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INEE Framing Paper:
Education Finance in States Affected by Fragility

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Acronyms

ALP	Accelerated Learning Programme
ARTF	Afghanistan Reconstruction Trust Fund
AusAid	Australian Agency for International Development
BEDP	Basic Education Development Project (Yemen)
CAFS	Conflict-Affected Fragile State
CAP	Consolidated Appeals Process
CBE	Community-Based Education
CIDA	Canadian International Development Agency
CRSA	Child Rights Situation Analysis
DAC	Development Assistance Committee
DDE	District Directorate of Education
DFID	UK's Department for International Development
DRC	Democratic Republic of Congo
EC	European Commission
EFA	Education for All
EPDF	Education Program Development Fund
ESDP	Education Sector Development Programme (Eritrea)
EU	European Union
FTI	Fast Track Initiative
GIRA	Government of the Islamic Republic of Afghanistan
GOSS	Government of Southern Sudan
IDA	International Development Association
INGO	International Non-Governmental Organization
IRC	International Resuce Committee
IASC	Inter-Agency Standing Committee
MDG	Millennium Development Goal
MDTF	Multi-Donor Trust Fund
MEC	Ministry of Education and Culture (Mozambique)
MFA	Ministry of Foreign Affairs
MoE	Ministry of Education
NGO	Non-Governmental Organization
OCHA	UN Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PBS	Protection of Basic Services (Ethiopia)
PRS	Poverty Reduction Strategy
SFD	Social Fund for Development (Yemen)
Sida	Swedish International Development Cooperation Agency
SOE	Secretariat of Education (Southern Sudan)
SWAp	Sector-Wide Approach
UN	United Nations
UNICEF	United Nations Children's Fund
UPE	Universal Primary Education
US	United States
USAID	United States Agency for International Development

Introduction

Millions of children living in states affected by fragility are denied the right to education or have their education interrupted due to conditions in which they live and the inadequate funding arrangements for their education in such contexts. Thiss framing paper for the 2008 INEE Policy Roundtable provides analysis, lessons learnt and recommendations on the financing of education in states affected by fragility. While this paper focuses to a large degree on aid to education, such external financing must be considered in the context of domestic financing for education. In this paper, and in the forthcoming Policy Roundtable we seek to address the following questions:

- What level of funds currently flow for education to states affected by fragility?

- Are these sufficient to meet global needs and ensure progression towards achieving the education Millenium Development Goals (MDGs) and Education for All (EFA) agenda?

- Do existing financing mechanisms respond appropriately to needs in fragile contexts? What lessons can be learnt from these mechanisms to inform future practice?

- What innovative financing mechanisms can be applied to education in fragile contexts?

- How do both existing and innovative/emerging financing mechanisms contribute to state-building, harmonization and alignment?

In section 1, the paper discusses the current state of financing in terms of both official development assistance (ODA) and humanitarian funding, focusing on the trends and recent commitments to education, both from traditional Organisation for Economic Co-operation and Development - Development Assistance Committee (OECD-DAC) donors and from emerging donors (both private and bilateral). Section 2 analyses the different existing modalities for financing education, drawing together lessons learnt from recent experience and relating modalities to both the DAC categories of fragile states, and the DAC *Principles for Good International Engagement in Fragile States and Situations*[1] (OECD, 2007). The section focuses on the extent to which modalities are appropriate to the context, aligned with local priorities and support state-building processes. The final section explores potential new and innovative models for financing education in states affected by fragility, assessing the extent to which they can fill funding gaps, bridge the transition between humanitarian and development financing, and support state-building and harmonization between donors.

A resilient state is one in which the state has the institutional capacity and will to make and enforce policies on behalf of it's citizens, and to implement state activities effectively. Fragility arises when states lack capacity, access to resources, legitimacy (acceptance of by it's citizens that the state has a right to rule), institutions and/or effective processes to uphold the social contract between themselves and their citizens. The OECD-DAC (2007) has developed four categories of fragile states dependent on corresponding levels of political will and capacity, as summarised in Table 1.

Table 1: DAC categorization of fragile states

Category	Definition
1. Deteriorating	Conflict or risk of conflict; weakening capacity and/or weakening will
2. Arrested development	Varied capacity; lack of will; state not using its capacity for pro-poor development
3. Post-conflict reconstruction	Post-conflict, perhaps with risk of re-emergence of conflict; low capacity; low or high will
4. Early recovery	Post-conflict; low capacity; high will

Source: OECD, 2007

While the DAC framework assumes that states can be categorized into one or other of the four options, it is clear that fragility is not a static condition, and countries transition in and out of different

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[1] Throughout the paper, these will be referred to as the "DAC Principles".

categories of fragility. States affected by fragility thus include those affected by conflict, humanitarian disasters, and those which have low effectiveness and/or legitimacy. In addition, in neighbouring countries, fragility may have spillover effects, with refugees, rebel groups or humanitarian, natural and/or economic crises crossing over the borders. Fragile situations are also likely to include areas adversely affected by natural disasters, where access to resources and capacity are likely to be low.

Section 1: An analysis of funding flows for education in states affected by fragility

1.1   Context

There are strong budgetary commitments to education in most states affected by fragility but, despite such national commitments, balancing education with other needs and limited income results invariably in a shortfall in education funding. Donors are therefore crucial to providing assistance to support national efforts and children's human right to access education. It has been estimated that US$9 billion of international assistance is needed annually to ensure the MDG of universal primary education (UPE) is met by 2015. Of this approximately US$5.2 billion needs to be allocated to conflict-affected countries (Save the Children UK, 2007). The fifth goal of the *Dakar Framework for Action* explicitly focuses on meeting "the needs of education systems affected by conflict, natural calamities and instability and conduct educational programmes in ways that promote mutual understanding, peace and tolerance, and that help to prevent violence and conflict" (UNESCO, 2000: 19). Today all OECD-DAC donors acknowledge that education is a human right and mention education in fragility or conflict-affected countries in their policies. Some 'pioneer' donors, such as Canada, Norway and Sweden (CIDA, 1999; Norwegian MFA, 2003; Sida, 2002*a*), have been recognizing and integrating this into their policy over the last decade, while for others it is still an emerging issue.

1.2   The critical place of national funding of education

States affected by fragility often have limited national budgets, where conflict and instability have affected economic growth and tax revenues within the country.[2] Additionally they have frequently accumulated vast national debt and/or political will to provide education may be low, resulting in education not being seen as a funding priority. Combined these factors make it extremely difficult to allocate sufficient funding towards education. As a result, countries affected by fragility are often far from allocating the median 16-17 percent of national budget towards education (UNESCO, 2007). Indeed only three states that can be considered to be affected by fragility (the Côte D'Ivoire, Guinea and Yemen) allocated 20 percent or more of their annual government budget to education between 1998 and 2006.[3]

The majority of the education budgets in most countries are devoted to recurrent costs, primarily that of teacher salaries. For those countries for which a breakdown of education expenditures is available, an average of two-thirds of education budgets was being allocated to teacher salaries, although in some instances this figure was over 90 percent.[4] The proportion of the education budget allocated to salaries is also likely to increase in the short-term in post-conflict states as teachers and other education civil servants return home and/or to work. Concurrently, demands for capital expenditure may also increase, due to rehabilitation of schools and re-establishment of education structures.

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[2] There are some notable exceptions to this. For example Sudan has significant funds from oil revenues, which are being utilized to match-fund donor contributions to a Multi-Donor Trust Fund, as discussed in Box 5 below.

[3] UNESCO Institute for Statistics Data Center (http://stats.uis.unesco.org/). Author's own analysis of public education expenditure as a percentage of government expenditure. Data for several fragile states was incomplete or unavailable.

[4] UNESCO Institute for Statistics Data Center (http://stats.uis.unesco.org/).

National efforts need to be made to restore the tax base, by increasing coverage, providing incentives, and reducing dependency on trade taxes. Domestic revenue collection generally has a cyclical pattern, which may not flow in line with patterns of expenditure; this is particularly true in the education sector where financial calendars and academic calendars are often out of synch. Shortages of funding may lead to the government taking out short-term loans from the central bank, or accumulating arrears. In such circumstances budget support from donors can be crucial to help smooth spending and ensure continuity in provision of quality education.

In addition to building revenue capacity, states affected by fragility also have to address issues of public financial management to ensure accountable, transparent use of funds and minimize leakages between ministry and school levels. This will frequently entail expansion of and capacity development in public financial management systems and decentralization approaches (see Box 10 case study on Ethiopia's basic service grant whereby block transfers were made to regional levels). But as states stabilize, showing a clear commitment to reform, developing capacity and tools such as public financial management systems and Poverty Reduction Strategies (PRS) to address governance concerns and spending plans, the national budget and sector strategic plan should be increasingly used as the overarching mechanism for planning and allocating resources.

The underlying budgetary and public financial management systems (within the education sector and generally) are critical to how donors seek to engage with states affected by fragility and design their levels of support. A detailed analysis of the country and sector specific challenges is crucial to tailoring assistance and ensuring that it is used efficiently and effectively.

