

PRACTICAL GUIDANCE NOTE 2

EDUCATION BUDGETING AND FINANCIAL MANAGEMENT

1. Topic overview

This Practical Guidance Note provides an overview of education finance issues in order to support discussions on improving sector outcomes, the quality of learning and equity.

Understanding education financing is essential to effective EU policy engagement with partner governments. It provides a central platform for high-level review of national education systems, including all sub-sectors and their operational priorities. This in turn, supports more effective identification of appropriate national and externally supported interventions and reforms.

Education financing can be divided into two key areas:

- **Education financial management systems:** The legislative and procedural system for transferring and using the resources (expenditures), and the framework and system for monitoring and reporting on how the resources were used
- **Education budgeting:** The operational systems and processes for distributing sector resources in accordance with national policies.

There are a number of critical issues that can help assess education financing and provide important 'entry-points' for policy engagement and programme development:

1. **Commitment** – Is the government allocating sufficient funding to education? Are funds provided in a timely manner to support effective planning and prioritisation?
2. **Compliance** – Is the budget allocation of resources compliant with sector policy (i.e. across sub-sectors) and with wider national policies? Are actual expenditures consistent with the agreed budget? Are budgets diverted to other uses, including funding for activities outside sector priorities?
3. **Efficiency** – Are budget allocations fully paid out by the Ministry of Finance (MoF), or are there arrears? Are funds provided spent efficiently on teaching staff, facilities and equipment?

Summary

- Education financing covers both budgeting and financial management.
- Understanding financial management systems is of critical importance, for funds flow, supporting school-based finance and management systems and monitoring sector spending.
- Education budgeting represents the political and operational intentions of the government.
- Assessing trends in budget allocations against sector performance provides an important entry point for policy engagement.
- Reviewing sector budgets, in respect to both spending items (budget lines) and beneficiaries (sub-sectors), is important.
- It is important for EU Delegations to work with key partners that are also engaged in sector budget and finance issues.

4. **Effectiveness** – Is the current profile of budget allocations and outlays effective in achieving sector policies, and effectively contributing to improved sector outcomes?

5. **Equity** – Do the agreed budget allocation and the actual resultant budget expenditures promote more equitable educational outcomes?

Understanding the education budget and finance system provides the basis for:

Strategic and programmatic engagement: This enables the EU to explore, through dialogue with partner ministries, potential areas of strategic and programmatic support, for example, a discussion of where additional resources could contribute most to improving learning outcomes, including for the most disadvantaged.

Policy engagement:

- *Financial Management:* Are financial disbursement systems operating effectively – on time and compliant with agreed budget allocations and sectoral priorities – bearing in mind bottlenecks beyond the control

of the Ministry of Education (MoE)? Are financial reporting systems effective, accurate and timely? Are the financial checks and balances sufficient to identify, prevent or discourage misuse and misdirection of funds? Does the financial management system adequately cater for potential divergence between local and national priorities? Are organisational reforms linked to decision making at decentralised levels, particularly around school-based management?

- **Budgeting:** This concerns a number of issues including: the overall resource allocations and consideration of revenue generation, sector policies and priorities, sub-sectoral financing levels; issues related to sub-sectors such as co-financing by business for vocational and higher education; teacher to non-teacher financing levels; enhancing more equitable education outcomes (e.g. rural-urban bias, gender bias, special needs, divergence between local and national priorities, conflict/marginalised populations); broader national and organisational issues linked to decentralisation, civil service reform; and equity-based financing systems.

Effective joint dialogue with other external partners:

Joint reviews of budgeting and financial issues by the national government and development partners, ideally involving civil society partners such as parents' associations or teachers' unions, can help identifying and agreeing on policy shortfalls, policy-implementation gaps, and operational weaknesses within the system. These reviews often take place during annual sector reviews or in advance of sector or EU programme preparation.

2. Understanding government financial management systems

Funding sources: Government budgets comprise funds from different sources including domestic tax and non-tax revenues; foreign direct investments; and loans and grants from external sources such as development partners. External funding from partners through projects is generally classified as investment funds and EU budget support will be accounted for as a grant amongst budget revenues. Lower-income countries tend to rely more heavily on external grants. For example, in 2016, around 6% of government revenue in Cambodia was from grants.

Funding and reporting flows: Financial management systems differ from country to country. Developing an overview of the funding and reporting flows is useful for assessing how, and how effectively, the system works. External technical assistance may be required to develop detailed analysis of the system. Other partners that also have high levels of engagement in sector financing issues may be able to support this process. These would include the IMF, the World Bank, development banks and, potentially, other partners that are engaged in budget-support programmes.

Public sector audit systems and processes: The objectives of public sector auditing are to promote the proper and effective use of public funds; the proper execution of administrative activities; the development of robust financial management systems; and the communication of information to public authorities and the general public through the publication of objective reports. Audits systems and processes can be divided into internal control processes, internal audit, and external audit.

