An open-air classroom in Port-au-Prince. Haiti’s education system, already weakened by conflict, was devastated by the earthquake in January 2010.
Chapter 2
Financing EFA
With the financial crisis having damaged economic growth prospects and put government budgets under pressure, international aid is more important than ever, yet donors are not delivering on their pledge to ensure that no countries seriously committed to education for all will be thwarted by a lack of resources. This chapter shows why donors need to act on that pledge. It sets out the case for increased aid, a stronger focus on basic education and the adoption of innovative financing strategies.
Monitoring progress on financing Education for All

Increased financing does not guarantee success in education – but chronic underfinancing is a guaranteed route to failure. The Dakar Framework for Action recognized the vital importance of backing political promises with financial commitments. Developing countries pledged to put in place budget strategies geared towards the Education for All goals. For their part, aid donors acknowledged that many countries – even if they increased their resource mobilization efforts – would still lack the financing required to achieve the 2015 targets. They promised that ‘no countries seriously committed to Education for All will be thwarted in their achievement of this goal by a lack of resources’ (para. 10). These were important pledges. Have they been honoured?

This section addresses that question. The broad answer is ‘no’, though there are significant differences across countries and regions. While most developing countries have adopted Education for All targets in national plans, they have a mixed record on mobilizing the budget resources needed to reach those targets. The picture for aid donors is less encouraging. Development assistance flows to education have increased over the past decade, but there has been a collective failure on the part of the donor community to comply with the letter and the spirit of the Dakar promise.

Public spending on education is a vital investment in national prosperity and has a crucial bearing on progress towards the Education for All goals. One measure of that investment is the share of national income allocated to education through public spending.

Summarizing the record of the past decade is difficult because of wide variations between and within regions, as Panel 2.1 shows. The world as a whole is spending slightly more of national income on education than it was a decade ago, but the aggregate picture obscures variations across countries. Low-income countries have increased the share of national income spent on education from 2.9% to 3.8% since 1999. However, governments in several regions – including the Arab States, Central Asia and South and West Asia – have reduced the share of national income allocated to education. Measured in real financial terms, education budgets have generally been increasing over time as a result of economic growth, with sub-Saharan Africa posting an average annual increase of 4.6%.

Countries at similar levels of per capita income allocate highly variable shares of national income to education. For example, Pakistan allocates less than half as much of gross national product to education as Viet Nam, and the Philippines half as much as the Syrian Arab Republic. It is important to recognize that the national commitment to education measured in terms of GNP or percentage growth in education spending is a partial measure of Education for All financing capacity. Strong commitment in poor countries can translate into very low levels of per capita spending, holding back national efforts to finance universal primary education and wider goals.

Economic growth is just one factor driving global spending patterns. The degree to which growth translates into public financing for education is dictated by the level of government revenue collection and by how the revenue is allocated across different budgets. None of these relationships are automatic. As the evidence in Panel 2.2 shows, countries vary both in their revenue mobilization efforts and in the priority they attach to the education budget. The 2010 EFA Global Monitoring Report estimated that, with an increased revenue mobilization effort and a stronger commitment to education, low income countries could raise Education for All spending from around US$12 billion to US$19 billion – an increase equivalent to around 0.7% of GNP.

The financial crisis has had an impact on government spending on education. Analysis undertaken in the policy focus section shows that seven of the eighteen low-income countries with available data cut education spending in 2009. In other countries the rate of increase in education spending has slowed considerably. Post-crisis plans to reduce fiscal deficits threaten to undermine financing plans for achieving the EFA goals.

Levels of financing for education cannot be viewed in isolation. The efficiency and equity of public spending are also important. Experience in many countries demonstrates that it is possible to invest a large share of national income in education without providing good quality opportunities for learning, especially when it comes to marginalized groups. Education outcomes are inevitably shaped not just by levels of spending, but also by the quality of public spending and by governance in education and beyond. Countries with strong public expenditure management systems and accountable, responsive and transparent education planning systems are more likely to translate increased investment into real improvement. However, increased spending, with enhanced efficiency and a strengthened commitment to equity, remains a condition for accelerated progress towards the Education for All goals (Panel 2.3).
International aid

National policies and financing are the main source of progress towards the Education for All goals, but international aid has a key supplementary role to play. Development assistance expands the resources available for education. It enables governments to undertake investment aimed at improving access, enhancing quality and bringing education to children who would otherwise be excluded.

The period since the Dakar Forum in 2000 has been marked by dramatic changes in the aid environment. Overall aid levels have increased markedly, both in absolute terms and as a share of donors’ national income. At the same time, donors have collectively fallen short of a commitment made in 2005 to increase aid from US$80 billion to US$130 billion by 2010. Of particular concern is the large gap between aid commitments and delivery for sub-Saharan Africa: recent OECD estimates suggest that the region will receive less than half the increase pledged in 2005 (Panel 2.4). While the full effect of the financial crisis on aid budgets remains uncertain, there are concerns that development assistance will be a victim of fiscal austerity in some donor countries (see policy focus section). The small increase in aid in 2009 – by less than 1% – underlines the risk.

Aid to education mirrors some of the broader global trends. Overall development assistance to basic education has almost doubled since 2002, to US$4.7 billion, but behind this headline number lie two worrying trends. First, the share of aid going to basic education has been static. Second, the gradual upward trend in total aid to education stalled in 2008. In sub-Saharan Africa, aid to basic education fell from US$1.7 billion in 2007 to US$1.6 billion in 2008. Against this background, donors should consider attaching more weight to education – especially basic education – in their overall aid portfolios (Panel 2.5).

Trends in aid to basic education have to be assessed against the Education for All financing gap. Estimates presented in the 2010 Report pointed to an external financing need for key goals in low-income countries of about US$16 billion annually to 2015. This was after accounting for increased resource mobilization by low-income country governments themselves. Even if donors were to meet the commitments made in 2005, there would still be a financing gap of US$11 billion. In the current climate, it is not realistic to expect a deficit of this scale to be met solely through aid programmes. What is required is a strengthened commitment to aid allied with innovative financing strategies, with early delivery of new and additional resources. There are strong grounds for aid donors to consider financing increased support for education through a special bond issue under an International Finance for Education (IFFE) programme (see policy focus section).

How donors deliver aid is as important as how much they deliver. Both donors and recipients have made concerted efforts in recent years to enhance aid quality. Important commitments have been undertaken as part of the ‘Paris agenda’ following on from the 2005 Paris Declaration on Aid Effectiveness. The emphasis has been on reducing transaction costs through better donor coordination, working through national systems and public finance management systems, and improving transparency. While there has been some progress, the overall record is poor and greater effort on the part of donors is required.

Looking ahead

Whatever the record of the past decade, the next five years will confront governments with new challenges. The 2008 financial crisis and subsequent slowdown in economic growth has left many developing countries facing acute fiscal pressures. There is a danger that budget adjustments could starve Education for All financing plans of resources, which would mean fewer teachers, fewer classrooms and, ultimately, fewer children receiving a decent education. With many major aid donors also seeking to reduce large fiscal deficits, there is a parallel danger that development assistance flows for education could shrink, which would be especially damaging for many of the world’s poorest countries (see policy focus section).

Cuts in planned expenditure for education would have adverse consequences not just for those most immediately affected – the children and youths denied opportunities for learning – but also for long-term prospects for poverty reduction, economic growth and wider human development. That is why protecting education budgets should be a central element in any fiscal stabilization plan. By the same token, protection is not enough. Achieving the Education for All goals will require governments to adhere to medium-term plans for increasing public spending on education. In this context it is important that national governments, aid donors and international financial institutions review Education for All financing requirements to 2015 in the light of the post-crisis environment.
The share of national income devoted to education is a key measure of government efforts to finance Education for All. How that measure translates into real financing over time depends on several factors, including economic growth, population growth and changes in the size of the school-age population.

Have government priorities shifted to match the commitments made at Dakar? Low income countries have significantly scaled up their national education financing effort since 1999 (Table 2.1). Even factoring in population growth and the rising share of school-age children in national populations, this increased effort has translated into higher levels of per capita spending. Conversely, the share of national income invested in education has fallen in the Arab States, from a high starting point, and in Central Asia and South and West Asia from far lower initial levels. While per capita education spending has stagnated in the Arab States, it has risen in other regions that have reduced the share of national income allocated to education. Even with this economic growth effect, this is difficult to square with the commitments made at Dakar, or with the urgent need for increased financing to accelerate progress towards the Education for All goals.

