

Enhancing the Allocative Efficiency of Education Aid: A Review of Issues and Options

Birger Fredriksen

Consultant on Education Policies and Programs in Developing Countries

Abstract

This article reviews issues and options for allocating education aid by sub-sector, purpose and country in ways likely to increase the impact of such aid on national and international development goals, including by mitigating the dependency risks in countries highly dependent on aid. The article focuses on Sub-Saharan African countries. To promote more strategic allocation and use of aid, the article calls for more effective global coordination to ensure that the sum of aid allocation decisions made by individual donors makes sense in the aggregate in terms of maximizing the impact of overall aid on education outcomes, nationally and globally. The article warns that the current neglect of allocative efficiency issues in general, and of the funding of regional and global public good functions in particular, undermines the overall effectiveness of education aid.

Introduction

During the last decade, much of the global debate on official development assistance (ODA) has focused on reversing the marked decline in overall ODA during the 1990s, especially for Sub-Saharan Africa (SSA), and on enhancing aid effectiveness. Work on defining the objectives in the latter area culminated in the 2005 “Paris Declaration” on aid effectiveness. The Declaration comprises more than fifty commitments with targets for 2010, largely designed to foster higher *technical efficiency* in aid delivery and use through “harmonizing” aid modalities, improving donor coordination, and fostering stronger ownership and better governance by recipient countries. Progress was assessed at the September 2008 “Third High-Level Forum on Aid Effectiveness” in Accra, Ghana, which concluded that the pace of progress was too slow (AAA 2008, paragraph 6).

The situation for *education aid* mirrors that of overall ODA in that the international debate focuses on advocacy for increasing the *volume* of such aid, especially to attain the Education for All (EFA) and Millennium Development Goals (MDGs). And most of the concerns regarding aid effectiveness focus on enhancing the *technical efficiency* of delivery and use of aid, *once decisions have been made on how to allocate the aid* by education subsector, purpose, or country. Much less attention is given to determining *what the allocative priorities should be* to maximize the catalytic impact of the aid on progress towards national and/or international development goals. And even less attention is given

to how different ways of using any given level of aid may mitigate *potential harmful aid dependency risks* arising from the unprecedented duration of high aid dependency in SSA. Even if aid is delivered and used efficiently, its effectiveness is reduced if the aid is not used where it can have the strongest catalytic impact, or if it is used in ways that creates harmful dependency risks. This applies to education aid as it does to the allocation of overall ODA.

This article explores the scope for enhancing the effectiveness of education aid within this more holistic framework. The purpose is *not* to discuss the difficult question of what an “appropriate level” of aid for education might be. Rather, the article calls for much more strategic allocation and use of *any given level of aid* to enhance its catalytic impact, including by mitigate potential harmful effects of prolonged high levels of aid dependency. The article is organized in two parts. The first explores ways in which aid can be more efficiently allocated to enhance its catalytic impact. The second part discusses aid dependency.

Enhancing the catalytic impact of aid through more efficient allocation

There are many reasons for the low attention paid to whether better targeting of aid on particular areas, purposes, or countries could increase aid effectiveness¹. First, the existing distribution of aid is the outcome of complex processes within individual donor countries and agencies as well as within recipient countries, each responding to many constituencies, including national parliaments, national and international civil society organizations, and international goals, such as the EFA goals and the MDGs. In addition, the distribution by country of bilateral aid often depends on historical ties. There is little concerted international effort to monitor the extent to which all of these processes add up to an “optimal” distribution of overall education aid to maximize its impact on, for example, agreed international development goals². At a time when severe budget constraints may lead to further stagnation or decline in aid, where aid fatigue is growing and where there are new demands for ODA arising from, e.g., climate change and food security needs, it is more urgent than ever to ensure that whatever aid is available is used as effectively as possibly.

Second, addressing allocative efficiency concerns raises a number of issues on which there is not always agreement, neither among policy makers in recipient and donor countries, nor among development specialists. For example:

¹ This article employs the terms “allocation” and “targeting” to denote earmarking of aid to given areas or purposes through, for example, targeted projects or budget support with performance indicators designed to increase public budget allocations for such areas or purposes.

² A notable exception is the annual UNESCO EFA Global Monitoring Reports. However, too little is done by the international education aid community to follow up on the report’s findings.

- i. Why give more attention to the *allocative efficiency* of aid?
- ii. What is the *degree of fungibility* between aid and domestic funding?
- iii. How should the rising importance of knowledge in the development process affect education aid allocation?
- iv. On which areas should aid be targeted to have the highest impact?
- v. Does aid targeting by donors conflict with the “Paris Declaration”?
- vi. Should the very unequal distribution of aid among countries be addressed?
- vii. Is there a need to redress the balance between financial and technical aid?
- viii. Should more aid be given to “regional and global public good functions”? If so, why is this not occurring?

Issues related to each of these questions will be highlighted below.

