Fast Track Initiative
A global partnership to achieve Education For All

THE EFA-FTI MODALITY
GUIDELINES
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Prepared by the FTI Secretariat

Abbreviations and Acronyms

CF	Catalytic Fund
CFC	Catalytic Fund Committee
DAC	Development Assistance Committee (part of OECD)
DfID	Department for International Development (British)
DPO	Development Policy Operation (WB's budget support framework)
EC	European Commission
EFA	Education for All
ESP	Education Sector Plan
FM	Financial Management
FTI	Fast Track Initiative
GBS	General Budget Support
MTEF	Medium-Term Expenditure Framework
MoU	Memorandum of Understanding
PFM	Public Finance Management
PRSC	Poverty Reduction Support Credit
SBS	Sector Budget Support
SE	Supervising Entity
SWAp	Sector Wide Approach
WB	World Bank

Analytical Tools

International Tools

PEFA Public Expenditure and Financial Accountability, is a set of high-level indicators that draw on international standards, and provides a PFM performance report that enables the indicators to be read and understood in context. PEFA is a partnership of development agencies that is working to harmonize donors' PFM analytical approaches. Reports are often made jointly among donors and with the Government.

World Bank initiated Tools

CFAA Country Financial Accountability Assessment, is the key diagnostic tool to describe the financial accountability arrangements in countries' public and private sectors with the objective of strengthening these environments.

CPAR Country Procurement Assessment Report, is the main instrument for analyzing a country's present procurement policies, organization, and procedures.

CSR Country Status Report, assists the country in identifying the priorities for education policy and presenting options in order to assist the Government in developing its education strategy.

PER Public Expenditure Review, analyzes and projects tax revenue, determines the level and composition of public spending, assesses intersectoral and intrasectoral allocations and reviews public enterprises, the structure of governance, and the functioning of public institutions. .

Definitions

Alignment. Aid is aligned if it supports country-owned national and sector policies, and if it is delivered while using country systems for fiduciary management, for results monitoring, and for implementation.

Development Policy Operation (DPO). This is the World Bank's (WB) term for budget support. DPOs replaced adjustment lending as the WB's financing instrument to provide quick-disbursing resources to Governments. DPOs provide untied donor resources directly through the Government's budget normally via Treasury in Ministry of Finance, using the Government's own financial management, procurement, auditing, and implementation processes and systems, and are based on a set of policy or institutional reforms to be fulfilled *ex ante* (conditionality if designed as a single tranche operation, and prior actions if designed as a multiple tranche operation). A DPO focusing on a particular sector is possible, but it is not possible to use any earmarking.

Harmonization. Harmonization is the adoption of simple and transparent common arrangements and common procedures among donors. Harmonization is measured in the Paris Declaration indicators, among others, as a factor of how much aid is program-based and, to which extent, missions are conducted jointly and analyses are shared.

Local Education Group. This includes the Government, CSOs, and the local donor group working together with an agreed division of labor at the country level to appraise, endorse, monitor, and evaluate the Education Sector Plan. The Government is responsible for developing and implementing the ESP. The architecture, the specific composition, title, and working arrangements of the group will vary from country to country.

Modality/Instrument. The terms used for specific financing arrangements agreed between donor and recipient country. The modality is the broad characteristic of the financing arrangements that will be translated into a specific instrument based on the responsible donor's particular regulatory framework for modalities. The term "modality" is often used by bilateral donors whereas the multilateral banks use the term "instrument".

Mutual Accountability. This refers to when donors and partner governments are not only accountable to their respective public for the use of resources to achieve development results, but are also accountable to each other for better management of aid.

Pooled Funding. In this guide, pooled funding is considered to be the same as basket funding. It is a coordinated and joint funding by a number of development partners and the Government of all publicly-financed sectoral activities or a sub-set of these activities. The procedures governing the pooled funding are common to all participating development partners and Government funding, however not necessarily fully aligned with the national public expenditure management rules and procedures. Pooled funding is a form of program funding normally associated with a Sector Wide Approach (SWAp) although a SWAp could also be implemented through budget support or project support. To guide the partnership participating in the pool, a MoU is agreed.