- **Internal control processes** are the mechanisms and practices put in place at the level of the unit, department or agency to manage, control or authorise revenue flows and expenditure.
- **Internal audit** examines internal control systems. Internal audit departments (IADs) are increasingly common and operate at the sector and ministry level, and often answer directly to the Minister as a means of providing them with some degree of 'independence' from the broader sector. Internal audits generally focus on providing recommendations for strengthening financial management practices alongside the assessment of performance. A particular challenge for education sector is the potential number of entities that may be subject to audit (particularly if schools are expenditure centres). Balancing the frequency and scope of internal audit visits with the available audit capacity can be very challenging. It is prudent for IADs to conduct more frequent audits of entities with high expenditures or of ones that are regarded as being at 'higher-risk'. Higher risk areas would include departments involved in high levels of procurement (such as textbooks or construction), staff appointment, promotion and deployment. In addition, given their role in assessing fiscal probity, IADs themselves may also be subject to higher levels of risk of corruption.
- **External audit** is undertaken nationally by a Supreme Audit Institution (SAI), such as a National Audit Authority. These bodies are responsible for scrutinising public expenditure at a national level and providing an independent opinion on how the executive has used public resources. They may also be mandated to conduct audits of projects funded by external sources, non-profit organisations, associations, political parties and private investments, according to the prevailing national laws. SAI reports are generally published, though frequently with delays. Some SAIs conduct performance audits in addition to compliance audits, which examine how well government services have been delivered in addition to expenditure compliance and control issues. In addition to SAI reports, Parliamentary Committees dealing with finance (for example, public accounts) can review agency spending and produce reports. Reports should lead to follow up by ministries, and such follow up should be included in investigations.

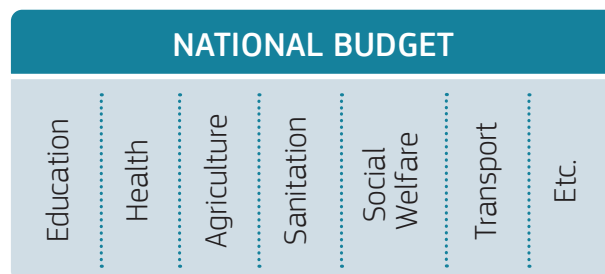
Transparency and communications around education finance: Given some of the capacity limitations surrounding internal audit and control systems, other complementary means of increasing financial transparency are important. One good example of this is the approach adopted in Uganda of publicising school-level financial data through painting this on school buildings. Other approaches focus on strengthening the capacity and role of community participation in school-level financial planning and budgeting. Ensuring that school-level financing systems (such as school funding formula) are kept as simple as possible can also assist in supporting communities being able to verify that funds received at the school level are compliant with official procedures and have not been diverted. These types of approach can incrementally strengthen communities in taking forward the role of ‘first-line-of-audit’. In addition, they can support greater levels of community engagement in supporting the school management process.

3. Understanding the overall government budget

Education recurrent (operational) and capital (investment) budget: Recurrent budgets cover the recurring annual costs. Annual recurrent budget ceilings for line ministries are usually determined by MoF with MoE determining spending priorities within the budget ceiling. In some countries, funding for education can be split across several ministries. For example, vocational, technical or higher education can be the responsibility of separate ministries. In general terms, the education sector has a high level and share of recurrent costs, due to the high proportion of budget required for staff. Capital budgets cover the cost of one-off investments, particularly infrastructure. For example, safe and resilient school buildings budget ceilings in this area can be determined by a Ministry of Planning. The education sector generally has comparatively low investment levels compared with recurrent budgets. After the payment of the salaries and the other recurrent operating costs (e.g. textbooks, office equipment and utilities), the remaining recurrent budget can provide a useful proxy for the ‘expenditures on quality of education’.

Education reforms often have important long-term recurrent implications. Building a school is comparatively cheap, compared to the recurrent costs of staffing, operating budgets, textbooks and utilities. Therefore, **assessing the impact of any reform on the long-term recurrent costs is critical.** Increases in wages, teacher allocations, school-level funding (per student), electricity and water costs all need to be assessed thoroughly. In situations where recurrent budget requirements are allowed to outstrip recurrent budget availability, resource allocations can often become skewed. Systems to ration the scarce resources equitably are rarely in place, and usually decided at MoF/Treasury level.

National budget: Each year governments should publish their annual budgets, of which the education budget is a part. In general, the budget should be based on annual rolling 3 or 5-year Medium-Term Expenditure Frameworks (MTEF).

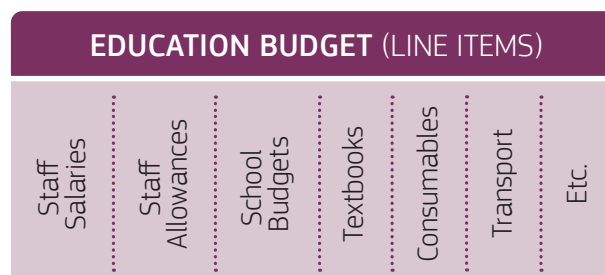


The national budget is generally developed through a process of negotiation between line ministries and the central government. The national legislative body provides final approval.

Both the nominal and real terms (allowing for inflation) annual allocations should be examined, and the annual budget growth or decrease determined. Also, the proportion of the overall national budget allocated to the education sector, and other sectors, provides an important insight into the relative levels of political commitment to each sector.

