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Published by:
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Cover photo: Students raise their hands in a classroom in Madagascar.

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Acknowledgments

These guidelines have been prepared by secretariat of the Global Partnership for Education (GPE) to facilitate dialogue at the country level for effective monitoring of domestic resource allocation to the education sector. The guidelines were developed through a consultative process involving representatives from GPE developing country partners, development partners, education finance experts, civil society organizations, and research organizations. A peer review group was established representing various education stakeholders and Partnership constituencies.

The GPE Secretariat would like to thank the members of the peer review group who, based on their vast experience on education budgets at the global and national levels, provided invaluable input during the conception and development of these guidelines. The following members of the peer review group engaged in discussions and provided written feedback on several aspects of these guidelines: Umbreen Arif (World Bank, Pakistan), Jennifer Asman (UNICEF), Liv Jennifer Bjornestad (UNICEF), Anne Brooks (DFID), Mathieu Brossard (UNICEF), Ousmane Diouf (UNESCO IIEP), Salman Humayun (I-SAPS, Pakistan), Sachiko Kataoka (World Bank), Blandine Ledoux (UNICEF), Suezan Lee (USAID), Elise Legault (UNESCO UIS), Guy Wembo Lombela (Ministry of Education, DRC), Grace Manyongaske (ZANEC, Zambia), Lancelot Mutale (Ministry of Education, Zambia), Lamulo Nsanja (KfW, Malawi), David Gerishom Otiato (Kenya National Commission for UNESCO), Borat Oung (Ministry of Education, Cambodia), Donatella Di Vozzo (European Commission), Jo Walker (Global Campaign for Education) and Tanya Zebroff (DFID, Tanzania).

The development process for these guidelines was led on the GPE secretariat side by Raphaëlle Martinez and Muhammad Tariq Khan. The lead author was Arushi Terway. Review and feedback were provided by Karen Mundy, Serge Péano and Margaret Irving. Coordination and support were provided by Marc-Antoine Percier and Tongai Makoni. Special acknowledgment is due to colleagues who have been essential in the finalization of these guidelines: Krystyna Sonnenberg, Renata Harper, Karolina Jeznach, and Francoise Philippe.
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Acronyms

CSO    Civil Society Organization
DHS    Demographic Health Survey
EMIS   Education Management Information System
ESP    Education Sector Plan
FFA    Framework for Action
FMIS   Financial Management and Information System
GDP    Gross Domestic Product
GPE    Global Partnership for Education
JSRs   Joint Sector Review
LEG    Local Education Group
MICS   Multiple Indicator Cluster Survey
MTBF   Medium-Term Budget Framework
MTEF   Medium-Term Expenditure Framework
MTFF   Medium-Term Fiscal Framework
NEA    National Education Accounts
ODA    Official Development Assistance
PER    Public Expenditure Review
PETS   Public Expenditure Tracking Survey
PSC    Public Service Commission
PTAs   Parent-Teacher Association
QSDS   Quantitative Service Delivery Survey
SDG4   Sustainable Development Goal 4
UIS    UNESCO Institute for Statistics
Chapter 1.
Introduction
The ambitious commitment of **Sustainable Development Goal 4 (SDG4): Quality Education** challenges the global community, including national governments, to provide adequate funding to “ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.” The Education Commission estimates that low- and middle-income countries will be required to more than double their domestic public expenditure on education from the current US$1.2 trillion per year to US$3 trillion by 2030 while also ensuring that financial resources are utilized more effectively.\(^1\)

The Global Partnership for Education (GPE) is a global, multi-stakeholder partnership that seeks to strengthen education systems in low- and lower-middle-income countries and in countries affected by fragility and conflict to ensure equitable, quality education for all. GPE plays a unique role in helping governments to develop and finance the implementation of strong education sector plans (ESPs) that further equity and learning. GPE leverages the financial support and expertise of donors, developing country governments, international organizations, civil society organizations (CSOs), teacher organizations, the private sector, and philanthropic institutions to ensure the delivery of results, with an emphasis on mutual accountability.

GPE recognizes that while external aid can be an important means to address funding gaps, the **key to the sustainable development of education systems and education outcomes is the national effort in both funding education and maintaining strong public financial management systems.** The relative level of education spending in the national budget, especially from domestic resources, has become a benchmark to gauge the credibility and sustainability of national education policies.

The engagement of **local education stakeholders** in policy dialogue and monitoring of education financing and spending can be instrumental in advocating for adequate national budget allocation and expenditure along with overseeing effective and transparent financial management.

In alignment with Education 2030: Incheon Declaration and Framework for Action for the Implementation of Sustainable Development Goal 4 (FFA), these **guidelines for the monitoring of national education budgets** are driven by the following principles for education financing:

- **Increase public funding for education:** increase the share of the national budget allocated to education to the internationally recommended benchmarks of 15 to 20 percent of public expenditure to education and 4 to 6 percent of gross domestic product (GDP);\(^2\)

- **Improve the availability and use of data:** improve the availability, monitoring, transparency, and use of financing data, disaggregated by education sub-sectors, including data on the scale and nature of household costs of education;

- **Prioritize those most in need:** prioritize allocation and use of education resources in ways that focus on increasing equity and inclusion, and support the most marginalized populations, including girls and children affected by conflict;

- **Increase efficiency and accountability:** existing resources to be used more efficiently through improved governance and accountability.

The **primary objective of these guidelines is to equip the local education group (LEG),**\(^3\) a country-level multi-stakeholder policy dialogue and monitoring

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\(^1\) The International Commission on Financing Global Education Opportunity, *The Learning Generation: Investing in Education for a Changing World (September 2016)*

\(^2\) GPE’s strategic plan for 2016–2020 sets the target at 20 percent of total public expenditure to be allocated to education for its partner countries. Countries that apply for GPE Education Sector Implementation Grants commit to gradually allocate and spend 20 percent of their total budget on education.

\(^3\) A generic term used by the Global Partnership for Education for the in-country multi-stakeholder sector coordination group.
forum which serves as a platform to ensure mutual accountability within the education sector, with the foundational knowledge on education sector budgets and enable them to better engage in policy dialogue and monitoring of the education sector budget development and expenditure management process.

In pursuit of these objectives, Chapter 2 of these guidelines provides foundational information on essential (and common) concepts and features of both national government budgets and education sector budgets. This chapter is structured to cover broad concepts like expenditure and revenue, before delving into budget structures and classification systems. This chapter can be seen as a brief reference guide toward a broader understanding of the key elements of a budget system. A Glossary with definitions of key terms is also provided at the end of this document for further reference.

Chapter 3 provides more in-depth information on the purpose of and activities involved at the various stages of the budget cycle, along with guidance on how education stakeholders could engage in policy dialogue and monitoring activities during these stages, and why this matters. The guiding questions presented in this chapter are not exhaustive, but rather an illustration of actions stakeholders could engage in during the various stages of the budget cycle.

The guidelines that follow are meant to provide a strong foundation and initial introduction to the essential elements of education budgets. At a later date, a resource guide will be made available that will include an annotated bibliography of additional resources developed by various partners and organizations on government budgets and education finance. Readers are encouraged to explore the additional resources cited in these guidelines and in the forthcoming resource guide to gain more in-depth knowledge.
Chapter 2. Understanding budgets
2.1 What is a budget?

A national budget is a document produced by the government, which outlines the financial plan for the financial year in terms of expected revenue (or incoming funds) and expenditure (or spending). The national budget is the primary government document that lays out the legal framework for government agencies to manage government funds; i.e., obligations, commitments, and priorities for government spending on public services. A budget can be viewed as the contract that establishes what the government will deliver in return for taxes and funding from citizens and donors.

The budget process is typically initiated by the ministry of finance with inputs from various line ministries and is debated and approved by the legislature/parliament. Once approved, the budget becomes law and can be thought of as the approved or projected budget. Various branches of the government and line ministries are then authorized to use this budget law—the approved budget—to spend government funds for public service delivery—the executed budget. Monitoring approved budget expenditure is essential for understanding how resources are allocated across government priorities, while monitoring actual expenditure sheds light on the capacity of the government entities to spend funds according to the approved budget.

2.2 Financial flows: Revenue and expenditure

A specific budget approach and format differs from country to country (see Section 2.5). However, the end product (the budget document), always provides a mapping of revenue from all sources and lists the expenditure required for the delivery of public services.

2.2.1 Revenue

Revenue within the budget document represents the income that a government receives from a variety of sources to spend on public service delivery. In most countries, a majority of funds come from revenue raised from taxes, with a varying proportion of funds also coming from external aid and public borrowing from various sources. Understanding the sources of revenue for the budget is important because these have implications for sustainability.

**Tax and non-tax revenue**—Domestic resources are obtained mainly from levies (duties and taxes) applied by the national government on economic transaction. In fiscally decentralized systems, taxes can be raised at the state or provincial level in addition to the national level. Taxes generally represent the greatest part of national revenue; therefore, the level

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4 In a small number of cases, this could be the ministry of budget.
of government revenue depends predominantly on the government’s ability to raise taxes—often weak in countries with considerable informal economies (see Glossary in Annex 1 for examples of different taxes.) Nontax revenue includes income from state-owned enterprises, fines, interest received, social contributions, and various fees levied on certain government services, etc.

External aid—External aid or official development assistance (ODA) from bilateral and multilateral donor agencies comes primarily in the form of grants and concessional loans (loans extended on generous terms, whether through below-market interest rates or longer grace periods). Reliance on external aid can be problematic for a country, as this revenue source can be unpredictable, volatile, and politically sensitive. External aid is incorporated within education sector financing and budgeting by the following three broad mechanisms:

1. General budget support is a way for the bilateral or multilateral donor to provide funds to the recipient country for the overall national budget. The funds are directly channeled to the national treasury and are allocated through the ministry of finance. The funds are not earmarked for any specific sector or program, but rather finance national government priorities.

2. Sector budget support is similar to general budget support but is allocated to a single sector (for example health or education), although not earmarked for any specific program within the sector. It is meant to fund the sector priorities established by the recipient government.

3. Program/project support is channeled from donors for specific projects or programs. These types of funds are considered on budget when they are applied directly to the government budget, similar to general or sector budget support. However, some aid does not flow through the government budget, or is off budget; it goes directly to a particular project or program and is managed by the funding agency.

Public sector borrowing—Government may also borrow funds in the form of non-concessional loans (see ‘External aid’ above for concessional loans) from multilateral or commercial banks, or in the form of financial products (like bonds or treasury bills) sold on the domestic or international capital market. Public sector borrowing is not technically classified as a source of revenue (as these loans need to be repaid) but does provide funds toward the government budget. Most often, government borrowings are not recorded in the revenue section of the budget but appear instead in the financing section dealing with the funding of the deficit.
BOX 1. EDUCATION AND DOMESTIC RESOURCE MOBILIZATION

Governments’ ability to collect revenue from internal funding sources is essential for predictable and sustainable financing. Domestic resource mobilization for education is affected by two factors: (i) the size of the overall government budget or total government revenue, and (ii) the share of the education budget within the total government budget. In order to increase the total amount of funding available to the education sector, countries should both increase the total government budget and increase the proportion of the total budget allocated to education.

