

# **EDUCATION FOR ALL-FAST TRACK INITIATIVE: THE DONORS' PERSPECTIVES**

by

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THE DONORS' PERSPECTIVES**

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University of Pittsburgh, 2007

How do international aid agencies disburse their aid resources? Do their aid activities work for developing countries? In this dissertation, I attempt to address these questions by focusing on the Education for All-Fast Track Initiative (FTI). The FTI was launched in 2002 under the leadership of the World Bank as well as other foreign aid agencies with a view to achieving universal primary school education (UPE) in developing countries.

The purpose of the study is to disentangle the complexity of foreign aid and clarify a causal pathway of its effectiveness by focusing on the FTI, a multi-donor initiative in the education sector. The FTI provides a mechanism for both donors and recipients to effectively use foreign aid resources. Developing countries are required to show the donor community a credible poverty reduction strategy and education sector plan in order to receive support from the FTI, and donors are expected to disburse their aid resources to align with the FTI in order to improve its effectiveness. However, in the efforts to use the FTI to promote UPE, donor agencies have faced a number of challenges.

In order to analyze the causal pathway of the effectiveness of the FTI, I conducted document analyses and interviewed foreign aid policy makers; I then analyzed the findings from the perspective of the donor agencies' concerns, contracting problems, and capacity. Since the situation of foreign aid differs depending on the context of recipient countries, I conducted case studies by focusing on three developing countries in Asia: Mongolia, Vietnam, and Cambodia.

I present the study in 10 chapters. In chapters 1, 2, and 3, I offer the framework of this research. In chapters 4 and 5, I demonstrate a part of the findings from the research by analytically describing the mechanism of the FTI and by analyzing observed patterns from the perspective of the donors' concerns, contracting problems, and capacity, respectively. I narrate the findings from the case studies in chapters 6, 7, and 8, and I evaluate the performance of the FTI donor agencies in chapter 9. With chapter 10, I conclude this thesis.

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## PREFACE

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## 1.0 INTRODUCTION

As a citizen of Japan, I believe that it is imperative for my country to become more aware of foreign aid, specifically in the area of helping developing countries. The current alienated sentiment toward foreign aid may be derived from the fact that Japan is geographically distanced from developing countries; its people tend to be indifferent towards those impoverished countries unless their explicit interests are involved.<sup>1</sup> This is natural because Japanese people, except for diplomats and aid workers, rarely encounter the problems of developing countries. On the other hand, Japan has become one of the largest foreign aid contributors among rich countries. People interested in having their tax money used effectively with minimal waste pay attention to public works, including foreign aid activities, which use their taxation.<sup>2</sup> This ambivalent feeling of disinterest and concern, unfamiliarity and urgency, may be shared with the citizens of other developed countries: These individuals may be sensitive about how their tax money is used, but they may not have a clear sense regarding what happens in developing countries so distant from their own.

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<sup>1</sup> For example, the Organisation for Economic Co-operation and Development (OECD) indicates the existence of “aid fatigue” in Japan. OECD reports that the Japanese public is “generally unfamiliar with ODA issues” and “is only marginally influenced by” official development information (OECD, 2004, P.10).

<sup>2</sup> “Although in part due to Japan’s weak economic situation, the public is also becoming critical regarding the effectiveness of the aid programme and the commercial sector has become less supportive of aid” (OECD, 2004, P.10).



Meanwhile, a number of researchers and practitioners have discussed the effective use of foreign aid resources so far. Numerous theoretical arguments and empirical researches have tried to explain how foreign aid either succeeded or failed to boost development of poor countries, while many developing countries have not overcome poverty. My dissertation responds to this discussion. Because citizens of rich countries care about the use of their foreign aid resources but remain unacquainted with developing countries, attempting to improve the effectiveness of foreign aid emerged as a tricky task. I argue this challenge from the perspective of the wealthy nations, that is, from the viewpoints of the foreign aid providers.

Industrialized countries have various incentives to provide their resources for the welfare of developing countries. Rich countries and their foreign aid agencies have been struggling to maximize the effect of their foreign aid on the socio-economic development of poor countries while also ensuring their own interests. It is widely recognized that education can break the cycle of poverty in developing countries and create a more stable and prosperous economy and society. In this paper, I focus on a global initiative in the education sector, the Education for All-Fast Track Initiative (EFA-FTI), in order to examine how wealthy countries have made an effort to utilize their foreign aid resources for developing countries and whether those efforts have succeeded. I track the analytical format taken by Keohane and Levy (1996), which frames foreign aid from the viewpoint of “3Cs”—the donors’ concerns, contracting problems, and capacity. Using this approach, I examine the effectiveness of the FTI from the donors’ viewpoints with an emphasis on the donors’ delivery of foreign aid resources, which include financial and in-kind resources, as well as opportunities for learning and knowledge exchange.

I choose international development as the topic of my dissertation because this topic is critical not only for poor countries but also for wealthy ones. Approximately eighty-percent of

the world's population lives in developing countries, and their problems affect industrialized countries because people, money, and goods are moving across national borders much more than before.<sup>3</sup> Thus, people living in developed countries have more of a stake in the socio-economic conditions of developing countries. Journalist Thomas Friedman refers to several developing countries to explain how “the world is being flattened” (Friedman, 2005). International development should, therefore, be a challenge for the people of wealthy countries as well.

I also focus on international development because industrialized countries have spent vast amounts of resources in order to boost the development of poor countries. Over \$1.7 trillion has been spent on development assistance since 1960 (Dichter, 2003, p.2). While some countries have experienced success, a number of other countries, particularly those of Sub-Saharan Africa, have stagnated. Even though many developed countries care about the condition of poor countries from a humane or moral standpoint, they also must be accountable to their taxpayers concerning their foreign aid activities.

Poverty in developing countries is a global problem that developed countries must share. This is because commonalities exist between poverty problems of developing countries and those of developed countries: “Market failures happen across the world; policy problems are ubiquitous; and much of what development workers do in poor countries has been found to be useful in redressing poverty in the rich OECD countries too” (Bryant & Kappaz, 2005, p.5). It is notable that the expertise of international development in poor countries could be put to work solving problems in wealthy countries. As a citizen of one of the richest countries of the world, I would like to explore international development, an issue that challenges contemporary society.

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<sup>3</sup> While 82% of world's population lived in low and middle income countries in 1980, the number rose to 85% in 1990 (Soubotina, 2004, p.158). More than half of these people in developing countries live on less than \$2 a day; this may indicate that they do not have the means to satisfy their basic needs (Léautier & Moreno-Dodson, 2005).

I present the study in 10 chapters. In Chapters 1, 2, and 3, I offer the framework of this research. In Chapters 4 and 5, I demonstrate a part of the findings from the research by analytically describing the mechanism of the FTI and by analyzing observed patterns from the perspective of the donors' concerns, contracting problems, and capacity, respectively. I narrate the findings from the case studies in Chapters 6, 7, and 8, and I evaluate the performance of the FTI donor agencies in Chapter 9. With Chapter 10, I conclude this thesis.

The following figure is a flow chart of Chapter 1 concepts.

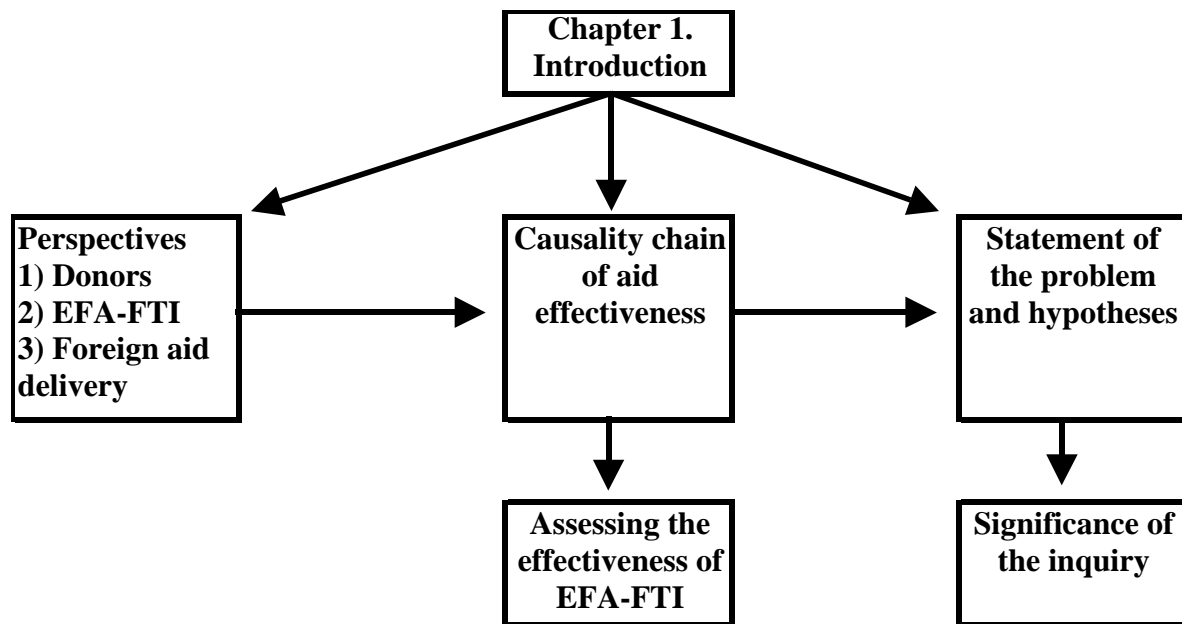


Figure 1. Chapter 1 flow chart

## 1.1 PERSPECTIVES

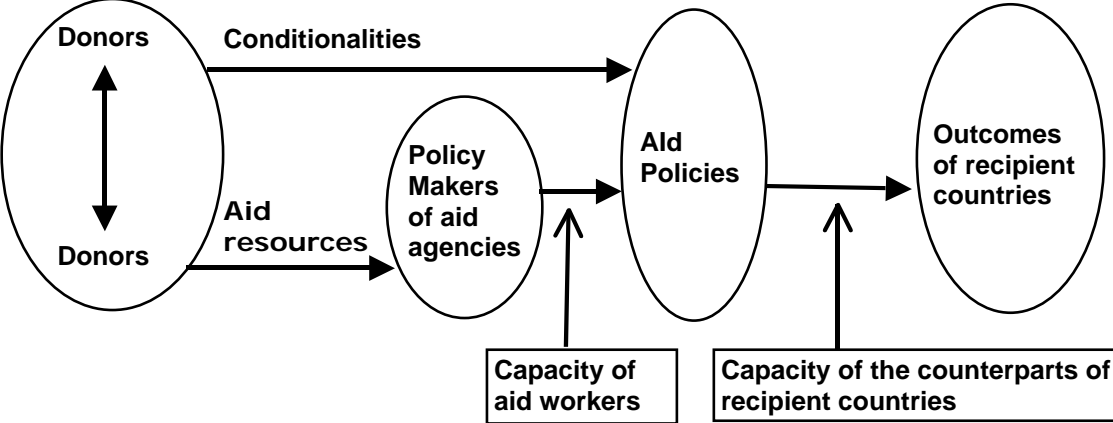
I explore the foreign aid effectiveness from the following three perspectives: 1) donors, or foreign aid providers, in industrial countries; 2) the EFA-FTI; and 3) foreign aid delivery. I first address the role of donor governmental agencies. Many existing foreign aid effectiveness studies examine the economic, political, and social conditions of developing countries and their capacity. However, these points represent just one aspect of foreign aid mechanism; they do not take into account various conditions on the donors' side. Many studies analyze foreign aid as an independent variable to explain economic growth, but they treat the institutions or delivery mechanisms of foreign aid as "black-boxes." I focus on the interests of foreign aid providers and how they transfer their aid resources to developing countries. Donors' behavior may significantly influence the performance of foreign aid; because donors provide aid in accordance with their own incentives and objectives, their contributions do not necessarily spur socio-economic development of developing countries.<sup>4</sup> Donors may want to maximize their own interests by providing foreign aid. They may also be motivated more by a desire to improve their own reputation in the international arena than by their commitment to that community.

Borrowing the concept presented by François Bourguignon, the World Bank Chief Economist, Figure 2 outlines the causality chain of aid effectiveness. In clarifying the foreign aid effect, Bourguignon considers the prevailing aid model based on country ownership and aid allocation in relation to monitorable results. He asserts the importance of improving knowledge about the following three links and how these links help strengthen development outcomes: 1)

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<sup>4</sup> Based upon the assessment of major donors' aid activities in Sub-Saharan Africa, Lancaster (1999) concludes that "an absence of autonomy and capacity in aid agencies can lead to disasters" and "limitations on the autonomy of agencies can lead to a use of aid for non-development purposes and to significant wastage from a development perspective" (p.225).

from donors to policy makers; 2) from policy makers to policies; and 3) from policies to outcomes (Bourguignon & Sundberg, 2007, p.11). In addition to comprehending these links, it is critical to understand the relationship among donor agencies in order to avoid internal duplications and to lessen the administrative burdens of recipient countries. Also, the capacity of aid workers regarding the management of aid resources is a crucial determinant of the success of aid, although donor agencies usually emphasize the capacity development of recipient countries. This chain sheds light on how donor agencies interact with one another and how they influence policy makers and policies in developing countries with regard to the FTI.



**Figure 2.** The causality chain of aid effectiveness

I do not take up the private sector as a direct target of analysis, although the private resource flow from industrial to developing countries is as significant as that of public donors.<sup>5</sup> The private sector has not been a major player in the FTI, although UNESCO has invited some private companies to join the discussions at EFA international conferences.<sup>6</sup> However, since many public donors have, directly or indirectly, worked with the private sector in the context of international development, I discuss their collaboration as a potential strategy to improve the effectiveness of public donors' foreign aid activities in the FTI.

In this inquiry, the term "foreign aid" refers to the resource flow from industrialized countries to developing countries. This flow includes: 1) financial flow; 2) in-kind resource flow, such as dispatching experts, hiring consultants, providing equipment, and providing the opportunities of learning; and 3) any other activities for promoting socio-economic development of developing countries, such as advocacy, enlightenment, knowledge exchange, and awareness building in the international arena.

Secondly, to achieve an in-depth analysis of donors' institutions and the foreign aid delivery mechanisms, I focus on the FTI, a specific foreign aid initiative. Although a number of aid effectiveness studies have tried to clarify a causal relationship between aid and the change of social and macroeconomic indicators of recipients, the institutions and delivery of foreign aid are not reflected in these studies. I intend to examine the challenge of the aid delivery mechanisms by using a practical case of foreign aid.

I have selected the EFA-FTI as a target of my analysis because it has been a recent

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<sup>5</sup> Gross unofficial flows, which include foreign direct investment and migrant workers' remittance, increased tenfold between 1985 and 2002 to exceed \$380 billion in 2002, whereas official aid flows were less than \$180 billion in 2002 (Klein & Harford, 2005, p.44).

<sup>6</sup> For example, the EFA Working Group Meeting in 2004 invited a number of private sector representatives to discuss the potential of a partnership with them (UNESCO, 2004b).

notable initiative by donor countries. In the wake of the World Conference on Education for All (WCEFA) in Jomtien, Thailand, in 1990 and at the World Education Forum in Dakar in 2000, the international community committed itself to supporting basic education in developing countries. Bilateral and multilateral donors have provided aid resources in line with this internationally agreed upon objective. The WCEFA formed the principles of EFA, i.e., providing education for all children, youth and adults, as concrete policy goals; many donors started to focus more on EFA after the WCEFA (UNESCO, 2002a, p.15). As a follow up to the WCEFA, the United Nations convened the World Education Forum at Dakar, Senegal, in 2000. At the Forum, the Dakar Framework of Action, which included the following six EFA goals, was adopted: the six goals include: 1) expanding early childhood care; 2) ensuring free and compulsory primary education of good quality by 2015 for all children; 3) meeting the learning needs of all young people and adults; 4) achieving a 50 percent improvement in levels of adult literacy by 2015; 5) eliminating gender disparity in primary and secondary education by 2005 and achieving gender equality in education by 2015; and 6) improving all aspects of the quality of education (UNESCO, 2002a).

The FTI is one of the foreign aid activities aiming to reach a goal of EFA. The FTI seeks to mobilize resources with a view to bridging the gap between the goal of universal primary education (UPE) and the current status of education in developing countries. In 2002, the international community confirmed the necessity of additional resource mobilization. This included the increase of the donors' provision of foreign aid resources, which is known as the Monterrey Consensus (United Nations, 2002, March). From the viewpoint of making a difference in developing countries, it is noteworthy that the FTI intends to put the Monterrey Consensus into practice through actual operations. This is because many developing countries

have failed to develop the education sector partly due to a lack of resources, while many donor agencies have repeatedly indicated the importance of education for development.<sup>7</sup> To analyze the impact of donor countries' intervention with developing countries, I focus on the FTI, an initiative that attempts to rapidly improve the situation of primary school education in poor countries by mobilizing additional resources.

Likewise, I examine the FTI because it contains a number of issues critical to recent international development. The FTI was designed as a response to the challenges that the stakeholders of foreign aid have been facing. Those key topics encompass the following: 1) ensuring the ownership of developing countries; 2) promoting partnership among donor agencies; and 3) changing donors' foreign aid activities which includes proactive use of budget support where necessary and available (EFA-Fast Track Initiative, 2004b). These points question the mechanism of foreign aid provision: how donor countries deliver their aid resources and how recipient countries use them. The FTI, a dynamic product of donor agencies and recipient countries striving to improve education in developing countries from their respective positions, provides valuable implications not only for educational development in low-income countries but also for the study of international development in general.

Thirdly, I pay particular attention to foreign aid delivery, that is, how the aid resources of industrial countries are mobilized and disbursed. The role of foreign aid in international development is theoretically explained as filling the financial gap in developing countries, such as Harrod-Domer's two gap model (Chenery & Strout, 1966). Various researchers claim the

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<sup>7</sup> Gurria and Gershberg (2004), in a study commissioned by the World Bank, review a number of methodologies used in key studies that estimate the financial gap for achieving UPE. They conclude that all the studies signify a general need for a "sharp increase" in foreign aid, while they indicate the difficulty of the cost estimation for UPE due to the challenge of predicting an uncertain future (p.20). Meanwhile, improving the quality of foreign aid is equally important to resource mobilization for achieving UPE. Many key studies emphasize the need to increase efficiencies in the system. UNESCO calls for the international community to care more about the quality by publishing the EFA Global Monitoring Report in 2005 that focuses on the issue of quality (UNESCO, 2004a).

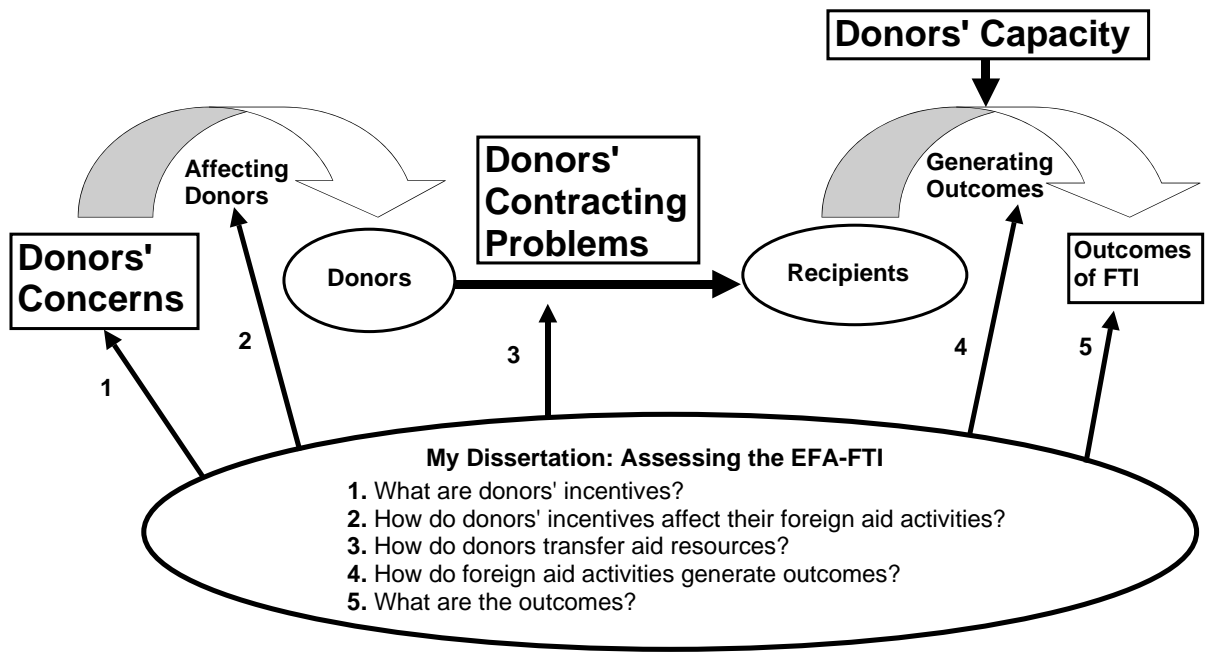


necessity of additional finance to achieve the EFA goals, or the MDGs, which hold some of the EFA goals. However, the delivery of aid resources from donors to recipients may be more critical, especially in the light of fungibility of aid resources, corruption of recipients, and lack of aid absorptive capacity in developing countries. In order to realize development in poor countries, foreign aid must not only fill the financial gap, but it must also ensure the delivery and quality of aid resources. In this regard, I focus on how different donors interact, collaborate, or evaluate each other in terms of aid delivery; I take into account that donors sometimes do not provide their aid resources for poverty reduction of developing countries.

Various aid effectiveness studies offer different definitions of “effectiveness.” In this research, I use effectiveness to refer to those who provide foreign aid resources: taxpayers, voters, and their representatives, i.e., politicians and bureaucrats of bilateral donors and the shareholders of and resource contributors to multilateral donors. Principally, I see the proof of effectiveness in the improvement of the outcomes of the FTI because donors may principally provide aid for the FTI in order to support the educational development of recipients. However, since promoting developing countries’ educational development may not be the only objective of donors, some other changes, including the alteration of the donors’ self-interests as a result of providing foreign aid, may also indicate the proof of effectiveness. My approach in demonstrating the magnitude of foreign aid effectiveness, including variables and data collection methods, will be explained in Chapter 3.

Figure 3 depicts the overall structure of my dissertation. I assess the effectiveness of the FTI by clarifying three main points: First, I present the donors’ interests in providing foreign aid for the FTI. I then view how those interests have affected the donors’ aid policies and implementation. Secondly, I examine how the donors disburse their foreign aid resources for the

FTI toward developing countries, including Sector-Wide Approaches (SWAs), alignment with Poverty Reduction Strategy Papers (PRSPs) and the Millennium Development Goals (MDGs), and the budget support; the foreign aid resources include not only finance but also in-kind resources and learning opportunities provided by the donors. Thirdly, I look at how the donors' resource transfer has generated the outcomes, including the change of the FTI indicators and other byproducts of the FTI. In analyzing these points, I focus on the donors' concerns, contracting problems in providing aid resources, and donors' capacity.



**Figure 3.** Assessing the EFA-FTI

## 1.2 STATEMENT OF THE PROBLEM AND HYPOTHESES

This dissertation addresses the problem surrounding donors' delivery of foreign aid for the FTI. Despite the significant amount of the donors' foreign aid provision for the FTI to developing countries and the donors' generally benevolent intentions, many challenges still remain in this field. For example, many countries have still not achieved the FTI goal of universal primary completion, resulting in a significant number of out-of-school children.

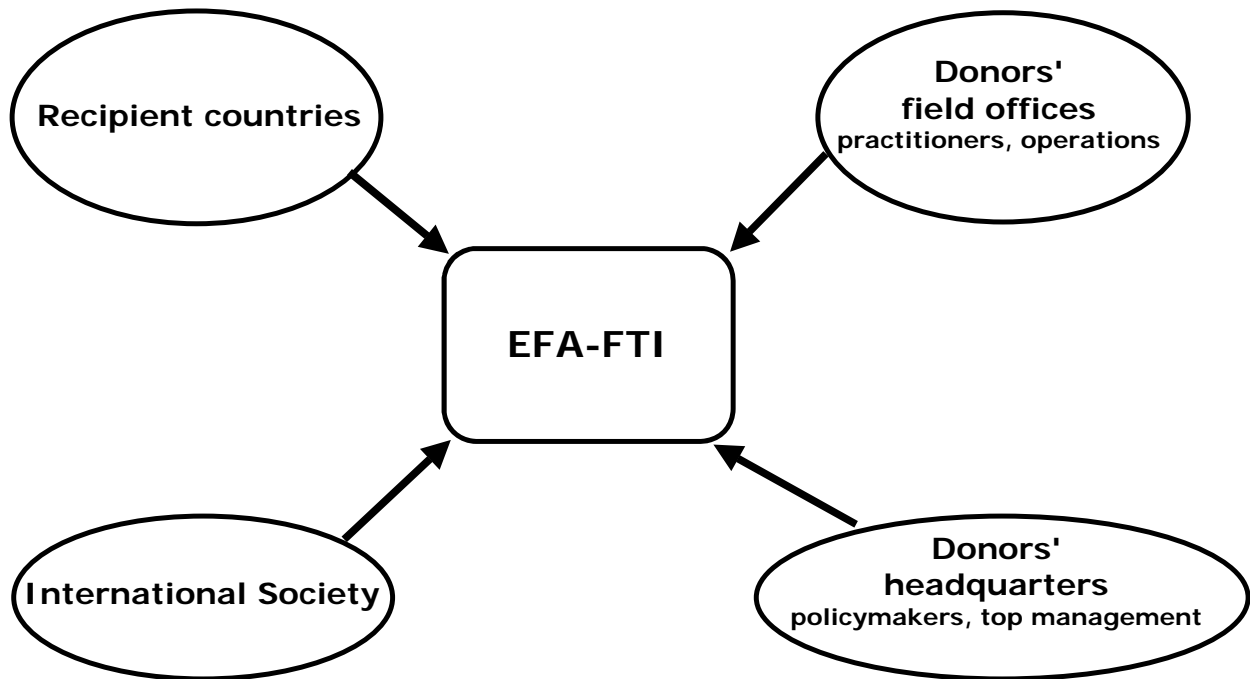
My inquiry explores the answers to this problem from the above-mentioned three perspectives. I do not conceptualize foreign aid as a purely independent variable to explain the change of the FTI indicators of developing countries, because foreign aid does not constitute a true explanation of the recipients' FTI performance; Keohane (1996) also takes this stance in their environmental aid effectiveness study (p.9). Instead, I intend to demonstrate causal pathways of aid effectiveness in the FTI by describing, analyzing, and evaluating how donors deliver foreign aid for the FTI. Specifically, I intend to examine the donors' incentives in providing foreign aid by using the case of the FTI. Further, I plan to use the FTI to examine how donors base their foreign aid policy on their incentive and how these incentives may affect the outcomes and impact of foreign aid.

My research probes the following hypotheses:

- 1) Donors' multiple incentives influence their delivery of foreign aid in the FTI, and those complex incentives cause obstacles for recipients trying to achieve the FTI goals;
- 2) Donors' delivery of foreign aid resources (including financial flow and in-kind resources flow) influences the outcomes of the FTI;

- 3) Coordination among different donors' foreign aid policies for the FTI reduces the transaction cost in aid delivery and, in the end, improves the outcomes and impact of the FTI; and
- 4) Friction exists in transferring resources for the FTI from donors to recipients; this may hinder the effective use of those resources.

In order to analyze these hypotheses, I focus on four entities: 1) donors' headquarters; 2) donors' field offices; 3) recipient countries; and 4) the international society (see Figure 4). I separate donor agencies into their headquarters and field offices, because foreign aid policy makers and practitioners in charge of field operations have considerable differences in terms of concerns, contracting problems, and capacity. Moreover, I focus on the international society, a forum for both donor agencies and recipient countries that discusses poverty reduction and development. Arguments and discussions at the international society are critical in this paper, because international conferences and multilateral mechanisms usually attempt to influence the policies and activities of both donor agencies and recipient countries.



**Figure 4.** Stakeholders of the FTI

### **1.3 SIGNIFICANCE OF THE INQUIRY**

By developing this dissertation, I intend to contribute to the academic discourse of international development in education in the following two ways: 1) To disentangle the incentive structure of foreign aid agencies in the FTI by examining the policies and activities of major bilateral and multilateral donors involved in the FTI and their performance in their client countries; and 2) To explain how foreign aid delivery, or the institutions of the target foreign aid agencies, works in achieving the FTI goals by using descriptive data and other relevant documents regarding the FTI.

Because foreign aid is not the only determinant of FTI performance, it is likely to be difficult to show a clear cause-and-effect relationship between foreign aid and the FTI performance in developing countries. A number of scholars, particularly those who belong to the orthodox development economics, have treated foreign aid delivery as a “black box” in the research of aid effectiveness; I intend to clarify this “black box” in the case of the FTI.

While above-mentioned demonstrations throughout my dissertation may be small ones, they still offer significant additions to the academic debate concerning international development in education. These indications could complement existing aid effectiveness researches conducted from a perspective of orthodox economists, which mainly pay attention to economic conditions and policy environments of recipient countries, as well as the quantity of foreign aid. Furthermore, this inquiry could endorse and enrich the arguments of foreign aid effectiveness from the perspective of donor agencies’ institutions; this study may advocate the consensus of aid coordination and harmonization among major donors. Likewise, the findings of this research, derived from the examination of the incentive structure of donors and the delivery of foreign aid, could provide prescriptions for policy makers and practitioners of international development with prescriptions to improve foreign aid effectiveness in the FTI.

#### **1.4 CONCLUDING REMARKS**

This chapter depicts a total picture of my dissertation. I first explain the three perspectives of my analytical base include the following: 1) donors/foreign aid providers in industrialized countries; 2) the EFA-FTI; and 3) foreign aid delivery. I then focus on the problem statements, the hypotheses to be proven, and the possible contributions of my dissertation to the academic

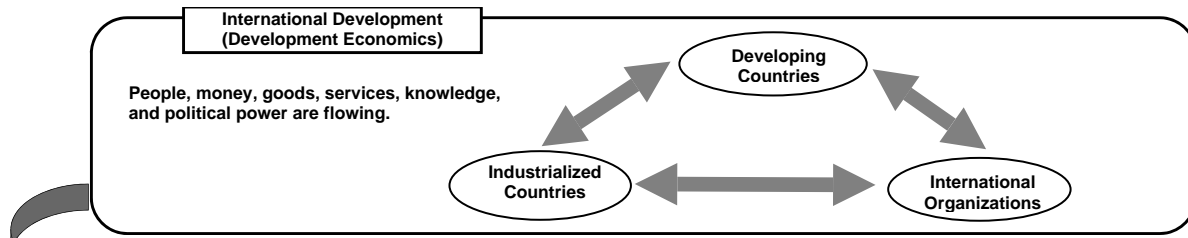
discourse of international development. In line with the description of this chapter, the following chapters narrate the review of relevant literature and the methodology of inquisition to be undertaken.

## **2.0 LITERATURE REVIEW**

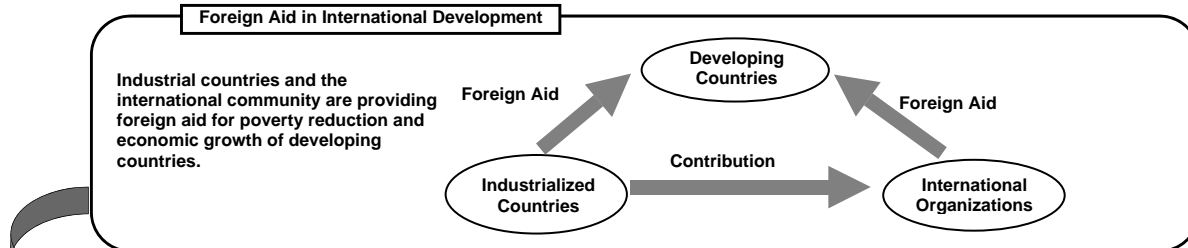
This chapter reviews the literature relevant to my inquiry. The purpose of this literature review is to indicate my position in the growing perspectives of international development, particularly those related to education and development economics. By doing so, I intend to justify how my dissertation would contribute to the development of academic discourse in international development.

This chapter deals with the following components: 1) how scholars, policy makers, and practitioners discuss international development; 2) how scholars of international development frame for aid; 3) how major researchers frame foreign aid effectiveness and what kind of insights they have thus far accumulated; and 4) how educational development, focusing on the FTI, has been interpreted in the context of international development. Using the mapping of existing theoretical arguments and research findings, I describe what would be my potential contribution to the development of academic discourse in international development. Figure 5 portrays the overall structure of my literature review and indicates how my dissertation relates to the existing academic discussions.

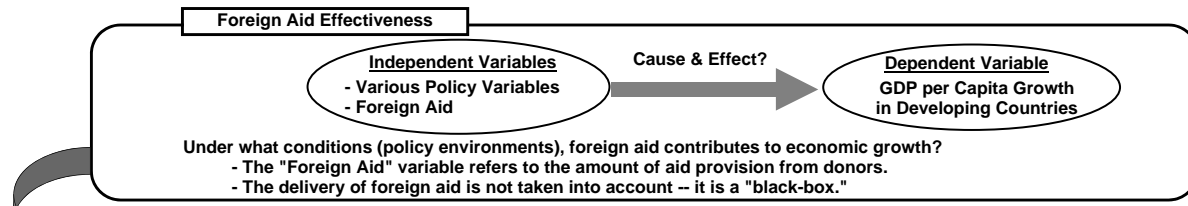




**Literature Review**  
 Reviews how scholars, policymakers, and practitioners have viewed international development.  
 Reviews how scholars, policymakers, and practitioners have framed education in the context of international development



**Literature Review**  
 Reviews how scholars in economics & institutional economics have viewed foreign aid.



**Literature Review**  
 Reviews how scholars, policymakers, and practitioners have examined the effectiveness of foreign aid.

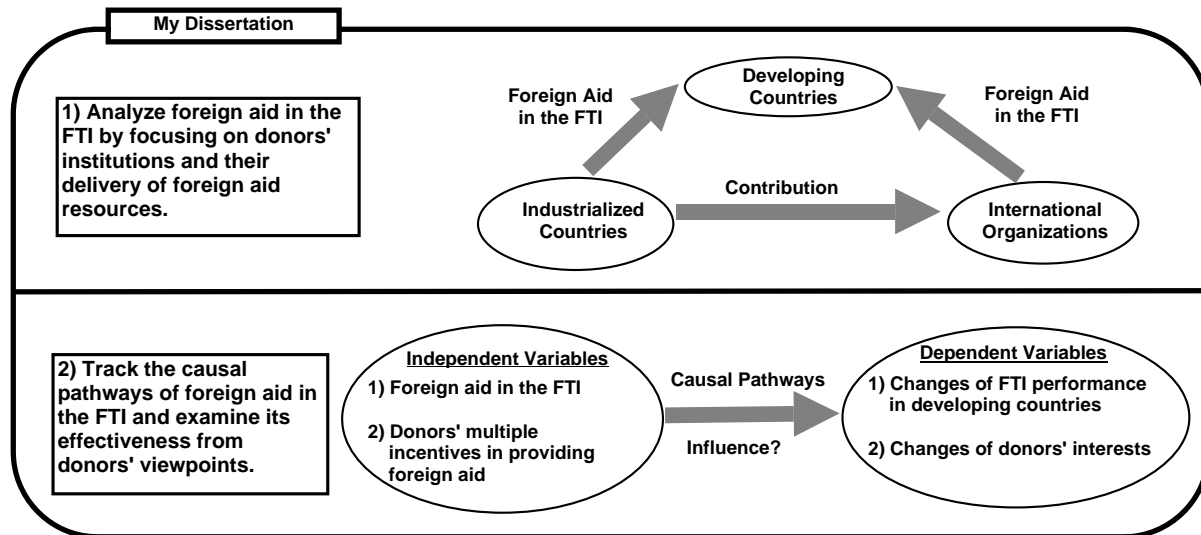


Figure 5. Literature review

## 2.1 INTERNATIONAL DEVELOPMENT AND FOREIGN AID

### 2.1.1 Introduction

Various scholars, policy makers, and practitioners from various academic disciplines have analyzed the problems of developing countries. In my review of their intellectual contributions, I focus on economics. This is because the field of economics emphasizes an optimum use of resources, something inherently scarce in human society. This nature of economics fits my research interest: how donor agencies can best use their limited foreign aid resources in order to improve the socio-economic conditions of developing countries.

Since my research interest lies in the problems of developing countries, I focus on development economics. In addition to the mainstream economics, or neoclassical economics, I

incorporate “heterodox” economics, such as institutional economics, as well as some non-economists’ perspectives that may be relevant to the issue of international development.

I use the term “foreign aid” as any activity that helps strengthen the capacity of developing countries to meet sustainable development guided by the conditions and commitments in each country. This definition is consistent with the resolution adopted by the members of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) in 1995 (OECD, 1996, p.8). I regard various modalities, including grant, loan, technical assistance, knowledge sharing, and activities of NGOs, as foreign aid as long as they aim at supporting the development of developing countries.

This review consists of two sections. The first section explains how development economics analyzes foreign aid by referring to its major theoretical arguments. It then describes how development economics has influenced the policies and operations of foreign aid. The limitations of development economics to analyze foreign aid follow. The second section describes how institutional economics views foreign aid by focusing on the principal-agent theory. It follows by analyzing the implications of institutional economics on foreign aid.

I believe that the combination of development economics and institutional economics complements each other in analyzing foreign aid. While foreign aid serves multiple purposes, it essentially tries to foster the socio-economic development of developing countries. Therefore, development economics, which analyzes the socio-economic transformation of developing countries, offers an indispensable perspective in analyzing foreign aid. However, development economics itself does not address the issues of incentives of various donor agencies, competition and cooperation among them, and asymmetry of information among the stakeholders of foreign aid. Institutional economics can provide a useful tool to analyze these issues. Consequently, this

analytical review of both development economics and institutional economics gives me a theoretical foundation upon which I can assess the effectiveness of the FTI in my dissertation.

## **2.1.2 Development economics and foreign aid**

### **2.1.2.1 What is development economics?**

Development economics is not the same as the economics of advanced capitalist nations, i.e., the modern neo-classical economics, nor is it similar to the economics of centralized socialist societies, i.e., the Marxist economics; instead, it is the economics of contemporary poor and developing countries (Todaro & Smith, 2003). While neo-classical economics emphasizes the efficient, least-cost allocation of scarce resources and the optimum use of these resources to produce goods and services, development economics deals with the economic, social, political, and institutional mechanisms at both public and private levels, which are necessary to bring about improvements of living conditions for the impoverished, malnourished, and less-educated people of developing countries (p.8). Development economics deems a larger government role and some degree of coordinated economic decision making mechanism as essential (p.9).

