



Conference for African Ministers of Finance and Education
**Sustaining the Education and Economic Momentum
in Africa amidst the Current Global Financial Crisis**

Tunis, Tunisia, July 15-17, 2009

Conférence des ministres africains des Finances et de l'Education
**Soutenir la dynamique éducative et économique dans
le contexte de la crise financière mondiale**

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**“External Aid for Education:
The Challenge of Enhancing its Catalytic Impact”**

by
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Outline of Presentation

Discusses how during the current crisis aid can help maintain the strong education momentum in Sub-Saharan Africa (SSA) since 2000. It:

- Summarizes the **momentum since 2000**
- Argues that a **sharp growth in education funding** in support of better education policies was the key factor breaking the cycle of education stagnation of the 1980s and early 1990s, and that **stagnation in education budgets could result in return to education stagnation**
- Suggests that aid can help **maintain the momentum during crisis by:**
 - **Counter-cyclic use** to mitigate impact of crisis on domestic funding
 - **Improving the catalytic impact of aid** on total resource use in the sector
- Discusses **ways the catalytic impact of aid can be enhanced** by changing the allocation of any given volume of aid within countries, among countries and between country-specific and “global public good” education functions
- Proposes that **more strategic thinking is needed on the allocative efficiency of aid** and suggests that this is not done by **existing mechanisms**

Strong Education Momentum in SSA since 2000

1. The Gross Enrollment Ratio (GER) for primary education in SSA:
 - Grew rapidly 1960 -1980: From **45%** in 1960 to **80%** 1980
 - Stagnated 1980 -1999: **80%** in 1980, **72%** in 1992, **78%** in 1999
 - Resumption of rapid growth 1999 -2006: **78%** in 1999, **95%** in 2006
 - **Similar growth patterns in secondary and higher education**: Rapid growth 1960-1980, stagnation 1980 – 2000, and rapid growth since 2000
2. The growth since 2000 reflects sharp increase in public education budgets: **9.3%** annually 1999 - 2006 compared to only **1.1%** annually 1980-1999
3. Growth in domestic public education funding explained about equally by:
 - **Accelerated GDP growth*** : **5.3%** annually 1999 - 2006 (**2.3%** 1980 -1999)
 - **Increased share of GDP for education**: From **3.6%** in 1999 to **4.4%** in 2006
4. Increased education aid supported growth: Disbursements increased **15.8%** annually 1999-2006, but slow growth 2003-2006, and sharp decline in 2007

* GDP growth: Average for SSA excluding South Africa

Role of External Aid in Sustaining the Momentum

Aid helps by increasing resources for education, and by financing inputs less likely to be funded by domestic resources. **During the crisis** aid should help:

1. Mitigate impact of crisis on domestic education funding. Growth in aid since 2000 has increased education funding. **BUT: More aid = increased aid dependency:** Share of aid in public education budget around **25%** in 2006 (median for 40 SSA countries). Therefore:
 - **Avoid aid decline experienced in past crises:** Decline would reinforce negative impact of crisis on domestic funding and could jeopardize education gains since 2000
 - **Use aid counter-cyclical** to mitigate impact on domestic funding of recent sharp decline in growth in SSA. Because of difficulty of reverting education decline, counter-cyclic funding may be more important for education than for other sectors
2. Improve the **catalytic impact of aid** on effectiveness of total resource use in education sector. **Rest of presentation will focus on this aspect**

Leveraging Aid as Catalyst to improve Effectiveness

1. Effectiveness of aid in enhancing education outcomes depends on:
 - **Allocative Efficiency (AE):** Extent to which aid is allocated to purposes where it has the greatest **catalytic impact (CI)**, that is, enhances the **impact of total education spending** (domestic + aid) on education outcomes
 - **Technical Efficiency (TE):** The efficiency by which aid allocated to a given purpose is delivered by donors and used by the country
2. Much needed efforts made in recent years to enhance TE:
 - “Paris Declaration on Aid Effectiveness” in 2005 with targets for 2010
 - Slow progress towards targets noted in 2008 “Accra Agenda for Action”
 - **For education aid:** Progress under FTI to increase TE
3. Much less attention paid to AE:
 - Improved TE necessary but not sufficient to improve aid effectiveness: Better TE less beneficial **if aid not used where it has the highest impact**
 - Crisis increases need for **higher priority in aid allocation to enhancing AE.** However, improved AE should be given higher priority, crisis or not crisis

Need Holistic Approach to enhance CI

Needed because best allocation of given amount of aid to maximize CI depends on:

- Specific country conditions and international context
- Considering total funding (domestic + aid) at all levels of education
- Complex national and international decision processes on aid allocation and use

1. Within a given country: How can aid best be used to enhance impact of total education spending at all levels of education on outcomes?