A large proportion of the overall budget is funded through government revenue from taxes, like taxes on individual income and profits, on goods and services, and on ownership or transfer of property. Tax revenue is considered the most predictable income source in the longer term as it is correlated with the level of economic activity in a country, which tends to remain relatively stable. This is true even in low-income countries that are highly aid dependent. A 2014 sample of 56 low- and lower-middle-income country government budgets showed that domestically raised revenue (i.e., from taxes) accounts for, on average, well over 86 percent of overall education sector spending in the budget. In comparison, domestically raised revenue accounts for, on average, 74 percent of spending in the health sector, 57 percent in the agricultural sector, and 25 percent in the water and sanitation sector.5

Global recommendations suggest that countries should mobilize between 15 and 20 percent of their GDP to fund their full national budgets.6,7 However, the average tax revenue as a share of GDP in 2014 for low- and lower-middle-income countries was well below this recommendation at 12.5 percent. When a government does not raise enough tax revenue, the resources available to fund public services, including education, are small.

Two indicators are normally used to evaluate the share of domestic funding allocated to education within the overall budget:8

1. **Percentage of total government budget**—The FFA recommends that countries allocate at least 15 to 20 percent of the total government budget to education. This indicator is a good measure for assessing government’s commitment to education spending.

2. **Percentage of GDP**—The FFA recommends that 4 to 6 percent of GDP should be spent on education. This indicator is a good measure to evaluate a government’s fiscal capacity; i.e., the government’s ability to collect sufficient tax revenue to finance public expenditure in relation to the size of the country’s economy. A low GDP-to-education expenditure ratio does not necessarily indicate low levels of government commitment to the sector, but may instead reflect limited capacity for tax collection by the government. This could translate into a low volume of resources directed to the sector in absolute terms.

Estimations by the Global Education Monitoring Report Team for 67 low- and middle-income countries showed that, in 2015, if governments had modestly increased their tax-raising efforts and devoted 20 percent of their total budget to education, they could have raised an additional $153 billion for the sector, and in turn would have increased the average share of GDP spent on public education from 3 percent to 6 percent.9

Countries are still far from reaching this goal, with the global average of 14.1 percent of total public expenditure allocated to education in 2015 and 4.7 percent of GDP to the same. Global aid to education as a proportion of total aid disbursements has also decreased over the past few years, from 10 percent in 2009 to 6.9 percent in 2015.10

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2.2.2 Expenditure

Expenditure within the budget document represents the authorized spending on various aspects of public service delivery by government agencies and line ministries. We can distinguish two types of expenditure: recurrent and capital. Note, however, that interpretation and classification of what is considered recurrent versus capital expenditure in the budget differs substantially across countries.

**Recurrent expenditures** (sometimes referred to as the ‘regular budget’) are made by the government to maintain ongoing operations during the budget period and do not result in the creation or acquisition of fixed assets. These include wages, rentals, office requirements, interest payments on borrowed funds, and maintenance of fixed assets. However, sometimes the recurrent expenditure budget does include some capital expenditures (for example, certain equipment like computers or chalkboards), depending on how the economic transaction is defined.

**Capital expenditures** are expenditures on assets that last for more than one year. This includes equipment, land, buildings, legal expenses, and other transfer costs associated with a property. For capital projects (e.g., building of schools), all associated expenses are also considered as capital expenditure. The entire value of the asset is recorded in the year it is purchased. However, as mentioned above, some capital expenditures can fall under the recurrent expenditures budget.

Inconsistency across countries in recording capital and recurrent expenditures can be compounded by different budget presentations.

In some countries, a separate development budget, sometimes called an investment budget, is prepared where externally funded projects, primarily donor-funded capital outlays, are recorded (i.e., with the general aim of separating out donor-funded projects). However, the development/investment budget may also include domestic funds for line items classified as investment projects. In these cases, the development/investment budget can also include recurrent expenses (such as those for training). In some instances, this is complicated even further when countries extend their capital expenditure budgets to include not just actual capital outlays, but also substantial amounts of ‘developmental’ recurrent expenditure, largely financed by donor funds.11

As such, the widened development/investment (capital) budget often represents the best available proxy for capital spending. For example, the nonprofit Government Spending Watch (GSW), includes all donor project money as capital spending in government budgets, even while noting that “much donor-funded ‘capital’ expenditure, though referring to projects, includes spending on non-capital payments.”12 In practical terms, while development/investment and capital expenditure are not equivalent concepts, it is often the case that national financial reporting blurs the line between true recurrent and capital spending, and only allows us to separate out recurrent and development expenditure.

Furthermore, what is included within the recurrent budget versus capital budget is also contested heavily within countries. In general, teacher salaries are included in the recurrent budget and make up the lion’s share of this budget, along with other inputs required for regular service delivery (e.g., textbooks, uniforms). Often, the debates around where these inputs are included take investments into education quality into account. As a result, some of the latter kinds of inputs might instead be included in the development/capital budget in some contexts, if they are seen as investments into education quality. Furthermore, a one-time policy commitment to increase investments (e.g., new textbook development) may mean that textbooks are accounted for in the capital budget. However, the replacement or distribution of new books based on existing material may be included in the recurrent budget.

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11 For examples and more insight into the integration of capital and recurrent “development” budgets, see http://www1.worldbank.org/publicsector/pe/StrengthenedApproach/CapitalRecurrenceIntegration.pdf.
12 For a list of definitions as understood and applied by Government Spending Watch, see http://www.governmentspendingwatch.org/component/content/article/8-govt-spending-site/7-definitions-and-sources.
BOX 2. PERIMETER OF EDUCATION EXPENDITURES WITHIN THE TOTAL BUDGET

With multiple entities responsible for education spending, it is important to consider all relevant expenditures in education to get a comprehensive understanding of the education budget. Beyond the expenditures outlined in the budgets of ministries directly responsible for education, analysis of total education expenditure should take the following into consideration, when relevant:

- **Add** education expenditures funded by ministries other than those directly responsible for education (e.g., ministry of health, ministry of social development).

- **Subtract** all noneducation expenditures funded by education ministries. In particular, if a ministry is directly responsible for education along with another sector, expenditures associated with the other sector should be removed (e.g., ministry of education and sports—here all sports-related activities should be excluded from the calculation of education spending).

- **Add** any social contributions attached to education staff expenditures when they are not paid out of the ministry of education’s budget (e.g., payments into staff pension funds).

- **Add** all sub-federal education expenditures, when not recorded as such in the national budget. Under some fiscally decentralized systems (see Section 2.2.3), where regional (state/provincial) and local governments raise revenue locally for budget allocation, sub-federal expenditures may not be reflected in the national budget documents.

Expenditure within the education sector is commonly understood to refer to public (or government) expenditure by all ministries directly responsible for the delivery of education (e.g., ministry of basic education, ministry of higher education) and typically excludes private (largely household) expenditure on education. For ease of reading, from this point forward in this document, the term ministry of education will refer to all ministries directly responsible for the delivery of education.

2.2.3 Decentralized financial management

Actors engaged in the budget development and implementation process may be located at various levels of the government/ministry depending on the level and form of decentralization in the country. In a centralized system, where decision-making power is concentrated at the center or national level, the central government decides how resources are raised and used down to the school level. In more decentralized systems, where some decision-making authority is
### TABLE 1: DIMENSIONS OF DECENTRALIZATION AND APPLICATION WITHIN EDUCATION SECTOR

<table>
<thead>
<tr>
<th>TYPE OF DECENTRALIZATION</th>
<th>DEFINITION</th>
<th>ADMINISTRATIVE</th>
<th>FISCAL</th>
<th>POLITICAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deconcentration</strong></td>
<td>Deconcentration is the reorganization of decision making within the ministry of education and the bureaucracy. In a deconcentrated system, the central government retains full responsibility, but administration is handled by regional/state or district offices.</td>
<td>Managerial decisions and managerial accountability are transferred to regional offices of central government and ministry of education.</td>
<td>Regional managers are given greater authority to allocate and reallocate budgets.</td>
<td>Regional elected bodies are created to advise regional managers.</td>
</tr>
<tr>
<td><strong>Devolution</strong></td>
<td>Devolution is the permanent transfer of decision-making responsibilities in education from the central government to lower levels of government such as provinces, municipalities, and districts.</td>
<td>Education sector managers are appointed by officials at the local or regional level.</td>
<td>Subnational governments are given power to allocate education spending and, in some cases, to determine spending levels (by raising revenue).</td>
<td>Elected regional or local officials are ultimately accountable both to voters and to sources of finance for the delivery of schooling.</td>
</tr>
<tr>
<td><strong>Delegation</strong></td>
<td>Delegation, or school autonomy, is the administrative or legal transfer of responsibilities to elected or appointed school governing bodies such as school councils, school management committees, and school governing boards.</td>
<td>School principals and/or school councils are empowered to make personnel, curriculum, and some spending decisions.</td>
<td>School principals and/or school councils receive government funding and can allocate spending and raise revenue locally.</td>
<td>School councils are elected or appointed, sometimes with power to appoint school principals.</td>
</tr>
</tbody>
</table>


Transferred from the central government to regional entities (e.g., Ghana, Ethiopia, Pakistan), state or provincial level governments may have flexibility or a degree of autonomy in resource allocation decisions.

Most education systems lie somewhere on a ‘decentralization continuum’ with various decision-making and management functions decentralized to different levels of the government. Table 1 shows the three primary dimensions of decentralization along with some examples of their operationalization across governance functions, including fiscal decentralization.

Decentralized policy decision making is often driven by the expectations of reduction of costs, improved spending efficiency, and enhanced accountability to parents and other education stakeholders. In a country where local financing is an essential part of decentralization, state or provincial governments may also have revenue generation responsibility to supplement the transfers made from the central government.13

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2.2.4 Balancing the budget

It is rare that government expenditure and revenue are equal in any given year. Where expenditures are greater than revenue, the budget is in deficit; if revenue exceeds expenditures, the budget is in surplus. It is particularly important to consider the consequences of a budget deficit as government borrowing typically funds this deficit (see Section 2.2.1). All borrowing creates an obligation for the government to repay the amount borrowed along with regular interest payments (debt servicing), which is generally repaid by future taxes, essentially requiring the government to generate additional revenue in future fiscal years.

Figure 1 demonstrates the relationship between government revenue and budget allocation for education.

2.3 Budget cycle

Budget documents are produced and executed during a number of broad stages in a budget cycle followed to some extent by most governments. It is essential for education stakeholders to be aware of both the budget cycle of a given country and the specific authorities (and their functions) in order to engage in policy dialogue and monitoring of the national budget at various stages. What follows is a general and simplified description of the primary stages of a budget cycle. A more detailed description of each stage is provided in Chapter 3, along with activities for stakeholder engagement at the various stages.
Chapter 2. Understanding budgets

1. **Budget Formulation** is driven by the central government (usually the ministry of finance), which develops a draft budget plan based on macroeconomic analysis. This analysis includes projected government revenue and predefined budget ceilings (the maximum amount to be spend), as well as proposals from line ministries (e.g., ministry of education, ministry of health) that consider sector priorities and costs of service delivery.

2. **Budget Approval** is when the legislature (typically elected officials) reviews, debates, and amends the draft budget plan and enacts the final budget into law, often known as the Budget Law or Appropriation Act.

3. **Budget Execution** or implementation is when the government, including the line ministries (e.g., ministry of education), implements the policies and programs outlined in the budget.

4. **Budget Evaluation** happens when the actual expenditures of the budget are audited and accounted for against planned expenditures, and assessed for effectiveness.

