

More Strategic Allocation of Education Aid: A Neglected Aspect of Aid Effectiveness

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Overview: Key issues in enhancing the **allocative efficiency** of aid*

1. **Aid effectiveness:** Using aid to enhance impact of total education spending (aid + other external funds + domestic funding) on national and global education outcomes
2. **Aid debate:** Must focus less on volume and more on impact of how aid is allocated:
 - **At country level:** by (i) education sub-sector; (ii) purpose; (iii) financial/technical aid; (iv) aid instrument; (v) type of aid to limit harmful long-term aid dependency
 - **At international level:** among (i) countries; (ii) country-specific/global public goods (GPG); (iii) bilateral/multilateral; (iv) agencies to optimize division of labor
3. **Poor global education aid coordination hampers strategic use of aid:**
 - Inadequate global monitoring of whether sum of allocations made by each donor maximizes impact of aid on national and global education outcomes
 - Poor predictability and accountability of delivery on aid pledged at G-8/G-20 summits
 - Neglect of other external funds: Non-DAC** ODA , FDI, remittances, foundations
 - Inadequate attention to efficiency and funding of global public good agencies
4. **Need more evidence-based aid allocation and coordination by donors**

• Aid = Official Development Assistance (ODA) from DAC countries

1. The setting: Summary of Education Aid

1. **Total ODA disbursement** (all sectors, 2009): \$120 billion
 - Declining share of ODA in total DAC funding: In 2009, ODA = 1/3 of total DAC flows
 - In addition: Rapid rise of non-DAC ODA and non-ODA, foundations, remittances
 - ✓ **Increased fragmentation**: In new context of external funding, growing need to monitor whether aid allocations by each donor make sense in aggregate

2. **Education aid**: \$11.4 billion (9.6% of total). **Distribution of education aid (2008)**:
 - Sub-S. Africa (SSA): **28%**; East Asia: **18%**; Arab States: **14%**; South and West Asia: **12%**; Latin America: **8%**; Europe/Central Asia: **7%**; unallocated **13%**
 - Basic education: 41%, secondary: 12%, higher: 36%. Rest unspecified
 - Narrow base: 2007-08: 7 donors = 68% of education aid: France (17%); Germany (13%); IDA/World Bank (11%); Japan (8%); Netherlands (7%); UK (6%); US (6%)
 - Distribution bilateral/multilateral: 80%/20%
 - Limited data on external funding for education from non-DAC donors

Rest of presentation: **Efficient allocation and use of education aid**

2. Optimizing education aid allocation to enhance impact

(a) Enhancing aid effectiveness: A multi-faceted challenge

1. Two broad types of aid:

- Country specific: Financial and technical aid delivered directly to countries
- Global Public Good (GPG) functions: Aid coordination, technical aid, knowledge exchange, etc. facilitated by global and regional GPG agencies and networks

2. Effectiveness of country-specific aid depends on:

- (i) Allocative Efficiency (AE): Extent to which aid is allocated to and used for purposes where it has the greatest catalytic impact on national education outcomes
- (ii) Technical Efficiency (TE): Extent to which aid allocated to a given purpose is delivered efficiently by donors and used efficiently by the country for this purpose
- (iii) Aid Dependency Efficiency (ADE): Extent to which aid is used in ways that helps a country mitigate harmful long-term aid dependency

3. Effectiveness of GPG functions depends on:

- (iv) Aid Coordination Efficiency (ACE): Extent to which aid allocation among countries and between country specific and GPG functions maximizes global outcomes
- (v) Global Public Good Efficiency (GPGE): Extent to which aid is allocated optimally between GPG agencies/networks and GPGs are delivered efficiently by them