1.3   Trends in Official Development Assistance

In the years following the adoption of the *Dakar Framework for Action*, total ODA commitments to education rose rapidly, reaching US$10.7 billion in 2004 – a 65 percent increase in real terms since 2000. Commitments to basic education have increased at an even more rapid rate, rising by 90 percent from US$2.7 billion in 2000 to US$5.1 billion in 2004 (UNESCO, 2007*a*: 155).[5] However, allocations to education in 2005 had fallen by over US$2 billion by 2007, bringing levels below the 2002 level. This fall has been particularly significant in the basic education sector, falling by nearly US$1.5 billion and at a time when overall ODA commitments increased (UNESCO, 2007*a*: 154).[6] Commitment levels to both education and basic education have since increased again, but not yet reached their 2004 peak levels.

A certain number of donor governments have become strong advocates for education in fragile environments and have made very significant political and financial commitments. In December 2006, the Netherlands pledged US$201 million over four years to the United Nations Children's Fund (UNICEF) to provide children in countries affected by conflict with education.[7] This contribution, the single largest UNICEF has received since its founding, aims to provide 25 million children and young people in 40 countries with a better education and a more promising future.[8] In April 2007, the UK announced its 'Education beyond borders' package, which in addition to specific country support includes a £20 million grant to UNICEF over the next four to five years and support to the EFA Fast Track Initiative (FTI), to deliver education in emergency, conflict and post-crisis

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[5] Note that the growing preference for budget support (whether earmarked for a specific sector or for general use) has complicated the accuracy with which the total amount of aid allocated to education and to basic education can be calculated. The figures used in the data analysis of this chapter have been adjusted accordingly. Education ODA includes 20 percent of budget support; basic education ODA includes 10 percent of budget support plus one-third of unspecified education aid.

[6] The fall may not be an indicative trend for the coming years and can be partially explained by the preference of some donors (such as the UK and the Netherlands) for committing money in large tranches to specific countries or projects. This means that larger commitments made in 2004 by these donors can result in fewer commitments to the same recipient or sector in the following financial year, and will also make the drop in funding in 2005 appear sharper.

[7] http://www.minbuza.nl/en/news/pressreleases,2006/12/The-Netherlands-to-support-education-in-emergency-.html

[8] See section 3 below for details as to how this fund has developed in line with FTI initiatives to begin to address issues of transition funding for education.

countries (DFID, 2007). In May 2007, a new EFA Act was introduced to US Congress. If passed, this initiative would provide US$4 billion over the next five years for education, with a focus on out-of-school children and education in emergencies and conflict-affected countries.[9]

Despite these increased efforts an analysis of donors' funding portfolios suggests that further prioritization needs to take place to ensure that donor funding is aligned with educational needs. Overall, donors' allocation of aid to basic education within their total education commitments has increased at comparable levels in both conflict-affected fragile states (CAFS)[10] and other low-income countries.[11] However, in terms of volume, the funding received by states affected by fragility falls short in comparison to their basic educational needs and progress needed to meet the EFA and MDGs. UNESCO (2007*a*: 189) identifies six countries with a significantly high proportion of out-of-school children who receive a disproportionately low amount of aid to basic education per primary school-aged child; all of these can be seen to be affected by fragility (the Côte d'Ivoire, the Democratic Republic of the Congo (DRC), Liberia, Nigeria, Somalia and Sudan).

In addition to the level of aid allocated not sufficiently corresponding to the number of children out of school, in some states affected by fragility the trends in aid allocation have actually deteriorated. Between 1999/2000 and 2004/2005, aid per school-age child decreased in the Central African Republic, the Côte d'Ivoire, the Gambia, Guinea, Guinea-Bissau, Haiti, Papua New Guinea and Rwanda (UNESCO, 2007*a*).

Furthermore, over the last decade there has been an increase in the number of aid donors. The International Development Association (IDA) of the World Bank (2007) reports that the average number of donors per country rose from about 12 in the 1960s to about 33 in the 2001-2005 period. While this may be the trend globally this pattern is not always reflected in fragile and conflict-affected states. UNESCO (2007*a*: Table 4.11) finds that between 2003 and 2005 no 'fragile states'[12] had more than 11 major donors working directly in their education sector, and the majority had just two donors.

Globally, Germany, Japan and the United States (US) are the largest donors of sector-allocable aid, but none of these countries allocated more than four percent of their aid to basic education on average between 2004 and 2006, and only the US allocated more than 30 percent of education aid to CAFS[13] (UNESCO, 2007*a*: 188 and OECD-DAC database). Portugal provided the highest proportion of their basic education funding to CAFS during this period, allocating a huge 65 percent of basic education funds, and 30 percent of overall education ODA to CAFS. Ireland, Italy, Sweden and the US have also contributed between a third and one half of their education ODA to education in CAFS (Save the Children UK, 2008: Appendix 2 – Donor Profiles).

1.4   Trends in humanitarian aid

Education remains one of the least funded humanitarian sectors, receiving an average of 1.6 percent of all humanitarian funds between 2004 and 2007.[14] In 2007, humanitarian aid totalled over US$7.5 billion, with education receiving a slightly higher than an average 1.9 percent (US$146 million) (OCHA, 2007*a*). Education also receives one of the poorest responses to humanitarian appeals. In 2006 just 16 percent of requested funds were received (OCHA, 2007*b*). This improved in 2007 to 24 percent, but remained the second least funded sector, above the safety and security

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[9] http://www.results.org/website/article.asp?id=2751

[10] Using the International Save the Children Alliance's (2006) definition of CAFS.

[11] Between 2000 and 2004 the proportion of education aid being directed towards basic education rose from 52 percent to 59 percent in low-income countries, this is compared with between 47 and 60 percent for CAFS (applying the International Save the Children Alliance (2006) definition of CAFS (UNESCO, 2007*a*: 173 and authors' own calculations).

[12] As defined by OECD-DAC.

[13] Using the International Save the Children Alliance's (2006) definition of CAFS.

[14] Humanitarian data in this report refers to that tracked on the Financial Tracking Service (FTS) database. The FTS data primarily covers contributions for countries that are the subject of appeals and that have been reported to the FTS either by the donor or by the recipient agency. There is a possibility of under-reporting of data by donors or the recipient agencies.

of staff and operations which received 21 percent of requested funds (OCHA, 2008). Food, coordination and support services and multi-sector work typically receive more positive responses to appeal, securing at least 60 per cent of requested funds. Encouragingly, donors are increasingly providing unearmarked humanitarian funding (as encouraged by the Principles of Good Humanitarian Donorship[15]), providing more flexibility in terms of fund management and greater allocation according to need. This however, has the potential to be detrimental to the education sector if educational activities are under-prioritized.

In addition to receiving a poor response to humanitarian appeals, education often also receives low levels of non-appeal funding. The UN Office for the Coordination of Humanitarian Affairs (OCHA) (2007*b*) reports, that with the exception of education, the other least-funded sectors (mine action, security, agriculture and health) all receive significant funding beyond the CAP, with donors providing funds to other implementing organizations and activities outside of the appeal activities.

Overall donors are contributing an increasing amount of ODA to humanitarian assistance, having risen from around 3 percent in the 1970s to between 10 and 14 percent in 2007. Donors are also responding more quickly based on concerted efforts to improve donor practice (OCHA, 2008). However, variation between donors is stark. When a breakdown of donor's response to the Consolidated Appeals Process (CAP) is examined, the proportion devoted to education between 1999 and 2007 varies between over 4 percent by Denmark and Australia to no education sector specific funding from Greece, Luxembourg or Portugal.

Box 1: Summary of DAC donor funding

Donors including education in their humanitarian policy:
Canada, Denmark, Japan, New Zealand, Norway and Sweden (CIDA, 1997; DANIDA, 2002; Government of Japan, 2005; NZAID, 2004*b*; Norwegian MFA, 2003; and Sida 2002*b*)

Donors allocating more than 2 percent of their humanitarian aid to education[16]:
Australia, Denmark, Ireland, Japan, the Netherlands and Norway (OCHA, 2007*a*)
In addition to the above the following donors gave more than 1 percent of humanitarian aid to education: Belgium, Canada, Italy, Spain and Sweden

Donors who have made financial contributions to the EFA-FTI:
Belgium, Canada, Denmark, the EC, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden and the UK[17]

Donors allocating at least 30 percent of their education aid to CAFS:
Ireland*°, Italy*, Portugal°, Sweden*, the US* and the World Bank° (Save the Children UK, 2008: Appendix 2 – Donor Profiles). In addition to the above the following donors have given at least 20 percent: Belgium°, Denmark*, Greece°, Norway° and the UK*°

* gave more than a third of education aid to basic education
° gave more than 10 percent of ODA to education

1.5   Non-DAC trends

'Non-traditional' or 'non-DAC' donors have emerged strongly over the past few years, providing both humanitarian and development assistance to education in fragile contexts. These donors do not constitute a homogeneous group and include states (mainly those in the Arabian Gulf and Asia, the accession states to the European Union (EU), South Africa, and countries in Latin America), private foundations and corporations. Most bilateral donations tend to be regional with assistance provided to neighbouring countries (Harmer and Cotterrell, 2005; Walker and Pepper, 2007).