The budget is established for a specific period, usually **one year**, called the budget year, fiscal year, or financial year. It may be the calendar year starting 1 January (as in Benin, Ghana, or Honduras), or it may start at other dates, for example 1 October (in Thailand and Costa Rica), 1 April (in Lesotho, South Africa, and the United Kingdom), or 1 July (in Malawi, Kenya, Tanzania, and Pakistan). In countries with different national calendars, the start date could correspond to other dates, as in Afghanistan (Solar Hijri calendar) and Nepal (Bikram Sambat Nepali calendar).

In any given year, multiple overlapping budget cycles are usually taking place simultaneously. Discussions taking place for one cycle at a particular stage could influence decisions made in others. For example, an external audit for the previous year’s expenditure could be taking place while the current budget policies are being implemented and the following year’s budget is being formulated. Figure 3 shows a sample budget cycle time for a country with a fiscal year from July to June.

---

**FIGURE 2: SUMMARY OF BUDGET CYCLE STAGES**

1. **Budget Formulation**
   Ministry of finance, with inputs from line ministries, formulates the draft budget

2. **Budget Approval**
   Legislature reviews, debates, amends, and then enacts the budget into law

3. **Budget Execution**
   Line ministry implements policies and programs in the budget

4. **Budget Evaluation**
   Audits to assess effectiveness

Guidelines for the Monitoring of National Education Budgets

FIGURE 3: BUDGET CYCLE TIMELINE (FOR A BUDGET YEAR STARTING 1 JULY)

Simultaneous Budget Cycles

<table>
<thead>
<tr>
<th>Current Year’s Budget</th>
<th>Previous Year’s Budget</th>
<th>Following Year’s Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>JULY</td>
<td>Execution</td>
<td>Evaluation</td>
</tr>
<tr>
<td>AUGUST</td>
<td>Execution</td>
<td>Evaluation</td>
</tr>
<tr>
<td>SEPTEMBER</td>
<td>Execution</td>
<td>Evaluation</td>
</tr>
<tr>
<td>OCTOBER</td>
<td>Execution</td>
<td>Evaluation</td>
</tr>
<tr>
<td>NOVEMBER</td>
<td>Execution</td>
<td>Evaluation</td>
</tr>
<tr>
<td>DECEMBER</td>
<td>Execution</td>
<td>Evaluation</td>
</tr>
<tr>
<td>JANUARY</td>
<td>Execution</td>
<td>Formulation</td>
</tr>
<tr>
<td>FEBRUARY</td>
<td>Execution</td>
<td>Formulation</td>
</tr>
<tr>
<td>MARCH</td>
<td>Execution</td>
<td>Formulation</td>
</tr>
<tr>
<td>APRIL</td>
<td>Execution</td>
<td>Formulation</td>
</tr>
<tr>
<td>MAY</td>
<td>Execution</td>
<td>Formulation</td>
</tr>
<tr>
<td>JUNE</td>
<td>Execution</td>
<td>Approval</td>
</tr>
</tbody>
</table>
2.4 Who are the major actors in the budget process?

Several actors are engaged to varying degrees and at various stages of the budget cycle. Table 2 provides a general and simplified outline of the major government actors during the four key stages of the budget process.

### TABLE 2: ROLES OF KEY GOVERNMENT ACTORS IN THE BUDGET PROCESS

<table>
<thead>
<tr>
<th>ACTOR</th>
<th>ROLE</th>
<th>FORMULATION</th>
<th>APPROVAL</th>
<th>EXECUTION</th>
<th>EVALUATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of finance</td>
<td>Responsible for determining the overall government budget and proposing resource allocation to the various functions of the government.</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Ministry of planning (if existing)</td>
<td>Responsible for developing the long-term national development plan and providing policy prioritization input for budgeting.</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>LegislaturesB</td>
<td>Have the power to approve, amend, or introduce new laws relating to education. Also have the power to call upon the line ministries to account for sector policy choices, budgetary allocations, and expenses. This means they can influence the budget and call for changes they consider necessary.</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>NoC</td>
</tr>
<tr>
<td>Auditor-general</td>
<td>Responsible for assessing compliance in all government spending to the authorized allocations of funds as per the budget law. Usually reports directly to the legislative branch or to the prime minister’s or president’s office.</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Ministry of education</td>
<td>Engaged in developing the proposed education sector budget, debating resource allocation in the parliament, and overseeing the implementation of the budget.</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

(continued)
TABLE 2: CONTINUED

<table>
<thead>
<tr>
<th>ACTOR</th>
<th>ROLE</th>
<th>FORMULATION</th>
<th>APPROVAL</th>
<th>EXECUTION</th>
<th>EVALUATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education sector officials</td>
<td>Develop sector policies and prepare the ministry budget. State/province or district officials implement government policies and budgets. Oversee the service delivery process and identify where challenges lie in the implementation of sector policies and budgets.</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No(^D)</td>
</tr>
<tr>
<td>School/local government officials</td>
<td>Responsible for the overview of funds at the school level. Able to give a picture of what needs to be changed in education locally, what resources are being received, and what the constraints are.</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

Notes:

\( ^{A}\)We take execution to mean service delivery at the education sector level. This relates to the implementation of sector policies and does not include implementation of macro-reforms that the ministry of finance may be responsible for executing.

\( ^{B}\)While the legislators do not conduct the audit, they receive the audit reports and use the information for further action.

\( ^{C}\)Administrative officials at ministries of finance and education provide inputs to evaluation documents, but do not conduct evaluations.

\( ^{D}\)Participatory budgeting processes may more actively include the legislature during the formulation stage.

2.5 How are budgets presented?

Budgeting can serve a variety of different purposes in different contexts; as such, no single classification can meet the budgeting needs of all countries. Therefore, organization and presentation of budgets differ across countries. Some countries split the budget into two documents: one for recurrent expenditures (also known as the regular budget) and one for the development/capital/investment budget (see Sections 2.2.2 and Section 2.6 below). Budgets are typically presented using one or more of four essential classifications systems, which are described briefly in this section: administrative classification (or the spending unit; i.e., the government department or agency responsible for the spending); program classification (the activity or program funded in the budget); economic classification (the type of expenditure incurred; e.g., salaries, supplies); and functional classification (activities are organized according to the broad objectives for which they are intended, e.g., health or education). Functional classification is most useful when comparing the allocation of resources across sectors, and therefore is not elaborated below. These three elements help us understand how the expenditures in the budget are organized, especially who spends what type of expenditure.

The structure of the budget or the ordering of these classifications depends on the importance given to each dimension and the manner in which they are articulated by the government. In some countries, another classification is included for function or a list of specific pro-poor expenditures. For example, in Zambia, the budget includes Expenditure by Function like General Public Service, Defence, Environmental Protection, and Social Protection, etc.\(^{14}\)

Note that the presentation of expenditures under each of these classifications often reflects a line item approach, i.e., expenditures are listed according to objects of the expenditure, or ‘line items’. These line items specify details on the amount of funds allocated to a particular input (and be permitted to spend) on transactions like salaries, fringe benefits, travel, and equipment, etc. The most important focus of this budget system is to specify the line item ceilings in the budget allocation process and to ensure that agencies do not spend in excess of their allocations for that item/object.

### 2.5.1 Administrative classification

Administrative classification identifies the entity or institution that receives the public revenue and incurs the expenditure for public service delivery—that is, who within the government spends the revenue. These entities can be located at any level of the government depending on how decentralized the government system is in a given country (see Section 2.2.3). An administrative classification of expenditure is helpful when identifying responsibilities for the main blocks of public expenditure and for day-to-day budget administration. In some instances, nongovernmental institutions may also receive and spend public funds. Funds usually flow as transfers from central level entities to state or provincial entities, and then to local entities (e.g., schools). Within the education sector, the following institutions are usually included within this classification:

- **Central government** is the level of government at which political authority extends over the entire territory of the country, such as the federal government. All ministries and entities that are under the authority of the central government and finance education services are classified as part of the central government.

- **State or provincial (regional) governments** are responsible for the largest geographic areas into which the country as a whole is divided for political or administrative purposes, such as a state, province, department, or region. State or provincial governments usually receive funds transferred from the central government. However, in many countries, state or provincial governments also have the authority to raise revenue through taxes and other channels within the territory, to spend some portion of this income according to its own policies, and to appoint or elect its own officers.

- **Local governments** are responsible for the smallest geographic area into which the country as a whole is divided for political or administrative purposes, such as a municipality, city, or district. The scope of their authority is generally much narrower than that of the central or state (provincial) government, and they may or may not be entitled to raise revenue through additional taxes in their locality.

- **Service delivery institutions** receive funding from entities at the various levels of government and directly carry out education activities for the benefit of students—these are the public and private schools, colleges, universities, and training centers operating in the country. Also includes administrative offices providing education supporting services or any entities carrying out the characteristic activities of the domain, such as campus management bodies or autonomous education research units. These include:

1. **Public educational institutions**—provide core educational services such as teaching activities and ancillary services. They include schools, colleges, universities, and training centers, which are controlled, managed, and funded by the government.

### Table 3: Example of Line Item Budgeting

<table>
<thead>
<tr>
<th>ITEM</th>
<th>TOTAL AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teacher salaries</td>
<td>$200,000</td>
</tr>
<tr>
<td>Textbooks</td>
<td>$50,000</td>
</tr>
<tr>
<td>Computers</td>
<td>$60,000</td>
</tr>
<tr>
<td>Vehicle maintenance</td>
<td>$10,000</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Total for the ministry of education</td>
<td>$X million</td>
</tr>
</tbody>
</table>
2. **Private educational institutions**—provide core educational services such as teaching activities and other education services. They include private for-profit or not-for-profit schools, community schools, colleges, universities, and training centers, which are controlled and directly managed by a private organization such as a church, trade union, or business enterprise. Private institutions, however, can be partially or entirely publicly funded, but are still considered private because the government does not manage them.

3. **Other education production entities**—ministries of education, regional or district education offices, curriculum development centers and other such agencies are producers of peripheral education goods and services, such as supervision, policy orientation, statistics, research, and overall administrative support. Reviewing funding to these producing units is important for understanding the administrative and other expenditures within the education sector.

### 2.5.2 Program classification

Here, the budgets for each spending unit are, in general, classified to outline the planned/authorized expenditure for the various activities or programs that are to be delivered by the unit during the fiscal year. The specific items or detailed structure of program classification used in the budget may differ to some degree across the units depending on the type of fiscal decentralization in a country and the policy priorities of the agency or ministry. However, the overall format remains consistent with the ministry of finance budget guidance.

In general, using the program classification, budget expenditures are formatted using the following four commonly used models or some hybrid structure with elements from all:15

<table>
<thead>
<tr>
<th>TABLE 4: EXAMPLE OF PROGRAM BUDGETING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program</strong>: School feeding program</td>
</tr>
<tr>
<td><strong>Program output</strong>: XX million children receive lunch in primary schools</td>
</tr>
<tr>
<td><strong>Program outcome</strong>: Improved student attendance in primary schools</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INPUTS</th>
<th>COST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel salaries</td>
<td>$100,000</td>
</tr>
<tr>
<td>Transportation</td>
<td>$20,000</td>
</tr>
<tr>
<td>Lunch consumables</td>
<td>$200,000</td>
</tr>
<tr>
<td>Kitchen equipment</td>
<td>$30,000</td>
</tr>
<tr>
<td>. . .</td>
<td>$ . . .</td>
</tr>
<tr>
<td><strong>Total for the program</strong></td>
<td>$X million</td>
</tr>
</tbody>
</table>

*Program budgeting*—in this system, the budget is structured in terms of programs rather than departments or subunit lines. The key to program budgeting is the program or public policy objective along with the steps necessary to attain it. Program budgeting requires that program objectives stretch beyond a single fiscal year. In addition, program budgeting requires effectiveness measures; i.e., the measurement of outputs and outcomes. Advocates of program budgeting promote the allocation of budgets across programs according to the greatest marginal benefit.