The striking differences in shares of national income allocated to education by countries at similar income levels draw attention to the importance of political priorities (Figure 2.1). For example, Viet Nam invests almost twice as much of national income in education as Pakistan, and Kenya invests three times as much as Bangladesh.

The period from 1999 to 2008 was marked by strong economic growth in developing regions. Rising wealth in turn increased government revenue and boosted education spending. However, the rate at which economic growth is converted into increased education spending depends on wider public spending decisions. In more than half the countries with available data, the real growth in education spending has been higher than economic growth (Figure 2.2). Other countries have converted a smaller
share of the growth premium into education financing. In the Philippines, real spending on education increased by 0.2% annually from 1999 to 2008 while the economy grew, on average, by 5% a year. As a result, the already low share of national income invested by the Philippines in education has fallen over time, to just 2.4% in 2007.

Figure 2.2: Education budgets have increased in most countries
Real annual growth in education budgets and national income, selected low and middle income countries, 1999–2008

Panel 2.2: Increasing domestic revenue and making education a higher priority

The Education for All focus on international aid sometimes deflects attention from the fact that government revenue is the main source of spending on education. Even in the poorest countries, the mobilization of domestic resources and decisions over the allocation of those resources through the national budget far outweigh development assistance in national budgets.

Resource mobilization. There is no simple arithmetic relationship between economic growth and revenue mobilization. Efforts to increase national revenue are influenced by the level of per capita income and by patterns of economic growth. Broadly, revenue collection tends to rise with national income. Countries in which mineral exports figure prominently also tend to register ratios of revenue to GDP that are higher than average for their income levels. Low income countries with high levels of poverty, large informal sectors and limited mineral exports face difficulties in increasing revenue mobilization, though progress is possible. For example, Ghana, Mali, Mozambique and Rwanda have increased their share of domestically generated revenue in national income, and this has filtered through into increased levels of real education spending (Figure 2.3). Conversely, other countries, such as Bangladesh and Pakistan, have had limited success in increasing revenue-to-GDP ratios, which partly explains their disappointing performance in education spending.

Budget allocation is a central element in the Education for All financing equation. Some commentators have attempted to identify international benchmarks for good practice, and the allocation of 20% of the national budget to education is widely cited as an indicative threshold for a strong commitment to Education for All. About one-third of the low income countries with available data either achieved or
surpassed that threshold. However, it is not clear that the threshold itself provides a useful insight into real public financing provision for education, partly because it misses the revenue side of the equation. Figure 2.3 illustrates the important relationship between revenue collection on the one side and budget allocation on the other. Some countries, such as Ghana, Mozambique and the United Republic of Tanzania, have combined a strengthened revenue collection effort with enhanced commitment to education. In other cases – Ethiopia is an example – revenue collection has fallen as a share of national income, but education has absorbed a dramatically rising share of budget spending. While partial threshold indicators are of limited value in understanding Education for All financing challenges, it is clear that countries combining low levels of revenue mobilization with a small budget allocation for education are not well placed to accelerate progress towards the Education for All goals. While Bangladesh has achieved a great deal over the past decade, its education efforts are constrained by the fact that it mobilizes only 11% of GDP in government revenue and allocates just 17.5% of the national recurrent budget to education (Figure 2.4).
Does increased financing make a difference to the rate of progress towards the Education for All goals? That question is difficult to answer. In some countries the results of increased investment have been disappointing, with the benefits diminished by poor governance. Even in countries where higher levels of spending have been associated with better outcomes, the links are not always clear-cut – association is not the same as causation. Even so, there is evidence that properly managed increases in public spending in education can remove barriers to progress.

Table 2.2 illustrates the complex relationship between education spending and school enrolment. Consider first the three countries that substantially increased spending from 1999 to 2008. In Burundi, education spending doubled as a share of GNP. Much of the increase was spent at the primary level, where net enrolment ratios almost tripled. In Ethiopia, a near doubling of the education budget led to significant improvement in access to primary and secondary education. And even though many of those who benefitted were from the poorest and most vulnerable population groups, who typically start school with more limited learning, the quality of education was maintained (World Bank, 2008b, see goal 6). Here too, increased spending was critical to the gains achieved, with school construction programmes in poor rural areas remaining a major bottleneck to increased enrolment. Similarly, in the United Republic of Tanzania, increased spending on education financed large-scale classroom construction programmes and the abolition of primary school fees in 2001. The number of children out of school declined from over 3 million in 1999 to around 33 thousand in 2008. And the latest SACMEQ learning assessment reveals significant improvement in reading and mathematics achievement (Hungi et al., 2010).

In each of these cases, increased financing has helped unlock educational opportunities, especially for the poor. Rising investment in schools, teachers and learning materials made a difference. The reverse is true for Eritrea, which reduced spending on education and has seen only modest improvements in access. Two other countries covered in Table 2.2, Guinea and Zambia, tell a different story. Both have increased primary school access without raising spending significantly. Yet their experience should not be interpreted as evidence of the scope for efficiency savings any more than the counter-evidence of Burundi, Ethiopia and the United Republic of Tanzania should be interpreted as a watertight demonstration of the benefits of increased financing. In Guinea, the “efficiency saving” has included lowering costs by recruiting contract teachers paid about a third of a regular civil service teacher’s salary (Pôle de Dakar, 2009). After concerns about the impact on education quality and teacher morale, this policy is now being reversed (Bennell, 2009).

### Table 2.2: The links between spending and education progress are not always straightforward

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of GNP to education 1999 (%)</th>
<th>Total education spending 1999 (%)</th>
<th>Real change between 1999 and 2008 (%) per year</th>
<th>Primary adjusted net enrolment ratio 1999 (%)</th>
<th>Primary adjusted net enrolment ratio 2008 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burundi</td>
<td>3.5</td>
<td>7.2</td>
<td>36</td>
<td>99</td>
<td></td>
</tr>
<tr>
<td>Ethiopia</td>
<td>3.5</td>
<td>5.5</td>
<td>37</td>
<td>79</td>
<td></td>
</tr>
<tr>
<td>U. R. Tanzania</td>
<td>2.2</td>
<td>7.1</td>
<td>22</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>2.6</td>
<td>2.9</td>
<td>57</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>Eritrea</td>
<td>5.2</td>
<td>2.0</td>
<td>33</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Guinea</td>
<td>2.1</td>
<td>1.7</td>
<td>44</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>Zambia</td>
<td>2.0</td>
<td>1.5</td>
<td>70</td>
<td>87</td>
<td></td>
</tr>
</tbody>
</table>

Note: Primary ANER for Pakistan in the earlier period is for 2001.
Sources: Annex, Statistical Table 9 (print) and Statistical Table 5 (website); UIS database.
Panel 2.4: Donors are not on track to meet aid commitments for 2010

Development assistance is a key element in the Education for All financing architecture. This is especially true for low income countries facing large financing gaps. Overall levels of aid for basic education (Table 2.3) are broadly a function of three factors:
- global development assistance levels;
- the share of international aid allocated to education;
- the share of education aid allocated to basic education.

Problems in each of these areas raise questions about future aid flows to education. There are growing concerns that development assistance to basic education may slip from levels that are already far below the Education for All financing requirements.

Overall aid – failing short of the pledge

In 2005, donors made a series of commitments to increase aid. Pledges by the Group of 8 at the Gleneagles summit and by European Union countries amounted to a US$50 billion (2004 prices) increase by 2010, half of which was earmarked for Africa. On current trends, the pledges will not be honoured (Figure 2.5). The OECD estimates the projected global shortfall at US$20 billion (2009 prices), with Africa accounting for US$16 billion of this gap (United Nations, 2010d).

Most donors have adopted national spending targets linked to the 2005 commitments. These commitments should be viewed as a stepping stone to achieving the aid target set by the United Nations – 0.7% of gross national income (GNI) – a target that has been exceeded by five countries (Figure 2.6). In the case of the EU, donors aim to reach a collective level of spending of 0.56% of GNI on aid, with a minimum country target of 0.51%. Several are likely to reach or surpass these targets, including the Netherlands, Sweden and the United Kingdom.

Other major EU donors, such as France and Germany, are unlikely to reach the EU targets (OECD-DAC, 2010b). Meanwhile, Italy, with an aid level of 0.16% of GNI, has effectively abandoned the commitments made at Gleneagles. Two of the world’s largest economies, Japan and the United States, have set aid levels for 2010 well below targets in the EU. Even then, Japan cut aid by 10% in 2009. A recent OECD-DAC peer review concluded that Japan needed to reverse recent declines in overall aid and make a greater effort to accelerate progress towards the more ambitious UN target of 0.7% of GNI (OECD-DAC, 2010e).