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[15] http://www.goodhumanitariandonorship.org/
[16] Average figure between 2004 and 2007.
[17] FTI Secretariat. 2007. *Newsletter*, March 2007. Accessed from:
http://www1.worldbank.org/education/efafti/documents/Press/Newsletter_novfeb2007.pdf

Between 2000 and 2005 the share of private sector contributions to overall humanitarian funding rose from 13.3 percent to 24.4 percent (Altinger and Tortella, 2007). Private philanthropic foundations have also emerged as strong contributers to education responses in emergencies in recent years, providing funding directly to service delivery non-governmental organizations (NGOs).

Indications are that these emerging donors are beginning to support the joint mechanisms in place for donor coordination. For example the United Arab Emirates recently joined the OCHA Donors Support Group[18] and the Soros Foundation is contributing to the Education Pooled Fund in Liberia (EC, 2007; Soros, 2007). Coordination mechanisms between traditional and non-traditional donors, particularly with private foundations, need to be strengthened to ensure coherence and harmonization in response. In particular, these new donors need to be encouraged to ensure more transparent reporting on donations and aid efforts.

Box 2: Recent non-DAC donor commitments to education in fragile contexts

- In November 2006 the Islamic Development Bank and the Gulf Cooperation Council pledged US$109 million for education and vocational training in Yemen (UNESCO, 2007*b*).

- In September 2006 the NoVo Foundation awarded US$15 million over six years to support the International Rescue Committee's (IRC) work with children and youth in West Africa (with a focus on the Côte d'Ivoire, Guinea, Liberia and Sierra Leone).[19]

- In May 2007 the Soros Foundation promised an investment of €3.7 million to support Liberia's education plan (Soros, 2007).

- The 'ninemillion' campaign[20] brings together UNHCR and private sector partners, such as Nike, Microsoft, Manpower, the advertising group WPP (Wire & Plastic Products) and GSMA (Global System for Mobile communications Association). It aims to raise US$220 million by 2010 to allow 9 million refugee and vulnerable children to get an education.

- The William J. Clinton Foundation has granted US$30 million to UNICEF for a distance-learning project with 150,000 children in conflict areas (especially Iraq and the Occupied Palestinian Territory).[21] UNICEF is working with Microsoft, Hewlett-Packard and the IRC on this project.

In addition to all of the above, remittances have also played an important role in providing funds for education. However, it is difficult to estimate a value for this private transfer of funds. One example from Somalia has shown that the diaspora plays a significant part in funding both the direct and indirect costs of education, both through family remittances and charitable donations to education organizations (Lindley, 2005).

Section 2: A summary of existing aid modalities and their relative effectiveness

This section will examine four main types of aid modality (humanitarian aid, projects, multi-donor trust funds (MDTFs) and budget support). It will introduce them briefly and identify their main strengths and weaknesses. It will then outline how each of the modalities links to the *DAC Principles for Good Engagement in Fragile States and Situations*, especially highlighting relevant issues around state-building, alignment and harmonization. Table 3 at the end of the section provides a summary of existing aid modalities and their relation to the *DAC Principles.*

2.1   Different aid modalities

There is a range of ways in which donors can provide funding to states affected by fragility. Funds can be provided bilaterally or pooled so that many donors are providing funding that is coordinated

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[18] http://www.dubaicityguide.com/geninfo/news_dtls.asp?newsid=12229
[19] http://www.theirc.org/news/latest/novo-foundation-awards-15.html
[20] http://www.ninemillion.org/
[21] http://www.unicef.org/malaysia/media_7387.html

to finance a given set of activities. Funds flow to partner countries either through project mode or budget support mode. Funds can be managed by the recipient government, United Nations (UN) agencies, the donor or an NGO. Funds can be disbursed through government systems, systems that are separate to but a reflection of government systems, or parallel systems that are totally separate to government and not aligned at all with government systems.

2.1.1 Humanitarian aid

Humanitarian funding is provided by donor governments, diaspora remittances, funds raised from the public by NGOs, contributions from foundations and corporations, and the contributions of affected states. It is generally channeled via UN agencies or international non-governmental organizations (INGOs). A large proportion, particularly that which flows through UN agencies, is managed and disbursed via the OCHA mechanisms such as the Consolidated Appeals Process, the Humanitarian Response Fund, Flash appeals and the Central Emergency Response Fund. Humanitarian aid does not always include an educational component, as the education sector is a relative newcomer to the humanitarian agenda. Humanitarian aid is usually short-term (funding cycles of up to one year), focused on immediate relief rather than longer-term development activities, and often implemented by different organizations than those which implement developmental activities.

2.1.2 Projects

Projects involve discrete stand-alone, time-bound interventions that do not generally support recurrent costs. Funding for projects generally by-passes government channels and thus limits some aspects of state-building. However, this does not necessarily imply that projects are undertaken without collaboration or consultation with governments where possible or that dialogue with government cannot continue. If key stakeholders from local government, communities and civil society are actively involved in the process, state-building can continue to take place and ownership will be built, but this will be bottom-up rather than top-down.

In contexts where it is not possible to provide pooled funding or budget support due to issues of state legitimacy, governance concerns or capacity, there is often a high administrative cost of managing many projects (for example, Sida was working with 45 NGOs in Zimbabwe in 2005 (Fenton, 2007*b*: 19)), since implementing agencies, such as UN agencies and NGOs, do not always have the capacity to manage significant amounts of money.

Ideally, for projects to be effective and sustainable they should be aligned with government's budget and priorities (where an interim or full strategic plan is in place), and be willing to cover some recurrent costs (for example, contributing towards teacher salaries). In addition, the design and implementation of any pilot project, innovative approach or continuation of service delivery needs to be compatible as far as possible with the longer-term objectives of state-building and transferral to government as the main service provider. For example, the Save the Children Alliance education programme in Sierra Leone was planned in line with the national EFA plan as well as a comprehensive needs assessment. A project proposal was submitted to the Ministry of Education, Youth and Sport (MEYS) for formal attestation. Save the Children continues to submit quarterly reports to the MEYS and meet with regional officials monthly. The MEYS is also involved in all local-level training to help build local capacity.

2.1.3 Multi-Donor Trust Funds

MDTFs are pooled funds provided by multiple donors, managed by either the World Bank or the UN, to support post-conflict reconstruction. These may be multi-sectoral or specific to the education sector. They can support a variety of different aid instruments including budget support and projects and often cover both recurrent and capital costs. MDTFs have a strong potential for sustainability given that they are shadow or fully aligned and thus enable longer-term state-building to take place.

Donors involvement in MDTFs in post-crisis situations offers a range of potential benefits to donors as well as supports state-building. MDTFs permit donors to invest in countries where they have limited bilateral capacity in the country due to security concerns and constrained resources and more easily harmonize and coordinate with other donors, as well as align their assistance with national objectives. They can transfer risks and responsibilities to the MDTF administrator, avoid

direct bilateral engagement with the national government if there are governance issues, and have increased influence on national and sectoral policy and strategy. Additionally, they have a collective bargaining tool for governments to be held to account for service delivery where a system is put in place for the MDTF to match recurrent funding in some ratio.

In practice, however, implementation of MDTFs has faced challenges which have limited achievement of the full theoretical benefits. A range of issues has included limited support to non-state actors; significant funds from donors still flow through other channels in addition to MDTFs, thus diluting their benefits; and very slow disbursement funds due to the time lags in coordinate of so many stakeholders, coupled with limited government capacity. Case studies of MDTF implementation in Southern Sudan and Afghanistan can be found in Boxes 5 and 6 below.

2.1.4 Budget support

Budget support involves donor funds being given directly to the government (Ministry of Finance or sectoral ministry) to manage according to a broadly agreed PRS or sectoral plan. This approach is particularly popular in early recovery settings, where budget support given in support of a sector-wide approach (SWAp) allows donors to coordinate and harmonize their funding. In states affected by fragility, budget support is often a complementary measure used in conjuction with project support that can address demand-side issues and target particular groups, regions or (educational) needs.

Aid given via direct budget support is fungible so, although targets can be set, there is no guarantee that education will receive additional funds, as this will depend on the negotiating power of the Ministry of Education with the Ministry of Finance. By contrast, aid given via sector budget support is additional. Sector budget support has the additional potential of being used even if overall policy and institutional frameworks are not sufficiently robust, providing that the specific sector frameworks and institutions are adequate.

Three of the main challenges of budget support are (i) predictability, (ii) sustainability, and (iii) weak financial systems in the recipient country. Aid to states affected by fragility is twice as volatile as aid to other low-income countries (Levin and Dollar, 2005) yet many of these countries have a very low tax base and limited capacity to raise domestic revenue, leaving them highly dependent on budget support to help finance significant recurrent costs. If there are delays or interruptions in the disbursement of this aid, these will have a major and immediate impact on service delivery as there will be delays in such things as teachers' salaries which often make up over 90 percent of the recurrent education budget. Such delays have occurred in Burundi, Sierra Leone, Ethiopia, Rwanda and Uganda in recent years. Sustainability is another challenge given that donors are usually only able to make a firm two to three year commitment of aid. Yet budget support is likely to be needed at significant levels in the medium to long-term especially for those states with no natural resources.