*Performance budgeting*—in this system, proposed expenditures are divided into activities within the agency or subunit and the cost of the performed activity, as a set of workload measurements. Performance budgeting allows the budget to be built, not incrementally (as in traditional line item budgeting), but on the basis of anticipated workload. Managers might arrive at a budget by simply multiplying the cost of a unit of output by the number of units needed in the budgeted year.

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TABLE 5: EXAMPLE OF PERFORMANCE BUDGETING

<table>
<thead>
<tr>
<th>Program: Teacher training</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output: X number of teachers receive pre-service and in-service training</td>
</tr>
<tr>
<td>Outcome/impact: Improved student learning outcomes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SUB-ACTIVITY 1: PRE-SERVICE TEACHER TRAINING</th>
<th>UNIT</th>
<th>COST PER UNIT</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>University faculty salaries</td>
<td>320</td>
<td>$10,000</td>
<td>$3.2 million</td>
</tr>
<tr>
<td>Dormitory rooms</td>
<td>4,000</td>
<td>$500</td>
<td>$2 million</td>
</tr>
<tr>
<td>. . .</td>
<td>. .</td>
<td>. .</td>
<td>. .</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SUB-ACTIVITY 2: IN-SERVICE TEACHER TRAINING</th>
<th>UNIT</th>
<th>COST PER UNIT</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>University faculty salaries</td>
<td>100</td>
<td>$10,000</td>
<td>$1 million</td>
</tr>
<tr>
<td>Transportation to schools</td>
<td>40</td>
<td>$500</td>
<td>$20,000</td>
</tr>
<tr>
<td>. . .</td>
<td>. .</td>
<td>. .</td>
<td>. .</td>
</tr>
</tbody>
</table>

Program total: $X million

TABLE 6: EXAMPLE OF OUTCOME-BASED BUDGETING

<table>
<thead>
<tr>
<th>OUTCOME</th>
<th>TOTAL AMOUNT</th>
<th>MEASUREMENT INDICATOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved student learning outcomes in primary schools</td>
<td>$2 million</td>
<td>Number of students reaching minimum test score in the national exam</td>
</tr>
<tr>
<td>Increased access for girls in secondary schools</td>
<td>$3 million</td>
<td>Change in percentage of girls’ enrollment in secondary school</td>
</tr>
</tbody>
</table>

2.5.3 Economic classification

Economic classification reflects the type of expenditure incurred (e.g., salaries, goods and services, transfers and interest payments, or capital spending). Expenditures may further be divided into separate subcategories for each ministry, department, or public entity. It is sometimes argued that while this approach limits misuse of funds and sets in place important controls in conditions of weak financial accountability, it may also create rigidities and constrain effective matching of budget and sector priorities. Allocating and monitoring resources based on detailed inputs at disaggregated levels (e.g., stationery for schools, or teacher training) may impose limitations on accountability for sector results, since the broad expenditure categories used in this budget system may make it difficult to set service priorities—there is no way to express the quantity or quality of services that are likely to result from various expenditure levels.

This presentation is often associated with inputs-based or line-item budgets, where individual line items

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2.6 Dual Budgeting Processes

Sometimes, countries will present their recurrent and capital budgets separately. Leaving the complexity of overall classification of recurrent versus capital expenditure aside (as discussed in Section 2.2.2) the following items are, in theory, typically shown in each respectively:

**Recurrence budget**: Education budgets generally have a high proportion of recurrent spending compared to other sectors, mainly due to the large teacher workforce. For example, data from 2014 shows that 81 percent of education sector spending was on recurrent expenditure, as compared to 74 percent in health, 41 percent in agriculture, and 17 percent in WASH (water, sanitation and hygiene).18

1. **Compensation of employees**—includes several components that are grouped together or separated into subcategories in a budget, depending on the interests of policymakers:

   - Wages and salaries payable in cash or in kind. These are the basic salaries of employees within the education system, along with all bonuses and other related payments.

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allowances (e.g., for overtime, working in hard-to-reach areas, housing, and travel). Wages payable in kind could also be included in this category (e.g., expenses for housing and transportation to and from work for employees). Compensation under this category is disbursed to employees at regular periods during the course of their service.

*Employer’s social contributions.* This includes contributions by the employer (ministry of education in this case) to social security schemes, pensions, and other employment-related benefits. Expenditure on retirement or pension schemes refers to the actual or imputed expenditure by employers or third parties to finance retirement benefits for current education employees. Compensation under this category is typically disbursed to the employee after retirement but held in government accounts during the term of the service.

From an education policy perspective, it is important to have the compensation budget further disaggregated by the type of employee to understand how much of the budget is allocated to the teaching force as opposed to nonteaching administrative structure:

*Compensation for teachers/academic staff.* This category includes compensation for classroom teachers at pre-primary, primary, and secondary school levels. At the tertiary level, it should include academic staff whose primary assignments are instruction and/or research.

*Compensation for non-teachers.* Non-teaching staff are employed by educational institutions or administrative offices but have no instructional responsibilities. Although the definition can vary from one country to another, non-teaching staff generally include head teachers, principals, and other administrators of schools; support staff to teachers; supervisors; counselors; school psychologists; school health personnel; librarians; curriculum developers; inspectors; education administrators at local, regional, and national levels; clerical personnel; building operations and maintenance staff; security personnel; transportation workers; and catering staff.

2. **Goods and services**—normally consumed within the current year, expenditure on goods and services would have to be renewed if needed in the following year. This category may include rent paid for school buildings and other facilities, as well as fuel, electricity, telecommunications, water and sanitation expenses, travel expenses, insurance, and any other non-staff administration costs in schools and administrative offices. Regular maintenance of buildings is classified under goods and services, although major repairs and renovations are recorded under capital expenditures. Compensation to contract teachers, consultants, and other workers who are not employees of the institution is generally also included as goods and services.

3. **Teaching materials**—includes expenses for textbooks following the official curriculum as well as any pedagogical materials and other relevant materials for students, such as stationery. Typically, these constitute less durable materials, which must be purchased on a recurring basis. In some countries these expenses are classified under capital expenditure, especially when they are considered relatively long-lasting or durable.

**Capital/Development budget:** As discussed in Section 2.2.2, in some contexts the capital budget may include both the capital and recurrent expenditures of donor-funded projects in addition to the line items listed below.

1. **Construction and major renovations of buildings.** This includes the costs of school and classroom construction, as well as those for other institutional
buildings such as school canteens, hostels, and administrative offices. Major renovations and refurbishment are also recorded as capital expenditure; however, maintenance typically is recorded as recurrent expenditure.

2. **Durable teaching materials and supplies.** These can include desks, chairs, chalkboards, and any other equipment and machinery necessary for teaching (for vocational training courses, for example), as well as more durable teaching aids, such as pedagogical kits for teachers, computer hardware, and software.
Chapter 3.
National education budget policy dialogue and monitoring: Guide for stakeholder engagement
3.1 Introduction

The previous chapter provided an overview of the foundational concepts related to budget structures and processes. In this chapter, we outline how education stakeholders can effectively engage in policy dialogue and monitoring at each stage of the budget cycle.

Increasingly, a wider group of stakeholders are involved in education sector policy dialogue and monitoring through various education sector coordination mechanisms. Known by various terms, these LEGs are usually led by the government and comprise development partners present in the country, including multilateral agencies, bilateral donors, nongovernmental organizations (including local and international CSOs), representatives of the teaching profession, the private sector and private foundations, and others supporting the education sector. The LEG serves as the focal point for coordinating feedback from relevant education stakeholders and engages in routine sector planning and monitoring activities. It therefore provides a natural forum for financial monitoring, budget tracking, and engagement with all relevant stakeholders to both evaluate the financial performance and support upcoming budget programming exercises. LEG engagement can play a critical role in improving mutual accountability for domestic spending in education through policy dialogue and monitoring of the national education budget throughout the budget cycle.

In Section 3.2, we describe the common sources of data and information that stakeholders can utilize in reviewing the budget and actual expenditures. In Section 3.3 we discuss the various stages of the budget cycle in more detail along with pertinent issues and critical questions for key stakeholders to consider when engaging in budget-related policy dialogue and monitoring. The value of the LEG derives in part from the diversity of its composition. In view of the distinct roles and responsibilities members may adopt, we provide specific ideas on further engagement by particular stakeholder groups (ministries of education, donors, CSOs, teachers’ unions, and the private sector), recognizing that budget formulation and negotiation are primarily the domain of national stakeholders.

3.2 Information and data sources

Lack of reliable and timely financial data within the education sector is a major challenge in most countries. Yet, availability of information on expenditure is fundamental to promoting transparency and accountability. Education stakeholders supporting the ministry of education in policy planning could utilize timely and detailed information to advocate for adequate resource allocation while tracking the efficient and effective use of funds. It is important to note that while annual budget allocation data are often available through the ministry of finance, data on actual expenditures are sometimes unreliable or significantly delayed, which restricts policy decision making based on actual costs.

When reviewing national education budgets (i.e., planned budgets) and actual expenditures, stakeholders can commonly find information and data from the sources covered below.

**National budget and education budget information** are often available from:

- Ministry of finance websites or offices—the pre-budget statement, executive’s budget proposal, enacted budget, or budget law;
- Central bank and central statistical offices—sometimes publish budget and other finance information;
- Ministry of education (or local budget office for the ministries)—for a detailed ministry budget breakdown;
• Bilateral and multilateral donors—for supplemental information on donor spending; and

• ESPs—can provide greater detail on which budget commitments were for which elements of education spending.

Expenditure data are often available from the following sources:

• Ministry of finance—the in-year reports, mid-year review, and year-end report for which data come from the Financial Management Information System (FMIS, which is discussed in more detail below);

• Auditor-general’s office—for audit reports; and

• Ministry of education (or local budget office for the ministries)—occasionally Education Management Information Systems (EMIS) will contain some financial information.

Within the education sector, there are a few other sources of finance data that can be accessed:

1. Financial Management and Information Systems (FMIS)—Many countries maintain or are in the process of creating government-wide integrated FMIS. The integrated system is meant to strengthen the government’s core financial management processes: budget formulation, execution (including treasury/cash management), accounting, and reporting. These systems maintain data on:

   • Approved (capital and recurrent) budgeted appropriations;
   
   • Sources of financing for programs and projects;
   
   • Budget transfers;
   
   • Supplementary allocations;

   • Fund releases (warrants) against budgetary allocations over the course of the year; and

   • Data on commitments and actual expenditures against budgeted allocations.

These information systems normally operate at two levels: the line ministry and the ministry of finance. The line ministry’s systems, operated by their finance department, enable managers to track the budget implementation process and implement expenditure controls at the ministry level. The ministry of finance system is the central system that tracks the budget execution process for the government as a whole.

At the start of the fiscal year, the legislature-approved budget is entered into the system. Budget transfers such as supplementary authorizations are also entered during the year they are issued. As commitment and expenditure transactions take place at the line agencies, these systems:

• Check for budget authorization and the existence of a prior commitment;

• Record information verifying receipt of goods;

• Authorize payment; and

• Update the total amounts committed and spent.