2. Optimizing aid education allocation to enhance impact (cont.) (b) Neglect of key aspects of aid effectiveness

1. **Attention to aid effectiveness focuses on TE:** 2005 Paris Declaration set 2010 targets for harmonization, alignment, governance, mutual accountability for results
 - But slow progress as witnessed by 2008 Accra Agenda for Action
 - Many factors on side of both donors and aid recipient countries hamper progress
2. **Little attention to AE:** Improved TE is *necessary but not sufficient* to improve *aid effectiveness* if the aid is not *strategically allocated and used* to maximize impact
3. **Very little global attention to** aid dependency (ADE), aid coordination (ACE) and global public good (GPGE) efficiency:
 - Neglect of ADE: Limits attention to sustainability and avoiding harmful dependency
 - Neglect of ACE: Constrains optimal aid allocation by country, sector, purpose
 - Neglect of GPGE: Limits poor countries' ability to benefit from global knowledge and technical expertise as well as synergies between country-specific aid and GPGs
4. **Need more evidence-based aid allocation and coordination:** Much done to improve decision making in recipient countries. Same needed for donors' decisions

3. Optimizing aid allocation at the country level (a) Comparative advantage of aid

1. Most low-income countries face **severe budget constraints**. This makes the **political economy of key budgetary trade-offs** very difficult, e.g., between:
 - Short-term urgencies versus longer-term investments
 - Populations groups with different strength of political voice and vulnerability
2. In this context, **fungibility between aid and domestic funding is not symmetric**:
 - **Aid** can substitute for **domestic funds** for most purposes, **BUT** because of political-economy reasons:
 - **Domestic funds** will normally prioritize (i) short-term urgencies/salaries over longer-term investments, and (ii) vocal groups over groups with little voice
3. **Comparative advantage of aid in this context**: Provide additional funds for under-funded longer-term investments and services critical to building an inclusive system responding to long-term national economic, social and cultural development needs

3. **Optimizing aid allocation at the country level (cont.)**
(b) Areas where aid has comparative advantage

1. **“Soft investments” for Capacity Development (CD)** to develop systems:
 - Knowledge-base for evidence-based decision making, e.g., analytical work/research; piloting of innovations; capacity to harness, adapt and apply knowledge
 - Expertise to formulate, implement and monitor policies; and to evaluate outcomes
 - Political capacity to build consensus on policies and budget trade-offs; apply merit-based staffing policies; set service-delivery standards and exercise accountability
- ✓ **Need new CD strategy** to build effective and accountable institutions able to mobilize, strengthen, utilize and retain existing national expertise
2. **Capital investments to enhance quality of delivery:** Learning materials; staff development; systems for teacher and school management and accountability
3. **Equity for neglected groups:** Out-of school youth; rural/informal economy workers; girls/women. Political economy for countries of ensuring equity likely more difficult as groups with stronger political voice push for post-basic education
4. **Counter-cyclic budgetary support** during crisis to protect poor and past gains

3. Optimizing aid allocation at the country level (cont.) (c) Mitigate aid dependency risks: Mainly a SSA problem

1. **Total ODA** to SSA is at unprecedented high levels and long duration:

- Aid exceeds domestic-funded government budgets in 13 for 38 SSA countries. Median ratio between aid and domestic resources: 60% (2007)
- Of 46 SSA countries (2008), aid exceeded 10% of GDP in 21 and 20% in 7. Aid exceeds 10% in only one country outside SSA, and 5% in only 5 countries

2. **Aid for education**: Also unprecedentedly high in SSA:

- Share of aid in public education budget: 25% in 2006 (median for 40 countries)
- Aid for basic education (2008) in SSA: \$1.6 billion. UNESCO estimates \$10.6 billion needed annually 2008-15 to reach EFA. [What are dependency implications?](#)

3. **For same level of aid, harmful dependency may be mitigated by:**

- Avoid substituting for domestic funding. More poverty-focused => more additionality
- Prioritize inputs severely underfunded and where aid has comparative advantage
- Enhance predictability and use volatile aid for less risky purposes
- Avoid uses that weaken institutions by creating corruption; low ownership; disincentives for domestic resource mobilization