(i) Technical versus allocative efficiency of education aid

The term *technical efficiency* denotes the effectiveness by which a set of inputs is used to produce outputs. The concept does not take into account whether the *inputs* are those most likely to produce the desired *outputs*, or whether the outputs are the best that can be produced to reach certain overarching *outcomes*. Applying this concept to the efficiency of education aid delivery and use, donors have worked to deliver aid (the inputs) more efficiently by reducing aid fragmentation through greater coordination and harmonization, developing more efficient aid instruments, channeling more aid through national systems and ensuring greater aid predictability. They have also worked with aid recipient countries to improve the efficiency by which the aid that is provided for a *given purpose* has been used by strengthening country ownership, governance, and institutional capacity.

Applying the term *allocative efficiency* to education aid means asking whether the aid provided is used *where it can have the greatest catalytic impact in enhancing education outcomes*. To improve the technical efficiency of aid is important. However, by far the largest share of education expenditures in most countries is funded by domestic resources. Therefore, what can be gained from more efficient delivery and use of aid is limited if the aid substitutes for – rather than adds to – national funding, or is not *deployed strategically* where it can promote most effective use of *total domestic and external education funding* in reaching national and/or international education goals.

Reviewing aid allocation priorities is very important at the present time to ensure that they evolve to reflect emerging challenges resulting from the progress towards Universal Primary Education (UPE) since 2000 and the needs for skills development to compete in the increasingly knowledge-based global economy. This suggests shifts in aid priorities by:

- *Sub-sector*: Less “single-minded” focus on *access* to primary education and more on *equity* and *quality*, and less focus on *primary education* alone and more on the *other five EFA goals* and on *skills development* beyond basic education.
- *Type of aid*: To develop and implement policies to address such challenges require stronger and broader national capacity than what was needed to achieve the progress towards UPE in the last decade, which was largely achieved by constructing more classrooms, increasing class-size and recruiting more (often poorly trained) teachers.
- *Country*: From those “*on-track*” to reach EFA by 2015 to those “*off-track*”.

(ii) Fungibility and additionality

Presumed high degrees of *fungibility* between *aid* and *domestic funding* and high levels of *additionality* of aid to domestic funding are two important factors explaining the scant attention given to the allocative dimension of aid effectiveness within a given country. If the two sources of funding are fully fungible, they can be pooled in the national budget to support the Government’s program, which would reflect any special priorities donors may have for use of their aid. And the main reason for giving aid for a given purpose is to provide additional resources for that purpose. However, the interaction between domestic and external funding is quite complex, with respect both to the degree to which they are *fungible* and the extent to which aid results in *additional* resources.

First, there is not complete symmetry in the *fungibility between aid and domestic funding*; while aid may replace domestic funding for most types of expenditures, domestic funding will not necessarily replace aid, should aid not be available. This is particularly the case in countries that are highly aid dependent and where very tight budgets may not even be sufficient to fund teacher salaries. Under such circumstances, a government’s “political survival” may hinge on its ability to pay salaries and address other pressing short-term urgencies. Investments recognized from well-performing countries to have high longer-term impact – such as strengthening the capacity to conduct analytical work, formulate policies, and test innovations – will almost by necessity be given lower priority. Therefore, targeting aid on these types of investments may enhance effectiveness of total education expenditures.

Second, as regards *additionality*, the availability of aid for one education sub-sector may either cause recipient countries to shift public domestic funding to other sub-sectors³ or simply to use aid to substitute for domestic funding that would have been mobilized in the absence of aid. As discussed later, such substitution may create harmful long-term effects by creating aid dependency rather than sustainable increase in domestic education funding.

³ In this case, aid could still result in increased total education funding.

(iii) The growing role of knowledge in development⁴

The role played by *knowledge* in the development process has risen dramatically over the last couple of decades. This rise has been caused by many factors, including a greater understanding of the role knowledge plays in determining economic growth⁵, emergence of the “knowledge economy,” increased globalization, and the revolution in information technology. Furthermore, the very concept of “knowledge” has been extended beyond *technical* knowledge to include its *successful application* in different national political, economic, and cultural contexts. As a corollary, policies to narrow the “knowledge gap” are an essential part of any successful development strategy.

How should these developments impact aid priorities? The answer is complex⁶, country- and time-specific, and goes well beyond deciding on the priorities for education aid. Still, given the role of the education sector in creating, adapting, and transmitting knowledge, it is important to review the role of such aid in helping countries benefit from the knowledge revolution⁷. This includes finding the right balance between using aid to enhance the national capacity to, respectively, develop *new knowledge* and to *acquire and adapt existing knowledge* often developed abroad. The latter function is especially important in many low-income countries where (i) modern private industry is weak and plays a minor role in knowledge creation and diffusion, and (ii) the knowledge base is poor, and acquiring and adopting new knowledge from abroad is more important than in countries that are economically more advanced. Under such circumstances, aid can help develop the capacity of the public sector not only to create knowledge, but also to acquire, and adapt knowledge, as well as to improve the skill level of the labor force to absorb new knowledge, thereby helping countries “leapfrog” by drawing on other countries’ experiences.⁸

(iv) Areas of comparative advantage of aid

Views may differ on where education aid can have the strongest impact on education outcomes. However, experience suggests that aid may be particularly important in funding certain types of high-impact education investments which may not be adequately funded in the absence of aid. Examples include investments in support of:

- Capacity-building: Many studies have noted the slow progress in strengthening

⁴ Sections (iii) and (iv) draw on Fredriksen (2008).