These operate on the basis of commitment, verification, and payment request transactions received from the line ministry, either electronically or on paper.19

2. UNESCO Institute for Statistics (UIS)—Using data from the national sources (see earlier in Section 3.2), the UIS consolidates education sector data across countries, and is currently the primary source of internationally comparable statistics on education. The UIS’s annual education data collection is the most comprehensive in the world.

covering all education levels and a range of issues, such as gender parity, teacher distribution and training, and financing. Typically, the UIS sends surveys to the ministry of education, which often works with the ministry of finance to obtain and process data on financing. The questionnaire covers financing by source (government, international, private), by educational institution (public, private) and by economic classification (teacher and non-teacher compensation, current and capital expenditure).

3. National Education Accounts (NEA)—The NEA is a comprehensive approach to education finance data collection, processing, and analysis. As with UIS data, this is a secondary source of data where data are collected from the official government and other primary sources. It involves mapping all sources of education funding (government, private, household, and external), education spending (public and private providers, regions, etc.), and education-related economic transactions (salaries, teaching materials, infrastructure, etc.) to produce a coherent information framework for education financing. Data on sources of financing and their use enable analysis of the linkage between spending and educational outcomes. This mapping of resource flows through the education system is essential to identify waste and misallocation of funds, and helps to better direct resources to policy objectives and monitor progress toward SDG4. Data on financial resource flows are also critical for developing mechanisms to improve education system efficiencies.20

4. Other data sources—These include open budget data from the World Bank BOOST initiative and the International Budget Partnership, data from Public Expenditure Tracking Surveys (PETS) and Quantitative Service Delivery Surveys (QSDS), and household survey data, including Demographic Health Surveys (DHS) and Multiple Indicator Cluster Surveys (MICS).

3.3 Stage 1: Budget formulation

3.3.1 What is it?

The first stage of the budget cycle is when the executive branch (usually with coordination from the budget office of the ministry of finance) formulates the annual budget framework, which is based on macroeconomic analysis of the availability of total funds (known as the ‘resource envelop’) for the government budget for the given fiscal year. Subsequently, the budget department informs line ministries, typically through a budget circular, of the indicative aggregate spending ceiling for each ministry along with guidance on the preparation of the line ministry specific budget that is consistent with the national macro policy objectives. The line ministries submit budget proposals informed by this guidance to the ministry of finance budget department, which is further negotiated by the two sides until collective final agreement is reached.21

Budget formulation comprises three interlinked activities:

i. The ministry of finance determining the overall resource envelop, which is typically established through macroeconomic forecasting of the expected government revenue based on factors like expected GDP growth, unemployment rate, tax collection, and commitment to debt stabilization and deficit reduction;

ii. The line ministries costing out key expenditure categories needed for service delivery; and

iii. Reconciliation of these technical inputs with the policy priorities in national and sector plans in order to formulate the budget ceilings and budget structure guidance.

Establishing the budget ceiling for each line ministry, and the government as a whole, also involves

20 UNESCO currently has NEA data on eight countries: Côte d’Ivoire, Guinea, Lao PDR, Nepal, Senegal, Uganda, Vietnam, and Zimbabwe. Note that the NEA methodology was developed by UIS and its partners, although a number of countries have since gone on to fund their own application of the approach.
determining (i) what level of expenditure has already been committed to existing objectives, and (ii) what level of expenditure is available for allocation. Pre-committed expenditures could include debt-serving costs, salaries of existing public sector employees, public sector pensions, and payments for projects under contract that span multiple years (for example, major infrastructure projects). As a result, in any given year, the flexible part of the budget for expenditure (discretionary spending) on new policy priorities is relatively small.

3.3.2 Why is it important for policy dialogue and monitoring?

The budget formulation stage is a strategic policy dialogue engagement point for education sector stakeholders. Education stakeholders can advocate for taking sector policy priorities into account for determining the budget ceiling for the ministry of education. However, it has to be noted that budget formulation is primarily the responsibility of the government.

Lack of information and limited engagement between the ministry of finance and the ministry of education at this stage may result in a unilateral reduction in the education budget if the ministry of finance perceives spending proposals to be unrealistic. Supplying the ministry of finance with credible past expenditure data and technical inputs on the cost of policy priorities has the potential to not only build confidence in the sector’s capacity to plan and implement policy priorities, but also to make the case for increasing the budget ceiling or total budget allocation for the education sector.

In order to engage in policy dialogue and monitoring at this stage, stakeholders need to understand the key processes and actors engaged in their specific country at both the national and education sector level.

National level in general

- When exactly does the budget formulation stage start? How is this timing aligned with the education sector’s planning process?
- Which national level actors are involved in budget formulation and establishing the budget ceilings?
- Which levels of the government are engaged?
- What legislative commitments have been made to financing education?
- What debate and decision-making spaces are ensured for participation by the general public or other stakeholders during this stage?

Specifically, some critical issues to be discussed and monitored at this stage include:

1. **Predictability and sustainability of financing.**
   Access to predictable finance that can be sustained over a longer time period is essential for efficient and effective implementation of government policy and programs. While sector budgets may be managed on an annual basis, policy planning and implementation is a longer term process that requires sustained funding. Education stakeholders should be in a position to understand the constraints the government faces on generating and securing revenue. Understanding revenue streams and tax base formulae is also a key entry point to advocate for greater resource allocation to education. Questions stakeholders should get a reading on include the following:

   - What are the primary sources of revenue for the government?
   - What percentage of revenue is raised from taxes as opposed to other sources?
   - What is the tax-to-GDP ratio? How effective is the national government at raising taxes? What
2. Resource allocation to education. In order to provide quality education according to the policy priorities of the sector, government needs to allocate a sufficient share of the overall budget to the education sector. Stakeholders should examine how resource allocation to the education sector compares to that of other sectors to understand the government’s prioritization of education. Questions stakeholders should get a reading on include the following:

- Is the current education budget ceiling equivalent to or above the SDG4 recommendation (i.e., 15 to 20 percent of the total government budget and 4 to 6 percent of the GDP)?

- Is education funded by a predictable and sustainable revenue source? Is education disproportionately dependent on aid relative to other sectors?

- How much priority is given to education relative to other sectors?

- Does education reflect as a prominent priority within the national development plan? Are the latter’s priorities aligned with the policy priorities in the ESP? Does the budget allocation for education reflect these priorities?

- Is progress being made in terms of the government’s response to education needs? Has the share of education expenditure in total government expenditure increased when compared to previous years?

- After adjusting for inflation, does the increase in the budgeted amount over the previous years reflect an increase of the student population and/or improvement in quality of inputs provided to schools?

- What proportion of the education budget is allocated to pre-committed expenditure? What proportion is available for discretionary spending? Are there specific program budgets dedicated to improving the quality of inputs to schools (e.g., improvement in school infrastructure, textbooks and other learning materials, teacher in-service training)?

Sector level in general

- Which line ministries are engaged in service delivery in the education sector?

- Which agencies are responsible for spending the education budget?

- At which level of government do these agencies operate?

- Who spends the money at the sub-national level?

The following specific issues should be examined at the budget formulation stage:

1. Sector priorities and planning. Linking the budget planning process to the policy planning process is critical in ensuring that policy priorities are adequately funded. Within the education sector, the ministry of education develops the ESP, the guiding document for what the government wants to achieve in the sector and the strategies it will apply to do this. The ESP is a powerful policy instrument, which provides a development vision for the education system and outlines a coherent set of actionable strategies to implement reforms and reach development objectives. Financial soundness, feasibility, and sustainability are key elements of quality ESPs. The plan is considered achievable when it includes an analysis of current financial trends, an expenditure framework, and thoughtful strategies for overcoming financial constraints that may hinder effective implementation. ESPs are usually endorsed by development partners to ensure alignment of donor financing with the ESP. A financially sound and feasible ESP includes the following elements:

a. Analysis of existing cost and financing, including current and historical trends in
government, donors, and, where possible, household spending on all subsectors and education levels. 

b. **Financial simulation and financial projections** to evaluate the feasibility of various policy reforms and programming options using basic parameters (population projection, education, cost and macro-economic development indicators). These projections should also include the potential financing sources (internal and external) for all costed programs.

While ESPs are multi-year plans, the government budgeting process is typically an annual activity. Linking the two processes should ensure that the annual budget is aligned with the multi-year financial planning in the ESP and vice versa.

Examining the following issues is important in assessing whether the budget planning process is sufficiently linked to the policy planning process:

- Does the proposed sector budget include funding for all programs and policies outlined in the ESP?
- Is the proportional allocation of funding to various education programs reflective of policy priorities?
- What is the value of capital expenditure relative to recurrent expenditure? Does this provide enough financial space for implementing key sector reforms?
- Do the resources allocated to various education programs increase in real terms compared with previous years and, if possible, for the coming years as well?

**BOX 3. LINKING POLICY, PLANNING, AND BUDGETING: MEDIUM-TERM EXPENDITURE FRAMEWORK**

National budgets are developed annually, while policy implementation plans span multiple years. Unpredictability of funding from one year to the next can significantly hinder operational aspects of policy implementation and, in the long run, policy outcomes. Affordability of reaching sector policy goals should be linked to policy planning and budgeting early in the budget cycle, with adjustments in both policy and budget needing to be negotiated accordingly.

At the national level, most countries have adopted a form of medium-term fiscal framework (MTFF), medium-term budget framework (MTBF) or medium-term expenditure framework (MTEF), which extends budgeting and future allocations from one year to three to five years in relation to national policy priorities. This framework determines the overall aggregate fiscal budget, taking into account, government’s economic policy and the state of the economy. An MTEF (or similar framework) is a mechanism that allows decision makers to balance the affordability of national policy priorities over a longer period of time.

Some countries may also develop a sector level MTEF (or similar framework) that determines subsector allocations for the planning period. Sector-level MTEFs take three components into consideration for costing: (i) what expenditure commitments already exist within the sector, (ii) which programs work (effectiveness), and (iii) what additional resources are available to implement new policy or program priorities. The MTEF allows sector-level policymakers to more closely link policy planning to the public finance cycle, develop systems for performance monitoring and measurement, and support more transparent and rational allocation of resources within the sector.

Education sector planning is a key process within the education sector that informs the MTEF process. Historical sector financing trend review and future costing projections for education sector policy priorities can provide invaluable data for sector MTEF development. The planning process itself should incorporate sector MTEF financial projections in order to evaluate the financial feasibility of the projected sector budget. The ministry of education can use the process to negotiate the sector budget allocation within the national budget based on the credibility of financial data analysis and linking the sector budget to longer term sector planning.22

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2. Equitable allocation and spending of resources. A key goal of public financing for education is to promote equity in educational opportunity. In many instances, expenditures reproduce inequalities in society, with significant variations in the type and quality of education accessible to different sections of society. Education financing can compensate for socioeconomic differences and remove barriers to accessing quality education for children disadvantaged by their economic status, ethnicity, gender, native language, or urban/rural location, or by disabilities. Reaching these groups often involves more expensive and targeted interventions.

Strong analysis of equity in education budget allocations and expenditure is required, including assessing whether government spending tackles different types of inequality. Spending by levels, geographic distribution of spending, and spending on specific marginalized groups should all be considered.

Examining the following is an important step toward ensuring equitable allocation and spending of resources:

- Do any of the allocations toward the various education programs discriminate against, or exclude, a certain section of the school-going population?
- Are additional resources channeled to marginalized populations?