Hirschman (1981) proposes a simple classification of development economics and other sub-fields of economics by focusing on two ingredients: 1) the monoeconomics claim (i.e., there is one form of economics that is valid everywhere) and 2) the mutual-benefit claim (i.e., economic relationship between developed and developing countries can be mutually beneficial). While neo-classical economics asserts both the monoeconomics and mutual-benefit claims, development economics values the mutual-benefit claim, rejecting the monoeconomics claim; developing economics sets developing countries apart from advanced industrial countries (p.3).

### **2.1.2.2 Major theoretical arguments of development economics**

This section reviews the major theoretical arguments of development economics. In discussing development economics, the characteristics being attached to development must be carefully spelled out, because development means different things in different contexts of society. Development is “not about helping a few people get rich or creating a handful of pointless protected industries that only benefit the country’s elite,” but it “is about transforming societies, improving the lives of the poor, enabling everyone to have a chance at success and access to health care and education” (Stiglitz, 2003, pp.251-252).

During the 1950s and the 1960s, development was seen as “an engineered, mechanical process of imitation and replication.” This can be interpreted “as we did in the West in our rise to riches, so you should do” (Dichter, 2003, p.56). This way of thinking neglects individual people because the solution to the poverty in developing countries was believed to “make the nation rich; the benefits ‘trickle down’ to the poor” (p.57).

During these decades, poverty reduction or equity in economic growth, a current central topic of development economics, was considered to be achieved through economic growth and industrialization. Various scholarly discourses are based on this idea. The following theories dispute development economics.

Nurkse (1967) bases his argument on the vicious circle of poverty in developing countries. Since developing countries suffer from a lack of sufficient capital, capital formation is urgent for development. However, the vicious circle of poverty hampers development. Low development equilibrium and low incomes in developing countries lead to low consumption,

which then result in low productivity and the eventual persistence of poverty.<sup>8</sup> Nurkse insists that balanced growth is necessary in order to achieve development. He advocates the expansion of the size of market and the simultaneous increase of investment motivations by many complementary industries to increase balanced production for development (pp.11-17).

Hirschman (1958), who opposes the balanced growth, asserts that imbalanced growth is necessary for development.<sup>9</sup> He argues that in order to achieve development, investment should concentrate on these industries that have large linkage effects: 1) the forward linkage (the outputs of industry are used as the inputs for other industries) and 2) the backward linkage (the efforts to supply the inputs necessary for activities by domestic production). According to Hirschman, the imbalance can be created and, through its spill-over effects, economic development can occur (pp.98-119).

Hirschman (1981) also explains rural underemployment, which justifies the intervention of public policy and the creation of a public investment plan for industrialization by mobilizing the rural underemployment, in terms of the vicious circle of poverty (p.7). In addition, he asserts the idea of late industrialization; since developing countries are newcomers, industrialization requires intentional, concentrative, and induced efforts. This argument justifies protectionism and planning in the national economy (p.10).

Rosenstein-Rodan (1961) presents the Big Push theory. Focusing on indivisibility of production function (i.e., input, output, and production process cannot be divided), he asserts that

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<sup>8</sup> Nurkse (1967) analyzes the capital accumulation of economically-backward countries as follows: “On the supply side, there is the small capacity to save, resulting from the low level of real income. The low real income is a reflection of low productivity, which in turn is due largely to the lack of capital...On the demand side, the inducement to invest may be low because of the small buying power of the people, which is due to their small real income, which again due to low productivity” (p.5).

<sup>9</sup> Hirschman (1958) justifies the unbalanced growth because development has proceeded “with growth being communicated from the leading sectors of the economy to the followers, from one industry to another” (pp.62-63).

a certain scale of investment should be necessary for development (pp.60-61). His hypothesis regarding the necessity of large-scale investment for development justifies the investment in the large-scaled infrastructure projects implemented by the World Bank.

Chenery (1975) proposes the Structuralist Approach, which is similar to Hirschman's development economics. Assuming that a structural rigidity in developing countries, he focuses on the mechanism by which the economy of developing economies transforms the domestic economic structure from an agriculture-centered one to the industry-oriented one. Based upon this argument, Lewis (1954) creates a model which consists of two sectors: 1) traditional overpopulated rural sector, characterized by zero marginal labor productivity (i.e., surplus labor exists) and 2) a highly productive modern urban industrial sector. Lewis' model focuses on both the process of labor transfer and the growth of output and employment in the modern sector. Fei and Ranis (1964) extend this model by conducting an economic analysis of the labor surplus type of underdeveloped economy. They focus on "the predominance of an agricultural sector characterized by widespread disguised underemployment and high rate of population growth" and "a small but hopefully growing industrial sector" of developing countries (p.7).

Meanwhile, Rostow (1960) argues that "take-off" is necessary in the transformation from developing to developed countries. He asserts that the rapid expansion of agricultural productivity, the building of social infrastructure, and the increase of investment rate for production are needed for developing countries to "take off" toward a higher stage of development.<sup>10</sup> In a similar context, Gerschenkron (1962) argues that the process of development is different depending on each country. He presents the idea that late-comers have

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<sup>10</sup> Rostow (1960) categorizes all countries' economic dimensions into five stages: 1) the traditional society; 2) the preconditions for take-off; 3) the take-off; 4) the drive to maturity; and 5) the age of high mass-consumption. He explains how those economies transformed from one to another (pp.4-16).

an advantage: late-comers (i.e., developing countries) can industrialize themselves much faster than developed countries because they can use the know-how of industrialized countries to achieve development.<sup>11</sup>

Prebisch (1959) and Singer (1950) present a different view on development from the above-mentioned economists. They view the world as center (i.e., developed, industrialized countries) and periphery (i.e., developing countries, or producers of primary commodity).<sup>12</sup> They assert that developed countries enjoy double benefits by consuming primary commodities and by producing industrial products, whereas developing countries lose twice because of the consistent low price of primary commodities and, as a result, low income. The Prebisch-Singer thesis, which asserts that the declining terms-of-trade phenomenon results in a long-term transfer of income from developing to developed countries, reflects this argument.<sup>13</sup>

The above-mentioned perspectives articulate how representative economists frame development. These views, widely shared among foreign aid agencies, become a basis of their strategy in assisting developing countries.

### **2.1.2.3 How development economics affect foreign aid**

In this section, I describe how various arguments of development economics have influenced foreign aid policy. In the context of development economics in the 1950s and 1960s,

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<sup>11</sup> Gerschenkron (1962) emphasizes the “great elasticity and variability in the industrialization processes.” He asserts that “what may have functioned as a prerequisite and, in a sense, as a “cause” of industrialization in one country appears as an effect of an industrialization in another” (pp.50-51).

<sup>12</sup> Prebisch (1959) states “historically, the spread of technical progress has been uneven, and this has contributed to the division of the world economy into industrial centers and peripheral countries engaged in primary production, with consequent differences in income growth” (p.251).

<sup>13</sup> Singer (1950) describes that, as a result of international trade, “the industrialized have had the best of the world, both as consumers of primary commodities and as producers of manufactured articles, whereas the underdeveloped countries had the worst of both, as consumers of manufactures and as producers of raw materials” (p.479).



Chenery and Strout (1966) suggest the Two-Gap Approach to analyze foreign aid.<sup>14</sup> This Two-Gap model is based upon the Harrod-Domer's growth model, which is based on the prediction that "GDP growth will be proportional to the share of investment spending in GDP" (Easterly, 2002, p.29). As Rostow (1960) describes, a certain level of growth rate, i.e., the large scale investment, is needed in order to "take off" from a lower stage of development.<sup>15</sup> Since developing countries cannot procure equipments and materials necessary for take-off, a certain level of import is needed. However, developing countries have neither sufficient foreign currency nor exporting capacity. Here, the lack of saving and foreign currency is recognized as the bottleneck of economic development. According to the Two-Gap approach, the role of foreign aid fills the financial gap to attain growth by removing the bottleneck of the shortage of saving, i.e., required investment-saving gap, and the foreign currency, i.e., export-import gap (Easterly, 2002, p.29). However, this argument does not address various modalities of resource flow from industrialized to developing countries, such as technical assistance, absorptive capacity of aid, and differences between public and private resources flow, which are all influential over foreign aid and development.

The dominant conviction of development economics during the 1950s and 1960s, i.e., the trickle-down hypothesis and the investment for economic growth, did not contribute to reducing poverty in many parts of the world. In the 1970s, the United Nations proposed the idea of satisfying Basic Human Needs (BHN), those basic goods and services necessary for a minimum standard of living, by addressing poverty in developing countries (United Nations, 1977). The

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<sup>14</sup> In order to analyze the role of external assistance, Chenery and Strout (1966) design the "investment limited growth" model, in which the limits on skills and saving are relevant, and "trade limited growth" model, in which the balance of payments limit is effective (p.683).

<sup>15</sup> Rostow (1960) analyzes that "during the take-off, the rate of effective investment and savings may rise from, say, 5% of the national income to 10% or more" (p.8).

BHN affected the policy of the World Bank. Robert McNamara, the Bank's President, declared his strategy for targeting the poor at the World Bank's annual conference in Nairobi in 1973; his plan was represented as the Redistribution with Growth (Chenery, Ahluwalia, Bell, Duloy, and Jolly, 1974; World Bank, 2003, March).<sup>16</sup> During the 1970s, the Bank had invested in such fields of BHN as education and health, in addition to the infrastructure projects. However, the oil shock, as well as serious indebtedness in Latin America and Africa in this decade, limited the government-led developments.

One of the prevailing ideas in development economics during the 1980s is the neo-classical conviction: emphasis on market mechanism and deregulation regarding trade and investment can bring economic growth to any countries; as a result of economic growth, poverty reduction can be realized. This belief, later described as Washington Consensus, became a theoretical basis of the World Bank-led Structural Adjustment Programs (Williamson, 1993). The Structural Adjustment Programs imposed conditionality on developing countries by demanding these developing countries to employ macroeconomic stabilization, liberalization, and privatization. However, Structural Adjustment, which did not work in most countries, resulted in exacerbating poverty in developing countries. UNICEF published the "Structural Adjustment with Human Face" in 1987 to assert the importance of providing a social safety net for vulnerable people. Responding to this message, the World Bank started to directly incorporate the programs that targeted the social sector and the impoverished people into the Structural Adjustment programs (Hoeven, 1991).

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<sup>16</sup> Regarding the redistribution with growth, Chenery et al. (1974) indicate that "the poor receive little or no benefit" in some developing countries, but "the opposite is true" in others. They assert that "this diversity of experience provides a basis for identifying different approaches to policy and for evaluating their effects on poverty" (p.xiii). This idea may affect the discussion of the diversity of foreign aid delivery.

Meanwhile, Gore (2000) asserts that the introduction of the Washington Consensus has brought about a shift from historicism to ahistorical performance analysis. Gore argues that theorizing development strategy has shifted from attempting to understand patterns and laws of development, i.e., historicism, to explaining the national performance of various types, i.e., ahistorical analysis (p.794). It seems that this shift towards performance-oriented assessment has influenced major international initiatives, such as the MDGs or Paris Declaration on Aid Effectiveness, which emphasizes the importance of measuring the performance of foreign aid.

During the beginning stages of foreign aid in the 1950s and the 1960s, development economics suggested that poverty reduction could be achieved through economic growth, but this hypothesis did not work in many developing countries. The idea of BHN emerged from this fact in the 1970s, leading many aid agencies to directly target the people under poverty. However, oil shock, as well as debt crisis in developing countries, revived such neo-classical strategy as the Structural Adjustment of the 1980s. Most Structural Adjustment programs failed and even increased poverty. This fact made the international community again focus on poverty reduction as a mainstream agenda in the 1990s' post-Cold War world.

#### **2.1.2.4 Major policy trends of foreign aid**

In this section, I will review the major policy regarding foreign aid after the Cold War. My arguments reflect development economics and the lessons learned from the past applications of development economics.

During the Cold War, Western donor countries used foreign aid as a political lever to support friendly political regimes in developing countries; most socialist countries' aid also resulted from political and strategic motivations (Todaro & Smith, 2003, p.653). While these political motivations remained after the end of the Cold War, the World Development Report in

1990 refocused poverty reduction in the 1990s; this has since been a core issue of development assistance (World Bank, 1990). After this report, the World Bank resumed treating poverty reduction as a critical topic to be addressed, analyzing this poverty reduction in the context of development economics.

In addition, the United Nations Development Programme (UNDP) launched the annual Human Development Report in 1990, aiming at putting people back at the center of development in economic debate, policy, and advocacy (UNDP, 1990). This report focused on people and on how development enlarges their choices. This idea, based on Amartya Sen's "capability" approach, pays attention to the real opportunities people have regarding the lives they may lead (Sen, 1987, p.36).

In 1995, the United Nations hosted the World Summit for Social Development in Copenhagen. The Copenhagen Declaration on Social Development, which states that the international community reached a consensus on the need to place people at the center of development, was adopted (United Nations, 1995). As a follow-up of the Copenhagen Declaration, the High Level Meeting of Development Assistance Committee (DAC) of the OECD in 1996 adopted a strategic document called "Shaping the 21<sup>st</sup> Century: The Contribution of Development Co-operation" (OECD, 1996). This strategy, which contains six goals, later became known as the International Development Goals. It includes a reduction by one-half in the proportion of people living in extreme poverty as well as the achievement of universal primary education by 2015. The commitment of donors and developing countries, coordination among donors, and coherence between foreign aid policies and other policies that have an impact on developing countries are crucial for reaching these goals.

The Comprehensive Development Framework (CDF), proposed by World Bank President James Wolfensohn in January 1999, has achieved these principles. Asserting that developing countries be in the driver's seat, the CDF concentrates on a recipient country's ownership and partnership among stakeholders in a participatory process (World Bank, 1999). Following up the CDF, the annual meeting of the World Bank and the International Monetary Fund (IMF) in 1999 adopted the Poverty Reduction Strategy Paper (PRSP). PRSP, a paper prepared by developing countries, analyzes the macroeconomic, structural, and social policies and programs of these countries for three years or more to promote broad-based growth and to reduce poverty (Craig & Porter, 2002). As an important strategic paper for international development, PRSP has been used as a source of decision-making in a debt relief initiative for heavily indebted countries and other types of soft loans provided by the World Bank and IMF. In addition, many developing countries have adopted PRSP as integral to their national development plans. The basis of PRSP – approaching poverty reduction in a country-driven manner, promoting pro-poor growth, facilitating empowerment by promoting good governance, and enhancing security – have been widely shared by donor communities and have even been applied to non-PRSP countries; PRSP has become a new regime of international development in the post Cold War era.

In 2000, following the International Development Goals by OECD-DAC in 1996, the United Nations Millennium Summit adopted the Millennium Declaration as well as the Millennium Development Goals (MDGs) (United Nations, 2000; Vandemoortele & Roy, 2004, August). The MDGs, made by modifying the International Development Goals, added a new goal of building a global partnership for international development. Specifically, the MDGs target comprehensive and diverse sectors and actors. Their globally shared goals have been reinforced by the PRSP, which states the respective country's strategy. Therefore, the PRSP

emerges as a basic strategy in achieving the MDGs for each developing country. The MDGs have acquired strong consensus from developing countries, the donor community, and the civil society.

In March 2002, The United Nations convened the International Conference on Financing for Development at Monterrey, Mexico. The Conference argued the need to significantly increase foreign aid, mobilize domestic resources within developing countries, and promote trade, private investment, and debt relief in order to achieve the MDGs. The outcome of this Conference is known as the Monterrey Consensus (United Nations, 2002, March). Because the attacks of 9/11 took place six months before the Conference, those in attendance discussed poverty reduction in developing countries in the context of fighting against terrorism; this led to the U.S. and many European donors pledging a significant increase in their foreign aid. In addition to advocating a quantitative increase of foreign aid, the Conference highlighted the effectiveness of aid. The attendants discussed donor coordination as well as aid harmonization as a way to reduce the transaction cost of foreign aid. The 2005 Paris Declaration on Aid Effectiveness, which later chapters will explain in relation to the FTI, extended this trend by establishing an international architecture of aid effectiveness.

A review of the trends of foreign aid since the end of the Cold War yields some common characteristics. There has been a global consensus regarding poverty reduction. Furthermore, there has been an emphasis on the ownership of recipient countries and partnership among various donors and between the foreign aid community and such other entities as the civil society and the private sector. These trends reflect the relationship between the theoretical arguments of development economics and the practice of foreign aid; they show how these arguments have been modified in line with the changes in international society. Because purely neo-classical

types of prescriptions have not worked in many developing countries, development economists, as well as the international community, have been inclined to more directly address poverty in impoverished countries.

My dissertation provides a new perspective on the above-mentioned microcosm of development economics and foreign aid. Although many researchers have stressed the role of foreign aid in the context of economic growth and poverty reduction, these points are merely a part of the donors' objectives; donors have multiple incentives in providing aid to developing countries. My dissertation argues how this complexity affects the outcomes and impacts of foreign aid.

### **2.1.3 Institutional economics and foreign aid**

#### **2.1.3.1 What is institutional economics?**

Institutional economics examines how informational problems affect organizational performance (Martens, Mummert, Murrell, & Seabright, 2002, p.7). It is different from neo-classical economics, which assumes that near perfect-information is available at near-zero transaction costs. The following provides an understanding of institutional economics and its role in foreign aid.

Vebren (1990), one of the initiators of institutional economics, defines institutions as “settled habits of thought common to the generality of men” (p.239). He views institutions not only as the results of a selective process which shapes the prevailing types of attitudes, but as the methods of human relations and efficient factors of selection (Vebren, 1973, p.131). Hodgson, a representative economist of modern institutionalism, shares this view. He perceives institutions

as durable systems of established and embedded social rules that structure social interactions (Hodgson, 2003, p.xiii).

Commons (1931) develops these views and framed institutions as “collective action in control, liberation and expansion of individual action” (p.649). He argues that while collective action controls individual action, it also liberates individual action from coercion, duress, discrimination, or unfair competition by other individuals (p.651). Commons defines institutions as having two different features: controlling and expanding individual action.

In connection with Commons’ notion of controlling individual actions, North (1990) equates institutions with the rules of the societal game involving the humanly devised constraints that shape human interaction and determines which structures provide incentive in human exchange (p.3). Since institutions are a creation of human beings and are altered by human beings, North claims this theory must begin with the individual (p.5).

All of these perspectives frame institutions as victims of economic constraints when determining choices of action. These perspectives can be useful in analyzing the effectiveness of foreign aid, because the will of benevolent individuals in donor countries is usually altered by such institutions as foreign aid agencies.

### **2.1.3.2 How institutional economics analyzes foreign aid**

Institutional economics provide a tool to analyze foreign aid. Coase (1937) explains the nature of a firm and why people work there; he claims that the transaction costs determine the size of firms. Likewise, Martens (2005) explores why foreign aid agencies exist, arguing that aid agencies mediate divergent preferences between donors and recipients.

Quarles van Ufford (1988) pays attention to institutional incentives and organizational arrangements regarding foreign aid implementation. He discusses foreign aid agencies as part of



a long and complex chain of interdependent organizations and, in a sense, intermediate bodies of a wider network through which the money flows (p.12). He also observes that the quality of aid is related to the way in which it is organized and its capability of producing the desired results (p.11).

Carr, McAuliffe, and MacLachlan (1998) proclaim that a chain of organizational decision-making groups, i.e., donor, recipient, funding body, intermediary, consulting firm, etc., exists in foreign aid, and this chain recasts aid activities in terms of their respective priorities before its objectives can become visible in the target population (p.44). They assert that the conflicting agenda in the aid delivery chain creates difficulty in the determination of expected outcomes for aid projects (pp.44-45).

More specifically, one branch of institutional economics, the principal-agent theory, provides a useful tool for analyzing foreign aid. According to the principal-agent theory, modern organizations are hierarchically structured with principals giving instructions to agents. However, principals cannot make all the decisions and carry out all tasks themselves; they need to delegate at least a certain part of these tasks to their agents (Martens et al., 2002, p.8). The principal-agent theory identifies two types of problems in this delegating process. The first problem is moral hazard: agents may deviate from the instruction given by the principal; they may carry out the delegated tasks in such a way they advance their own interests, rather than those of the principals (p.8). The second problem is adverse selection: the agents may gain access to the information inaccessible to the principal; this may cause agents to manipulate the information in a way that runs against the principal's interests (p.8). In order to mitigate these problems, it is necessary to create a strong design by setting up incentive structures that motivate

agents to reveal relevant information to the principals and that reduce biases in agent behavior (pp.8-9).

The principal-agent theory faces limitation in analyzing foreign aid. Although the principal-agent theory has wide application to every aspect of organization and contracts, it has few applications in development economics and the analysis of foreign aid. This may be because of the lack of sufficient empirical data to test the models (Laffont & Tirole, 1993, p.669). Collecting data on the behaviors in negotiation within and between foreign aid agencies requires a detailed analysis of the resource allocations and procedural complexity of agencies; this is difficult in many cases (Martens et al., 2002, p.10). However, the principal-agent theory itself is a useful analytical tool to assess the delivery process of foreign aid organization.

#### **2.1.4 Concluding remarks**

This section reviews major theoretical arguments of development economics and institutional economics in connection with foreign aid. It presents a series of arguments and analyzes the influences and limitations of these arguments in terms of foreign aid. Although development economics has tried to provide a prescription for the development of impoverished countries, poverty reduction is still a critical challenge in many developing countries, despite the significant amount of foreign aid. Institutional economics, particularly the principal-agent theory, seems to work as a useful tool to analyze foreign aid delivery in view of improving its effectiveness, but its application to the research of foreign aid has been limited so far due to the difficulty in accessing empirical data.

## **2.2 FOREIGN AID EFFECTIVENESS**

### **2.2.1 Introduction**

This section describes foreign aid effectiveness and reviews its major research findings. First of all, I define foreign aid effectiveness, including its relevant historical background. I then analytically review major research findings of foreign aid effectiveness from the macro level to the micro institution level. The monitoring and evaluation of Millennium Development Goals (MDGs) and Education for All (EFA) are also described. Finally, I briefly state implications of these existing research findings in my dissertation.

### **2.2.2 What is foreign aid effectiveness?**

Foreign aid effectiveness examines what works and what does not work in foreign aid. Former World Bank Chief Economist Joseph Stiglitz states that foreign aid is “a learning business that continually evolves as lessons of success and failures become clear” (World Bank, 1998, p.ix). Assessing foreign aid effectiveness contributes to the ongoing learning process of foreign aid. UNDP concludes that three conditions lead to foreign aid effectiveness: 1) aid has to be delivered in sufficient quantity to support human development take-off; 2) aid has to be delivered at a predictable, low transaction cost and value for money basis; and 3) effective aid requires the ownership of recipient countries (UNDP, 2005, p.7).

Although many different research findings exist in the discourse of foreign aid effectiveness, they share the same concern regarding how foreign aid can better contribute to the socio-economic development of developing countries. Here, foreign aid refers not only to the

transfer of money from developed to developing countries, but it is also the assistance that developed countries give developing countries to generate the knowledge they need for their development (World Bank, 1998, p.ix).

The notion of foreign aid effectiveness emerged from the aid weariness of the 1970s and 1980s (Todaro & Smith, 2003, pp.659-660). Although many developing countries experienced growth in the 1960s, the oil shock in 1973 halted their growth and stagnated their economies. The hypothesis of trickle-down, which believed that macro-level economic growth could improve the living condition of the people, was questioned. In the 1970s, the international community addressed poverty in developing countries in a more direct manner by asserting the importance of Basic Human Needs (BHN). However, in the 1980s, many developing countries, except for the East Asian countries, experienced debt crisis because of the changes of global economy. Since the Structural Adjustment Programs, which tried to stabilize macroeconomic conditions of those countries as well as the BHN, did not work in many developing countries, the significance of foreign aid was doubted. Donor countries not only became suspicious of foreign aid, but they also began to focus on such domestic issues as inflation, unemployment, and government payments (pp.659-660). Although political reasons did not decrease the amount of foreign aid by the end of the Cold War, many donor countries did cut their foreign aid budgets in the 1990s and did become more caring about the effects of foreign aid. As such, the effectiveness of foreign aid began to be discussed in the context of aid weariness.

### **2.2.3 How is foreign aid effectiveness measured and evaluated?**

Many stakeholders of foreign aid, including public donor agencies as well as recipient governments and NGOs, have been involved in examining what works and what does not work

in foreign aid. The voices of developing countries receiving foreign aid have tended to be weak compared with those of aid providers. Yet, as counterparts of donors, recipient countries usually have participated in various evaluation researches of donors. Some government officials of developing countries have published the results of their aid effectiveness research in academic journals in collaboration with experts from donor countries.<sup>17</sup> I frame various major existing research findings from two different angles: one is related to development economics, which analyzes foreign aid from a macroeconomic perspective and primarily focuses on the conditions of aid recipient countries; the other is related to institutional economics, which analyzes foreign aid by examining the behavioral incentives of donor countries and the way aid is delivered.

### **2.2.3.1 Macroeconomic perspective**

This section reviews some major arguments regarding the foreign aid and economic growth from a macroeconomic perspective. The World Bank Chief Economist François Bourguignon observes that, according to a number of cross-country regression analyses, the relationship between foreign aid and development outcomes is “fragile and often ambiguous” (Bourguignon & Sundberg, 2007, p.1).<sup>18</sup> A meta-analysis of 97 studies of the effects of development aid demonstrates that aid has an insignificant positive effect on growth (Doucouliagos & Paldam, 2005). The following synopsis reveals the fragility and ambiguity of foreign aid effectiveness studies.

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<sup>17</sup> For example, a Japanese expert and government officials of Cambodia analyze the technical assistance and capacity development in Cambodia (Godfrey, M., Sophal, C., Kato, T., Piseth, L. V., Dorina, P., Saravy, T., Sovora, T., & Sovannarith, S., 2002).

<sup>18</sup> For example, Rajan and Subramanian (2005) find little robust evidence of a positive (or negative) relationship between aid inflows into a country and its economic growth.

I place Burnside and Dollar (2000) (henceforth, BD) at the core of my review because their results have a major impact on policy makers and practitioners in international development. BD becomes influential because some governments and international organizations have used this article as a basis for their decisions. BD asserts that foreign aid has contributed to economic growth in countries with strong policy environments (p. 864). They then suggest that foreign aid be allocated to these countries in order to increase the aid effectiveness. Some aid organizations are adopting BD's suggestions as a basis of their strategies. For example, the United Nations International Conference on Financing for Development at Monterrey, Mexico in March 2002 cited BD. At this post 9/11 watershed conference, international communities pledged to significantly increase their amount of foreign aid (United Nations, 2002, March).

In addition, BD plays an important role in the Millennium Challenge Account (MCA) in selecting the eligible countries. MCA is a new foreign aid system of the U.S. established by President George W. Bush (Easterly, 2003). In addition to this article, I chose the following articles for the literature review: Easterly, Levine, and Roodman (2004) have skeptical visions toward BD; Gomanee (2002, September) has a neutral view; Hansen and Tarp (2001) oppose BD; and the World Bank (1998) supports the vision of BD. On the other hand, it should be noted that there is an article which concludes that aid neither increases investment nor benefits the poor, but it does increase the size of government (Boone, 1996). This diversity of opinions illustrates the nebulous role of foreign aid in development.

Hansen and Tarp (2001) point out the substantial difficulty of the analysis of aid and growth: the absence of a clear theoretical explanation about the aid-growth processes from an institutional perspective. This analysis would be required to create satisfactory empirical specifications and formulate testable hypotheses (p.566). By changing the variables or the dataset

of the BD, different results are derived and resultant different policy implications are generated. In other words, the deliberation of aid-growth analysis is still an on-going process; uncertainty and fragility will continue until a better theoretical explanation is found.

Acemoglu, Johnson, and Robinson (2001) try to solve this uncertainty. They present the idea that a country's current institutional quality, which is estimated by the effect institutions have on economic performance, is related to its colonial experience. Although they mention that colonial policies did not necessarily predetermine today's institutions, they emphasize that the mode of colonial settlement is a factor affecting a country's institutions.

How above-mentioned articles study the problem as well as what can be learned from the articles regarding foreign aid and economic growth can be summarized as follows: Easterly et al. (2004) have a skeptical view of the conclusion of BD: aid has a positive impact on growth in developing countries with good policies but has little effect in the countries with poor policies. In order to show their doubt, Easterly et al. reassess BD's analysis using the same specifications but adding new information available after the BD analysis and extending the data for four more years (p.774). Their results do not support BD's assertion that aid encourages economic growth in a country with good policies (p.779). It is interesting to see that Easterly et al. evaluate the BD paper as one that makes a difference in the aid effectiveness argument, but comment that the answers to this issue have not yet been found (p.780). This implies that, before BD, no reliable empirical economic analysis of the relationship between aid and growth existed. The comment of Easterly et al. seems to be a warning to the community of international aid business, particularly to the United States and the United Nations, which use the BD as one of the theoretical bases for foreign aid strategy.

Gomanee (2002, September) does not attempt to discuss the validity of BD, but rather shows a different angle to examine the relationship between aid and growth. After making a regression analysis focusing on investment in relation to the economic growth, he concludes that foreign aid has had a positive effect on growth largely through investments (p.18). Unlike BD, who focuses on policies, Gomanee analyzes the relationship between aid and growth in terms of investment as a determinant of growth. His argument does not become a direct counterargument toward BD. However, as he infers that Africa's economic growth would have deteriorated more than it did without foreign aid, it seems that his stance opposes that of BD. This is because quite a few African countries do not necessarily have good policies in terms of finance, budget, and trade while those countries with good policies tend to be selected as eligible aid recipients by the U.S. and the World Bank. The hidden message of Gomanee seems to be that the international community should not abandon poor African countries just because their policies are not necessarily good from BD's point of view.

Hansen and Tarp (2001) provide an opposite view on BD. They analyze the relationship between aid and growth using cross-country regression. Different from BD's methodology, they include investment and human capital in the growth regression (p.548). Their analysis leads them to conclude that foreign aid contributes to the growth rate; their results do not support BD's conclusion that foreign aid contributes to economic growth in the countries with good policy environments (p.566). It is further interesting to note that Hansen and Tarp suggest the need for more theoretical work regarding the relationship between foreign aid and economic growth before the results of various cross-country regression, including those of their study, are utilized in the real world settings (p.566). This seems to be a more explicit warning than that of Easterly et al. (2004). However, in the U.N. Monterrey Conference, held after Hansen and Tarp



published, used the result of BD as a basis of the argument; this Conference became a precedent in forming a new trend of international development in the post 9/11 world.

The World Bank (1998) aims to rethink foreign aid in post cold war international structure (p.ix). It analyzes many topics that could contribute to re-conceptualizing foreign assistance in light of a new paradigm. Regarding the relationship between aid and growth, The World Bank supports the view of BD.<sup>19</sup> In addition to the BD argument, the World Bank (1998) used the results of cross-country analysis of public investment projects financed by the Bank according to the borrowers' economic management (p.14). The World Bank's conclusion is the same as BD; the Bank asserts that aid has a positive effect on economic growth when development countries have stable economic environments and sound policies; foreign aid would not work in the countries with poor management (p.14). It is important to note that the World Bank is not only a research institute but also an organization that implements foreign aid. Because the Bank recommends that foreign aid be allocated to poor countries with good policies, it has implemented its aid projects in line with this recommendation (pp.15-16). With its huge amount of financial resources and political power, the Bank has had a significant influence on developing countries as well as the international community, and its assertion has become the mainstream; nevertheless, doubts and uncertainty concerning the argument of BD still remain.

One reason why the World Bank suggests that aid be allocated to those countries with strong policies is that aid resource is fungible. Cassen and Associates (1994) define fungibility as "the argument that aid really finances, not the high-priority investments it ostensibly pays for, which 'would have been carried out anyway' but the more marginal investments (or even consumption) which aid permits the recipient to finance" (p.17). The World Bank turns to food

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<sup>19</sup> The World Bank (1998) cites the working paper version of BD to support their argument (Burnside & Dollar, 1997).

stamps to illustrate fungibility: “Food stamp recipients are sophisticated and have their own objectives, in which case the recipient would reduce expenditures on food from their non-food stamp income dollar-for-dollar with increases in food stamp expenditures” (World Bank, 1998, p.63). Likewise, François Bourguignon, the Bank’s Chief Economist, states that “money is fungible, even with earmarking” and “due to the difficulty of attribution, it is not really possible to say how many children inoculated or crops taken to markets on account of a dollar of aid” (Bourguignon & Sundberg, 2007, p.3). Allan Meltzer of Carnegie Mellon University, who provided advice regarding the reform of the World Bank, echoes the fungibility of foreign aid: “Money is fungible. Projects with the highest social or economic return may be used to get a loan from the Bank, but they would have been done in any case” (Meltzer, 2005, March 18). All of these experts agree that, to make foreign aid effective, it is imperative to shift focus from donors’ aid projects to recipient countries and their capacity.

In the post 9/11 world, effectiveness of foreign aid has been widely discussed to ensure the economic growth and poverty reduction in developing countries. To clarify the relationship between aid and growth, the Burnside and Dollar (2000) article is the first empirically analyze this issue; the result was shared among various aid agencies for a basis of building their strategy. The World Bank (1998) supported this. However, the Bank’s recommendation that aid contributes to growth as long as countries have good policies cannot be completely generalized. Easterly et al. (2004) and Hansen and Tarp (2001) show that the BD’s conclusion is not valid if dataset are extended and some additional variables are employed. In addition, Gomanee (2002, September), Easterly et al. (2004), and Hansen and Tarp (2001) imply that it is too early for aid policymakers and practitioners to use BD as a basis of their aid strategies; they raise the point that a valid theoretical explanation should be designed.

### **2.2.3.2 Institutional economics' perspective**

Unlike the aid effectiveness research from a macroeconomic perspective, the application of institutional economics to the research of foreign aid has not been common so far because of the difficulty in accessing empirical data (Martens, 2002, p.5). However, some institutional economists have analyzed foreign aid by applying the principal-agent perspective.

Many institutional economists have made major contributions to the analysis of foreign aid. For example, Pietrobelli and Scarpa (1992) focus on contractual forms between donors and recipients, arguing that the incentive mechanism of foreign aid should be redesigned to induce developing countries to more effectively use the aid resources they receive. Meanwhile, Collier, Guillaumont, Guillaumont, and Gunning (1997) discuss conditionality problems in foreign aid. Analyzing the outcomes of conditionality by donors, they explored how the ownership of recipient countries was undermined.

Rodrick (1995, June) examines the advantages of multilateral lending donor agencies. He empirically analyzed the role of multilateral donors in information provision in terms of monitoring governmental policies in recipient countries as well as their exercise of conditionality; Rodrick argues that the interaction between multilateral donors and recipients could be less politicized than inter-governmental links.

Streeten (1988) explores the principal-agent question in aid conditionality. Citing a case of a multilateral lending agency imposing conditions for loans, he analyzes how conditionality, which an outside body imposes, creates irritation and acrimony even if the conditions are in the interest of recipient countries and even if their policy-makers agree with them (p.110). Although some of the above-mentioned articles do not explicitly mention the principal-agent theory, they analyze the effectiveness of foreign aid from the institutional perspective.

#### **2.2.4 MDGs and EFA**

I will briefly touch upon how the effectiveness of major foreign aid policies are monitored and evaluated by focusing on the Millennium Development Goals (MDGs) and the Education for All (EFA) goals. Since the launch of MDGs in 2000, the U.N. Secretary General Kofi Annan nominated Mark Malloch Brown, the then administrator of UNDP, and Jeffrey Sachs, an economist of Columbia University, as the scorekeeper and campaign manager of the MDGs. The Millennium Project was organized for the purpose of promoting the MDGs, and both Malloch Brown and Sachs have taken the initiative in not only monitoring the progress of MDGs but also in encouraging rich countries to mobilize more resources for the achievement of MDGs. The latest report by the Millennium Project, which was presented at the U.N. General Assembly in September 2005, conclude that the MDGs are not achievable in broad regions; in particular, many countries in Sub-Saharan Africa are far off track (United Nations Millennium Project, 2005). UNDP (2003) reports that, at the current pace, Sub-Saharan Africa would not reach the goal of halving income poverty until 2147 (p.2). UNDP suggests that the pace of progress should be dramatically accelerated since a business-as-usual approach would not realize the MDGs (p.2).

Bryant and Kappaz (2005) explain the indicators for measuring what has happened, or might happen, for any foreign aid activities, which can be a basis for understanding the monitoring and evaluating of MDGs and EFA (p.138). The indicators can be differentiated along a continuum as follows: 1) inputs, i.e., activities used to actualize the project; 2) outputs, i.e., products and services produced with inputs; 3) outcomes, i.e., short-term results generated by project outputs; and 4) impact, i.e., longer-term change as a result of the project (p.141). Bryant and Kappaz state that the MDGs' explicit targets and indicators increased the attention to the goals themselves: thousands of actors and aid agencies feel a sense of ownership of the MDGs

and therefore monitor the progress in different places and settings (p.144). This positive change among various stakeholders of the world can be counted as an impact of the MDGs.

The MDGs are too ambitious for many developing countries to really achieve. Still, examining how foreign aid has been delivered by various actors and what kind of incentive structures (or interests) have been out there will shed light on why they could not be achieved and will be beneficial for future foreign aid activities. UNDP (2003) points out that the MDGs can be achieved where national ownership by governments and communities exists and the Goals can spur democratic debate (pp. 1-2). When there is pressure from engaged populations, leaders are more likely to take the actions required for the MDGs (p.2). This analysis may share a similar value with Burnside and Dollar (2000), who emphasize the importance of governance for improving foreign aid effectiveness. Lack of democratic debate, therefore, may be a cause of impeding the MDGs. This factor should be more deeply analyzed from the perspective of how foreign aid could foster the ownership of recipients, not only at the governmental level but also at the community level.

The EFA Global Monitoring Report was launched by UNESCO to monitor and evaluate the progress of the six EFA Dakar goals; the MDGs duplicate two of these goals. UNESCO has undertaken the monitoring of EFA. The annual EFA Global Monitoring Report was established in 2001 by compiling existing educational reports. The Report, prepared by an independently organized section in UNESCO, addresses the progress of EFA all over the world. The latest Report describes pessimistic perspectives: while total aid to basic education could double, reaching about US\$3-3.5 billion by 2006, it remains far short of the US\$7 billion per year that is required if the goal of universal primary completion, let alone the other EFA goals, is to be achieved by 2015 (UNESCO, 2004b). The Report also analyzes an issue of EFA each year: the

2005 Report deals with the quality of education, while the 2006 and 2007 Reports respectively address literacy and early childhood care and education. The Report has also been discussed in the UNESCO-convened international EFA conferences in order to generate synergy with UNESCO's other coordination activities.