⁵ Warsh (2006) discusses the gradual integration of knowledge in economic growth theory.

⁶ For a discussion, see World Bank (1999).

⁷ World Bank (2002) discusses the role of tertiary education in constructing knowledge societies. The article by Varghese in this publication discusses how aid for higher education can be made more effective.

⁸ World Bank (1999, pp. 130-143) emphasizes the key role of international agencies in this process. World Bank (2008a) evaluates the World Bank’s effort to use knowledge to improve development effectiveness.

the planning and implementation capacity in the education sector in low-income countries⁹. This is disappointing, considering the large amount of aid devoted to this purpose. Therefore, success will require a new approach, by *countries* as well as by *development agencies*. Rather than focusing on enhancing technical skills in the traditional manner (largely through training abroad, resident external technical assistants and equipment), the new approach must give more attention to (i) enhancing countries' *institutional and organizational capacity* to mobilize, utilize, and retain existing skills, (ii) better integrating work in the education sector with that of other sectors, and (iii) broadening the capacity-building work to cover areas such as enhancing equity, student performance and teacher accountability.

Success in implementing this type of reform will require *strong national political commitment and leadership*. A key reason for the slow progress is the *difficult political economy* of institutional reforms, especially in stagnant economies with weak governments. This constraint has been particularly acute in low-income SSA countries where GDP per capita in 2000 was about one-third lower than in 1970, and where today, despite the growth in the last decade, it is only back to its 1980 level. The economic growth experienced the last decade offers an environment more conducive to reform and aid should be used more proactively to help countries grasp this opportunity. Finally, as discussed later, more attention needs to be paid to ways of mitigating the potential negative impact of high aid dependency on the quality and capacity of national institutions.

- Innovation: Aid often plays a determining role in helping countries pilot and innovate to develop education policies and programs adapted to local conditions. For example, an evaluation of aid for basic education in four countries (Bolivia, Burkina, Uganda, and Zambia) concludes that, "...project support for basic education has played an important role in supporting innovation and the development of new practices" (Netherlands Ministry of Foreign Affairs, 2003, p. 96). Similarly, based on the review of case studies for 26 SSA countries, Marope and Sack (2007, p. 16) conclude that, "The case studies demonstrate that substantial technical and financial support from international development agencies has been crucial to the achievements reported."
- Specific reforms: Education aid has been used more deliberately in recent years to support reforms in areas critical to achieving EFA. One example is the

⁹ For example, UNESCO (2007, p. 27) concludes that: "... extraordinarily limited attention has been paid to strengthening national capacity", and "...countries need much stronger capacity to deal with the political economy of reforms and with technical constraints on implementation". World Bank (2005), OECD (2006), and De Grauwe (2009) provide in-depth reviews of issues and options in capacity-building.

development of tools to measure learning outcomes. This follows an increasing realization that universal completion of primary education cannot be achieved without much more effective interventions to improve learning outcomes. For example, an evaluation of the World Bank's support for primary education recommended that "Primary education efforts need to focus on improving learning outcomes, particularly among the poor and other disadvantaged children" (World Bank, 2006, p. xiii). To achieve this, donors have increased their support for analytical work on the determinants of learning outcomes covering the impact of traditional school inputs as well as of decentralized and school-based management. Much of this work is unlikely to have been achieved in the absence of targeted financial and technical aid.

- Poverty-focused programs: Most of those not enrolled in primary education are from poor families, live in rural areas, and are predominantly female, orphaned, or disabled. In countries struggling to reach EFA, these groups benefit much less from public education spending than do more well-off groups, urban residents, and children who are easier to reach, who are less likely to require costly, targeted programs, and who have a stronger "political" voice. Most donors' aid strategies strive to be poverty-focused by prioritizing poor and vulnerable groups. To ensure that this priority is reflected in the way their aid is allocated and used will be particularly important in the coming years where there may be strong "political economy" reasons to respond to demand pressure for post-basic education rather than to the needs of those who have not yet benefitted from basic education.
- Non-salary inputs: In very resource-constrained situations, a very high share of public education budgets is used for teacher salaries, leaving little for other pedagogical inputs. Aid has helped mitigate this bias by focusing on non-salary inputs, though the trend towards budget support is changing this focus. This can be addressed by ensuring that national budgets include specific budget lines for non-salary inputs and by monitoring that adequate provision for such inputs is made.
- Advocacy: Promotion of EFA, girls' education and ECD are good examples of the crucial role that aid has played in facilitating advocacy conducted by both national and international agencies¹⁰. Areas where advocacy has been less effective include the need for sharply increased support for literacy programs, especially for women.
- Cross fertilization: Innovation is often stimulated by learning from other countries

¹⁰ The article by Garcia and Pence in this publication gives an excellent example of this for ECD.

through various types of knowledge-exchange and peer learning. These types of activities are often more easily funded through aid than domestic budgets. Learning from others is crucial for a sector such as education; development of good education policies is hardly an exact science, and failed reforms often have major human, development, and cost implications. Therefore, while education policies must be firmly rooted in national values, economic conditions, and social context, they must also be informed by good practices from other countries. History is rich in examples of the importance of learning from other nations and cultures. For instance, the development of higher learning has been one of cross-fertilization: Arab-European in the 12-14th centuries; and European-Japanese¹¹ and European-US in the 19th century. More recently, countries such as Korea, Ireland, Singapore, Thailand, and Vietnam have used aid very strategically to develop their education systems¹².

