do so – and the relative robustness of country systems.

As a result, many funding modalities are not strongly aligned with country systems. These modalities conceptualize and use alternative implementation mechanisms. While there is considerable variance in such practices, two are common: (i) direct implementation (or subcontracting) by a development partner, delivering services or technical support; (ii) use of a project implementation unit (PIU).

The latter is an ad hoc unit, often comprised of contract staff, that will provide proprietary services for implementation, using planning, programming, financial management, accounting and reporting mechanisms preferred by the development partners. These units may collaborate to varying degrees with directorates of the ministry of education and other public sector units but will take day-to-day charge of most of the management functions.

In some cases, project implementation units may even be embedded within ministries of education and make partial use of country systems. Depending on the details, this may be a better practice than no use of country systems at all, but it still entrenches the use of a parallel implementation unit and comes with some notable risks. Among these are the risk of creating a dual-tier management system, with special privileges and capacity building opportunities for PIU staff rather than the regular civil service and introducing unsound derogations or distortions in the practice of country systems.

Depending on the context, not strongly aligning with country systems may be the best or only option available to implement external financing. In addition, direct implementation modalities are often used to provide targeted capacity supporting services next to a main funding modality, such as technical assistance, external audits or reviews and the supervisory functions of the grant agent. Funding modalities that are not aligned with national systems therefore constitute an important modality, either as the main implementation mechanism or as a minority mechanism providing targeted support functions.

Co-financing, joint financing, pooled funding – reducing the fragmentation of aid

Because the fragmentation of aid undermines national systems and coordination, GPE encourages a degree of consolidation of external aid, rather than multiple stand-alone modalities. This can result in:

- A **Joint financing arrangement**, where partners contribute through **budget support**, on an agreed framework of conditions and Results-based financing (RBF) targets.
- A **pooled fund**, where partners pool their resources to support implementation through an **aid-on-Budget** modality [ringfenced budget support].
- **A co-financed project**, where partners support implementation through an ad hoc implementation mechanism [such as a project implementation unit].