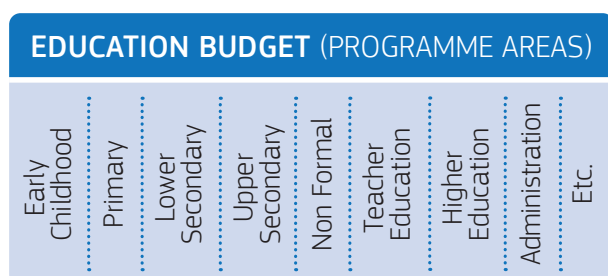
It is also important to know the annual schedule for initial budget preparation, budget review and final budget approval. Understanding this cycle and the role of the different stakeholders can assist the EU Delegation (EUD) in determining and scheduling: i) high-level policy engagement around resource allocations; and ii) operational activities particularly related to budget support programmes, such as schedules for sector budget support performance assessments and tranche releases.

Education budget lines: The share of public finance to education is broken down in the annual education budget. Usually this is broken down according to budget codes (spending items). Budget analysis must go beyond the overall allocation and assess the composition of the budget, and notably the changes over years for specific budget items according to economic, functional, geographic or programmatic criteria.



The education budget is generally developed through a process of negotiation within the sector, and often heavily influenced by historical fund allocations (and expenditures tracks).

Education sub-sector budgets: Understanding what is to be purchased is useful. But it is also important to review the budget in terms of the programme areas, sub-sectors and, ultimately, the intended beneficiaries. Information on sub-sector allocations is important but is not always easily accessible in all countries. In such cases the EUD may wish to consider offering support to the sector in developing the capacity to provide this information on an annual basis.



Education budgets and equity: Achieving greater equity in outcomes is a key aim of EU support to countries. A sub-sectoral budget breakdown can provide some insight into equity issues such as the relative unit costs of primary and higher education. Clear evidence of more systemic or targeted funding for disadvantaged, conflict or disaster-affected areas or vulnerable students (in remote areas, disabilities, ethnic, male/female) can often only be obtained through comprehensive Public Expenditure Reviews (PERs), or through detailed review of specific funding protocols or formula such as scholarship prioritisation, school-funding formula or regional equalising grants. The equity handbook included in the Resources section of this paper includes further guidance on addressing equity issues.

Budgets in other sectors can be critically important for achieving education sector objectives in relation to improving equity and access. Social protection expenditures can increase the enrolment of girls and reduce the income and opportunity cost barriers that many poor families face, in ways that expenditures through the education sector cannot deliver. Similarly, targeted expenditures on rural roads, sanitation and information and communication technologies (ICT) can all support educational access and achievement. Dialogue with government on education budget allocations should include the reflection of education sector priorities in relevant expenditure areas in other sectors.

4. Analysing education sector budgets and finance

Prior to analysing sector financing, it is recommended to undertake a mapping of the education system, including the main sub-sectors and the main stakeholders by sub-sector to ensure no important financing parameters are omitted. The following text looks at key indicators that can be used to support on-going assessment of the key issues for education finance (*see Section 1*).

Commitment: Government resources to education

Public expenditure on education as a % of total public expenditure and % of total primary expenditure (excluding debt service costs)

Public education expenditure as % of Gross Domestic Product (GDP)

Sources

- Annual National Budget
- MTEF

Public expenditure on education as a percentage of national public expenditure provides insight into the relative priority afforded to the sector. It is also important to review the trends in public education expenditure as a percentage of Gross Domestic Product (GDP) particularly in countries where the tax base is small. In 2013 the average for low and middle income countries was 4%.ⁱ

The Addis Ababa Action Agenda, in its call for Integrated National Financing Frameworks (INFFs), encourages countries to set nationally appropriate spending targets, including for education. In follow up to this, the Incheon Declaration at the World Education Forum in 2015, recognising that national contexts are diverse, advocated for an international benchmark of 15% to 20% of public expenditure, or at least 4% to 6% of gross domestic product (GDP) to be directed towards the education sector.ⁱⁱ

ⁱ World Bank database on Government expenditure on education provides a useful site for benchmarking education budgets internationally <https://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS>

ⁱⁱ UNESCO, *Education 2030: Incheon Declaration and Framework for Action for the implementation of Sustainable Development Goal 4: Ensure Inclusive and Equitable Quality Education and Promote Lifelong Learning for All*, World Education Forum 2015, <https://unesdoc.unesco.org/ark:/48223/pf0000245656>

Compliance: Education budget and priorities

Annual and final sector budget allocations (in-year and end-of-year)

Sub-sector allocations as percentage of total sector allocation

Sub-sector spending as percentage of total sector spending

Salary and non-salary shares of overall sector and sub-sector budgets

Sub-sector unit costs (e.g. cost of textbooks, classroom construction costs)

Sources

- Annual Education Sector Budget
- Annual Financial Performance Reports

Compliance with financial management systems

Compliance with financial management procedures, including compliance with eligible expenditures

Timeliness of funds transfer (e.g. percentage of funds disbursed by year end)

Amount and share of funds reaching schools and local-level service providers

Sources

- Annual Financial Performance Reports
- IAD reports or assessments
- Periodic Public Expenditure Tracking Surveys (PETS)

Annual budgets agreed and the final funds committed to the sector may differ for a number of reasons and should be monitored. Shortfalls in revenue and unforeseen emerging national priorities, for example, in the event of extreme weather, natural disasters or conflict, may lead to formal budget amendments, and weak accountability and legal framework may lead to unofficial virement of budgets between sectors.