There are early indications that the financial crisis is weakening some donors’ commitment to the international

<table>
<thead>
<tr>
<th>Table 2.3: Aid to basic education has increased, but unevenly across regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total disbursements of aid to education and to basic education, by income group and region, 2002-2003, 2007 and 2008</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Total aid to education disbursements (US$ millions)</th>
<th>Total aid to basic education disbursements (US$ millions)</th>
<th>Aid to basic education per primary school-age child (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>7,257</td>
<td>11,697</td>
<td>11,410</td>
</tr>
<tr>
<td>Low income countries</td>
<td>2,308</td>
<td>3,002</td>
<td>3,662</td>
</tr>
<tr>
<td>Lower middle income countries</td>
<td>3,078</td>
<td>4,622</td>
<td>4,605</td>
</tr>
<tr>
<td>Upper middle income countries</td>
<td>1,094</td>
<td>1,618</td>
<td>1,822</td>
</tr>
<tr>
<td>High income countries</td>
<td>30</td>
<td>57</td>
<td>30</td>
</tr>
<tr>
<td>Unallocated by income</td>
<td>747</td>
<td>1,599</td>
<td>1,490</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>2,417</td>
<td>3,274</td>
<td>3,225</td>
</tr>
<tr>
<td>Arab States</td>
<td>1,102</td>
<td>1,742</td>
<td>1,607</td>
</tr>
<tr>
<td>Central Asia</td>
<td>112</td>
<td>200</td>
<td>250</td>
</tr>
<tr>
<td>East Asia and the Pacific</td>
<td>1,101</td>
<td>1,995</td>
<td>2,057</td>
</tr>
<tr>
<td>South and West Asia</td>
<td>835</td>
<td>1,463</td>
<td>1,326</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>562</td>
<td>794</td>
<td>870</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
<td>335</td>
<td>581</td>
<td>549</td>
</tr>
<tr>
<td>Overseas territories</td>
<td>255</td>
<td>379</td>
<td>402</td>
</tr>
<tr>
<td>Unallocated by region</td>
<td>539</td>
<td>1,272</td>
<td>1,123</td>
</tr>
</tbody>
</table>

Notes: All figures are in constant 2008 US$. Figures do not sum to world totals due to rounding errors.
Source: Annex, Aid Table 3.
While it is too early to provide a comprehensive audit, twelve OECD donors reduced their aid budgets in 2009. In the case of Italy, the reduction was very deep – by almost one-third, from an already low base (Figure 2.7). On a more positive note, several donors – France, the United Kingdom and the United States among them – increased aid spending. Uncertainties over future aid levels have worrying implications for financing in education and other areas. With many low income countries facing acute fiscal pressures, aid has a vital role to play in protecting basic service provision. The danger is that cuts in development assistance will slow progress or even trigger setbacks in human development as governments are forced to cut spending.

Aid to basic education

Recent aid data point in a worrying direction for the Education for All agenda. After five years of gradual increase, aid to basic education stagnated in 2008 (Figure 2.8). In the case of sub-Saharan Africa, the region with the largest Education for All financing gaps, disbursements fell by 4% between 2007 and 2008. Factoring in the growth of the school-age population, this translates into a 6% decline in aid per child. This outcome calls into question the level of donor commitment to the pledges made at Dakar in 2000. While aid commitments showed a slight rise in 2008, commitment levels often provide a weak guide to disbursements (Box 2.1).

The levelling-off of aid in one year does not necessarily signal a new trend, but it does reinforce three long-standing concerns over development assistance for education: a narrow base of major donors, the low weight attached to basic education and the level of the aid-financing gap. The narrow donor base is a source of potential instability in Education for All financing. In 2007-2008, 62% of basic education aid came from the six largest donors. An obvious corollary is that even small shifts in priority by one or two of these donors can have very large aggregate effects on aid flows. From 2007 to 2008, aid to basic education from the United Kingdom declined by 39% and from the Netherlands by 30%. Without countervailing increases from Spain and the United States overall disbursements to basic education would have fallen further. There is some logic to donors specializing in aid to particular sectors, since this can reduce transaction costs and strengthen impact (OECD-DAC, 2009a). But there is little evidence to suggest that major donors are coordinating their efforts in the light of global aid financing requirements for education.

1. The European Commission, the International Development Association, the Netherlands, Norway, the United Kingdom and the United States.
Expanding the pool of major donors would help contain these risks and address the twin challenges of increasing overall aid and reducing volatility. The entry of emerging donors could play a vital role in diversifying aid to education. While the data are patchy, best estimates suggest that these donors allocated US$11 billion to US$12 billion in aid in 2007–2008 (Smith et al., 2010). However, their spending on education has been limited and there is clearly scope for greater engagement.

The low share of basic education in overall aid to the sector contributes to the EFA financing gap. There are strong development grounds for donors to support education financing beyond the primary sector. As the 2010 EFA Global Monitoring Report argued, increased investment is required in lower secondary education as more children enter and progress through primary school. Indeed, many countries have adopted eight-year basic education cycles. There are also grounds for strengthening upper secondary and tertiary provision. No country can develop the skills base needed for sustained economic growth and human development through primary education alone. However, functioning education systems cannot be built on the foundations of chronically underfinanced basic education -- and donors vary widely in their efforts to build these foundations (Figure 2.9). Several major donors -- including the Netherlands, the United Kingdom and the
United States – direct over half their education aid budgets to the basic level. Others spend over 70% on the levels above basic education. Among the G8 donors, France, Germany and Japan fall into this category.

Given the scale of the financing gap in basic education, there is clearly a case for reconsidering current priorities in these countries. If all donors spent at least half of their aid to education at the basic level (the current average is 41%), they could mobilize an additional US$1.7 billion annually. Accounting practices also merit greater scrutiny. In the case of France and Germany, well over half of what is counted as aid to education takes the form of imputed costs for students studying in domestic institutions (Figure 2.9). Whatever the benefits of these programmes, this is a form of aid that does little to close the financing gap in basic education in the poorest countries. More generally, donor reporting systems often artificially inflate aid transfers by including spending that does not reach developing country budgets. Apart from imputed costs in the donor country, such spending can range from administrative fees to other expenditure over which nominal aid recipients have little control. The OECD has attempted to distinguish between core or programmable aid, which can be planned and used at the recipient country level, and aid flows that cannot. Applying that distinction to aid to education reveals that only US$5.8 billion of the US$9.1 billion disbursed by bilateral donors in 2008 was available to directly support the recruitment and training of teachers, purchasing of textbooks and building of schools (OECD-DAC, 2010c). Reconfiguring aid towards basic education and ensuring that aid transfers take the form of real financing flows would help close the EFA financing gaps.

The level of EFA financing gaps globally and within countries is influenced by allocation patterns at the global level. The gap between current aid to basic education of US$2 billion and overall EFA financing requirements of US$16 billion in low income countries, identified in the 2010 EFA Global Monitoring Report, reflects the size of the total aid budget and the share of basic education in that budget. The size of the deficit within countries

![Figure 2.9: Donors vary widely in their commitment to basic education](image-url)
reflects national financing and donor decisions about allocation of aid among recipients.

While many factors determine development assistance flows to individual countries, it is difficult to escape the conclusion that aid levels suffer from underfinancing and arbitrary allocation. Aid spending varies enormously across countries, with no obviously consistent link to an assessment of need. This is particularly evident in countries affected by conflict, where donor assistance often mirrors wider foreign policy objectives – an issue pursued in Chapter 3. There is no perfect formula for linking aid financing to need, but simple comparisons show that aid to basic education is all too often poorly targeted. South and West Asia and sub-Saharan Africa, the two regions with the largest out-of-school populations, received 35% and 17% of all aid to basic education, respectively, in 2008. But analysis for individual countries points to a large mismatch between estimated Education for All financing requirements and aid transfers (Figure 2.10).

‘Aid effectiveness’ has become a prominent feature of international aid dialogue. Donors have adopted principles aimed at aligning their efforts more closely with national priorities. Putting into practice these principles – outlined in the Paris Declaration on Aid Effectiveness of 2005 and the Accra Agenda for Action of 2008 – has proved difficult for many donors.