3. Identification of historical bottlenecks in sector expenditures. During the budget formulation phase, stakeholders can also examine previous expenditures (actuals) to address areas in the budget that have historically experienced bottlenecks in spending. Assessing past expenditures is an important part of the policy and planning process; in particular, it is important to consider the efficiency and effectiveness of this spending.

Within the education sector, given limited financial resources and continuing growth in enrollments, it is crucial for the ministry of education to demonstrate efficient and effective utilization of educational resources. This has an impact on future allocation: if resources are not used to their potential within a given year, it could dissuade the ministry of finance from increasing budget allocations in future budget cycles.

The following questions can help to identify historical bottlenecks:

- Do delivery agencies tend to spend all their funds, or are there funds left over from previous years?
- What was the execution rate for the budget in the previous year?
- Were there any specific budget areas where the execution rate was significantly lower than others?

Review of past expenditures is also a critical aspect of other stages of policy planning and budgeting, particularly budget evaluation, and will be discussed further in Section 3.6.

3.3.3 How can stakeholders engage further?

Ministry of education

Line ministries generally have the most formal engagement with the ministry of finance (or other budget formulation authorities) during the budget formulation process, as they provide the technical inputs on cost estimates for national and sectoral policy priorities. The

23 Specifically, the FFA states: “Inclusion and equity in and through education is the cornerstone of a transformative education agenda, and we therefore commit to addressing all forms of exclusion and marginalization, disparities, and inequalities in access, participation, and learning outcomes. No education target should be considered met unless met by all.”

education ministry can utilize the financial analysis of past expenditures and budget projections from the ESP to provide credible costing information to the ministry of finance to influence budget allocations for the sector.

The ministry of education should engage with the ministry of finance as early as possible to get an advance projection of the available resource envelop and to negotiate national budget allocations for the sector, especially when requesting a proportion or budget ceiling increase from the previous year.

The ministry of education can provide multiple budget scenarios to the ministry of finance for consideration, which could show the trade-offs in funding policy objectives depending on the available resources. Such a scenario planning exercise can also prepare the ministry of education for the possibility of receiving a level of funding different than the ideal scenario.

**Donors**

Donor funding may comprise a significant proportion of the resource envelop. Discussions between donors and the government at this stage could be especially useful in evaluating the partnership commitments of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, formulated around the central pillars of ownership, alignment, harmonization, managing for results, and mutual accountability.25

Donors can engage in discussions with the government on the amount and proportion of financial aid to be given to the country in the form of general budget support, sector budget support, or as project financing. Accurate estimates of the actual amount of aid received as compared to aid pledged are critical for resource forecasting. Donors also require accurate information on expected levels of debt, the budget deficit, and the share of expenditure in priority sectors to make decisions on future aid allocations to the country.

Donors can in turn support the ministry of education in improving data collection systems specific to sector financial management. They can provide funding and technical assistance for integrated FMIS and undertaking a NEA assessment.

**CSOs**

Civil society advocacy campaigns can play a critical role in increasing the share of education budget allocation at this stage. CSOs can conduct analysis of past budget allocations and compare these to neighboring countries (or other countries with similar economic performance), and provide this information to citizens to raise awareness on national prioritization of the education sector.

CSOs can hold public hearings to engage citizens and other stakeholders (policy experts, academics, etc.) to discuss sector priorities and provide recommendations for the draft budget plan.

Advocacy campaigns at this stage could greatly influence both the ministry of finance and ministry of education in allocating adequate funding to meet citizen demands for education.

**Teachers unions**

Teachers unions can engage with the national Public Service Commission (PSC), which usually establishes service conditions for government employees, to advocate at this stage for improved salaries and service conditions. Any cost considerations for changes in the service conditions have a significant impact on the budget as the proportion for employee remuneration makes up the lion’s share of the education budget in most contexts.

3.4 Stage 2: Budget approval

3.4.1 What is it?

This second stage of the budget cycle occurs when the budget proposal prepared by the ministry of finance is submitted for approval to the legislative branch of

the government (the parliament, congress, or council of ministers). The legislature examines the various aspects of the budget proposal, debates the proposal, and proposes possible amendments. The extent of legislative involvement varies across countries and the legislature’s powers under the constitution. In many countries, the legislature has less influence over revenue than it does over expenditure. At the end of this stage, the budget is formally approved by the legislative branch and enacted into law.

3.4.2 Why is it important for policy dialogue and monitoring?

During this stage, education stakeholders can help raise the profile of the sector with legislatures. Political support for the sector is significant to garner support to approve a sector budget that keeps resources for key expenditures for policy priorities intact.

Usually, there is little engagement with other stakeholders while legislatures debate the proposed budget. A certain degree of national autonomy should be preserved to ensure budgetary sovereignty; the core of the dialogue therefore happens between the executive and legislative branches, including the political organizations, and between the central and decentralized levels of government. However, in many countries, the legislature requests further information and data from the executive branch, and/or the line ministries establishes special committees on specific budget topics or issues and holds hearings and public debates. Other stakeholders can therefore engage via these forums to better understand the proposed budget and its priorities.

Education stakeholders should be aware of the following budget approval processes and actors in order to effectively advocate for prioritizing education within the national budget and the approval of the proposed budget:

- When does the parliament debate on the budget take place, and what are the processes in parliaments to approve the proposed budgets?
- Is it possible to identify specific champions for the education sector within the parliament/legislative branch?
- Are there any public forums for engagement with legislatures for discussions on citizen priorities?

Advocacy for prioritizing education

The key goal of engagement of education stakeholders during the approval stage is to advocate for prioritizing the education sector in the national budget. Education stakeholders can investigate the following as a step toward achieving this:

- What legislative commitments have been made to finance education?
- What are some of the political priorities of the legislators who support improvements in the education sector? How are these aligned with the priorities identified in the ESP?
- What information and data can be provided to the legislature to help with budget debates and support the approval of the proposed education budget?

3.4.3 How can stakeholders engage further?

Ministry of education

The ministry of education can provide education sector cabinet members with credible data to make the case for investment in the sector. This data might demonstrate past progress in the sector and credible future plans to utilize the domestic resources available to achieve sector goals. The ministry can also make relevant data publicly available. This would not only demonstrate transparency on the part of the ministry, but also allow other education stakeholders to use the information for their own campaigns for education sector support.
Donors

Donors can fund data and information projects for the ministry of education and other stakeholders engaged in providing credible financial data, as well as analysis for public and legislative debates on the education budget.

CSOs

CSOs with budget expertise can conduct analysis of the draft budget and engage citizens in public hearings on the budget. CSO-facilitated public hearings during this stage can be influential in showing public support for the education sector and enhancing the legislative debate on the education budget. CSOs can also directly engage with specific legislators who have been identified as champions for the sector to discuss the prioritization of education within the national budget.

3.5 Stage 3: Budget execution

3.5.1 What is it?

Once the legislative branch approves the ministry of education’s budget, they use the allocated funds to implement programs for the year. The approved funds for the budget are transferred from the national treasury to the relevant ministry on a quarterly or monthly basis. During the course of the budget execution year, accounting officers in the ministry record all the outstanding revenue and expenditure for in-year budget and accounting reports. At the end of the year, once all transactions have been recorded for the year, an accounting report is produced.

It is important to note that the 12-month period when the budget is in effect, that is the fiscal year, differs across countries and may not coincide with the calendar or the academic year of the schools under the jurisdiction of the ministry of education.

In practice, budgets are not always implemented in the exact form in which they were approved by the legislature. Reallocation across different budget lines or changes in spending levels may happen with deliberate policy decisions made by the ministry of education as a reaction to changing context. Actual spending may be lower due to institutional spending capacities, delays in transfers from the treasury, or lower levels of tax collection than planned. However, revenue policies (or how the government collects funding) are rarely changed during the fiscal year.

During the execution (or implementation) stage, many governments release financial reports or budget performance reports, both during the year (which shows progress on budget execution with respect to ongoing spending) and after the end of the budget period (which shows a full record of each ministry’s financial activities, illustrating actual expenditure against the approved budget). The level of detail and the timeliness of the information provided differ from country to country. Based on this, budget execution rates—actual spending as a proportion of the planned budget—can be evaluated. Based on deviations observed between the planned and executed budget, the line ministry frequently submits a supplementary budget, usually once a year, to the legislature, proposing adjustments to the enacted budget during the year, and produces revised budget expenditure figures.

3.5.2 Why is it important for policy dialogue and monitoring?

Policy dialogue and monitoring activities that explore the discrepancies between budget allocation and execution can reveal inefficiencies, blockages, leakages, or weak capacities in the system. It is important to analyze the factors impacting execution rates, as a low execution rate often signals to the executive branch that the line ministry has weak spending capacity (i.e., units are not implementing and/or spending according to the plan or budget) or a tendency to over budget. This in turn could have a negative impact on decisions on overall budget allocation to the education sector in the next budget cycle.

Discussions about delays or reductions in fund transfers from the central government (treasury) can help identify issues in central government public expenditure management systems. However, dramatic
differences between the allocated and expended budgets could also reveal weaknesses in the capacity of the ministry of education to implement planned services and programs. At this stage of the budget cycle, other stakeholders can play key roles in ensuring that budget operationalization is on track. Where bottlenecks can be identified and easily addressed, they may be remedied during this stage. However, in many situations, obstacles to budget implementation can only be assessed during the budget evaluation stage (see Section 3.6).

Education stakeholders should become aware of the following budget execution processes and actors in order to engage in policy dialogue and monitoring activities:

- What outcomes are planned to be achieved through the budget and what procedures, rules and processes are in place to achieve these outcomes?
- Who spends the budget? Which agencies have the responsibility for spending the education budget? At what level of government are they? Who spends the money at the subnational level?
- Who monitors budget spending and addresses changes that need to be made? What forums and procedures exist to monitor and scrutinize budget expenditure? Are these governmental only? How and when can the LEG engage?

**Equity in spending**

The overall education sector budget may not elaborate on school-level allocations, which are often determined by the ministry and its decentralized agencies after the budget is approved. Box 4 describes some of the considerations taken into account when determining resource allocation at the school level.

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**BOX 4. EQUITY AND SCHOOL LEVEL RESOURCE ALLOCATION**

Decisions on expenditures for individual schools follow different models. Traditionally, one of the three following models are used by ministries of education in deciding the level of funding each school receives in a given year:

1. **Historical funding or incrementalism**: Schools receive funding for the year that is equal to the previous year modified up or down by a few percentage points.

2. **Bidding and bargaining**: Within this model, the school presents a case for funding, based on given criteria and an estimated budget, to the higher levels of government. Funding is awarded based on the spending unit’s assessment of how well the bid meets the criteria.

3. **Discretion**: Funding is given to the schools according to the opinions and judgments exercised by the unit’s administrators.

In general, these models would not take changes in school enrollment numbers into account. Many education systems are moving toward allocating resources to schools based on a school funding formula that takes student enrollment into account, based on the principle of “the money following the student” (i.e., ensuring a direct correlation between funds provided to the school and the number of students enrolled).

**Per-capita formula funding** is a type of school funding formula that contains a number of variables (number of students per grade, location of school, poverty, etc.) and a cash amount related to each variable. This resource allocation model is used to meet the equity objectives in a system that recognizes that while all students may need the same basic resources, students with certain characteristics (e.g., remote location, disability) may require additional resources.26

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Ministries develop different approaches to make equitable resource allocations across schools and other delivery institutions; however, the capacity to spend to allocated resources also varies across institutions.

