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# Choosing the best way to provide assistance:

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The implications of project and non-project  
assistance modalities for aid effectiveness

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May 2011

This paper was made possible by the generous support of the American people through the United States Agency for International Development (USAID) under Cooperative Agreement No. GDG-A-00-03-00008-00. The contents are the responsibility of the Academy for Educational Development (AED) through the Educational Quality Improvement Program 2 (EQUIP2) and do not necessarily reflect the views of USAID or the United States Government.

## 1. Introduction

In the late 1980s and into the 1990s, the United States Agency for International Development (USAID) made extensive use of non-project assistance (NPA) in the education sector. During that time, a large share of education assistance, in particular within USAID's Africa Bureau, was structured as budgetary support to supplement a government's own allocation of resources for education. This often also coincided with a strategy of 'sector adjustment' within which governments reallocated resources away from subsidies for higher education and towards expansion and improvement of basic education. USAID non-project assistance was meant to leverage and support sector reforms that would lead to greater investment in basic education and thus more equitable access to schooling. However, NPA struggled to reconcile the tension between reliance on government systems with limited capacity to absorb resources and execute complex reforms and an agency that wanted to report on and attribute results to its programs (Tietjen, et al. 1994).

Once again, USAID is considering whether and how to use non-project modalities in support of education programs. While many of the lessons of the 1980s and 1990s are pertinent to the current discussion, the context within which USAID is considering to use NPA is decidedly different. In place of the sector adjustment framework that dominated the past, USAID programs in the education sector are now operating in an environment characterized by:

- The emergence of the 'aid effectiveness' agenda as expressed in the Paris Principles and Accra Agenda for Action that promote greater use of non-project modalities;
- The presence of the Fast Track Initiative (FTI) as the principle instrument of the global focus on meeting the Education for All objectives and the Millennium Development Goal of universal primary completion by 2015;
- A growing use of a Sector-Wide Approach (SWAp) to coordinate and align support programs within a country; and
- A growing focus on learning outcomes as the ultimate measure of successful education investment.

This paper considers how these factors can influence USAID's decisions to use non-project modalities and presents a framework within which USAID can define criteria for determining which funding modalities can best support development assistance objectives in the education sector.

## 2. The Global Context and the Aid Effectiveness Agenda

The debate about whether development assistance actually works is alive and heated. Some believe aid has failed at its fundamental mission, has become counterproductive (or even "dead"), and therefore needs to be abolished (Moyo, 2009; Klees, 2010). Others admit that official development assistance (ODA) has had many failings, but propose reforms in the way aid is provided and, rather than seeking its abolishment, lobby for increases (Klees, 2010). Many observers would agree that too much ODA is still hampered by overlapping or even conflicting donor-driven agendas, projects operating parallel to each other and to government systems, and insufficient genuine attention to sustainability (Lawson et al, 2002).

A global consensus has emerged on how development agencies can do better. Under the banner of aid effectiveness a set of principles have been defined and agreed to. The Monterrey Consensus, the Paris Declaration, and the Accra Agenda for Action are three of the important watershed agreements around which the aid effectiveness agenda has crystallized. The community of multilateral, bilateral, and even non-governmental development agencies has adopted what are often referred to as Paris Principles that call for the following actions (OECD 2005, OECD 2008a):

- Increased levels of assistance for countries that demonstrate sound policies;
- Ownership of the development agenda within a country;
- Alignment of assistance to a country's own plans and strategies;
- Use of a country's own systems for management of resources and implementation;
- Harmonization of donor approaches to reduce demands on in-country institutions;
- Longer-term predictability of aid flows;
- Untying of aid;
- Mutual accountability for resource commitments and implementation progress; and
- Greater focus on results.

Application of these principles has, for most funding agencies, led to a movement away from traditional donor-managed projects and toward budgetary support or NPA (Williamson and Agha, 2008). If sound policies are embodied in a broadly supported set of credible plans and strategies, and if a country's public financial management systems are well-developed, then putting development assistance dollars directly into a country's budget would theoretically be the most efficient way to deliver aid. However, that this kind of fiscal transfer is indeed the most effective use of development assistance resources is an unproven assumption. The joint evaluation of general budget support (GBS) showed that under the right conditions GBS contributes to strengthened ownership and accountability and improves the allocative and operational efficiency of public expenditures (IDD and Associates, 2006). Whether it leads to the ultimate desired impact (in the case of the joint evaluation, poverty reduction), was found to be highly dependent on the quality of the particular strategy the budget support was intended to support.

Providing budget support means funding agencies must relinquish direct control over the results that can be achieved and, perhaps more importantly to them, diminish their ability to attribute any results to their specific program of assistance. The tension inherent in these tradeoffs—between Paris Principles, impact, and USAID imperatives—has been associated with NPA since USAID's last major foray into this approach in the 1990s. Choosing how best to provide assistance is now, like then, not simply about defining criteria for using one aid modality (budget support) over another (projects). The decision involves weighing the variety of inherent tradeoffs: between host country ownership and direct accountability for resources; between harmonization and the desire to support an agency-specific agenda; and between using country systems and the need to report and attribute results in the short-term. Choosing how to provide assistance must also take into account government capacity to effectively use additional budgetary resources and funding agencies' capacities to administer and manage complex, multi-party approaches.

USAID's Education Strategy marks a decisive shift towards investments aimed at achieving measurable and sustainable educational outcomes through selectivity, focus, and division of labor. All of these imply greater attention to outcomes and a more narrowly defined agenda for USAID. In that context, the choice of aid modality needs to consider the relationship between funding mechanisms and the tangible outcomes to which USAID is committing itself under each of the three goals it has defined for education assistance.