Where financial systems are weak, it has been argued that budget support can help to strengthen the systems, but this does mean that, along the way, funds will not mismanaged or even embezzled (see Box 11 case study on the World Bank's education programme in Mozambique). Given that donors are wary of weak institutional and governance arrangements and macroeconomic instability, a certain number of conditions will typically have to be in place, such as a robust public financial management system and PRS, before budget support is considered. Some exceptions or leniencies may be permitted for states affected by fragility (for example, only having an interim PRS in place), but may be balanced by technical assistance combined with budget support. Despite these risks provision of predictable budget support can greatly assist in stablization processes in states affected by fragility, contributing towards payment of recurrent costs, particularly salaries, and enabling more predictable planning. An early shift towards budget support can contribute towards more rapid improvements in macroeconomic stablity and institutional capacity (see Box 8 case study of budget support in Sierra Leone).

2.2 Likely effectiveness of different modalities in the four DAC categories of fragile states

Context is crucial in states affected by fragility, as different approaches to support education financing will be more effective in varying contexts. In all environments, there are gains to be made by donors and NGOs by coordinating their efforts and pooling funds (through whichever type of modality is chosen) to reduce transactions costs. Table 2 below outlines which current donor funding modalities are likely to be most appropriate in each of the four DAC categories of fragile states, in terms of most effectively utilizing existing state capacity and minimizing donor risks, while prioritizing educational delivery.

Table 2: Existing donor funding modalities for different DAC categories

DAC category	Most appropriate existing donor funding modalities	Disbursement channel
1. Deteriorating	Project support; humanitarian aid	Through donors, NGOs or UN agencies
2. Arrested development	Project support; humanitarian aid.	Through NGOs or UN agencies
3. Post-conflict reconstruction	Mixture of projects, MDTFs, budget support and pooled funding	Through UN agencies, MDTFs managed by UN or World Bank, donor-managed pooled funding or individual projects
4. Early recovery	Budget support and pooled funding	Through pooled funding or direct budget support managed by recipient government

2.3 Supporting case studies

The following section provides short case studies evidencing emerging good practice and lessons learnt in each of the four DAC contexts. These are intended to support the above analysis and illustrate approaches taken by a variety of stakeholders in different fragile contexts.

2.3.1 Deteriorating
Rose and Greeley (2006: 29-30) stress that there is very little documented evidence in the public domain on what NGOs are doing to support service delivery in education in either arrested development contexts or deteriorating environments, resulting in a limited knowledge base on the effectiveness of such approaches in these environments.

Box 3: Case Study - Zimbabwe Joint Initiative

In 2005, seven INGOs (Africare, CARE, Catholic Relief Services, Mercy Corps, Oxfam GB, Practical Action Southern Africa and Save the Children UK) developed the Joint Initiative to address the needs of highly vulnerable groups in six urban areas of Zimbabwe. With the support of donor funds, the Joint Initiative partners developed a multi-sectoral programme (including education), negotiating and agreeing amongst themselves on budget, governance, and contractual agreements that would also be acceptable to donors and local partners. This led to an 18-month contract worth US$5 million. Five donors (AusAid, CIDA, DFID, the Norwegian MFA and Sida) agreed to pool their funds with no earmarking, adopt Sida's procurement regulations; and channel funds directly to Mercy Corps for onward distribution. USAID was unable to pool funds for legal reasons and paid funds directly to Mercy Corps to cover management costs. A full project evaluation report is not currently available, but feedback from NGOs and donors involved has been largely positive. Whist the time spent setting up the consortium and agreeing on modalities was lengthy, the resultant model could be more easily replicated in the future.

Source: Fenton, 2007*b*: 14-15.

2.3.2 Arrested development
Due to high fudiciary and security risks, in arrested development contexts, most donors will resort to funding NGOs and humanitarian operations, and providing funding through UN agencies that are on the ground. Working with central government can be difficult, but this should not inhibit working at regional or local levels where possible. While there are many constraints and risks to working with

emerging national authorities the potential gains are high, as demonstrated by Save the Children UK's approach in Somalia.

Box 4: Case Study - Somalia Basic Education Programme

In Somalia, Save the Children UK has been working closely with regional education authorities to strengthen their capacity and provide a basis for further state-building whenever a formal national government is formed. This includes not only working directly with government officials at a regional level to develop and coordinate education activities, but also extensive work at community level with head teachers, teachers, students and parents to help encourage state accountability and legitimacy, and form a foundation for state-managed programmes. This approach has been more successful in the Togdheer region of Somaliland where there is a draft education plan in place and government structures are more established, than in the Hiran region where coordination efforts have been limited by on-going conflict. Rose and Greeley (2006) argue that there are questions about the sustainability of such interventions, particularly given that in Somaliland similar approaches have been followed for nearly a decade without the government taking greater control. However, this is due not necessarily to a lack of effort, but rather to a lack of clarity of the role of government in the international development agenda within Somaliland that goes beyond what an NGO can deliver.

Source: Rose and Greeley, 2006.

2.3.3   Post-conflict reconstruction

MDTFs are often cited as the 'preferred mechanism' for donors in post-conflict situations as they can mitigate high fiduciary risk, reduce transactions costs for governments and other implementing agencies, and address the issues of coordination, harmonization and alignment as outlined in the *DAC Principles* and the *Paris Declaration* more than most other mechanisms. This has led a review of trust funds to conclude that "MDTFs represent best-practice post-crisis funding mechanism" (Scanteam, 2007: 12).

Box 5: Case Study - South Sudan MDTF

The MDTF for South Sudan (MDTF-SS) is managed by the World Bank and funds projects and capital costs with the expectation that the Government of South Sudan (GOSS) will match MDTF-SS funds at a 2:1 ratio from oil revenues, to fund recurrent and other costs. (However, the GOSS has had difficulty in matching funding to date.)

There is frustration amongst many stakeholders that the MDTF-SS is slow and bureaucratic in disbursing funds. The main reason given for delays is the limited experience and understanding within the GOSS of international norms and requirements (due to low levels of donor engagement in the two decades prior to the signing of the Comprehensive Peace Agreement), and limited capacity (or capacity building support provided by donors) to manage the sizeable donor funds that have poured into the country in recent years (Sommers, 2005). Additional issues have been the weakness of the MDTF-SS secretariat with managers based outside of Sudan making occasional visits; that World Bank procedures have not been adjusted to reflect the reality on the ground (for example, the lack of local firms that could meet the tendering requirements); and the lack of access for NGOs to MDTF-SS finances (Scanteam, 2007: 99-103).

Sources: Foster, 2007; Scanteam, 2007; Sommers, 2005; World Bank, 2006*b*; and World Bank, 2007.

Box 6: Case Study - Afghanistan MDTF

The Afghanistan Reconstruction Trust Fund (ARTF) has been operational since March 2002 and is managed by the World Bank. It provides funding for both recurrent and project costs. The ARTF covers approximately one third of Government of the Islamic Republic of Afghanistan's (GIRA) annual budget needs with funds provided from a total of 24 donors. Despite this large group of donors supporting the ARTF, significant aid still flows outside the budget (Foster, 2007).

The majority of ARTF funds (around 75-80 percent) are allocated through the Recurrent Window to the state budget to be spent according to agreed fiduciary standards but using GIRA's public financial management systems. The Recurrent Window was established quickly and efficiently, and has helped build the capacity of GIRA in public financial management and to align donor support with GIRA priorities. There has been a significant increase in the number of teachers to deal with the rapid increase in enrolment over recent years. The majority of these teachers are paid through the Recurrent Window and while salaries are low (only around US$45 per month) payments are now much more regular due to the ARTF.

The ARTF Investment Window plays a minor role with total expenditures of around US$100 million annually compared to overall donor-financed project funding of approximately US$3 billion annually. There has been zero funding for education in the ARTF Investment Window. The small size of the Investment Window compared to overall donor-financed project funding has limited its contribution to further harmonization.

Sources: DANIDA, 2005; Foster, 2007; Scanteam, 2005 and Scanteam, 2007.

The role of NGOs as a channel for aid disbursement often decreases as a country stabilizes and the public sector is rebuilt, enabling donors to channel funds through MDTFs or budget support. While this is positive shift towards government ownership, a continued mix of modalities is beneficial, particularly in fragile contexts, to ensure that civil society continues to play an active role. In Afghanistan, NGOs have limited access to ARTF funds, and do not have any formal voice on policy, strategy and decision-making and no seat at government-donor committees, although they continue to receive significant project funding.

Evidence emerging from the above case studies and corroborated by donors (the EC, Save the Children UK and the Netherlands (Brannelly, Ndaruhutse and Rigaud, forthcoming)) on the use of MDTFs has shown that while they may contribute significantly towards greater coordination and harmonization in post-conflict settings, they are often very slow to disburse money and their high administrative costs can mean that they are not the most cost-effective modality. A complementary approach is to additionally provide project funding to respond to short-term delivery needs. This, while theoretically seeming to detract from harmonization and alignment, can be pursued in a way that contributes to state-building and is aligned and harmonized with government agendas. This is demonstrated by the case study below on an NGO-managed project in Southern Sudan.