While there has been progress in some areas, many of the benchmarks will not be achieved. Donors have been particularly slow to use national public finance management and procurement systems, and they have a poor record in improving coordination. In 2007, less than half of aid was channelled through national public financial management systems (the 2010 target is 80%) and only one in five donor missions was coordinated (compared with a 2010 target of 40%). Efforts to improve aid predictability have also fallen far short of target levels (Table 2.4). In 2007, only 46% of aid scheduled for a given year was actually disbursed during that year. The limited progress in each of these areas has direct implications for the effectiveness of aid to education. To take an obvious example, volatile and unpredictable aid can make it difficult for ministries of finance and education to plan spending effectively in a given year. Similarly, failure to deliver aid through national budget and financial management systems can actively weaken national capacity.
Policy focus
Dealing with the aftershock of the financial crisis

In the wake of the 2008 financial crisis the global economic outlook remains uncertain, but prospects for achieving the Education for All goals in many of the world’s poorest countries have been badly damaged. Triggered by the banking systems of rich countries and the regulatory failures of their governments, the aftershock of the crisis is jeopardizing the education of some of the world’s poorest and most vulnerable children.

Unlike the global economic recovery, the efforts of parents to keep children in school are not viewed by the international media as headline news – but they should be. Poor households have demonstrated extraordinary resilience in keeping children in school in the face of growing hardship. Yet there are limits to resilience. With poverty and malnutrition rising, education budgets under growing pressure and the future level of international aid in question, there is a real danger that progress towards the Education for All goals will slow or stall in many poor countries.

Fiscal pressures on government budgets remain a source of concern for education financing. The International Monetary Fund (IMF), which is playing an expanded role in low income countries, maintains that most governments have been able to protect vital social sector budgets. That assessment may be premature and too optimistic. Moreover, it is based on the use of a questionable yardstick: the idea that not cutting budgets is a sufficient response. The more relevant question, and one that the IMF should more actively consider, is whether post-crisis government spending plans in education reflect pre-crisis commitments and, even more important, the financing needed to achieve the Education for All goals.

The central message to emerge from this section is that many of the world’s poorest countries are being forced either to cut education spending, or to maintain it at levels far below those required to achieve the Education for All goals. The upshot is that the external financing gap in education is widening. While the data are partial and preliminary, the warning signs for a deepening crisis in education financing are clearly evident. They are revealed in a survey of actual 2009 and planned 2010 spending for twenty-eight developing countries conducted for the EFA Global Monitoring Report.

- Of the eighteen low income countries covered in the survey, seven have made cuts and three have made no increases. The seven countries reporting budget cuts have 3.7 million children out of school.
- While plans point to a recovery in education spending during 2010, budget allocations for five low income countries were lower in 2010 than actual spending in 2008.
- Out of the ten lower middle income countries covered in the 2009 review, six reported budget allocations for 2010 that were lower than spending levels in 2009. Among them were Angola, Nicaragua and Nigeria.
- Looking ahead to 2015, planned fiscal adjustments in low income countries threaten to widen the Education for All financing deficit. In order to reach a set of targets adopted under the Dakar Framework for Action these countries need to increase spending on primary education by about 12% annually from 2010 to 2015. Current plans for overall public spending point to increases of just 6% a year to 2015. To achieve the Education for All goals, either spending on primary education has to increase at twice the average for overall public spending, or approaches to fiscal adjustment and spending commitments have to be revised.

The human consequences of fiscal pressure on education budgets should not be forgotten. Divergence between Education for All financing requirements and actual spending is not an abstract concept. It leads to teacher shortages, poor education quality, failure to get children into school and large socio-economic disparities in education.

With many countries having maintained spending over the past two years by increasing their budget deficits, more aid is needed to avoid potentially damaging adjustments. Unfortunately, fiscal pressure in donor countries is also putting aid budgets under pressure, reinforcing the case for recourse to innovative financing strategies. As this section argues, there are strong grounds for donors to consider a special bond issue aimed at providing an early increase in aid financing for education. This Report proposes an International Finance Facility for Education (IFFE) that could mobilize around US$3 billion to US$4 billion between 2011 and 2015.
The financial crisis and rising food prices: impact on education

In the period between the Dakar conference in 2000 and the onset of the financial crisis in 2008, strong economic growth and poverty reduction helped boost advances in education. Since 2008, however, economic slowdown, hikes in food prices and a deteriorating environment for reducing poverty have slowed progress. Millions of poor households have had to adjust to reduced income and higher food costs. While global food prices have fallen from the peaks reached in 2008 they are far higher than in the first half of the decade, and several dramatic price surges have occurred (World Bank, 2010c). The downturn has pushed people out of jobs or reduced the hours they work (Hossain et al., 2010; Turk and Mason, 2010).

The legacy of the financial crisis and higher food prices varies across countries and regions. It is clear, however, that many more people are living with poverty and hunger today than would have been the case if pre-crisis trends had continued. The most recent assessment indicates that the financial crisis left an additional 64 million people in extreme poverty and an additional 41 million people malnourished in 2009, compared with pre-crisis trends. The rise in global food prices in 2008 is also estimated to have increased malnutrition levels by 63 million (Tiwari and Zaman, 2010; World Bank and IMF, 2010). And global figures can obscure even more intensive local effects. For example, while international food price inflation eased in 2009, the price of the major food staples in Chad (sorghum) and the United Republic of Tanzania (maize) rose by over 20%. It is estimated that malnutrition rates in the United Republic of Tanzania increased as a result by 2%, or an additional 230,000 people (World Bank, 2010b).

It is not possible to capture the systemic effects of increased poverty and malnutrition on education. The most recent consolidated administrative data available are from before the crisis in 2008. Even as information for 2009 emerges, much of it will have been collected too early to register the effects on education. Moreover, the impact of increased poverty and higher food prices on indicators such as school attendance may be subject to time lags as households attempt to keep children in school by drawing on savings or borrowing. Other effects are impossible to capture in the short term. For example, rising malnutrition among children will have consequences not just for their health and school attendance, but also for their cognitive development and subsequent learning achievement.

Despite the data constraints, there is sufficient case-study evidence and wider analysis to cause concern in four key areas:

- **Greater stress on household budgets may be pushing children out of school.** Field research in 2009 documented cases of families being forced to take children out of school in Bangladesh, Kenya and Zambia (Hossain et al., 2009). In one community in Yemen, children were removed from school temporarily to earn income for their families, and because increases in food and fuel prices had pushed up school costs (Hossain et al., 2010). Workers in urban areas of Cambodia returned to rural areas, with the resulting loss in remittances hurting households’ ability to pay for education (Turk and Mason, 2010).

- **Before- and after-crisis comparisons point in a worrying direction.** A study extrapolating from past evidence on the connection between poverty, economic growth and school completion indicates that an additional 350,000 students could fail to complete primary school as a result of the crisis (World Bank and IMF, 2010). Most are likely to come from poor households.

- **Teacher motivation may have suffered as a result of real salary declines.** One recent analysis of primary school teacher salaries showed that in about a third of the countries reviewed, pay had declined substantially in real terms (UNICEF, 2010d). This has the potential to affect learning through increased teacher absenteeism and the charging of unofficial fees.

- **Increased poverty and malnutrition will undermine learning and participation in school.** Malnutrition prevents children from making full use of available education opportunities (Grantham-McGregor et al., 2007; Paxson and Schady, 2007; Macours et al., 2008; UNESCO, 2010a). A recent study in Guatemala found that the impact of being stunted by malnutrition at age 6 is equivalent in its test score effects to losing four years of schooling (Behrman et al., 2008). Cases of families buying less food have been reported in Jamaica, Kenya and Zambia, with parents expressing worries about the consequences for attendance and learning (Hossain et al., 2009).
Governments in many developing countries have introduced policies aimed at mitigating the impact of the economic slowdown. One response has been the expansion of social protection programmes. One such programme, Bolsa Família in Brazil, was extended from 11.1 million families in 2007 to 12.4 million in 2009, with the benefit payment being increased by 10% [ILO, 2010a]. In Bangladesh, the government strengthened the primary school stipend system for poor children and expanded the coverage of school feeding programmes [Hossain et al., 2010]. Cash transfer programmes have a number of advantages: they work, they are relatively low cost and they deliver results. Though the transfers are often very small, they can make a big difference to the poorest. And because the stipends are often linked to attendance at school, they create incentives that protect education.

School feeding has also been a key part of the international response to the financial crisis, notably through the World Bank’s Global Food Crisis Response Program and Crisis Response Window. In Kenya, a school feeding programme introduced in 2009, in the wake of the crisis, now covers 1.9 million children [World Bank, 2010a].