### **3. Development Assistance and the Education Sector**

In addition to the aid effectiveness agenda, development assistance in the education sector has been shaped by the global push for EFA. Adopted in 2000, the Millennium Development Goals added an emphasis on increased completion of primary school. The Dakar Framework for Action established the idea that “credible plans for reaching EFA should not lack for financing” and through the Monterrey Consensus, G8 funders committed to mobilizing resources to support countries with sound policies. In education, this led to the establishment of FTI. The original intent of FTI was to provide the infusion of support that ‘good performers’ would need to reach universal primary completion by 2015. The recent evaluation of FTI (Cambridge Education, et al., 2010) found that:

- The initiative deviated almost immediately from its original intention of supporting good performers, resulting in resources being spread to a larger group of countries and eventually even to fragile states (which could hardly be considered ‘good performers’).
- While the founding principles included addressing four ‘gaps’ in a country’s ability to reach EFA—policy, finance, capacity, and data—FTI has focused primarily on the financing gap and with attention only to upstream policy issues such as the plans and strategies needed to obtain endorsement.
- Agencies have not been able to enforce in each country the principles and commitments accepted at the global level, including even the mobilization of significant additional resources by those agencies already operating in countries that receive endorsement. Thus the Catalytic Fund (FTI’s funding mechanism) has become the main source of additional ‘gap filling’ financing for FTI-endorsed countries.
- Catalytic Fund resources have not consistently been provided through modalities that best apply Paris Principles.

While FTI has had its problems, it has contributed to governments producing and funding agencies relying on education sector plans that are tied to a country’s overall poverty reduction strategy and, in many cases, medium-term expenditure framework. Funders and governments do come together around a vision for education sector development, with agencies agreeing to provide assistance that aligns with government’s stated priorities. Whether the sector plans are comprehensive or limited to only basic education is an issue, and in too many cases the plans do not take into account the full amount of resources needed to achieve and sustain the EFA goals and Millennium Development Goal 2. Often, the plans cover only a three-year time period that coincides with the period for which FTI Catalytic Fund financing is being requested and not what is needed to reach 2015 or beyond (Cambridge Education, et al., 2010).

In many cases, FTI overlaps with a SWAp, which will predate FTI involvement in most countries. A SWAp in fact applies the same principles as FTI—funders agree to support a government’s set of sector priorities, policies, strategies, and specific plans. Some funders may provide budgetary support, others may pool resources, and others may align their traditional projects to fit within the SWAp/FTI context. Explicit agreements establish which funding is being provided through which means and in relation to which aspects of government plans. Annual joint reviews are conducted to assess resource use and implementation progress, albeit with varying degrees of regularity and rigor. These are perhaps some of the more tangible benefits flowing from efforts to better harmonize and align development assistance.

However, SWAps (and FTI support) can overly rely on a technocratic, supply-side approach that assumes a government driven by apolitical development goals. In truth, large-scale programs of coordinated support create a variety of distorting and sometimes conflicting incentives for both funders and recipients. Government leadership may prefer budgetary support, but not necessarily to pursue the poverty reduction or equity enhancing ambitions of funders. Ministries of education may prefer project funding as it allows resources to flow directly into their administrative purview without the hassle of making their own internal processes work efficiently. Some funders may prefer budgetary support because it is an easy way to disburse large sums of money without having to manage the full project cycle. Others may prefer project funding because it allows them to retain control over resource use. Whatever modalities are being used, it is too often the case that when funders line up within a SWAp, the dialogue can easily become limited to government and external agencies, with a focus on adherence to funder priorities and conditions and insufficient attention to domestic demand for change (Boesen and Dietvorst, 2007).

Agencies have made efforts to include civil society representatives within the ‘local education group’ that is supposed to oversee the sector-wide program and/or FTI processes within a country. The degree and quality of representation and participation of non-governmental actors in these local groups is extremely variable. The FTI evaluation found that civil society too often participates in a token manner, with few mechanisms for genuine public dissemination of information or accountability for use of funds and implementation progress (Cambridge Education, et al., 2010). Establishment of mechanisms for public participation and broad-based accountability is a key feature of the aid effectiveness agenda in which, to this observer, there is under-investment.

Choices of assistance modalities, whether within an FTI-endorsed program or under a SWAp, are driven by several factors. First and foremost, in adherence to Paris Principles, donors may seek to make greater use of a government’s own systems. This requires an assessment of public finance management practices and procurement procedures. Agencies will only agree to provide budgetary support (either general or sector) if a country can meet the established standards in these two areas. In cases when the standards are not met, agencies may still choose to create special funds (often of pooled resources), but which are then managed and accounted for according to specific requirements. In FTI countries, the World Bank often uses its existing practices to supervise these kinds of accounts. Additionally, institutional capacity to manage complex reforms within the relatively short time frames of a typical sector program may figure in funding agency decisions to opt for a project or a non-project modality. In fact, consideration of country capacity to make needed reforms and to put in place and carry through

sound implementation strategies should probably count more in determining whether budgetary support can advance sector objectives.

The choice to use budget support modalities is not determined simply by the quality of a country's finance and procurement systems. Even within the same sets of countries, there is great variation across donors in how much they rely on government systems. For example, country procurement systems are used for 68 percent of UK aid, but only 5 percent of US assistance (Knack, et al., 2010). Such variation may be attributed to the fact that donors have their own internal mandates and may face strong incentives to bypass country systems. Furthermore, the benefits of using country systems are long-term and diffuse, while the costs—in terms of increased risk to project success—are short-term and felt directly by the funding agency. These costs are compounded by the fact that USAID staff assignments in a given country are usually fairly short-term. Using government systems also trades away funders' branded outcomes and thus their ability to attribute results directly to a development assistance program (Knack and Eubank, 2009).

The international consensus, at least since the Paris Declaration has favored budget support and use of government systems, and evaluations have found that the assumed benefits of these approaches are materializing. However, evaluations also note that the potential benefit of budget support is in part undermined by a continued reliance on project modalities. Budget support accounts for only 20 to 25 percent of total aid (Williams and Agha, 2008). At the sector-level in individual countries, the majority of assistance is still being channeled through donor-run projects. The evaluation of FTI found that despite rhetoric favoring most aligned modalities, 60 percent of Catalytic Fund agreements have been supporting traditional investment projects (Cambridge Education, et al., 2010).

Budgetary support (whether general or sector specific) enhances country ownership, contributes to improved public expenditure management, and improves public sector allocative efficiency at the central levels. However, these modalities have been shown to be limited in their ability to impact resource use at the decentralized and school levels or to ensure implementation of interventions designed to significantly improve the quality of education service delivery (IDD and Associates, 2006; Hedger et al., 2010).