Box 7: Case Study - Southern Sudan Accelerated Learning Programme (NGO-managed)

In 2002, Save the Children UK piloted an Accelerated Learning Programme (ALP) in northern Bahr el Ghazal to provide education for more than 3,500 demobilized child soldiers. Consultations with local communities, UNICEF and the then Secretariat of Education (SOE) took place from the beginning of the programme to design the most effective approach. Initially Save the Children UK ran workshops in partnership with local authorities to condense the primary curriculum from eight years into four. The organization then supported the SOE to produce textbooks and a teacher's guide and refine the adapted curriculum. This close collaboration has meant that there has been strong community ownership of the ALP and, as a result, the SOE incorporated the ALP into its Master Plan of Education and, with the support of donors, UNICEF, Save the Children UK and other NGOs, the ALP is being scaled-up.

Source: Fenton, 2007*a*: 19-20.

2.3.4 Early recovery

Budget support is often the preferred modality in early recovery contexts where there is likely to be a strong commitment to development even if there is still low capacity.

Box 8: Case Study - Budget support to Sierra Leone

Sierra Leone received budget support as early as 1999 from the EC, who initially committed €34.7 million over five years in Post-Conflict Budget Support. This included both fixed and variable payments to the health and education sectors. After initial delays in disbursement, in 2003 a "Matrix of Corrective Measures" was agreed to improve public finance management.[22] DFID initially provided £30 million in general budget support from 2001 to 2004, and this was followed by the signing of a 10-year Memorandum of Understanding between the Sierra Leonean and British governments in 2002, which committed additional £5 million performance based annual tranches. This was then followed by further annual commitments. Additionally, the World Bank provided budget support under a Poverty Reduction Support Credit operation which was co-financed by the African Development Bank.

A review by DFID (Lawson, 2007) found that budget support had had a positive impact upon institutions and had been instrumental in restoring credibility to the national budget. The review describes a "genuine shift" from off-budget to on-budget decision-making, with increased policy focus on strategic issues rather than at project level.

Sources: Lawson, 2007; and http://www.delsle.ec.europa.eu/en/ec_cooperation/macro_3.htm

Box 9: Case Study - Donor-led pooled project funding - Yemen Social Fund for Development

The Yemen Social Fund for Development (SFD) is a donor-led and managed pooled fund created in 1997. Its aim is to improve access to basic social services for low-income groups, with a focus on empowering local communities and councils to lead their own development. SFD funding is allocated to each of the governorates and districts using a pro-poor funding allocation and has been particularly successful in reaching remote, rural areas. In 2005, the SFD funded approximately 950 projects with an estimated cost of US$87.2 million; over half of this funding was allocated to education.

The main challenge for the SFD is how to move from a project to a programme approach, and to try to eliminate the earmarking of funds by donors and the practice of donors to add underspends from elsewhere at the end of the financial year to the SFD since it is viewed as being 'safe'. Such earmarks and additions have made it difficult to fully align the SFD with government priorities.

Sources: ESA Consultores Internacional/Environmental Resources Management, 2007; and Jennings, 2006.

Box 10: Case Study - Predictability of budget support - Ethiopia basic services grant

Governance concerns can make budget support unpredictable. In 2005 donors in Ethiopia providing budget support suspended their aid with much criticism concerning the impact that this would have on service delivery. Consequently donors developed the Protection of Basic Services (PBS) grant as an alternative funding mechanism used to support basic services (education, health, agriculture, water and sanitation) by increasing the overall volume of block transfers to regional and woreda (district) level alongside the development of more rigorous expenditure and monitoring and evaluation tools. This effectively transferred budget support down one level of the decentralized system.

The PBS is earmarked budget support covering recurrent and development costs totalling US$822.4 million over a two-year period, provided by a group of donors including the African Development Bank, CIDA, DFID, the EC, Irish Aid and the World Bank. A PBS Special Account has been created as a holding account for all sources of PBS funding. Once conditions have been met, donors funds flow directly into this account or via a specially created MDTF managed by the World Bank. The Government of Ethiopia draws funds down from the PBS account into a fungible

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[22] http://www.delsle.ec.europa.eu/en/ec_cooperation/macro_3.htm

Consolidated Fund Account from which funds are transferred to the Bureaus of Finance and Economic Development at regional level based on an agreed PBS formula for each region, and are then transferred onto woreda level. Progress is monitored by a quarterly Joint Budget and Aid Review and the disbursement of further tranches will depend on satisfactory reporting at the Review. An additional component of the PBS is allocated to support and strengthen government's capacity to ensure the Joint Budget and Aid Review monitoring requirements are met.

The programme has not yet been evaluated, but if future reviews do show that it has had a positive impact and ensured that service delivery can continue, then this type of intervention may well be appropriate to use in decentralized or federalized states in the early recovery or deteriorating categories.

Sources: African Development Fund, 2006; and World Bank, 2006*a*.

Box 11: Case Study - School grants - Mozambique Direct Support to Schools programme

The World Bank's Direct Support to Schools (DSS) programme allocates block grants to primary schools on the basis of student enrolments and the number of classes per school to assist them in improving quality in basic education. Each school received between US$200 and US$4,500. In addition, a sum of money was allocated to the District Directorate of Education (DDE) to cover administrative costs.

The Ministry of Education and Culture (MEC) transfers a school's allocation to the DDE bank account. The DDE is responsible for informing schools of the availability of funds and ensuring financial controls are followed. The schools decide how to spend the funds according to MEC guidelines on eligible expenditures. According to MEC policy, schools failing to comply with MEC guidelines for financial control of expenditure will automatically be excluded from the next phase of the programme (though in practice this has not happened).

One of the key successes of the programme is that there has been strong leadership and ownership by the MEC which has invested significant time and energy into the implementation of the programme and training of government officials. Challenges have included (i) mismanagement of funds; (ii) weak community involvement in decision-making; (iii) weak or non-existent financial management skills of head teachers and school staff; (iv) duplication of expenditure already covered by state budget; (v) ignorance of or lack of adherence to MEC guidelines; and (vi) delays in the purchase of items.

Sources: Blasie'Ayako, 2006; Muzima, 2006; Rose and Greeley, 2006.

2.4 Donor funding modalities and links to key DAC Principles

Table 3 below outlines the main links between each donor funding modality and two key *DAC Principles* related to state-building and alignment. It builds upon the above case studies and lessons learnt, summarizing the degree of application of these DAC Principles under each modality.

Table 3: Donor funding modalities and links to two key DAC Principles

Donor funding modality	DAC Principle 3: Focus on state-building as the central objective	DAC Principle 7: Align with local priorities	Degree of application of DAC Principles
Humanitarian aid	By nature, humanitarian aid does not pass through governments and is short-term, focusing on relief. It is least able to contribute to state-building at either government level or through building the capacity of civil society and non-state actors.	If government is willing, then it is possible to align humanitarian interventions with government plans.	State-building and alignment are possible but are least likely to happen when this funding modality is used.
Projects	If shadow or partial alignment occurs, then it is possible to contribute to state-building with government and civil society, preparing the way for full transferral of responsibilities to the government in the medium-term.	Shadow or partial alignment can take place.	State-building may take place to varying degrees depending on the approach taken by the project; and Alignment is likely to be non-existent, partial or shadow rather than full alignment.
MDTFs	Given that shadow or partial alignment will take place by default, direct state-building with national and local government is possible through MDTFs in a way in which full transferal of responsibilities to the government can take place in the medium-term.	Shadow or partial alignment takes place.	State-building is very likely to happen but often with a focus on government rather than a wider focus including civil society; and Shadow alignment systems are followed which should make for ease of transition across to government coordination and management of funds in the longer-term.
Budget support (general or sector)	Budget support fully supports state-building at government level, but at times can exclude the wider definition of state-building by excluding civil society actors since all funding passes through government structures and is used for the purposes of government priorities which may exclude a role for society and non-state actors.	Full alignment takes place.	Government state-building is fully taking place, but at times this can be to the exclusion of capacity building for civil society and non-state actors; and Full alignment takes place.

2.5   Lessons learnt, supporting evidence and emerging good practice[23]

The following section analyses the lessons learnt regarding existing funding modalities, in line with *DAC Principles* 1, 3 and 7. The lessons draw upon the evidence presented to illustrate appropriate funding approaches. They also provide the basis for the recommendations in Section 4, and are also applicable to the emerging modalities discussed in Section 3.

DAC Principle 1: Take context as starting point

States affected by fragility differ from one context to another and as stated in the text accompanying the *DAC Principles*: "international actors should mix and sequence their aid instruments according to context, and avoid blue-print approaches" (OECD, 2007: 1). Different aid modalities are likely to be appropriate and effective in the four DAC categories of fragile states as outlined in Table 3 above.

Lesson learnt 1: Using a variety of aid modalities depending on the context is more effective than following a "one-size-fits-all approach".

Supporting evidence and emerging good practice:

- In **Somalia**, all 13 of **the EC's** education programmes disburse their funding through INGOs and this has been more cost effective than using UN agencies, but the EC would prefer to follow a pooled funding approach for greater harmonization and to reduce transaction costs.
- In **Nepal**, **DFID** is providing a range of assistance to support capacity development at community, school and policy-making levels including grants, sector support and support for non-state providers. This means that DFID has not dedicated all of its funds to one option and has the flexibility to change the mix if circumstances change (Berry, Duncan and Armon, 2004: 3).