Sub-sector allocations as a percentage of the total provides information such as the relative share of the education budget allocated to primary education, versus the share allocated to higher education. Sub-sector unit costs provide information on the actual average level of funds allocated per student per year in each sub-sector, for example, \$108 per student in primary and \$980 per student in higher education. The unit cost indicator often more clearly highlights potential disparities across sub-sectors.

Assessing compliance with financial management procedures and prescribed budget processes will often rely on sample surveys from IAD reports or wider and more thorough analysis from PETS. These reports can provide the basis for a formative approach to strengthening national systems.

Efficiency

Breakdown of education budget by expenditure category (e.g. teacher salary costs, teacher training, textbooks, other resources, capital costs – classroom construction, equipment)

Costs of education system management (central HQ costs etc.) in absolute terms and as a share of the sector budget

Budget allocation compared to budget disbursement – overall and by type of expenditure

Sources

- Annual Education Sector Budget
- Annual Financial Performance Reports
- PETS

Education financial data can provide useful insights into the overall patterns and efficiency of resource expenditure. Teacher salary costs invariably represent the bulk of education costs. The relative share of staff and non-staff related costs should be examined, since the level of non-salary costs are important for efficient school operation, whether for maintenance, purchase of minor equipment or expenditure on pupil and premises security. The share of central administrative costs, including running core ministry functions, is also a useful measure of efficiency. Opportunities to improve efficiency, including under programming costs, need to be sought where possible. The use, for example, of locally-sourced renewable energy, despite initial high short-term costs (e.g. the purchase of solar panels), could in the long-run prove cost cutting (through improved energy efficiency) while improving the environment (through CO2 emissions reductions).

Effectiveness

Implementation of key sector policies (e.g. curriculum development, teacher training, classroom upgrading)

Gains in learning (literacy, numeracy) at primary early grade level

Completion, repetition and dropout rates for primary and secondary education cycles

Progress towards SDG4 education targets

Sources

- Annual Education Sector Budget
- Annual Financial Performance Reports
- Parliamentary and SAI Reports
- GMR and UNESCO data on results

Comparing budgets with disbursements can be done using annual Education Budget and Financial Performance Reports, where the latter exist. This can provide an insight into timeliness of fund release

and the efficiency of budget planning. Decentralised systems can often suffer from low disbursement / payment rates as the fund release, expenditure and reporting cycles can introduce significant delays. MoFs will often cite poor disbursement rates as evidence of poor absorption capacity and a justification for not increasing sector budgets. However, the underlying causes may be due to poor financial management practices (e.g. late or limited procurement planning). It is important to work together with MoE and MoF to identify and assess how disbursement can be improved.

Assessing education sector financing against sector performance

Medium and long-term trends in both budget and performance should be reviewed during policy discussions, with domestic bodies (e.g. Parliament), civil society and external partners. International and regional benchmarking of results can also support effective policy engagement.

Sector Key Performance Indicators can assist in focusing the dialogue on whether the resource levels allocated to particular sub-sectors are sufficient to enable the attainment of key sectoral targets. Performance indicators linked to funding can contribute to keeping the reform agenda, dialogue and monitoring process focused on critical priorities. However, they should focus on timely budget execution rather than allocation, and be formulated in nominal terms rather than in percentage of total budget, especially in countries where revenues and expenditures are subject to variance.

Assessing the equity of sector allocations and spending

As a public service, the education sector performance should be measured both in terms of effectiveness (e.g. school performance and attendance) and equity (e.g. good learning outcomes regardless of family income, safe and resilient school buildings, access to water, sanitation and electricity). It is important to bear in mind that a given year's increase in primary education budgets may take several years to impact on completion or graduation rates, and even longer to impact upon learning outcomes.

5. School-Based Management (SBM) and funding systems

A particularly important area of focus for strengthening education financial management systems is in respect to establishing or strengthening School-Based Management (SBM) systems. The success and effectiveness of funding decentralisation process is highly reliant upon the effectiveness of decentralised/school financial management systems. Reliable fund and expenditure tracking systems and sufficiently robust financial procedures are required in order to provide the oversight that is essential for such decentralisation processes. Different school management arrangements, the large number and remoteness of some schools and variable school finance capacity can make it a challenge to establish reliable systems. EUDs can help MoE and MoF to review school level financial management systems.

School-based funding systems. There are a number of important budgetary and financial management issues to consider in respect to SBM systems. A check list of some of the key questions that can emerge is provided below.