Increased attention to the impact of development assistance on the quality of education must confront the limited impact of program or non-project assistance on service delivery. Evidence that the returns to education derive from the acquisition of skills like basic literacy are helping shift the focus from mere access or number of years in school to learning (Hanushek and Woessman, 2009; Gove and Cvelich, 2010). Furthermore, two reviews of education assistance, one by the World Bank and the other by USAID, indicate that education programs, regardless of the modality employed, need to focus more on learning outcomes. The title alone of the World Bank's review—*Schooling Access to Learning Outcomes: An Unfinished Agenda*—speaks volumes about education projects' disappointingly low attention to and impact on learning outcomes (World Bank, 2006). The findings of the *EQUIP2 Analysis of USAID Assistance to Basic Education in the Developing World, 1990-2005* indicate that learning outcomes have been infrequently assessed in education projects and, when they have been, the magnitudes of the measured gains are modest at best (Chapman and Quijada, 2008).

USAID's new education strategy (USAID, 2011) indicates that the Agency has clearly come down on the side of committing to more tangible student-level outcomes. In stable, well-performing countries, USAID's new strategy commits to ensuring learning outcomes for primary grade children (Goal 1 of the USAID Education Strategy). As these countries are the ones likely to meet the conditions that could also justify provision of non-project assistance, the competing interests of contributing to measurable improvements in children's ability to read and using sector-wide approaches or non-project modalities will need to be weighed.

A desire to not only impact learning outcomes, but to also attribute that impact directly to the provision of development assistance dollars creates pressure opposite to the global push for more aligned, Paris-based approaches. The best way to obtain measurable learning gains in a short-term time frame may be to design a circumscribed project in which the funder or its agents has direct control over implementation. That describes a very traditional, pre-Paris, pre-Accra approach. The new global orthodoxy preaches the aid effectiveness mandate, but it's not easy to sell politicians on the idea of strengthened partner country systems and strategies as opposed to more students in school and learning. How do you convincingly articulate that taking the USAID symbol off a school and placing it on a joint annual review is a good thing (Wathne, 2008)?

#### **4. Constructing a Framework**

How, then, should agencies make informed decisions about which modality will be more 'effective' in a given context? This paper constructs a framework within which USAID can define criteria for determining which funding modalities can best support development assistance objectives in the education sector. It includes discussion of several assistance modalities and maps those modalities against a series of tradeoffs. These tradeoffs attempt to balance adherence to various Paris Principles, achievement of education sector objectives, and compliance with foreign assistance mandates. Since such a balancing act is no small feat, the objective of the paper is to invite USAID officers to examine these tradeoffs and contribute to refining how USAID staff can decide among different options when developing education programs. The intention is to help create USAID-wide guidelines for assessing the relationships between in-country conditions and the mix of assistance modalities most likely to be successful.

In summary, the following factors impinge on the decision of what type of assistance modality to use:

- Adhering to global commitments to make use of modalities that support a country's stated priorities and strategies and rely more on governments' own systems for allocating and effectively using resources.
- Pledging, in the absence of government-wide commitment, to support education sector priorities and plans, whether within the context of a formalized SWAp, and where possible, providing resources in ways that reinforce sector capacity to plan, manage, and account for expenditures that align with stated priorities.
- Supporting the development of sound sector policies, strategies, and plans that reflect a country's priorities and respond to its needs.

- Aligning projects to sector priorities and plans and working to include projectized resources in the sector financing framework.
- Using government systems even through project modalities.
- Wanting to show measureable, student-level impact in relatively short time frames.
- Wanting to address more than just supply-side solutions when persistent problems in the provision of education may require demand-side interventions and/or the mobilization of non-governmental actors.

These factors create an overall orientation that favors adherence to Paris Principles, yet in some ways also pushes in the opposite direction. For example, wanting to show student-level impact in a short time frame is not usually consistent with a commitment to channel budgetary support through government systems. The need to balance just these kinds of conflicting forces is in fact the basis for the framework this paper begins to construct.

When searching for a more effective aid modality, what definition of effectiveness should be used? All things being equal, one can probably assume that more aligned and harmonized approaches are ‘better’ than those that are not. But what about when all things are not equal? How does one decide whether a project is a better approach than general budgetary support? What criteria need to be met to justify using host country contracting? Which characteristics of a country context and USAID capacity are most important to consider when determining whether one modality will work better than another? What are the important elements of project design and management that allow them to adhere to the concepts of alignment, harmonization, and use of country systems?

While wanting to help answer these questions, this paper does not naively believe that picking the right modality will magically improve program effectiveness. Quite the contrary, asking how best to structure aid adds several layers of complexity to program development and design. The objective here is to provide some basis for helping USAID officers decide which modality (or modalities) enhances the probability of success while balancing the competing interests inherent in that decision.

This section proposes some elements of a framework that will help address these questions. First, the framework presents a typology of assistance modalities. How different program objectives may be better supported by one modality or another is then considered. An example is presented of a decision tree for selecting an assistance modality as a way to surface some of the criteria and decision points likely to be confronted in such a selection process. The tradeoffs inherent in selecting one modality over another are then considered. Lastly, the paper raises some of the current internal dynamics of USAID and poses a number of questions about how those dynamics may impact USAID’s choices of assistance modalities in the development and design of education sector programs.

#### *4.1 Proposed Typology of Assistance Modalities*

To construct a typology of funding options for USAID, it is useful to first define some of the modalities that can be used. The universe of modalities can be divided into three types of assistance: non-project-based, project-based, and other approaches. These include:

<b>Non-Project-Based</b>	<b>Project-Based</b>	<b>Other</b>
General Budget Support	Policy Process	Host Country Contracting
Sector Budget Support	Institutional Development	Public-Private Partnerships
Pooled Funds	Service Delivery or Pilot	Development Credit Authority
SWAp	NGO or Private Sector	
Global Funds	Demand-Side Interventions	

Simple definitions for each of the listed modalities are provided in Annex 1. Note that for both non-project and project modalities there are a range of assistance mechanisms or approaches. Regarding non-project approaches, the difference among the examples listed is profound in terms of what they imply for how USAID does business. For example, contributing to global mechanisms—International Development Association (IDA), FTI’s Catalytic Fund, or other multi-donor trust funds—implies relying on a mechanism completely external to USAID to allocate and make effective use of U.S. government assistance dollars. This of course requires much less capacity on the part of USAID and is indeed the case when, for example, the U.S. government makes its contributions to IDA, relying on the World Bank’s processes to ensure that its funds are used as intended. Under the circumstances, USAID is content to rely on the recipient agency or fund to track the ultimate use and report on the impact of assistance dollars, without having to tie any particular accomplishment back to the U.S.’s contribution.