4. Optimizing aid allocation to enhance impact at the global level (a) Distribution among countries

1. **Education aid is unevenly distributed by regions and countries.** In 2008:
 - Aid per primary school child: \$13 in SSA and Arab States; \$6 in Latin America; \$4 in South and East Asia
 - In SSA, 10 low-income countries received less than \$6 per child, 7 more than \$40
2. **Impact of aid on EFA and MDGs may increase by giving higher aid priority to:**
 - Well-performing countries which are “off-track” largely because of low enrollment at independence, and stagnation in the 1980s
 - Post-conflict/“fragile states”. This would mean more “needs-based” and less “performance-based” aid, and greater risk-taking
3. **Ongoing changes in bilateral aid policies will change country distribution:**
 - Many donors plan more support for “fragile states”
 - Concentration of aid on fewer recipients (e.g., Denmark, Netherlands, Norway, UK)
 - ✓ **Positive:** Less aid fragmentation. However, need better global coordination to avoid unintended increased gap in aid between “donor darlings” and “donor orphans”

4. Optimizing aid allocation at the global level (cont.)

(b) Strengthen GPG functions in education sector

1. **Rising role of GPG** because globalization, ICT, knowledge and innovation are increasingly drivers of development. Need stronger GPG institutions to promote:
 - More evidenced-based decision making through capacity-building, technical support knowledge-sharing; comparative studies; cross-country cooperation/peer learning
 - Economies of scale through regional cooperation in specialized training/research. Important for small states: 12 SSA countries less than 2 million inhabitants

2. **BUT many obstacles to mobilizing funding for GPG functions:**
 - “Free rider problem”: General problem in financing goods with positive externalities
 - Difficult to measure GPG outputs: Donors treasure and fund what can be measured
 - Inefficient GPG institutions: Vicious circle: No reform, not more funding
 - Declining technical expertise in aid agencies: Serious issue; little attention

3. **Overall effectiveness of aid likely to improve if international community:**
 - Give higher priority to reforming and funding adequately GPG functions
 - Strengthen the technical expertise of aid agencies to give high-quality aid whether bilateral or multilateral

4. **Optimizing aid allocation at global level** (cont.) **(c) Need more agile global education aid architecture**

Present aid priorities and architecture (increasingly) respond to yesterday's challenges

1. Aid must be used strategically and flexible to address evolving priorities

- Growing need for more knowledge, innovation and capacity intensive education policies and programs to respond to rapid global economic and social change
- Widening development gap among developing countries and regions

2. Multiple challenges on building effective aid architecture for 2010-20 decade:

- DAC donors face: (i) New aid demands (climate change, food security) on declining aid budgets; (ii) increased disillusionment about aid effectiveness; (iii) DAC ODA is declining share of total external funding (foundations; FDI; remittances)
- Challenges for GPG agencies: More funds depend on increased credibility. Need higher quality services, less turf, more cooperation, more division of labor
- "New" donors: Coordination challenges but new opportunities for funds and learning

3. Success will require stronger global leadership in the education sector

Summary: Need global momentum for more strategic use of aid

1. **Some progress in enhancing TE:** “Paris Declaration”; Fast Track Initiative (FTI)
2. **But little attention to enhancing AE, ACE, GPGE or mitigate ADR:** Need to build consensus on global aspects such as:
 - Concepts: What type of aid is most effective in given context? How to enhance aid predictability and additionality? How to mitigate harmful aid dependency?
 - Strategic use of aid to achieve EFA/MDGs and develop skills: How to optimize allocation of given amount of aid among countries; country-specific and GPG functions; technical and financial aid; bilateral and multilateral funding?
 - More effective provision of GPG: How to reform and fund GPG agencies/networks?
 - Mechanisms for (i) Strategic allocation and monitoring of aid to countries and purposes; (ii) Facilitating cooperation between DAC and non-DAC donors; (iii) Enhancing synergy between different types of external funding
 - Strengthening technical expertise of aid agencies including “lead donors” in countries
3. **Necessary conditions for progress include building:**
 - Awareness of the need for more evidence-based aid allocation by donors
 - High-level global political attention to education reflecting high national priorities
 - Mechanisms and funding for translating awareness and political will into action