Area	Key issues and questions
Legislative framework	What form of legislation or regulatory framework governs the school-level funding system? To what extent does this cover the funding allocations, eligible expenditures and other financial management issues?
School funding framework	Is there a consistent, clear and simple school funding formula (SFF)? Does the SFF sufficiently respond to the needs of: i) smaller schools; ii) disadvantaged or remoter schools including in conflict and disaster affected areas; and iii) each sub-sector? What is the average level of funding per student in each sub-sector?
Revenue flows	Total amount of revenue collected in fees, broken down by sub-sector.
Predictability of fund release	What systems and checks are in place to ensure that funds are released in full and in a timely manner? Are there any community-level checks to assist in ensuring funds are released in full?
Financial reporting and payments	How burdensome or complex is the financial reporting system? Is it likely to contribute to long delays between budget approval and subsequent fund release? Are there ways to simplify reporting without compromising fund security?
Development of school plans and budget assignment	Arrangements for the development, endorsement and approval of school development plans and budget assignment? Does the approach promote transparency, accountability and good governance at school level?
Effectiveness and outcomes	How is decentralised financing and management contributing to improved school-level outcomes?
Training	Methods and timing of training in financial management systems and operation. Is training linked to wider SBM training approaches?

6. Tools for understanding the education finance system

Analytical tools of the PFM systems can assist in understanding the underlying trends and bottlenecks in the management and financing system. Some of the key sources of information for finance-related analysis are:

- **Medium-Term Fiscal Framework (MTFF)** provides a statement of national fiscal policy objectives and medium-term macroeconomic and fiscal targets and projections. MTFF's form the basis for projecting government revenues and devising an overall budget ceiling for the MTEF.
- **Medium-Term Expenditure Framework (MTEF)** is a national annual, rolling three year-expenditure plan. It sets out the medium-term expenditure priorities and budget ceilings for each sector along with financing needs and borrowing plans.
- **Total Official Support for Sustainable Development** measures all official resources for sustainable development (including education), such as non-concessional flows, resources mobilised by the private sector, and support from emerging donors.
- **The overall government budget** sets out the total and individual ministry and/or sector budgets and provides the context for the analysis of sector budgets, bearing in mind that education budgets may be split across different ministries.
- **Annual Education Sector Budget** provides information on the intended resource allocation in the sector. Generally, it is coded by expenditure items such as salaries, allowances and school budgets. Further analysis may be required to translate this into sub-sectoral or programmatic allocations.
- **Annual End-of-Year and Intra-Year Financial Performance Reports** offers information on annual national education expenditure trends which can be cross-referenced against the annual sector budget, allowing an assessment of overall sector budget-compliance and system efficiency.
- **Public Expenditure and Financial Accountability (PEFA)** gives an analytical evidence-based framework for assessing public financial management performance at a national level. A PEFA assessment measures the extent to which PFM systems, processes and institutions contribute to: i) aggregate fiscal discipline, ii) strategic allocation of resources, and iii) efficient service delivery.
- **Public Expenditure Reviews (PER)** are generally sector-specific, and their terms are normally agreed between external partners and the government. PERs assess the efficiency, effectiveness and equity of expenditures on education, and their adequacy and sustainability relative to the country's educational goals.
- **Public Expenditure Tracking Surveys (PETS)** follow the actual flow of funds through government financial systems down to the point of budget execution, for example, sub-national offices, colleges, schools and community level. They identify and assess the

effectiveness of the checks and balances that are in place to ensure funds flow to where they are intended.

- **Household surveys of education expenditure** provide an important alternative source of education data for policymakers at the national and international levels. They can be used to identify financial barriers to access and retention for students and the resource-allocation decisions made at household level. This can be particularly beneficial when considering scholarship or resource transfer programmes.

7. Entry points for engaging in policy dialogue and strategic programming

Sector budgeting and financial management

The main opportunities for the EUD to engage meaningfully in policy dialogue around these issues will be:

- through annual country-led, joint sector reviews (including MoE, other ministries in particular MoF, civil society to the extent possible and external partners) and sector coordination group meetings
- during the development of rolling education sector plans.

Other potentially important entry points can occur when: there are negotiations concerning the initiation or renewal of sector budget support programmes; there is a strong national agenda for PFM, discussion on the fiscal framework, anti-corruption, or decentralisation reforms; and during annual assessments of eligibility criteria and the assessments of variable tranche indicators (For EUDs with budget support programmes). Early and meaningful engagement in these processes is critical as key policy positions tend to solidify quickly and it can be difficult to re-open discussions.

EUDs can play an important role in encouraging the dialogue between the MoE and the MoF and to assist in building up the capacity within MoE to become a strong interlocutor, particularly but not only in countries where EUDs provide budget support. In their engagement, EUDs should identify and work with key partners that also have high levels of engagement in sector financing issues and can often provide important economic and financial reports and information on economic forecasts, budgeting. Broadly these would include the IMF, the World Bank and partners that are engaged in budget support programmes. In addition, it is important for EUD to identify and engage with EUD or other development partner (DP) programmes of support to areas such as PFM reform, civil service reform and governance (particularly decentralisation), as reforms in these areas can have a significant impact on education sector budgeting issues. Finally, especially in the case of school or local-level reforms, EUDs should engage with civil society organisations such as parents' associations or teacher trade unions.