Providing general budgetary support means USAID has made the decision about how much to invest in which country, but it relies on a country’s internal processes to ensure that money moves from that country’s treasury to the education sector, and then to the strategies and actions the financing is intended to support. Sector budget support may be set aside for education, circumventing a government’s broader allocation decision-making. An Overseas Development Institute study of sector budget support (SBS) identifies the degree of earmarking as the main distinguishing factor among SBS programs. Sector budget support can be earmarked to the whole sector, affording flexibility in how it is allocated within, for example, the education sector, can be ‘tightly’ earmarked to a sub-sector (e.g., basic education), or can target specific areas of expenditure (e.g., teacher training) (Hedger, 2010). In all cases, this kind of assistance relies on the administrative and managerial capacity of the country to ensure that funds reach their intended destination and use. It is not very likely that USAID would opt for general budgetary support as a way to make use of its education assistance. Sector budget support—which was how most NPA was structured in the 1990s—has greater potential as a USAID program-based approach to education.

In the case of project-based approaches, the difference is not based on the modality—each of these is in fact a project modality—but instead is based on the intention and design of the project. Those differences will tend to manifest themselves in terms of what a project ends up spending the bulk of its resources on (e.g., technical assistance, inputs, delivery of services, grants to third parties). For example, projects can vary from those focused on policy support activities (which would provide more technical assistance) to those that directly work with schools (which might purchase materials for distribution or employ an intermediary) to those that provide support directly to families (which would require a granting mechanism).

The ‘Other’ category includes additional ways in which elements of a program can be structured. For example, an institutional development project can use host country contracting or an NGO/private sector support project can use USAID’s Development Credit Authority as a way to stimulate private financing for education service providers. In addition to those listed here, other mechanisms do exist. This set is seen as a starting point for discussion and other modalities can be added to the framework as needed. One ‘new’ modality that is gaining increasing attention is referred to as ‘cash on delivery.’

Questions to consider regarding the list of assistance modalities include:

- Are some of these approaches inherently ‘more aligned’ than others? For example, is budgetary support always a more Paris-based approach than a direct service provision or pilot project?
- What is it about the manner in which any assistance modality is put in place that makes it more, or less, aligned with Paris and Accra Principles?
- How can projects be structured to maximize their alignment, harmonization, and use of a country’s own systems?
- Is choosing a more aligned and harmonized modality always a desirable objective?

When choosing which modality to employ, at least three issues need to be taken into account. First, which modality best suits the objectives of USAID’s education program in the given country? Second, what conditions are present in the institutional and policy contexts that exclude or favor certain modalities? Third, when given more than one modality that is advisable to use within the country context and that suits USAID’s objectives, what are the tradeoffs among those modalities, which will best contribute to the objective, which provides a more aligned approach, and which positions USAID favorably within the education sector?

#### 4.2 *Modalities and Education Objectives*

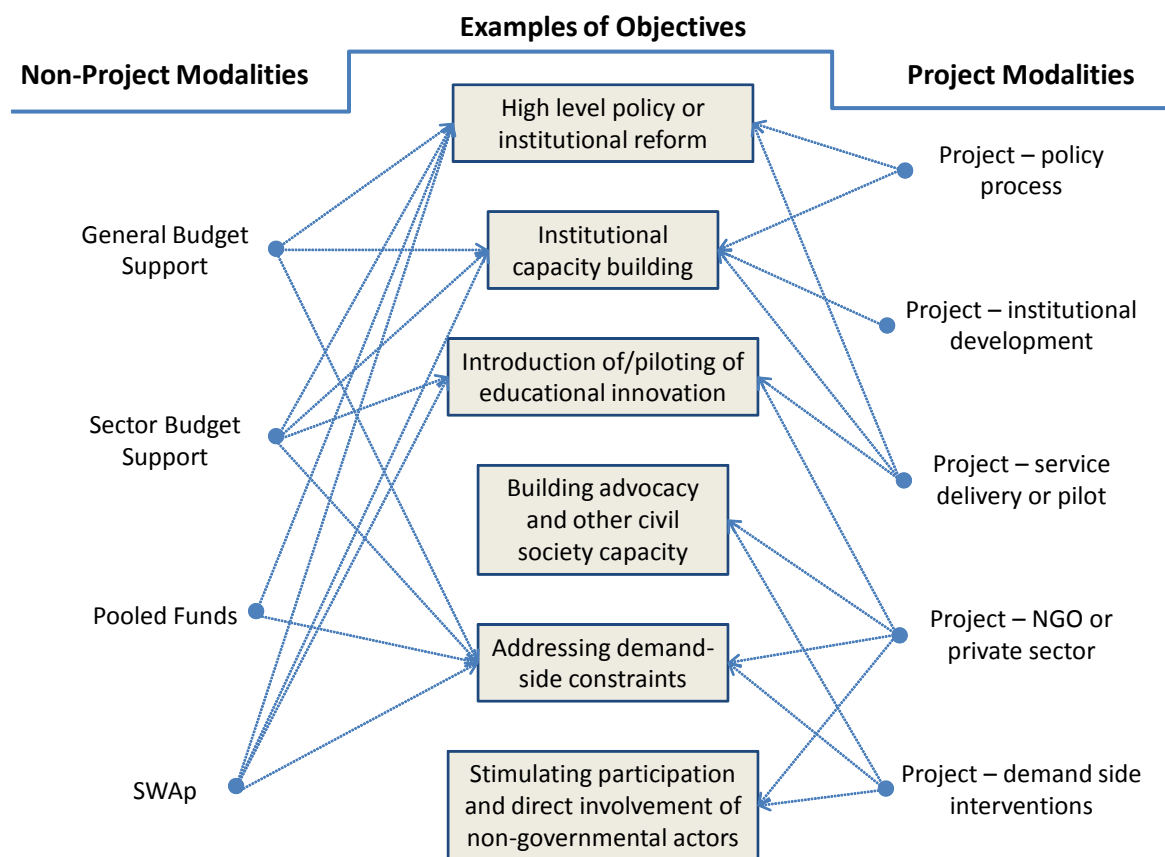
The objectives of USAID’s education programs are varied and range from policy and institutional reform to educational innovations in teaching and learning. More often than not, one program may include objectives at both ends of this spectrum. Some modalities lend themselves more to certain kinds of objectives. For example, budgetary support was often used to leverage key policy reforms, such as reallocation of resources or enacting and enforcing priority education sector policies. However, such mechanisms were not traditionally well suited to supporting school- or classroom-level changes. Often, an accompanying project would provide the technical assistance that helped ensure that the use of resources was well planned, managed, and accounted for. Many successful USAID programs in 1990s relied on this artful combination of project and non-project assistance to achieve broad ranges of objectives. It is therefore important to not think about assistance modalities in isolation, but to consider how they can be combined to obtain as much value as possible in a given context (where value is measured in terms of meeting specific program objectives).