The above discusses inputs and areas where aid may have comparative advantage. The “Paris Declaration” also calls for countries to provide clear views on donors’ comparative advantages in providing certain types of aid and on how to achieve donor complementarity at the country or sector level. Donors commit to making full use of their respective comparative advantages. While little that is concrete seems to be done to coordinate aid from this point of view, this does nonetheless recognize that the effectiveness of education aid can be enhanced by actively seeking out such advantages in order to enhance the quality of the aid provided and limit aid fragmentation.

(v) Aid targeting and country ownership

There is no contradiction between the call in the “Paris Declaration” to align aid with national strategies, institutions, and procedures, and the desire to use aid where it can have the highest catalytic impact. However, in practice, legitimate differences may arise between donors and recipient countries on where aid may have the highest impact, or on trade-offs between different objectives. For example, it may be more difficult politically for governments to resist social demand pressure for post-basic education than demands of marginalized out-of-school groups who have less political voice, but whose needs may be the top priority for many donors. Such differences may especially arise in countries where there is low government accountability to the population for how aid is used, while parliaments in donor countries often set priorities for the use of their aid. Also, it is not always easy to “harmonize” differences between donors regarding aid priorities and delivery approaches.

¹¹ Emi (1968) describes the high priority given by Japan during the Meiji era (starting in 1868) to acquiring foreign technical knowledge. The article by Yoshida in this publication provides another example.

¹² See Fredriksen and Tan (2008).

To promote effective aid coordination, the “Paris Declaration” calls for strong capacity in aid agencies as well as solid political leadership and capacity in aid recipient countries. As discussed later, this is essential also to protecting countries against potential harmful effects of high aid dependency. In the end, it is the responsibility of the recipient countries to decide whether or not aid target for special purposes is acceptable to them. To exercise this responsibility well requires strong institutional capacity.

(vi) Distribution of aid among countries

There are huge differences among countries in the level of education aid received. The AAA calls for donors to “...work to address the issue of countries that receive insufficient aid” (paragraph 17). In 2007, aid commitments to primary education per primary school-aged child averaged US\$14 for SSA¹³. Twelve countries received US\$5 or less per child, while seven received more than US\$50. This compares to US\$3 per child in East Asia and the Pacific, US\$4 in South Asia, and US\$5 in Latin America and the Caribbean. These differences are due to factors such as strong historical links between some recipient and donor countries, the difficulty of providing effective *development* aid in some conflict-affected countries, and last decade’s focus on performance-based aid to address low aid effectiveness in the 1990s. However, developments over the last decade warrant a change in strategy in favor of countries which are far away from reaching the 2015 EFA goals. Such a change would be likely to accelerate the progress towards the *global* EFA goals.

(vii) Balance between financial and technical aid¹⁴

Most low-income countries have four avenues for accessing ODA-funded technical support, all of which are increasingly constrained in their ability to provide such support:

- Technical support by aid agency staff: The increasing use of budget support and other multi-sectoral funding instruments in the education sector has led to a shift in the agency staff managing education aid programs from education specialists towards generalists and macro economists. This reflects the call of the “Paris Declaration” to channel more aid through national systems. It is also a result of the desire of some agencies to reduce administrative costs per dollar of aid provided. However, achieving such goals by reducing the quality of technical support accompanying the funding could be a flawed measure of efficiency: What is gained in reduced administrative costs and improved focus on macro and inter-sectoral issues could be more than lost due to less effective education aid. Low-income countries need to be able to draw on high quality education expertise from

¹³ Data from UNESCO (2010), pp. 438-445.

¹⁴ The terms “technical aid” and “technical support” are used interchangeably to denote aid in support of capacity-building activities such as analytical work, policy advice, knowledge exchange, peer learning through “south-south” cooperation, and work to develop national consensus on policies and strategies.

aid agencies *regardless of the funding instrument used*. This concern reflects the donors' commitment in the AAA to "...strengthen their own capacity and skills to be more responsive to developing countries' needs" (paragraph 14), a commitment on which there has been little systematic follow-up by the international aid community.

- Donor funding for technical support: Use of general budget support tends to reduce the availability of aid to fund technical support. In a context of severe budget constraints and many urgent demands, it has proven more difficult for education ministries to obtain financing for analytical work, knowledge sharing, and other types of technical support through the national budget processes than when such support is funded through targeted projects. Fast Track Initiative's Education Program Development Fund has provided support for *program development* work. However, countries also need easy access to technical support during *program implementation*.
- Buying technical support: The "technical assistance market" comprises a large number of suppliers ranging from individual consultants and consultancy companies to academic institutions. This market is very fragmented. Neither the providers nor the users have adequate information on what expertise is available to best address the problem at hand. Often, quality assurance is poor, and donor funding is tied to use of institutions in the donor country. To help countries "navigate" this market is another reason why aid agencies need to have strong technical expertise.
- Weak public good institutions reinforces the negative impact of the above three factors on the availability of high-quality technical support, see point (viii) below.