Poverty Reduction Support Credit (PRSC). This is the World Bank's programmatic approach to budget support in low-income countries that is tied to the country's medium-term Poverty Reduction Strategy, or similar strategy, and typically consists of a series of three or four single-tranche operations.

Project Funding. These are individual development interventions with specific objectives and implementation schedules, often, but not always, within an agreed national framework. For the WB, this is called Specific Investment Lending; DfID uses the term “stand alone project” while the EC uses the term “EC project procedures.”

Sector Budget Support. This is a financial contribution to a country’s national budget channeled into the general treasury account co-funding the national budget. The support is not earmarked and it fully uses the national public expenditure management rules and procedures. The performance and policy dialogue for sector budget support focuses on sector-specific issues rather than on overall budget priorities.

Sector Program. This is a general term that refers to a comprehensive program to implement a specific sector/thematic strategy (e.g., in education or environment). Sector programs are country-derived and rely on a single budgetary framework. Sector programs can use the three modalities described in this note: sector budget support, pooled funding, and project funding.

Sector-wide approach (SWAp). This is an approach looking at a sector as a whole, which supports the implementation of a sector strategy while incorporating all stakeholders, and which is based on a single budgetary framework. A SWAp can involve the financing of a specific sector through various financing modalities, including budget support, pooled funding, and project funding.

Supervising Entity (SE). This is the entity responsible for supervising the activities financed under a Catalytic Fund (CF) grant agreement between the SE and the recipient Government.

Background

FTI strongly supports the aid effectiveness agenda as an integral part of the Education for All objectives. The Education for All-Fast Track Initiative (EFA-FTI) aims at achieving universal primary school completion for boys and girls by 2015. This is achieved by developing and implementing better plans with increased domestic resources, but also through delivering aid for primary education in a more effective and efficient way. The Paris Declaration on Aid Effectiveness (2005) provides development partners with principles and indicators to make aid effective through strengthening country-ownership, harmonization, alignment, managing for results, and mutual accountability. The Accra Action Agenda from September 2008 has reinforced the urgency of those messages.

The FTI framework details this support for the aid effectiveness agenda. The guiding principles in the FTI framework are informed by the Rome High-Level Forum on Harmonization in 2003 and are in line with the Paris Declaration: country-ownership, benchmarking, support linked to performance, lower transaction costs, and transparency.

The analysis of ongoing Catalytic Fund (CF) grant operations made as of April 2008 showed that a mixture of instruments is used, but the use of country systems is limited. The move towards use of more aligned instruments relying on country systems has not been strong. Use of country systems in financial management and procurement has been limited to a few countries like Kenya and Rwanda, while other countries have used elements of country systems. The main reason for the low figures is probably that the majority of CF operations have replicated implementation arrangements for existing WB-funded education projects.

1. What is the purpose of the guide?

The purpose of this guide is to assist Local Education Groups in deciding on the most suitable modality supporting the objectives of the Education Sector Plan, and to support the decision-making process regarding choice of SE. It is intended to inform the choice of modality for the CF and enable a more focused discussion in the Local Education Group on other donors' use of modality, potentially improving aid effectiveness behavior more broadly. The modality choice should aim at increasing the sector's aid effectiveness while taking the sector and country context into account. The guidelines need to be read together with the FTI Appraisal Guidelines and the EFA-FTI Process guidelines and Process Chart. These guidelines emphasize the importance of making modality decisions as early as possible in the FTI process. The modality guidelines define the available modalities, and provide recommendations on the process to reach a modality decision that will eventually support the developmental objectives of the education sector. The guidelines also describe the analytic underpinning needed, and explain how aid effectiveness can be improved.

An aid effective modality is one that is closely linked to the use of country systems for implementation, financial management, procurement and monitoring. The progress noted by the Accra preparation, as of the end of 2007, toward the greater use of country systems for financial management and procurement has been extremely modest.[1] With the current trend, the 2010 targets for use of country systems as agreed as part of the Paris Declaration will not be met. There is little or no linkage between the use of country systems and the increase in the quality of PFM systems indicating that other factors besides quality influence these decisions. A real change will be needed to achieve the 2010 targets for the use of country systems. These guidelines are intended to support greater alignment and harmonization in the education sector in FTI countries.