Now that USAID has articulated the education goals it is willing to support, education officers can consider—as the USAID Education Strategy stipulates—how the country context dictates which objectives to pursue, and also defines the range of realistic assistance modalities to consider. For example, Goal 3 of the education strategy targets crisis and conflict-affected environments. It is hard to imagine that government capacity in such situations enables use of non-project assistance. Goal 1,

which focuses on achieving improvements in reading outcomes in primary education, will require supporting interventions that can improve day-to-day classroom and school management practices (USAID, 2011). Studies of budgetary support indicate that these are the areas where their impact is weakest (IDD and Associates, 2006; Hedger et al, 2010) and where it is probably most advisable to consider project-based interventions. However, USAID education officers are gaining experience using host country contracting (under the right circumstances) to channel project assistance to specific school-level improvements. For example, USAID is one of five donors providing support to the in-service community teacher training program for which the Benin Ministry of Primary Education is the implementing partner. Host country contracting has also been used successfully in Ghana.

Figure 1 depicts how different modalities may relate to different program objectives. Under what conditions can general budget support be used to support the introduction or piloting of education innovations? How must a service delivery project be structured to also support institutional capacity building and high-level policy reform?

**Figure 1. Modality–Objective Relationships**



Note that this depiction indicates that each modality may be suited to more than one program objective. In addition, modalities from both the non-project and project side of the chart relate to each objective, indicating that assistance modalities can be combined in support of particular objectives. For example, budgetary support may provide the leverage and discretionary resources that encourage

government to take on needed institutional reforms. A pooled fund may make it possible for several development partners to provide resources for specific institutional capacity building activities related to those reforms, and the planning, management, and monitoring and evaluation of such activities may be best supported by a specific project, which itself may be financed either through the pooled fund or through additional bilateral funding.

While the diagram does not show links between non-project modalities and the development of civil society capacity or greater involvement of non-governmental actors, sector-wide programs do include provisions that are meant to ensure greater civic participation in education sector policy dialogue. Most SWApS create space for civil society to participate in priority setting, planning, and monitoring and evaluation. Local education groups are set up to manage the multiparty discussions between government and development partners. These were originally referred to as local donor groups, but the name was changed to reflect greater attention to ensuring broader civic involvement. FTI applications in fact require documentation of civil society agreement with the proposed sector priorities and plans.

When handled correctly, a sector-wide program can also make more information available publicly within countries—increasing transparency and access to information for civil society organizations. However, experience ensuing active civil society engagement in sector reform programs has at best been mixed. The FTI evaluation found that civil society participation is minimal in most countries. Considering different ways to promote and build the capacity of civil society actors to be more active in setting priorities and monitoring implementation may be one area where targeted project assistance can improve the performance of non-project programs.

While there are some a priori assumptions about which modalities are best suited to which objectives as the above discussion implies, it is worth considering how several different approaches can be used to support the range of objectives from policy reform, to budget reallocations, to improvement in service delivery, to reforms in local governance and management. In fact, even a casual review of USAID's prior experience with non-project modalities indicates that combining well-targeted technical assistance, investments in key inputs and/or processes, and budgetary support can create effective synergies. The conditions in a country should dictate whether budgetary support is even feasible, then indicate the extent to which that support should be accompanied by strategic, projectized investments in capacity building, technical assistance, or third party intervention (be it contractor or NGO) to shore up implementation capacity.

The critical consideration for USAID would appear to be devising sound techniques for assessing the political, policy, and institutional contexts, as well as negotiating in concert with other funders to determine how best to combine modalities and align them to at least complement what others are doing in the sector.