### **2.2.5 Concluding remarks**

This section briefly reviews major research findings regarding the foreign aid effectiveness. From a macroeconomic perspective, various economists, including a foreign aid agency such as the World Bank, conducted the research focusing on the contribution of foreign aid to the growth of developing countries. Many of them discuss whether governance, or sound policy, of developing countries is a determinant for effective foreign aid. However, they do not address the mechanisms by which foreign aid is delivered from developed countries to developing countries. On the other hand, from the perspective of institutional economics, some economists focus on the side of foreign aid providers; they pay attention to behavioral incentives of donor countries in the process of foreign aid delivery. Although their theoretical models are well-structured, based on the principal-agent theory, those models have not been tested empirically due to the difficulty of accessing and collecting data of foreign aid agencies.

The arguments from the macroeconomic perspective can be a basis for exploring the effectiveness of the EFA-FTI, the focus of my dissertation, because many developing countries include EFA-related activities in their national development strategy, such as the Poverty Reduction Strategy Papers. Regarding the perspective of institutional economics, the challenge in accessing empirical data of donor agencies may be overcome when it comes to the EFA. UNESCO, which has provided an arena for discussion regarding the EFA, has played the only

coordinator's role since 1990. Various matters regarding donors' behaviors have been discussed in their forum; some of these matters can be used as empirical evidence to analyze donors' behaviors, or the foreign aid delivery. In addition, regarding the primary school completion goal among six EFA goals, the World Bank established the FTI secretariat in cooperation with other donors and provided an arena for the primary completion, which is the main focus of my dissertation (Bruns, Mingat, & Rakotomalala, 2003, p.17). By concentrating the foreign aid delivery in the FTI, I prepare my dissertation by making use of empirical information from these aid agencies and from other actors such as bilateral donors and the governments of developing countries.

## **2.3 EDUCATION IN INTERNATIONAL DEVELOPMENT**

### **2.3.1 Introduction**

In the context of international development, different people frame education differently. The United Nations Secretary-General Kofi Annan described education as “a human right with immense power to transform” and claimed that on “its foundation rest the cornerstones of freedom, democracy and sustainable human development” (UNICEF, 1999, p.4). As implied by his words, there seem to be two different views in the discussion of education in developing countries. One view sees education as important for the socio-economic development of developing countries, which may include the prevalence of freedom, democracy, and sustainable human development. The other view regards education per se as valuable because education is a human right.

In this section, I focus on the former perspective of education, that education is important for the socio-economic development of developing countries. My research interest lies in analyzing the effectiveness of foreign aid in education; also, a critical objective of foreign aid is to realize socio-economic development in recipient countries, although foreign aid is usually used for other purposes such as a political and diplomatic tool of donor countries or organizations. Therefore, the approach I use in this paper is to explore how education can contribute to the socio-economic development of developing countries from the perspective of development economics.

As represented in the U.N. Millennium Declaration adopted in 2000, poverty eradication in developing countries has become a common challenge for all those who are engaged in international development, despite the different views on education among foreign aid agencies.<sup>20</sup> Development economics is an important discipline in analyzing education in international development, because it functions as one of the common languages among scholars and practitioners. This section reviews how development economics views education; it further examines its significance and limitations in solving various challenges of educational development in developing countries.

### **2.3.2 Concept of human capital**

In the economic climate of the 18th century, Adam Smith considered human beings as playing a critical part within national welfare. Although he did not explicitly mention the role of education

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<sup>20</sup> The U.N. Millennium Declaration is the declaration adopted by the U.N. General Assembly in 2000. The Declaration spells out a will of the international community to “free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty, to which more than a billion of them are currently subjected” and a commitment “to making the right to development a reality for everyone and to freeing the entire human race from want” (United Nations, 2000).



in a national economy, he argued that one sort of labor adds value to the national economy and another has no such effect (Otteson, 2004, p.129). This suggests the importance of the quality of the labor force in economic growth, which then led to the human capital theory in later years.

The role of education in economic development is clearly formulated by economists such as Schultz, Becker, and Mincer in the 1960s. Schultz (1963) proposes the notion of human capital, which includes the idea that “people enhance their capabilities as producers and as consumers by investing in themselves and that schooling is the largest investment in human capital” (p.x); the framework to evaluate the returns of human capital uses the concepts of foregone earnings and opportunity costs (pp.5-6).

Becker (1964) develops a formula of how human capital can be accumulated for economic growth. He spells out how an individual’s investment behavior accumulates the human capital in the light of the cost and benefit of education (i.e., an individual’s optimum behavior).<sup>21</sup> Mincer (1974) proposes the Mincer Specification, an economic model that estimates the rate of return in education in order to quantitatively measure an individual’s investment behavior toward the human capital.

Many economists view education as a factor that produces value in terms of economics by using empirical evidence to show that human capital would contribute to the increase of goods and services in the end. Boissiere, Knight, and Sabot (1985) demonstrate that the human capital theory is valid by using the data of secondary education of Kenya and Tanzania.<sup>22</sup> The World Bank starts to utilize human capital theory in its discussion of educational policy in

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<sup>21</sup> Becker (1964) starts with a discussion of special kinds of human capital with attention to on-the-job training and then moves to a general theory that applies to any kind of human capital (p.153).

<sup>22</sup> By using their survey data from East Africa, Boissiere et al. (1985) conclude that “literate and numerate workers are more productive, and that education is valuable to workers because it can give them skills that increase their productivity” (p.1029).

developing countries; this theory becomes influential on the foreign aid policies of donors (Psacharopoulos & Woodhall, 1985).<sup>23</sup> Psacharopoulos (1984) analyzes that traditional growth accounting is likely to underestimate the contribution of education to growth (pp.350-351). Schultz (1989) defines his findings regarding human capital as: 1) the rate of return of increase in human capital is higher than that of reproducible physical capital and 2) human capital enhances the productivity of both the physical and human capital (pp.219-220).

### **2.3.3 Role of education in growth at a macro level**

Many economists have analyzed the role of education in economic growth by using growth accounting, which is based on the idea of production function in macro economy. Some of those arguments reflect the notion of human capital.

Solow (1956) presents a neo-classical growth model. His production function only contains physical capital and raw labor; human capital is exogenously determined. With constant returns to scale assumed, Solow's model displays diminishing returns to increased physical capital per worker. Solow's model does not consider human capital, and it treats technical progress, something that cannot be explained by the input of physical capital and labor, as an exogenous factor.

On the other hand, Lucas (1988) focuses on the linkage of human capital to the dissemination of technical change. His model is known as the endogenous growth theory. The production function of Lucas places the human capital centrally in growth; the levels of human capital are endogenously determined by household time allocation decisions. Mankiw, Romer,

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<sup>23</sup> Psacharopoulos and Woodhall (1985) explain that one of the principles of the World Bank's Education Sector Policy Paper in 1980 includes increasing productivity and promoting social equity (p.5).

and Weil (1992) assume constant returns to scale when human capital is included. They demonstrate that there are diminishing returns to human and physical capital, but countries with a higher rate of investment in human capital continue to grow faster.

Denison (1962) presents an example of empirical study regarding the role of education on economic growth. In the determinants of economic growth of the U.S. from 1929 to 1957, he finds the existence of a non-negligible amount of “residual” part which the increase of inputs of capital stock and labor cannot explain.<sup>24</sup> Denison suggests that the factors of production in traditional economics (i.e., physical capital, labor, and land) could not explain America’s economic growth during these years. He instead insists that the advance of knowledge, which is brought about by education or human capital, better explained the growth of the U.S.; this knowledge advancement could be observed as “residual” (p.229). Denison (1967) also attributes 23% of America’s economic growth from 1950 to 1962 to the improvement of education among labor forces.<sup>25</sup> His idea of the improvement of knowledge is recognized as the Total Factor Productivity.

The Total Factor Productivity (TFP) has been widely discussed in analyzing the contribution of human capital to growth. Solow (1957) first applies this concept to his analysis of the causes of economic growth. Using the economy of the United States as an example, Solow focuses on the technical change in the aggregate production function. He concludes that 87.5% of American gross output growth from 1909 to 1949 results from technical change. This concept,

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<sup>24</sup> Denison (1962) concludes that, after the examination of “a great variety of developments that might have affected the growth rate” of the U.S, “the quantitative effect of many must be negligible” (p.229).

<sup>25</sup> Denison (1967) analyzes that advances of knowledge as 23% of the sources of growth in the United States between 1950 and 1962 (p.299).

known as the Solow residual, relates to that portion of output that is not attributed to labor and capital inputs.

TFP was applied to the analysis of high performance in East Asian countries in the 1980s. One of the assertions of the World Bank's "East Asian Miracle" is that the growth of TFP is a cause of growth in East Asia (World Bank, 1993). Krugman (1994) critiques this discussion of TFP by concluding that the economic growth in East Asia is not due to the progress of technology but to the improvement of the educational level of the labor force, and the growth of capital. This implies that there is still a significant uncertainty in interpreting and analyzing TFP; the concept of TFP may inherently contain some ambiguity because it has emerged from a "residual" part of growth accounting that may be invisible and unobservable. These arguments regarding TFP, which refer to an output from the human capital including education, demonstrate that education is important in economic growth.

#### **2.3.4 Role of education in growth at a micro level**

The role of education in economic growth has been analyzed at a micro level by using the rate of return analysis of education. Schultz, Becker, Mincer, and Rees, the economists who developed the notion of human capital, contribute to the development of the rate of return analysis of education. Schultz (1963) conceptualizes the private benefit of education by using the cost of education, including forgone earnings as well as an individual's income and the social benefit of education in economic growth (pp.5-11).

Using Schultz's conceptualization, Becker (1964) establishes the theoretical framework of rate of return analysis of education. The rate of return analysis of education is explained by

private rate and social rate.<sup>26</sup> The private rate of return to education quantitatively measures an individual's benefit of education. The social rate of return to education is usually used to decide an investment priority from the government's point of view.

Mincer (1974) proposes an econometric model to analyze the role of education in economic growth by using the earning function regression method. Rees (1979) concludes that Schultz's concept of private and social benefits of education is significant for governments in deciding the amount of resources they allot for the education sector.<sup>27</sup>

Psacharopoulos is a representative economist who applied these models to analyze education in developing countries. He explains some tendencies regarding the rate of return to education based upon the results of cross-national analysis, which conclude that "primary education continues to be the number one investment priority in developing countries" and "investment in women's education is in general more profitable than that for men" (Psacharopoulos, 1994, p.1325). These findings have encouraged many donor agencies to assist primary education in developing countries. At the same time, Psacharopoulos and Woodhall (1985) mention "the widespread belief" in the World Bank that "universal rules cannot be applied and that educational investment must be broad and diverse if it is to respond to the diverse needs of developing countries" (p.321).

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<sup>26</sup> Becker (1964) explains the private and social rate of returns by using the following examples: "because observed earnings are gross of the return on human capital, some person earn more than others simply because they invest more in themselves" (p.153); meanwhile, "some investments in human capital do not affect earnings because costs are paid and returns are collected not by the persons involved but by the firms, industries, and countries employing them" (p.154).

<sup>27</sup> Rees (1979) explains that the market for human capital is "for the service of the capital rather than for the capital stock or capital goods" and "this is the major reason why most of the investment in schooling is made by students or their families, and much of the rest is made by governments or such nonprofit institutions as foundations and universities" (pp.35-36).

Likewise, Barro (1991) shows that investment in primary and secondary education contributes to economic growth.<sup>28</sup> Barro and Lee (1993) conclude that the male secondary school enrollment rates have a positive effect on economic growth by analyzing the data of economic growth from 1965 to 1985 in 116 countries.<sup>29</sup>

On the other hand, Pritchett (2001) argues that education is not a sufficient condition for economic growth. Based on his analysis of the cross-national data, Pritchett concluded that, on average, “education contributed much less to growth than would have been expected in the standard augmented Solow model” (p.387).<sup>30</sup>

### **2.3.5 Beyond human capital theory**

So far, I have reviewed various perspectives regarding education and development, focusing on the human capital theory. However, some arguments of education and development by development economists go beyond the human capital theory. I briefly touch upon two of these.

One perspective is social capital. Since the mid 1990s, the concept of social capital has been discussed in the context of development. Putnam (1993) asserts that the social capital, which refers to trust, norms of reciprocity, and the network of civic engagement, made a difference in the institutional performance of local governments in Italy (p.167). Likewise, Coleman (1988) argues that social capital in the family and in the community aids the formation

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<sup>28</sup> “For 98 countries in the period 1960-1985, the growth rate of real per capita GDP is positively related to the initial human capital” and “negatively related to the initial level of real per capita GDP. Countries with higher human capital also have lower fertility rates and higher ratios of physical investment to GDP” (Barro, 1991, p.407).

<sup>29</sup> Barro and Lee (1993) conclude that differences in growth rates across countries relate systematically to a set of explanatory variables and indicated the positive effect on growth to the initial levels of secondary-school attainment as one element of this set (p.38).

<sup>30</sup> Pritchett (2001) demonstrates that “in some countries, schooling has been enormously effective in transmitting knowledge and skills, while in others it has been essentially worthless and has created no skills” (p.387).

of human capital (p.S118). Heyneman (1999) claims that social capital can be created through effective schooling (p.5). These arguments drew the attention of professionals of international development, and the World Bank takes up social capital in the World Development report 2000/2001. Social capital, such as kinship systems, local organizations, and networks of the poor, affects development by forming social skills of individuals, facilitating coordination and cooperation for mutual benefit in local communities, and creating social environments that shape social structures and enable norms to develop (World Bank, 2000, p.129).

The other perspective is human capability, which Nobel Laureate Amartya Sen presents as a core concept of development. Sen (1999) differentiates human capital from human capability. While human capital tends to “concentrate on the agency of the human beings in augmenting production possibilities,” human capability addresses the substantive freedom—the ability of people “to lead the lives that they have reason to value and to enhance the real choices they have (p.293).

These perspectives demonstrate a variation of views on education and development in development economics, which is separate from the pure neo-classical views. These perspectives should also be taken into account in analyzing foreign aid policy in the education sector.

### **2.3.6 Strengths and limitations of development economics**

The significance of development economics in analyzing education in developing countries is that the analysis of education, i.e., the analysis based upon the notion of human capital and the rate of return of education to economic growth, provides critical information for the policy makers in developing countries. From the viewpoint of scholars and practitioners in international development, investment priority is a critical problem. Education is not the only important sector

for socio-economic development of developing countries. With scarce resources, policy makers have to make a decision regarding how many resources should be allotted to the education sector and to what extent the current situation of education should be changed. Here, policy makers need economic development theory to endorse the information and statistics to support it so they can make a proper and rational decision. In this sense, the analysis of education from the perspective of development economics is extremely significant and useful for the development of impoverished countries.

However, development economics has many limitations when analyzing education by development economics. Generally speaking, since development economists, particularly those using a purely neo-classical perspective, analyze education by exploring the “residual,” those economists tend to treat education as a black box; they pay less attention to such qualitative issues as capacity development than scholars in other academic fields. Additionally, empirical evidence does not necessarily support the theory of human capital, as Pritchett (2001) points out.

### **2.3.7 Concluding remarks**

Focusing mainly on the human capital theory, this section briefly reviews the views and research findings of development economists on education. A series of these arguments will be beneficial in my analysis of the effectiveness of foreign aid in the FTI, which is the topic of my dissertation. Various actors in developing countries and donor communities have tried to make maximum use of limited resources for the FTI by planning, implementing, monitoring, and evaluating activities for the achievement of the FTI’s goals. The development economists’ arguments of education will help me frame the effectiveness of the FTI because, for both the policymakers in developing countries and foreign aid workers, the challenging questions would



be how they could ensure sufficient resources, to what extent the current situations should be changed, and how the outcome of the FTI activities can be sustained. The analysis by development economists, which emphasizes economic theories and statistical evidence, should be the basis for discussion of the effectiveness of the FTI.

However, not only the FTI but also foreign aid activity in general has multiple objectives; therefore, the interests and incentives of stakeholders are diverse. Here, the analysis of organizational management or institutional economics will be useful in order to address the issue of the incentive structure in the FTI; the institutional economics will complement the arguments of development economics in analyzing the effectiveness of FTI. In developing the thesis of my dissertation, I use the combination of these disciplines.

### 3.0 RESEARCH METHODOLOGY

This chapter describes the research methodology, including data collection methods and analytical measures. The following framework is employed to address my research problem on foreign aid effectiveness in the FTI and to prove the hypotheses. The following flow chart depicts the research methodology.

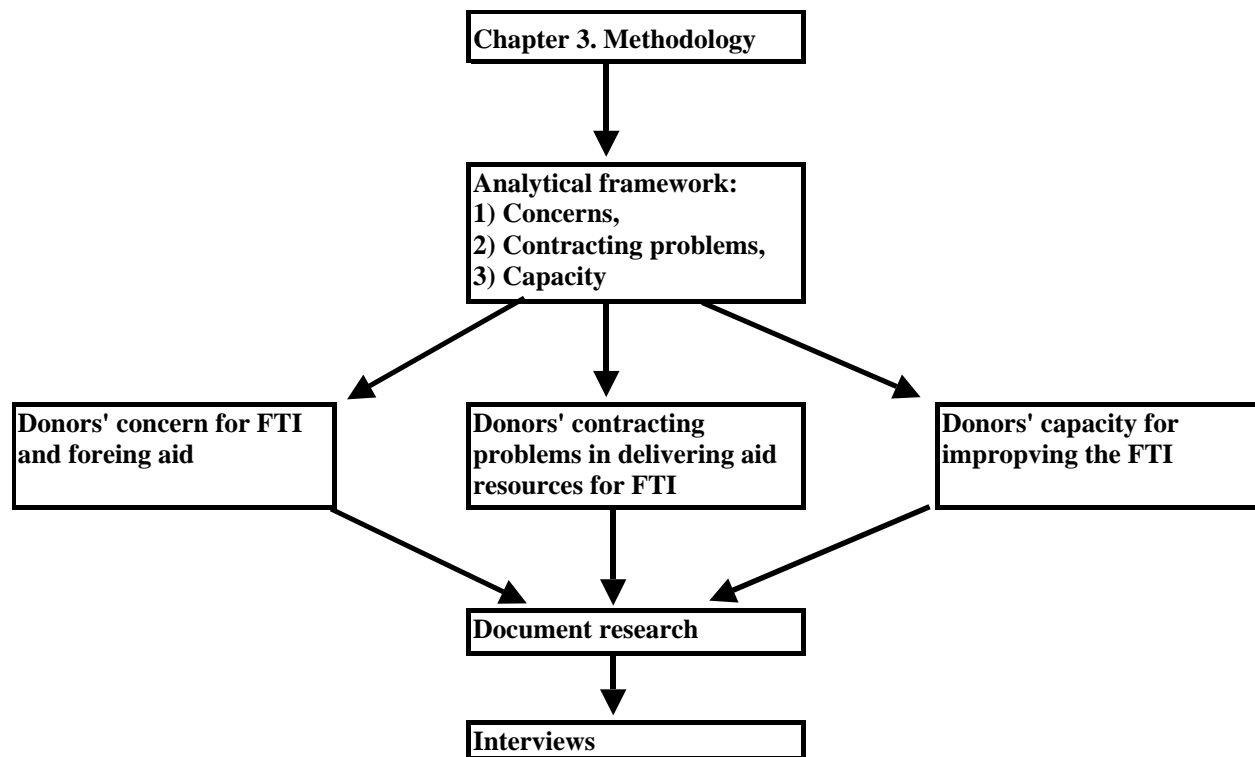


Figure 6. Chapter 3 flow chart

### 3.1 GENERAL DIRECTION

As I explained in Chapter 1, this paper analyzes the causal pathway of foreign aid in the FTI by focusing on the policies and practices of donor agencies. In other words, this study tries to clarify how donor agencies mobilize their resources to promote the FTI, rather than examining how much foreign aid donors spend for the FTI and to what extent the FTI indicators of developing countries improve. My primary interest lies in the analysis of donor agencies and their behaviors, rather than the situations of recipient countries. Also, since foreign aid is not the only determinant of the success of the FTI, I would like to narrow my focus to the institutions of donor agencies in relation to the FTI. I prefer this approach more than one that implements traditional economist-type research by identifying independent and dependent variables and showing their correlation, with a view towards addressing this broad research topic in a manageable scope. Therefore, in order to address my research problem as well as to examine the hypotheses described in Chapter 1, I employ a qualitative-oriented research methodology that uses a number of quantitative data as a source of information.

In designing my research, I refer to King, Keohane, and Verba (1994) in an attempt to connect the traditions of qualitative and quantitative research by applying a logic of inference to both (p.3). Regarding the paradigm, my inquiry will be a phenomenology-oriented one that pays a certain attention to positivism. My study attempts to comprehend the complexity, which may include chaos and uncertainty, of the mechanism regarding donors' foreign aid provision for FTI, while also respecting the accumulation of insights from economics, which tries to pursue objective reality.

Using the following data to examine my research problems and hypotheses, I seek to clarify the causal pathways of foreign aid effectiveness, not to examine its cause and effect

relationship. This is because foreign aid is not the only factor that affects the performance of the FTI and other changes within recipient countries.

The data that indicate outcomes of foreign aid provided by donor agencies for the FTI include: 1) the FTI performance of recipients and 2) the interests of donors. While donors have multiple objectives in providing foreign aid, I classify them into two categories which may be interrelated: 1) providing aid for assisting developing countries for the sake of improving the FTI performance of the recipients and 2) providing for the donors' own interests, which include their national security and their political, diplomatic, and commercial interests.

The EFA Global Monitoring Report published by UNESCO serves a primary source of information for the first variable that focuses on the FTI performance of recipients. Alternative sources include the documentations of target donors and recipient governments. Regarding the second variable of donors' interests, the documentations of donor agencies and recipient governments act as primary sources of information, with the documentations of OECD-DAC, NGOs, civil society groups, and think-tanks as alternative sources.

Concerning the data that indicate the input from donor agencies, which may partly explain the outcomes of foreign aid, I emphasize the quantity and quality of target donors' foreign aid for the FTI. The quantity refers to the amount of finances, in-kind resources, and knowledge acquiring opportunities provided by the target donors for the FTI. The quality refers to the modalities used by the target donors, which include project-type activities, Sector Wide Approaches (SWAs), Program-Based Approaches (PBAs), budget supports, and any other form of aid provision. I will use the documentations of target donors and their major recipients as a primary source of information. As alternative sources, I include the documentations of OECD-DAC, NGOs, civil society groups, and think-tanks. Again, I would like to stress that the purpose

of this study is to clarify the causal pathway of foreign aid for the FTI by focusing on donor agencies' institutions, rather than clarifying the relationship between the aid agencies' inputs and the outcome of the FTI in recipient countries, which is beyond the scope of this study.

### **3.2 APPLICATION OF OTHER AID EFFECTIVENESS STUDIES**

In accordance with the above-mentioned general direction and the approach shown by Keohane and Levy (1996), I collected the information and analyze it. Keohane and Levy analyze the effectiveness of foreign aid in the environment sector. By focusing on the institutions, those rules established to govern a resource flow from donors to recipients, they explore which conditions allow those institutions to be effective or ineffective in achieving their purposes: strengthening environmental policies in recipient countries and ultimately improving the quality of the natural environment (p.5). They claim that “the formulation and implementation of coherent and well-designed policies governing the transfer of funds from rich to poor countries, to protect the natural environment, are subject to severe political constraints” (p.7). The methodology taken by Keohane and Levy fits to the context of my research because my study uses the institution of foreign aid agencies to analyze an international education initiative, similar to what they have done in their analysis of the international foreign aid initiative in the environment sector.

I use the analytical “three Cs” framework employed by Keohane and Levy (1996): sufficient concern, solutions to contracting problem, and adequate capacity for designing and implementing specific measures (p.9). This framework, originally proposed by Haas, Keohane, and Levy (1993), tries to determine “whether, and through what mechanisms, international

institutions can be effective in making the environment more conducive to a healthy life for natural species, including but not limited to human being” (p.6).

Like Keohane and Levy (1996), I do not conceptualize the “three Cs” of the target donors as purely “explanatory variables” that define the performance of the FTI in developing countries. This is because foreign aid activities of donor countries are “less causal factors than reflections of social forces, economic resources, and established institutional arrangements” (p.9). By utilizing this framework, I demonstrate causal pathways, which spell out the factors that must change for the improvement of aid effectiveness (p.9). I base my approach on that of Haas et al. (1993), which assert that “any effective action of international institutions with respect to the global environment is likely to follow a path that increases concern or capacity, or improves the contractual environment” (p.21).

Also, it is important to recognize that donor agencies’ policies and approaches in providing foreign aid differ depending on the contexts of individual aid recipient countries. In order to address this differentiation, I conduct case studies by focusing on three recipient countries. I select Mongolia, Vietnam, and Cambodia as targets of my case study analysis. These three countries, all located in the region of East Asia, are FTI members as recipients of foreign aid since 2006. I collected the following information of donor agencies in relation to the FTI and their approaches in these three Asian FTI-endorsed countries.

### **3.2.1 Concerns**

Keohane and Levy (1996) define “concern” as “the interests in preserving the environment expressed by potential funders, recipients, and governments involved in a financial transfer” (p.9). My inquiry covers not only a financial transfer but also all other flows, including in-kind

resource transfers, in the light of the fungibility of aid resources. The significance of using “concern” is, as Keohane and Levy imply, to clarify the different priorities between funders and recipients and the resultant political tensions (p.9).

I collect and analyze the information regarding donors’ political, economic, and other incentives in providing foreign aid, paying particular attention to the FTI. In the wake of a series of aid-related international conferences since the late 1990s, donor countries have committed to harmonizing their aid policies and practices to improve the effectiveness of development assistance; the Rome and Paris Declarations of Aid Effectiveness of 2003 and 2004 explicitly express this. In the meantime, donor countries more or less politicized foreign aid and treated it like pork barrel politics, suggesting that foreign aid cannot be free from the interests of politicians and voters of donor countries. I draw a comprehensive picture of the complex incentives of target donors in providing foreign aid in the FTI; these incentives not only include supporting educational development in developing countries but also satisfying their non-altruistic interests. Based upon this incentive picture, I examine the aid effectiveness of the FTI in terms of how foreign aid ultimately fulfills the incentives of target donors.

### **3.2.2 Contracting problems**

Keohane and Levy (1996) take up “contracting” as a part of the framework because they recognize conflicts over the distribution of resource transfer; “participants will seek insofar as possible to maximize the benefits they receive and shift costs by others” (p.10). I collect and analyze the information regarding the contracts 1) between resource providers and implementers, 2) between policymakers and executing agencies, and 3) within executing agencies.

For the in-depth analysis of the contracting problems, I also employ the approach used by the institutional economists.<sup>31</sup> Martens et al. (2002) contribute a perspective of institutional economics to foreign aid effectiveness studies. Using the principal-agent theory, they examine “informational problems induce biases in the behavior of agents involved in aid delivery process and how this affects the ultimate performance of aid programs” (pp.7-8). They point out two types of problems of delegation which hamper the principals’ return compared to that under perfect information: moral hazard and adverse selection, described in Chapter 2. These problems result from asymmetry of information between principals and agents. These points clarify the principal-agent structure among stakeholders of foreign aid in the FTI and shed insight on the effectiveness of aid. Specifically, I examine how collaboration among donors, which may create multiple agents and complicate the principal-agent relationships in the FTI, either boosts or impedes the effectiveness of aid.

### **3.2.3 Capacity**

Using a key concept in Agenda 21 at the United Nations Conference on Environment and Development (UNCED) in 1992, Keohane and Levy (1996) define capacity building in terms of institutional capabilities and networks that enable countries to integrate development and policies (p.13). I pay particular attention to the capacity of those donor agencies, examining how donors’ capacity would facilitate or impede the performance of the FTI in providing foreign aid.

In measuring organizational capacity, I specifically focus on the following points indicated by Bryant and Kappaz (2005): 1) learning processes across administrative boundaries;

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<sup>31</sup> Since the mid- to late-1990s, international development has added institutions to its agenda with the rise of new institutional economics initiated by the economic historian Douglas North (North, 1990).



2) ability to recognize, acknowledge, and correct errors; 3) motivated staff with performance goals; 4) budgets and records for financial accountability; and 5) products and policies of organization. These data sources include both descriptive and numerical information.

Above all, I take notice of how donors address the dynamic changes of recipient countries and global political economy. This includes a focus on the strategy of the target donors towards new aid modalities and donor coordination. Donors are happy to see other donors coordinate around their own particular practices, but less willing to change their own practices to match those of others (Bigsten, 2006, p.20). I further look into the capacity of donors to contribute to global consensus building, to adjust to the new aid trends, and to reconcile the internationally-agreed development goals with donors' specific interests.

### **3.3 INTERVIEWS AND DOCUMENT RESEARCH**

I use a qualitative approach for answering the research questions regarding foreign aid effectiveness in the FTI. This approach is pertinent because I try to clarify the aspect that is treated as a “black box” by using a number of economist-type quantitatively-oriented studies. Also, both the current donor reporting system and the recent trend of introducing a new aid modality make it difficult to track donor contributions to the FTI.<sup>32</sup> This study, therefore, relies on descriptive information and findings from interviews, as well as available empirical and statistical evidence. I performed the analysis along the following lines:

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<sup>32</sup> Rothmann and Have (2004) indicate that OECD-DAC's Creditor Reporting System cannot count the General Budget Support, which is an increasing aid modality employed by World Bank, DFID, and the EC, as an aid for primary education in (p.9).

In order to shape this study, I conducted document analyses and interviews. The following documents were collected and analyzed: 1) policy papers issued by the FTI Secretariat; 2) the EFA Global Monitoring Report issued by UNESCO; 3) papers issued by major donor agencies, particularly Lead Coordinating Agencies of the FTI, which describe education sector strategies and perspectives on foreign aid modality; 4) papers issued by donor agencies and recipient governments, which describe the situations of educational development and foreign aid in the field level; and 5) any other relevant information. I analyzed the information obtained from these documents in accordance with donors' concerns, contracting problems, and capacities, which form the analytical framework of this study.

In my attempt to understand the complexity of foreign aid by clarifying donors' policies and behaviors, interviews proved to be indispensable. The candid and informal opinions of individual aid workers obtained from the interviews supplemented the document analyses and helped me clarify the reality of foreign aid in the education sector. Furthermore, incorporation of the informal and individual perspectives from the interviews has significance, especially because many documents published by donor agencies are written in a diplomatic manner. Because those documents usually do not provide a critical perspective toward donor agencies, it is difficult to unveil the reality of the FTI by merely relying on the document analysis.

In designing the framework of the interviews, I borrowed the design created by Phillip (1997) and modified her specification to fit the context of my research.<sup>33</sup>

I conducted interviews from December 2006 to February 2007. The interviewees consisted of a total number of 22 aid workers who were identified based upon analyzing the documents published by donor agencies. These aid workers have been either directly or

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<sup>33</sup> Phillip (1997) makes a policy analysis of the World Bank's strategy on governance. Her research is based upon the document analysis and the interviews to the Bank staff members.

indirectly involved in the policymaking or implementation of the FTI or basic education. I compiled a list of the individuals who have assumed responsibilities regarding the FTI on the international level and those who have experiences in East Asia. Then, I contacted these people through e-mail to request either face-to-face interviews in Washington, D.C. or telephone interviews for those who reside in East Asia. Among the 22 professionals, 13 allowed me to interview them. In the end, I completed a total number of 12 face-to-face interviews and the e-mail-based interview. Most of the interviewees reside in Washington, D.C., and have rich experience in the FTI or UPE in developing countries. Although I attempted to interview the professionals working in the field of East Asia via telephone or e-mail, none of them were available. The one interviewee I contacted for an e-mail-based interview is an FTI focal point of a bilateral donor agency.

I selected a focused interview as the tool for this research (Merton, Fiske, & Kendall, 1990). The interviewees were known to have participated in or have direct knowledge of the topic of study, i.e., the FTI or foreign aid in basic education. On the basis of the preliminary analysis of these documents, I developed an interview guide that addressed the following general questions in all interviews.

### **3.4 QUESTIONS FOR INTERVIEWS**

The following table indicates a list of the questions that I used for the interviews.

**Table 1.** Questions for interviews

<p><b>Introduction</b></p>	<p>Have you observed the differences between FTI and non-FTI countries in terms of the performance of universal primary education (UPE) and donors' business? If yes, what are those differences?</p> <p>Could you comment on the priority of the FTI? Does the FTI place higher priority on quantitative expansion of UPE rather than enriching its quality, or does it attempt to achieve both? What are your reflections on this?</p> <p>What has changed as a result of the FTI?</p>
<p><b>1) Concerns</b></p>	<p>Some scholars assert that donor agencies provide foreign aid in line with their own incentives, which is not necessarily assisting developing countries in the most need of help. Do you think this view can be applied to the FTI? If so, what kind of problems have you observed in the FTI in relation to donors' incentives?</p> <p>The FTI claims that donor agencies should ensure the predictability and transparency in transferring their aid resources for UPE to developing countries. What kind of actions do you think the FTI can take to reach this objective (or to enable donor agencies to reach this objective)?</p> <p>Could you describe how the concerns of donor agencies have promoted or hampered UPE in developing countries?</p> <p>The Lead Coordinating Agency (LCA) plays a critical role in the process of FTI endorsement by coordinating various stakeholders. What are the incentives for donor agencies to become an LCA? What kind of challenges have you encountered in the current system of LCA?</p> <p>While recipient countries currently take an initiative to apply for the FTI, donor agencies initially nominated the FTI recipients. Have you observed any problems for donor agencies in relation to their concerns about the selection process in recipient countries?</p>
<p><b>2) Contracting problems (between donors and recipients; among donors)</b></p>	<p>Some documents report that the transaction costs in foreign aid for UPE to recipient countries have been reduced due to the FTI's contributions to donor coordination and harmonization. Do you think this is an accurate view?</p> <p>The FTI does not mention the transaction costs to donor agencies. How do you assess the increase (or decrease) of donors' transaction costs in the wake of the FTI?</p>

	<p>For developing countries, being an FTI member does not guarantee the increase of aid resources but better aligns existing donors' aid activities. Have you seen any problems in relation to this characteristic, particularly in terms of the incentives of recipients and donors to join the FTI?</p> <p>The FTI places priority on financing recurrent cost through Sector-Wide Approaches (SWAs) or budget support while attempting to respect the ownership of recipient countries and the context of each developing country. Can you give examples of the problems that have arisen from the difference of aid modality (e.g. project, SWAs, budget support, etc.) among donor agencies?</p> <p>The FTI indicates that the Initiative's responsibilities at the country level are rather informal and, therefore, sometimes unclear for outsiders. What kind of solutions do you think are feasible to solve this problem?</p> <p>The FTI indicates that there is a tension between the needs of developing countries and their compliance with the benchmarks the FTI requires. What kind of solutions do you think are feasible to solve this problem?</p>
<p><b>3) Capacity</b></p>	<p>What kind of capacity do you think the staff members of donor agencies should develop (or strengthen) to make the FTI effective?</p> <p>What changes do you think donor agencies should make for the FTI to better support UPE in developing countries?</p> <p>The FTI mentions that the Initiative's operating modalities are not very easy to understand. How do you think this problem can be solved?</p> <p>The priority for the FTI Secretariat in 2007-8 is to strengthen the support for and assure the quality of the country level process. How do you think the capacity of the Secretariat can be strengthened?</p>

I sent the general questions in advance to all interviewee and asked them to provide me with a perspective as an individual expert rather than as a representative of their agency. Therefore, the data obtained from the interviews cannot be seen as representing the perspectives of specific aid agencies. Since I have collected and analyzed the official perspectives of various

aid agencies through the document analysis, the data from the interviews can be used to complement them. The data from interviews allowed me to unveil the complexity of donors' policies and behaviors in relation to the FTI, something the official donors' publications do not mention.

During the interviews, I took extra care to creating a relaxed atmosphere in order to obtain honest and candid opinions from the interviewees based upon the advice of Merton et al. (1990). I used completely unstructured questions during the opening stage and assumed more control in the later stages. Moreover, like Phillip (1997), I only used note taking and memory to record responses. By not taping the conversation, I could extract the non-superficial responses from the aid workers with whom I met. I did not use pre-written questions or a pre-arranged order for the questions. Rather, I tried to manage the flow of the interviews by relying on the logical evolution of the conversation.

Since I did not record the conversation during the interviews, my interview notes might seem paraphrased or somewhat arbitrary. In order to overcome this weakness, after completing the interviews, I sent the draft scripts of the interview notes to each interviewee and asked them to correct any notes that did not accurately reflect the contents of the conversation. I finalized the interview notes by incorporating the input of the interviewees. In this paper, I present the data from the interviews in the text as quoted, based upon these finalized interview notes.

The following chapters present the results of my research. First, I describe the general design and structure of FTI, which includes how the problem is defined, what solutions are envisioned, and what mechanisms are forged to implement such solutions. Second, I explain some observed patterns of the FTI. Third, I evaluate the strategy of the FTI to make an overall judgment regarding to what extent the FTI has thus far contributed to the improvement of UPE. I

focus on the cases of a few developing countries in East Asia, which have participated in the FTI. In each stage of this discussion, I look into the causal pathways of the effectiveness of the FTI by focusing on concerns, contracting problems, and capacity of donor agencies, following the procedure of Keohane and Levy.

#### 4.0 DESCRIPTION

The following figure, a flow chart of Chapter 4 is concepts, further clarifies the issues covered.