Key issues for EUD consideration

	Issues to explore
Policy engagement	What opportunities exist for engaging in meaningful policy dialogue with MoE and MoF on education budgeting issues? (Sector reviews etc.)
	How can EUD, together with Member States, especially as part of a joint programming document, ensure it is strongly contributing to DP engagement in these areas? Contributing to civil society's involvement too?
	Which stakeholders are also actively engaged in education budgeting issues?
	Is there a formal process for sharing information and agreeing approaches?
Sector Budgeting	When compared to the overall MTEF does the education sector plan have realistic, medium-term budget projections?
	If there is budget shortfall? Is there a formal and realistic strategy for overcoming the shortfall?
	Is there a clear hierarchy of priorities for budget allocations in the case of a potential budget shortfall?
	Are the budget allocations in accordance with sector policy and do they appear sufficient to attain sector goals?
Sector Finance Management Reforms	Does the medium-term sector strategy include significant reforms or strengthening of the financial management systems?
	Is there a clear understanding of fund flows and roles and responsibilities and capacities at central, sub-national and school level?
	What areas are they intended to strengthen?
	- Policy linkages between resource allocation and impact through results-based planning and financing, and programme-based budgeting
	- Procurement and investment management
	- Payroll management
	- Greater operational linkage between planning and budgeting processes at central and sub-national levels
	- Increased transparency in resource flow and resource allocation decisions
	- More timely and predictable fund release
- Budget reconciliation and financial reporting	
- Increase fiscal probity through increased control, improved audit and related financial management monitoring tools	
- Organisational and operational reforms (possibly linked to decentralisation)	
- Combating leakage or corruption	
Is the sector exploring private financing initiatives?	
Are these areas of reform consistent with opportunities or challenges identified by MoE, MoF or in PEFA, PER and PETS?	
Are these areas of reform sufficiently supported in the sector plan and by external partners?	

8. Case studies

Cambodia – Multilingual education

Source	Michele Crimella and Noeun Bou, EU Delegation Cambodia, and EAS team
Programme	Budget support to education
Context and challenges	<p>Bilingual literacy programs have been functioning in Cambodia since the mid-1990s. Support to primary bilingual education was initiated by CARE in 2002 and was then also supported by UNICEF, in partnership with the Ministry of Education, Youth and Sport (MoEYS). In five provinces of north-eastern Cambodia, bilingual education is now seen as a key strategy for reaching ethno-linguistic minority groups with educational services. Multilingual Education (MLE) became part of the EU priorities to support equity in access to education in 2013 when a dedicated indicator and specific targets were included in the Performance Assessment Framework of the Education Sector Reform Partnership (ESRP) Programme 2014-2017 (Sector Reform Contract).</p> <p>From six bilingual schools operating with the support of Development Partners' funding in 2003, Cambodia now offers bilingual education in 80 public primary schools (and in five ethnic languages reaching 4,000+ children) fully funded through the State Budget. The recently concluded "Evaluation of Budget Support in Cambodia 2011-2016" acknowledged the role played by the EU Budget Support programme in the scaling up and institutionalisation of an equity oriented reforms: <i>"MLE reform has been adopted by MoEYS, with strong technical inputs from CARE and UNICEF; EU Budget Support Programme has enabled and facilitated MoEYS to adopt within own budget and indicator/dialogue has maintained a focus on this reform priority for ethnic minorities."</i></p>
Action taken	<p>Strategic use of Budget Support to increase awareness on equity matters: The inclusion of MLE as part of the priorities in the ESRP 2014-2017 programme, naturally placed MLE as part of the regular EU/MoEYS dialogue, supporting the ongoing dialogue with the Development Partners (Care and UNICEF) that were supporting its development and funding it.</p> <p>Use of Budget Support targets and policy dialogue to support MLE institutionalisation: EU support focused, initially on the steps needed for an institutionalisation of MLE and in general on supporting the efforts to increase awareness and interest around it. The inclusion of a specific reference to MLE in the Education Strategic Plan (ESP) 2014-2018 was seen as a precondition for sustainability, and the Budget Support targets were instrumental to accompany the MoEYS through key stages:</p> <ol style="list-style-type: none"> 1) The development of a dedicated Multilingual Education National Action Plan (MENAP) 2015-2018. The MENAP provided the vision and a direction for MLE in Cambodia (full integration in the public system of all existing MLE community primary schools and continue expansion of MLE provision in ethnic minority communities) in addition to setting clearer targets for the programme. The planning exercise was also important to provide a better overview of needs based on available data and in the framework of the relevant policy setting the commitments of the MoEYS 2) The increased space for and refining of MENAP key activities in the ESP following the ESP 2014-2018 Mid-Term Review. <p>The EU Delegation also supported this process through regular dialogue at different levels (e.g. bilateral meetings Head of Delegation-Minister, Local Education Group, formal dialogue in the framework of Budget Support and regular interaction with technical departments) and through a flexible approach towards the Budget Support-specific targets, that were adjusted during implementation to accommodate the increased ambition of the MoEYS in this field.</p> <p>Use of complementary measure to increase the likelihood of success of the initiative: MLE implementation was only marginally supported through EU funding. Nevertheless the complementary measure to the Budget Support programme, through the Capacity Development Partnership Fund (CDPF), was also strategically used to support key processes. These were relevant to all schools across the country but deemed as essential components of the MLE model, strengthening school support committees, the District Training and Monitoring Team, and school clusters. The complementary measure allowed also the creation of a solid partnership with the partners with the most relevant technical expertise, UNICEF and CARE.</p> <p>Need for a conducive environment: MLE's expansion and gradual institutionalisation benefitted from a particularly conducive environment. While the legislative framework was in place, the new Education Minister appointed in 2013 triggered increased attention by the MoEYS toward equity issues and was also followed by a steady and substantial increase of the education budget over the following years.</p> <p>Need for a long-term perspective: The results achieved are remarkable but needs to be further sustained. Coverage of the MLE programme is still low as well as quality of the service provided. The next challenge is to sustain the momentum and make sure a rationale strategy for expansion and increased quality of MLE is better reflected in the targets of the forthcoming ESP 2019-2023. An evaluation of the MENAP 2015-2018 is currently under implementation to inform the new phase of the work and a possible expansion of the MLE programme. The evaluation is part of the support provided under the third phase of the CDPF.</p>
Lessons learned	Budget support can be a good modality in accompanying the institutionalisation of equity programmes, accompanying the necessary planning and financial efforts required by the national authorities to integrate these programmes and gradual reduce external funding for these. The complementary technical support for the strengthening of capacities required, at all levels, for the implementation of the programme is also key for a gradual institutionalisation. Partnership between different DPs added a lot of value in this case as the gradual institutionalisation is a joint effort, still ongoing, with the necessary mobilisation of various DPs technical and financial support around the MoEYS strategy and plan.
Further information	Budget Support Evaluation Report CDPF Phase I and II Evaluation Reports