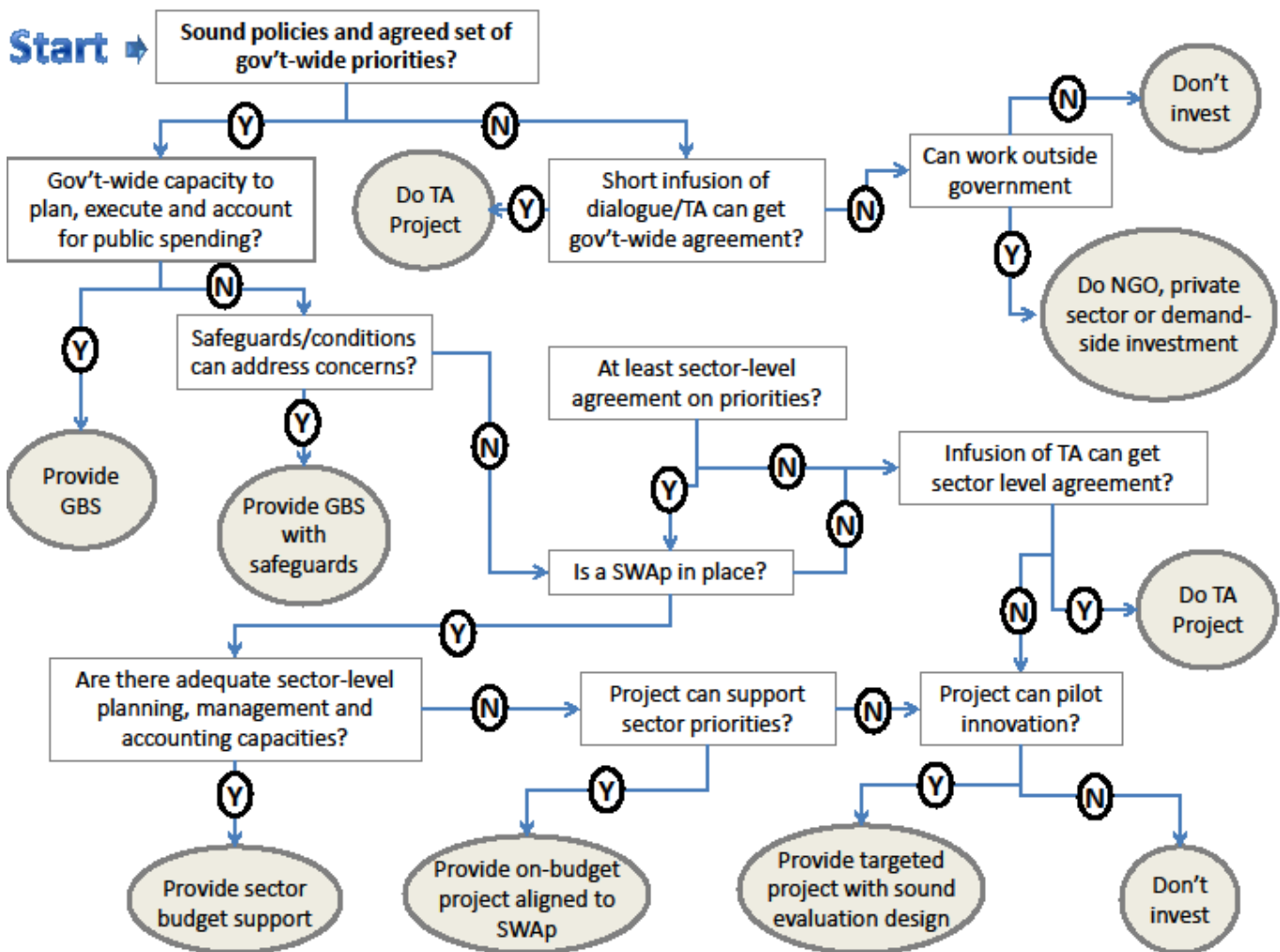
#### *4.3 Conditions Necessary for Different Modalities*

As indicated above, not all modalities are suited to all country conditions. Budgetary support can only be provided when certain government capacities are in place. Demand-side interventions only make sense

if there are significant demand-side issues to be addressed. How best to identify and respond to the conditions required for successfully choosing a modality that is more aligned than another, or that better supports USAID’s objectives than another, is therefore part of what any framework should address.

One approach to considering the contextual conditions that determine which assistance modality is recommended in a particular country is to create a decision tree (See Figure 2, adapted from Foster, 2004). The idea of the decision tree is that a funding agency starts by wanting to use the most aligned or Paris-like instrument and only reverts to less aligned modalities of assistance if certain conditions are not present. The decision tree depicted here is used to illustrate 1) the criteria that may be important to consider (the questions asked in the boxes) and 2) the types of projects that are recommended based on the responses to those question (the ‘decisions’ in the circles).

**Figure 2. Assistance Modality Decision Tree**



An example can illustrate how the decision tree highlights the criteria that may be required for different assistance modalities. Beginning at the top left, if sound policies and government-wide priorities are in place, then the second criterion is whether there is adequate government-wide capacity to plan, execute, and account for public spending. If both of these government-wide conditions are met, then general budgetary support may be applicable (note the importance of government-wide capacity when considering general budgetary support). If they are not, then additional criteria are introduced, which lead to either a technical assistance project focused on policy process being justified, sector budget support, different kinds of project assistance, or even the decision to not invest.

Admittedly, the example of this kind of decision tree is greatly oversimplified. Nevertheless, it provides a useful heuristic for thinking comprehensively about the interplay between contextual conditions—government commitment, nature and quality of sector strategies, plans and policies, institutional capacity, managerial/technical capacity—and funder desire to adhere to Paris Principles. Additional consideration of course needs to be given to the funder’s own capacity in areas such as: Technical and managerial capacity of its in-country team; level of funding and pre-existing agenda in a particular country; and relationships with other funding agencies and with government and civil society institutions.

Going forward, USAID should invest in defining the pre-conditions (for the context and for itself) that it thinks are most important in determining which modalities can readily be applied in the education sector.

#### 4.4 *Tradeoffs Associated with the Choice of Assistance Modality*

Judgments about how aligned a particular development agency’s approach is to Paris Principles can be made on the basis of several criteria. The aid effectiveness orthodoxy promotes three broad areas in which to consider how Paris-like a particular approach is (see Knack, et al., 2010). These include the following:

- Is assistance aligned with a government’s priorities (as expressed, for example, in its poverty reduction strategy, medium-term expenditure framework, or sector plan) and does it promote broad-based ownership of those priorities within the country?
- Does assistance make maximum use of government’s own systems for allocating, managing, and accounting for resources and implementation progress (including public financial management, procurement systems, and avoiding parallel project implementation structures)?
- Is assistance harmonized with other funding agencies’ modalities? Is it more predictable, untied, allocated based on comparative advantage and explicit complementarity, using joint analytical work, joint monitoring and evaluation, and review procedures?

However, USAID’s—or any other agency’s—concern should not be limited to just how aligned its assistance is, as discussed above. As indicated in Section 4.2, USAID should also consider its

programmatic objective when choosing a modality. Furthermore, like most development agencies, USAID must also consider how it reports on its use of assistance dollars and the impact obtained for the money invested. The choice of assistance modality has implications for how easy or hard it is to track U.S. support and link that support to specific, measurable outcomes in the education sector. On one extreme, giving U.S. assistance dollars to FTI's Catalytic Fund would make it very difficult to measure the impact of those dollars. USAID could choose, however, to handle that in the same way it handles reporting on its contributions to IDA or other multilateral mechanisms. Also, a review of the use of performance assessment frameworks in conjunction with general budget support indicated that jointly agreed performance measures and processes can effectively monitor performance, including expenditure tracking and improvements in service delivery (Lawson, Gester, and Hoole, 2005). On the other extreme, funding direct service provision or instituting a cash transfer program allows the agency to very concretely say how many families or children benefited from U.S. assistance and perhaps the impact of that assistance. In between these extremes lie a variety of impact and reporting challenges.