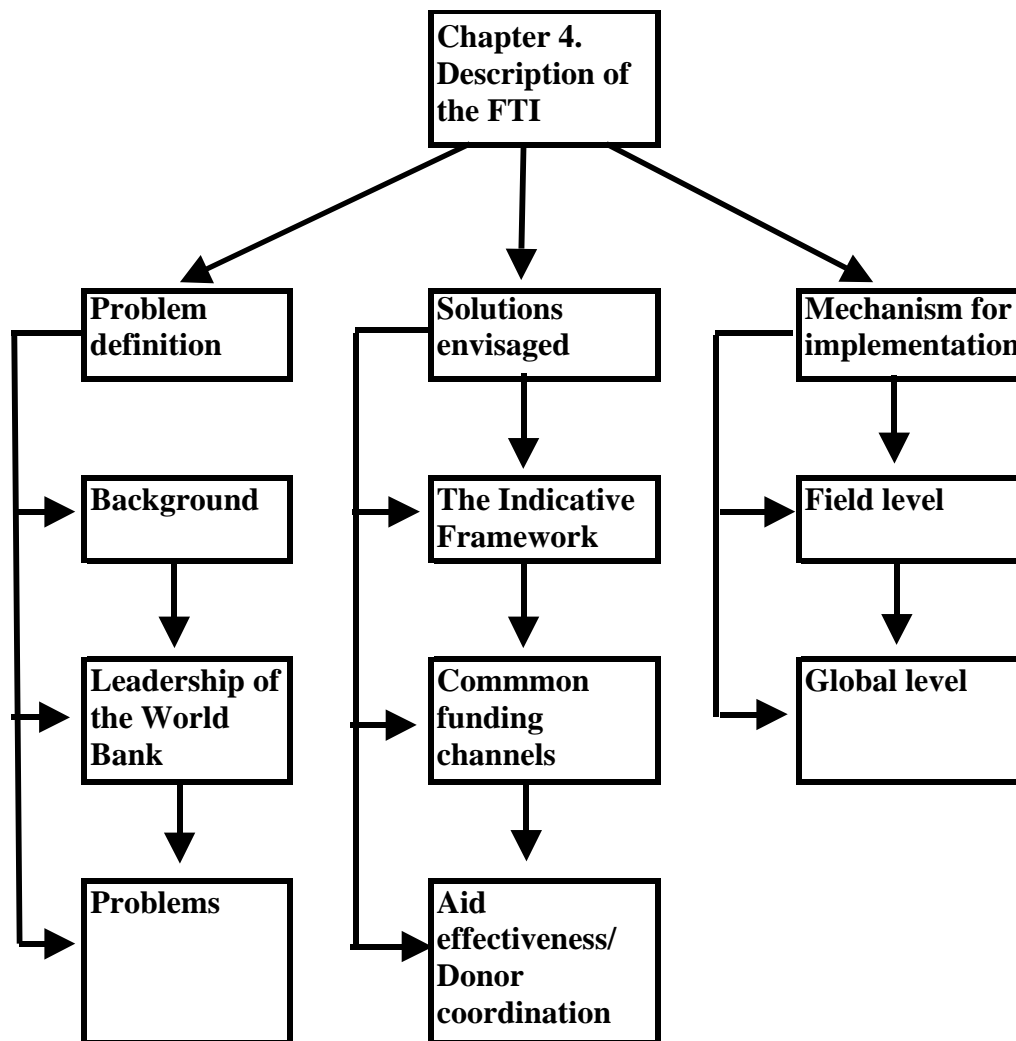


Figure 7. Chapter 4 flow chart



## 4.1 PROBLEM DEFINITION

The FTI aims for developing countries with appropriate policy environments to achieve UPE by 2015; it hopes to succeed by concentrating donors' resources on those countries on the "fast track." The Meeting of the EFA Fast-Track Partnership in July 2002 at the World Bank launched this global initiative to facilitate the effort to achieve UPE by 2015. The concept of FTI stems from the following three commitments at the international arena in 2002: 1) "Education for Dynamic Economies: Action Plan to Accelerate Progress towards Education for All," which the Development Committee of the World Bank and the IMF endorsed in April 2002 (Development Committee, 2002); 2) the Monterrey Consensus, endorsed by the member states of the United Nations at the International Conference on Financing for Development in March 2002, designed a new partnership between rich and poor countries based on mutual responsibility and accountability in order to achieve measurable improvements in sustainable growth and poverty reduction (United Nations, 2002, March); and 3) the Report of the G8 Education Task Force, endorsed by the heads of the G8 countries at Kananaskis Summit in June 2002, affirmed that G8 countries supported the achievement of EFA Dakar goals with an emphasis on the UPE and gender equality (Kananaskis Summit, 2002).

The UPE became a critical agenda since the World Conference on Education for All (WCEFA) in Jomtien in 1990, although foreign aid agencies had been making an effort to improve basic education before Jomtien.<sup>34</sup> The U.N. agencies, which had usually taken a human

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<sup>34</sup> The WCEFA adopted the World Declaration on EFA, which states that all children, young people, and adults have the right to benefit from an education that will meet their basic learning needs (UNESCO, 2000, p.74). Despite tremendous effort to realize EFA by the international community during the 1990s, it became apparent that the policy goals set at the WCEFA in 1990 were overly ambitious. As a follow up to the WCEFA, the U.N. convened the World Education Forum in Dakar, Senegal, in 2000, and launched the Dakar Framework of Action, which refined the commitment made at the WCEFA in 1990, to design the mechanism and strategies for achieving these

rights based approach to education, and the World Bank, which believed that investment in basic education would contribute to economic growth, unified and confirmed the necessity to support basic education in developing countries.

The World Education Forum, held in Dakar in 2000, ten years after Jomtien, was based upon the realities that many developing countries did not achieve UPE, despite the global commitment in 1990 and the fact that donor countries did not significantly increase aid for basic education.<sup>35</sup> Six EFA goals, which include the UPE, were endorsed by the international community in Dakar.<sup>36</sup> World leaders affirmed that “no countries seriously committed to education for all will be thwarted in their achievement” due to a lack of resources (UNESCO, 2000). This statement forms the basis of the FTI.

The World Bank took the initiative of establishing the FTI in accordance with the request of the international community.<sup>37</sup> Each year, the EFA High-Level meeting invites leaders of key donor and recipient countries to stimulate the political commitment to achieving EFA goals. The meeting held in 2001 concluded with the agreement that the World Bank, in collaboration with

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goals. It placed EFA within the wider development framework (UNESCO, 2002a). Among six EFA goals, universal primary completion and gender equality were incorporated into the Millennium Development Goals (MDGs), and adopted at the U.N. General Assembly in the same year (World Bank, 2002b, pp.8-9).

<sup>35</sup> The EFA assessment in 2000 reported that the goals of WCEFA were reached only partially by 2000 (UNESCO, 2000, p.12). For example, among 800 million children under six years of age, less than a third benefited from early childhood education; some 113 million children, 60% of whom were girls, had no access to primary schooling. The situation was especially serious in sub-Saharan Africa and South-West Asia; at least 880 million adults were illiterate, the majority of whom were women.

<sup>36</sup> The six goals include: 1) expanding early childhood care; 2) ensuring free and compulsory primary education of good quality by 2015 for all children; 3) meeting the learning needs of all young people and adults; 4) achieving a 50 percent improvement in levels of adult literacy by 2015; 5) eliminating gender disparity in primary and secondary education by 2005 and achieving gender equality in education by 2015; and 6) improving all aspects of the quality of education (UNESCO, 2002a).

<sup>37</sup> The participants of the initial EFA High-Level Meeting, recognizing the importance of “partnerships, innovative approaches and potential impact of a range of coordinated activities responding directly to specific Dakar goals,” asked the World Bank to “take the lead in identifying the resource gaps” of developing countries to reach the goals (UNESCO, 2001, p.29).

U.N. agencies, needed to seek a new and innovative measure in order to fill the financial gap of to achieve universal primary school completion. The World Bank developed a proposal that required accelerated actions for achieving the EFA goals. It distributed this proposal to other donor agencies to encourage them to take coherent actions toward technical and financial requests by developing countries for their national education development (Development Committee, 2001). The Bank's proposal, which attempted to select the recipient countries most likely to achieve the goal in order to ensure the program's effectiveness and efficiency, was approved by the Development Committee in 2002 (Development Committee, 2002).

The Development Committee, a forum of the World Bank and the IMF that facilitates intergovernmental consensus-building on development issues, debates ways to strengthen the FTI since its launch in 2002.<sup>38</sup> Specifically, the Development Committee has called for the Bank and other donor agencies to more actively participate in the FTI. The Committee has attempted to mobilize more resources for the FTI, even though the FTI was “designed to address the data, policy, capacity and resource gaps that constrain progress in achieving Education for All” (Development Committee, 2004a). In the latest meeting in 2007, the Committee “recognized that more support is needed to finance national education plans” and “encouraged the Bank and other donors to play their part” for the FTI (Development Committee, 2007). In 2006, the Committee “recognized the importance of country ownership and the quality of education, and the need to expand the initiative to larger countries and fragile states” (Development Committee, 2006a). Likewise, the Committee “called upon bilateral donors and multilateral agencies to provide timely, predictable and sustained financing to support these efforts” and “reconfirmed the importance of efforts to help developing countries build capacity and address absorptive capacity

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<sup>38</sup> The Development Committee consists of 24 members, most of whom are Ministers of Finance or Development and represent the full membership of the World Bank and IMF (Development Committee, 2007).

constraints” in 2005 (Development Committee, 2005). These institutions indicate that the greatest concern for the Development Committee of the World Bank is to fill the financial gap for developing countries so they can achieve UPE.

The top management of the World Bank also emphasizes the necessity of increasing resource mobilization by donor agencies for the FTI. James Wolfensohn, the Bank President when the FTI was established, pointed out at the Bank’s annual meeting in 2004 that “the international community has not yet been able to mobilize the money” for UPE and “we are letting the children down – just as we did in 1990 in Jomtien, in Dakar in 2000, and again in Monterrey in 2002” (Wolfensohn, 2004). In his speeches at the Bank’s annual meetings, Paul Wolfowitz, Wolfensohn’s successor, echoed the necessity of budgeting more money for the FTI.<sup>39</sup>

The management of the education sector of the World Bank emphasized another aspect of the FTI. Prior to the G8 Summit in St. Petersburg in 2006, in which education emerged as a key topic, Ruth Kagia, the Bank’s manager in the education sector, stressed that “the EFA is not an end in itself but a necessary foundation for dynamic, learning societies” while “FTI and EFA more generally remain grossly under funded” (Kagia, 2006, January 6). She asserts that “the basic tools provided by primary education are no longer sufficient for people entering the labor market.” While a viable secondary educational system is essential for spurring development in the 21st century, “about 80 percent of the fastest growing jobs of the future will require some

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<sup>39</sup> “Through the Education for All Fast Track Initiative, the Bank plans to join other donors to double the enrollment of girls in 60 countries over the next five years. We have a plan. Now we need the resources. We will need to raise at least \$2.5 billion per year to fulfill the dreams of thousands of school children eager for a brighter future” (Wolfowitz, 2005). “The Education For All Fast Track Initiative has encouraged a growing number of countries, the majority of them in Africa, to develop credible plans for increasing primary school enrollment, especially of girls. That initiative could fulfill the dreams of 70 million children in 60 countries who want to go to school if--let me underscore that--if donors increase the resources that are needed to match improved performance” (Wolfowitz, 2006).

post secondary education. Countries wishing to become active players in today's advanced societies must cover all levels of education and training—from early childhood development and basic education, all the way to secondary and tertiary education and including lifelong learning opportunities” (Kagia, 2006, January 6). Her comment confirms that the Bank values education more as a means for development and growth than as a tool for human rights.

Although the FTI owes a great deal to the commitment and dedication of the World Bank, it functions independently from the Bank. A staff member of the FTI Secretariat stressed that “the Secretariat is independent from the World Bank, and the policy of the FTI is not the same as that of the Bank.”<sup>40</sup>

Unlike the World Bank, which champions the EFA-FTI and values education as an indispensable component for economic development and growth, the EFA views education from a human rights perspective. While EFA became widely known in the international community at the World Conference on Education for All (WCEFA) in 1990, the human-rights-based principle of education had been embedded in the U.N., particularly in UNESCO, since its establishment in 1945. The phrase “Education for All” was used for the first time in the Constitution of UNESCO in 1945. The Constitution spelled out that “the education of humanity for justice, liberty, and peace is indispensable to the dignity of man” (UNESCO, 2002b, pp.7-8). A number of U.N. General Assembly resolutions claimed the importance of education from the standpoint of human dignity or human rights. Adopted in 1948, the Universal Declaration of Human Rights stated that everyone has the right to education, at least in the elementary stage (United Nations, 1998). In 1966, the International Covenant on Economic, Social, and Cultural Rights stated that the right of everyone to an education is a means of strengthening the respect for human rights

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<sup>40</sup> Interview with a staff member of the FTI Secretariat.

and fundamental freedoms (United Nations, 1966). In 1989, the Convention on the Rights of the Child insisted that the right of the child to education be recognized (United Nations, 1989). These human-rights-based principles of education formed the basis of EFA, whereas the World Bank, the largest foreign aid organization, had seen education as an investment in human capital for economic growth (World Bank, 1995).

As the above-mentioned background indicates, the FTI attempts to respond to the internationally-recognized agenda of basic education, UPE, by mobilizing additional resources in collaboration with other donor agencies and by effectively using such resources effectively. While the international community has supported the development of basic education in poor countries since the onset of foreign aid in 1950s, the same challenges still remain.<sup>41</sup> I discuss how the FTI, a new approach of foreign aid for UPE, attempts to overcome those challenges to make a difference in the world of international educational development.

## **4.2 SOLUTIONS ENVISAGED**

At the launch of the FTI, the World Bank designed three solutions for UPE. Initially, the FTI introduced the Indicative Framework for developing countries, which was an epoch-making event because no educational initiatives had ever taken such an approach. The Indicative Framework refers to a set of indicators regarding primary school education that recipient

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<sup>41</sup> For example, UNESCO organized three international conferences throughout the 1950s and the 1960s with a view to expanding elementary education at a continental level at Karach for Asia in 1959, at Addis Ababa for Africa in 1961, and at Santiago de Chile for Latin America and the Caribbean in 1962 (McLean, 1983, p.261). However, UPE was not achieved due to the rapid expansion of population during these periods.

countries should aim to reach.<sup>42</sup> The FTI asked the developing countries to use this framework to monitor their progress toward UPE. The Bank designed these indicators based upon the review of educational development in low-income countries. The indicative framework focused on universal primary school “completion,” not just “enrollment,” with a view to ensuring that children complete primary school education from the perspective of improving the quality of education. The FTI specifies that UPE can be achieved through universal primary school completion.<sup>43</sup>

Secondly, the FTI encourages donor agencies to use common funding channels when possible to give flexibility to developing countries. Particularly, the FTI emphasizes that donor agencies should finance recurrent costs, such as teacher salaries, and promote budget support when donors deliver aid resources (EFA-Fast Track Initiative, 2004b, p.9). This approach is based upon the lessons learned from past experiences wherein aid projects were not sustained after donor agencies withdrew from the fields because developing countries could not bear recurrent costs.<sup>44</sup>

Lastly, the FTI takes various measures to improve the effectiveness of foreign aid resources from donor agencies. For this purpose, based upon the lessons learned from past experiences, the FTI pays attention to how donor countries deliver aid resources. The FTI selects

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<sup>42</sup> For FTI endorsement, the component of primary school education in the recipients’ education sector plans is assessed in consideration of the benchmark of the Indicative Framework. The Indicative Framework is “a limited set of educational policy, service delivery and financing benchmarks, drawn from empirical analyses of a set of low-income countries” (EFA-Fast Track Initiative, 2004b, p.6).

<sup>43</sup> However, the annual EFA Global Monitoring Report, published by UNESCO, uses a net enrollment ratio in primary school education to monitor and evaluate the progress of UPE (UNESCO, 2005).

<sup>44</sup> The review study of key existing research regarding the cost estimate of the education MDGs, which was undertaken by the consultants of the World Bank, concludes that the recurrent cost, rather than capital investments, represents the bulk of costs to achieve UPE in education (Gurria & Gershberg, 2004, p.20).

developing countries which have poverty reduction strategies and credible education sector plans as the targets of assistance so that the aid resources are better utilized for UPE (EFA-Fast Track Initiative, 2004b). By placing those developing countries on the fast track, the FTI attempts to concentrate the aid resources on them to maximize their impact. This strategy is in line with the Monterrey Consensus: the rich countries of the world commit to boosting opportunities for developing countries with sound policy environments (United Nations, 2002, March).

Upon the inception of the FTI, the World Bank nominated 18 low-income countries as the target of the FTI.<sup>45</sup> These countries did not necessarily have a high demand for primary school education but had a good policy environment for UPE. A common characteristic of these countries is that they are most likely to achieve UPE if donor agencies provide them with additional resources, even if not in large volumes, so that donor agencies can demonstrate tangible results relatively easily.

An officer of the FTI Secretariat explained the situation of selecting FTI-eligible countries in its initial stage. “Originally, donor agencies invited several developing countries to become FTI partners. This procedure was abandoned in 2003 because the donor-driven strategy was criticized by the international community and the donor groups wanted to make the FTI to be as open as possible.”<sup>46</sup>

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<sup>45</sup> This includes Albania, Bolivia, Burkina Faso, Ethiopia, Ghana, Guinea, Guyana, Honduras, Mauritania, Mozambique, Nicaragua, Niger, Tanzania, the Gambia, Uganda, Vietnam, Yemen, and Zambia (Development Committee, 2004b, p.2). Among these countries, Vietnam had already achieved the universal primary completion; Vietnam was selected apparently because there were no other Asian countries which were likely to achieve UPE at that time, and the FTI preferred to cover all the regions of the world due to the Initiative’s global nature. Even though a country achieves the UPE at a certain moment, it may not be able to maintain the UPE with high quality unless it has sufficient resources and capacity. In this sense, targeting Vietnam as a recipient of the FTI may be justifiable.

<sup>46</sup> Interview with an official of the FTI Secretariat.

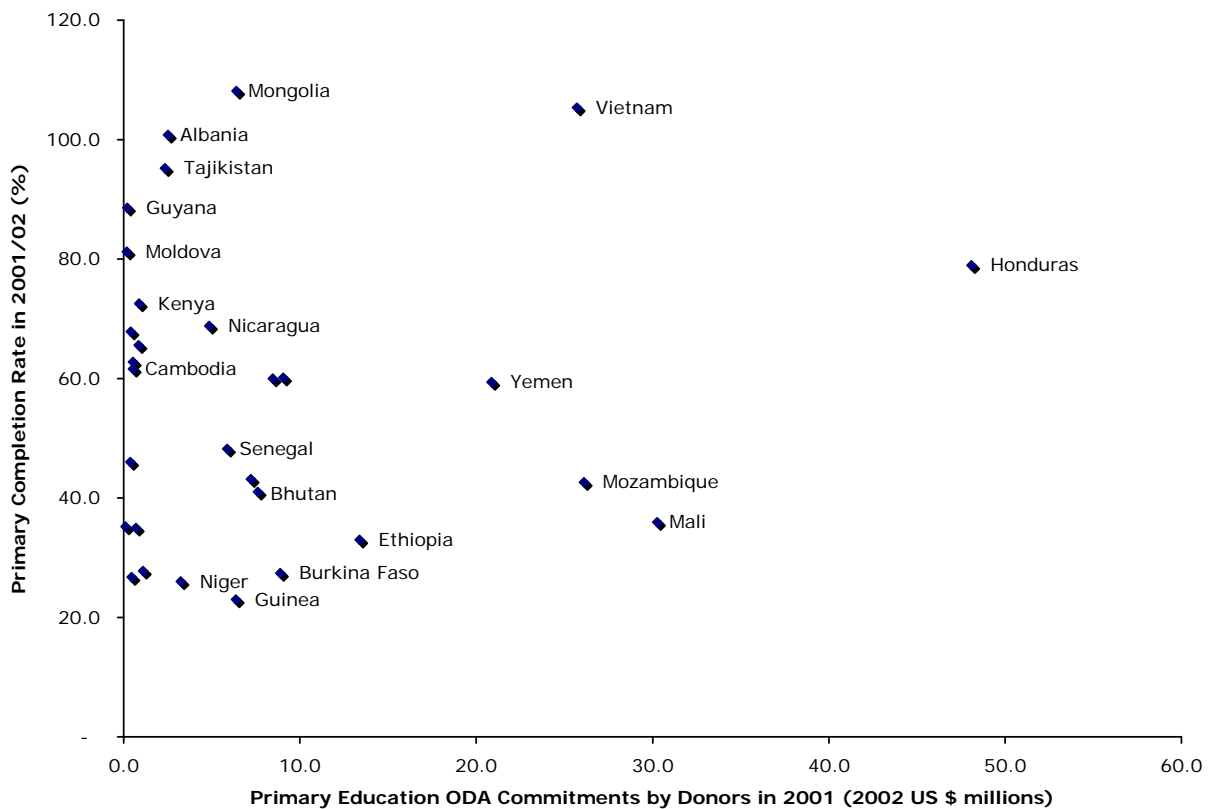


Consequently, the FTI became open to all low-income countries in 2004 (EFA-Fast Track Initiative, 2004b, p.4). Since developing countries are required to develop credible poverty reduction strategies and education sector plans to receive assistance, the FTI provides aid de facto for these countries having a favorable policy environment. Meanwhile, the FTI has helped low-income countries develop their capacity to satisfy those requirements by establishing the Education Program Development Fund (EPDF) (p.5).

By the end of 2006, the proposal of 31 developing countries received FTI endorsement and are now eligible to receive assistance through the FTI mechanism (EFA-Fast Track Initiative, 2005).<sup>47</sup> The primary completion rate and donors' commitment to primary school education in these 31 countries before launching the FTI indicate that these neither have a high demand for aid in basic education nor a lack of assistance from donor agencies (See Figure 8). Some East Asian countries and former communist countries already showed a good performance of universal primary school completion at least in terms of educational opportunity if not quality, and some countries are expected to receive relatively larger amounts of aid in primary school education. Although the FTI is open to all low-income countries, donor support is necessary for poor countries to satisfy the requirements to be members of the FTI. Donor agencies seem to help the countries that show promising potential to use aid resources to achieve UPE, regardless of the current status of primary school completion and available aid resources.

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<sup>47</sup> These countries include Albania, Benin, Burkina Faso, Cambodia, Cameroon, Djibouti, Ethiopia, Gambia, Ghana, Guinea, Guyana, Honduras, Kenya, Kyrgyz Republic, Lesotho, Liberia, Madagascar, Mali, Mauritania, Moldova, Mongolia, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Sierra Leone, Tajikistan, Timor Leste, Vietnam, and Yemen.



**Figure 8.** FTI recipient countries

Source: EFA-Fast Track Initiative (2006)

Moreover, the FTI has promoted the concept that donor agencies provide more coordinated aid in the context of improving aid effectiveness. This strategy is designed in line with a series of discussions of harmonization in OECD. The Rome Declaration on Harmonization and the Paris Declaration on Aid Effectiveness, adopted in 2003 and 2005, respectively, highlights the international community’s commitment to working toward aligning its assistance with the priorities of recipient countries and to harmonizing donors’ policies around the system of developing countries (High Level Forum, 2005; World Bank, 2003, February). The Paris Declaration on Aid Effectiveness, adopted by over 100 countries in March

2005, aims at structuring and coordinating aid more closely in line with the strategies of recipient countries, reducing transaction and processing costs, and uniting aid and strengthening the accountability of donor and recipient governments to their citizens and parliaments (UNESCO, 2006, p.86). In line with these commitments, the FTI asks participating donors to place UPE as a top priority and to provide coordinated aid in a transparent and predictable manner (EFA-Fast Track Initiative, 2004b, pp.9-10).

These solutions of the FTI, that is, the introduction of an Indicative Framework, the preference of common funding channels for distributing donors' aid resources, and donor coordination and harmonization, are all derived from the lessons learned by the World Bank and some donor agencies. A series of these solutions is also in accordance with recent key arguments in the international community. Because these solutions are not panaceas for developing countries to achieve UPE, many challenges still exist.

### **4.3 MECHANISMS FOR IMPLEMENTATION**

Implementing the FTI requires two mechanisms, one at the field level and the other at the global level. The FTI attempts to support UPE in developing countries through regular bilateral and multilateral donors' channels (Development Committee, 2006b, p.4). The Initiative designs various mechanisms both in developing countries and in international society so that the donors' aid resources can be used effectively through their existing systems. The FTI Secretariat is located in and operated by the World Bank and the seconded staff members from bilateral donor agencies.

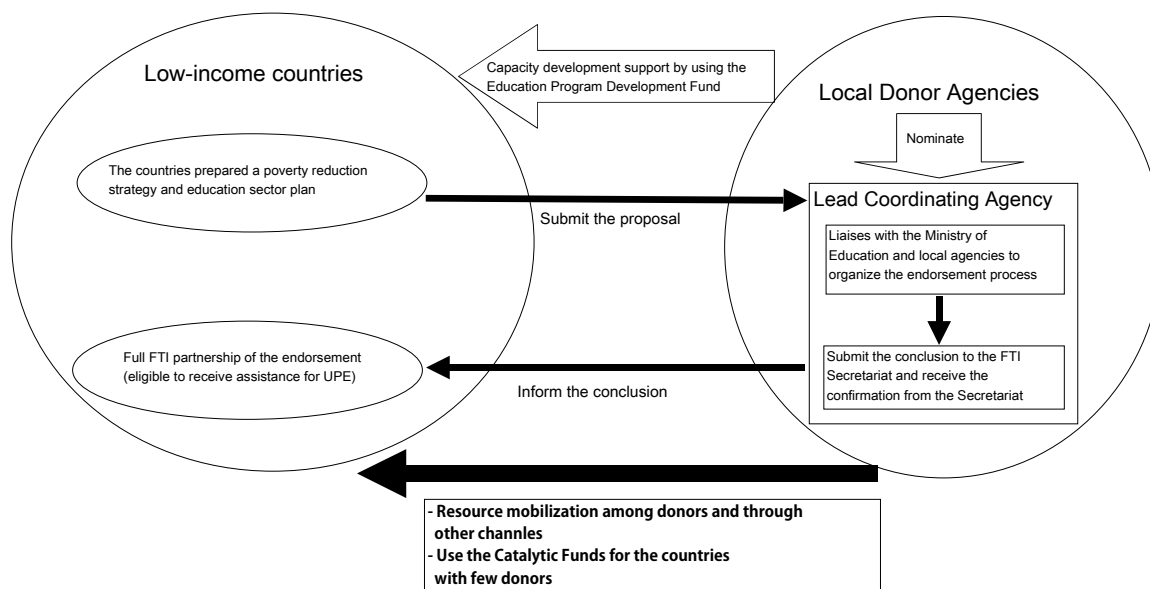
At the field level, local donors interested in joining the FTI select the Lead Coordinating Agencies from among themselves (EFA-Fast Track Initiative, 2004b, p.12). The Lead Coordinating Agencies could be bilateral and multilateral donors and, in rare cases, even the governments of recipient countries (p.6). The Lead Coordinating Agencies take responsibility for coordination among donor agencies, which includes organizing the assessment of the education sector plan by local donors within recipient countries. These agencies are also in charge of reporting the progress of the FTI to the FTI Secretariat. In the absence of Lead Coordinating Agencies, the recipient government may contact FTI partners to request assistance (pp.6-7). Most of the major donor agencies, including the World Bank and the U.K. Department for International Development (DFID), have played an active role as a Lead Coordinating Agency in many developing countries (See Table 2).

**Table 2.** Lead Coordinating Agencies for FTI

<b>Donor Agencies</b>	<b>Name of Recipients countries</b>
Australia (AusAID)	Lao PDR
Belgium	Tanzania
Canada	Burkina Faso, Malawi, Mozambique
France	Cote d'Ivoire, Djibouti, Niger, Senegal
Germany	Honduras, Yemen
Ireland	Lesotho
The Netherlands	Ethiopia
New Zealand	Tonga
U.K. (DFID)	Guyana, Kenya, Mozambique, Rwanda, Vietnam, Zambia
U.S. (USAID)	Mali, Benin
AfDB	Chad
AsDB	Bangladesh, Mongolia
EU	Haiti
UNESCO	Cambodia, Cameroon, Guyana, Vietnam
UNICEF	Angola, Gambia, Ghana, Lao PDR, Liberia, Sierra Leone
World Bank	Congo Rep., Eritoria, Guyana, Madagascar, Mozambique, Sri Lanka, Tajikistan, Timor-Leste, Uganda
Recipient Governments	Afghanistan, Bhutan, Nigeria

Source: EFA-Fast Track Initiative (2006)

The important mechanisms for implementing the FTI at the field level include the endorsement of a country sector plan, the monitoring and evaluation of its progress, and the support of recipient countries by using FTI trust funds and resources (See Figure 9). Under the initiative of the Lead Coordinating Agencies, in-country donors review the sector plan of the recipient government and endorse it if it is satisfactory, based upon the review guidelines (EFA-Fast Track Initiative, 2004b, pp.8-9). After the endorsement, the recipient country and its donor partners are required to conduct annual sector reviews for monitoring and evaluating the progress of FTI (p.11).



**Figure 9.** FTI process

When donor agencies design, implement, and evaluate their aid activities, each individually negotiates and interacts with the government of developing countries. This traditional aid system requires the recipient government to spend a significant amount of time and energy negotiating with the donor agencies. Participation in the FTI could reduce the

administrative burdens stemming from one-to-one negotiation. Should this liaison occur, donor agencies will need to spend additional time and energy to coordinate with one another.

For developing countries with insufficient capacity and donor resources, the FTI provides two types of trust funds: the Education Program Development Fund (EPDF) and the Catalytic Fund (CF). The EPDF supports the efforts of low-income countries to develop credible education sector plans, a requirement for FTI eligibility. The CF provides financial resources for the countries that have endorsed the FTI proposal but lack the finances with which to implement the plan due to a limited donor presence. Interested donors finance these funds, while the World Bank administers them (see Table 3).

**Table 3.** Outlines of FTI trust funds

<b>EPDF (Education Program Development Fund)</b>	
Established	November 2004
Administered by	World Bank
Managed by	Strategy Committee composed of donors to the fund
Donors	Canada, France, Ireland, Japan, Luxembourg, Netherlands, Norway, Russia, Sweden, United Kingdom
Accessing EPDF	Government representatives and/or development partners should contact the Lead Coordinating Agency in the education sector or the World Bank Task Team leader in the country to engage in dialogue and define activities to be presented for support.
Eligible recipients	All low income countries
Eligible activities	Technical assistance for country-led development of education policies and a national education sector plan; technical support to share knowledge derived from country experience in the preparation and implementation of national policies and education sector plans
Total commitments	US\$82 million (2005-2009)
Recipients	60 low-income countries are receiving support from the EPDF

<b>CF (Catalytic Fund)</b>	
Established	November 2003
Administered by	World Bank
Managed by	Strategy Committee composed of donors to the fund
Donors	Belgium, Canada, Denmark, European Commission, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Russia, Spain, Sweden, United Kingdom
Accessing CF	Once a country's education plan has been endorsed by donors present locally and submitted to the FTI Secretariat, any financing gap identified during the endorsement process will be presented to the CF Strategy Committee. The Committee makes decisions on CF allocations at least twice a year based on its assessment of countries most in need and where the CF resources would be best used.
Eligible recipients	Low income countries endorsed for support in FTI

Eligible activities	All activities related to implementation of a country's education sector plan
Total commitments	US\$1.2 billion (2003-2009)
Recipients	Benin, Cambodia, Cameroon, Djibouti, the Gambia, Ghana, Guyana, Kenya, Kyrgyzstan, Lesotho, Madagascar, Mali, Mauritania, Moldova, Mongolia, Mozambique, Nicaragua, Niger, Rwanda, Sierra Leone, Tajikistan, Timor Leste, Yemen

Source: EFA-Fast Track Initiative (2007)

The Catalytic Fund (CF) creates an incentive for developing countries committed to achieving UPE to join the FTI by providing them with a significant amount of interim funding. The CF, launched in 2003, has so far received a cumulative amount of \$231 million from donors; it has allocated these funds to the 14 FTI endorsed CF-eligible countries (EFA-Fast Track Initiative, 2006, p.13). Donors have pledged \$1.1 billion for the CF, \$996 million of which is for 2006 through 2008 commitments (p.13). This significant increase of donor pledges amounts to about 10% of ODA commitments to basic education in low-income countries from 2006 to 2008.

The following tables show the pledges and payment for the Catalytic Fund by donor countries and the funding gap between financing needs and the donors' pledge and commitment.

**Table 4.** Catalytic Fund pledges made and payment by donors

<b>Catalytic Fund Pledges made and payment by donor as of October 31, 2006 (in \$ million equivalent)</b>							
Country	2003-04	2005	2006	2007	2008	Total pledges 2003-2008	Total payments
Belgium	1.2	2.5	1.2	1.2	0.0	6.1	3.7
Canada			20.0		0.0	20.0	0.0
EC			40.3	20.2	20.2	80.7	0.0
Ireland		1.5	4.5	11.8	19.2	37.0	1.5
Italy	2.4	2.4	1.2		0.0	6.0	4.8
Netherlands	39.5	54.3	192.0	168.0	168.0	621.8	158.6
Norway	6.0	8.1	25.6		0.0	39.7	39.7
Russia			1.0	2.0	1.0	4.0	1.0
Spain		6.0	8.9	6.4	6.4	27.7	6.0
Sweden		5.3	10.4	0.0	0.0	15.7	15.7
UK			125.3	124.4	16.8	266.5	0.0
Total	49.1	80.1	430.4	334.0	231.6	1,125.2	231.0

Source: EFA-Fast Track Initiative (2006)

**Table 5. FTI Catalytic Fund Funding gap**

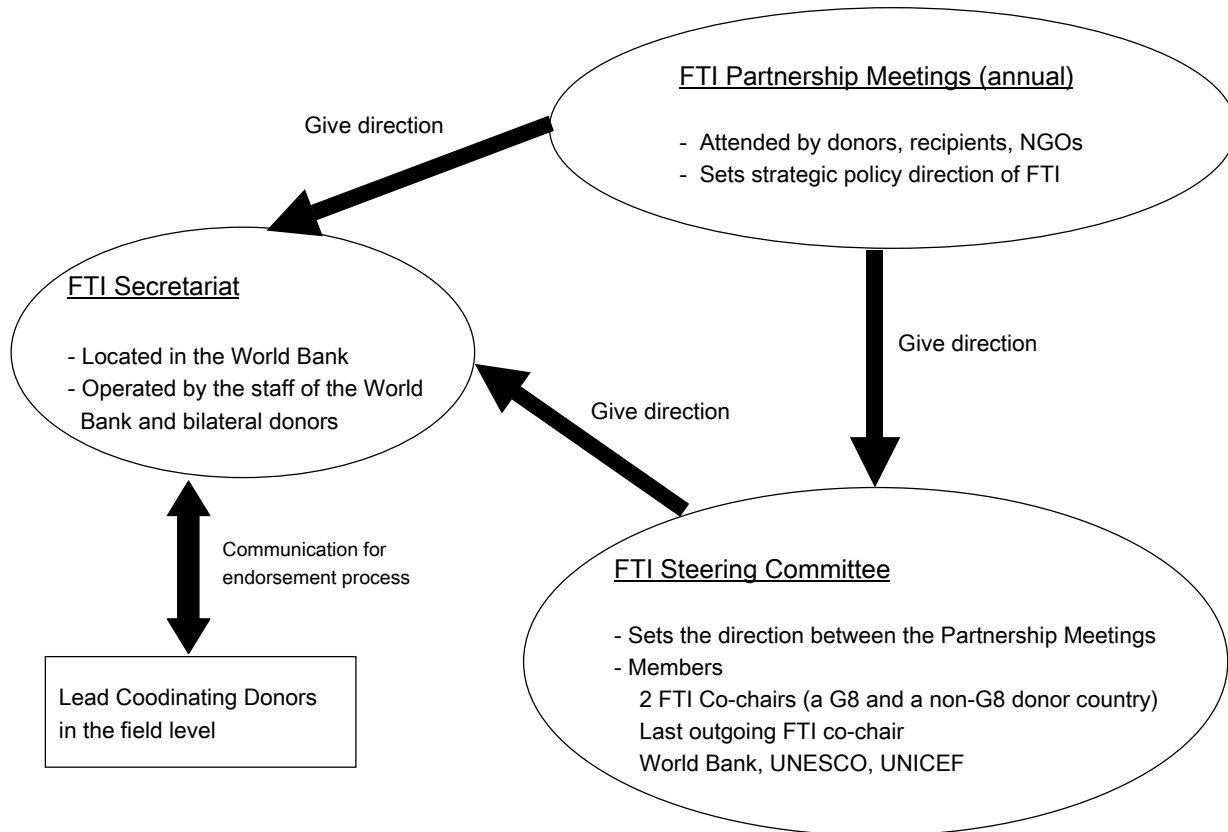
<b>Financing needs (in \$ million equivalent)</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Total</b>
Current CF-eligible countries	267	363	436	1066
Countries endorsed in 2006	66	101	107	274
Countries pending for 2006	0	71	69	140
Countries pending for 2007	0	291	291	582
Total	333	826	903	2062
Pledges and commitments	430	334	232	996
Remaining gap	-97	492	671	1066

Source: EFA-Fast Track Initiative (2006)

Conversely, on the global level, the FTI has the following mechanisms to promote its activities: the FTI Secretariat, the co-chairs, the annual Partnership Meeting, and the Steering Committee. The FTI Secretariat, managed by the World Bank and comprised of a staff of the Bank and the member donor agencies, provides technical and administrative support for the FTI as a whole (EFA-Fast Track Initiative, 2004b, p.13). Two bilateral donor agencies, one G8 and one non-G8 country, co-chair the FTI partnership on the global level. The co-chairs convene during the annual Partnership Meeting, which takes place back-to-back with the annual EFA High-Level Group meeting managed by UNESCO, in order to discuss the policy direction of the FTI and systematic issues affecting progress toward the UPE (p.12). To give directions to the Secretariat between the Partnership Meetings, the Steering Committee has been organized; its



members include the current co-chairs, the most recent outgoing co-chair, UNESCO, UNICEF, and the World Bank (See Figure 10).



**Figure 10.** FTI governance structure

Both the mechanisms at the global level and that at the country level complement one another in the FTI. At the global level, the FTI co-chairs assume leadership to decide the general direction of the FTI regarding the Steering Committee and the Secretariat, while most of the country-specific decision-making is made at the country level. While mechanism nicely fits some donor agencies, it requires others to change their strategies, particularly their aid modalities.

As stated above, the FTI mechanism was designed to ensure multilateralism and guarantee that donors' aid resources are used for developing countries. This mechanism has

worked in a number of countries in terms of promoting UPE, but the World Bank-led multilateral education initiative still faces many challenges. The next chapter analyzes the observed patterns of the FTI.

## 5.0 ANALYSIS OF OBSERVED PATTERNS

This section analyzes the observed patterns of the FTI from the viewpoints of donor agencies regarding the agencies' concerns, contracting problems, and capacity. The analysis covers the FTI-related activities on both the global level and the country level. Since donors' FTI activities in developing countries are quite diverse, after analyzing the observed patterns of the FTI in general and on the global level in this chapter, I single out Asia as the target region in order to facilitate the country level analysis in the next three chapters.<sup>48</sup> Specifically, my analysis on country level activities focuses on three Asian FTI countries: Mongolia, Vietnam, and Cambodia. Both the status of primary school education and degree of donors' intervention differs in these countries. While the FTI proposal of Vietnam was endorsed in 2002, the proposal of Cambodia and Mongolia was not endorsed until 2006. After scrutinizing the structure of the Initiative in general, I will analyze how donors' activities through the FTI mechanism work in these three countries. I will first generally describe my observation of the FTI and then focus on the donors' concerns, contracting problems, and capacity in relation to the FTI.

The following figure outlines the structure of Chapter 5.

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<sup>48</sup> "Donors' policies and behaviors are different in the contexts of each developing country and also depend on the personalities of individual aid workers" (Interviews with a consultant familiar with the FTI in East Asia).