2. What modalities are available and how do they differ?

Different donors use different delimitations between their instruments to define modalities. In the sector/CF context, the WB deals with the following two instruments:[2] i) development policy operations that are budget support; and ii) investment lending. In contrast to that most bilateral donors use three modalities adding pooled funding as a separate modality. The preparation of new OECD-DAC definitions seem to adopt this model with a preliminary division between: sector budget support, basket fund/pooled funding; and project-type interventions. It is recommended that these terms be used in the discussions on modalities in the Local Education Group. The SE will operationalize the modality into the relevant instrument used by that agency. The continuum of design considerations related to the degree of alignment are presented in Table 1.

[1] Working Party on Aid Effectiveness, Joint Venture on Public Financial Management, 9-11 July 2008, Report on the Use of Country Systems in Public Financial Management. OECD-DAC.
[2] The WB has several instruments of the investment lending type, but in the CF context, WB would normally use the Specific Investment Lending instrument.

Table 1. Program Financing Considerations

	most aligned	**medium aligned**	**least aligned**
Financing category/label	sector budget support	pooled funding	project funding
Degree of earmarking	the country's budget (results framework ensures additionality towards primary education)	a predefined sub-set of activities/components/outputs in differing specificity	fully earmarked
Pooling	fully commingled with Government's budget	with a defined sub-set of Government budget and/or together with partners based on the agreed management arrangements	none, that is a parallel co-financing arrangement supporting the ESP implementation
Use of country systems in FM, procurement and safeguards	fully	partially, and possibly only one set of procedures are used for the portion that is within a pool	limited use based on the assessed fiduciary risks
Results framework/benchmarks	main instrument to ensure funds are used to achieve certain milestones, reforms and outcomes	some linkage to the ESP results framework	none
Fiduciary Review	Review of country PFM systems in education sector as part of the ESP appraisal	Same	same
Fiduciary assessment of CF implementation arrangements	covers overall public financial management performance and the ongoing reform processes plus the foreign exchange management	covers pooled funding arrangement (systems design and proper operation/compliance with those systems	covers project implementation arrangements
Mitigating measures	none when acceptable fiduciary standards are met	additional disbursement, internal control, reporting, audit requirements, and/or some procurement based on non-national rules (e.g., WB rules) for international competitive bidding and consultancy	a mix of parallel and country internal control procedures, reporting, audit, and procurement guidelines
Flow of funds	through the Treasury Single Account or similar	parallel arrangement for a pool of funding	through a parallel arrangement for the specific operation
Additional analytical work	based on CPAR, CFAA, PER, CSR	sector work only on fiduciary areas in education and possibly CSR (sector public expenditure review)	none
Link to other programs	a PRSC or bilateral budget support operation	previous or current agreement on MOU for pooled financing	existing project

Disagreement among donors are often related to the decisions on the consequences of fiduciary assessments on use of country systems and the appropriate mitigating measures in procurement, but normally with consensus on the assessment of the underlying systems. The risk management strategies of the WB are somewhat different from the strategies adopted by bilateral donors. These issues are most prominent when a pooled funding is chosen, see box below.

Box 1. Pooled funding.

Pooled funding is meant to generate efficiency gains over individual projects through harmonization of procedures as well as working better with government systems eventually enabling the adoption of a budget support modality. However, the transition towards use of domestic systems may be difficult and the arrangements sometimes come with huge transaction costs.

The donor rules governing projects, including how to handle fiduciary risks, are often also covering pooled funding modalities. That is for example the case for the WB. The fiduciary risks related to all expenditures/activities in a sector are obviously bigger than risks related to a fraction of those expenditures funded in a project. At the same time additional mitigating measures are more difficult for the receiving government to accept.

