

## VALUE FOR MONEY IN EDUCATION SPENDING IN AFRICA

### INTRODUCTION

Education is one of the cornerstones of development and a critical foundation for achieving social and political stability, reducing poverty, improving health and promoting equity. Sub-Saharan Africa (SSA) devotes about 17 per cent of total government expenditure and a respectable 4.7 per cent of its gross national product (GNP) to education. Even though donors fund more than a quarter of public spending on education in some countries, governments in SSA have shown increased financial commitment to education. Many have witnessed impressive growth in education spending. For example, Tanzania increased its spending on education from 2 per cent of GNP in 1999 to 6.2 per cent in 2010 (UNESCO 2012). In Senegal, an increase in spending from 3.2 per cent of GNP to 5.7 per cent enabled impressive expansion in primary enrolment and the elimination of the gender gap. On average, Kenya spent more than 5 per cent of its annual income on education between 1999 and 2009 (UNESCO 2012). Additionally, aid to education in SSA has been crucial in government efforts to expand access to education.

While the past two decades have seen enormous expansion in access to education in SSA, many countries on the continent are lagging behind in the attainment of universal primary education. In addition, the quality of education provided is insufficient to guarantee life-long literacy, or to lay the basis for further educational attainment; enrolment in secondary and tertiary education is still low; and the match of skills between the education system and the labour market remains sporadic. To address these challenges, many countries have introduced reforms to boost education outcomes, such as: improving basic minimum learning conditions; improving the quality of teaching; improving access to pre-primary school; reducing the cost of education for the poorest; starting school at the correct age; increasing access to secondary and tertiary education; matching curriculum to the needs of the labour market; assessing educational quality; and improving budget structures and procedures for education spending.

While all the above strategies have important benefits, this briefing paper focuses on ways in which education can be improved through the more effective and efficient

management of expenditure. Specifically, these include proper budgeting, improved technical and allocative efficiency and innovative ways of financing education.

### ISSUES AROUND EDUCATION BUDGETING

Budget reforms have had varying outcomes. Many SSA countries have successfully implemented medium-term expenditure frameworks, which has led to improved stability in education sector planning and costing (UIS 2011; Allen 2009; IIEP 2006). However, problems persist in budget execution, expenditure tracking, and monitoring the implementation of policy targets. Findings from several African countries, such as Ghana, Kenya, Malawi and Uganda, expose the gaps that emerge in the following areas:

- > teacher management is sporadic, with teachers not always allocated according to the stated pupil-teacher ratios;
- > attendance is not monitored;
- > grants to schools are not always disbursed on time, and it is often the case that the intention of the grant is not commonly known (further problems are experienced in the management and audit of the grants);
- > textbooks and materials are distributed late or fail to arrive;
- > school buildings are not maintained according to plan; and
- > policy objectives, and the strategies for attaining them, are not clearly articulated by the government.

At a system-wide level, the failures in budget execution, expenditure tracking and monitoring of policy targets are country-specific. However, several features appear to be fairly universal. Underlying all other factors is poor human and physical capacity, which takes the form of shortages in skilled staff, underdeveloped administrative systems, inadequate physical facilities and lack of IT hardware. While these problems often occur at central head offices, they are endemic at decentralised regional, district and school levels. At the same time, IT is too often seen as a panacea for solving budget implementation and monitoring problems when the

administrative and financial management systems that underlie these are unclear. The collection, transfer and utilisation of information between these systems is frequently an impediment to budget planning, execution and monitoring. In fact, often overly ambitious system-wide changes with large-scale IT projects, such as integrated financial management information systems, are not designed with sufficient care or mindfulness of realistic time-frames and local conditions or capacity (Allen 2009).