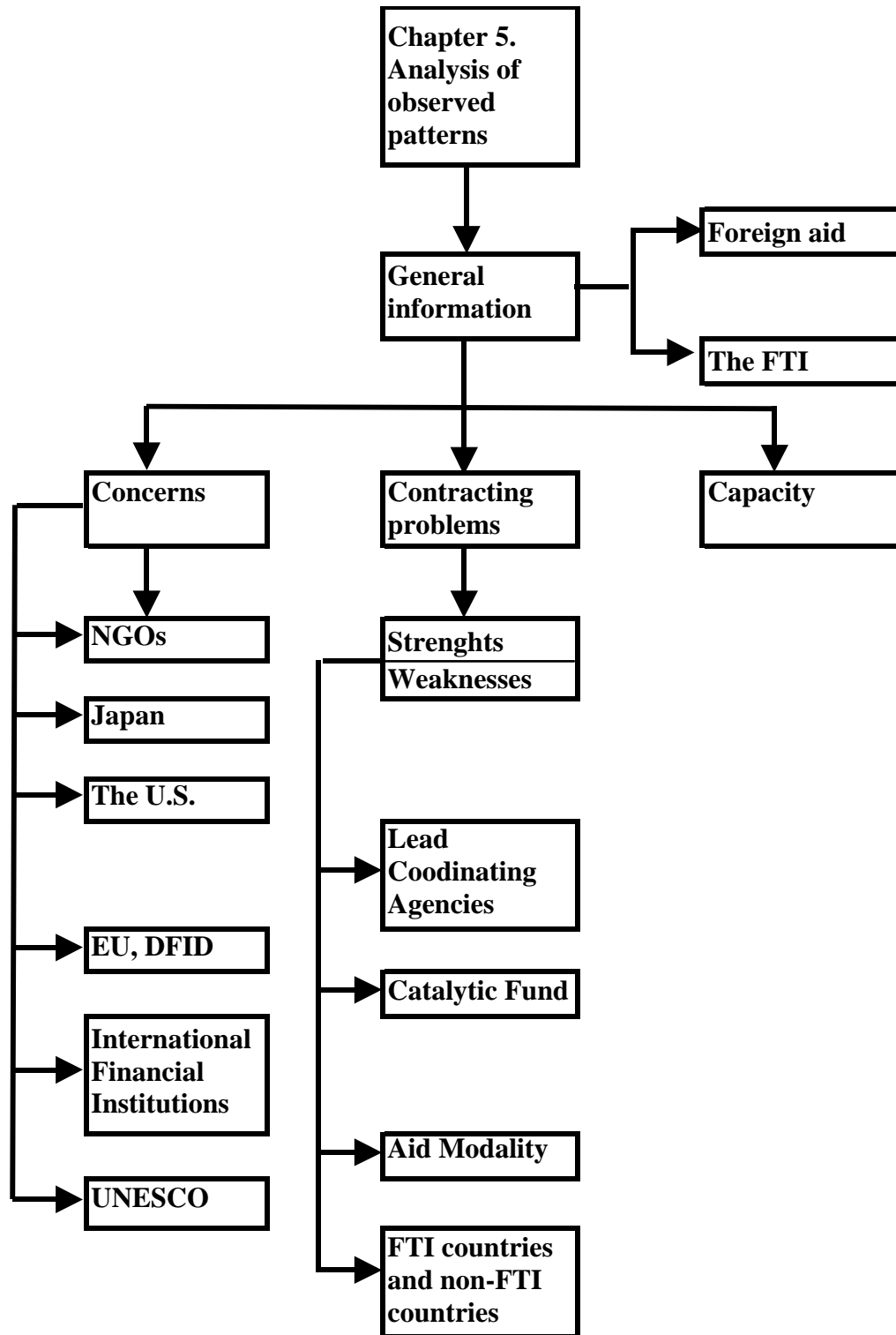


Figure 11. Chapter 5 flow chart

## 5.1 GENERAL INFORMATION

### 5.1.1 Foreign aid

First of all, I explain some of the key characteristics of recent foreign aid trends, both in general and within the education sector, to help understand donors' policies and activities in relation to the FTI. Since 2000, ODA has increased; its greater share has been allocated to the poorest countries (UNESCO, 2006, p.89).<sup>49</sup> The following table and graphs indicate the recent increase of ODA from industrialized countries and international organizations.

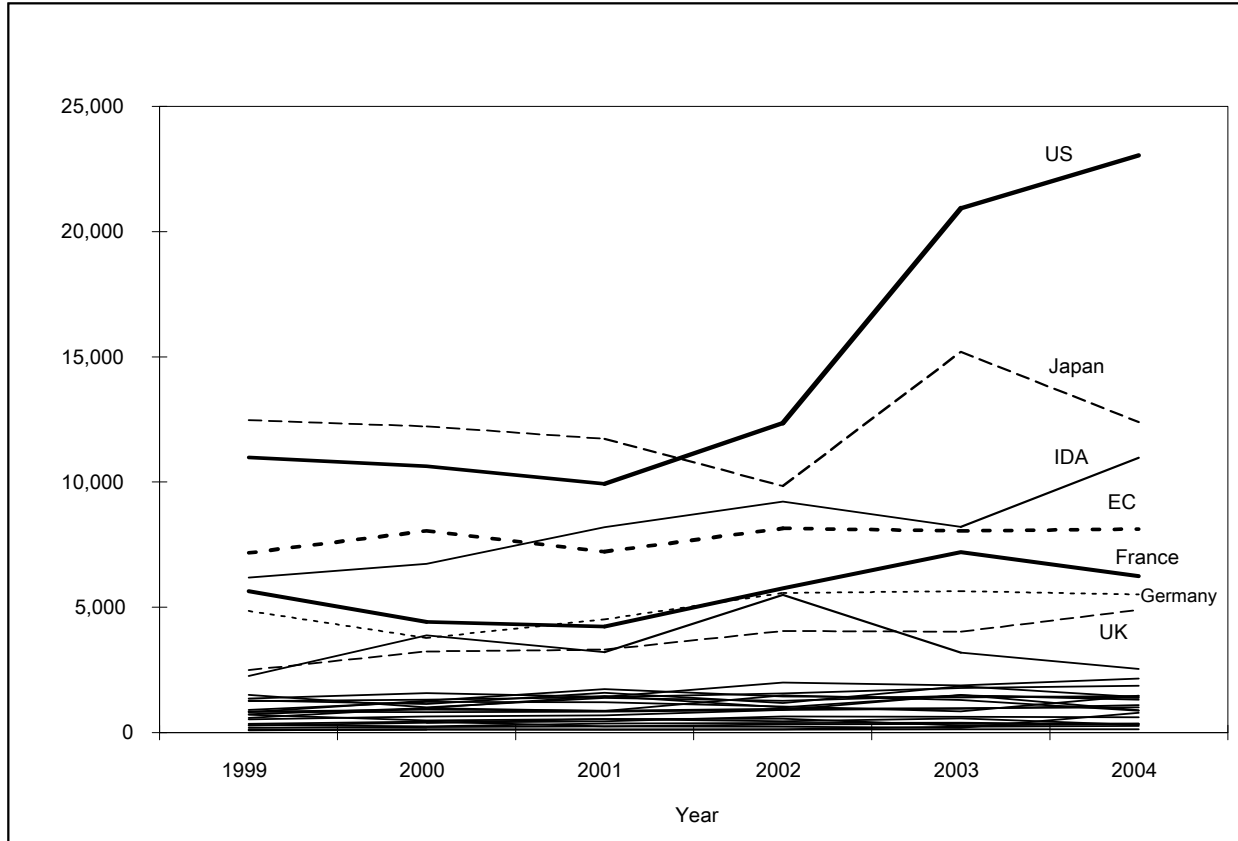
**Table 6.** Education ODA commitments as share of total ODA 2000 and 2004

	ODA		Share of total ODA	
	Constant 2003 \$ billion		%	
	2000	2004	2000	2004
Total ODA	70.7	90.8	100.0	100.0
Total ODA to Low Income Countries	27.2	41.0	38.8	45.2
Total Education ODA	4.6	8.6	6.5	9.6
Total Education ODA to Low Income Countries	2.5	5.5	3.5	6.1
Basic Education ODA	1.4	3.3	2.0	3.6
Basic Education ODA to Low Income Countries	1.0	2.7	1.4	3.0

Source: EFA-Fast Track Initiative (2006)

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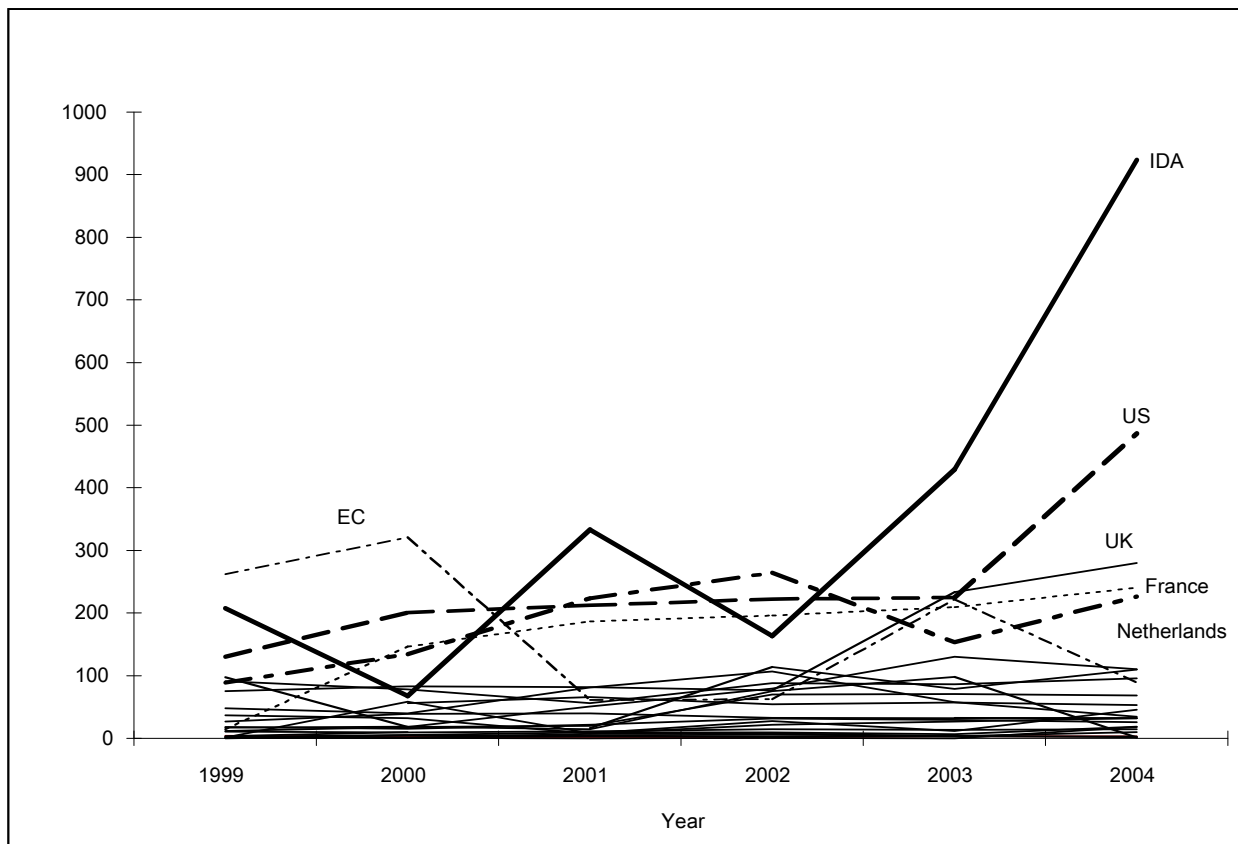
<sup>49</sup> The latest statistics of OECD-DAC shows that, on a gross basis, ODA represented about \$116 billion in 2006. The United States, the largest donor, disbursed \$24 billion in 2006. Following the U.S. were Japan (\$18 billion), the United Kingdom (\$13 billion), Germany and France (\$12 billion each), the Netherlands (nearly \$6 billion), and Spain and Italy (just over \$4 billion each). These countries represent 80% of the total ODA disbursement in 2006 (OECD, 2007d).



Source: UNESCO (2006)<sup>50</sup>

**Figure 12.** Trend of ODA from 1999 to 2004

<sup>50</sup> IDA stands for the International Development Association. IDA is the part of the World Bank that provides interest-free credits and grants for poverty reduction in low-income countries.



Source: UNESCO (2006)

**Figure 13.** ODA to basic education from 1999 to 2004

The total amount of aid shows a huge increase in the share of education and in the amount directly allocated to basic education. The amount of aid to education is estimated to have increased from \$5.6 billion in 2000 to \$9.5 billion in 2004; for low-income countries, the increase rose from \$3.4 billion to \$6.4 billion (UNESCO, 2006). While this is significant progress, the amount remains insufficient. UNESCO estimates that \$11 billion a year would be “the price tag for the EFA agenda” (p.103). Regarding basic education, aid to all developing countries has increased from \$2.6 billion to \$4.4 billion, while the increase of aid to low-income countries went from \$1.8 billion to \$3.4 billion (p.88). The introduction of new aid modalities in

the assistance for basic education has also been promoted. In 2004, direct budget support to all developing countries accounted for \$4.7 billion, with \$4.2 billion provided to low-income countries (p.88). The FTI Secretariat estimates that 20% of general budget support goes to the education sector and that approximately half of that is allocated to basic education (p.88). These facts demonstrate that the donor community has intensified educational aid since the World Education Forum in 2000.

As a political mechanism of the world's richest countries, G8 has created a momentum for donor agencies to further increase the amount of aid. At the 2005 G8 Summit in Gleneagles, G8 countries committed a \$50 million annual increase in the ODA by 2010 and further increases by 2015 (UNESCO, 2006, p.86). G8 countries at the 2006 summit in St. Petersburg pledged to help identify the resources necessary for countries to pursue sustainable educational strategies (p.86).<sup>51</sup> However, only about 65% of the aid promised at Gleneagles actually arrived on schedule (Economist, 2007, April 7, p.58). *The Economist* suggests that this lack of predictability undermines the effective use of foreign aid resources in developing countries.<sup>52</sup>

Three foreign aid realities pose problems for the education sector. First of all, OECD-DAC members provided \$ 103.9 billion in aid in 2006, down by 5.1% from 2005, in constant 2005 dollars. In real terms, this is the first decline in ODA since 1997, though the level is still the

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<sup>51</sup> At the Gleneagles Summit, the EU pledged to reach 0.7% ODA/GNI (Gross National Income) by 2015 with a new interim collective target of 0.56% ODA/GNI by 2010. This will nearly double its ODA between 2004 and 2010. The U.K. has announced a timetable to reach 0.7% ODA/GNI by 2013. Japan committed an increase of its ODA volume by \$10 billion in aggregate over the next five years (G8 Gleneagles, 2005).

<sup>52</sup> "Because the aid they receive is such capricious, volatile commodity, governments dare not make full use of it. They could hire legions of extra teachers, clinicians and civil servants, but only if they are prepared to fire them when the aid spigot is closed" (Economist, 2007, April 7, p.58).



highest recorded with the exception of 2005 (OECD, 2007d).<sup>53</sup> In addition, the share of ODA committed directly to basic education is just 3.6% of the total, with one third of this going to middle-income countries (UNESCO, 2006, p.89). Thirdly, only a few donor agencies dominate in providing aid in the education sector. From 2003 to 2004, 72% of all bilateral aid to education was contributed by France, Germany, Japan, the U.K., and the U.S. (p.89). For basic education, over two-thirds of external assistance came from Canada, Japan, the Netherlands, the U.K., and the U.S. (p.89).<sup>54</sup>

### **5.1.2 FTI**

A donor-driven need created the FTI. Under the leadership of the World Bank, donor agencies used a learning-by-doing approach to launch the FTI (Bellew & Dorleans, 2005, p.7). The FTI created parallel planning processes in its initial stage, but it also raised questions about ways to integrate those FTI plans into the broader education sector programs, planning processes, and national poverty reduction strategies of recipient countries (p.7). While mutual accountability of both donors and recipients now emerges as a core component of the FTI, it should be noted that the donor community created the FTI, like many other foreign aid initiatives. Therefore, in order to secure the “mutual accountability” between donors and recipients, donor agencies are required to actively address the demands of developing countries.

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<sup>53</sup> Sixteen out of 22 DAC countries met the 2006 targets for ODA set at the 2002 Monterrey Conference on Financing for Development. The only countries to reach or exceed the UN target of 0.7% of GNI were Sweden, Luxembourg, Norway, the Netherlands, and Denmark (OECD, 2007d).

<sup>54</sup> UNESCO commented that, in order to increase the amount of aid for education, more donors will either need to become more heavily involved or increase their contributions, or do both (UNESCO, 2006, p.89).

Rosemary Bellew, the former director of the FTI Secretariat, praises the FTI for addressing these “market failures” in the allocation of ODA that constrain an effective use of aid. “Market failures” in foreign aid include a lack of aid harmonization, a lack of full and timely information for ODA stakeholders, and a lack of criteria to establish aid programs which create donor darlings and donor orphans (Bellew & Dorleans, 2005, p.6). Addressing these challenges requires collective action that compels all parties to think in terms of their collective impact at the country level (p.6). Bellew sees the FTI as a mechanism for this action. The global aid effectiveness agenda, such as the Paris Declaration on Aid Effectiveness, shares the same question raised by this perspective. Aid effectiveness, i.e., how donor agencies disburse their aid resources to developing countries to support basic education, has become an indispensable agenda of FTI.

Bellew also asserts that without the FTI, “Education would be less visible on the international donor agenda...There would be less transparency among education donors...Progress in donor accountability would be lost as well” (Bellew & Dorleans, 2005, p.9). These comments may overestimate the potential of the FTI because some donor agencies, especially non-European ones, have significantly contributed to the promotion of primary education outside the FTI mechanism. However, the points Bellew mentions, i.e., visibility of education in the international society as well as donors’ transparency and accountability, have become a recognized agenda not only in the education sector but also in foreign aid in general.

#### **5.1.2.1 Outcomes and challenges of FTI**

The Partnership Meeting in November 2006 reports the latest achievements of the FTI. According to the FTI Secretariat, FTI-endorsed countries have made remarkable progress, yet they still face many challenges.

Table 7 illustrates most initial FTI countries have demonstrated significant progress in terms of universal primary completion.

**Table 7.** Benchmark and improved outcomes for FTI countries 2000-2004

Countries	Gross intake ratio (%)				Primary completion rate (%)			
	Girls		Boys		Girls		Boys	
	2000	2004/05	2000	2004/05	2000	2004/05	2000	2004/05
Burkina Faso	39	62	53	70	21	28	30	35
Gambia	76	83	77	79	62	N/A	77	N/A
Guinea	56	83	63	95	21	42	45	66
Guyana	124	140	130	140	114	92	109	99
Honduras	139	127	139	129	N/A	82	N/A	77
Mauritania	87	105	86	106	44	41	51	45
Mozambique	102	129	117	138	13	23	20	35
Nicaragua	142	135	151	144	70	77	62	70
Niger	35	51	49	68	13	20	20	30
Vietnam	105	95	108	101	94	98	99	104
Yemen	78	117	102	136	39	46	78	78

Source: EFA-Fast Track Initiative (2006)

Due to the FTI, only three countries among 28 FTI-endorsed ones (as of the 2006 annual Partnership Meeting) are considered seriously off track; two years ago, eight of these 28 countries were in that category, as Table 8 indicates (EFA-Fast Track Initiative, 2006, p.1). Between 1999 and 2004, the FTI further helped reduce the number of out-of-school children worldwide from 98 million to 77 million, a drop of 21 million (p.1). Expansion of FTI membership is also significant. All low-income countries became eligible to apply for FTI

membership at the 2005 Partnership Meeting in Beijing. The FTI endorsement process will welcome over half of all low-income countries by the end of 2007 (p.1).

**Table 8.** On-Track/Off-Track status of current FTI countries

<b>FTI-Endorsed Countries</b>	<b>Projected Primary Completion Rate 2015</b>	<b>Projected Gender Parity Index 2015</b>	<b>Projected Gross Intake Rate 2010</b>	<b>Overall Progress (2004 data)</b>	<b>Overall Progress (2002 data)</b>
Albania	Achieved	98	100	Achieved	Achieved
Burkina Faso	41	92	95	Seriously off track	Seriously off track
Cambodia	100	98	Achieved	On track	Off track
Cameroon	91	86	Achieved	Off track	Off track
Djibouti	53	90	59	Off track	Seriously off track
Ethiopia	91	107	Achieved	Off track	Seriously off track
Gambia	70	185	89	Off track	Off track
Ghana	95	98	103	On track	Off track
Guinea	89	97	100	On track	Seriously off track
Guyana	Achieved	86	Achieved	Achieved	On track
Honduras	89	95	Achieved	Off track	Off track
Kenya	92	87	Achieved	Off track	Seriously off track
Kyrgyz	93	103	100	On track	On track
Lesotho	99	93	Achieved	On track	Off track
Madagascar	70	96	Achieved	Off track	Seriously off track
Mali	68	85	76	Off track	Off track
Mauritania	43	107	Achieved	Seriously off track	Off track
Moldova	91	101	Achieved	On track	Off track
Mongolia	95	96	Achieved	Achieved	Achieved
Mozambique	65	95	Achieved	Off track	Off track
Nicaragua	92	92	Achieved	Off track	Off track
Niger	47	75	99	Seriously off track	Seriously off track
Rwanda	79	111	Achieved	Off track	Seriously off track
Senegal	72	111	100	Off track	Off track
Tajikistan	92	102	100	On track	Achieved
Timor-Leste	N/A	N/A	N/A	N/A	N/A
Vietnam	101	88	Achieved	Achieved	Achieved
Yemen	78	86	Achieved	Off track	No data

Seriously off-track: PCR projected to be under 50

Off-track: PCR projected to reach between 50% and 94% by 2015 by 2015

On-track: PCR currently from 90-94% or projected to reach 95% or greater by 2015

Achieved: PCR currently 95% or above

Source: EFA-Fast Track Initiative (2006)

However, the FTI faces a number of challenges. The most serious is the lack of finances for developing countries to achieve the UPE. Global estimates of the external financing needs for achieving the UPE in low-income countries range from \$3.7 billion annually to \$10 billion (Bruns et al., 2003; EFA-Fast Track Initiative, 2006, p.6). UNESCO's EFA Global Monitoring Report 2007 estimates that reaching the UPE in low-income countries will require an increase in aid for basic education to \$9 billion per year from a current level of \$2.7 billion per year. While formidable, this goal is not impossible because aid for basic education in low-income countries has tripled since 1999; this amount (\$9 billion) could be reached if donors triple their aid (EFA-Fast Track Initiative, 2006, p.18). Although donor countries have significantly increased their amount of aid, their contributions remain insufficient for developing countries to reach the UPE.<sup>55</sup> The \$2.7 billion of ODA for basic education in low-income countries in 2004 did not satisfy the above-mentioned estimation (p.8). However, ODA for basic education in low-income countries increased from \$1.0 billion to \$2.7 billion between 2000 and 2004.<sup>56</sup> The total ODA commitment for education also significantly increased from \$3.7 billion in 2000 to \$9.5 billion in 2004 (p.8). A further increase of external finance for the UPE is expected due to the April 2006 pledge by the U.K. to contribute \$15 billion for education over the next ten years; about \$10 billion of that figure is allocated for basic education (p.8).

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<sup>55</sup> From 2000 to 2004, total ODA commitments increased from \$62.1 billion annually to \$98.5 billion annually, an increase of over 50%. Some 46% of total disbursement went to low-income countries. In 2005, the EU announced a plan to collectively provide 0.7% of GNI in ODA by 2015 and to achieve an intermediate target of 0.51% by 2010. Also, G8 countries committed to increase global assistance by \$50 billion by 2010, implying an annual average increase of 12.2% in real terms (EFA-Fast Track Initiative, 2006, p.6).

<sup>56</sup> The increase in aid results, however, from a small set of donors. Five donors, including Canada, Japan, the Netherlands, the U.K., and the U.S., account for two-thirds of all bilateral aid for basic education. Continuous advocacy toward other bilateral and multilateral donors for increasing aid is necessary (EFA-Fast Track Initiative, 2006, p.10).

In addition to the lack of financial resources, the FTI must address internal structural challenges to improve the quality of donor finance. While developing countries are required to implement a poverty reduction strategy and a credible education sector plan, too little information is available in most low-income countries regarding children living in extreme poverty, HIV/AIDS orphans, and children with disabilities (EFA-Fast Track Initiative, 2006, p.3).

The FTI, despite attempts to improve its effectiveness by complying with the Paris Declaration on Aid Effectiveness, still faces concerns regarding governance and sustainability of finance.<sup>57</sup> So far, however, recipient countries have not been able to rely on the predictability of donor financing over time (p.11). Also, the Partnership Meeting pointed out that “there is likely to be a need for flexibility in that the FTI model may not be appropriate for all countries” (p.11). Both the external financing for UPE and the quality of donors’ disbursement of aid resources have to be improved.

## 5.2 CONCERNS

On the global level, donors share at least two broad concerns in relation to the FTI. First, despite different reasons for their concerns, all major donor agencies worry about how to assist developing countries so that they may reach UPE. The U.N. agencies basically have taken the

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<sup>57</sup> At the meeting on Aligning Global Programs at the Country Level in June 2006, multilateral development banks, OECD-DAC, and UNDP cited the FTI as a good example of harmonization and alignment. These donor agencies commented that the FTI was designed “more as a coordinating vehicle than a financial one, with most of the funding associated with the program channeled through country based programs.” While this characteristic of the FTI “simplifies alignment, some of its sponsors fear that the lack of a sizeable designated global fund for EFA-FTI may hamper the program’s overall development effectiveness” (OECD, 2006a).

human rights based approach in supporting UPE.<sup>58</sup> International financial institutions, such as the World Bank, view education as an indispensable component for economic development.<sup>59</sup> Like multilateral agencies, bilateral donors also hold various perspectives. Such bilateral donor agencies as Japan value the transfer of their own experience of educational development to developing countries.<sup>60</sup> European donors perceive educational support in developing countries within the context of national poverty reduction, rather than viewing education as a human right or as an indispensable component of economic growth (European Commission, 2004b). Despite these different motivations, donor agencies, in collaboration with recipient countries and other entities such as NGOs, have become committed to assisting basic education in developing countries. A series of international conferences, such as The World Conference on Education for All in 1990 and the World Education Forum in 2000, explicitly exemplify this commitment. The FTI operationalizes this concern for basic education.

Moreover, aid effectiveness is also a common concern among donor agencies. Bilateral donor countries have multiple incentives in providing foreign aid: for the sake of developing countries and for the donors' own interests. The OECD moderated a series of discussions in aid effectiveness in the international community. The resulting consensus, known as the Rome Declaration on Harmonization and the Paris Declarations of Aid Effectiveness, indicates that all donor agencies have committed themselves to aligning their foreign aid toward recipient

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<sup>58</sup> For example, Peter Smith, the former Assistant Director-General of the Education Sector of UNESCO, commented that “the existence of UNESCO is predicated upon commitment to education as human rights” (Sutton et al., 2007, p.229).

<sup>59</sup> See Chapter 4. The human rights-based principle of education had been embedded in the U.N., particularly in UNESCO since its establishment, whereas the World Bank, the largest foreign aid organization, has seen education as an investment in human capital for economic growth (World Bank, 1995)

<sup>60</sup> Japan's Official Development Assistance Charter spells out that “Japan will utilize its own experience in economic and social development as well as in economic cooperation when assisting the development of developing countries” (Government of Japan, 2003).

countries' priorities, harmonizing their procedures, and coordinating donors' policies and priorities around recipient countries' systems. Because of the multiplicity of incentives in providing foreign aid, the magnitude of commitment to aid effectiveness differs depending on respective donor's policies. However, the alignment toward developing countries' policies and donor coordination now becomes a critical consensus for all donor agencies. The FTI takes advantage of this consensual environment in the international community.

Since the World Bank has taken the initiative to establish the FTI and has played a leadership role in operating the Initiative, some donor partners tend to regard the FTI as a World Bank-led initiative. Theoretically, the FTI is independent from the World Bank and within one of the global initiative to promote EFA. According to a World Bank economist, "a problem of the FTI is that other donor agencies lack knowledge of FTI. The World Bank acts as the FTI secretariat and the Trustee of FTI funds, and thus it has fiduciary responsibility for FTI funds. Likewise, other donors do not want to jeopardize their initiatives by participating in FTI."<sup>61</sup> This feeling of other donor agencies sometimes makes it difficult for them to have a positive stance towards FTI participation.

According to an officer of the FTI Secretariat, "Many donor agencies support EFA goals" because "the goals [of UPE] were difficult to achieve in some developing countries, and participating in the FTI may facilitate donors' efforts to achieve these goals." The officer said that "FTI used to be a 'club' for donor agencies, but some donors wanted to change this closed nature and show a stronger commitment to achieving UPE in developing countries. Donors have

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<sup>61</sup> Interview with a World Bank economist.



attempted to take a more harmonized approach in accordance with the Paris Declaration of Aid Effectiveness.”<sup>62</sup>

### 5.2.1 NGOs

Some NGOs insist that donor agencies should contribute more resources to help developing countries reach the UPE in a proper manner. The Global Campaign for Education (GCE) points out that bilateral donor agencies have used aid “not to address poverty, but to further their own geo-political interests (Global Campaign for Education, 2007, p.18).<sup>63</sup> The GCE further asserts that donors must commit their fair share of the \$9 billion needed each year to get every girl and boy into school, and they must back EFA-FTI with real, upfront resources to encourage truly ambitious planning by developing countries (p.4).<sup>64</sup>

Likewise, the Reality of Aid reports that new aid pledges made in 2005 still fall far short of the urgently needed financing to meet the MDGs; how donor agencies provide aid resources also poses a problem (Reality of Aid Management Committee, 2006, p.40).<sup>65</sup> According to this not-for-profit initiative, while foreign aid has been a catalyst in poverty reduction, “donors’ self-interest and some recipient countries’ misuse of aid have undermined the potential for aid to

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<sup>62</sup> Interview with an officer of the FTI Secretariat.

<sup>63</sup> The Global Campaign for Education, founded in 1999, consists of major NGOs and teachers’ unions in over 150 countries. It aims to promote education as a basic human right and to mobilize public pressure on governments and the international community to fulfill their promises to provide free, compulsory public basic education for all people (Global Campaign for Education, 2007).

<sup>64</sup> UNESCO’s EFA Global Monitoring Report in 2007 estimates that \$9 billion per year of foreign aid is necessary for low-income countries to achieve the UPC goal (UNESCO, 2006).

<sup>65</sup> The Reality of Aid was established in 1993 as a collaborative, not-for-profit initiative, involving NGOs from both industrialized and developing countries to promote national and international policies for poverty reduction in impoverished countries (Reality of Aid Management Committee, 2006, p.viii).

contribute to poverty alleviation” (pp.39-40). To illustrate the donors’ “misuse” of foreign aid, the Reality of Aid cites the relationship between development and counter-terrorism.<sup>66</sup> It criticizes donor countries for “addressing the interests of poor and marginalized people in so-called ‘failing states,’ through the lens of ‘security’” rather than recognizing the rights of the poor people (p.33).

An NGO Action Aid also points out the necessity of improving foreign aid. It states that in 2003, “Two-thirds of donor money is ‘phantom’ aid that is not genuinely available for poverty reduction in developing countries” (Action Aid International, 2005, p.3).<sup>67</sup> In total, at least 61% of all donor assistance was phantom in 2003. When phantom aid is eliminated, the G7 countries are only 10% of the way to the 0.7% target. Eighty-six cents in every dollar of American aid is phantom—heavily tied to the purchase of U.S. goods and services (p.17). While meeting the official 0.7% target is important, it is far more imperative that donors reach a “real 0.7%,” a target that no OECD donors currently obtain (p.28).

The above-mentioned perspectives from NGOs sound fair, although the definition of “phantom” seems to be somewhat arbitrary.<sup>68</sup> NGOs could pressure official aid agencies into adopting more recipient-oriented aid delivery. However, considering that NGOs per se implement a number of aid programs, NGOs should more actively participate in the donor

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<sup>66</sup> “In the post 9/11 security-centric era, poverty and violent conflict in the South are viewed increasingly as ‘threats’ to the security of the North. Development assistance is once again increasingly seen through the lens of Northern foreign policy interests, as a tool for rich countries to defend themselves against these ‘threats’” (Reality of Aid Management Committee, 2006, p.9).

<sup>67</sup> For example, according to Action Aid, almost 90% of aid activities by the U.S. and France are “phantom,” which does not aim at reducing poverty in developing countries (Action Aid International, 2005, p.3).

<sup>68</sup> According to Action Aid, phantom aid includes 1) aid not targeted for poverty reduction, 2) overpriced and ineffective technical assistance tied to goods and services from donors, 3) poorly coordinated aid with high transaction costs, 4) aid unpredictable to be useful to the recipient, etc. (Action Aid International, 2005, p.17).

coordination mechanism as a partner of donors, not only as a critic of the policies and behaviors of official donor agencies.

Each official donor agency has different positions on the FTI. The following sections present the concerns of major donor agencies in East Asia in relation to the FTI.

### **5.2.2 Japan**

Japan emerges as one of the most influential donor countries in East Asia due to its generous foreign aid disbursement. While its foreign aid policies and activities significantly influence the FTI, a severe budget prevented Japan from making any announcement of a target for its ODA in 2006 (OECD, 2007d).<sup>69</sup> An important shift in the Japanese ODA Charter in 2003 occurred when Japan made its security and prosperity part of the Japanese ODA and the “prevention of terrorism” included in the principles of ODA implementation (Reality of Aid Management Committee, 2006, p.10). Also, in the wake of former Prime Minister Koizumi’s restructure of governmental financial institutions, a new Cabinet council will be created to make coordinated decisions regarding foreign aid. Now, the three major implementation arms, the International Cooperation Agency (JICA), the ODA division of the Japan Bank for International Cooperation (JBIC), and the grant aid division of the Ministry of Foreign Affairs (MOFA), will be integrated into one. Prior to this, Japan’s ODA had been handled by 13 line ministries with little coordination among them (Watanabe, 2006, p.306).

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<sup>69</sup> Fifteen EU members committed to collectively reaching an ODA level of 0.39% of their combined GNI, with a minimum country target of 0.33% by 2006. Net ODA from the United States in 2006 reached higher levels than expected due to large debt relief programs and increased aid to sub-Saharan Africa, Afghanistan, and Iraq (OECD, 2007d).

However, Japan's foreign aid system is not necessarily moving in the right direction. An NGO worker argues that, even after the reshuffle of governmental aid agencies, the 13 ministries continue to be involved in the governmental technical cooperation for developing countries; because of this, the new cabinet council is likely to be plagued with conflicting interests of three major ministries, MOFA, MOF, and METI (Ministry of Economy, Trade and Industry) (Watanabe, 2006, pp. 306-7 ). Above all, it is a problem that "Koizumi and a new cadre of Japanese political leaders are more concerned with national interest than with genuine developmental needs" (p.307).

In addition, Japan has started to downsize its ODA. According to the OECD-DAC, Japan's net ODA has been on a downward trend since 2000, except for an increase in 2005 due to debt relief (OECD, 2007d). Japan, which had been the largest donor country during the 1990s, is now third among bilateral donor countries such as the U.S. and the U.K. in terms of quantity of aid.

A Japanese official aid worker explained the concerns of Japan in providing foreign aid in the context of a discussion of aid effectiveness as follows:

The Japanese government has not only provided foreign aid to meet the requests of developing countries. A core philosophy of Japan's foreign aid is to support the self-help of poor countries by developing local human resources. In line with this belief, Japan will participate in harmonization and donor coordination and use budget support complementarily to implementing its traditional projects and technical assistance.<sup>70</sup> Foreign aid should not be supply-driven, i.e., donor-driven,

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<sup>70</sup> This position was reflected in paragraph five of the Paris Declaration of Aid Effectiveness: "We acknowledge that enhancing the effectiveness of aid is feasible and necessary across all aid modalities. In determining the most effective modalities of aid delivery, we will be guided by development strategies and priorities established by

nor demand-driven, i.e., recipient-driven. Donor agencies must check whether their foreign aid can contribute to the development of recipient countries. Ideally, bilateral foreign aid activities should contribute to benefiting recipients and thereby satisfying the interests of donor countries. (Interview with a Japanese official aid worker)

A challenge for Japan to proactively participate in the FTI stems from the Japanese foreign aid system.

Participating in harmonization and budget support which primarily uses the system of the recipient countries may not enable Japan to operationalize its philosophies such as enlightening developing countries on the ethos of labor. Since official development assistance is not charity, it is important to show Japan's face and to deliver its voices to the recipients. Recipients would thereby appreciate the aid activities of Japan, and foreign aid could contribute to improving the welfare of both recipients and Japan. (Interview with a Japanese official aid worker)

This perspective is entirely different from that of European countries and international financial institutions, which attempt to improve the effectiveness of foreign aid in the light of the fungibility of aid resources. "Showing Japan's face and to deliver its voices to the recipients" sounds fine as long as delivered aid resource is consistent with the policies and plans of recipient countries.

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partner countries. Individually and collectively, we will choose and design appropriate and complementary modalities so as to maximize their combined effectiveness" (High Level Forum, 2005).

The Japanese government has supported the FTI at the global policy level by launching the Basic Education for Growth Initiative presented at the G8 summit in Kananaskis in 2002 and by pledging new funds to the FTI-related Trust Fund at the G8 summit in St. Petersburg in 2006. Japan committed \$2.4 million to the FTI at the High-level Education Conference in 2007 (High-level Education Conference, 2007). A government official explained the significance of the FTI to Japan from a technical point of view.

The participation in FTI has given Japan one additional tool for assisting primary school education in developing countries. The increase of donors' tools for implementing foreign aid is in line with the principles of FTI, which are found in the Monterrey Consensus. Japan has an incentive to contribute to the FTI Trust Funds. Generally speaking, developing countries use approximately 90% of their educational budget for financing recurrent cost, including personnel expenses. Consequently, in many developing countries, there is an absolute lack of budget for operations to improve the quality of education, which is indispensable to reach the EFA goals. Huge initial costs are necessary to launch activities which will improve the quality of education, such as educating teacher-trainers, and this makes it difficult for developing countries to address the challenge of the quality of education. The Catalytic Fund of the FTI intends to finance the initial cost necessary for improving the quality of education. Japan's contribution to the Catalytic Fund will enable the FTI to support more developing countries, and this will also generate synergy with Japan's existing aid activities. For example, school buildings constructed by Japan's bilateral aid could be better utilized, and in-service teacher training projects supported by JICA could be disseminated to

other regions in the country. (Interview with a Japanese official aid worker in Tokyo)

### **5.2.3 The United States**

As the largest bilateral donor, the U.S. has influential the FTI, particularly at the international level, although its presence in the education sector in East Asia has been modest. The U.S. has played a role as co-chair of the FTI from 2003 to 2005. Similar to Japan, the U.S. tends to take a different position from European donors in providing foreign aid.<sup>71</sup> In this section, I review the concern of U.S. foreign aid in general and then analyze its concern with regard to the FTI.