NOTE: Question is important because **there is not full fungibility between aid and domestic funding in SSA context of high aid dependency and severe budget constrains**: Aid can replace domestic funding, but domestic funding not always allocated through national budget process to replace aid to fund certain high-impact inputs if aid not available (see next slide)

2. Between countries: Trade-offs between e.g., “need-based” and “performance-based” aid and “donor darlings” and “donor orphans”
3. Between country-specific allocations and support for global and regional institutions providing technical support and other “global public goods” in the education sector

Above three points further discussed in rest of presentation

Strategic Use of Aid to enhance CI at National Level

1. Enhance additionality: Avoid aid **substituting for domestic funding**, thus creating **aid dependency without increasing resource base**. Happens:
 - If availability of aid reduces efforts to mobilize domestic resources
 - If aid given as budget support (BS) reduces domestic education funding. Impact may differ between BS targeted on education and general BS
2. More aid for “soft” investments with high long-term impact **but that are difficult to prioritize over short-term urgencies in national budget process**:
 - Analytical work; policy development; south-south cooperation; knowledge-exchange; piloting of innovations; national consensus-building on policies
 - Strengthen capacity of education sector to develop and implement evidenced-based policies: **May learn from success of finance ministries**
3. Aid priorities must evolve to reflect progress since 2000, e.g.:
 - From general increase in access to primary education to improving quality and enrolling difficult-to-reach children still out of school
 - While maintaining priority for EFA, expand post-primary opportunities for youth and develop skills to sustain economic growth. More aid for **selected capital-intensive investments** in post-primary: e.g., laboratories, libraries, equipment, ICT

Strategic Use of Aid at National Level (cont.)

4. More aid to help develop national capacity to harness, adapt and apply knowledge in national context to enhance economic growth
 - Increasingly important, given growing role of knowledge as determinant of growth and of ability to compete in global knowledge-based economy
 - While responsibility goes beyond education sector, sector has particular role in creating, adapting and transmitting knowledge

NOTE:

- To develop policies and programs to address emerging education priorities will be more **knowledge and capacity intense** than those needed to achieve expansion of access since 2000. **This has implications for aid allocation**
- Crisis calls for **using aid counter-cyclical** to protect gains and avoid returning to education stagnation of the 1980s and 1990s. Thus, **aid priorities to maximize CI in short-term** (supporting teacher salaries?) may **differ from aid priorities needed after crisis to maximize CI in medium to long term**

Strategic Allocation of Aid Across Countries

Education aid is **very unevenly distributed among SSA countries**:

- In 2006, total aid commitments to basic education per school-age child averaged US\$17 for SSA. 16 countries received less than \$5 per child, 8 received more than \$100
- Could effectiveness in reaching global EFA goals be improved by changing country allocation? For rest of period up to 2015, this could imply:

1. Higher priority to:

- **Well-performing countries which are “off-track”** largely because of very low initial enrollment at independence and stagnation in the 1980s
- **Post-conflict/“fragile states”**. Could mean more need-based and less performance-based aid. Need better aid strategy for “fragile” states

2. Lower priority to:

- **Well-performing countries making good progress towards EFA** because of own efforts and high levels of aid. **Implication**: Less performance-based aid
- **Resource-rich countries that give low political priority to education**

Country-specific versus “Global Public Good”

Changes in aid architecture has caused **decline in aid agencies’ capacity to accompany financial aid with high-quality technical support/policy advice**:

1. Switch to general budget support has reduced technical capacity by:
 - Reducing technical staff of bi- and multilateral aid agencies
 - Shifting responsibilities for education to generalists and macro economists
 - Reducing targeted funding for technical support/”soft” investments
2. Less funding to foster regional cooperation through:
 - Regional collaboration in e.g., provision of higher education (centers of excellence); cross-country learning; research; regional networks
 - “Global education good” agencies in education sector providing on-demand technical support, e.g., UNESCO, regional institutions and networks (e.g., AU, AAU, ADEA, CONFEMEN, SACMEC, PASEC, research networks)

Overall effectiveness of country-specific education aid may improve if donors give **higher priority to strengthening their own technical capacity** (as called for in Accra Agenda for Action) as well as the capacity of **regional and global public good institutions** in the education sector to support country programs

Need Modalities for Enhancing Allocative Efficiency

1. Modalities are emerging to enhance **Technical Efficiency** of aid:
 - **At international level:** Paris Declaration (PD) defines goals and modalities are established to track progress. FTI does this for education
 - **At country level:** Collaborative mechanisms established
2. Less clear how current modalities address **Allocative Efficiency** (AE) of aid:
 - **At international level:** Need agreements on aspects such as:
 - **Concepts** e.g., what type of aid is most effective in given context; criteria for allocation among countries (e.g., IDA uses such criteria), distribution between country-specific and “global public good” functions (GPG)
 - **Goals and mechanisms** for allocating aid to countries and purposes where it has highest impact. FTI-EPDF could do this for some “soft” investments
 - No mechanism exists for donors to assess **the collective impact of their individual decisions** on aid distribution among countries or between countries and GPG. **Should FTI give more attention to this aspect of aid effectiveness?**
 - **At country level,** the collaborative mechanisms established to promote TE could also handle AE if agreement reached on concept and goals

Summary

1. During crisis, aid can help sustain education progress achieve since 2000 by:
 - **Counter-cyclic funding** to mitigating impact of crisis on domestic funding
 - **Improving the catalytic impact (CI) of aid** on effectiveness of total resource use in the education sector
2. Need **holistic approach to improving CI of education aid**: How best to allocated any given volume of aid within a given country, among countries and between countries and “global public good” functions?
3. **There is not full fungibility between aid and domestic funding** in the SSA context of high aid dependency and severely constrained budgets. Therefore, the CI of a given amount of aid can be enhanced by:
 - **Increasing the additionality of the aid** by avoiding substitution for domestic funding, thus creating aid dependency without increasing resource base
 - **Using aid to fund high-impact inputs** inadequately funded in absence of aid
4. Need to establish **mechanisms that will enable strategic decision making about allocative efficiency of aid** within as well as among countries and between countries and global public good functions in education sector