Furthermore, programme-based or performance-based budgeting rely intrinsically on being able to identify accountable cost centres. However, weak administration and governance, and the absence of sufficient expenditure tracking, undermine these initiatives – with a *de facto* line-item budgeting system remaining in place (UIS 2011). Different ministerial priorities for expenditure tracking/auditing often mean a duplication of systems rather than their integration. While, understandably, ministries of finance are not driven by the same performance indicators as are ministries of education, this does give rise to duplication in data collection and analysis. Furthermore, full-scale performance and expenditure reviews are often expected to be produced annually – leading to enormous overload and, ultimately, a lack of meaningful information. Biannual or sample surveys done well can be far more valuable.

## EFFICIENCY IN EDUCATION SPENDING

Based on extended analysis of the data, there is a strong consensus that inefficiencies abound in education systems in both developed and developing countries. Glewwe (2002) concludes that ‘there is ample evidence that many schools in developing countries are not very effective, and operate far from any conceivable efficiency frontier’. Earlier work on the Middle East and North Africa (World Bank 1999) found that ‘enough money’ is available for education, but that it is used to pay the salaries of teachers who do not actually teach, to finance construction of schools that are located without regard to student habitations and, ultimately, to produce students who do not learn mathematics and science at an international standard, and who possibly do not learn how to learn.

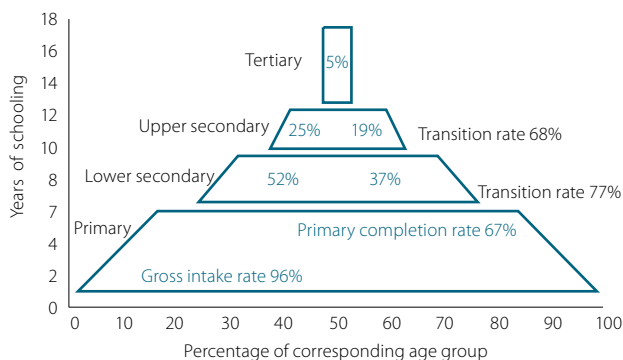
More recently, in an extensive study on education in SSA, Majgaard and Mingat (2012) warn that increased school attendance in Africa has not been sufficient to enhance numeracy and literacy scores and to ‘increase productivity in the workplace’. They point out that ‘international test score data show that student learning outcomes are often poor in sub-Saharan Africa’. Their index of learning shows that ‘students absorb and comprehend only 45 per cent of the curriculum at the time of testing’ and that ‘only three out of four adults who completed six years of schooling can read’. The implications are clear that there is significant wastage and inefficiency in schools in Africa, making it difficult to reach educational objectives with the available resources.

## INTERNAL EFFICIENCY

‘Internal efficiency’ focuses on the entry into and flow of learners through the education system. Pupils enter at the lowest grade and in subsequent years can be promoted, repeat or drop out. A fully efficient system is one in which all children enter school at the appropriate age and complete each cycle without repeating a year or dropping out (see Rawle 2008). Analysis of internal efficiency is a relatively straightforward diagnostic tool, identifying potential areas of wastage and, therefore, policy areas to focus on.

Figure 1 provides a picture of learner flows in SSA and, hence, some indicators of efficiency. It shows that initial access or intake is high, but that there is also a high drop-out rate, resulting in a primary completion rate (the proportion of the relative age group completing primary school) of only 67 per cent. Thus, approximately 30 per cent of a cohort drops out. Only 77 per cent of those completing primary transitions proceed to lower secondary, where the additional drop-out rate is just under 30 per cent. Given that only 19 per cent of the age cohort completes upper secondary, the overall dropout rate is more than 80 per cent.

**Figure 1: Sub-Saharan Africa’s education pyramid, ca. 2009**



Source: Majgaard & Mingat (2012)

The analysis of internal efficiency indicates several threats and areas that need attention (and, in particular, outlines the quantitative challenges to the system). For planning and budgeting, it is critical that finance and education departments have a clear view of flows and anticipated flows, which provides the framework for planning and strategies to improve efficiencies. A major constraint on effective planning and budgeting processes is that good data on population trends and enrolment, and related schooling trends, are not available. Improving efficiencies without good and detailed demographic and school information is impossible. There is, however, ongoing work on improving simulation models, which use basic demographic realities and information about the education system to project future possibilities in terms of enrolment and flow through the system.