Historically, the U.S. has justified its development assistance policies based upon the needs of recipient country and its own foreign policy objectives (OECD, 2006b, p.10). Carol Lancaster, the former Deputy Administrator of the U.S. Agency for International Development (USAID) defines the traditional diplomatic uses of U.S. foreign aid as a way to reward friends, provide incentives for desired actions, and fortify alliances. However, the end of the Cold War changed these rationales (Lancaster & Dusen, 2005, p.12). After 9/11, the U.S. has increasingly viewed its development assistance through the lens of U.S. security interests and the “war on terror.” For example, USAID investment in counterterrorism in 2005 represents a nearly seven-fold increase over 2004 (Reality of Aid Management Committee, 2006, p.10). Lancaster concludes that the America’s “war on terror” has undoubtedly heightened the importance of diplomatically driven aid. This leads to a decrease in aid to Israel and Egypt but an increase in assistance to Pakistan, Uzbekistan, Kyrgyzstan, Tajikistan, and Kazakhstan (Lancaster & Dusen,

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<sup>71</sup> “Japan and the U.S. have a similar aid philosophy. Both countries use foreign aid strategically under their diplomatic policy” (Interview with a Japanese official aid worker).

2005, pp.12-3). The OECD-DAC reports that, in 2006, the net ODA flows of the U.S., the largest bilateral donor, to Iraq remained substantial (\$4.8 billion) and increased to Afghanistan (\$1.6 billion); the LDC were at their highest level ever (\$5.5 billion) (OECD, 2007d).

The Millennium Challenge Corporation (MCC), founded in 2002, advocates sound governance and poverty reduction through economic growth contained in “compacts” signed with developing countries. Despite these laudable principles, the MCC’s progress has been inert because Congress refused to meet the President’s earlier funding pledge (Johnes & Nickinson, 2006, p.351). The MCC received \$1 billion in its 2004 budget. This amount increased to \$1.488 billion in the 2005 budget, but still remains far below the administration’s request of \$2.5 billion (p.351). The OECD-DAC points out that the creation of the MCC does not contribute to promoting aid effectiveness.<sup>72</sup>

In September 2002, the White House published a new National Security Strategy for the United States; it is the first fundamental restatement of American foreign policy since the end of the Cold War. The U.S. National Security Strategy, aiming to “help make the world not just safer but better,” seeks “political and economic freedom, peaceful relations with other states, and respect for human dignity. To this end, the U.S. attempts to “expand the circle of development by opening societies and building the infrastructure of democracy” (White House, 2002).

In 2006, the U.S. government significantly reformed its system of foreign aid by restructuring and integrating USAID into the Department of State. The State Department shaped a policy of Transformational Diplomacy, aimed at working “with our many partners around the world to build and sustain democratic, well-governed states that will respond to the needs of their

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<sup>72</sup> “Integration of MCC strategy and resources into the overall US development effort has yet to be addressed fully. In addition, the US Government runs the risk of giving rise to an expensive parallel mechanism at country level, which may add to transaction costs” (OECD, 2006b, pp. 13-14).



people and conduct themselves responsibly in the international system” (U.S. Department of State, 2006, p.10).

The Director of Foreign Assistance, a new position created by Secretary of State Condoleeza Rice, will serve concurrently as USAID Administrator while carrying out the duties of Director of Foreign Assistance in the State Department. This change was made to “ensure that foreign assistance is used as effectively as possible to meet our broad foreign policy objectives,” to “more fully align the foreign assistance activities carried out by the Department of State and USAID,” and to “demonstrate that we are responsible stewards of taxpayer dollars” (USAID, 2006a). It is noteworthy that the Secretary’s statements did not address ways to improve the effectiveness of American foreign aid for developing countries. Apparently, the U.S. is making it more difficult for other donor agencies to collaborate.

This new U.S. policy framework establishes five core strategic goals: 1) promote transformational development; 2) strengthen fragile states; 3) support strategic states; 4) provide humanitarian relief; and 5) address global issues and other special, self-standing concerns (USAID, 2006b, pp.1-2). The framework points out that the critics of U.S. foreign aid emphasize that policy incoherence, i.e., “multiple and competing goals and objectives that pull in different directions,” has led to the ineffectiveness of foreign aid (p.21). While the new policy framework hopes to address this problem, it still lacks a focus on development.

Just like Japan, American has a complex and fragmented foreign aid structure.<sup>73</sup> The Office of the Director of Foreign Assistance in the Department of State was created in 2006 to address this problem. Yet, according to Lancaster, this highly fragmented has some advantages.

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<sup>73</sup> This includes 26 government institutions in providing ODA. Among those organizations, five institutions, i.e., USAID and the Departments of Defense, Agriculture, State, and Treasury, accounted for over 90% of the ODA funding in 2005 (OECD, 2006b, p.13).

She states that the involvement of many different institutions in foreign aid expands “ownership” within the federal government for maintaining a safe and prosperous place for the U.S. in the world (Lancaster & Dusen, 2005, p.22). Lancaster also explains that domestic agencies can bring new constituencies to the table in support of U.S. international engagement and assistance abroad (pp.22-3). These comments sound reasonable as long as there is an agency that can play a strong coordinator’s role. However, if the government does not change the current aid system, Lancaster warns that “robust and authoritative coordination and leadership from somewhere within the U.S. government” will be required (pp.50-51). This perspective is relevant to some other donor countries, like Japan, which also have a less-coordinated foreign aid system.

U.S. foreign aid policy, therefore, is a complicated one rooted in the country’s diplomatic policy. Lancaster points out that the mission of American foreign aid is unclear. While USAID “provides economic, development, and humanitarian assistance around the world in support of the foreign policy goals of the United States,” the State Department “creates a more secure, democratic, and prosperous world for the benefit of the American people and the international community” (Lancaster & Dusen, 2005, p.8).

A retired U.S. aid worker recalls the complex position of the U.S. on the FTI and its reluctance to join the Initiative in its early stage as follows:

The U.S. does not have a well-focused position on FTI. While USAID is a very decentralized organization, U.S. foreign aid is provided not only by USAID but also by the State Department and other federal departments.<sup>74</sup> The FTI Secretariat

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<sup>74</sup> The Millennium Challenge Corporation (MCC) also provides larger sums of money for developing countries to take a “quantum leap” in their programs over five years. These funds could be used for the FTI. However, the MCC is highly infrastructure-oriented and does not understand the value of education, i.e., capacity development, teacher quality, curriculum, etc. (Interview with a retired U.S. aid worker).

is housed in the World Bank, and the Bank is influenced by the U.S. Treasury Department. Before the U.S. became a co-chair, thereby controlling the FTI's agenda, its position on the Initiative was unclear, seeing the FTI as ambiguous. It was not clear what the FTI really was. The U.S. has been skeptical about the FTI, stating, "Why should we care about education? Everybody cares about education." There is tension between the EU, which prefers harmonization, and some bilateral donors such as the U.S. and Japan, both of which have domestic constraints in providing foreign aid. Regarding the goal of UPC, the U.S. has seen that this goal is not attainable. It is impractical to set a goal that is impossible to achieve considering what is really being provided to developing countries. (Interview with a retired U.S. aid worker)

This American aid worker details the skepticism within the USAID concerning joining a global multilateral initiative such as the FTI.

The World Bank committed to the EFA goals presented in Dakar in 2000, but the U.S. has never committed to them. The Bank's perspective is different from that of the U.S. The U.S., like Japan, has its own domestic constraints in providing foreign aid. Likewise, the U.S. has never committed to increasing its amount of foreign aid nor filling the resource gap for education in developing countries, although many other donor agencies have made this commitment. While the U.S. President has indicated at various conferences his willingness to support the educational development of poor countries, the U.S. Congress has never promised to provide more funding for EFA. The World Bank has announced that the U.S. has made this commitment, but, in fact, the U.S. has never promised anything.

The U.S. has been trapped by the “promise.” Many donor agencies also believe that the U.S. has fully committed to the MDGs, but this is not true. (Interview with a retired U.S. aid worker)

The change of American politics seems to affect the concern of the U.S. toward the FTI. According to this official aid worker, two political leverages motivated the U.S. to transform its negative sentiment towards the FTI into a cooperative one and, in turn, drove the U.S. to become the co-chair of the FTI: 1) The Bush administration is pro-education; domestically, it has launched the No Child Left Behind Act, and 2) The U.S. Congress increased the funds earmarked for basic education in developing countries, enabling the U.S. to influence basic education in poor countries.<sup>75</sup> These policy environments have created the atmosphere in which many believe that “the U.S. will not gain by destroying FTI, although FTI is not a perfect mechanism.”<sup>76</sup>

Consequently, the U.S. took up the position of the FTI co-chair in 2003. During its tenure, according to a retired U.S. aid worker, the U.S. attempted to further its two priorities in the context of the FTI. The first priority of the U.S. is quality in education, specifically, not only expanding the opportunity of education, but also that the purpose of learning should be taken more into consideration. The second priority is resource mobilization for the FTI. European countries seem to have an overly limited vision of resource mobilization, looking only at official development assistance. The U.S. considers that the private sector, such as the Gates Foundation, has enormous potential for the FTI. The U.S. has brought the idea of public-private-partnership

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<sup>75</sup> Interview with a retired U.S. aid worker.

<sup>76</sup> Interview with a retired U.S. aid worker.

(PPP) to the table, but has never set forth its PPP ideologically except from a pragmatic standpoint, that is, it wants to explore every possible resource for the FTI.<sup>77</sup>

The U.S. attempted to make the public-private-partnership for primary school education in developing countries a main element of the FTI; the UNESCO-convened annual EFA conferences focused on this effect. However, other partners seemed not to welcome the idea of business sector involvement in the FTI. A retired U.S. aid worker explained his perspective as follows:

The private sector has the potential to affect the FTI. For example, when Governor Pataki tried to cut the budget for early childhood education in New York, people from the business sector asked him not to, because today's children will be its future workers. Pratham has a direct channel with the prime minister of India and can change the educational system in India more quickly than the official donor agencies can.<sup>78</sup> The FTI's country plan should look at all sectors, not only public donor agencies; the business community should be a part of the FTI. The World Bank and the U.N. pulled back on the idea of PPP since this is not their mandate, but the U.S. recognizes that aid comes from more than just the official donors. (Interview with a retired U.S. aid worker)

However, it seems that some private companies are interested in this topic. At the High-Level Education Conference in 2007, private sector representatives, i.e., Cisco Systems, Intel, Microsoft, and AMD, announced that they would work through the World Economic Forum's

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<sup>77</sup> Interview with a retired U.S. aid worker.

<sup>78</sup> Pratham is an Indian non-profit organization established for supporting universal primary education in India.

Partnership for Education in support of a country's education plans (High-level Education Conference, 2007).

#### **5.2.4 EU and DFID**

The distribution of the European Commission's aid reflects a defining political trade-off among the EU member states. While the Nordics, the Netherlands, and the U.K. argue for a poverty-focus in overall allocations and within programs, southern EU member states tend to favor more politically-based allocations to address domestic political concerns (e.g., migration) or to pursue external political goals (Gavas, 2006, p.270). Aid provided by the EC rose by 5.7% to \$10.2 billion from 2005 to 2006, reflecting an increased budget support and improved disbursement capacity due to recent higher levels of commitment (OECD, 2007d).

Safeguarded by the International Development Act, the primary focus of U.K. official development assistance remains the eradication of poverty and the achievement of the MDGs (Rosa, 2006, p.343). The current U.K. aid system reflects the perspective that "Britain shifted its approach after Labour came to power a decade ago, separating aid from foreign policy and the financial interests of British firms, and developing many decisions about how assistance is delivered from London to increasingly powerful officials on the ground" (McGreal, 2007, February 16). However, global security concerns are having an impact on U.K. aid allocations; from 2003 to 2005, Afghanistan and Iraq ranked among the top 10 recipients of DFID's bilateral aid. Also, U.K. aid to Pakistan rose significantly from 2001 to 2004 (Rosa, 2006, p.345).

The U.K., as the chair of the G8 and the holder of the EU presidency, took an initiative to create an international momentum in development in 2005. This includes setting up the Commission for Africa and putting international development at the top of the G8 Gleneagles

summit agenda. The U.K. used “behind-the-scene diplomacy to persuade other G8 countries to agree to more aid and debt relief” (Rosa, 2006, p.345). International development emerged as a major concern in domestic politics of the U.K. in 2005.<sup>79</sup>

DFID provides support to several FTI countries through its country programs. DFID has committed £145 million to a Catalytic Fund that provides a quick injection of money to help those countries with limited donor support meet the education MDGs. The overall support from the U.K. to the FTI is £150 million (DFID, 2006). In March 2006, the U.K. also “promised the equivalent of US\$15 billion over the next ten years for education and called upon other governments to contribute similarly to provide the external aid required to reach the EFA goals” (UNESCO, 2006, p.86).

Regarding the aid effectiveness agenda, the U.K. has actively engaged in the Paris Declaration on Aid Effectiveness and has urged other donors to improve their support for country-led development and aid predictability. Furthermore, the U.K. has encouraged donors to use country systems for procurement and financial management, to harmonize in-country work more effectively, to untie their aid, and to increase aid allocation to the poorest countries (Rosa, 2006, p.344).

### **5.2.5 International Financial Institutions**

The Asian Development Bank (ADB) and the World Bank, two of the largest financial institutions for the education sector in East Asia, provide lending programs as well as grant

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<sup>79</sup> “Nationally, following 2005, there is increased support for development issues and for the 0.7% ODA target across the main political parties, and unprecedented visibility of development concerns in public debates in Britain” (Rosa, 2006, p.345).

projects. In terms of the FTI, the ADB and the World Bank have different concerns. Moreover, within the World Bank, there seems to be a substantial difference between those who seek to foster the FTI in its headquarters and those who manage activities in the field.

An ADB officer explained that, from a technical point of view, the ADB values collaboration with other donor agencies and, thereby, participation in the FTI. “ADB has about seventy new projects each year. Among them, only six or seven are for the education sector. It is important to leverage resources in the education sector. It is challenging to increase the number of new projects considering the absorptive capacity of recipient countries.”<sup>80</sup> Regarding aid modality, “ADB seems to prefer stand-alone projects to SWAps, but actual collaboration depends on the individual personality of Country Directors in the field.”<sup>81</sup>

The World Bank has taken the initiative to play a critical role in promoting the FTI. Nancy Birdsall, the former director of the Policy Research Department of the World Bank, explains the reason for this. Birdsall asserts that a *raison d'être* of the World Bank is to provide global public goods. Just as governments need to ensure that even well-functioning markets provide for national public goods, so is it necessary to have a global cooperative “where the nations of the world commit themselves jointly to do what no state would undertake on its own” (Birdsall, 2007). Birdsall concludes that the World Bank can play the role of this global cooperative; the world needs a strong and effective bank to finance and coordinate the provision of global public goods. This idea fits the desire of the World Bank to launch and manage the FTI, although not all stakeholders of the FTI welcome an excessive influence from the Bank.

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<sup>80</sup> Interview with a staff member of ADB.

<sup>81</sup> Interview with a staff member of ADB.



However, executive level staff and those who actually operate the Bank's field activities seem to differ in their concerns about their FTI relationship. A World Bank economist explained this situation as follows:

At the World Bank, there is a disparity between the objectives at the top level and those at the officer level. Senior management has said that the World Bank should promote country ownership, donor harmonization and SWAps. However, at the project level, World Bank teams operate under the constraint of rigid rules of procurement, financial management, and disbursement that are not designed to promote the above objectives but to run bank-driven projects. (Interview with a World Bank economist)

Admitting both the potential and the limitations of the FTI, an officer of the FTI Secretariat concluded that, all in all, donor agencies are moving in the right direction despite their respective constraints. An officer of the FTI Secretariat presents the following perspective:

I recognize that the biggest three bilateral donors (i.e., the U.S., Japan, and Germany) have strong foreign aid interest groups at home. Donors must satisfy their constituencies at home. We [the FTI Secretariat] need to balance between the real political goals and our own goals. We can change the donors' policies, assuming their goodwill. We, as well as the recipient countries, would love to see a much more demand-driven approach by donor agencies. FTI does not have a concrete mechanism for determining donors' delivery of foreign aid. FTI provides a place for donors to meet and communicate with each other without confrontation. FTI plans to organize regional seminars to provide a prototype. (Interview with an officer of the FTI Secretariat)

Considering the significant diversity of concerns for providing aid resources among donor agencies, it is realistic and reasonable for the FTI Secretariat to take the position of coordinator and mediator, rather than leading donors' policies in a certain direction. However, since the "goodwill" of donor agencies may be fragile and not always existent, the FTI needs continuous advocacy as well as pressure from the international society in order to stimulate the donors' "goodwill."

On the country level, donor agencies' concerns can be more explicitly observed. No donor countries deny the importance of internationally agreed upon objectives such as EFA, UPE, the MDGs, and aid harmonization. Meanwhile, aid agencies operate their business so that their altruistic goals, such as supporting UPE in developing countries, will be compatible with their own interests. Donors' activities at the country level will be spelled out in the section consisting of the case studies of Mongolia, Vietnam, and Cambodia.

## **5.2.6 UNESCO**

UNESCO, a champion in international educational development, has played an influential role in promoting EFA, particularly as the global coordinator. However, when it comes to the FTI, UNESCO's contribution has not been palpable mainly because of its weak field presence. For example, the number of UNESCO's field offices is far less than other multilateral donor agencies active in the education sector.<sup>82</sup>

Peter Smith, the former Assistant Director General of UNESCO, mentions that "UNESCO can fulfill its role as intellectual leader, honest broker, and clearinghouse for ideas,

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<sup>82</sup> UNESCO has 52 field offices, while UNDP has 166 offices, UNICEF has 190 offices, and the World Bank has 117 offices, respectively, according to their web sites in 2007.

thereby propelling both countries and the international community in the right direction.” He adds that “UNESCO’s unique role has an added value that money cannot buy” (Sutton, Smith, Piggozzi, Tomasevski, Bhola, Kuroda, & Mundy, 2007, p.231).

The strategies of UNESCO and the World Bank overlap. While the Bank established the FTI and has had a strong influence on its management and operation, UNESCO has contributed to the FTI as an initial permanent member of its Steering Committee in the role of the EFA global coordinator. The Bank’s latest Education Sector Strategy Update spells out that a key role of the Bank in low-income countries “will be to bring donors together to establish a coherent multidonor framework for the development of the education sector” (World Bank, 2005b, p.78). The Strategy Update also stresses that the Bank is “able to take a comprehensive view of needs in the education sector and thus help clients to integrate education into a country’s policy and institutional context” (p.79). Karen Mundy of the University of Toronto concludes that the Bank’s education strategy, which places the Bank as the lead coordinator of education sector policies, is the same as the UNESCO mandate and role expressed in its EFA Global Action Plan (Sutton et al., 2007, p.237). It is good that two major champions of the FTI, the Bank and UNESCO, share the same strategy. Applying different comparative advantages to the FTI, the Bank and UNESCO can play a mutually complementary role in leading the FTI and its global coordination.<sup>83</sup>

It is important to note that the comparative advantages of aid agencies vary with different perspectives. For example, Karen Mundy considers UNESCO’s comparative advantage lying not in leading and coordinating EFA efforts but in expanding its monitoring and evaluation of the

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<sup>83</sup> The World Bank has viewed education as “a cost-effective investment sector for development” and has emphasized the value of education as a means of promoting poverty reduction and economic growth, while the UN agencies have seen education as an integral part of human rights (Sutton et al., 2007, p.243).

EFA effort and in establishing itself as a center of independent technical excellence (Sutton et al., 2007, p.238). However, Mary Joy Pigozzi, former Director of UNESCO, comments that the annual EFA Global Monitoring Report, published by UNESCO, is independent from UNESCO's policies and beliefs; the report does not necessarily reflect UNESCO positions (p.241). Citing the Global Action Plan that maps out UNESCO's role as an intellectual partner, provider of open and free forums, and trusted convenor, Pigozzi emphasizes that an important comparative advantage of UNESCO stems from its role as the standard setter that addresses normative issues in education. This essential part of its human rights approach is closely linked to the quality of education (p.232). Despite the argument of organizational comparative advantages, UNESCO has a number of facilities which can make a difference in enriching the FTI. It is necessary for UNESCO to proactively use those mechanisms, both in the field and at the international levels, and for other donor agencies to collaborate with UNESCO.

### **5.3 CONTRACTING PROBLEMS**

Although the FTI relies on existing donors' channels in mobilizing resources for UPE, some donor countries contribute their financial resources to the FTI; this forms the Trust Fund to provide interim financial needs of developing countries. The dependence on donors' resources through donors' regular channels is both a strength and weakness of the contract in relation to the FTI.

Rosemary Bellew, former Director of the FTI Secretariat, notes that the FTI is anchored at the country level.

Country level staff take on the responsibility of supporting the country to develop a sound sector strategy to scale up efforts to achieve the education MDGs, of appraising and endorsing the soundness and financial sustainability of the program, and mobilizing resources in the first instance. This facilitates alignment with country priorities. A lead coordinating agency helps to coordinate the donors around this process. (Bellew & Dorleans, 2005, p.7)

While this perspective may fit well with some aid agencies that have decentralized organizational structures, some other aid agencies with centralized headquarters may have difficulty adjusting to this perspective.

Bellew explains that the FTI has increased short term transaction costs for both donors and recipients by requiring them to participate in additional meetings, prepare papers for these meetings, and change their behaviors (Bellew & Dorleans, 2005, p.9). However, the FTI's approach, which fosters comprehensive dialogues on sector policy and its priorities and collective action among donors and recipients, lowers transaction costs in the medium term rather than employing separate arrangements with individual donors (p.9). Also, "donors have gained in terms of better mutual transparency and trust that has made it possible to move towards common analysis and common financing mechanisms" (p.9).

Judging from the candid comments garnered from interviews, Bellew's perspective seems to be wishful thinking. A number of aid workers mention that FTI participation increases administrative burdens; they do not predict that the transaction costs will be lowered in the long run.

### 5.3.1 Strengths

The FTI's flexibility, which allows donors to use their existing mechanisms, results in greater donor agency participation in the FTI. Since the international community, which includes donor countries, has committed to supporting UPE and aid harmonization, there is no resistance among donor agencies to cooperate with the FTI. On the other hand, it is challenging for donors to change their ways of aid resource disbursement, especially since the global trend toward harmonization and alignment with recipients' system requires some donors to change their delivery or modality of foreign aid. Changing aid modality will alter the principal-agent structure, or the accountability structure of foreign aid, that respective donors have established among voters, taxpayers, politicians, and aid workers.<sup>84</sup> Responding to harmonization and alignment is a challenging task for donor agencies because donors' domestic politics matter: donor agencies usually have to negotiate with the stakeholders in the field of developing countries and, simultaneously, the stakeholders in their home countries as well. Although ultimately many donors have made an effort to change their delivery of aid in accordance with the international consensus of aid effectiveness, the FTI encourages donor agencies to join the Initiative by allowing them to use their existing mechanisms.

In addition, the FTI promotes the trend of aid effectiveness on the field level, particularly the trend of Sector Program Approaches (SWAps), with its donor coordination function in the education sector. SWAps do not represent a certain modality of foreign aid; instead, they stand

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<sup>84</sup> In the bilateral foreign aid, the chain of the principal-agent relationship starts with taxpayers as principals who wish to disburse their income to recipients in developing countries (Martens et al., 2002, p.18). In the multilateral setting, the principal-agent relationship also starts with taxpayers of the countries that contribute finances to international organizations. Since aid modalities are usually affected by the interests of taxpayers, changing aid modality requires substantive discussion and decision-making in donors' home countries, as well as in the developing countries.

for the approach which emphasizes designing the comprehensive sector plan and implementing it through coordination with various donor agencies and NGOs.<sup>85</sup> While the FTI favors the support of recurrent costs through budget support, the Lead Coordinating Agencies play the role of mediator among donors. Their role also extends to creating links between donors and recipient governments, taking into account harmonization and donor coordination.<sup>86</sup> This function of the FTI, which facilitates the trend of SWAps in developing countries, is considered a solution for improving aid effectiveness by stakeholders.

### **5.3.2 Weaknesses**

The FTI's current contracting environment has weaknesses that stem from its strengths. While the FTI can exert power over the recipient countries by asking them to fulfill its requirements to receive assistance, the Initiative cannot force donor countries to take steps which it considers favorable, such as financing recurrent costs and budget support. The FTI Secretariat asserts that the Initiative is built on mutual accountability of both donors and recipients. According to the Secretariat, donors are expected to provide coordinated and increased technical and financial support in a transparent and predictable manner. Yet, this expectation seems to be beyond the control of the FTI; predictability of foreign aid resources depends upon the politics of donor countries rather than the pressure from the international development community. It is true that

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<sup>85</sup> The definition of SWAps differs depending on the donor agencies. Two case studies in Africa and interviews of 14 donor agencies concluded that the education SWAps "provide a means of co-ordination of the different contributions to the development of the education sector" and "there seems to be consensus about the desirability of using SWAps as a means of ensuring country ownership of educational reforming policies" (Riddell, 2001, p.10).

<sup>86</sup> At the annual Partner Meeting in 2004, donors and recipients "agreed that the use of general budget support was valuable, but that it should be used in conjunction with other modalities." They concluded that while "most of the country partners present agreed that DBS [Direct Budget Support] is preferable...regular projects are also welcome if the government and other actors in a country-led process are involved at all stages" (EFA-Fast Track Initiative, 2004a, p.8).

the FTI's advocacy of the donor community for more harmonized and coordinated aid has contributed to raising the awareness of the challenge of UPE in rich countries; many of those from such countries have become more committed to supporting UPE. However, whether or not donor countries provide foreign aid in a consistent manner depends on their politicians and voters. This uncertainty limits the FTI effectiveness.

Moreover, in order to reduce the transaction cost of aid in the FTI, the donor community proposed the idea of "silent partnership," which stands for the system that donors with no programs in a country would allocate funds for basic education through a donor that did have a presence. However, this "silent partnership" has proven more complicated than expected (UNESCO, 2006, pp.99-100). One of the reasons for this is that donor countries favor providing aid to those countries in which donors have a strategic interest or historical link. Less than 20% of aid to education is available for the conflict-affected countries and fragile states (Global Campaign for Education, 2007, p.9).

In the context of the FTI, donor agencies require recipient countries to develop a credible strategy for education and poverty reduction in order to verify their capacity to properly use aid money. The FTI then tries to concentrate aid resources on those countries that have the potential to be good performers. This contracting structure of the FTI seems to be in line with the advice Allan Meltzer of Carnegie Mellon University gives for reforming the World Bank. In 2000, Meltzer suggested that grants should replace the traditional World Bank tools of loans and guarantees for physical infrastructure and social service projects (Meltzer, 2000, p.12). He asserted that grant funding should be increased if grants are used effectively, because aid money is fungible (p.12). He also mentioned that the Bank staff should be rewarded for developing programs that raise living standards and improve the quality of life (Meltzer, 2005, March 18).



The FTI may be the initial step needed to turn the proposal of Meltzer into an actual operation. Although the FTI does not explicitly encourage donor agencies to provide grants rather than loan projects, the Initiative does attempt to concentrate aid resources on these countries able to properly use donors' aid resources in view of the fungibility of aid money.

Furthermore, the weaknesses of the FTI are derived from the policies and priorities of each donor agency. For example, the OECD-DAC points out the following about U.S. foreign aid: Although polls show that the American public supports aid which can efficiently promote the better welfare of the world's poor, American society has a cynicism toward aid, which includes the "perceptions that only a small percentage of aid reaches the poor and concern that aid is diverted for more political objectives, such as supporting regimes friendly to the U.S." partners (OECD, 2006b, p.11). In order to mitigate this misunderstanding, the OECD-DAC proposed that public awareness of foreign aid should be a priority task for the government and its development partners (p.11). Since sustainability and predictability of donor funding is critical in the FTI, the lack of public support in a donor's home country is a serious challenge.

That some donor agencies are not active in promoting the aid effectiveness agenda also causes concern for the FTI. For example, a World Bank officer observed the reluctance of Japan, as well as some other bilateral donor agencies, towards confronting the aid effectiveness issue at the field level: "Japan seems to buy into the idea of general budget support and harmonization, but in reality, Japan keeps its distance from them and does not want to use the recipient country's system. Bilateral donors usually have a special relationship with and interest in recipient countries, and, therefore, it is difficult to change their systems."<sup>87</sup>

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<sup>87</sup> Interview with a World Bank economist.

On the other hand, European countries have actively promoted the aid effectiveness agenda. The EU has introduced budget support, one of the ideal modalities for the FTI, in developing countries.<sup>88</sup> In line with the EU's policy, the U.K. also has attempted to introduce budget support as much as possible. By 2007/08, the U.K. promises that more than half of its bilateral aid will be provided in the form of a poverty reduction budget support or a sector-wide support (Rosa, 2006, p.344).

### **5.3.3 Lead Coordinating Agencies**

On the country level, the FTI resolves the contracting problems among donor agencies by playing the mediator's role. The Lead Coordinating Agency, selected democratically in developing countries, takes responsibility for coordinating local donors' aid activities for UPE so that the donors disburse their aid resources in line with recipient countries' priorities and in a harmonized manner (See Table 2 in Chapter 4).<sup>89</sup> In this way, the FTI plays a mediator's role among local donor agencies and developing countries for UPE.

The existence of the Lead Coordinating Agencies indicates the conversion of transaction costs in relation to foreign aid from recipient governments to specific donor agencies. Therefore, "donors are willing to play the role as Lead Coordinating Agency (LCA) on a temporary,

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<sup>88</sup> For example, The EU strategy for the Pacific Islands proposes a greater use of budget support when possible (Commission of the European Communities, 2006, p.10). The EU strategy for the Pacific Islands spells out that the EU "intends to apply more systematically the budget support instrument in its cooperation with the Pacific ACP [Africa, Caribbean, and Pacific] countries" (Commission of the European Communities, 2006, p.11). The EU strategy for Africa states that "the EU should foster more general budget and sectoral budget support. This will not only make aid delivery more transparent, predictable and result-oriented but will also enhance the EU's collective political leverage" (Commission of the European Communities, 2005, p.6).

<sup>89</sup> Interview with a World Bank staff. This officer points out that "the incentives for donor agencies to be LCA include: 1) being more engaged in the sector; 2) being able to be visible in the processes; 3) being able to show their commitment to harmonization; and 4) being able to influence the recipient countries."

rotating basis.”<sup>90</sup> The Lead Coordinating Agencies contribute to facilitating harmonized and coordinated foreign aid delivery, such as SWAps, on the country level. This reduces the administrative costs of developing countries; in other words, those agencies which function as the Lead Coordinating Agencies shoulder the cost previously borne by developing countries.

Consequently, only these donor agencies with an incentive to be a Lead Coordinating Agency are likely to play this role. In practice, multilateral donors and European countries have performed as Lead Coordinating Agencies in the field. This is because a philosophy of the FTI, particularly the promotion of budget support where possible and available, is also the priority of some multilateral agencies and many European like-minded donors; those donor agencies can improve the effectiveness of their regular aid activities by being directly involved in the management of the FTI on the field level. Meanwhile, the two largest bilateral donor agencies, the United States and Japan, seem to have a different perspective in relation to aid modality from that of European donor agencies, although both the U.S. and Japan have endorsed the idea of the FTI and contributed to the Initiative by employing their existing aid mechanisms.

The role of LCA remains ambiguous. At the FTI Partnership Meeting in Cairo in 2006, a number of FTI participating donor agencies pointed out that the role of LCA needs to be clarified and the LCAs should take a more proactive role in the FTI.<sup>91</sup> Accordingly, the FTI Secretariat plans to organize regional seminars in order to “clarify the LCA’s role, promote coordination among field level staff, and strengthen the linkage between the central and local levels.”<sup>92</sup>

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<sup>90</sup> Interview with an officer of the FTI Secretariat. This officer mentions that “there is a hierarchy among donors in the field and a certain donor plays the de facto leader’s role. It is important for LCA that donors’ ‘selfish interests’ do not interfere with the FTI.”

<sup>91</sup> Interview with an officer of the FTI Secretariat.

<sup>92</sup> Interview with an officer of the FTI Secretariat.

### **5.3.4 Catalytic Fund**

Initially, the FTI expected that good performance of recipient countries would attract additional donor finance. However, new donor funding has not been forthcoming; since there is a trend among donor agencies to reduce the number of countries they support, this problem is likely to grow (UNESCO, 2006, p.99). Also, the Global Campaign for Education criticizes donors because “as more poor countries pass the stringent tests’ viability and political commitment required to get the FTI stamp of approval, donors dawdle and dissemble instead of coughing up the cash (Global Campaign for Education, 2007, p.91). While the financing gap to achieve the UPE goal is still huge and the donors’ aid provision through their regular channel is not sufficient, the contribution from some donor agencies to the Catalytic Fund has increased. However, the Catalytic Fund holds a number of problems.

A contracting environment around the Catalytic Fund seems to affect the incentives of the FTI stakeholders and influence the effectiveness of the FTI. The FTI has attempted to make itself attractive to developing countries by improving the quality of the donors’ existing aid disbursement mechanisms. For the countries eligible to receive the Catalytic Fund, this grant funding creates a huge motivation for them to participate in the FTI. In the light of the limited amount of donor resources, as well as the rigidity of donor policies and activities, being eligible to receive the Catalytic Fund is very attractive for some developing countries. The Catalytic Fund caters to the developing countries with minimal donor countries (a.k.a. “donor orphans”) in order to provide an interim financial source for a few of years.

However, the contracting environment around the Catalytic Fund is neither necessarily transparent nor clear.<sup>93</sup> A consultant says that “as a requirement of receiving the Catalytic Fund, the FTI Secretariat requested the donors to prepare an estimate of external financing for UPE up until 2015.”<sup>94</sup> This consultant argues that “this makes little sense, because money is fungible and few donor agencies can show the exact amount of disbursement for primary school education alone (as distinct from support for the education sector more broadly), and few can project disbursements for more than two or three years into the future.”<sup>95</sup>

Likewise, a World Bank economist points out that a problem of the Catalytic Fund, which currently provides funding for three years, is that “it does not care about the recipients after its three-year commitment.”<sup>96</sup> This officer insists that longer-term commitment by donor agencies is indispensable for the education development of recipient countries.<sup>97</sup>

The greater the number of developing countries that join the FTI and increase the number of Catalytic Fund recipients, the more competitive it becomes for those countries to receive this grant funding. To properly distribute limited resources to eligible recipients, the FTI Secretariat asks countries to submit additional information such as the projection of external finances; the nature of foreign aid makes this hard to calculate. This additional request even undermines the ownership of recipient countries. While donor agencies in recipient countries usually draft this

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<sup>93</sup> “In considering the incentives of stakeholders to join the FTI, it is important to pay attention to the fact that the rules of FTI, such as the criteria of eligibility to receive funding from the Catalytic Fund, have changed frequently” (Interview with a consultant familiar with the FTI appraisal process in East Asia).

<sup>94</sup> Interview with a consultant familiar with the FTI appraisal process in East Asia.

<sup>95</sup> Interview with a consultant familiar with the FTI appraisal process in East Asia.

<sup>96</sup> Interview with a World Bank economist.

<sup>97</sup> “The Catalytic Fund should become a Global Fund. FTI should declare, ‘We will support developing countries as long as they manage and reform the education sector based on the master plan’” (Interview with a World Bank economist).

kind of document, a World Bank economist bemoans the time restraints in preparing the documents due to the short notice by the FTI Secretariat and the FTI's frequently changing guidelines.<sup>98</sup>

An officer of the FTI Secretariat explains that “the Fund’s committee, which consists of donor agencies, makes decisions about how to use the Catalytic Fund.”<sup>99</sup> Participating donor agencies, rather than the World Bank, operate the Fund, and apparently the diversity among aid agencies sometimes makes decision-making regarding the Fund complex and frequently-changing.<sup>100</sup>

Currently, the Catalytic Fund provides monetary resources for up to three years to developing countries that, thus far, have only had a few donors. However, at the FTI Partnership Meeting in Cairo in 2006, the partners agreed that the FTI should provide the Catalytic Fund for a longer term. At the meeting, donor countries made significant commitments to increasing their contributions to the Catalytic Fund. The Catalytic Fund does not support recurrent costs such as teachers’ salaries. FTI is cautious of assuring its sustainability.”<sup>101</sup>

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<sup>98</sup> “The Catalytic Fund steering committee postponed the decision regarding country allocation for the first time, recently. The Fund is becoming more competitive since the number of applicants is increasing. To this point, the liability of the fund has been manageable. FTI started to require the submission of additional documents. So far, the endorsed FTI document, including the financial gap of entire education sector, was necessary. But now, FTI requests the submission of the funding shortfall for basic education only, along with other information. FTI now pays special attention to the projected trend in external financing in order to avoid the substitution of FTI funding for other sources of donor financing. However, in practice many donors cannot make multiple year commitments, so it is difficult to estimate external financing accurately.” (Interview with a World Bank economist)

<sup>99</sup> Interview with an officer of the FTI Secretariat.

<sup>100</sup> “Although the World Bank chairs the committee [of the Catalytic Fund], the Bank essentially plays a silent role. The funds are disbursed by the Bank staff in accordance with the decisions made by the committee.” (Interview with an officer of the FTI Secretariat)

<sup>101</sup> Interview with staff members of the FTI Secretariat.

### 5.3.5 Aid modality

An increasing shift occurs from projects to program aid and budget support. This trend reflects the policy of donors to reduce the number of staff members with education sector skills while the ODA commitment for education increases. Some of the benefits gained from budget support by using the recipients' national system could be undermined if donors' aid in the form of budget support reduces capacity-building efforts in developing countries (UNESCO, 2006, p.98). This UNESCO perspective emphasizes the importance of the capacity development of recipient countries, which some donor agencies have implemented through technical assistance projects.

It is imperative to promote aid harmonization and donor coordination in order to improve aid effectiveness. Richard Manning, the Chair of OECD-DAC, points out that the transaction costs from donors' aid provision undermine the effectiveness of aid. "Each year, some 35,000 new [foreign aid] transactions are reported to the DAC, 85% of them under \$1 million in value. This is at least one new activity per developing country per day. It is therefore hardly surprising that there are concerns over the burdens, particularly to developing countries, of the way donors do business" (Manning, 2004, p.13).