Therefore, the recommendations evolving for pooled funding are to use country systems as much as possible, limit the mitigating measures to be mostly ex-ante (enhanced monitoring, different types of audits and additional reporting), and make the earmarking cover as broadly as possible (ideally sector-wide). When participating donors have very specific rules to follow, for example on limiting the use of country procurement systems for international competitive bidding for the WB, this present a considerable challenge to the other donors and the government to follow "best practice" and make those rules supportive of capacity development..

Partially based on the ODI Briefing Paper: Common funds for sector support, February 2008.

3. Why should the most aligned modality always be used for FTI/CF operations?

EFA-FTI is a signatory to the Paris Declaration and FTI's vision is rooted in the Paris Declaration principles. To be part of the FTI Partnership, developing countries need to develop and get agreement with donor partners on an Education Sector Plan (ESP) and donor partners, on their part, need to agree to align their support with this plan. This leads to better local donor coordination and alignment around a single country-led education program. The particular implementation arrangements and choices on using budget support, ear-marking, pooling funds, use of country systems, conditionalities, mitigating measures, flow of funds etc. need to support the sector-wide approach while taking the particular country and sector circumstances into consideration.

The agreed concept note for the expanded Catalytic Fund from April 2007 states that the most aligned modality should be used as agreed upon by the local donor group in the education sector and if not, a full justification/explanation should be given to the Catalytic Fund Committee (CFC).[3]

[3] Expanded Catalytic Fund, Concept Note, section 17, April 2007.

The good practice of transparently justifying a less-aligned modality to the Government and the other donors should be applied by the CF, as well as by all other donors. CF allocation is meant to cover only a part of the financing gap to implement the ESP while the major part should be financed by the Government and through other donor sources. Therefore, the CF operation should not develop separate implementation mechanisms, but rather it should be flexible, easily accessible, and possibly join ongoing donor support arrangements. While deciding on the modality, the Local Education Group should take the existing donor architecture and Government capacity into consideration by utilizing existing experience in a harmonized way and as far as possible not adding parallel implementation structures, in order to lower transaction costs and additional burden on the partner countries' scarce management resources and to support overall capacity development.

4. How do you choose the most aligned modality?

In general terms, the question is how can the impact of all donor efforts in a given country be maximized and how will the CF operation fit into the existing donor architecture?

In short, the concerted donor effort needs to address the following: i) the development, implementation performance, and monitoring of the sector plan, with a results focus; ii) the resource transfer (e.g., through budget support); and iii) the capacity development and lesson-learning. Each donor intervention does not necessarily need to address all three issues, and the FTI process is, to a large degree, providing a common framework to help Governments, civil society and donors work on all three issues in a cooperative manner.

The pre-requisites, advantages, and disadvantages of the three main modalities are presented in the table below:

Table 2. Comparison of Modalities

	Pre-requisites	Advantages	Disadvantages/challenges
Sector Budget Support	Credible PFM reform. Stability oriented Macro policy. Credible Capacity Development Program. Endorsed ESP and PRSP in place.	Most aligned modality fully using country systems. Focus on the "big" picture in sector policy and institutional dialogue. Fast disbursing normally annual. No micro management.	Same (high) fiduciary risks as government. No possibility of earmarking. No direct control of specific interventions.
Pooled Funding	Credible Capacity Development Program. Endorsed ESP and PRSP in place. Agreement between participating donors and government in a MoU.	Harmonized mechanism for a number of donors. Direct influence on implementation of pooled funding part. More focus on broad capacity to implement. Close link with MTEF for the sector. Monitoring focus on sector.	If not fully using country systems high transaction costs. High cost for maintaining donor coordination. Focus on what is funded by the pool and less outside the pool. Procurement (and FM) for the whole pool needs to be acceptable.
Project Funding	Satisfactory implementation arrangements in place. Endorsed ESP and PRSP in place.	Maximum control on the earmarked activities. Fiduciary risks restricted to project funds.	Less impact on sector dialogue and overall implementation in the sector. Less use of country systems. Lack (/less) of harmonization among donors.

The steps involved in the choice of modality would be to assess whether budget support can be used and, if not, to determine appropriate funding channels and design features that would align as far as possible with Government systems and harmonize among donors. The support should include reforms to address the capacity constraints so that more aligned modalities can be used in the future.