Lesson learnt 2: External stakeholders need to examine the level of capacity in government and amongst non-state actors, the reliability of public financial management systems, and the legitimacy of the government before deciding on which modality or set of modalities to use.

Supporting evidence and emerging good practice:

- In **Pakistan**, **the EC** has found that while there are theoretical advantages for coordination and harmonization from using budget support, this process has been difficult to implement due to limited government capacity and weak public financial management systems. They have found that disbursing funds through NGOs has been much more efficient and timely, though it has had more limited impact on strategic planning and capacity development within the education sector.

DAC Principle 3: Focus on state-building as the central objective

Working with or through governments in states affected by fragility can be challenging and may not be a viable option if political will is low or deteriorating. This should be tackled incrementally from early stages to support the development of capacity, with shadow or partial alignment taking place in circumstances were governance or public financial management concerns inhibit full partnership in the short term.

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[23] Supporting evidence and emerging good practice cited, unless otherwise stated, is taken from fieldwork conducted for a forthcoming CfBT Education Trust/UNESCO-IIEP publication on donor engagement in fragile and conflict-affected states (Brannelly, Ndaruhutse and Rigaud, forthcoming). This fieldwork did not emcompass a full evaluation of all the illustrative examples, but was based upon interviews with key personnel, questionnaires and review of documentation, including evaluation reports where available.

State-building is not limited to building the capacity of the government, but includes working with civil society groups and non-state actors. The DAC recognizes that "civil society has a key role both in demanding good governance and in service delivery" (OECD, 2007: 1). Working with non-state actors and communities as well as governments allows for more complete state-building as it helps strengthen local mechanisms with which to hold states to account.

The review of MDTFs in Sudan has found that this wider interpretation has not been implemented, pointing out that "civil society has been left out of many processes" (Haslie and Borchgrevink, 2007: 38). Working with these other groups does not necessarily mean by-passing and excluding the state and there are several examples of NGOs working actively to build state capacity through projects.

> **Lesson learnt 3**: Building capacity even when governance structures are weak or in early stages of development is challenging but possible.

Supporting evidence and emerging good practice:

- **The IRC's** interventions in **the DRC** were planned after extensive local consultation with other education and child protection agencies working with a range of education stakeholders (teachers, IDPs, religious leaders, elders, communities and youth). The organization also works closely with the provincial government through the MoE to build capacity.
- While **the EC** has worked to build capacity at local and central government levels in **Myanmar** and **Eritrea** respectively, it has been difficult to build state capacity in a wider way through civil society. There is a limited number and limited capacity of non-state actors. Most INGOs were not granted registration post-2005 in Eritrea and no INGOs are permitted to operate in Myanmar.

> **Lesson learnt 4**: Working as far as possible with a broad range of education stakeholders including non-state actors leads to more holistic state-building.

Supporting evidence and emerging good practice:

- **Save the Children's** Child Rights Situation Analysis (CRSA) which underpins its operations, has three main pillars, one of which refers to strengthening mechanisms and structures with a core commitment to support national governments (Fenton, 2007*a*: 15).
- **The Netherlands** recognizes the need to work with governments (both bilaterally and multilaterally) as well as working with the private sector, NGOs and other civil society groups with one quarter of the total Dutch development budget channelled through non-state actors. The Netherlands is engaged in a pilot (Afghanistan, Colombia and Southern Sudan) with Dutch NGOs and their local partners which will involve more extensive collaboration between themselves and other local government stakeholders.
- **Save the Children UK** has worked closely with district and national MoE personnel in **Sierra Leone** but has found that capacity amongst non-state actors is very low, making it difficult to find a good local partner to work with. It is trying to work with the National Civil Society Education Fund, a group of local NGOs active in the education sector.
- In arrested development contexts, it is still possible to work with a range of actors to build state capacity. This is evidenced by **the EC** in **Somalia** where projects are implemented by INGOs while working closely with government officials at national and regional levels in a shadow aligned way. **The IRC** in **the DRC** is working closely with provincial government as well as implementing partners and non-state actors.
- Encouraging community support and participation in post-conflict contexts can lead to greater sustainability as evidenced by **the IRC's** community-based education (CBE) programme **in Afghanistan** which, despite working predominantly with communities through a project approach, has contributed significantly to the coordination of other CBE actors and is strongly aligned with MoE activities.

Fully aligning aid with government priorities and systems is the optimum approach as it helps to foster ownership and build capacity. However, where governments lack the will and/or capacity, full alignment may be very difficult in practice to pursue, making partial or shadow alignment realistic alternatives. Partial alignment can take place at sector or regional level if full alignment with central government is not possible but capacity and will exist at these other levels. If there are serious concerns about capacity and the will of the government to act in the interest of development for the population at large, then systems of shadow alignment can be pursued. Shadow alignment can take place through a variety of different approaches operating as much as possible in liaison with existing government structures and institutions in a way that in the longer-term supports the government in its role in reducing poverty, setting policy and acting as a service provider (Overseas Development Institute, 2004: 9). Ideally shadow alignment should have the potential for easy transferral to government when appropriate capacity and will are in place. However, alignment is not always possible, and in these cases, the ODI (2004: 49) recommends that the second best option is for donors to harmonize in preparation for future alignment if the context improves and permits this.

Lesson learnt 5: Harmonization and alignment are important and, even where governments have issues of illegitimacy and poor governance, it is still possible to plan a strategic response through shadow aligned systems.

Supporting evidence and emerging good practice:

- In **Myanmar**, **the EC** has found that the Multi-Donor Education Fund has provided a good opportunity for harmonization through a pooled fund in the context of a government-owned strategy. However, this high level of harmonization has probably been easier to achieve than in other contexts due the limited number of external agencies (two) permitted to work directly in the education sector.
- **The Netherlands** mostly uses the multilateral channel to provide funding for education to states affected by fragility as this is likely to be more harmonized. However, in its funding for **Yemen** (a bilateral programme), the Netherlands has provided pooled funding through the Basic Education Development Project (BEDP) and the Social Fund for Development (SFD) and in this way has made progress in harmonization and shadow alignment in the education sector.
- **Sida** and **the EC** seek to provide funding wherever possible using government public financial management systems thus strengthening their capacity to absorb larger volumes of financing via budget support.
- **The IRC's** CBE activities in **Afghanistan** are harmonized with those of the MoE's CBE policy, making any scaling-up easier.
- In **Somalia**, while INGOs are the implementing partners of **EC** funding, they are working closely wherever possible with local, regional or zonal education authorities in a shadow aligned way.

Lesson learnt 6: Having a country programme or education project that broadly supports the government's education sector policy and plan (where available) leads to a more coherent and strategic intervention.

Supporting evidence and emerging good practice:

- **The EC** education programme in **Eritrea** broadly supports the Education Sector Development Programme (ESDP) although a project modality is used as the ESDP was not fully developed when the EC programme started.
- In **Yemen**, **Dutch** support to the BEDP and SFD both support the implementation of the national education sector plan and the Netherlands has discovered the need to apply a SWAp at all stages of the project cycle.

- **Save the Children UK's** country programme in **the Côte d'Ivoire** was designed and planned in line with the Government's EFA plan. In **Sierra Leone**, Save the Children UK's country programme supports the national Education Sector Plan and the organisation is the lead NGO on a sub-committee reviewing this plan.
- The recently established Education Pool Fund managed by **UNICEF** in **Liberia** support's the Liberia's Primary Education Recovery Program.

2.6   Conclusion

There is little documented evidence of good practice in the arrested development and deteriorating categories of fragile states. In these two contexts, the two *DAC Principles* referrred to can only be applied in a limited way due to constraints in government capacity, legitimacy and will. In the post-conflict reconstruction and early recovery categories, a greater variety of approaches can be effective which apply the *DAC Principles* to different degrees. The success or failure of them is not necessarily dependent on the approach but more on the design and implementation of the specific intervention. Pooling funding wherever possible whatever type of funding modality is chosen, has significant advantages since it reduces transactions costs and increases coordination and harmonization.

In conclusion, evidence shows that a mixture of existing aid modalities can be effective and that there is no one modality that is the "best fit" in all contexts. State-building must encompass the widest meaning of the term including government and civil society. Even in deteriorating or arrested development contexts, working in close collaboration with local, regional or central governments is still possible when working through non-state actors as implementing partners. Coordination and harmonization are possible in all environments, though easier where governments are open to working with a range of stakeholders and have a clear education plan and strategy in place.

Section 3: A summary of innovative/emerging new aid modalities

This section will explore financing approaches for states affected by fragility in sectors other than education to find lessons that should be learnt for the education sector. It will then examine a selection of innovative and emerging new aid modalities, summarizing each of them briefly and outlining how each of them link to the *DAC Principles*, particularly focusing on state-building, alignment and harmonization. Table 5 at the end of the section provides a summary of innovative/emerging aid modalities and their relation to the *DAC Principles*.