**Fiscal pressures are growing**

All countries have had to adjust to lower economic growth and domestic revenue, and greater demands on government budgets to protect vulnerable groups. Unlike rich countries, however, poor countries can draw on few financing options to counteract fiscal pressures, so losses of revenue associated with lower growth or a deteriorating trade environment can translate rapidly into reduced public spending or unsustainable fiscal deficits. Figure 2.11 provides an insight into the dramatic shift in the budgeting environment for the poorest countries. Until 2008, strong economic growth was accompanied by large annual increases in revenue collection. While low income countries as a group were running a fiscal deficit, higher levels of domestic resource mobilization, supplemented by aid flows, supported a sustained increase in expenditure. The education sector benefited: in real terms, education spending increased annually by 7% between 1999 and 2008 in low income countries (Table 2.1). Lower middle income countries also increased expenditure, with aid playing a limited role in relation to domestic spending.

Domestic revenue fell marginally in low income countries in 2009 but the decline was offset by aid, leading to a small increase in total revenue. Even so, the gap between expenditure and revenue is widening. The resulting budget pressures pose very direct threats to future education spending. Moreover, the average picture masks disparate national circumstances. Many poor countries have been hit hard by a combination of slower economic growth and reduced prices for commodity exports. In several countries, including Eritrea, the Niger, Madagascar and Yemen, revenue fell by more than 20% in 2009 [IMF, 2010f].

Collectively, low income countries have continued to increase public spending but at the expense of rising fiscal deficits. Here, too, averages hide differences across countries. Eritrea and Madagascar, for example, cut spending by over 20%.

Lower middle income countries experienced significant revenue losses, linked in many cases to reduced earnings from oil exports. Excluding India and China, revenue for these countries fell by 12% from 2008 to 2009 – an absolute drop of
US$93 billion in real terms and a substantial break with recent trends: total revenue had grown by about 8% annually in real terms since 2000. Public expenditure in these countries increased by only 2% in 2009, compared with an annual average rate of 7% from 2000 to 2008. Some countries with large out-of-school populations experienced large cuts in public spending. For example, Pakistan and the Sudan suffered spending cuts of 8% to 9% in 2009. Here too the widening gap between revenue and expenditure points to future pressure on government budgets.

Changes in total revenue since 2008 underestimate the full fiscal impact of the economic crisis. Many developing countries have had to adjust to extreme changes in the medium-term financing environment. If revenue levels had continued to increase at pre-crisis rates, they would have been 7% or US$18 billion higher in low income countries in 2009 and 2010 combined. Losses of projected revenue on this scale clearly have implications for the financing of education and other basic services.

**Education budgets – painful adjustments in prospect**

The 2010 Education for All Global Monitoring Report underlined the importance of tracking education budgets in developing countries to document the effects of the financial crisis. It also highlighted the poor state of real-time international reporting on government budget allocations for education, and on actual spending as against planned spending. There are other gaps. International agencies, including the IMF, the World Bank, UNICEF and UNESCO, do not report with any consistency on how budget allocations and spending relate to the Education for All targets and other international development goals. The reporting gap matters because it makes it difficult to track the potential impacts of fiscal adjustments for the financing of education goals.

Real time budget monitoring in education is difficult for a number of reasons. The time lag between reporting on budgeted expenditure and actual spending makes large-scale, cross-country comparison particularly challenging. However, research commissioned for the present Report sheds some light on how wider fiscal pressures are being transmitted through the public spending system to education budgets, and ultimately to schools, students and teachers (Kyrili and Martin, 2010). Because of data limitations, the survey is restricted to twenty-eight low and lower middle income countries (of which eighteen are low income).

The impact of fiscal pressures on education budgets is not uniform (Figure 2.12). Consistent with the general pattern of increased public spending in low income countries, eight of the eighteen countries in this group raised their spending on education from 2008 to 2009.

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**Figure 2.12: The impact of the financial crisis on education spending**

Real education spending index in selected low and lower middle income countries, 2008—2010

Notes: The base year value for the spending index is 100. Values above 100 represent increases in real education spending from base year levels and values below 100 show declines. For most countries, the base year is 2008; that for D.R. Congo, Nigeria, Sao Tome and Principe, and Timor-Leste is 2009.


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2. In most cases the data for 2008 and 2009 are based on actual or estimated spending while data for 2010 are budget data. See Kyrili and Martin (2010) for full details.
2008 to 2009. In Burkina Faso and Mozambique, the increase exceeded 10%, rising to over 20% in Afghanistan and Sierra Leone. Other experiences have been less positive, with potentially damaging consequences for the Education for All goals:

- Seven of the low income countries in the survey cut education spending in 2009. The cuts ranged from around 6% in Mauritania to over 15% in Chad, Guinea-Bissau and Viet Nam, and more than 20% in Ghana and Senegal.

- In five of these seven low income countries, planned spending for 2010 would leave the education budget below its 2008 level (Figure 2.12).

- While seven lower middle income countries maintained or increased spending in 2009, six of them planned cuts to their education budgets in 2010. In Nigeria, federal education spending will be lower in 2010 than in 2009 (Box 2.2).

Changes in government education spending capture only part of the threat to progress in education. The Niger, for example, has been making strong progress in recent years but grave food security problems in 2009 and 2010 have also contributed to a deteriorating environment for education (Box 2.3).

Not all budget cuts can be traced to the financial crisis. In Ghana, economic mismanagement by the previous government resulted in a fiscal crisis, though the country has not been immune to the effects of the economic slowdown. Ghana’s considerable achievements in education are now at risk (Box 2.4).

The picture that emerges from this review is very partial. Yet it underlines the need for more robust monitoring of education budgets. Collectively, the seven low income countries that have cut their budgets had 3.7 million children out of school in 2008. It appears likely that many other countries for which data are lacking face similar challenges. If that is the case, fiscal adjustments resulting from the financial crisis have clearly damaged prospects for getting all of the world’s children into school by 2015.

Given this backdrop, international agencies need to reconsider some of their approaches. In addition to providing the support countries need to avoid cuts in public spending, the IMF and the World Bank – along with agencies such as UNICEF and UNESCO – need to assess post-crisis spending plans in education and other priority sectors in the light of pre-crisis projections and the financing required to meet international development goals.

**Future fiscal consolidation could threaten progress in education**

Whatever the future direction of the global economy, it appears certain that prospects for reaching the Education for All goals in many of the world’s poorest countries will remain less favourable for the five years to 2015 than they have been over the past decade. The danger is that slower economic growth and fiscal adjustment will become self-reinforcing, with reduced spending undermining economic recovery, which in turn would limit revenue collection.

Fiscal adjustment is set to become the dominant theme in public finance. As a group, low and middle income countries are expected to reduce their fiscal deficits by an average of 1% of GDP between 2008 and 2009. Behind this average several countries already facing problems in education financing, including Angola, the Lao People’s Democratic Republic, Liberia, Malawi, Viet Nam and Yemen, plan to reduce their deficits by 5% of GDP or more from 2009 to 2011 (IMF, 2010f). While increased revenue collection may go some way towards reducing deficits, the burden of adjustment in many countries will fall on spending. Over half of the countries in sub-Saharan Africa plan to spend less as a share of GDP in 2012 than in 2009 (IMF, 2010f).
Those plans have ominous implications for education financing. While outcomes will depend on the pace of economic recovery, the slower projected growth in total spending in low income countries is likely to translate into reduced growth in education spending. This marks a significant departure from recent trends, and a threat to financing for the Education for All goals. From 1999 to 2008, real spending on education in low income countries increased by about 7% annually (Table 2.1). Although impressive, estimates suggest that primary education spending needs to increase by 12% annually to achieve universal primary education (EPDC and UNESCO, 2009). The IMF projects that total government spending will increase by only around 6% annually to 2015, or half the rate required to achieve universal primary education (IMF, 2010f). It follows that governments will either have to raise the share of spending allocated to education or face the prospect of fewer children in school.

There is scope for governments in many developing countries to give more weight to education in the adjustment process. About two-thirds of low income countries with data devote less than the international benchmark of 20% of the budget to education. The Niger allocated only 15% of its budget to education in 2008. Yet, given the scale of the fiscal adjustment in prospect, there are limits to what can be achieved by shifting revenue among sectors.

In low income countries with IMF programmes, conditions on concessional loans influence the design of fiscal adjustment policies and their impact on education (Table 2.5). Some conditions are aimed at maintaining vital services by setting indicative targets for protecting social spending, though the definition of what this entails is frequently unclear and the criteria for protecting education are uncertain (Ortiz et al., 2010). Other aspects of IMF loan agreements can have intended or unintended consequences that pull in the other direction. For example, recent IMF agreements in Benin, Burkina

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**Box 2.3: In the Niger, the food and financial crises have undermined progress**

Rising malnutrition and cuts in education spending threaten to undermine progress towards universal primary education in the Niger. Food price rises in 2008 coupled with a bad harvest in 2009 have worsened an already parlous situation. Surveys in mid-2010 found that about half the population lacked the means to secure adequate nutrition, and that the rate of acute malnutrition had increased from 12% in 2009 to 17% in 2010.