The volume of financial aid has increased in recent years while the capacity of agencies to provide high-quality and well coordinated technical support is declining. This happens at a time when low-income countries need better access to such support to develop and implement evidenced-based policies and programs in response to emerging challenges. This development deserves more attention by the international aid community.

(viii) Neglect of "regional and global public goods"¹⁵

Factors such as rapid globalization, greater "international openness", and the ICT revolution have greatly increased the scope for drawing positive "cross-border externalities" from national good practices experience and technical expertise – that is, to

¹⁵ This term is used to denote a wide range of knowledge-generation and dissemination activities as well as technical support and cooperation, facilitated by regional and global institutions and networks.

turn these into *global public goods*. But the ability of especially developing countries to benefit from this development is hampered by the fact that the capacity of agencies and networks established to perform this type of public good functions in the education sector is generally quite weak. Therefore, an important element of a new donor strategy for capacity-building should be to strengthen the international community's ability to produce more and better quality public goods in the education sector.

No data are available on the share of education aid used to support public good functions. However, as an illustration, in 2008 and 2009, the annual budget of the leading technical agency in the education sector, UNESCO, was only US\$54 million for education (17% of its total budget including support for its affiliated education institutes) of which only US\$16.5 millions was allocated to operational activities. This compares to a total commitment of country-specific education aid of US\$12 billion in 2007. While public good activities are supported in many ways other than through UNESCO, it is clear that the share of education aid allocated to such activities is very low. This is reinforced by the fact that education attracts much less funding from foundations and other private sources for public good activities than e.g., the health sector. Thus, even a marginal shift of total education aid to public good functions could have a major impact, including by enhancing the *effectiveness of country-specific education aid* by harnessing the synergy between the two types of aid.

The “classic” factors causing underfunding of public goods produced and consumed within a given nation are even more severe when it comes to funding *regional and global* public goods¹⁶. In addition, funding is hampered by the complexity of measuring the impact of such goods. Therefore, since donors tend to “treasure what they can measure,” it is easier to fund, for example, school construction than knowledge-exchange or institution-building, which, at best, will only show results in the long term. In addition, as discussed in the article by Burnett in this publication, the slow progress in reforming UNESCO has hampered provision of the global public goods that that agency was designed to provide.

Various mechanisms are used to address this funding issue including: direct funding of regional institutions by member states; a combination of funding by member states, country hosting a global good institution and business revenue-generation; ODA grants; and private foundations. Some of these approaches are illustrated by articles in this publication¹⁷. One common approach used by donors trying to overcome some of these problems is to establish special “Trust Funds” located in international agencies and earmarked for funding certain types of public good activities, often through global programs. However, while very useful, so far this is at best a partial solution. Access to

¹⁶ For an overview of these issues, see Sagasti and Bezanson (2001) and Amoako (2008).

¹⁷ Confer the articles on the Norwegian Education Trust Fund, ECD and RECSAM.

some of these funds for low-income countries can be quite difficult and high in transaction costs. With the exception of the multi-donor fund established within the framework of the “Fast Track Initiative”, there is also little coordination among donors in the establishment and use of such funds.

In short, the weakness of global public good functions in the education sector should be dealt with much more urgently and purposefully by the international aid community than what is the case today. This is an area to which *new donors entering the education sector should consider giving priority*. Even small contributions in support of regional public good functions could make a major difference. But, as noted in Burnett’s article on UNESCO, more than money is required: In many cases, funding needs to be coupled with serious efforts to revitalize institutions and networks designed to provide public goods.

Mitigating dependency risks through more efficient aid allocation

The general aid literature discusses many potential negative impacts of aid dependency¹⁸. Such concerns are particularly relevant for many SSA countries – and for the education sector – given the unprecedentedly long duration of their high aid dependency, including the high share of aid in public education budgets. Still, the international debate on education aid pays little attention to how possible harmful dependency effects might be mitigated through alternative use of such aid.

This article *does not* address the difficult question of the level beyond which education aid may become “too risky”. Clearly, this will depend on country conditions¹⁹. Rather, the article argues that, *for any given level of aid*, more attention should be given by both donors and recipient countries to how this aid can be better used to enhance its impact, *including by mitigating potential aid dependency risks*. The importance of doing so increases by increasing reliance on aid to fund education. To this end, the below discussion starts by highlighting the level of aid dependency in SSA as a background for discussing three sets of aid dependency risks in the education sector:

- Aid may substitute for – rather than add to – domestic public education funding.
- High aid volatility may interrupt education delivery, complicate long-term policy-making and planning, and create political risks.
- High aid dependency may weaken national institutions.

¹⁸ For a summary of the literature, see Moss, Pettersson, and van de Walle (2006).