3.1   Health sector financing

Issues emerging from health sector financing within states affected by fragility are similar to those found in the education sector, echoed by the *Paris Declaration* and the *DAC Principles*. Primary challenges include supporting state ownership and planning processes with an emphasis on state-building; lengthening the period of commitments; harmonizing donor coordination and response between relief and development; and responding flexibly to reflect the needs of the specific context. Willingness to fund and support recurrent costs, particularly salary costs, is also an area of contention.

Funding mechanisms for health are generally similar to those used within the education sector including a mixture of humanitarian aid, project support (mostly channelled via NGOs and UN agencies), MDTFs and sector pooled funds, technical assistance, and budget support (both direct and sector). In addition, the health sector has been supported by global-level financing intitatives including the Global Fund to Fight AIDS, Tuberculosis and Malaria, which now provides over a fifth of all funding to states affected by fragility (22 percent, totalling US$1.79 billion) (Canavan, 2008). The Global Fund allocates funding according to needs analysis and capacity rather than distinguishing between degrees of fragility. Funding is provided for both integrated health programmes (e.g. Afghanistan, the DRC, Sierra Leone, Sudan and Timor-Leste) and vertical project funds (e.g. Liberia). There are concerns that the latter could cause the proliferation of new

structures and systems which could undermine longer-term SWAps to health sector development. Taylor (2005) recognizes the increased risks for donors in working through government systems in states affected by fragility, but emphasizes that the benefits of doing so are likely to be greater, particularly in the long-term, by mitigating the potential silo effect of vertical project support. She emphasizes supporting governments to undertake "core stewardship functions" enabling them to lead the development of strategy and coordinate stakeholders.

Lastly, within the health sector the role of private organizations and foundations tends to be larger and more accepted, particularly with links to the pharmaceuticals industry and drugs provision. As the role of these organizations increases, however, there are concerns over coordination of efforts and the need to align with government plans. Additionally, assistance can take the form of provision of drugs, which works effectively in minimizing procurement costs and delays, and in safeguarding quality.

3.2   Governance-based aid

USAID has developed a new approach to aid in Guinea after discovering from its Fragile State Assessment that the primary barrier to development in the country was poor governance and corruption and that efforts to support and improve service delivery would not achieve anything unless this fundamental barrier was first addressed. As a result, USAID's strategy for 2006-2008 in Guinea is to advance democratic governance with the primary objective "to improve governance and strengthen civil society in USAID's earmarked sectors while, at the same time, continuing to achieve sector impacts" with the aniticipated outcome of "better services to citizens – in health, education, agriculture and natural resource management – through better governance." The programme ("Faisons Ensemble") has been implemented since 2007 by a consortium of seven development organizations and will run for 31 months with a total budget of US$22.9 million. These seven organizations have been challenged to provide "double duty for their dollar", being held as accountable for improvements in their sector, as they are for developing governance and institutional reforms. In education this has included projects centred on civic development, for exampl, supporting adult literacy programmes and the development of civics curriculum and teacher training with the complementary aim of strengthening participation of women, marginalized groups and youth in governance processes. Similarly, as part of the governance goal to address corruption within education, this has focused on reform of the examination system.[24]

3.3   Global financing channels for education in states affected by fragility

There are constraints at the global level to allocating funds to states affected by fragility, with heightened concerns on governance issues and risks for donors. Progress can be hindered by the fact that there are often few bilateral donors working in country, and traditional channels for finance flows may be limited. Consequently, means to address these barriers and increase funding are being explored.

Transition funding and the FTI[25]
As mentioned in Section 1, in 2006 the Netherlands initiated a fund for education in emergencies, often refered to as the transition programme, managed by UNICEF. The fund is currently funded solely by the Dutch, but other donors are considering contributing. The fund aims to not only invest in education provision in emergencies and fragile contexts, supporting implementation of core educations sector plans, but also to enhance the quality of interventions and strengthen education systems. The emphasis of the fund is on acting quickly and flexibly to support education, while also promoting country ownership, planning and capacity building, in line with the *DAC Principles*. UNICEF has an established presence in the education sector in most states affected by fragility allowing for a quicker response that is aligned with local priorities (UNICEF, 2007; Netherlands

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[24] Information taken from USAID Guinea "Faisons Ensemble" powerpoint presentation.

[25] Information for this section is taken from documentation produced for the EFA-FTI Fragile States Task Team and presented at the April and September 2008 Steering Committee meetings in Tokyo and Paris, available from the FTI website at http://www.efafasttrack.org/library/fragilestates_financing.pdf and http://www.efafasttrack.org/content.asp?ContentId=1193

MFA, 2007). For example, in Liberia UNICEF developed a Memorandum of Understanding with the Government of Liberia setting out appropriate use of pooled funds and the Netherlands government has so far provided US$12 million for this fund. Liberia's experience has also shown the potential for private sector involvement, with the Open Society Initiative commiting US$3 million and having pledged a further US$2 million towards the fund. The funds will initally be used for the implementation of the Liberia Primary Education Recovery Program.[26]

Concurrently, discussions have been taking place with the FTI's Fragile States Task Team as to the most appropriate financing arrangements and support for states affected by fragility. The FTI Fragile States Task Team building on Sperling (2006 and 2007) prepared a series of recommendations for the FTI Steering Committee on developing the global aid architecture for fragile and conflict-affected states. Recent meetings have agreed to maintain a single FTI funding process for all countries, whilst also creating an "interim status" for fragile states. These states would then be able to access a Transition Fund to address interim funding needs and education priorities, while allowing these states to develop full education sector plans. The current intention is to develop the UNICEF Transition Programme and position this as a financing tool (Transition Fund) within the FTI. Though the operational details for the Transition Fund remain to be finalized, the intention is for UNICEF to remain the administrative and management body, using interim financing to support states' progress towards full FTI endorsement and access to Catalytic Funding. This model has been seen in Liberia where funds have been allocated through the Education Pooled Fund to support the Liberian Primary Education Recovery Program, with a component of funds also been reserved for strengthening institutional arrangements for basic education provision. This includes funding for technical assistance to support the MoE in setting up the Education Pooled Fund and to develop the SWAp.

3.4   Outcomes-based aid or progress-based aid

Outcomes-based aid or "payments for progress" is an approach that has been developed by the Center for Global Development which aims to try and address two fundamental challenges in states affected by fragility: how to scale-up aid while at the same time using aid to build local capacity and strengthen systems (Barder and Birdsall, 2006).

This approach has already been experimented with by two global health funds – the Global Alliance for Vaccines and Immunisation (GAVI) and the Global Fund. The Global Fund has reduced grants for countries who have underperformed. For GAVI in the case of Cambodia where payments were linked to the number of children vaccinated, the outcome was a small increase in vaccinations with stronger incentives for local decision-makers to deliver results. Results-based aid has been followed by a small number of World Bank programmes in the water sector where private contractors are paid based on demonstrating a specified output such as the number of household water connections made (Barder and Birdsall, 2006).

The theory behind progress-based aid is that donors as a group would commit a specified amount dependent on evidence of progress against a set of agreed targets (e.g. a payment of US$50 for every primary school completer). In contrast to results-based aid, where payments are made based on results, under progress-based aid payments are made against progress towards a goal. The targets would be set by developing country governments in consultation with donors and would be measured by an independent auditor chosen by the government. Payments would be based on the achievement of progress against the agreed-upon outcomes rather than on the implementation of particular policies or outputs, with the payments being the same for each country. This approach is quite similar to budget support though with a much clearer link to progress against a specified set of outcomes (Barder and Birdsall, 2006).

Within the education sector, the Millennium Project has estimated that the annual cost of providing primary schooling for a child in five developing countries is somewhere between US$50 and US$100. Based on this figure, donors applying progress-based aid for the education sector could

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[26] Information gathered during fieldwork conducted for a forthcoming CfBT Education Trust/UNESCO-IIEP publication on donor engagement in fragile and conflict-affected states (Brannelly, Ndaruhutse and Rigaud, forthcoming).

provide US$100 per additional child who completes schooling each year above the baseline figure in the reference year. Barder and Birdsall (2006: 11-12) argue that:

> "…the FTI provides a framework and a forum where a mechanism for progress-based aid in education could be discussed, given that donors are already committed in principle to pooling and to aligning their financing with recipient countries' own programs."

Table 4: Likely benefits and challenges to using progress-based aid

Benefits	Challenges/concerns
General ▪ Increased accountability of recipient country and donors ▪ Full accountability (through outcome measures) for taxpayers in how donor money is spent ▪ Increased transparency to citizens in recipient countries ▪ Lower transactions costs (money given directly to governments to manage rather than as projects) ▪ No conditionalities ▪ Transparency and predictability of donors' commitments ▪ Funds service delivery and also builds capacity of recipient countries' institutions ▪ Provides incentives for better public financial management and monitoring of results **For education sector** ▪ Permits donors to link additional aid directly to results achieved and progress made in the education sector ▪ Gives recipient country leaders more leverage to implement any needed education reforms	▪ Deciding on the benchmark by which to measure performance ▪ Ensuring effective monitoring systems are in place to minimize incorrect data ▪ More resources going to "good performers" and sectors where it is easy to measure progress ▪ Focus on quantity rather than quality (but this could be overcome by looking at competence tests rather than completion rates) ▪ As with all other types of aid, there is a concern that this aid will need to be provided over the long-term (for example, with recipients of GAVI's five-year programme already asking if it can be extended to ten years (Vyborny, 2007: 5))

Sources: Birdsall, Saverdoff and Vyborny, 2008: 1; Vyborny, 2007.