During the execution stage of the budget cycle, stakeholders can examine the following to ensure equitable allocation and spending:

- How is equity taken into consideration in a school-level resource allocation? If there is a school funding formula, what variables are included?
- Is there evidence (empirical or anecdotal) about challenges in spending at particular schools or delivery institutions?

Transparency and accountability

Availability of information on expenditures, especially during the budget execution period, is fundamental to promoting transparency and accountability. Transparency in government finances through publication of information on financial and programmatic operations allows citizens to hold the government accountable and, in turn, can improve effective spending. Education stakeholders supporting the ministry of education in policy planning require timely and detailed information to track the efficient and effective use of funds. During the execution stage of the budget cycle, stakeholders can therefore examine the following to promote transparency and accountability:

- What if any financial reports does the ministry of education make available for public scrutiny?
- Is school-level funding allocation publicly available to enable monitoring by citizens?

Reconciliation between the approved and executed budgets

Due to changing contexts and priorities during the academic year, actual expenditures may differ from the approved expenditures in the budget. In many situations, delays in fund transfers from the central government mean that administrative units responsible for expenditure may direct or reallocate available resources to meet immediate needs (such as employee salaries) away from planned expenditure. Some

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**BOX 5. BUDGET TRACKING**

Budget tracking usually means monitoring budget disbursements and expenditures across the system. It determines whether the resources allocated by the budget have been released on time and spent according to plan. Budget tracking can be conducted at the national, state, district, or institutional (i.e., school) level. Because it checks disbursements through the system, budget tracking can also help to identify mismanagement and corruption.

Budget tracking can focus either on how the overall education budget has been spent at the different levels or examine a specific program, or education subsector (e.g., primary education) nationwide. Comparisons between states or districts can reveal how they are implementing programs, if they are reducing inequities, and the overall quality of these programs.  

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deviation is unavoidable. However, changes in expenditure that cannot be rationalized based on contextual evidence may be an indication of poor planning during the budget formulation stage or challenges in the spending capacity of the administrative units within the education ministry.

To promote improved reconciliation between the approved and executed budgets, education stakeholders can examine the following:

- Are there any delays in fund transfers across government agencies?
- How much of the funding has been spent thus far? On what have these funds been spent?
- Are teachers’ salaries paid on time?
- How do the budget items included in the supplementary budget request compare to the original budget estimations and approval?
- Has there been spending during the year that was not approved in the original budget?
- Did the delivery agencies spent the entire approved budget in the previous year? What was the execution rate of the budget in the previous year and is a similar pattern expected in the current year?

Funding gaps

Monitoring funds at the school level often reveals discrepancies in the funds available and the actual needs of the schools, which are essentially the primary administrative spending entity in an education system. In several contexts, principals and school administrators may raise funds from other sources (e.g. parent-teacher association fees, other fees levied from parents, community fundraising) to make up for any funding gap in meeting the operational costs of the school.

To gain greater insight into funding gaps at a school level, education stakeholders can examine the following:

- What requests were made in the supplementary budget? What factors contributed to the budget shortfall?
- What was the education budget allocation to the school? What other sources of funding has the school received?
- Has the school received the entire budget allocation approved from government?
- What is the level of spending per student? What is the trade-off, intentional or not, between the number of pupils enrolled and the spending on each? What are the most expensive items included in this spending? What scope is there to change these unit costs?
- Does the school spend funds on items not covered by government resources, including electricity, security guard(s), water, or printing of examination papers?
- What is the level of household contributions to education? What is the government-household cost-sharing for each cycle? Do household costs for schooling penalize the enrollment of the poorest pupils, especially in basic education? Box 6 elaborates the importance of taking into account prohibitive costs of education to households and how this can be an obstacle to equitable access to education.
3.5.3 How can stakeholders engage further?

Ministry of education
The ministry of education is the primary agency in charge of the execution of the budget. Officials at various levels can engage with other education stakeholders to identify problems with the budget execution process. The ministry can make spending data available to the public and engage other stakeholders in monitoring the spending during this stage. An open dialogue with stakeholders could help the ministry design solutions for the challenges it faces in delivering services.

Donors
During field visits and joint sector reviews (JSRs) (see more on JSRs in Box 7), donor representatives can request information on the flow of funds to and actual expenditures made in the priority program areas. If they identify issues with transfer or spending of resources, they could engage in dialogue with the ministry of education during forums like JSRs. This could help the ministry and donors to jointly design future programs to improve sector spending.

CSOs
CSOs can work on budget tracking at various levels of the education system to monitor issues with financial flows. They can create simple budget communication documents to make the public aware of funds that are supposed to be spent at various levels of the government and help citizens monitor whether the funds are disbursed and used for the stated priorities. Civil society can also engage directly with parents and households, in general, about access issues and the cost of quality education.

Teachers unions
Many countries are plagued with late or incomplete payments of teacher salaries and benefits. In other instances, teachers have to travel far to receive their payments, which may result in them missing instructional time in the classroom. Teachers unions can...
engage with the ministry of education and payroll departments to monitor teacher payments during the execution period. Unions can help inform the ministry about regions or groups of teachers facing exceptional hardships, and work with the relevant authorities to develop solutions.

**BOX 7. JOINT SECTOR REVIEWS (JSRs)**

A JSR is a periodic mechanism led by the government, inclusive of all stakeholders active in the development of the sector. A comprehensive inquiry into the use of financial resources is a crucial part of the JSR mechanism. A good-quality JSR is expected to monitor sector progress and performance and to provide an overview of financial allocation versus actual expenditure, which allows countries to draw lessons from sector plan implementation. Through the JSR, countries identify sector priorities for future planning and budgeting exercises.

Education stakeholders can support regular JSRs as transparent forums that subscribe to the principles of mutual accountability. JSRs are critical instruments contributing to more effective and inclusive policy dialogue; they provide an opportunity for the government and development partners to have an open conversation about challenges and solutions in the sector. JSRs not only help with monitoring the implementation of the sector plan, but also in building a case for continued investment at the national and global levels.

3.6 Stage 4: Budget evaluation

3.6.1 What is it?

The budget cycle concludes with a number of government activities assessing how the budget was spent. As mentioned earlier (see Section 3.5.1), the accounting officers of the line ministry produce end-of-year accounting reports on expenditures. Audits of national accounts are also conducted to provide information on risk areas where controls are lacking or where routine failure to comply with accounting rules may undermine an administrative unit’s potential to meet its objectives.

*Internal audits* are either performed by a centralized government authority or fall under the responsibility of the spending agency’s (ministry of education, in this case) management control structure. The most important functions of the internal audit are to test the management controls themselves and to assist management in assessing risks and developing more cost-effective controls. The *external audit*, however, is performed by an independent organization, which usually reports its findings to the legislature and to the audited entity itself. The primary purpose of the external audit is to examine whether the financial activities were carried out in compliance with the approved budget law, rules, and procedures and if there is room for capacity development.

Governments and donors may also perform program evaluations, PER, and PETS as an oversight mechanism for understanding the effectiveness and efficiency of public expenditures.
**BOX 8. PUBLIC EXPENDITURE SURVEY TOOLS**

A **Public Expenditure Review (PER)** is a diagnostic tool used to evaluate the effectiveness of public financing. It analyzes the government’s expenditure over several years to assess consistency of spending in line with policy priorities and results achieved. PERs may be conducted for the entire government expenditure or for particular sectors (e.g., education, health, infrastructure).

**Public Expenditure Tracking Surveys (PETS)** are a set of tools used to uncover leakage in the expenditure chain for particular budget line items or programs. Traditionally, PETS involve the triangulation of budget and financial records from different sources on the expenditure map. The goal of PETS is to identify inconsistencies in records regarding the allocation and disbursement of funds by one office or facility and the corresponding receipt of funds by a different office or facility.32

**Quantitative Service Delivery Surveys (QSDS)** is a technique to survey the efficiency of service provision. It examines the efficiency of public spending and incentives, and various dimensions of services delivery in provider organizations/government departments or agencies, especially at the level of the service facility. It quantifies the factors affecting quality of service such as incentives, accountability mechanisms, and the relationship between agents and principals.33

3.6.2 **Why is it important for policy dialogue and monitoring?**

Thorough evaluation of the budget after execution provides important inputs for future budget planning. This stage provides a valuable opportunity for the education stakeholders to generate and access information on the efficiency and effectiveness of public expenditure on education sector priorities. End-of-year reports and audit reports are critical inputs to dialogue on the sector performance and plan for reforms for the next budget cycle. PETS, PERs, or QSDS can be especially helpful in monitoring system efficiency in spending. Program evaluation reports, especially impact evaluation studies, can be used to engage in policy dialogue on the effectiveness of expenditure in reaching the intended recipients and planned results in the education sector.

Some key process questions that should be asked at this stage are:

- Are the spending agency’s accounts audited? If so, by whom: internal agency auditor, the government auditor within the executive branch, or an independent auditor?
- When and how often are audits of spending agency accounts undertaken: (i) every three months during the fiscal year; (ii) every six months during the fiscal year; (iii) within six months from the end of the fiscal year; (iv) more than six months but less than one year from the end of the fiscal year; (v) between one and three years from the end of the fiscal year; or (vi) more than three years from the end of the fiscal year?
- What oversight reports are publicly available?
- Are there any non-government budget oversight activities (e.g. citizen budget watch or tracking)?

**Audit of budget operations**

Audit reports carried out during the evaluation stage allow for a more thorough review of the bottlenecks in expenditures than is possible during the budget execution stage. In particular, a comprehensive analysis of the causes behind implementation challenges can be conducted.


Some key questions that should be asked at this stage are:

- What was the overall execution rate of the education budget for the year for combined recurrent and capital expenditures, as well as for each expenditure type individually?

- Which elements of the budget experienced the highest deviation between the approved budget and actual expenditure? What were the reasons for this deviation?

- How does the execution rate for targeted interventions for marginalized populations compare to the execution rate for the budget as a whole?

- Was disbursement of donor funds aligned to national systems (i.e., did donors use national procurement systems and disburse aid through existing national channels for financial flows)?

**Budget efficiency and effectiveness**

Inefficient use of resources represents a critical financial leakage from the system. In the context of resource scarcity, it is critical to maximize value for money in education investments. Key factors to consider when assessing efficiency include the unit cost of educating a student (essentially total education costs divided by the number of students), as well as process outcomes of repetition rates, class size, and teacher absenteeism.

At the same time, increased budget allocation to the education sector and improvement in system efficiency are only meaningful when they translate into improved results. As such, it is also critical to map whether education spending has achieved its intended objectives and is therefore cost effective. Of key importance here is to examine the effectiveness of education spending in terms of equitable outcomes as well. To this end, one should ask:

- Are there any cost-effectiveness analyses in the audit reports?

- Are there elements of the budget that are rated particularly low in their cost effectiveness?

- Have any program evaluations been conducted? What can be learned from these to improve financial management for the sector?

- How will the results of the budget evaluation reports used to ensure improved effectiveness in subsequent budget allocations?

- How are equitable outcomes for marginalized populations addressed in evaluations?

**BOX 9. EFFICIENCY AND EFFECTIVENESS IN EDUCATION**

**Efficiency**—Efficiency in budget spending requires that the funds invested in the system inputs yield the largest marginal returns, as measured by the intended policy outputs and outcomes. Efficiency is typically measured by unit costs of educating a student, as well as process outcomes of repetition rates, class size, leakages in public expenditure, and teacher absenteeism.