## ALLOCATIVE EFFICIENCY – DOES FUNDING FLOW TO PRIORITY AREAS AND GROUPS?

The notion of allocative efficiency is less easy to fit into the schema of the results chain. It is an assessment of whether resources are used for the highest-impact activities or priorities. Typical measures that can point towards issues with regard to allocative efficiencies include the proportion of spending going to a specific activity (e.g. education spending as a proportion of GDP) and the distribution of funds between levels of education, specific education and related activities and different income groups (which is also an indication of equity). With regard to the spread of funding between levels of education, Abagi and Odipo (1997) refer to the World Bank's assertion that 'despite indications that the rates of return from basic education are generally better than from higher education, most African countries still invest more resources in the latter'.

Boissiere (2004) raises questions about the focus on universal primary education no matter what the quality, arguing that two alternative routes can be identified: a 'big bang' expansion of access to primary education and then attention to quality after universal enrolment has been reached; or a more gradual focus on improving the skills acquisition of those currently in the primary system and then an expansion of the primary system. He refers to evidence that it is the quality of education (cognitive achievement) and not years of schooling that impacts on growth. He also reads the historical record and the experiences of China, India and Europe as suggesting merit in 'developing the higher education sectors well before achieving Universal Primary Education'.

## INNOVATIVE FINANCING OPPORTUNITIES FOR EDUCATION IN SUB-SAHARAN AFRICA

Innovative financing is defined most simply as development financing that moves beyond traditional budget allocations as well as bilateral and multilateral fundraising and spending mechanisms. Innovative financing mechanisms can be characterised as: innovation in sources – fundraising of incremental capital either from new funders or from existing funders in new ways, or leveraging private capital, and mobilising public resources; and innovation in uses – changing the way in which existing capital is deployed or spent, and introducing financial solutions to increase its efficiency, effectiveness and overall impact within both the public and private sectors. For example, UNITAID innovates in scaling up access to treatment for HIV/AIDS, malaria and tuberculosis in low-income countries through an airline tax. There are other examples of innovative finance mechanisms that can be used to increase the sources of financing. While the mechanisms detailed below do not constitute an exhaustive list, they are indicative of the possibilities for mobilising additional resources.

### *International donors: cash on delivery (COD)*

COD is an approach that aims to link payments to a single specific outcome. For example, donor governments would pay a fixed sum for each additional child who takes a standardised competency test in the final year of primary school. The recipient government has more flexibility to disburse funds as it deems appropriate, and is able to participate in a more transparent process that engenders accountability to citizens.

COD holds promise as a vehicle to more closely link funding streams with desired outcomes. It has been used successfully to mobilise resources in health. While there are early pilots for primary education programmes in Ethiopia, the mechanism's application to education is largely untested. Furthermore, the vehicle must be carefully designed to alleviate concerns about measuring outcomes and creating incentives that beget unintended consequences.

### *Impact investors: the Education Venture Fund (EdVF) and Indian School Finance Company (ISFC)*

Impact investing is an emerging trend in financing for positive social and environmental benefit; the term has been adopted globally by a wide variety of investors, intermediaries and entrepreneurs. JP Morgan and the Rockefeller Foundation (2010) define impact investing as 'an investment designed with intent to generate positive social and/or environmental impact'.

In the context of education, investors are exploring both equity- and debt-based models. Typically, these models support the creation and operation of for-profit low-cost schools, although there are also models that aim to capture private education services for expatriates and local elites. These models offer a sustainable funding stream that is directly linked to increased demand for education. In addition to mobilising additional resources for education, this mechanism addresses concerns with government capacity to build and staff new schools.

Private equity funds that exclusively focus on education in Africa are currently limited in number and scale. Likewise, specialised financing for low-cost private schools in the developing world is still limited, as traditional microcredit loans are typically too small for schools, and bureaucratic hurdles make access to commercial loans difficult; nevertheless, such financing is gaining increased attention in the impact investing sphere. Given the important role of the public sector in financing and providing education, the scalability of these models is yet unproven.