The modality decision tree below presents a simplified approach to decide the modality as well as the SE. The decision tree should not be used in any mechanistic way. Aligning with country level demands is more important. The decision tree can also be used to get a clearly articulated explanation on any decision to use less aligned modalities.

The local donor group would map the current and future scale and modalities of support at an early stage in the FTI process, preferably before the ESP is produced and in connection with decision on division of roles and responsibilities. If a strategy already exists, this work will use this strategy as the starting point probably adding an update of the strategy to the process. In the context of a possible CF application, a first discussion and a tentative decision on what modality should be chosen and who should be the Supervising Entity would be made between the local donors and the Government.

The first step would be to check whether the following items were in place:

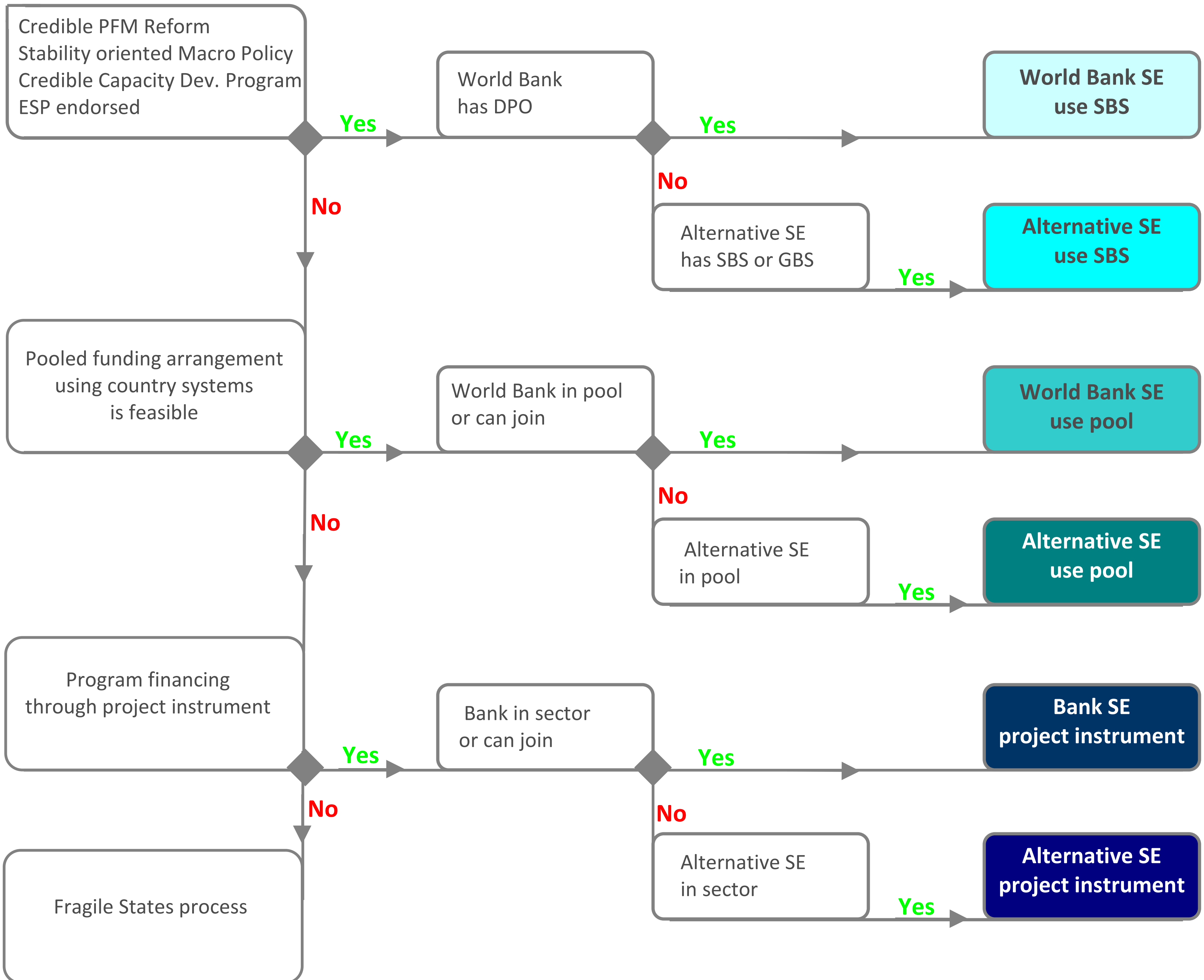
- A credible and relevant program to address public financial management shortcomings;
- A stability-oriented macroeconomic policy that is implemented;
- A satisfactorily endorsed ESP; and
- A credible capacity development program to improve the capacity to develop, implement, and monitor the ESP.