In the past, USAID, in particular in the Africa Bureau, successfully reported on the impact of NPA programs by relying on indicators of sector development and improvement. The percentage of the budget funding education, unit non-salary expenditure on quality enhancing inputs, changes in enrollment rates or girls' access to education were all tracked and reported on, with the explicit understanding that since a USAID NPA program was providing budgetary support, improvements in the sector could be associated with USAID assistance. In its report on DFID's support to education, the UK National Audit House found that while it is "rarely possible" to attribute the share of progress in any country to a specific intervention (DFID's or anyone else's), it is "reasonable to associate" DFID's contributions with the successes or failures achieved.

In the current climate in which USAID has placed even greater emphasis on monitoring and evaluation of the impact of its programs and in which the Agency has articulated specific, quantifiable goals for its education assistance, it remains to be seen if the standard of 'plausible association' will hold. It is doubtful that USAID can reach its target of improved reading skills for 100 million children without taking into account how its programming combines with governments' own efforts and the contributions of other development partners. USAID funds by themselves will not be able to achieve this objective, so accounting for the U.S. contribution within a larger, multiparty effort will be an important job for education officers in the coming years.

Table 1 offers some indication of the kinds of tradeoffs that, in general, are associated with different assistance modalities. A summary of the objectives usually supported by the indicated modality is given, as well as some of the reasons for using a particular modality, the reasons for not using it, and a column in which USAID staff can identify examples of education programs making use of each modality.

**Table 1. Summary of Assistance Modality Tradeoffs**

<b>Modality</b>	<b>Objective</b>	<b>Is a good idea because...</b>	<b>Is a bad idea because ...</b>	<b>Examples</b>
<b>General Budget Support</b>	Support government-wide commitment to policy and institutional reform.	Reinforces broad public sector decision-making and relies on country's systems for planning, managing and accounting for expenditures.	Gives away all control of use of resources and implementation progress becomes beholden to gov't's own procedures and absorptive capacity.	
<b>Sector Budget Support</b>	Support education sector commitment to policy and institutional reform.	Allows resources to be targeted to the education sector in support of ministry identified priorities.	Too often lacks support of broader gov't (especially the finance ministry) and can create substitution effect.	Zambia
<b>Pooled Funds</b>	Promote harmonization of donor approaches and mechanisms in support of sector objectives.	Is on-budget and allows multiple agencies to support a coherent set of investments without separate management and reporting requirements for each funder.	Requires co-mingling of resources and makes it impossible to account for use of US development assistance dollars. Can also create substitution effect.	
<b>SWAp</b>	Explicitly sign on to a multi-donor commitment to align resources to government's sector policies and plans.	Aligns assistance to gov't's stated priorities and plans for the sector and puts more ODA on-budget, giving a fuller picture of resource requirements to achieve sector goals.	Too often is donor driven and overly reliant on government supplying education, without adequate attention to the political and demand sides of educational reform.	Malawi Senegal Ethiopia Tanzania
<b>Project – policy process</b>	Provide process inputs at critical junctures in policy development and priority setting.	Can support in-country processes for policy dialogue, priority setting and building of national consensus.	Is process driven and thus inherently non-linear, making it difficult to track and report results according to a project time frame.	Guatemala El Salvador
<b>Project – institutional development</b>	Build capacity of indigenous institutions (often in the public sector).	Can target improved planning, budgeting, management and financial reporting and other sector capacities that make gov't better able to use ODA effectively.	Resources used to build central capacity and fund institutional inputs, often with little-to-no discernable impact in terms of education provision or improvement.	Numerous
<b>Project – service provision or pilot</b>	Directly support key innovations usually in teaching and learning or in decentralized management.	Can lead to direct impact at the school or student level and often demonstrates innovation or generates system learning.	Uses models that are often not replicable (too costly or too management intensive) and are rarely taken to scale or sustained.	Numerous
<b>Project – NGO or private sector</b>	Work through NGOs or the private sector to introduce innovations.	Allows resources to be funneled to where they are needed, reinforces the role of civil society, mobilizes additional capacity and can model alternative approaches.	Allows government to neglect certain areas or populations because others are addressing them.	Ghana

Modality	Objective	Is a good idea because...	Is a bad idea because ...	Examples
<b>Project – demand-side interventions</b>	Provide resources directly to beneficiaries to remove constraints to educational access.	Can funnel resources directly to beneficiaries and can address demand-side constraints.	Requires high degree of information to identify funding recipients and only works if there is capacity for good supply response.	
<b>Host Country Contracting</b>	Support government’s or local institutions’ capacity to provide services.	Reinforces in-country capacity (whether in government, NGO or private sector).	Requires high degree of capacity, can overburden local institutions with reporting requirements and leaves implementation progress hostage to absorptive capacity.	Ghana Benin
<b>Public-Private Partnership</b>	Stimulate better government relationships to private sector institutions.	Can mobilize additional resources, institutional capacity and stakeholder support for development objectives.	Has to take into account private sector interests (e.g., penetrating markets, building brand loyalty) that may not align perfectly with development objectives.	Guatemala Tanzania Indonesia
<b>Development Credit Authority</b>	Leverage private sector financing for development project objectives.	Does not require direct infusion of ODA and helps mobilize private sector capital by providing credit guarantees.	Requires a profit-making interest directly related to the development objective, which may not exist in some cases. Can have high initial costs for assessing capacity of private sector institutions and market research.	Ghana Jordan

#### 4.5 USAID’s Internal Dynamics

In addition to the global context, individual country contexts, and aid effectiveness agenda, another factor impinging on USAID’s decisions about which assistance modalities to promote are the recent trends within USAID. Over the last decade, U.S. funding for education has gone up more than eight-fold and the number of countries in which USAID has education programs has gone from 20 to 55 between 2000 and 2010. More resources and more programs led to a need for more USAID education staff, which it has indeed hired. Over 30 new education officers have joined the agency in the last five years.