¹⁹ For example, “The Government of India refused the offer of substantial amount of aid for primary education until 1993 because of concerns that it would lose sovereignty over policy decisions. Even after that, aid was less than 2% of total expenditures on primary education,” UNESCO (2006), p. 98.

(i) Unprecedented long duration of high aid dependency

The degree of aid dependency in many SSA countries is unprecedented, both in terms of level of aid and length of high dependency. As regards aid levels, in 2008, net total ODA per capita (all sectors) was US\$49 in SSA, US\$16 in Latin America and the Caribbean, US\$8 in South Asia, and US\$5 in East Asia and the Pacific. Aid exceeded 10% of GDP in 21 SSA countries and 20% in seven of these countries²⁰. Aid exceeded 10% of GDP in only *one* country outside SSA (Afghanistan), and only in five other countries did aid exceed 5% (Cambodia, Georgia, Lao, Nepal, and Timor-Leste). Even more striking is the fact that, in 2007, aid exceeded domestic-funded public budgets in 13 of the 38 SSA countries for which data are available, and the median ratio between aid and domestic resources was 60%²¹.

As regards the *length* of high dependency, Moss et al. (2006, p. 3) note that:

“Globally, there is a core set of roughly three dozen countries that have received a tenth of GNI or more in aid for at least the last two decades. This is a lengthy time period for receiving sizeable aid with few historical precedents. The large flow to Europe during the Marshall Plan lasted only for a few years and never exceeded 3 percent of GDP in any receiving country.... While substantial US support during the early Cold War to allies such as Korea and Taiwan tapered off within a decade, contemporary aid ratios in these three dozen countries have tended not to recede, but to grow larger over three decades”.

As regards *aid for education*, paucity of data makes it difficult to assess the share of public education budgets that is funded by aid. Estimates made by the author suggest that, in 2006, aid comprised about 25% of the public education budget in the median SSA country²². The variation around the median is huge; the ratio between aid and domestic funding ranged from below 5% in eight countries to above 50% in nine countries.

Over the last decade, many studies have argued that a substantial increase in education aid is crucial to reaching the EFA goals. For example, UNESCO (2010, p. 130) concludes that, on average SSA would need US\$10.6 billion *annually* for *basic* education alone between 2008 and 2015. This represents about 66% of the estimated total aid needed for all low-income countries for basic education, and it is more than six times the total aid commitment for basic education in 2007. Clearly, an increase of this magnitude would represent a hugely increased aid dependency for years well beyond 2015. Similar to other estimates of this type, the study does not discuss how the increase in aid might affect aid

²⁰ Berg (2000) suggests that beyond 5% of GDP, aid starts to have negative effects on local institutions.

²¹ Data sources: World Bank (2010a), Table 12.1, and World Bank (2010b), Table 6.16.

²² This is the median for 40 SSA countries, based on GNI data from World Bank (2008b), and data on education aid and on education expenditures as share of GNI from UNESCO (2008).

dependency in the education sector, what risks it might present, and how alternative uses of the increased aid might help mitigate such risks.

(ii) Aid substitution versus additionality

The overarching purpose of aid to any sector is to *add* to domestic resources, thereby helping countries grow out of aid dependency. But if aid instead ends up *substituting* for domestic resources, aid risks creating dependency without sustainably increasing a country's resource base. For example, Moyo (2009) argues that the relatively high level of aid to Africa over several decades has negatively impacted the countries' efforts to mobilize sustainable domestic funding for development.

As regards education, there is little evidence on the extent to which aid replaces domestic public funding. But whatever the level of additionality might be, there are still ways to enhance it through better targeting of the aid. For example:

- Counter-cyclic funding: UNESCO (2010) estimates that the current economic downturn will cause a US\$4.6 billion loss in SSA domestic education budgets annually in 2009 and 2010. This exceeds the total amount of education aid to SSA in 2007 (US\$ 3.6 billion). In past downturns, education aid has declined as well. If this were to happen this time, it would reinforce the negative impact of the crisis on domestic funding. Together, these two factors could cause a sharp reduction in education funding, which could jeopardize the education gains of the last decade. While substituting domestic funding with aid is a risky long-term strategy, using aid to replace a cyclical decline in domestic funding may be a sound *short-term strategy* to protect past gains, including those resulting from past aid. And given the difficulty in reverting education declines, counter-cyclic funding may be more important for education than for other sectors.
- Underfunded inputs and areas: As noted earlier, strategic use of aid for inputs where aid has comparative advantage, and/or in support of severely underfunded high-priority programs is likely to result in additional funding for these inputs and areas.
- "Donor orphan countries": More aid for countries which are far from reaching the EFA goals but receive little aid may help accelerate the global progress towards EFA.
- Public good functions: As already noted, increased support for such functions is likely to enhance aid effectiveness and thus help mitigate dependency risks.