If the above items are in place, further work to assess the feasibility of a sector budget support would include looking at the WB's experience with DPOs in the country, or at other donor agencies' experiences with general budget support or sector budget support. If such budget support had not been used earlier, the use of sector budget support would require additional work. The different donors previous experience with budget support will assist in deciding if another agency than the WB should be the SE.

The second step, if sector budget support is not feasible, would be to look at existing or emerging pooled funding arrangements. Such arrangements are not always aligned with country systems and might need to be looked at with fresh "aid effectiveness" eyes. Again, the LEG would look at the WB's experience with pooled funding, and if the WB is not participating, the WB would need to assess if they would be able to join. If the WB could not join the pooled fund as is, other donor agencies' experiences with pooled funding should be explored as possible alternative SE.

The third step, if pooled funding is not feasible, would be to see how a project instrument could be used. It would be important to maintain a close link with the ESP and other donors' support as well as to look at the possibilities of using at least part of country systems for implementation, financial management, procurement, and monitoring. For the SE decision, an alternative might be considered if the WB did not have any experience in the sector in the country.

If project funding based on a full-fledged ESP is not feasible the process proposed for fragile states could be used. However, this decision will be taken at a very early stage as this have fundamental consequences on the development of a strategy. Guidelines for this scenario are currently being developed (August 2008).



Credible PFM Reform
Stability oriented Macro Policy
Credible Capacity Dev. Program
ESP endorsed
Yes
No
World Bank
has DPO
Yes
No
World Bank SE
use SBS
Alternative SE
has SBS or GBS
Yes
Alternative SE
use SBS
Pooled funding arrangement
using country systems
is feasible
Yes
No
World Bank in pool
or can join
Yes
No
World Bank SE
use pool
Alternative SE
in pool
Yes
Alternative SE
use pool
Program financing
through project instrument
Yes
No
Bank in sector
or can join
Yes
No
Bank SE
project instrument
Alternative SE
in sector
Yes
Alternative SE
project instrument
Fragile States process

5. What is the Supervising Entity and who can act as Supervising Entity?

The Supervising Entity (SE) has a special responsibility for supervising the activities financed under a CF grant agreement as agreed between the SE and the partner country. Therefore, the SE needs to perform its due diligence of the program proposal before it is submitted to the CFC. This is spelled out in the Administrative Agreement between the participating CF donors and the WB. The WB is normally the SE, but the funds can also be passed on to another donor agency through a Transfer Agreement if such an arrangement is found to be more feasible. For example, this could be the case if the World Bank is not part of an existing well-functioning pooled funding arrangement or if the WB is not an active donor in the sector as a result of division of labor processes. This is further explained in the above modality decision tree. The local donor group in collaboration with the Government would need to justify the decision to use an alternative SE and the decision would need to be confirmed by the CF Committee, normally as part of the approval of the CF allocation. The SE needs to ensure that funds are used for their intended purposes. The CF provides a supervision budget to the SE enabling adequate funding for this responsibility.

6. Which fiduciary reviews/assessments are needed?

The ESP appraisal will cover the fiduciary part of the ESP including the following: (i) an overall analysis of the fiduciary area and overall implementation capacity as documented in recent studies like PEFA, CFAA,[4] and CPAR supplemented with sector specific analysis;[5] ii) an analysis of the issues in the current donor support and the status of its harmonization and alignment; and iii) a strategy for addressing shortcomings in the area of accountability as well as suggested improvements for aid effectiveness including preferred modality for future donor support.