Cambodia – School funding

Source	Michele Crimella, EU Delegation in Cambodia, and EAS team
Programme	Budget support to education
Context and challenges	Prior to 2002 schools in Cambodia imposed enrolment and attendance fees for students in order to cover basic running costs, and were reliant on central resource allocation systems to provide additional resources. The fees presented a significant barrier to access and retention particularly for the poor, females and other marginalised groups. The centralised procurement and distribution approach did not always fully respond to local needs. In 2002, the introduction of national Priority Action Programmes (PAP) presented an opportunity to remediate this.
Action taken	Between 2002 and 2018, the development of the school funding system in Cambodia has moved through three main phases and are now entering a fourth phase. The EU has played an important role in supporting each phase.
	<p>Phase 1: 2002-06: In 2002, as a key component of their PAP, MoEYS introduced School Operating Budgets (SOB) alongside the abolition of all school fees. The objectives were: i) to improve access and retention of children from poorer or marginalised households, and ii) enable schools to respond more flexibly to local needs. Given the initially low capacity at school and district level and the level of change management required to introduce the system, the SOB system was designed to be as simple as possible. The EU and ADB provided external budget and technical support to support the ministry to strengthen the financial management and reporting systems, and provide a platform for sustainable provision of the SOBs. At this stage banking systems did not extend to the district level and so cash transfers were physically transported from provincial treasuries to districts and then to schools. School directors and community representatives signed off on receipt of the funds. A key concern was that the simple design could lead to a significant leakage of funds.</p> <p>Phase 2: 2007-11: In 2007, the Royal Government of Cambodia adopted a Programme-Based Budgeting (PBB) approach. The PBB system introduced a national PFM system with more centralised and stronger procedures governing budget allocations, financial reporting and fiscal safeguards. The EU provided budget and technical support to this transition. The new budgeting and reporting system was more complex and restrictive with greater transaction costs at school and district level, who found compliance challenging. Ministry of Economy and Finance (MoEF) centrally decided on budget lines and the percentage allocation to each to be used in all schools. This reduced the school's ability to assign resources to meet local needs and so compromised the effectiveness of school-level planning and accountability.</p> <p>Phase 3: 2012-18: Due to inflation, by 2011, the SOBs could only cover basic operational costs and there were also indications that informal schools fees were re-emerging. Alongside this an Fast Track Initiative funded World Bank pilot of School Improvement Grants (SIG) which specifically allocated funds to school activities related to improving quality and access had shown positive results. Consequently, with support from SIDA, MoEYS developed, and implemented a national SIG system, alongside the SOBs. During this period the EU, SIDA and UNICEF collaborated to provide joint support to the sector, notably in planning and budgeting, and capacity development at all levels, including schools, in these areas. The support provided in this area contributed to a more consistent policy dialogue on PFM in education in general and specifically on key issues as school budget allocation and execution. The school funding formula was also expanded to include an additional component that more directly targeted additional funding to schools classed as disadvantaged.</p>
Lessons learned	<p>Phase 1: As anticipated, fee-free education and SOBs led to huge increases in enrolment and completion. In addition, the World Bank PETS survey in 2005 found that 93.7% of SOB funds allocated to primary schools reached the schools. A key lesson was that the simple system was easier to understand and comply with at the school and district level and sufficiently robust at preventing leakage. In addition, the use of budget support funds supported the Ministry work to reinforce the financial management and reporting systems, and supported the sustainable and efficient provision of the SOBs.</p> <p>Phase 2: Financial probity, rigorous reporting and accountability to central levels are important but can impose high transaction costs, and reduce flexibility and local accountability. Moving quickly to more complex system has the potential to exceed the capacity to change. In order to be effective finance and planning systems need to be harmonised.</p> <p>Phase 3: The combination of national SOB and donor-funded SIG increased the funds allocated to schools, expanded the eligible expenditures at school level, and enabled schools and surrounding communities to better engage in the school improvement processes. In 2016 MoEYS conducted a comparative assessment of the SIG and SOB systems. Its findings have been used to guide MoEYS and MoEF discussions and agreement on the development of a single national School Operational Fund with increased funds. It is anticipated that the national MoEYS SIF programme will be operational from 2020. The transition to the expanded school funding and planning system is to be supported through technical and budgetary support from the EU. The technical support will continue to be provided through the education CDPF, a multi-donor trust fund managed by UNICEF and funded by UNICEF, the EU, SIDA, GPE and USAID.</p> <p>Overarching Lessons: School funding systems require massive shifts in organisational responsibilities and roles and benefit from being developed incrementally. Simple approaches can be understood and complied with more easily than complex ones. Once a simple system is established it can then be expanded upon and developed. Rushing towards an 'ideal' but more complex approach may overwhelm the capacity for change within the system and hinder the overall pace of reform. Developing effective consistent criteria for defining disadvantaged schools remains challenging.</p> <p>Policy dialogue, and technical and budget support from external partners have played an important role in supporting MoEYS and MoEF throughout the development of the school financing system. In terms of EU support, over the years, the use of budget support disbursement indicators across many areas related to school financing, coupled with technical support, proved to be an effective approach for qualitative, relevant and effective policy dialogue and high-level policy engagement with the MoEYS.</p>
Further information	<p>Cambodia – Public Expenditure Tracking Survey in Primary Education, World Bank, 2005. EU BS Cambodia Evaluation Final Report, Mokoro, DAI, 2018 https://ec.europa.eu/europeaid/evaluation-eu-budget-support-cambodia-2011-2016_en</p>