(iii) Aid volatility and predictability

In the “Paris Declaration”, donors have committed to reducing risks caused by high aid volatility and low predictability. Such risks are particularly serious in the education sector because high aid dependency means that timely payment of teacher salaries depends on timely delivery of aid. An abrupt interruption of aid could cause teacher strikes, which could seriously impact education delivery²³ and even social stability. Still, many factors make it difficult to ensure aid predictability. For example:

- Changing context: Unexpected developments in both donor and recipient countries may affect donors’ ability to deliver on their commitments. For example, the current budget crisis has affected aid budgets. There may also be reallocation of aid in favor of emerging priorities, such as climate change and food insecurity. Also, it has proven difficult to ensure predictable support for highly aid-dependent countries with fragile political, security, and governance conditions, as exemplified by recent cuts in aid to e.g., Guinea, Guinea Bissau, Madagascar, and Niger.
- Uncoordinated withdrawal or entry to a country or sector by donors affects the predictability of aid flows. In particular, the pressure on post-primary education could result in donors reducing support for basic education in an uncoordinated manner. This may already be happening. While overall aid commitments for education in SSA declined by 13% between 2006 and 2007, the decline for basic education was 24%, accounting for the total decline (UNESCO 2010, p. 442). It is difficult to determine whether this change is “justified” since there is no systematic international coordinated assessment of aid priorities, globally or in individual countries. However, *in terms of risk*, it means that the countries affected need to mobilize much more domestic resources for primary school teacher salaries. This may be difficult in countries that are both highly aid dependent and facing an economic crisis. Similarly, new donors are entering the field (see King’s article on China). This is very encouraging. However, recipient countries need to ensure that their entry is coordinated with support received from other partners.
- Comparative advantage of donors: As already noted, in the “Paris Declaration”, recipient countries and donors commit to seek division of labor among donors and to “make full use of their respective comparative advantage at sector or country level...” (paragraphs 33-35). If donors were to focus their limited technical capacity on areas and countries where they have comparative advantage, this could improve aid predictability by promoting stronger and more stable

²³ During the last two decades, due to long-term deterioration in teachers’ conditions, strikes have seriously disrupted education delivery in many SSA countries, even causing cancellation of whole school years.

partnerships. It would also limit aid fragmentation and reduce transaction costs.

- Strategic use of “volatile” aid: Certain uses of aid are potentially more risky than others in case aid is cut. For example, to stop or delay investments may be less risky than to not pay teachers. Also, to fund adult literacy and “second chance education” programs is more sustainable in the long term than to fund regular teacher salaries. If successful, the need for such programs will gradually decline, while the need to fund primary school teachers is permanent. Moreover, literacy programs are often conducted by contract teachers rather than by civil service teachers.

(iv) Impact of high aid dependency on institution building

Capacity-building has been a central focus of ODA, including in the education sector. However, as discussed above, success has been elusive, in part because the strategy employed does not respond well to current needs. In addition, there are many reasons why high aid dependency *in and of itself* may reduce the effectiveness of aid in building capacity. Moss et al. (2006) reviews a number of such reasons, many of which also apply to the education sector. For example, high aid dependency may weaken national institutions by:

- Distorting the budget processes and delaying structural change: As discussed above, the volatility of aid makes long-term planning difficult. Beyond that, the possibility of mobilizing aid to cover budget deficits causes a “soft budget constraint” which may result in postponement of difficult but inevitable budget trade-offs and structural changes. As a result, a high level of aid risks replacing taxation and creating disincentives that, in the long term, hamper the development of the institutional capacity needed to sustainably generate the domestic revenues that will allow a country to grow out of aid dependency.
- Switching political accountability and legitimacy from citizens to donors and lessening Governments’ ownership of the development agenda: This is another potential serious negative impact of high aid dependency on national institutions. If donors provide a large share of governments’ budgets, aid may undercut the main principles on which the “Paris Declaration” is based, i.e., fostering ownership, accountability, and participation.
- Turning bureaucrats’ attention to donors rather than to core development functions: This is a widespread concern. The complaints range from the time senior officials spend on meeting the various reporting requirements of aid agencies, to the incentives created by aid for rent-seeking behavior, spanning from minor distractions, such as attending workshops to receive per diem, to outright

corruption.

While not specific to the education sector, the above factors apply to the education sector as well. At a time when strong advocacy for increased aid coexists with recognition of the ineffectiveness of past capacity-building strategies, the potential impact of increased aid dependency on the capacity of national institutions deserves much more attention. The “Paris Declaration” includes a number of measures that could address some of these concerns. However, as illustrated by the AAA, the progress towards the 2010 goals has been modest.

To conclude this section on aid dependency risks, countries that have grown out of aid dependency have had high quality political leadership, policies, and governance, resulting in strong economic growth, e.g., Botswana, Mauritius, Korea, Taiwan (China). This has facilitated strong growth in education funding. Similarly, recent history in Africa suggests that, in the end, a necessary condition for SSA countries to reduce their education aid dependency is to achieve *high and sustained economic growth*. For example, largely as a result of economic stagnation, public education budgets in SSA grew annually by only about 1% between 1980 and 1999. This compares to about 9% annually between 1999 and 2007, about two-third of which was explained by solid economic growth. Given that education expenditures already constitute about 20% of public budgets in SSA, and 4.5% of GDP, economic growth is likely to be an even more important factor than in the past decade in determining SSA countries’ ability to both reach EFA *and* respond to the pressure for post-primary education in a way that does not further increase their aid dependency.