Into that climate the new Education Strategy has been inserted. As mentioned earlier, it places greater emphasis on achieving measureable outcomes and commits USAID to focusing its efforts on only three goals. While there is considerable scope for different kinds of interventions under each of the goals, the intent of the new strategy is to have impact at scale. This means choosing countries where the capacity and commitment to broad-scale improvement is evident. Small programs, below a threshold of \$2 million annually, will be eliminated so that resources can be concentrated in countries where impact is likely to be greatest.

What kinds of internal pressures are created by having so many more career officers working in education with large amounts of resources to manage? What additional expectations accompany the increased program and staff resources? How does the new focus on results impact education officers?

Do new officers working to establish their reputations and build their careers have incentives to design certain kinds of projects and choose certain kinds of assistance modalities?

In addition to the above internal dynamics, USAID, as always, is subject to congressional oversight. There is currently much discussion regarding the use of local institutions and appropriations language (at least in early drafts) indicates a strong expectation on the part of Congress that USAID make greater use of in-country partners. It is not clear how this will play itself out in different contexts where local organizations may not have the institutional capacity to responsibly handle infusions of USAID funding. As USAID sorts out exactly how best to promote greater interaction with local institutions while simultaneously trying to move larger amounts of funding, reports from the field on how USAID Missions are managing to work in new ways will be helpful. In addition, the Obama administration is reconsidering U.S. participation in multilateral assistance efforts like FTI. Drafts of appropriations language also mention multilateral mechanisms, even leaving open the possibility of the emergence of an education global fund. Will USAID be increasingly pressured to channel some of its resources through FTI or other global multilateral endeavors? And could increased commitment to multilateral approaches translate into greater expectations for use of more aligned/harmonized approaches and multilateral collaboration within countries? It would be very useful to gather the points of view of education and program officers in the field to determine the extent to which they see a relationship between USAID's choice of assistance modality and its ability to leverage a significant seat at the multilateral table in-country.

## **5. Conclusion**

The emergence of the aid effectiveness agenda over the last decade is in many ways an admission that much of development assistance has not been very effective. Over the years, far too many projects have had too little impact. However, the Monterrey, Rome, Paris, and Accra Principles that form the backbone of the drive for more effective assistance may only prove to be the latest attempt to have hope triumph over reason. No one knows if using 'more aligned' approaches to deliver ODA will lead to better development outcomes. Most actors hope that doing so will at least allow aid to flow more efficiently. By commissioning this paper, USAID is at least asking itself some of the right questions, principle among which is whether the choice of aid modality affects how well it makes use of assistance dollars in pursuit of tangible development outcomes. Of paramount, immediate concern for USAID is determining which modalities best allow it to put into operation its new Education Strategy. USAID may not be ready to commit to general or even sector budget support, but could more purposefully align its bilateral assistance to sector-wide programs and ensure that its assistance dollars are accounted for in the sector financing framework. Using host country agencies as implementing partners is one way to ensure that government systems are used to manage the external assistance, without putting money directly into a government's budget.

In fact, a review of the literature and experience to date provides little basis for a blanket claim that the most or more aligned modality is necessarily the best option in all circumstances. In fact, one could contend that the available evidence suggests that there is no single answer to the question of which modality to employ. Several different modalities, if structured correctly, may provide viable routes to

the desired objective, while supporting the basic tenets that underpin the Paris Principles. Giving budgetary support may, on the surface, seem like a 'more aligned' approach, but under the wrong conditions it could prove counter-productive to the development objectives the Paris Principles strive to achieve. Under the right conditions and with adequate attention to how a project is designed and managed, a traditional-looking service delivery project can, in fact, be aligned with Paris Principles and be supportive of sector institutional and policy reforms and could contribute directly to the education outcomes USAID has committed itself to achieving.

## Annex 1: Modality Definitions

Modality	Definition
<b>Non-Project Assistance</b>	
General budget support	Agency transfers funds directly into HC treasury (either foreign exchange or the local currency generated from foreign exchange sale) in exchange for country meeting specific, often budget-related conditions.
Sector budget support	Agency transfers funds into the education sector budget or a special account set up and controlled by the education ministry in exchange for country meeting specific, often sector-related conditions. Can target the education sector generally, a specific sub-sector, or even a category of expenditure within a sub-sector.
Pooled funds	Agency pools its resources with those of other funders according to an explicit agreement and in support of the country's education sector policies and plans (can be projectized).
SWAp	Agency signs an agreement to participate in a sector-wide approach that requires it to align whatever assistance modalities are being used in the country to the host country policies, priorities and plans and as negotiated with the government and other funders.
Global funds (FTI or other)	Agency contributes to a global funding mechanism like FTI's Catalytic Fund, and then participates in the decision-making regarding how all global mechanism funds are allocated.
<b>Project Assistance</b>	
Project – Policy process	Funds technical assistance and costs associated with policy dialogue events, policy analysis work and communications campaigns in support of policy development, priority settings and consensus building.
Project – Institutional development	Agency funds technical assistance, training and/or other key institutional supports for government institutions.
Project – Service delivery or pilot	Agency funds the provision of services (training, materials, school organization, etc) through a contractor, sometimes including the piloting of a particular innovation or approach.
Project – NGO or private sector	Agency funds the provision of services through an NGO or a private sector institution operating in the country. Often includes investment in developing the institutional capacity of the funded organizations, and may include investments in supporting the development of the non-governmental sector for service provision, advocacy and accountability.
Project – Demand side interventions	Agency funds the transfer of resources directly to targeted beneficiaries in the form of cash transfers, stipends, scholarships, or other mechanisms.
<b>Other Mechanisms</b>	
Host country contracting	Agency contracts directly with government or non-governmental institutions in country. USAID manages contract, but host country institution is responsible for implementation.
Public-private partnerships	Agency supports liaisons between public institutions and private sector operators (that can be global or local), sometimes providing seed capital to get the partnership started.
Development Credit Authority	Agency provides loan guarantees to local financial institutions so that they will make credit available to private operators for the provision of education or education-related services.

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