Information will be based on donors' experience with currently used aid modalities and ongoing capacity development as relevant. Normally, the WB will have a comparative advantage when it comes to the appraisal of the fiduciary issues in the ESP. However, other donors, notably DfID and the EC might have up-to-date, but perhaps unofficial, fiduciary risk assessment in connection with their budget support or SWAp-type operations they provide. The Government might be willing to share such reports with other donors to avoid duplicating the work in this area.

[4] Please see the explanation of Analytical Tools at the beginning of the guide.
[5] The analysis should provide a snapshot of the current state of public management to identify potential blockages and provide a benchmark to assess progress. A sector plan should address issues with clear links to overall reforms that would effectively support improvements in sector management development.

Guiding principles would be to avoid new PFM diagnostics and to use a risk-based approach.[6]

7. When is the choice of Supervising Entity and modality for CF applications decided?

A first discussion and a tentative decision on modalities and on who should be the Supervising Entity would be made between the local donors and the Government at an early stage of the FTI process, normally before the ESP is formulated by the Government and appraised by the local donor group. If a strategy already exists, this work will use this strategy as the starting point probably adding an update of the strategy to the process. After the endorsement, including the above fiduciary review/assessment, the Local Education Group will meet and donors at the appropriate level will pledge and/or confirm commitments, and make plans for scaling up and aligning support around the ESP. The amount of the CF application, the modality, and the SE will be agreed. Normally the endorsed ESP together with the combined knowledge among the Local Education Group would be sufficient to come to a conclusion on this, but if the Local Donor Group and/or the World Bank as Supervising Entity and trustee, find it necessary, additional fiduciary assessment might take place before the decision is made. Based on the decision on modality, the Local Donor Group agrees on the SE.

The Government, in collaboration with the chosen Supervising Entity, would develop a CF program proposal for CF funding in consultation with the LDG and CSOs, based on the previously agreed common action agenda. The CF program proposal would be cleared by the Local Donor Group. The SE (the WB or alternative SE) performs its due diligence of the concrete proposal to the CFC and documents this in the program document that also includes the program proposal. The program document and a country CF presentation form the basis of an external quality review that in turn provides the basis for the CFC approval together with the ESP and the appraisal of the ESP.

8. Where can I read more?[7]

- Fiduciary Arrangements for Sector-wide Approaches (SWAps): Interim Guidelines to Staff, World Bank, November 2002.
- FTI Framework, 2004 (provides the basis for the FTI and includes the Comprehensive Framework).
- FTI Process and Process Chart, 2008 (work in progress).

[6] Draft Guidance to Staff on Assessment of Fiduciary Risks in the Use of Country PFM Systems in Bank-Supported Projects, June 2008.
[7] Available on the FTI website: http://www.education-fast-track.org.

- *La Ayuda Programática, Guía Técnica para la puesta en marcha de los nuevos instrumentos de cooperación, 2008* (Spain's guide for the use of new instruments partly based on DfID and EC guides).
- Managing Fiduciary Risk in DfID bilateral aid programmes, January 2008 (provides operational guidance to understand the risk environment, how to mitigate risks and how to monitor progress).
- Nordic Plus Practical Guide to Delegated Cooperation, 2006 (providing guidance on use of silent partnerships among Denmark, Finland, Ireland, The Netherlands, Norway, Sweden and UK).
- Nordic Plus Practical Guide to Joint Financing Arrangements, 2007 version (design or re-design the structure of a multi-donor cooperation agreed among Canada, Denmark, Finland, Ireland, the Netherlands, Norway, Sweden, and UK).
- Guidance on Aid Instruments, DfID July 2006. A longer full draft with the same title is also available (provides an overview of policies and guidance on aid instruments).
- Support to Sector Programmes. Covering the three financing modalities: Sector Budget Support, Pool Funding and EC project procedures, EC, July 2007 (provides EC's guide on modalities in a sector setting).
- Working Party on Aid Effectiveness, Joint Venture on Public Financial Management, 9-11 July 2008, Report on the Use of Country Systems in Public Financial Management.