Despite recent progress, the Niger is a long way off track for achieving the Education for All goals. Getting on track, and ensuring that the country’s 1.1 million out-of-school children obtain an education requires strong policies backed by increased finance. To achieve the goals, the Niger needs to increase spending on primary education by about 11% annually to 2015. This appears a distant prospect in the wake of the financial crisis. Government revenue fell from 18% of GDP in 2008 to 15% in 2009. Cuts to the education budget were also large, and spending in 2010 is set to remain 16% below 2008 levels.

Sources: IMF (2010f); Kyrili and Martin (2010); WFP (2010); Annex, Statistical Table 5.

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**Box 2.4: Fiscal consolidation threatens continued progress in Ghana**

From 1999 to 2008, stronger policies backed by increased public spending helped lower the number of children out of school in Ghana by 400,000 and increase the net enrolment ratio in primary school from 60% to 77%. In 2008, a rising fiscal deficit and the economic slowdown triggered a crisis in public finance that now threatens to reverse these gains.

Under an IMF programme, Ghana has embarked on a drastic course of fiscal adjustment. Overall spending was cut by 8% in real terms in 2009, but cuts have been far deeper in education. The education budget was cut by around 30%, and basic education spending fell by 18%, equivalent to the cost of schooling 653,000 children.

Planned education spending rose in 2010 but remained below 2008 levels, and it is unclear whether the budget allocation will be delivered in full. Ghana’s agreement with the IMF calls for continued reductions in the fiscal deficit, and further cuts in total government spending are projected for 2011. There are safeguards for social sector spending and plans to increase school grants and provision of free textbooks, but it is too early to know whether these commitments will be met.

Ghana’s experience underlines the limitations of focusing solely on whether education budgets are cut. From an Education for All perspective, what counts is alignment of financing with policies aimed at removing bottlenecks to universal primary education and other goals. Estimates made for this Report indicate that primary education spending needs to increase by 9% annually if universal primary education is to be achieved by 2015. With annual growth in government expenditure projected at only 4% in the next five years, it appears unlikely that the 2015 targets will be met without increased aid.

Sources: Annex, Statistical Table 5; EPDC and UNESCO (2009); IMF (2010f); Kyrili and Martin (2010); Yang et al. (2010).
**CHAPTER 2**

**PART 1. MONITORING PROGRESS TOWARDS THE EFA GOALS**

**Table 2.5: Fiscal deficit reduction targets have the potential to reduce government spending on education in some countries**

<table>
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</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>Yes</td>
<td>9.8</td>
<td>5.5</td>
<td>Mostly through reduced spending</td>
<td>Yes</td>
<td>Cut</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Yes</td>
<td>4.9</td>
<td>2.5</td>
<td>Revenue improvements and reduced spending</td>
<td>No</td>
<td>n/a</td>
</tr>
<tr>
<td>Niger</td>
<td>Yes</td>
<td>5.3</td>
<td>1.9</td>
<td>Revenue improvements and reduced spending</td>
<td>Yes</td>
<td>Cut</td>
</tr>
<tr>
<td>Malawi</td>
<td>Yes</td>
<td>5.4</td>
<td>0.7</td>
<td>Revenue improvements and increased grants</td>
<td>Yes</td>
<td>n/a</td>
</tr>
<tr>
<td>Mauritania</td>
<td>Yes</td>
<td>5.9</td>
<td>3.8</td>
<td>Reduced spending</td>
<td>Yes</td>
<td>Cut</td>
</tr>
<tr>
<td>Yemen</td>
<td>Yes</td>
<td>10.2</td>
<td>4.7</td>
<td>Reduced spending</td>
<td>No</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Note: n/a: not available.
Sources: IMF (2010f); latest available IMF Article IV country reviews.

Faso, Côte d’Ivoire and the Democratic Republic of the Congo have included recommended ceilings on the public-sector wage bill. Given that teachers’ salaries are typically the single biggest part of that bill in low income countries, the level of such targets has implications for teacher recruitment, remuneration and morale. The IMF does not conduct publicly available assessments of the potential impact of proposed wage-bill caps for education, illustrating a wider failure to assess the implications of fiscal adjustment for the Education for All goals.

The challenges posed by fiscal adjustment confront policy-makers with difficult choices. Unsustainable fiscal deficits pose large economic risks for growth and public service financing. But stabilizing public finances at the cost of setbacks in areas such as health, education and poverty reduction is a threat to future economic growth. Many IMF programmes offer little or no assessment of how fiscal targets might affect progress towards the Millennium Development Goal on universal primary education and the wider Education for All goals. This gap between current approaches to fiscal adjustment and international cooperation on education and other development goals needs to be closed.

**Delivering on aid commitments is an urgent priority**

With the poorest developing countries facing acute fiscal pressures, uncertain recovery prospects and a rising financing gap for the Education for All goals, international aid has taken on even greater importance. Unfortunately, current aid trends pose a threat to financing for all international development targets. Donors are not holding to their commitments to increase aid – and the commitments fall short of the financing levels required in education.

International aid stagnated in 2009 and the latest OECD survey of donor spending plans points to a shortfall of about US$20 billion in 2010, compared with the commitments made at the Gleneagles Summit in 2005. Prospects for sub-Saharan Africa are particularly worrying. Although aid to the region has risen on average by about 17% a year since 2002, almost a third of this aid has been in the form of debt relief (which does not automatically generate additional budget resources). Meeting the target for the region set in 2005 would have required a doubling of aid by 2010. Planned allocations indicate that target will be missed by US$16 billion [United Nations, 2010d; OECD-DAC, 2010c].

This bleak picture looks even worse when estimates for programmable aid are taken into account. Programmable aid is more predictable than other development assistance flows (such as debt relief and humanitarian support) and can be planned for in government budgets – a critical factor in education planning. It currently accounts for around two-thirds of total aid flows. After a strong increase over the period to 2008, donor spending plans show only small increases between 2009 and 2011, with programmable aid reaching a plateau in the latter year [Figure 2.13].

With donor countries facing fiscal pressures of their own, the gulf between commitments and aid delivered could widen. Past banking crises in donor

The IMF projects that government spending will increase by only half the rate required to achieve UPE

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countries have reduced aid by 20% to 25% from levels expected before the crises (Dang et al., 2009). This provides a reminder of the political vulnerability of aid budgets in an economic downturn.

Aid spending plans do not point in the direction of cuts on this scale, but there is no room for complacency. Some major donors have maintained a strong commitment to aid in the face of deep cuts in public spending in other areas (Table 2.6). In the United Kingdom, where the aid budget is set to reach 0.7% of GNI by 2013, the new government is adhering to aid spending plans set by its predecessor, despite the deepest cuts in public spending since the Second World War (Institute for Fiscal Studies, 2010). Spending plans in other G8 donor countries, including France, Germany and the United States, indicate either an increase in 2009 or a recovery in 2010. Australia has also announced a doubling of its aid budget with US$5 billion earmarked for education between 2010 and 2015 (Rudd, 2010). However, projections for several other countries point to deep cuts in aid and, even in countries with more positive projections, a worsening of the fiscal environment could still result in cuts. The more disconcerting conclusion to be drawn from the country-level analysis in Table 2.6 is that many donors, whatever their public statements to the contrary, appear to have implicitly abandoned the pledges they made in 2005.

Governments need to consider carefully the implications both of cutting aid and of failing to honour their pledges. Development assistance budgets do not have powerful domestic constituencies and vested interest groups to defend them. But aid is typically only 1% to 2% of overall public spending, and any savings that might be associated with reneging on commitments to poor countries will be limited. Above all, though, donor governments have to recognize that shortfalls in aid will compromise efforts to cut child and maternal deaths, get children into school and reduce poverty. In this context, it is important that donors:

- Establish rolling indicative timetables in the first half of 2011 setting out how they aim to make up for any shortfall against their aid commitment targets. These plans should be submitted to the OECD Development Assistance Committee before the 2011 G8 summit.
- Ensure early delivery on their commitments to Africa in order to close the US$16 billion aid shortfall in relation to pledges made for 2010.

