Aid effectiveness in education: Setting priorities in a time of crisis

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EFA Working Group Meeting, Paris, November 2008
Outline

1. New global economic context & its implications
   - Era of rapid growth
   - More difficult times ahead
   - Aid and the economic slowdown
   - Implications for donor countries
   - Implications for recipient countries

2. Promoting aid effectiveness & setting priorities
   - Progress in education outcomes and the role of aid
   - Removing barriers to aid effectiveness: fungibility, fragmentation, volatility, poor policies & institutions, lack of M&E
1. The new global economic context and its implications
Rapid income growth in 2002-07 (especially in developing countries)


Note: Solid lines show smoothed trend
Private capital flows to developing countries

Note: Equity flows include both foreign direct investment and portfolio investment.

Private capital flows to Africa

Source: IMF Regional Economic Outlook, April 2008 (cited in Fuchs 2008)
Rapid increase in remittances

More difficult times ahead in 2009: Real GDP growth rates and trends (in %)

Deviation from trend GDP growth rate (in %)

Effects on education systems & aid

- Developing countries’ education systems will face new strains as a result of slowdown:
  - Greater fiscal pressures and likely expenditure cuts
  - Reduced ability of households to contribute to schooling costs
  - Possibility of increased enrollments due to poor job markets

- External support will likely be needed more than ever, but donors may be under pressure to reduce aid flows:
  - 1% drop in donor-country GDP associated with 1% drop in aid flows over 1990-2006 period
  - Case in point: In the 1990s, aid flows from donor countries hit by financial crises dropped sharply (see graph)
  - Difficult to predict how aid for education will be affected, but may suffer
Drop in aid from donor countries hit by financial crises in 90s (Scandinavia)

Source: Roodman (2008), *History Says Financial Crisis Will Suppress Aid*
Drop in aid from donor countries hit by financial crises in 90s (Japan)

Source: Roodman (2008), *History Says Financial Crisis Will Suppress Aid*
Implications for donor countries

- Maintain aid effort
  - Donors must not back off on commitments now
  - Necessary after successes of past decade in reducing costs to households
  - Especially crucial in fragile-state settings

- Reconsider allocation of aid
  - Allocate to countries that use it effectively
  - But also reallocate in other ways

- Focus on aid effectiveness and efficiency of public spending
  - See next section
Implications for developing countries

- Protect the most vulnerable and disadvantaged
  - Last to move into school may be first to be forced out
  - Keep children in school through CCTs, emergency scholarships, cuts in school fees

- Consider carefully where to prioritize efforts
  - Make use of evidence on returns (private & social) and costs

- Redouble the focus on results and effectiveness
  - Allows to loosen tightening fiscal constraints – at least a little, and perhaps more
  - See next section
2. Promoting aid effectiveness in education and setting priorities
Progress in education outcomes

- Impressive progress in enrollment and completion this decade (EFA Global Monitoring Report)
  - Primary net enrollments increased from 81% in 1999 to 86% in 2005
  - Pace of increase doubled from the 1991-99 period
  - NERs in Sub-Saharan Africa grew 2% annually since 1999
  - Number of out-of-school children dropped from 96 million in 1999 to 72 million in 2005

- Some progress on other dimensions of education as well
  - Some advances in gender parity in access, esp. in South and West Asia
  - Trends in quality of schooling are less clear, but indications of progress in some countries
Changes in PISA scores

PISA Top 10 movers in reading (2000-2006)

Points in the PISA reading scale

Luxembourg, Chile, Korea, Poland, Latvia, Indonesia, Liechtenstein, Germany, Portugal, Switzerland

Source: Patrinos (2008), Benchmarking Education Systems for Results
How has foreign aid contributed to this progress?

- Overall statistical literature on aid’s effects on growth and poverty reduction is ambiguous
  - 1990s literature: aid effective in countries with reasonably good policies & institutions (Dollar & Burnside 2000, World Bank 1998)
  - Mixed results in more recent literature: aid generally ineffective (Easterly), aid generally effective (Dalgaard, Hansen, & Tarp 2004), short-impact aid is effective (Clemens, Radelet, & Bhavnani 2004)
  - No robust finding of the (intuitively attractive) aid-policies interaction

- Smaller literature on aid and education progress is encouraging
  - New study finds higher aid associated with expanded primary-school enrollment over 1970-2004 (Dreher, Nunnenkamp, & Thiele 2008)
  - Caveats: need more study & verification; hard to control for endogeneity; don’t know about aid’s effects on other education goals
Removing barriers to aid effectiveness

- How can aid contribute more to education progress?
- Likely barriers to converting aid and finance into better education outcomes, and how to address them
  - Fungibility of education aid: help recipients focus on education results (not just inputs), improve overall public expenditure management, maintain own financial effort
  - Aid fragmentation: continue efforts to harmonize
  - Volatility of aid and expenditures: focus on keeping expenditures stable, which means countercyclical aid
  - Poor recipient-country policies and institutions, especially poor service delivery in education: identify breakdowns in service delivery and improve accountability
  - Lack of monitoring and evaluation for results: make M&E integral part of domestically financed programs
Thank You

- For additional information on the Global Financial Crisis, visit our website