Technical assistance (TA) is sometimes a useful modality for developing the capacity of recipient countries.<sup>102</sup> Yet, the problem remains that many aid stakeholders have seen some non-transparency in the donors' aid resources disbursed in the form of TA. The World Bank reports that about 70% of education ODA is extended as TA, which is much higher than the 30% share for ODA in general (World Bank, 2005c, p.93). The Bank also points out that TA is often badly

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<sup>102</sup> However, the Global Campaign for Education, the group of major NGOs and teachers' unions in over 150 countries, indicates that capacity building and technical assistance is disproportionately high, compared with budget support (Global Campaign for Education, 2007, p.13).

coordinated among donors and poorly prioritized: “One hundred days of consultancy support could equal the annual cost of paying 100 teachers or keeping 5,000 children in school (World Bank, 2006a, p.60). Donor agencies do not have to convert TA to budget support, because TA per se is necessary for development cooperation. However, in the light of these voices, donor agencies must be sensitive to the transparency and effectiveness of TA.

Budget support is still an unexplored area. It delivers a positive result in the countries where donors and recipients have built mutual trust and transparency. The main question is whether recipients can rely on budget support to be maintained in the long run, while constitutional constraints prevent many donor governments from committing to long-term aid. (Global Campaign for Education, 2007, pp.28-9). The FTI calls for its member donor agencies to make predictable aid provisions for the UPE, but this does not necessarily mean that all donors should introduce budget support.<sup>103</sup>

While all donor agencies endorsed the Paris Declaration on Aid Effectiveness and thereby committed to promoting harmonization, alignment, and using the system of recipient countries as much as possible in delivering their aid resources, the application of this agenda to the respective donors’ actual activities in the field differs depending on donor agencies. In order to clarify the contracting problem in relation to FTI’s aid resources, I describe how major donor agencies decide which aid modalities to adopt.

A Japanese aid worker in Tokyo shared insights regarding the significance of the FTI in terms of donor coordination. The approach to donor coordination is different between 1) pursuing collaboration among donors’ activities in developing countries and 2) aiming at

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<sup>103</sup> The former Director of the FTI Secretariat mentioned that “the FTI encourages common and simplified channels wherever possible, giving maximum flexibility to national governments, particularly to finance recurrent costs, while also making efficient use of complementary modalities” (Bellew & Dorleans, 2005, p.7).



reaching consensus on policy, financial arrangements, and procedures. Regarding the former purpose, aid workers in the field have dialogued to promote donor coordination at the national level in order to coordinate each other's activities, no matter whether the country is or is not a member of the FTI. However, at the policy level, the latter type of collaboration may be more important in the context of the FTI.<sup>104</sup> Regarding the aid modality, this officer also insists that “it is inappropriate to assert that the introduction of SWApS and budget support is an objective of the FTI,” indicating that the FTI should be regarded as a part of SWAp, which the recipient country develops.<sup>105</sup>

It seems that Japan places a higher priority on implementing its philosophy of international development via its foreign aid activities. A Japanese official aid worker explains that it is important for Japan's foreign aid to convey “the ethos of labor” to developing countries and that, therefore, delivering aid in a “hand-in-hand” manner is preferred.<sup>106</sup> This officer adds that Japan would selectively introduce budget support to its aid system as long as it is useful in realizing its aid philosophy.<sup>107</sup>

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<sup>104</sup> Interview with a Japanese official aid worker in Tokyo.

<sup>105</sup> Interview with a Japanese official aid worker in Tokyo.

<sup>106</sup> “Japan has applied the know-how of its own reconstruction after World War II to supporting poor countries' development. As [former] Foreign Minister Aso pointed out, Japan has attempted to enlighten developing countries on ‘the ethos of labor,’ which includes maintenance of infrastructure and hardware, technology, and management. In order to convey this spirit, Japan prefers delivering its foreign aid in a ‘hand-in-hand’ manner while using the recipient countries' system. Each donor has different strengths and advantages, and different approaches among donor agencies should therefore be respected.” (Interview with a Japanese official aid worker)

<sup>107</sup> “Harmonization can be useful to improve the effectiveness of foreign aid, but the international community should not impose a certain aid modality on all donor countries. In relation to harmonization, Japan has asserted that the ownership of recipient governments is critical to better implement its aid activities, but this does not necessarily mean sector-wide approaches and budget support are ideal means of disbursing aid resources. Japan will continue using projects, including technical assistance, as its core aid modality. When providing foreign aid, Japan values supporting recipients' self-help efforts, developing human resources and capacity, and investing in socio-economic infrastructure of developing countries. These can better be materialized through traditional bilateral projects.

The ADB is willing to promote alignment and harmonization, including donor coordination and budget support, where available and possible. The mentality of the ADB staff members seems to have changed toward being more open to collaborating with other agencies; still, difference exist between pro-donor-coordination senior level staff and those who seek to implement projects in a traditional manner in the field.<sup>108</sup>

The World Bank has been particularly supportive towards the FTI, at least at the policy level. A senior World Bank officer concluded that “the FTI brings the World Bank closer to ideal harmonization rather than individual work in countries;” although some non-FTI developing countries show good performance in educational development.<sup>109</sup>

The U.S., which takes a conservative position with regard to aid modalities, would like to use its own mechanism in disbursing the aid resources rather than introducing new aid modalities. A retired U.S. aid worker concludes that the new aid trends, such as the Paris Declaration of Aid Effectiveness, SWAps, harmonization, and donor coordination, are “not magic;” he views the challenges of international development differently from his European counterparts. “These new aid modalities may be an easy way to give money for Europe, but they make no difference to the

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However, learning from other donor agencies, Japan will selectively use budget support to complement to its project approach.” (Interview with a Japanese official aid worker)

<sup>108</sup> “Regarding budget support, many ADB staff members were suspicious of this modality as much as 15 years ago because of the leakage of money and fiscal shortfalls of recipient governments. The consciousness of staff members is changing. They are willing to accept more budget support only if there are transparent trackings of resources and that it does not distort the fiscal capacity and debt overhang. Working with the World Bank is challenging but improving. ADB and the World Bank have a Memorandum of Understanding (MOU) for collaboration between institutions. Senior level staff agreed to promote collaboration, but at the officer level, it is patchy but improving. Collaboration depends on the personalities of the officers on the ground.” (Interview with a staff member of ADB)

<sup>109</sup> Interview with a World Bank officer. This officer explains as follows: “Some non-FTI countries have a framework similar to FTI. India has its own plan and donor agencies in India have done business in a more integrated way. FTI has provided a more structured mechanism for foreign aid. FTI defines and replaces the country’s education plan.” Also, UNESCO’s EFA Global Monitoring Report 2007 cited India as a positive example of the development of basic education (UNESCO, 2006, pp.94, 96).

U.S.”<sup>110</sup> To explain why the U.S. is reluctant to adopt the new aid modalities, this officer points out that the USAID has its own successful experiences in developing countries.<sup>111</sup> Moreover, this officer argues that “European countries seem to consider the aid modalities from a political perspective, but the U.S. considers them from a technical standpoint.”<sup>112</sup>

The U.S. made a change to the FTI by promoting dialogue and discussion among stakeholders, rather than instigating participating donor agencies to disburse their aid in a more harmonized way.<sup>113</sup> A former U.S. aid worker recalls “the U.S.’s participation as an FTI co-chair created an informal atmosphere to encourage open discussion of problems and challenges.”<sup>114</sup> The officer concludes, “Thanks to the FTI, partners can deepen their mutual understanding and can explain why other donors take the positions that they do; this is the best benefit of FTI.”<sup>115</sup> An officer of the FTI Secretariat reported that “the U.S. has become more open to FTI after having served as its co-chair.”<sup>116</sup> Although the contribution of the U.S. does not necessarily fulfill the initial objectives of the FTI, this observation clarifies its current situation.

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<sup>110</sup> Interview with a retired U.S. aid worker.

<sup>111</sup> “The U.S. has had sophisticated procedures for delivering foreign aid and considers them to work well. Harmonization may be fine, but everybody does not have to deliver aid in exactly the same way. This is not because visibility in developing countries is important to the U.S.; visibility is not the issue for, at least, USAID.” (Interview with a retired U.S. aid worker)

<sup>112</sup> Interview with a retired U.S. aid worker.

<sup>113</sup> “Many [aid agencies] thought that the U.S. was trying to sabotage FTI when it became a co-chair, but the reality was the opposite. As FTI co-chair, the U.S. has promoted honest discussion among partners, attempting to build a positive relationship among participants and a frank exchange of opinions so that every partner feels comfortable. Not only the U.S., but everybody participating in the FTI deserves this credit.” (Interview with a former U.S. aid worker)

<sup>114</sup> “The U.S. encourages an attitude of ‘let’s think FTI, rather than rattle and knock each other.’ The U.S. has contributed to building a constructive and trusting relationship among FTI partners.” (Interview with a former U.S. aid worker)

<sup>115</sup> Interview with a retired U.S. aid worker.

<sup>116</sup> Interview with a staff member of the FTI Secretariat.

The FTI Secretariat seems to welcome donors' diversified approaches, as long as those approaches respect the spirit of the FTI. The Secretariat supports the decisions made democratically by donor agencies at the country level and their resultant activities. An officer of the Secretariat mentioned that "technical assistance from stand-alone projects is not necessarily bad as long as it fills the technical and resource gap of the recipients to achieve UPE."<sup>117</sup>

Another officer of the FTI Secretariat described the situation by stating, "By signing FTI documents, donors agree to the spirit of FTI, i.e., they agree to work within the framework of FTI, its appraisal guidelines, its indicative framework, etc."<sup>118</sup> According to this officer, the FTI will not become a "brand name." Instead, the Initiative remains low key and supports the activities in the field by putting questions on the table, such as why FTI focuses on the framework, appraisal guidelines, and indicative framework and then discussing these issues.<sup>119</sup>

The FTI Secretariat values the participation in the FTI by various stakeholders. For example, NGOs and civil society have had seats on the Steering Committee since 2005. The membership of Global Campaign for Education has been confirmed, and more NGO members are expected. Since some NGOs have criticized the activities of the World Bank and other official donors, the donor group would like to bring them into the FTI to facilitate cooperation

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<sup>117</sup> Interview with an officer of the FTI Secretariat. He also explains as follows: "The FTI has never said, 'You have to do this' to donor countries. The FTI is always neutral and respects the discussion and decisions made at the country level. The FTI does not promote any specific aid modalities while it emphasizes the importance of recipient countries' ownership. The FTI supports decisions made at the country level and considers that aid modality should be decided on a case-by-case basis depending on the situations of recipient countries. The FTI is only concerned about the progress toward achieving the UPE goal by 2015."

<sup>118</sup> Interview with an officer of the FTI Secretariat. He also mentions "The general intent of FTI is the same as the Paris Declaration, which intends to reduce transaction costs for developing countries."

<sup>119</sup> "The FTI is not an elaborate model, and it is not intended as an alternative model" (Interview with an officer of the FTI Secretariat).

among them. Like other donors, these NGOs endorse the FTI documents.<sup>120</sup> Similarly, the FTI Secretariat believes that it is important to incorporate well-established institutions such as UNESCO and UNICEF into the FTI process since UNESCO focuses on technical support for the FTI and the assessment of cross-country comparisons, while UNICEF acts as a Lead Coordinating Agency in many developing countries.<sup>121</sup>

Regarding aid modality, this officer concludes that “reaching UPE requires a broader sector-wide approach, but you cannot say which approach is the best. We [the FTI Secretariat] want to work through donors, not try to replace them.”<sup>122</sup> The officer also mentions that “SWAps, including budget support, are an ideal modality for FTI, and the project implementation unit should be reduced.”<sup>123</sup>

### **5.3.6 FTI countries and non-FTI countries**

Because foreign aid does not function as the sole determinant of education development, it is difficult to prove the direct cause-and-effect relationship between the FTI and the performance of UPE. However, there does seem to be a palpable difference between FTI and non-FTI countries.

An official of the FTI Secretariat observes differences in donors’ activities when comparing FTI countries and non-FTI countries, although the progress of harmonization still lags.

This officer explains his observations as follows:

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<sup>120</sup> Interview with an officer of the FTI Secretariat.

<sup>121</sup> Interview with an officer of the FTI Secretariat.

<sup>122</sup> Interview with an officer of the FTI Secretariat. “FTI plays the role of a broker through the local donor community.”

<sup>123</sup> Interview with an officer of the FTI Secretariat. He continues that “but there are exceptions. Poverty Reduction Strategy Credit (PRSC) cannot be applied to all developing countries. Parallel implementation is a starting point.”

Donors have tried to align their lending programs with recipient countries' plans; this tendency is significant in FTI countries. Consequently, transaction costs have decreased in FTI countries. Changes in donors' approaches have enabled recipient countries to simplify their dealings with donors. In all FTI countries, donors now have joint supervision programs, although the alignment of these programs is not perfect. There are some separate bilateral activities, but cooperation among donor agencies has improved and alignment has been promoted. On the other hand, harmonization is still lagging. It is hard to change the big international bureaucracies of donor agencies. It is even risky to push harmonization on donor countries. Some donors are able to make multi-year commitments, while other donors can only make single year commitments. FTI is trying to accommodate these differences among donor agencies. Some specific changes include 1) France's introduction of pooled funding and 2) Nordic donors' ability to make multi-year commitments. (Interview with an official of the FTI Secretariat)

The World Bank's Annual Meeting in 2006 reported that FTI countries exhibit higher progress in UPE than non-FTI countries. This report presents a preliminary evaluation of the FTI. Since the FTI was only established in 2002, more time is required until its results can be observed. The Global Forum on Development, co-organized by OECD-DAC and the World Bank in December 2006, also concluded that donor agencies have taken more harmonized approaches in delivering foreign aid since the launch of the FTI, although one cannot say that this trend can be attributed solely to the FTI. At the meeting, Nicaragua and Rwanda expressed

their appreciation to the FTI because 1) the quality of aid has improved and 2) recipient countries and donors have worked well together, even though the amount of aid has not increased.<sup>124</sup>

## 5.4 CAPACITY

Donor agencies need to develop their capacity to improve the effectiveness of their aid resources as well as the success of the FTI. First of all, the absorptive capacity of low-income countries receiving aid from donor countries presents a challenge. Donor agencies should attempt to improve the recipient countries' absorptive capacity so that developing countries can achieve the UPE goal by accepting sufficient aid resources from donor countries.

Action Aid, an NGO network, argues that the limited aid absorptive capacity of recipient countries is “often a consequence of administratively cumbersome aid” (Action Aid International, 2005, p.9). Rosemary Bellew, former Director of the FTI Secretariat, echoes this position. She asserts that “absorptive capacity constraints with respect to absorbing increased ODA are often created by the donors themselves, through their expenditure eligibility requirements and procedures,” and “the financing modality itself can increase ODA absorptive capacity” (Bellew & Dorleans, 2005, p.8). These remarks imply that donor agencies can resolve the problem of low aid absorptive capacity of developing countries by promoting donor coordination, harmonization, and alignment. Jagdish Bhagwati of Columbia University, who served as a member of former U.N. Secretary-General Kofi Annan's advisory group on Africa, insists that a graduated increase on foreign aid is more appropriate than a substantial and sudden

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<sup>124</sup> Interview with officials of the FTI Secretariat.

one, citing the case of Africa.<sup>125</sup> All of these comments indicate that donor agencies cannot blame the decrease in aid on the lack of the recipient countries' absorptive capacity. Donor countries have to develop their capacity to ensure that recipient countries have sufficient absorptive capacity to receive the necessary aid.

In addition, the FTI makes a difference in the field of foreign aid for UPE with its capacity of resource mobilization and coordination. The FTI Partnership Meeting, the FTI Secretariat, and the Steering Committee, as well as other participating donors, play critical roles in resource mobilization with other bilateral and multilateral donor agencies for UPE. Since the FTI per se does not mobilize resources from financial markets, its main task includes building awareness of the importance of UPE and maintaining its momentum by taking every opportunity, so that donor agencies may disburse more financial and/or in-kind resources for UPE. Properly managing the trust funds (EPDF and CF) is also an important task for the FTI. In order to update and improve the capacity of resource mobilization and coordination among the stakeholders of the FTI, three working groups, i.e., harmonization, communications, and finance, were established in 2004 on the global level. A number of aid workers from various aid agencies share their knowledge of these capacities through the working groups.

On the field level, the capacity of coordination is more important for the FTI. The processes which directly affect recipient countries are conducted on the country level. These include providing various guidance to developing countries, mobilizing in-country resources,

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<sup>125</sup> “The large amounts of aid given to Africa and the small results that have generally accrued from them require us to look at the absorptive capacity question with a critical eye. We should disregard the hysterical charge that everyone who questions the effectiveness of a sudden and substantial increase in aid flows is a heartless reactionary. The increase in the number of democratic governments in Africa, and some bold initiatives by the African Union in places such as Darfur, have increased the absorptive capacity of a growing number of African nations. But that justifies a graduated increase on spending in Africa rather than a substantial and sudden one” (Bhagwati, 2006, February 28).



bridging the gap between recipient governments and donor agencies and among donor agencies, and providing a forum for donor coordination. This capacity of the FTI contributes to reducing the recipients' transaction costs, i.e., the administrative costs borne by developing countries to address various donors' different approaches. Conversely, the trend toward donor coordination and harmonization requires donor agencies to have the capacity to address this new business environment in which donors bear the administrative costs of developing countries.<sup>126</sup> It is also critical to find out to what extent donor agencies decentralize their foreign aid management, because a number of important decisions regarding the FTI tend to be made on the field level in a timely manner.

Regarding the capacity of donor agencies, a number of professionals shared their reflections on what kind of abilities and skills they feel should be strengthened in order to improve the result-based management of aid activities. A staff member of ADB emphasized that donor agencies should allocate more human resources in the stage of implementation, while strong international financial institutions tend to attach more importance to project preparation and appraisal.<sup>127</sup>

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<sup>126</sup> Rothmann and Have (2004) analyze four major aid modalities to provide support to developing country's governments in the education sector: 1) general budget supports; 2) education sector budget support; 3) pooled funding or basket funding; and 4) project aid. While donors increasingly shift from traditional project aid toward direct support for the recipients' national budget, the success of budget support depends upon the level of government capacity to plan, execute, and account for its public spending (p.25-26). They state that project aid "may be preferred if the budget process is weak and impedes an effective allocation of general and sector budget support" (p.29). However, the project aid is not merely a complementary or second-best modality, considering the fact that some major donors such as the U.S. and Japan have employed it as a core modality.

<sup>127</sup> "Regarding donors' capacities, more emphasis should be placed on implementation. A reality is that once the project appraisal process (including proposal, pre-feasibility study, and approval) is completed, very few officers included for implementation. This is a problem from the standpoint of results-based management. Donors' capacities for implementation and monitoring using process indicators should be strengthened, because donors will be blamed if problems arise during project implementation." (Interview with an ADB officer)

A former U.S. aid worker claimed the necessity for more educators to become involved in educational aid programs such as the FTI. The officer observed that economists and bureaucrats are predominant among those who are engaged in the FTI, which is problematic because those professionals do not necessarily have a good understanding of teaching and learning.<sup>128</sup>

UNESCO echoes the view of the American aid worker. It points out that “while ODA commitment for education are increasing, donors are reducing the number of their staff with sector skills,” that is, those familiar with teaching and learning (UNESCO, 2006, p.98). This results from the recent shift from traditional projects toward SWAps and budget support. Since donors are expected to use the recipient countries’ system, donors tend to focus on monitoring and evaluating the recipient countries’ policies and practices. UNESCO warns that “some of the benefits gained from emphasizing the maximum use of national systems and providing sector-wide support could be undermined” in the FTI if the donors’ staff lacks the expertise of education (p.98). In addition to the knowledge of economists and aid modalities, the specialty of education remains critical for donor agencies.

The FTI Secretariat believes that donor agencies need to strengthen their capacity for working within the FTI’s objectives, that is, in the spirit of the FTI, the Paris Declaration on Aid Effectiveness, and donor coordination and harmonization. The G8 co-chair of the FTI exerts

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<sup>128</sup> “In contrast to the health care sector that is represented primarily by health care professionals, the education sector is represented primarily by bureaucrats and economists. We need fewer economists, who emphasize measurable results, and more educators, who focus directly on children, learning, and teaching. Unlike many other donors, USAID has a cadre of educators. Other donors also should pay more attention to actual learning. In addition, one should also look at the whole education sector, not just the UPE: experts in higher education care about primary school education, because primary school pupils are their future students.” (Interview with a former U.S. aid worker)

political pressure on rich countries, causing peer pressure among industrial countries, so that the FTI member donors develop the capacity to contribute to the goal of the FTI.<sup>129</sup>

An officer of the FTI Secretariat presents the necessity of strengthening the capacity of donor agencies' staff members at the field level. "It is important to ensure the donor's staff, especially its front-line staff, receives adequate support, because local staff members have little capacity, especially sector-specific knowledge such as abolishing school fees and which language of instruction to use, to influence the finance of donor agencies."<sup>130</sup> According to this officer, this environment of aid (agencies' staffs covering more than one sector) gives the economist the advantage of dealing with any sector, like a salesman. However, the ideal donor agency's staff is somewhere between the salesman and the specialist, i.e., "those who have general expertise in development and specific sector knowledge."<sup>131</sup>

It is critical to recognize that donor agencies should develop the capacity of their organizations and staff members in order to improve the effectiveness of the FTI. Unlike developing countries, donors' capacity development depends on their spontaneous efforts since no external organizations force donors to develop a certain capacity. However, donor agencies need to pay more attention to developing their own capacity in order to assume the responsibility to fulfill "mutual accountability" of the FTI.

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<sup>129</sup> Interview with an officer of the FTI Secretariat.

<sup>130</sup> The officer continues that "donor agencies have their own institutional position, but the field decision process depends on the front line staff's personal belief, usually lacking the opportunity to acquire knowledge from the sector" (Interview with an officer of the FTI Secretariat).

<sup>131</sup> "It is preferable to have an economist who has solid sector knowledge in the field. Above all, policy comes first. Even if significant amounts of money are provided, if the policy is bad, good results cannot be expected." (Interview with an officer of the FTI Secretariat)

## 5.5 CONCLUSION

In this chapter, I have analyzed the observed patterns of the FTI from the perspectives of donor agencies' concerns, contracting problems, and capacity. First, all donor agencies share common concerns of assisting developing countries to reach the goal of UPE and improving aid effectiveness by promoting aid harmonization, alignment, and donor coordination. However, the magnitude of commitment to these concerns differs among donor agencies and between the staff members at the headquarters level and at the field level even within individual donor agencies.

Second, in relation to contracting problems, the FTI has promoted the participation of donor agencies by using donors' existing mechanisms rather than establishing new systems in the field. The exception is the Trust Fund, managed by the Secretariat and the World Bank; this Fund helps those developing countries which receive a sufficient number of donor agencies support. Nevertheless, some donors recognize that participating in the FTI generates additional administrative burdens for them. Furthermore, while developing countries comply with the requirements of the FTI in order to receive aid from donors, the FTI cannot force donor agencies to implement the plans and/or to disburse the amount of aid money that they commit. Mutual accountability of donors and recipients, which is a basis of the FTI, is not necessarily assured because their relationship is not equal.

Third, in order to make the FTI workable, donor agencies need to develop their capacity to improve recipients' absorption of aid. It is also critical for donors to improve their resource mobilization and coordination with various stakeholders, especially with other donor agencies.

While I have analyzed the observed patterns of the FTI in general, a study focusing on the unique context of individual countries is useful for clarifying the complexity of the causal pathway of the effectiveness of the FTI. As I have reviewed, it is donor agencies in the field and

the officers of recipient governments who have made decisions and implemented activities to achieve the UPE goal in line with the FTI. The performance of the FTI depends upon the capacity and personality of aid workers and recipient government officials in the field. I focus on the country-specific situations of FTI by focusing on the cases of Mongolia, Vietnam, and Cambodia in the next three chapters.

## 6.0 MONGOLIA<sup>132</sup>

Mongolia, a country in East Asia, became a member of the FTI in 2006. A consultant familiar with the FTI appraisal process in East Asia alludes to an initial conflict among donor agencies in Mongolia, but in 2006, “The donor agencies became increasingly supportive of the FTI and, in the end, all endorsed the FTI proposal.”<sup>133</sup>

The following table shows the current condition of ODA in Mongolia.

**Table 9.** ODA in Mongolia

Receipts	2003	2004	2005
Net ODA (\$ million)	249	262	212
Net ODA/GNI	19.7%	16.4%	11.6%
Net private flows (\$ million)	57	413	- 17
Top 10 donors of gross ODA (2004-05 average) (\$ million)	Japan (67), AsDF (35) <sup>134</sup> , IDA (31), Germany (28), U.S. (22), Netherlands (9), Turkey (8), France (6), EC (5), Arab countries (4)		

Source: OECD (2007b)

Before the country joined the FTI, Mongolia already enjoyed a high primary completion rate. In 2003/04, it was 95.5%, with that of girls being 96.3%. According to the education master

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<sup>132</sup> Initially, I was going to conduct the case study targeting Vietnam and Cambodia. However, as a result of the interview research focusing on foreign aid workers who have been involved in supporting primary education development in Asia, I have obtained data regarding the FTI in Mongolia. I briefly touch upon the case of Mongolia to get a sense of how donors’ concerns are reflected within the policies and activities regarding the FTI in the field.

<sup>133</sup> Interview with a consultant familiar with the FTI appraisal process in Cambodia, Mongolia, and Vietnam.

<sup>134</sup> The AsDF (the Asian Development Fund), the ADB’s lending window for the poorest countries, provides interest-free loan programs.

plan from 2006-2015, the Mongolian government hopes to reduce the disparities in academic opportunities so all students can obtain a quality education and enjoy the right to study (Government of Mongolia, 2006, p.xi).

Many donor agencies provide aid to support education. Table 10 and 11 show recent foreign aid projects in the education sector in Mongolia.<sup>135</sup> In the following section, I explain and analyze the challenges in relation to donor coordination.

**Table 10.** Donors' education projects administered by Mongolia in 2005

Donors	Year	Amount (US\$ 000)	Contents
Japan (grants)	2002 - 2007	53,480	Human resource development, Elementary school building, Teacher education
ADB (loan)	2003 - 2007	23,140	Secondary education development program
ADB (grant)	2004 - 2006	1,000	ICT for innovating rural education
UNESCO (grants)	2004 - 2005	762	Cultural education, Human rights education, Literacy education, Primary education
UNFPA (grant)	2002 - 2006	403	Reproductive health for adolescents
Switzerland (grant)	2004 - 2007	397	Education for disabled children
UNICEF (grant)	2003 - 2006	22	Inclusive development of children

Source: Asian Development Bank (2006b, p.39)

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<sup>135</sup> In addition to these activities, the Millennium Challenge Account of the U.S. has approved a \$25.51 million grant project to Mongolia for developing a vocational education system in 2007 (Millennium Challenge Corporation, 2007).

**Table 11.** Other donors' education projects in Mongolia 2007-2009

<b>Donors</b>	<b>Activities</b>
Australia (AusAID)	Capacity building, scholarships for postgraduate students, community based development initiatives
Denmark	Rural secondary teacher training, rural school heating, non-formal basic distance education
EU	National university management, libraries, curriculum development, teacher and student training
Germany (GTZ)	Vocational education
India	IT, management, accounting, communication, rural development training in India, vocational training, post-graduate scholarship program
Japan	Policy and planning support, school facilities, ICT in partnership with ADB, human development scholarship program
Nordic Development Fund	Secondary education (co-financing with ADB), science and vocational education, upgrading kindergartens and primary schools
Soros Foundation Open Society Forum	Basic education and capacity building, ICT
Republic of Korea	Distance education, upgrading facilities of higher education institutions
U.K.	Post graduate scholarships, pre-school education
UNICEF	School renovation, community-based primary education, teacher development, early childhood development, community participation in education, life skills, non-formal education
UNFPA/Finland	Capacity for population training, research center in population, development, gender
USAID	Graduate degree scholarships for economic studies and ICT, vocational training center
World Bank	Human resource development, education privatization
World Vision	Pre-school education for children of poor households

Source: Asian Development Bank (2006a, pp.15-6)

## 6.1 CONCERNS

There has been an ongoing competition among three major education donor agencies in Mongolia: the World Bank, the ADB, and Japan. The ADB and Japan, the largest donors in the education sector in Mongolia, represent the local education donors as the lead coordinating agencies for the FTI. In 2004, a working group on improving aid effectiveness in the education sector was set up under the auspices of the Mongolian government; Japan and the ADB became vice-chair of the working group on education. Japan's country assistant program for Mongolia describes that "as Japan has been the top donor in Mongolia, it is expected to take the lead in



donor coordination and partnership” (Ministry of Foreign Affairs, 2004a, p.29). However, both Japan and the ADB did not attempt to promote the FTI in Mongolia.

A consultant gave an example of the conflict of concerns in Mongolia, particularly among multilateral donor agencies, the ADB, and the World Bank, in Mongolia.

While the World Bank and some other donors attempted to promote FTI in Mongolia, the ADB may have had initial misgivings about FTI. There was a potential conflict between ADB and other donors in relation to FTI. The ADB supported Mongolia in developing the education master plan intended as the primary vehicle for achieving the EFA goals, and the ADB prepared a succession of very large loan projects for Mongolia’s education sector. Other donors, with urging from the World Bank, tried to invite Mongolia to be a FTI member in order for Mongolia to qualify potentially for grant money under the FTI Catalytic Fund, considering that the country did not need, nor did it plan to continue borrowing funds for education, in the light of its rapidly growing economy. The prospect of FTI funding could have placed the ADB’s loan project at risk since, naturally, grant money is preferred to a loan project, but the Government [Ministry of Finance] honored its earlier promise to the ADB to accept one last loan project [the Third Education Development Project]. (Interview with a consultant familiar with the FTI appraisal process in Cambodia, Mongolia, and Vietnam)

Likewise, a World Bank officer analyzes the background of the FTI in Mongolia.

The MOE [the Ministry of Education in Mongolia] was working on a new master plan (M/P) for its education sector. The ADB has supported MOE in developing

its M/P and preparing the ADB's third educational project. The ADB also had supported the previous master plan which had limited data on financial projections. MOE welcomed the World Bank team to contribute to the development process sharing information and findings from analytical work and participating in review meetings. (Interview with a World Bank officer)

According to this World Bank officer, the ADB was not supportive of the FTI when the World Bank attempted to introduce it in Mongolia. ADB's role was to support the master plan and develop a new project while the World Bank's role was to also respond to the government's needs. The World Bank team wanted to contribute to the master plan process, promote a working donor group that had been called for in the last CG (Consultative Group) meeting but had not materialized, and share experiences concerning the FTI and sector-wide approaches from other countries. The MOE welcomed the World Bank's involvement in the education sector analysis and learning about the FTI. Initially, the ADB task team leader had no interest in the FTI and was only concerned with the development of a third ADB project and the need to have a master plan in place as a condition of the project; while the government welcomed contributions to the master plan process and the Bank team worked well with the ADB consultant team, the ADB task team leader was resistant to the joint collaboration and efforts at economic analysis. While the Bank team spoke about the challenges of donor fragmentation and the FTI as a way to promote harmonization, ADB did not concur in the early discussions.<sup>136</sup>

The World Bank officer stated that the FTI could provide an impetus for Mongolia to improve the effectiveness of foreign aid for basic education. The officer felt Mongolia could potentially be a recipient of the FTI. He explains his analysis as follows:

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<sup>136</sup> Interview with a World Bank officer.

Although its enrollment rates are already high, Mongolia has challenges with a funding gap for supporting UPE and is one of the few countries that have children starting school at a late age. Thus the challenge for Mongolia is the successful transition to going from serving eight years old with ten years of education to bringing the system down to serve younger children. The FTI is good for Mongolia, because 1) the country can get grant resources and can avoid additional borrowing from donor agencies; 2) leverage can be expected through greater donor coordination and an acceptance of common assessments by local donor agencies of the master plan; Discussions on the FTI also gave the World Bank team an avenue to contribute to the work on the Master Plan and share data and findings from World Bank analytical work. (Interview with a World Bank officer)

Japan, the largest bilateral donor in Mongolia, was also not as cooperative in introducing the FTI as the ADB. A consultant indicated that one cause of this may also explain Japan's foreign aid policy in other countries: "Japan, or at least those managing its aid program in the country, was cautious in the beginning with respect to FTI. Japan's decision-making is complicated by the existence of multiple agencies."<sup>137</sup> Also, since Japanese aid workers in the field are granted limited delegation from the headquarters, it took longer for Japan to sign the FTI endorsement than it did for some of the other smaller donors with greater country-level autonomy."<sup>138</sup> In addition, a World Bank officer said that "the Japanese Embassy [in Mongolia]

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<sup>137</sup> JBIC, JICA, and MOFA

<sup>138</sup> Interview with a consultant familiar with the FTI appraisal process in Cambodia, Mongolia, and Vietnam

had limited understanding of FTI and a lot of effort went to helping the embassy staff understand FTI and the importance of the role that Japan would need to play as a lead donor.”<sup>139</sup>

## 6.2 CONTRACTING PROBLEMS AND CAPACITY

The World Bank’s approaches to the government and major donors in Mongolia formed the basis to launch the FTI and enabled the stakeholders to take action for the FTI.<sup>140</sup> In March 2005, the MOE invited donor agencies to hear a presentation about the FTI and SWAps by the World Bank team and to begin a conversation about coordination and the potential gains of the FTI.<sup>141</sup> The preparation for the FTI facilitated donor coordination in Mongolia, where the aid delivery mechanisms had been fragmented.<sup>142</sup>

In the wake of the preparation for participating in the FTI, a division of labor was established as follows:

The ADB team, consisting of economists and educators, supported the MOE to develop the M/P. The MOE made its own analysis, looking backward and forward at the education sector in Mongolia for developing the M/P. The World Bank

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<sup>139</sup> Interview with a World Bank officer.

<sup>140</sup> “In the FTI endorsement process, usually the ministry of the recipient government develops the education sector plan, then local donors assess it, and finally the FTI Secretariat approves it. The World Bank took a different approach in Mongolia. The World Bank started the assessment of sector issues as part of preparing FTI documents and as a way needed TA to the Master Plan Process. The World Bank had no problem in sharing its analytical documents with ADB.” (Interview with a World Bank officer)

<sup>141</sup> Interview with a World Bank officer.

<sup>142</sup> “Within MOE, there were two groups: one group was working on the M/P with the ADB and the other group was working on the EFA plan with UNESCO. While there was some communication between the two efforts they were distinct and early on were not integrated.” (Interview with a World Bank officer)

developed two databases based upon its analytical work concerning 1) all donor activities and 2) school by school data regarding which donors did what in each school. The World Bank also engaged in work on enrollment and cost projections and joined the ADB consultant in this work. The ADB project officer seemed unhappy with the World Bank's involvement. (Interview with a World Bank officer)

However, a member of ADB's technical assistance team mentioned that the ADB consultant team leader did welcome and encourage cooperation with the World Bank task team in preparation for the sector study and master plan during the summer of 2005. There seems to be a perception gap in relation to donor coordination among aid workers.

Afterwards, in accordance with global agreements on harmonization, the Minister of Education asked the World Bank to coordinate efforts with the ADB's project preparation process.<sup>143</sup> Then the Bank responded with the following statement:

The World Bank proposed with urging from the MOE to the ADB the idea of joint preparation and using ADB's project documents as the appraisal documents for the World Bank's grant project. The ADB's Resident Representative was open to this idea. The World Bank agreed that this could be done saving the government time and energy for the project preparation process. The ADB project officer and staff from ADB in Manila would not agree to a joint project nor even a joint PMU for the new World Bank project with the existing ADB PMU. (Interview with a World Bank officer)

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<sup>143</sup> Interview with a World Bank officer.

According to this officer, the World Bank's contributions to the FTI [in Mongolia] include: 1) taking the initiative to promote the potential of the FTI for Mongolia and working with the donors to understand and accept the endorsement process; 2) working with the MOF (Ministry of Finance) and MOE to fully grasp the meaning of FTI; 3) providing TA to help with the master plan; 4) completing the FTI assessment document; and 5) working to have Japan and the ADB take the needed leadership to call other donors together. He concludes that neither the ADB nor Japan took leadership for significant donor coordination in Mongolia prior to the point at which the World Bank increased their participation in the sector.<sup>144</sup> Without the World Bank, the FTI could not have been realized in Mongolia.

The above-mentioned opinions of aid workers in Mongolia show that the World Bank has attempted to create a recipient-friendly mechanism to support UPE in Mongolia via the FTI, while other major donors, the ADB and Japan, have been reluctant to join the FTI due to their existing aid mechanisms.<sup>145</sup> The World Bank can play the leading role in preparing for the FTI in Mongolia because its scale of assistance to the country's education sector is relatively small

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<sup>144</sup> "FTI process has been moving forward. In September 2005, the annual EFA High-Level Group meeting and FTI Partnership meeting were held in Beijing. The meeting's opening statement was given by the President of Mongolia. The Minister of Education of Mongolia understood what FTI was at this Meeting. In 2005, the World Bank and the Ministry of Finance (MOF) organized a meeting (just like a CG meeting) in Mongolia, which featured the education sector. At the meeting, the key persons including the MOF and the Ministry of Education representatives, the Japanese Ambassador, and the ADB Resident Representative all mentioned FTI. The World Bank facilitated the meeting to assure that all the key persons supported FTI. This meeting gave Mongolia the leverage to join the FTI. The documents necessary to become an FTI partner had been prepared for the meeting." (Interview with a World Bank officer)

<sup>145</sup> The following comments demonstrate the recipient-friendly stance of the World Bank in Mongolia. "Mongolia should not borrow when grant resources can be available... While the Paris Declaration insisted that establishment of PIU be minimized and the recipients' systems be used, PIU is still necessary in Mongolia due to the limited capacity of its government line departments." (Interview with a World Bank officer) "FTI's steering committee in Mongolia has been chaired by the World Bank, ADB, and Japan. The World Bank has insisted that NGOs and other small donors join the meeting and have them review FTI's technical proposal, which would create a true leverage of aid effectiveness. But, in reality, the meeting is primarily informational with little consultation." (Interview with a World Bank economist)

when compared with that of other donor agencies. This enables the Bank to take a recipient-friendly stance, as well as to make an impact despite a minimal degree of input.

While an informant of the World Bank has provided useful observations to understand the reality of the FTI in Mongolia, it is important to recognize that nuances still exist in the relationship among donor agencies. The World Bank has taken a leadership position to promote the FTI in Mongolia; other major donor agencies may not necessarily be reluctant to participate in the FTI. As I described, a consultant who worked as a member of ADB team asserted that ADB was willing to work with the World Bank to assist primary education in Mongolia.