**Effectiveness**—In this document, we use effectiveness to describe whether or not the strategies funded under the sector plan achieved desired outcomes after implementation (e.g., did investment in reading curriculum reform lead to increased scores in student learning assessments?). Effectiveness is an important consideration during the budget allocation process in order to ensure that resources are directed to programs that achieve results.

**Cost effectiveness**—This is the extent to which the desired outcomes have been achieved at the lowest possible cost. It is important to consider efficiency and effectiveness together when evaluating cost effectiveness.34

• Were any impact evaluations conducted for budget activities? What can we learn from these?

• Do program, budget, or impact evaluations suggest a need for improvement? Are there proposals for improvement?

3.6.3 How can stakeholders engage further?

Ministry of education
With budget execution falling almost entirely within the scope of the ministry of education, it is the primary entity to provide data and information for audit and evaluation activities. The ministry should include in-depth financial review with stakeholders during the JSR. It could also utilize the information gathering process and discussions to identify areas where further capacity building is needed to improve data collection and analysis, management, and decision making in the area of education finance.

Donors
During this stage, donors could utilize audit reports to assess and develop strategies to improve alignment between aid-funded projects and national management systems. Donors can also engage with the budget evaluation process by funding and providing technical support for more in-depth studies like PETS, QSDS, PER, household surveys, program evaluations, and policy impact studies.

CSOs
CSOs can play a critical role in ensuring the accessibility and availability of comprehensive financial information to the general public to improve transparency and public accountability. They can advocate for and support the government in translating audit and evaluation reports into simplified language for citizen scrutiny.

Civil society also plays a key role at this stage in holding government and donors to account for mutually agreed planned policy objectives by calling for investigation of identified system bottlenecks in policy dialogue forums like the JSR. CSOs complement abstract policy discussions on financial issues by providing perspectives on local and school-level realities.

Teachers unions
Teachers unions can provide locally grounded information on annual budget activities related to teachers and school effectiveness. Unions can continue engagement with the government initiated during budget execution on challenges around payroll and other school-level disbursement issues.
Glossary

Budget balance, deficit, and surplus: A balanced budget occurs when a government’s total revenue equals its total expenditure for a given fiscal year. When the budget is not in balance, it is either in deficit or surplus. A budget deficit refers to a negative balance between budget expenditure and budget revenue; i.e., when the government spends more money than it actually has. A budget surplus refers to a positive balance between budget expenditure and budget revenue; i.e., when the government has more funds than it needs to spend.

Budget ceiling: The expenditure limit imposed on a budget or budgetary item.

Budget inputs: The allocation of money for a particular use in the budget. This money is spent on the production of particular services; for example, school infrastructure support.

Budget outcomes: The impact on the broader society or economy of budget allocations to a particular program or sector. For example, the ultimate objective of a school nutrition program would be to improve children’s nutritional status, and thereby their ability to learn in school. Thus, the budget outcome would be changes in children’s nutrition status and learning capability.

Budget outputs: Public services provided by government through budget inputs. An example would be the number of children who received teaching and learning materials during the calendar or financial year.

Capital expenditure/spending: Spending on an asset that lasts for more than one year is classified as capital expenditure. This includes equipment, land, buildings, and legal expenses and other transfer costs associated with property. For capital projects (e.g., building of schools), all associated expenses are also considered as capital spending.

Capital gains taxes: Taxes on the profits from the sale of capital assets such as stocks and shares, land and buildings, businesses, and valuable assets such as works of art.

Concessional loans: Loans that are extended on terms substantially more generous than market loans. The concession is achieved either through interest rates below those available on the market or by grace periods, or a combination of these. Concessional loans typically have long grace periods.

Consumer price index (CPI): Reflects the price of a representative basket of consumer goods and services. This index measures the impact of inflation on the average consumer.

Consumption taxes: Taxes such as value-added tax, general sales taxes, and excise taxes.

Contingency reserves: Funds set aside to meet unforeseen and unavoidable requirements (such as the costs arising from a natural disaster) that may occur during the budget year.

Corporate taxes: Taxes on the profits made by limited liability companies and other similar entities. The tax is generally imposed on net taxable income, specified in the company’s financial statement.

Current expenditure/spending: Recurrent expenditure on goods and services that are not transfer payments or capital assets. It includes salaries, rentals, office requirements, the operating expenses of government industries and services, interest, and maintenance of capital.
**Debt service costs:** The interest payable on debt. This excludes the repayment of the amount of money originally borrowed.

**Debt servicing:** Making payments on the principal and interest on outstanding loans.

**Deficit:** This represents an excess of expenditures over the resources available.

**Deflator:** A statistical tool used to convert current currency into inflation-adjusted currency, in order to compare prices over time (i.e., after factoring out the overall effects of inflation).

**Direct taxes:** Taxes charged on the taxable income of individuals and legal entities.

**Earmark:** When funds have been earmarked, it means that they have been dedicated to a specific program or purpose. In some cases, a particular stream of revenue is earmarked for a specific purpose.

**Economic growth:** Economic growth refers to the increase in the quantity of goods and services produced in a country annually. Economic growth can be measured by changes in Gross Domestic Product at constant price.

**Excise taxes:** Taxes imposed on a limited range of goods, such as luxury goods, or on products that can have a harmful impact on the consumer, such as alcohol or cigarettes.

**Execution rate:** The percentage of the approval budget that was actually spent during a given time period.

**Expenditure:** Government spending of money, or the amount of money spent.

**Fiscal policy:** Refers to efforts by the government to stimulate the economy directly, through spending.

**Fiscal year:** The 12 months on which government budgets are based. In some countries, the fiscal year is longer than 12 months.

**General sales tax:** A tax added to the value of all sales with no allowance for claiming a rebate on tax paid.

**Government debt:** Government debt is the outstanding amount that the government owes to lenders at any given point in time. Governments borrow when they run deficits but reduce outstanding debt when they run surpluses. Thus, debt essentially represents the total of all annual deficits, minus any annual surpluses, over the years.

**Grants:** Grants are transfers that international organizations or governments make directly to government units, organizations, or individuals.

**Gross domestic product (GDP):** Total value of final goods and services produced in the country during a calendar year. GDP per capita is the simplest overall measure of income in a country. Economic growth is measured by the change in GDP year by year.

**Gross national product (GNP):** Commonly calculated by taking the sum of personal consumption expenditures, private domestic investment, government expenditure, net exports, and any income earned by residents from overseas investments, minus income earned within the domestic economy by foreign residents. Net exports represent the difference between what a country exports minus any imports of goods and services.

**Income taxes:** Taxes on income, profits, inheritance, payroll, and capital gains, which generally constitute and are divided between taxes payable by individuals and corporations.

**Indirect taxes:** A form of tax charged on transactions, usually on their gross value. Examples include sales taxes, value-added taxes, goods and services taxes, stamp duties, land taxes, excise and customs duties, and levies of all sorts.

**Inflation:** The rate of increase in prices.

**Inputs:** The goods or services that go into providing government services. For instance, typical inputs funded by an education budget would be the salaries of
teachers, the construction of schools, and the purchase of textbooks.

**Interest rate**: The cost of borrowing funds. The interest rate is a percentage of a loan that the lender charges the borrower until the debt is repaid.

**Macroeconomic policy**: A broad government policy to ensure economic stability. It includes monetary and fiscal policy, as well as the government’s priorities in allocating resources.

**Medium-Term Expenditure Framework (MTEF)**: The three-year revenue and expenditure plans of national and state/provincial governments. Each year the legislature votes on the projections of the first year. The two outer years are retained as a basis for future planning, while a new third year is added. Also known as Medium-Term Fiscal Framework (MTFF) or Medium-Term Budget Framework (MTBF).

**Monetary policy**: The regulation by a central bank of the money supply and interest rates in order to ensure price stability.

**Nominal terms**: Actual monetary value in terms of its purchasing power at current prices. Nominal terms do not take into account the effect of inflation on the real value of money. Government budgets are set in nominal terms and do not adjust totals for inflation.

**Off-budget aid**: Off-budget aid includes donor funding channeled outside of government systems and budgets; i.e., for projects implemented by nongovernmental organizations (NGOs) or private entities that often have little involvement or awareness of the government.

**On-budget aid**: On-budget aid includes bilateral and multilateral aid, as well as general and sector budget support, that is channeled through government systems and recorded in budgets and/or public expenditure accounts. Could be project-specific, program, or pooled funds, and is aligned to varying degrees with the government’s own budget priorities.

**Progressive taxation**: A tax system in which the tax percentage increases as the income increases, so that a higher level of tax is collected from taxpayers who earn more and a lower level from those who earn less.

**Real terms**: Value measured in terms of the purchasing power of money at a particular time (i.e., after adjusting for inflation).

**Regressive taxation**: A tax system in which the tax percentage decreases as the amount subject to tax increases.

**Revenue (government)**: Funds that the government, as a result of its sovereign powers, collects from the public. Typical sources of revenue include individual and corporate income taxes, payroll taxes, value-added taxes, sales taxes, levies, and excise taxes.

**Social contributions**: Payments made by individuals and employers toward maintaining government-provided health, unemployment, pensions, and other basic social rights. This includes social security payments.

**Subsidies**: Government transfers to enterprises on the basis of the level of their production or sales volumes.

**Tax**: A fee levied by a government or a regional entity on a transaction, product, or activity in order to finance government expenditure. Tax rates and the tax base are typically decided by a representative legislative body, based on constitutional provisions.

**Tax avoidance**: The term given to the practice of seeking to minimize a tax bill within the law (as opposed to illegal methods, which would be classed as tax evasion or fraud). Often involves manipulating the tax base to minimize the tax payable.

**Tax base**: The collective value of transactions, assets, items, and other activities that a jurisdiction chooses to tax.
Tax burden: The total amount of tax paid by an individual, organization, or population. Also referred to as tax incidence.

Taxable capacity: Refers to the predicted tax-to-GDP ratio that can be estimated empirically, taking into account a country’s specific macroeconomic, demographic, and institutional features, which all change through time.

Tax competition: The pressure on governments to reduce taxes, usually to attract investment, either by way of reduction in declared tax rates or through the granting of special allowances and incentives.

Tax compliance: Payment of tax due without engaging in tax avoidance or evasion.

Tax dodging: A legally imprecise term that is often used by tax justice campaigners when it is not clear whether tax is being avoided or evaded. It highlights the fact that many tax avoidance strategies are abusive, while being considered legal.

Tax evasion: A term used to denote illegal methods used to pay less tax. Also known as tax fraud.

Tax expenditure: The cost of tax incentives of all types in terms of lost potential tax revenue. As with any other expenditure, it should be considered as an investment and evaluated on the basis of cost and benefit.

Tax holiday: A period during which a company investing in a country, under an agreement with the government, does not have to pay tax.

Tax incentives: A specific provision not to tax something that otherwise would be taxed (also referred to as exemptions), often designed to encourage a particular form of behavior. For example, some items may be exempt from value-added taxes, and some companies may be permitted exemptions to encourage them to invest, for example in a particular field or country.

Transparency: Fiscal and budget transparency refers to the public availability of comprehensive, accurate, timely, and useful information on a government’s financial activities.

Value-added tax (VAT): A tax charged by businesses on sales and services, but which allows businesses to claim credit from the government for any tax they are charged by other businesses in the production chain. Different from the general services tax, which does not require proof of being an intermediate producer. VAT received by businesses is effectively remitted to the government and serves as a key revenue source.
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