### *Philanthropic organisations: the 2010 FIFA World Cup Legacy Trust*

Associated with the 2010 World Cup in South Africa, the above-mentioned trust fund raised US\$100 million for community development. While it has been widely promoted as an innovative finance vehicle, three characteristics may inhibit its effectiveness as a tool to sustainably mobilise

resources for education. Firstly, it has a general mandate that includes education as well as healthcare and humanitarian activities, which will dilute the impact of funding for education. Secondly, its funding stream is dependent on the philanthropic priorities of FIFA, which could shift in the future. Thirdly, it focuses primarily on promoting non-professional football, rather than the specific challenges facing the education sector. These design features reflect broader limitations for philanthropic and corporate social responsibility models in promoting sustainable, innovative finance mechanisms.

### **Diaspora community: diaspora bonds**

The idea of diaspora bonds is not new: India, Israel, Sri Lanka, South Africa and Lebanon, among others, have already tapped their diaspora communities to raise much needed capital for development activities (Ketkar & Ratha 2007). This mechanism, however, remains relatively unexploited, especially in Africa and Latin America. For countries with a significant number of expatriates, the advantages are clear: emigrants are more likely to invest in their country of origin for patriotic reasons, as opposed to international investors, because their perception of country risk might be lower as well. Diaspora bonds present a significant opportunity to finance large public goods such as infrastructure and, potentially, education. Like COD (discussed above), diaspora bonds are general mechanisms that can be applied to a range of development challenges. As a result, the resources generated by diaspora bonds would probably be allocated to a number of government priorities.

According to World Bank Senior Economist Dilip Ratha, issuing such bonds and overcoming any weaknesses in the legal and regulatory systems in the SSA region could help investors tap US\$5 billion to US\$10 billion annually. Ratha notes that preliminary estimates suggest that SSA countries could raise US\$1 to US\$3 billion by reducing the cost of international migrant remittances, US\$5 to US\$10 billion by issuing diaspora bonds, and US\$17 billion by securitising future remittances and other future receivables. (Ratha & Plaza 2011).

### **General lessons on innovative financing**

Drawing on the experience of the past decade, the following lessons and principles can be extracted to inform future applications of innovative finance:

- > *Innovative finance needs to be goal-oriented.* Innovative finance should be a tool to address clearly defined problems, gaps and issues. Understanding the problem statement and the specific needs to be addressed will help to ensure that practical and appropriate solutions are developed and supported within the realm of innovative finance.
- > *Innovative finance will not replace traditional overseas development assistance (ODA) and fund-raising.* Innovative fund-raising is not a substitute for traditional efforts to mobilise ODA (concessional flows, in particular); rather, it plays a complementary and catalytic role.

- > *Innovative finance has played a significant role in deploying funds through pioneering financial solutions on the ground.* While innovative finance will probably account for a minority share of ODA, innovative uses have provided and will continue to provide a broad and robust menu of financial tools and solutions to address market inefficiencies and further incentivise investments from private resources.
- > *Innovative finance creates new opportunities for the private sector to contribute to development.* Innovative finance creates a window for private funds – from individuals and commercial actors – to better contribute to development goals.
- > *It is important to demonstrate progress to sustain momentum.* Maintaining the attention and commitment of potential donors and investors will require the demonstration of progress in terms of efficiency and effectiveness of uses.

## **CONCLUSION**

Returns to investment in education and training require long-term commitment, and both governments and donors need to be reassured of the value of continuing to fund education in SSA. Part of this reassurance lies in sound, evidence-led policy decisions, feasible and solidly budgeted plans, well-managed implementation, systematically monitored progress and thorough financial accounting. In terms of innovative financing, there is no one-size-fits-all solution for financing challenges to education. By considering a broad array of possibilities and by developing frameworks to identify the strengths and weaknesses for specific contexts, governments can implement innovative financing strategies that are appropriate for their specific contexts.

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