3.5   Donor funding modalities and links to key DAC Principles

Table 5 below outlines the main links between each innovative/emerging funding modality and two key *DAC Principles* related to state-building and alignment.

Table 5: Innovative/emerging funding modalities and links to key DAC principles[27]

Innovative or emerging new funding modalities	DAC Principle 3: Focus on state-building as the central objective	DAC Principle 6: Align with local priorities	Degree of application of DAC Principles
Governance-based aid (USAID)	This approach strongly contributes to state-building in the complete sense of the term, with a focus on strengthening governance systems at government level as well as working closely with civil society groups.	Given this approach is working in a top-down and a bottom-up way with a range of non-state actors as well as the government, it is likely to be more aligned to local priorities that some other modalities, as it is working and consulting with a diverse group of stakeholders. However, given the initial governance concerns, full alignment is unlikely to be able to occur from the outset of the programme.	The holistic meaning of state-building is likely to be applied. While shadow or partial alignment systems are most likely to be used in the early stages of such a programme due to governance concerns, given the wide range of stakeholders consulted, it is more likely to lead to more complete alignment in the longer-term.
Transition Fund	There is likely to be a strong focus from both UNICEF and other education development partners on state-building at government level in support of the development of an interim and then complete education sector strategy or plan. This would ideally involve a range of stakeholders including government and NSAs and therefore would be likely to contribute holistically towards state-building.	Where UNICEF is supporting government education plans through pooled funding, there is likely to be full alignment. Provided a wide range of stakeholders is consulted and involved in the development of the interim strategy or plan, then alignment is likely to be strong whether through full or partial systems.	There is strong potential for both holistic state-building and full alignment involving a wide range of stakeholders, but the extent to which this takes place will depend largely on what aid modality is being used for funds to flow.
Outcomes-based aid and progress-based aid	State-building will take place directly and fully at government level and civil society groups are more likely to be able to see	The main objective is to use aid to strengthen institutional capacity in recipient countries to deliver educational	Direct state-building of government will take place and indirectly the role of civil society to hold the government to

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[27] The health sector was found to employ similar funding modalities to the education sector in fragile contexts, as such it is not included in the summary presented in Table 5.

results and hold government to account. It is not clear how this approach will work directly in any way with civil society groups.	(or other) services and it is likely to be more fully aligned with government priorities than other approaches (Vyborn, 2007).	account. It is unclear how this approach will directly build the capacity of civil society where this is weak. Full alignment is likely to take place.

3.5   Conclusion

Health sector financing provides an interesting comparason to education financing in fragile states. There are a number of similarities and both sectors face similar challenges for state-building and alignment. As such, there are interesting lessons that can be learnt in one sector and applied to the other.

The innovative or emerging new aid modalities presented in section 3 all have the potential to contribute in some way to state-building and alignment. The USAID governance-based aid approach most directly targets donors' governance concerns by focusing on holistic statebuilding. However, it is not guaranteed that funding this approach will automatically lead to greater results and funding for education as the core focus is improving governance with service delivery as the sub-objective. The Dutch-UNICEF transition funding approach linked with the FTI interim financing process has a strong potential for contributing to holistic state-buiding, involving government and civil society and being fully aligned with stakeholder priorities whilst being directly focused on the education sector. Both of these approaches are currently being piloted so once evaluated, information on their effectiveness will contribute to a wider understanding of their relative strengths compared to existing mechanisms. In the case of progress-based aid, given it newness and lack of piloting to date in the education sector, more evidence will be needed to see how effective it could be. There are also concerns about how it will contribute directly to state-building of civil society groups.

Section 4: Overall Conclusion and Key Recommendations

A recent paper projecting the time it takes to build the necessary capacity and institutions in a post-conflict state, in order for it to stand fully on its own feet, concluded that donor support for recurrent budgets in Mozambique, Liberia, the Solomon Islands and Timor-Leste would need to continue from 2005 for at least 5, 13, 23 and 21 years respectively before each of these countries could be free from the need for external financing (Chand and Coffman, 2008: 6). If its modelling assumptions are correct, this research reiterates the urgent and on-going need for continued financial and technical support to states affected by fragility in a way that is flexible as these states make progress or deterioriate.

The risks of engaging with other states, especially those affected by fragility can never be eliminated, only minimized, but it can be argued that the risks of not engaging positively are greater. This requires long-term commitments that contribute to state-building and programmatic alignment of objectives. Given that the education sector is one of the key sectors preparing individuals with the core skills and competencies for economic and political participation that will contribute directly to future state-building, this further underlines the need for donors to be engaging effectively in supporting the development of the education sector in states affected by fragility through a range of both existing and emerging new modalities that reflect good practice and are effective in different contexts of fragility.

What emerges most strongly from the review of existing and emerging modalities is that there is no one simple solution. Financing of education in states affected by fragility needs to simultaneously address multiple needs, including immediate service delivery, institutional strengthening and governance reforms, and good donorship in line with the Paris Declaration The real challenge is identifying combined approaches that are flexible enough to respond to opportunities and progressive enough to break cycles of weak governance and capacity.

This paper has presented analysis, case studies and lessons learnt from fragile environments across the world. Actors and stakeholders need to respond to the following recommendations:

Recommendations for future action, advocacy and research

1. Emerging global initiatives (such as FTI, INEE and IASC Education Cluster) should continue to increase awareness of the needs for education in states affected by fragility and generate

further global debate on the particular challenges faced. They should continue to evaluate how new mechanisms can address common challenges such as bridging the transition from humanitarian to development assistance. In addition they should explore how they can be used as a platform to attract further resources, and support national financing of education.

2. Non-state partners are playing an increasing role in both financing and delivery of education in states affected by fragility. States, donors, NGOs and private foundations need to document and share lessons learnt from emerging practice. All parties need to encourage more open dialogue in order to explore partnership frameworks between the private sector, NGOs, civil society, UN agencies, donors and government; and identify how the non-state sector has addressed the risks associated with governance and accountability.

3. There have been significant challenges in the use of MDTFs. However, it is unclear whether these are unique to MDTFs or part of the challenges of the wider environment in which MDTFs are working and therefore are challenges also for other aid modalities and channels. Further analysis is needed to identify how well activities funded through MDTFs have performed in comparison to similar activities financed through other channels, and to distinguish the real advantages and disadvantages of pursuing MDTFs (Scanteam, 2007).

4. There is a lack of documented good practice of education programmes and projects in arrested development or deteriorating contexts. The evidence base does not provide sufficient information on which to make decisions on how best to engage in financing education in these settings. Research and knowledge sharing between agencies is needed to document lessons learnt and emerging good practice in funding education programmes and projects in these two particularly challenging fragile contexts.

5. Once pilots/initial stages of the innovative/emerging new aid modalities have been completed, a comparative evaluation report is needed to guide policymakers on the likely strengths and weaknesses of these approaches in providing education financing in states affected by fragility.

6. As new aid modalities and financing actors emerge and as situations change rapidly on the ground at the country level, there is a need for close international cooperation between all stakeholders – governments, donors, UN agencies, INGOs, and CSOs – to develop an agreed upon *modus operandi*, particularly at country-level, to ensure that policy translates into action and is within the scope of international commitments.

7. States affected by fragility typically rely more on humanitarian aid than other developing countries, and while there are funding shortfalls across all humanitarian sectors, education is one of the least funded. Supported by the IASC Education Cluster and INEE, further advocacy work needs to be undertaken to encourage greater humanitarian fiancing for education, particularly in the gap between humanitarian and development financing. In support of this, all DAC donors should include education within their humanitarian policies.

8. INEE or FTI should undertake a stakeholder analysis to identify needs for guidance materials, particularly for education finance teams within states affected by fragility. Such guidance should build upon lessons learnt and clarify funding modalities, options, and types of finance available or which explains how the ownership process is expected to work.

Glossary

Alignment occurs where donors follow a partner country's policies, strategies, priorities, and public financial management and administrative systems as a guide for their own interventions with the objective of building capacity and ownership.

Aid is **fungible** when a government can choose how to use it provided that certain progress indicators are met at a national or sectoral level; it is not guaranteed or earmarked as additional funds for a specific sector.

Harmonization refers to common arrangements between different donors which leads to the adoption of a set of rationalized procedures and to greater openness and information-sharing regarding aid interventions in a given country or sector within a country.

Partial alignment occurs where donors work in a way that is compatible with some aspects of government systems (e.g. by working with the systems operating at decentralized levels rather than at national level) but that is not fully aligned. Usually partial alignment is followed where legitimacy or capacity issues are national-level but not as problematic at local levels.

Shadow alignment occurs where donors work in a way that is compatible with government systems and the longer-term transfer to using government systems, even if they are not working directly through government systems.

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