<table>
<thead>
<tr>
<th>2009 preliminary</th>
<th>2010 projections</th>
<th>DAC bilateral donors</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>+ Ireland: -18.9% in 2009 and expected -5.8% in 2010</td>
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<tr>
<td></td>
<td></td>
<td>+ Greece: -12% in 2009 and uncertainty post 2010</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+ Canada: -9.5% in 2009 and freeze at 2010/11 level for the next five years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+ Spain: -1.2% in 2009 and €600 million cuts announced for 2010/11</td>
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<tr>
<td></td>
<td></td>
<td>+ Austria: -31.2% in 2009 but expected +25.5% in 2010</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+ Italy: -31.1% in 2009 but expected +28.9% in 2010</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+ Portugal: -15.7% in 2009 but expected +49.7% in 2010</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+ Germany: -12.0% in 2009 but expected +15.5% in 2010</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+ Netherlands: -4.5% in 2009 and planned freeze on ODA as % of GNI</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+ New Zealand: -3.2% in 2009 but expected +12.9% in 2010</td>
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<tr>
<td></td>
<td></td>
<td>+ Australia: -1.4% in 2009 but expected +14.3% in 2010</td>
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<td></td>
<td></td>
<td>+ Norway: +17.3% in 2009 but expected -4.4% in 2010</td>
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<td></td>
<td></td>
<td>+ Sweden: +7.4% in 2009 but expected -7.8% in 2010</td>
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<td></td>
<td></td>
<td>+ United States: +5.5% in 2009 but expected -2.2% in 2010</td>
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<td></td>
<td></td>
<td>+ France: +16.9% in 2009 and expected +1.2% in 2010</td>
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<td></td>
<td></td>
<td>+ United Kingdom: +14.6% in 2009 and expected +18% in 2010</td>
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<tr>
<td></td>
<td></td>
<td>+ Finland: +13.1% in 2009 and expected +4.9% in 2010</td>
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<tr>
<td></td>
<td></td>
<td>+ Belgium: +11.5% in 2009 and expected +28.7% in 2010</td>
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<td></td>
<td></td>
<td>+ Switzerland: +11.5% in 2009 and +0.4% in 2010</td>
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<td></td>
<td></td>
<td>+ Denmark: +4.2% in 2009 and expected +1.4% in 2010</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+ Luxembourg: +1.9% in 2009 and expected +0.9% in 2010</td>
</tr>
</tbody>
</table>

Sources: Development Initiatives (2010); OECD-DAC (2010a).

Figure 2.13: Programmable aid is set to reach a plateau in 2011
Actual country programmable aid, 2005-2009, and projections for 2010-2012

- Initiate wider measures to strengthen the effectiveness of aid. Uniting the 10% of aid that is still tied to donor services would help increase value for money. Allowing governments to make their own procurement decisions could increase the value of aid by 15% to 30%. And addressing problems of volatility and unpredictability in aid delivery could add another 8% to 20% in value for money (Carlsson et al., 2009).
Implications for basic education

With programmable aid projected to stagnate, only a redistribution in favour of education will close the Education for All financing gap. Donors could either shift aid budgets in favour of basic education or increase the share of education in overall aid. While there is scope for action in both areas, there is little sign of a significant shift in donor priorities.

Attaching more weight to basic education could do a great deal to increase development assistance. Several donors, including France, Germany and Japan, direct the bulk of their education aid towards higher education. Moreover, much of the associated expenditure goes to domestic institutions and scholarships (Figure 2.9). The value of that expenditure for the Education for All goals is very much open to question (UNESCO, 2008). If France and Germany transferred the resources currently allocated to foreign university students in their institutions at home to the basic school systems of developing countries, they would mobilize an additional US$1.8 billion a year. Neither country has indicated an intent to move in this direction and Japan also appears likely to retain its focus on higher levels of education.

Wider prospects for a broader aid redistribution in favour of basic education do not appear promising. Political priorities within the G8 have shifted strongly in favour of other Millennium Development Goals. The declaration of the G8 summit held in Muskoka, Canada, in June 2010 included commitments on improving maternal and child health, with food security and environmental sustainability identified as additional priorities (Group of Eight, 2010). There were no comparable commitments made on education. Similarly, the main headline to emerge from the UN Millennium Development Goals Summit in September 2010 was a $40 billion commitment to child and maternal health. Such neglect of education is short-sighted and self-defeating.

While the case for focusing on child survival and maternal health is self-evident, the mentality that leads donors to neglect education in favour of narrowly defined health interventions threatens to hold back progress in both health and education. Accelerated progress in education would provide a powerful impetus towards poverty reduction, higher levels of economic growth and improved nutrition. Moreover, maternal education is one of the most powerful catalysts for improving child and maternal health (see Chapter 1, goal 1).

Innovative financing for education

With constraints on donor budgets tightening, some commentators argue that innovative financing could step into the breach and mobilize considerable resources by tapping into commercial markets and other sources (Girishankar, 2009). Does the argument hold?

There is certainly a case for focusing more strongly on innovative financing (Burnett and Bermingham, 2010; UNESCO, 2010a). While global health partnerships have drawn on a range of innovative financing sources, education has been largely bypassed. Over and above the lost opportunities for generating new sources of revenue, education has also suffered from low political visibility. There is no equivalent to the global health funds that have put diseases like HIV and AIDS and malaria on the international agenda. For all these reasons, agencies working to achieve the Education for All goals should attach more weight to research and advocacy on international financing.

By the same token, innovative financing is not the ‘magic bullet’ solution to the Education for All financing crisis that it is sometimes held up to be – and three important caveats have to be attached to the more far-reaching claims that have been made. First, there is no plausible financial or political scenario in which innovative financing will eliminate the Education for All financing gap by 2015. Second, the largest gains for education would be unlocked only through a wider strategy linking levies on financial markets to broad-based financing for the Millennium Development Goals. Third, while there is scope for education-specific innovative financing, the returns could be far lower than expected unless backed by bold political leadership.

Recent analytical work has identified a range of options for innovative financing in education:

Financial market levies

The role of the financial sector in the economic crisis has prompted several governments to call for taxes on banks to cover the costs of the financial cleanup. Some, including France and Germany, have argued that part of the revenue from such taxes could fund development aid. Proposals have ranged from levies on financial transactions to taxes on bank profits and liabilities (European Commission, 2010; IMF, 2010a). One approach favours a small levy on currency transactions. A levy set at 0.005% could mobilize around US$34 billion a year (Leading Group, 2010).
Dealing with the aftermath of the financial crisis

Others argue for a comprehensive financial transaction tax that could mobilize up to US$400 billion a year (Robin Hood Tax Campaign, 2010). The case for linking global financial levies to the Millennium Development Goals has an intuitive appeal. Poor countries have been badly affected by a crisis for which they bear no responsibility and there is a natural justice argument to be made for those who caused the crisis to bear the cost of compensation. That argument is strengthened by the wealth of actors who engineered the crisis. The estimated US$20 billion that Wall Street bankers collected in bonuses in 2009 was more than the world’s forty-six poorest countries spent on basic education (EPDC and UNESCO, 2009; Sachs, 2010).

Positives. A proportion of the receipts from a global financial levy would make a major dent in the Education for All financing gap. For example, 10% of the proposed currency transaction tax would equal US$3.4 billion, or 21% of the financing gap in low-income countries. Advocacy efforts by a large coalition of non-government organizations are working to build public support.3 There is gathering popular and political momentum behind the case for a financial levy, though advocates are divided on the merits of the various proposals.

Strategic concerns. While many governments support such taxes, there is little agreement on approaches or on the share of revenue that might be directed to international development (European Commission, 2010; IMF, 2010b). Most OECD governments see the primary purpose of financial levies as financing recovery of the cost of underwriting bank debts or building up insurance funds to avert future crises. There are also differences over whether to focus on a narrow currency transaction levy, or a wider levy on financial market transactions.

Broad conclusions. Agencies concerned with Education for All should support the wider advocacy effort in favour of financial levies, while outlining specific demands for education within the framework of the Millennium Development Goals.

Front-loading support: an international financing facility for education

The International Finance Facility for Immunisation (IFFIm) is a financing model that has direct relevance for education. IFFIm financing has mobilized support for the Global Alliance for Vaccines Initiative (GAVI), which has supported the scaling-up of immunization programmes in developing countries. Donor governments issue IFFIm bonds, which provide an immediate source of revenue for immediate spending on vaccination; they then make repayments from their aid budgets to the bondholders over a much longer period. The rationale for ‘front-loading’ revenue mobilization in this way is simple and compelling: children who are not immunized need vaccines today to reduce the risks posed by life-threatening infectious diseases.