Concluding remarks

This article has called for increased attention to more strategic allocation and use of education aid in order to enhance its catalytic impact, including by mitigation harmful effects of prolonged high levels of aid dependency. To achieve this aid, progress is required in two areas. First, more work is needed to clarify the scope for *enhancing the effectiveness of education aid through improved allocative efficiency*. At present, this aspect of aid effectiveness receives little attention. Second, to promote such work as well as to implement any resulting strategy to improve allocative efficiency, *more effective global coordination mechanisms need to be developed for education aid*.

Since the 2000 Dakar Education Forum, there has been much focus on the need for low-income countries to develop better quality sector plans, more evidenced-based decision-making processes, and stronger implementation capacity. It could be argued that the same degree of attention has not been paid to the potential for increasing the catalytic impact of education aid through better quality decision-making and follow-up on aid allocation and coordination matters *by donor countries and agencies*. To do so should be

the next phase in the ongoing struggle to enhance the effectiveness of education aid.

References

- AAA - Accra Agenda for Action (2008). "Statement Issued by the Third High Level Forum on Aid Effectiveness." Accra, Ghana, September 4, 2008.
- Amoako, K.Y. (2008). "Meeting Global Challenges: International Cooperation in the National Interest", in Kasekende, L. and M. Kisubi (eds.): *Eminent Speakers Series: Sharing Visions of Africa's Development*. Volume 1, Tunis: The African Development Institute.
- Berg, E.J. (2000). "Aid and Failed Reform: The Case of Public Sector Management." In Finn Tarp (ed.), *Foreign Aid and Development: Lessons Learned and Directions for the Future*. London, UK: Routledge.
- De Grauwe, A. (2009). *Without Capacity, there is no Development*. Paris: UNESCO/IIEP.
- Emi, K. (1968). "Economic Development and Educational Investment in the Meiji Area." In *Readings in the Economics of Education*. Paris: UNESCO.
- Fredriksen, B. (2008). "The Evolving Allocative Efficiency of Education Aid: A Reflection on Changes in Aid Priorities to Enhance Aid Effectiveness". Washington DC: World Bank.
- Fredriksen, B., and Tan, J. P. (eds.) (2008). *An African Exploration of East Asian Education Experience*. Washington, DC: World Bank.
- Marope, P.T.M, and Sack, R. (2007). "The Pedagogy of Education Policy Formulation: Working from Policy Assets". *Perspectives in Education* 25, no. 1 (March): 11-30.
- Moss, T., Pettersson, G. and van de Walle, N. (2006). "An Aid Institutions Paradox? A Review Essay on Aid Dependency and the State Building in Sub-Saharan Africa". Working Paper Number 74, Washington DC: Center for Global Development.
- Moyo, D. (2009). *Dead Aid: Why Aid is Not Working and How There is a Better Way for Africa*. New York: Farrar, Straus and Giroux.
- Netherlands Ministry of Foreign Affairs (2003). "Local Solutions to Global Challenges: Towards Effective Partnerships in Basic Education. Final Report." The Hague.
- OECD (2006). *The Challenge of Capacity Development: Working Towards Good Practices*. Paris: OECD.
- Sagasti, F. and Bezanson, K. (2001). *Financing and Providing Global Public Goods: Expectations and Prospects*. Study prepared for the Ministry for Foreign Affairs, Sweden. Sussex: Institute of Development Studies.
- UNESCO (2006). *EFA Global Monitoring Report 2007*. Paris: UNESCO
- UNESCO (2007). *EFA Global Monitoring Report 2008*. Paris: UNESCO.
- UNESCO (2008). *EFA Global Monitoring Report 2009*. Paris: UNESCO.
- UNESCO (2010). *EFA Global Monitoring Report 2010*. Paris: UNESCO.
- Warsh, D. (2006). *Knowledge and the Wealth of Nations: A Story of Economic Discovery*. New York and London: W.W. Norton.
- World Bank (1999). *World Development Report 1998/1999: Knowledge for Development*. Washington, DC: World Bank.

- World Bank (2002). *Constructing Knowledge Societies: New Challenges for Tertiary Education*. Washington, DC: World Bank.
- World Bank (2005). *Capacity Building in Africa: An OED Evaluation of World Bank Support*. Washington, DC: World Bank Independent Evaluation Department.
- World Bank (2006). *From Schooling Access to Learning Outcomes: An Unfinished Agenda. An Evaluation of World Bank Support to Primary Education*. Washington, DC: World Bank Independent Evaluation Department.
- World Bank (2008a). *Using Knowledge to Improve Development Effectiveness: An Evaluation of World Bank Economic and Sector Work and Technical Assistance, 2000-2006*. Washington, DC: World Bank Independent Evaluation Department.
- World Bank (2008b). *African Development Indicators 2008/09*. Washington, DC: World Bank.
- World Bank (2010a). *African Development Indicators 2010*. Washington, DC: World Bank.
- World Bank (2010b). *World Development Indicators 2010*. Washington, DC: World Bank.