9. References and Further Reading

European Commission Directorate-General for International Cooperation and Development, Tools and Methods Series No: 7 – Budget Support Guidelines, 2017. (A detailed guide to rationale, and guidelines for implementing EU budget support programmes) https://ec.europa.eu/europeaid/budget-support-guidelines_en

European Commission Directorate-General for International Cooperation and Development, *PFM I Training – Public Finance Management: Systems and Principles*. https://europa.eu/capacity4dev/macro-eco_pub-fin/minisite/training-materials/pfm-i-public-finance-management-systems-and-principles.

European Commission Directorate-General for International Cooperation and Development, *PFM II Training – Public Finance Management Reform*. https://europa.eu/capacity4dev/macro-eco_pub-fin/minisite/training-materials/pfm-ii-public-finance-management-reform

Ilie, S., Rose, P. & Zubairi, A., “Chapter 5: Redistribution of government financing to promote equity in education”, *Handbook on Measuring Equity in Education*, UNESCO Institute for Statistics: Montreal, 2018 <http://uis.unesco.org/sites/default/files/documents/handbook-measuring-equity-education-2018-en.pdf>

Koziol, M. & Tolmie, C., *Using Public Expenditure Tracking Surveys to Monitor Projects and Small-Scale Programs: A Guidebook*, World Bank: Washington, D.C, 2010. (A guideline using the PETS methodology on smaller scale projects or programs) <https://openknowledge.worldbank.org/handle/10986/2502>

PEFA Secretariat, *PEFA: Framework for Assessing Public Financial Management*, 2016. (A detailed review of the scale and scope of the financial management assessment performed under a PEFA) http://pefa.org/sites/default/files/PEFA_2016_Framework_Final_WEB_0.pdf

World Bank, *Education Public Expenditure Review Guidelines*, 2017. (A detailed review of the scale and scope of the financial management assessment performed under a PER) <https://openknowledge.worldbank.org/bitstream/handle/10986/27264/116334-WP-P158328-PUBLIC-EducationPERGuidelinesfinal.pdf>

UNESCO Institute for Statistics, *Information Paper No. 43: Availability and Reliability of Education Finance Data in Household Surveys*, 2017. (A meta-analysis of the scope and quality of data obtained from household surveys on education expenditure. A useful tool for to assist in the development of effective household surveys) http://uis.unesco.org/sites/default/files/documents/availability-reliability-education-finance-data-household-surveys_0.pdf

UNESCO International Institute for Educational Planning, *Brief 4: Plan costing and financing*, 2018 <https://learningportal.iiep.unesco.org/en/issue-briefs/plan-for-learning/plan-costing-and-financing-0>

UNICEF website with significant number of resources that UNICEF uses in its public finance work. Tools referenced include those related to budget briefs, budget thematic analyses, and examples of PETSs, PERs and value for money analyses. <https://www.unicef.org/esa/reports/public-finance-analyses>