The same logic holds in education. For the 67 million children who are out of school, investments are needed now, not just to build classrooms but to recruit and train teachers and to finance provision of textbooks and other teaching materials. Governments in many of the poorest countries cannot finance either the capital costs of school construction or the recurrent costs of paying teachers – hence the US$16 billion Education for All financing gap. That gap could be narrowed by a facility analogous to the IFFIm. Operating through an International Financing Facility for Education (IFFE), donors could issue bonds to finance a scaling up of international aid, front-loading their support to achieve targets set for 2015.

Positives. An International Financing Facility for Education (IFFE) could mobilize considerable sums: the IFFIm has made US$2.7 billion immediately available to the GAVI Alliance’s immunization programmes since 2006 (IFFIm, 2010). Although education lacks a mechanism for delivering front-loaded support, the reformed Fast Track Initiative (FTI) could fill the gap. Front-loaded aid disbursed partly through the FTI or national pooled funds (see Chapter 5) could also help reduce the dependence of conflict-affected countries on unpredictable, short-term humanitarian aid flows (see Part 2 of this Report).

Strategic concerns. Some analysts maintain that the IFFIm has higher administrative costs than multilateral banks that borrow on a larger scale. In addition, there have been difficulties in securing legally binding commitments from donors, in part because bond issues create debt liabilities for future governments (IAVI, 2009). In the current fiscal climate, donors may be loath to add to government debt. Moreover, if future aid budgets shrink, repayments on bonds will limit future development assistance flows. There are also questions as to whether the FTI could allocate and disburse funds at the required rate, though performance is improving.

3 For example, the Robin Hood Tax Campaign (www.robinhoottax.org.uk) has mobilized NGOs in the United Kingdom and other countries in favour of taxing financial transactions.
Donor governments should issue IFFE bonds of US$3 billion to US$4 billion between 2011 and 2015.

Box 2.5: A mobile phone levy for education

The mobile phone industry is a potentially promising source of innovative financing for education. The economic scale, the small number of providers involved, and the billions of daily transactions carried out by customers lend themselves to a range of possible approaches. Potential revenue would reflect policy design, including decisions over whether to adopt a mandatory or voluntary levy.

Table 2.7: Voluntary levy, selected large phone companies

<table>
<thead>
<tr>
<th>Phone company</th>
<th>Number of mobile subscribers</th>
<th>Revenue from mobile subscriptions</th>
<th>Revenue raised from a 0.5% levy</th>
<th>Monthly cost per user</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vodafone (UK)</td>
<td>263,500,000</td>
<td>70,000</td>
<td>18</td>
<td>70</td>
</tr>
<tr>
<td>Deutsche Telekom</td>
<td>119,600,000</td>
<td>47,534</td>
<td>12</td>
<td>48</td>
</tr>
<tr>
<td>Verizon (US)</td>
<td>65,700,000</td>
<td>43,882</td>
<td>11</td>
<td>44</td>
</tr>
<tr>
<td>KDDI (Japan)</td>
<td>30,339,000</td>
<td>24,311</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>France Telecom</td>
<td>109,700,000</td>
<td>10,342</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Telekom Italia</td>
<td>67,611,000</td>
<td>20,427</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Top 10 companies</td>
<td>903,708,869</td>
<td>345,076</td>
<td>86</td>
<td>345</td>
</tr>
</tbody>
</table>

Note: All figures are in constant 2007 US$.

Levies on consumer goods and services

Although the innovative financing field is crowded, there is scope for testing new approaches (Burnett and Bermingham, 2010). The mobile phone industry presents an opportunity for resource mobilization through levies on consumer goods and services because it is characterized by three conditions conducive to innovative financing: many users, large turnover and few corporate gatekeepers (Box 2.5).

Positives. Consumer levies could generate multiple benefits for the Education for All agenda. Apart from raising revenue, they communicate messages, engage with the public and involve the private sector. For example, while the (Product) RED initiative has generated small amounts of revenue for the Global Fund to fight AIDS, Tuberculosis and Malaria, it has engaged large numbers of people.

Strategic concerns. Many high-profile initiatives generate limited amounts of finance. For example, in the 2011–2013 replenishment of the Global Fund, innovative finance represents just 2% of resources. Even a widely publicized UNITAID programme.

Broad conclusions: An IFFE could deliver rapid results in many of the poorest countries, enabling governments to overcome financing bottlenecks. Children cannot afford to wait until tomorrow for immunization against life-threatening diseases and they cannot afford to wait for an education that will enable them to realize their potential, escape poverty, and participate in the social and economic life of their countries. For donors struggling to meet their aid commitments, a bond issue is a way to mobilize new resources in a difficult fiscal environment. Donor governments should coordinate to issue IFFE bonds amounting to an additional US$3 billion to US$4 billion between 2011 and 2015. Around half the revenue should be channeled through the FTI, subject to stringent performance criteria on disbursement. The 2011 G8 and G20 summits provide an opportunity to develop an IFFE proposal as part of a wider global strategy to accelerate progress towards the Education for All goals.
generated just US$274 million in 2009, with around 70% coming from a mandatory levy on airline tickets (UNITAID, 2009). Voluntary initiatives have produced even more modest results. Since 2006, Product (RED) has mobilized about US$150 million (IRED, 2010). Placing these figures against the US$16 billion Education for All financing gap graphically illustrates the differential between revenue generation and resource requirements.

Broad conclusions. The Education for All agenda would benefit from the development of viable new proposals for innovative financing. Agencies involved should draw up a menu of options (Burnett and Bermingham, 2010). However, this should not detract from the more important task of securing a stronger presence for education in the wider debate on innovative financing for the Millennium Development Goals.

In the final analysis, innovative financing should be assessed in terms of the value it can add to the Education for All financing portfolio and as a complement to, rather than a substitute for, official aid. Innovative financing harnessed to an effective multilateral delivery mechanism that builds capacity for education planning and delivery could make a significant difference. This is a role that the reformed FTI could play, with the G8 and G20 being far more active in providing political leadership.

Conclusion

The concerns identified in this section raise fundamental questions about the viability of the Education for All agenda under current financing scenarios. Even before the global economic crisis, the Education for All financing gap in many of the poorest countries had reached a worrying scale. In the wake of the crisis, slower economic growth and reduced revenue collection are constraining countries’ efforts to finance Education for All. International aid could help reduce the constraints and sustain progress, but donors have failed to step up to the plate. Although innovative financing offers new opportunities, it is no substitute for a concerted effort by donors to live up to their aid commitments.

International aid could help reduce the constraints and sustain progress, but donors have failed to step up to the plate.

The small number of companies dominating the market would minimize the administrative costs of the levy and limit the scope for evasion. From an Education for All financing perspective, the main attraction of a mandatory levy is that significant revenue streams could be mobilized. Imposing a 0.5% tax in France, Germany or Italy could raise more than US$100 million a year, while an EU-wide levy could raise US$894 million.

A mandatory levy would require complex political negotiations, but there are two strong reasons for EU governments and the European Commission to consider such an approach. First, the revenue could give a powerful impetus to progress in education at a time when many of the world’s poorest countries are facing acute budget pressures.

Second, EU member states collectively need to step up their development finance efforts. Having pledged to increase aid to US$78 billion in 2010, the EU is projected to deliver only US$64 billion. Although innovative financing should not be seen as a substitute for aid, in this case it could be seen as a part of a down payment while governments mobilize additional resources.

Sources: OECD-DAC (2010b); OECD (2009e).

Table 2.8: Mandatory levy, all users from all phone companies

<table>
<thead>
<tr>
<th></th>
<th>Revenue from mobile subscriptions US$ millions</th>
<th>Revenue raised from a 0.5% levy US$ millions</th>
<th>Monthly cost per user US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-wide</td>
<td>178 846</td>
<td>884</td>
<td>0.16</td>
</tr>
<tr>
<td>France</td>
<td>24 408</td>
<td>122</td>
<td>0.19</td>
</tr>
<tr>
<td>Germany</td>
<td>30 274</td>
<td>151</td>
<td>0.13</td>
</tr>
<tr>
<td>Italy</td>
<td>25 510</td>
<td>128</td>
<td>0.12</td>
</tr>
<tr>
<td>Japan</td>
<td>95 804</td>
<td>479</td>
<td>0.37</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5 790</td>
<td>29</td>
<td>0.13</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>30 243</td>
<td>151</td>
<td>0.17</td>
</tr>
<tr>
<td>United States</td>
<td>123 841</td>
<td>619</td>
<td>0.20</td>
</tr>
</tbody>
</table>

Note: Figures in both tables are in constant 2007 US$. EU refers to the 20 countries that are members of both the OECD and the European Union.