To understand Japan and its aid policy in Mongolia, it is imperative to comprehend the complexity of the Japanese foreign aid institutions, particularly the difference between the Ministry of Foreign Affairs and the Ministry of Finance. Japan has had a significant influence on the policies of ADB: Japan is the largest shareholder of ADB; since its establishment all of its presidents have been Japanese nationals. While the Ministry of Finance of Japan has influence on ADB, the Japanese foreign aid agency has been under the auspices of the Ministry of Foreign Affairs. The Ministry of Foreign Affairs and the Ministry of Finance do not necessarily share a common interest regarding the provision of foreign aid. Consequently, in order to analyze Japan's contribution to the FTI in Mongolia, it may be necessary to understand the perspectives of the Ministry of Foreign Affairs and the Ministry of Finance. Analyzing the internal politics among stakeholder ministries and organizations in donors' home countries plays a formidable but critical role when examining the effectiveness of foreign aid. The analysis of different ministries' perspectives within donors' home countries in providing aid to promote basic education should be taken into account as a future research topic.

## 7.0 VIETNAM

As a successful case of the FTI, Vietnam is moving toward achieving UPE and having sufficient capacity to make necessary arrangements for that goal. A staff member of the ADB explains the situation of Vietnam as follows:

In Vietnam, primary enrollment is already high. Donors are focusing on the quality of education. The ADB's focus shifts from primary to secondary and higher education. The government of Vietnam has high ownership; they are not a "price taker," like China and India. They are very clear about what they want.

(Interview with a staff member of ADB)

Currently, the DFID and UNESCO jointly play the role of Lead Coordinating Agencies for the FTI. Major local donors lending the volume of foreign aid to Vietnam are Japan, the World Bank, the Asian Development Bank, and the United Kingdom; in 2005, these donors provided \$667.0 million, \$390.8 million, \$232.1 million, and \$104.5 million, respectively, for their aid activities in Vietnam (Partnership Group for Aid Effectiveness, 2005). Although UNESCO only spent \$1.0 million in Vietnam in 2005, it still made a difference in the FTI by coordinating various stakeholders in the education sector with DFID.

The following tables (Table 12, 13, and 14) show the current condition of ODA in Vietnam, while Figure 14 depicts donors' grouping in Vietnam in relation to EFA.



**Table 12. ODA in Vietnam**

Receipts	2003	2004	2005
Net ODA (\$ million)	1765	1840	1905
Net ODA/GNI	4.5%	4.1%	3.7%
Net private flows (\$ million)	657	611	517
Top 10 donors of gross ODA (2004-05 average) (\$ million)	Japan (670), IDA (418), AsDF (207), France (116), U.K. (82), Germany (79), Denmark (73), Netherlands (55), Australia (50), EC (35)		

Source: OECD (2007c)

**Table 13. Donors' Commitment to Primary Education in Vietnam**

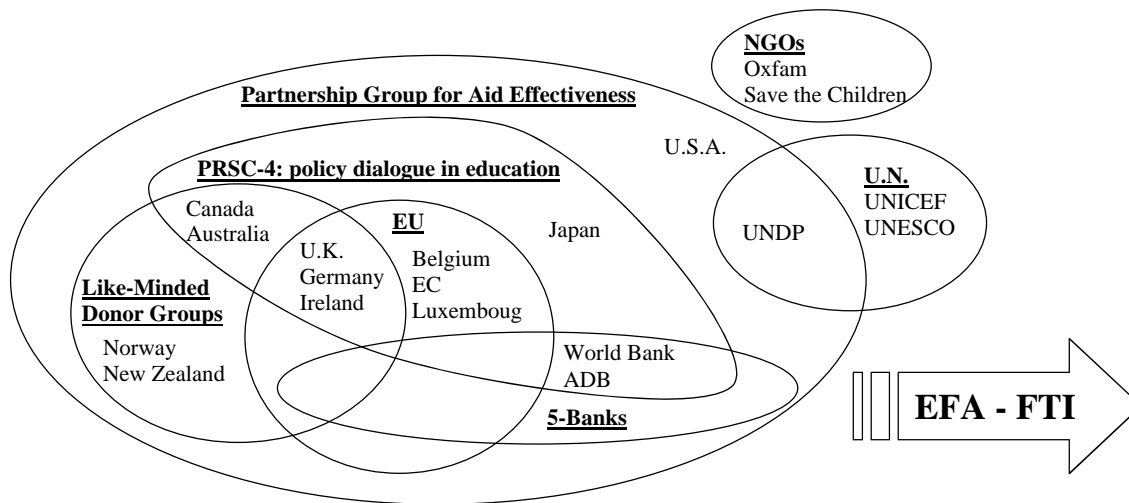
Year	Total Amount (US \$ 000, 2004 price)	Breakdown
2000	16,375	Japan 13,409, Norway 1,974, UNICEF 730, UK 254, Australia 9
2001	31,339	World Bank (loan) 25,719, Norway 2,227, Canada 1,386, Australia 1,353, UNICEF 604, Belgium 50
2002	16,739	UK 15,878, UNICEF 489, Belgium 270, US 89, Italy 5
2003	232,747	World Bank (loan) 151,388, UK 48,797, Norway 15,668, Canada 11,879, Japan 4,516, UNICEF 467, Ireland 31
2004	19,938	EC 14,909, Japan 3,182, Luxembourg 699, UNICEF 429, New Zealand 336, Canada 153, Germany 149, Norway 65, Belgium 15

Source: OECD-DAC's Creditor Reporting System (not include general budget support)

**Table 14. Donors' Disbursement to Primary Education in Vietnam**

Year	Total Amount (US \$ 000, 2004 price)	Breakdown
2000	5,958	Japan 5,083, UNICEF 588, UK 282, Australia 6
2001	825	Norway 612, UK 180, Belgium 34
2002	2,364	Japan 1,413, UNICEF 400, Australia 248, New Zealand 303,
2003	5,322	Norway 2,665, UK 1,256, Canada 641, UNICEF 428, Australia 304, Ireland 28,
2004	17,317	UK 8,945, Japan 3,091, Norway 2,974, Canada 1,517, Luxembourg 699, Germany 75, Belgium 16,

Source: OECD-DAC's Creditor Reporting System (not include general budget support)



- 1) Implementing the EFA-related projects: World Bank, Belgium, EC, Japan (JICA), Norway (NORAD), UNICEF
  - 2) Involved in the policy dialogue in the education sector for PRSC 4 in 2005: ADB, Belgium, Canada (CIDA), Norway, UNDP
  - 3) Supporting the "Targeted budget support for National EFA Plan Implementation": World Bank, Belgium, Canada, EC, NZ, UK
  - 4) Supporting the National EFA Plan and other EFA-related agenda: UNESCO
  - 5) Managing campaign and keeping score for the MDGs: UNDP
- Source: Based upon the information on Partnership Group for Aid Effectiveness (2004, 2005)

**Figure 14.** Donor grouping in Vietnam in relation to EFA

The following figure is a flow chart of Chapter 7.

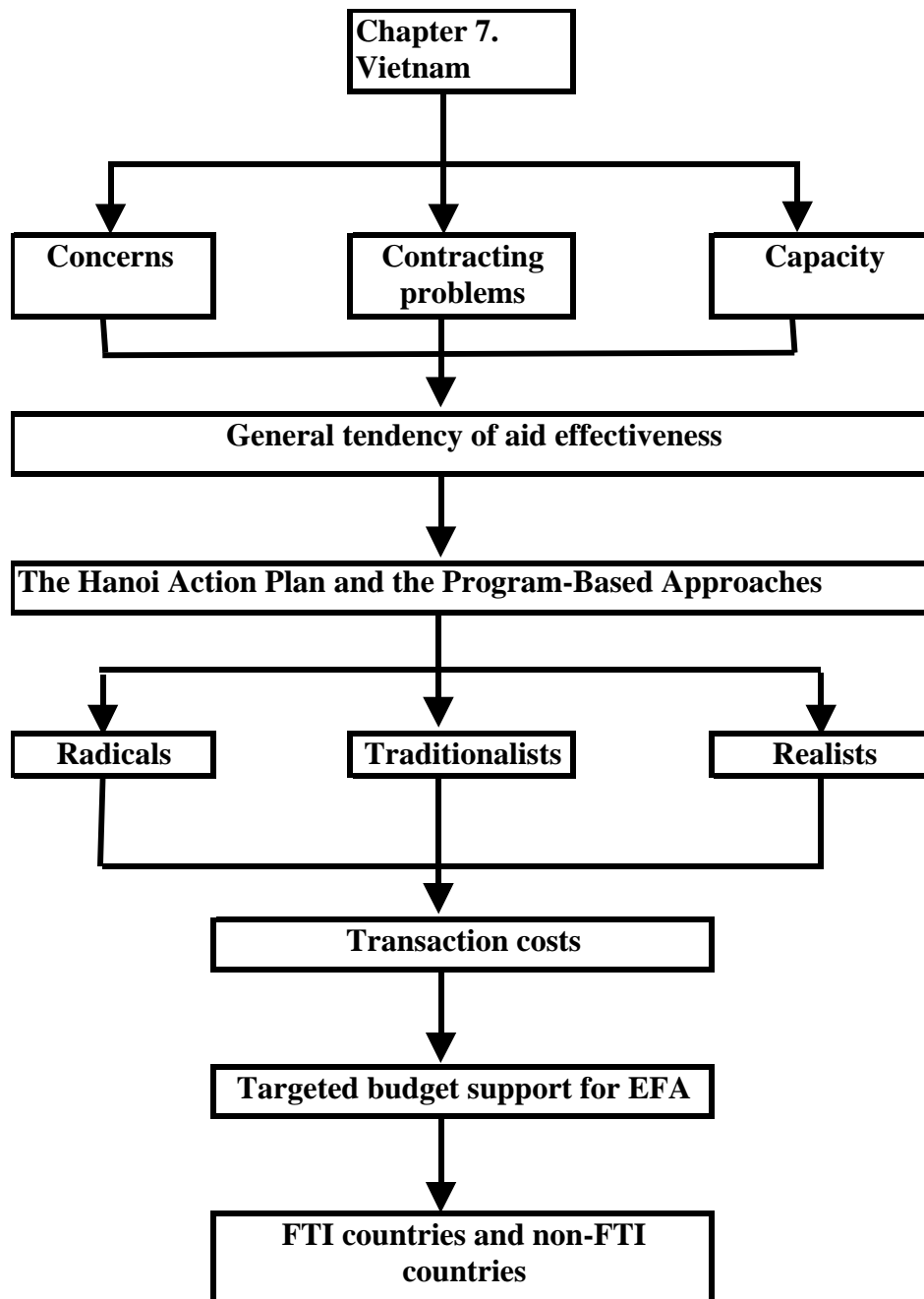


Figure 15. Chapter 7 flow chart

## 7.1 CONCERNS

One of the donors' concerns in relation to the FTI is supporting Vietnam so that it can achieve UPE.<sup>146</sup> In cooperation with donor agencies, the Government of Vietnam has developed a number of positive policy documents. Donors have maintained their foreign aid activities to assist basic education to align with these strategies implemented by Vietnam.

Donor agencies attempt to harmonize their aid activities with three policy documents developed by the Government of Vietnam: the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), the Education Development Strategic Plan (EDSP) for 2001-2010, and the National EFA Action Plan 2003-2015. First, the CPRGS, the Vietnamese version of PRSP, places a particular emphasis on both growth and poverty reduction; it, therefore, focuses on the development of the infrastructure and the industrial sectors, giving a succinct description, focuses on the education sector. The current CPRGS covers the period from 2003 to 2010, while the FTI envisages the strategy lasting to 2015. Second, the EDSP serves as a supplemental document to the CPRGS for the education sector. Third, the National EFA Action Plan is the only policy document covering the strategy until 2015. This Plan, which extends the UPE as well as other EFA goals, is significant to the FTI in terms of the cost estimation to achieve the EFA goals; it explicitly indicates the necessary amount of donors' resources. Donors usually align their strategies of the FTI toward these three policy documents of the Vietnamese government.

In 2002, the Government of Vietnam, in collaboration with donor agencies and NGOs, identified a core set of development goals, known as the Vietnam Development Goals (VDGs).

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<sup>146</sup> While the primary completion rate in Vietnam has reached approximately 95%, the FTI Secretariat encourages the country and local donors to reach the goal as early as possible so that it could be a model for other countries and remaining EFA goals could be addressed (EFA-Fast Track Initiative, 2003).

The VDGs expand the MDGs to reflect Vietnam's unique circumstances; its goals are incorporated into the CPRGS (Poverty Task Force, 2002, p.1). Since Vietnam's net enrollment in primary education reached 91% in 1998, a very positive outlier by low-income country standards, the VDGs have revised the UPE goal of the MDGs as follows: a) Increase the net enrollment in primary school to 97% in 2005 and to 99% in 2010; b) Eliminate the gender gap in primary education by 2005 and the gap with ethnic minorities by 2010; and c) Improve the quality of education and increase full-day schooling at the primary level (exact target depends on funding) by 2010 (pp.13-15). The VDGs attempt to complete UPE while paying attention to ensuring the quality of teaching and learning outcomes.

Although all donor agencies of the FTI seem to share the common goal of supporting Vietnam's effort to achieve the UPE by 2015, various aid modalities employed by the respective donors exemplify the diverse concerns regarding the FTI. Japan, the largest donor among bilateral and multilateral agencies in Vietnam, has primarily taken the project-type approach, which produces good results in Asia and enables a donor agency to undertake the accountability of aid resources. However, Japan clearly states its concern in "Japan's Country Assistance Program for Vietnam." It perceives the stability and economic growth of Vietnam as important factors in ensuring Japan's security and prosperity; also due to the geopolitical environment of Vietnam, Japan defines Vietnam in the context of the Japanese foreign policy toward China (Ministry of Foreign Affairs, 2004b, p.1). Although Japan also indicates the necessity of supporting the development of education in Vietnam from the viewpoints of poverty reduction

and human security, Japan's primary emphasis is to support Vietnam's economic growth, including large-scale infrastructure development.<sup>147</sup>

Regarding aid modality, Japan's strategy for Vietnam does not discuss the possibility of employing budget support or pooling funds. Japan does, however, mention education as a sector in which Japan may utilize "new assistance schemes" in the context of donor coordination (Ministry of Foreign Affairs, 2004b, p.28). On the whole, Japan has attempted to facilitate Vietnam's economic growth through the traditional project-type approach. Since 2004, Japan has provided the budget support for Vietnam as a co-financier of the World Bank's budget support.<sup>148</sup> This only represents one of a few pilot cases of Japan's budget support in the world, and Japan will not unconditionally employ budget support as its core scheme. Based upon the fact that the project-type approach has thus far resulted an impressive socio-economic performance in East Asia, Japan asserts that no single model exists for enhancing aid: donor agencies should pay attention to the local characteristics of recipient countries and to the capacity development of recipient's budget expenditure system (Arakawa, 2005, p.10).<sup>149</sup>

Japan and the U.K. have worked together to draft a paper on the role of new aid modalities in the Vietnamese context (OECD, 2005b, p.139). It is significant that Japan, the largest bilateral donor in Vietnam, and the DFID of the U.K., the most influential donor in promoting new aid modalities such as budget support, took a step to discuss aid harmonization in

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<sup>147</sup> After the initial CPRGS was developed in 1999, Japan took an initiative to review it; in 2003, the Strategy was revised in a more growth-oriented manner by adding the chapter of large-scale infrastructure (Ministry of Foreign Affairs, 2004b, p.16).

<sup>148</sup> Japan has supported the World Bank's budget support scheme, Poverty Reduction Strategy Credit (PRSC), since 2004. The Japan Bank for International Cooperation (JBIC) has operated the budget support, but JBIC has not been involved in the policy dialogue in the education sector (World Bank, 2006b, p.56).

<sup>149</sup> The Director General of the JBIC mentions that "the efficiency of the entire public disbursement system of the particular countries may be more important than facilitation of fund transfer to the partner countries" (Arakawa, 2005, p.10).

Vietnam. Both the Japanese team, which consists of the Embassy, JICA, and JBIC, and the DFID agreed that PRSC, which is the budget support facility managed by the World Bank and other donor agencies, is complemented by a range of project interventions (DFID Vietnam and Embassy of Japan in Vietnam, 2004, p.2). In other words, the DFID admitted that some other aid modalities besides budget support, including technical assistance, could be useful in improving aid effectiveness. Both parties confirmed that donor agencies would face the risks in providing budget support if their aid money could “no longer be tracked or accounted for separately” and if it was not used for the intended purpose (p.4). The Japanese team and the DFID agreed that donor agencies need to assure that the “recipient government is both committed to, and capable of, achieving poverty reductions in the level of risk over time” (p.4). That two influential donor agencies can compromise in their organizational beliefs and attempt to introduce other donor’s good practices in their policy and operation is a positive trend.

DFID, a Lead Coordinating Agency of the FTI, does not describe the interests of the U.K. in its Country Assistance Plan 2004-2006. The goal of DFID is to support the CPRGS and to operationalize the policies and programs mentioned in the Strategy. The DFID’s plan explicitly mentions that it will promote the channeling of aid resources into the government budget to support Vietnam’s strategies wherever possible (DFID, 2004, p.2). One of the DFID’s strategic objectives in Vietnam explains that it will help the Ministry of Finance (MOF) of Vietnam “to identify and introduce the main requirements of a modern system for managing budget and public finances” (p.5). Although the DFID’s strategy seems to be a recipient-country-oriented one, this statement implies that the DFID could intervene in the decision-makings of the MOF in order to protect the interests of the U.K.. This stance of the U.K. affects the resource mobilization of the FTI in Vietnam.

The World Bank, the second largest donor in Vietnam, has taken an approach to that of the U.K. Because the Bank's concern lies in supporting the progress of CPRGS, it designs its Country Assistance Strategy (CAS) as a response to each item of the CPRGS.<sup>150</sup> The latest CAS describes a division of labor between the World Bank and the Asian Development Bank in Vietnam: the former focuses on primary and tertiary education, and the latter concentrates on secondary education and vocational training (World Bank, 2002a, p.22). Yet, the CAS does not address coordination with other donor agencies.

The World Bank implements two activities in relation to the FTI; these activities attempt to improve aid effectiveness in order to coordinate the local donor agencies. Poverty Reduction Support Credit (PRSC), one of the activities, provides direct support to the budget of the Government of Vietnam to facilitate the implementation of Vietnam's poverty reduction strategies (World Bank, 2006b). The Bank has provided PRSC annually since 2001 with the contribution of a number of donor agencies.<sup>151</sup> The Bank has further attempted to involve other donor agencies in the policy dialogue in the preparation of PRSC. The Credit has functioned as a donor coordination mechanism: PRSC enables the Vietnamese government to reduce transaction costs and donors to increase the coherence of the support of economic reform (p.21). However, due to the nature of the budget support, it is difficult to track exactly how many resources have been disbursed for primary education.

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<sup>150</sup> The CPRGS, the Vietnamese PRSP, is developed as a requirement for debt relief and mobilization of IDA resources for Vietnam. The CPRGS is reviewed by the staff of the World Bank and the IMF and endorsed by the Board of the Bank.

<sup>151</sup> The following donor agencies either co-finance or implement parallel lending with PRSC in 2006: ADB, Australia, Denmark, the European Commission, Germany, Ireland, Japan (JBIC), the Netherlands, Spain, and the U.K., although not all donors provide support for UPE (World Bank, 2006b). The DFID announced that the U.K. would continue to finance the PRSC and expect the Credit to be used for the education sector (DFID, 2004).



The Bank's other activity, a targeted budgetary support to assist Vietnam, is planning and implementing the National EFA Plan, is analyzed later in this section (World Bank, 2005d). A staff member of the ADB analyzes that, in Vietnam, the presence of the ADB and the World Bank is significant in the donor community. He explains the collaboration of the Banks as follows:

Due to the bureaucracy of each organization, collaboration is timely but productive. However, there is much more joint sector work than before, although sharing project implementation units is rare. The joint sector road map and the joint sector work have much more in common now than they did five years ago.

(Interview with a staff member of ADB)

Local U.N. agencies continue to develop the United Nations Development Assistance Framework (UNDAF) and set concrete development objectives.<sup>152</sup> The latest UNDAF, covering the period from 2006 to 2010, addresses primary education as one of the three pillars of its objectives (United Nations & Socialist Republic of Vietnam, 2005).<sup>153</sup> Both the World Bank and DFID state that they support Vietnam's poverty reduction and growth strategy. However, the UNDAF explicitly asserts that the U.N. agencies attach importance to the rights-based approach to build a society in which all Vietnamese have the means to achieve their human potential and the freedom to express their intellectual and cultural creativity (p.10)

Among the local U.N. agencies, UNESCO, the other Lead Coordinating Agency for the FTI, has a strong concern about promoting all the EFA goals in Vietnam because EFA is one of its organizational mandates. Although the volume of UNESCO's aid is relatively small (\$1.0

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<sup>152</sup> Current UNDAF was designed based upon the conclusions of assessment conducted by the local U.N. agencies in 2004 (United Nations Country Team, 2004).

<sup>153</sup> The pillar is that the quality of delivery and equity in access to social and protection services must improve.

million in 2005), it has made a difference in the FTI by establishing a framework and by coordinating donor agencies. The Government of Vietnam completed the National EFA Action Plan with a technical support of UNESCO; the FTI Secretariat uses this document in estimating the costs and financial gaps to achieve UPE in Vietnam. In addition, the Consultative Group meeting applauded the support for EFA by donor agencies as a good example of operationalizing the spirit of the Paris Declaration on Aid Effectiveness (Partnership Group on Aid Effectiveness, 2006, p.3).<sup>154</sup>

## **7.2 CONTRACTING PROBLEMS AND CAPACITY**

The contracting problems and the challenges of donors' capacity in Vietnam are closely linked with the above-mentioned concerns and aid modalities. The contracting structure of donors' aid provision is a diverse one. Roughly speaking, two types of contracts exist in Vietnam: one type actively uses the procurement system of the Government of Vietnam, while the other mainly uses donors' systems. The former system attaches the variable of recipient government to the donors' principal-agent structure. Conversely, in the latter system, donor agencies are likely to disburse their aid resources as their principals (i.e., policymakers or politicians in donor countries) intend them to do.

The former group consists of many European donors and the World Bank; in 2004, the U.K. and the Bank disbursed 50% and 23%, respectively, of their aid resources by using

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<sup>154</sup> In 2005, the government of Vietnam and local donor agencies designed the framework called "Hanoi Core Statement on Aid Effectiveness" (HCS). HCS aims to localize the Paris Declaration on Aid Effectiveness. It adopts ownership of Vietnam, alignment of donors' activities with Vietnam's strategies, and harmonization among donors' aid activities (Government of Vietnam & Development Partners, 2005).

recipient governmental procurement system; this included the budget support and PRSC. Other major donors used the donors' own system in disbursing their resources: the share of using the local governmental procurement system in disbursing the aid of Japan and the ADB are both only 4% (Partnership Group for Aid Effectiveness, 2005, p.54).

Donors' capacity is a critical agenda in discussing the modality of foreign aid. When a donor attempts to employ a new aid modality such as the budget support, various transaction costs arise. For example, if a donor converts its main aid modality from project to budget support, the donor needs to have a capacity to monitor the budget of the recipient government and to make a proper intervention to the Ministry of Finance of developing countries. Simultaneously, the donor needs to create a new architecture to ensure the accountability of its aid resources, which includes building consensus about introducing the budget support among politicians, bureaucrats, and other interest groups of foreign aid in the donor's home countries. The FTI intends to encourage donors to fill the resource gap of developing countries through the budget support to finance the recurrent cost of the primary education. Yet, donors, particularly late comers, face a huge initial cost when acquiring the necessary capacity for the new aid modality. It is understandable that a donor does not embrace a change in its approach if it has enjoyed some success with its traditional approaches.<sup>155</sup>

It is important to recognize the difference between Vietnam and many aid-dependent countries in Africa, in which the idea of using the recipients' system to improve aid effectiveness has emerged. The percentage of foreign aid in the Gross National Income of Vietnam was as low as 4.5% in 2003, which indicates that Vietnam is not an aid-dependent country (OECD, 2005a).

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<sup>155</sup> Japan is an example of such a donor country. Some of its recipients in Asia, such as the Republic of Korea, Singapore, and Brunei, have already "graduated" from the status of developing country, according to the OECD-DAC.

In addition, the country's performance of economic growth and poverty reduction is far better than that of many African countries.<sup>156</sup> One can infer that there is no reason to automatically apply the new aid modality to the context of Vietnam, although the international community agrees that budget support is an effective prescription for solving the problems of Africa. Diversity of aid modality should be more tolerated in Vietnam because each donor agency has built its optimum principal-agent structure with its respective current aid modality. Thus far, Vietnam has demonstrated a good performance, even though it has not received budget support from some major donors.

### **7.3 INTERNATIONAL AID WORKERS' PERSPECTIVES**

In relation to the aid effectiveness agenda, a number of aid agencies and researchers recently conducted survey studies targeting international aid workers in Vietnam. Drawing on those materials, I analyze various perspectives of donor agencies in Vietnam regarding the aid effectiveness agenda. This examination is significant in considering the effectiveness of the FTI, because the FTI is concerned with how donor agencies deliver their aid resources for UPE, and donor agencies usually apply their general rules to the approach for UPE.

I use many secondary sources for my research:

1) The Joint Evaluation of General Budget Support, which is commissioned by a consortium of donor agencies and seven partner governments under the auspices of OECD-DAC, provided useful insights for my study. The schemes of budget support, including the targeted

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<sup>156</sup> However, it is difficult to prove the causal relationship between the project-type foreign aid and the impressive performance of Vietnam.

budget support for EFA and Poverty Reduction Support Credit (PRSC), have made a difference in UPE. Bartholomew, Leurs, and McCarty (2006) describe the findings from this evaluation study based upon the fieldwork that took place in 2004 and 2005.

2) The Partnership Group on Aid Effectiveness (PGAE) organized the survey on the ODA activities of donors in Vietnam for 2005 to monitor the implementation of the Hanoi Core Statement (HCS) (Partnership Group on Aid Effectiveness, 2006, p.70, p.26). Thirty donors responded to the questionnaire distributed by the PGAE, and these 30 donors account for over 97% of the ODA received by Vietnam (p.70). In 2004, the PGAE became the prime forum for dialogue between the Vietnamese and donors on the issues of aid effectiveness (Partnership Group for Aid Effectiveness, 2004, p.2).

3) Bartholomew and Lister (2002) conduct interviews targeting aid workers in Vietnam with a view to drawing on knowledge that has already been accumulated. They use the interviews as a means of checking, updating, and supplementing the existing material (p.5).

I also use the studies such as Jacquemin and Bainbridge (2005) which demonstrate the perspectives of international donor agencies in Vietnam by conducting anonymous interviews in 2005, Rose (2002), which provides an NGO perspective regarding aid effectiveness in the education sector, and OECD (2005b), which reports the result of the survey on harmonization and alignment undertaken from May to September 2004 by OECD.

Based upon the above-mentioned secondary information, I categorize and analytically describe three types of aid workers' perspectives in Vietnam: 1) radicals, 2) traditionalists, and 3) realists. I borrow the terminology of "radicals" and "traditionalists," which stands for the agencies' strategy on employing new aid modalities such as budget support or using the Vietnamese government's systems, from Bartholomew and Lister (2002). I create the category

“realists” to describe those donors’ positions that attempt to employ both radical and traditional perspectives selectively depending on situations. The analyses of the transactions costs of aid resources and World Bank-led targeted budget support for EFA follow.

### **7.3.1 General tendency of aid effectiveness in Vietnam**

Normalization of Vietnam’s diplomatic relation with Western countries after the break-up of the Soviet Union, as well as its higher growth rate during the 1990s, motivated donor agencies to increase the amount of foreign aid for Vietnam (Bartholomew & Lister, 2002, p.8). It is worth emphasizing that the economic reform process originated in Vietnam; it was not imposed from outside, nor was it “bought” with aid (p.8). The following illustrates some general trends of foreign aid in Vietnam.

While most donors highlight the need to move from broad statements to actions, some feel a sense of fatigue with the aid effectiveness agenda and an impatience to see concrete actions emerge (Jacquemin & Bainbridge, 2005, p.4). Virtually, all donors are making determined efforts to align their assistance strategies with the Vietnamese government’s plan (Partnership Group on Aid Effectiveness, 2006, p.24). Most donors are taking positive steps to eliminate parallel project management units (PMUs).

It is reported that even after having signed off the Paris Declaration on Aid Effectiveness, the culture of many donor agencies has not changed sufficiently to allow for positions that are fully supportive of aid effectiveness (Jacquemin & Bainbridge, 2005, p.14). This fact may exemplify the difference between those donor agencies engaged in policy making at the headquarters level and those who actually operate projects and programs in the field.

Bartholomew et al. (2006) echo this point. “There have been a variety of harmonization and alignment initiatives, but progress has been slower than anticipated and has focused more on harmonizing procedures and aligning with the government’s policy, rather than aligning with government’s systems” (p.S3). This is an understandable tendency, because each donor agency attempts to contribute to the aid harmonization agenda by using the mechanisms that are available, and the governance and capacity of the Vietnamese government are not necessarily satisfactory systems for donor agencies to use them.

Jacquemin and Bainbridge (2005) conclude that there is diversity among donor agencies and among individual workers in terms of the stance toward aid harmonization. Since the aid effectiveness agenda was endorsed in the international society, no donor agencies deny its value. However, there is a significant variation in operationalizing harmonization and alignment.

Rose (2002) comments on the foreign aid in Vietnam from Oxfam’s NGO point of view. In order to be eligible to receive support from the FTI, developing countries need to develop PRSP and the credible education sector strategy. Rose problematizes this point, suggesting that this requirement may create new forms of conditionality.<sup>157</sup> The integration of internationally-agreed targets into national plans and poverty reduction strategies has potential dangers. These targets might be used as a new form of aid conditionality, with questions arising about the consequences for those countries which do not abide by the international agenda (p.12). Also, while the EFA Dakar Framework of Action recommends that the country’s EFA plan be integrated into a broader poverty reduction and democratic framework, Rose expresses concern

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<sup>157</sup> “The FTI raises the questions about what countries are included and why.” While FTI eligible countries are selected on the basis of compliance with the PRSP, “this raises questions about the extent of genuine ‘partnership’ between international agencies and national governments and whether the countries indeed own the programme, or are following directives of the international community in order to gain support--suggestive of new forms of aid conditionality” (Rose, 2002, p.11).

that this “one size fits all” approach fails to take into consideration local conditions and needs (p.12). This seems to be a fair concern. However, considering that the PRSP preparation process is open to the public and the participation of NGOs and civil society in developing PRSP is possible, the creation of “new forms of conditionality” per se may not be a problem. The “conditionality” should be problematized so that it could be recipient-friendly.

The ownership of the Vietnamese Government has extended its management of foreign aid resources. In 2006, the ODA database was transferred from UNDP to the MPI, which established the Development Assistance database (Partnership Group for Aid Effectiveness, 2005, p.26).

### **7.3.2 The Hanoi Action Plan and Program-Based Approaches**

The Vietnamese government developed the Hanoi Action Plan (HAP) through the Partnership Group on Aid Effectiveness (Partnership Group for Aid Effectiveness, 2004, p.2). Also, the Hanoi Core Statement (HCS) “localizes” the Paris Declaration on Aid Effectiveness. The adoption of the HCS reflects the commitment of the government and donor community in Vietnam to improving aid effectiveness (Partnership Group for Aid Effectiveness, 2005, p.1). The HCS significantly influences the donors’ aid delivery for the FTI in Vietnam.

The HCS aims for 75% of ODA being delivered through Program-Based Approaches (PBAs) by 2010; as of November 2005, more than 41% of the total ODA was program-based (Partnership Group for Aid Effectiveness, 2005, p.22). However, “the term Program-Based Approaches (PBAs) is often misunderstood or used inaccurately to refer to a particular financing modality” (Partnership Group for Aid Effectiveness, 2005, p.21). The PBAs can be provided through various aid modalities including 1) a series of projects in the relevant sector, 2) a mix of



project and joint donor support for a particular sector, and 3) budgetary support for government projects/programs (p.21). Therefore, even traditional project-oriented donor agencies can use PBAs to contribute to the HCS.

The PBAs' features include leadership by the host country, a single comprehensive program and budget framework, a formalized process for donor coordination and harmonization, a harmonization of procedures, and efforts to increase use of local systems for the whole project cycle (Partnership Group for Aid Effectiveness, 2005, p.21). The progress toward PBAs has been strong in the education sector which already has an established framework for donors' alignment and for a sector support program (i.e. EFA plans) (p.22)

### **7.3.3 Radicals**

Generally speaking, European donors are considered as radicals. They are active in promoting aid effectiveness in line with the Paris Declaration on Aid Effectiveness. The EC has played a strong role in organizing a donor coordination mechanism; the Like-Minded Donor Group (LMDG) is a leader in piloting and advocating harmonized approaches and the use of the system of the Vietnamese government (Jacquemin & Bainbridge, 2005, p.4).<sup>158</sup>

In opposition to the "traditionalists" donor agencies, an aid worker in Vietnam stressed that an alternative of doing nothing was unacceptable; because the Vietnamese government has a

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<sup>158</sup> LMDG refers to Canada, Denmark, Finland, the Netherlands, Norway, Sweden, Switzerland, and the U.K. LMDG, which emerged from the Ustein group, comprises these six bilateral donor agencies to support improved ODA management and to promote harmonization among themselves. Originally, the LMDG focused on "developing a common framework for ODA in Vietnam," but recently shifted away from this approach toward the identification of new aid mechanisms that can be more easily harmonized as they are not restricted by inflexible rules and procedures (Bartholomew & Lister, 2002, p.27).

high burden, so something needs to be done (Jacquemin & Bainbridge, 2005, p.16). The approximate 400 donor missions the Vietnamese government received in 2003 generated high transaction costs to the government (p.16).

Above all, DFID has played a central role in providing aid with new aid modalities, including budget support which is viewed as both “a progressive and high risk approach” (Jacquemin & Bainbridge, 2005, pp.11-12). While DFID, a leading radical donor, has based its position upon its belief that the history of project-aid had neither “worked well” nor appeared sustainable in Vietnam, some local donor agencies criticize DFID for not viewing other donors as equal partners (p.11). Some donors observe that, in order to fulfill its own agenda, DFID attempts to rapidly shift its aid system to budget support, without considering the reservations of other donors about the timing of this move (p.12). DFID acknowledges that budget support could diminish donor influence, but it also suggests creating a “much healthier partnership” with the government in the driver’s seat (p.12). However, the donor community in Vietnam has not necessarily shared this perspective; a healthy partnership may be undermined if those in the “back seats” are too commanding.

Coordination among donor agencies becomes more challenging as the number of participating donors in budget support increases. For example, “some donors perceive that co-financing the PRSC is the way in which they can further their individual agendas” (Bartholomew et al., 2006, p.S5). This may be a favorable change, because this tendency will strengthen the capacity of donor agencies in terms of negotiating policy issues with the recipient government and other donor agencies. Above all, PRSC, a facility that supports developing countries in the implementation of PRSP, has nothing to do with the donors’ national interests. In order for donor agencies to “further their individual agendas” through PRSC, donor agencies need to have a

sufficient capacity to proactively participate in the policy dialogue in the context of PRSP. By so doing, donor agencies may be able to strengthen their capacity to moderate policy discussion, not only to conduct operations.<sup>159</sup>

An officer of the European Commission (EC) Social Development Programmes in Asia explicitly states that project approach is losing validity; it focuses on a narrow technical paradigm, such as the relationship between input and output only, showing little or no concern for the domestic system of recipient countries (Jonckers, 2004). He asserts that development cooperation is essentially becoming a process of 1) assessing policies and institutions in partner countries, 2) dialoguing and negotiating improvements of policies and institutions, and 3) supporting change to policies and institutions through providing financial and technical resources.

Although many donors participate in multiple donor groups in Vietnam, there is concern amongst donors that the number of groups and sub-groups is excessive and that the time committed to participating in those groups could be better used in other ways (Partnership Group on Aid Effectiveness, 2006, p.18). Without some changes, the risk of aid fatigue remains a threat (p.19).

Bartholomew and Lister (2002) assert that uncoordinated aid undermines the ownership of the Vietnamese government. The high transaction costs from donors' traditional projects create incentives that rely on donor implementation units, which accompany various requirements. Due to the opaque donor requirements, the Vietnamese government's capacity to better utilize externally provided resources may be hampered. This complexity of donor requirement is often accrued by multiple and uncoordinated donor requirements. (p.5)

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<sup>159</sup> When Vietnam reaches its expected middle-income status in 2010, it will no longer receive PRSC through soft loans. The government may prefer the more attractive option of borrowing on external markets, rather than going through the comparatively time-consuming process of negotiating a PRSC (Bartholomew et al., 2006, p.S6).

On the other hand, traditionalists observe that radicals, especially LMDGs, seem recently to have dominated the agenda in discussion forums, despite the fact that the more vociferous radicals have been providing a rather small share of total aid to Vietnam (Bartholomew & Lister, 2002, p.21). Aid coordination could be seen as a way to ensure the visibility of some radical donor agencies which provide a relatively small scale of aid.

A perspective of the government of Vietnam seems to support the view of radicals. The government asserts that the problems of aid effectiveness are related to “lengthy and cumbersome donor procedures” at the project prep stage; these procedures cause delays and often result in projects taking several years to come to fruition. Although projects are often out of date by the time they begin, the lengthy and complexity of the procedures inhibit those involved from making the necessary changes (Bartholomew & Lister, 2002, p.22). The government of Vietnam also observes that many donor-specified procedures, which are not Vietnam specific and thus not appropriate to the local contexts, support the radicals’ perspective and, therefore, the government’s systems in delivering aid.<sup>160</sup>

All Vietnamese government interviewees target technical assistance as the least useful form of aid (Bartholomew & Lister, 2002, p.22). Due to the inexperience of foreign consultants and their lack of knowledge of the local context, in most cases local consultants are more suited to the context of Vietnam. Even when the donors’ technical assistance projects have high quality, knowledge is not necessarily transferred to project staff and, therefore, local capacity does not enhance (p.23). This shows a very strong counterargument to traditionalist, such as Japan, which

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<sup>160</sup> For example, a donor required the government to provide its contribution in U.S. dollars. Dong, the Vietnamese local currency, had to be changed into U.S. dollar and then changed back into dong to pay local contractors (Bartholomew & Lister, 2002, p.22). The government also pointed out that the number of missions from donors’ headquarters often had duplicate requirements (p.22).

highly value technical assistance. Interviewees also cite differences between the policies of donors and the government as a cause of friction (p.23).

Many interviewees stress the difficulty the Vietnamese government faces when dealing with numerous donors and their individual requirements. They assert that budget support such as PRSC is ideal as this modality streamlines procedures and improves local ownership. In addition, co-funded projects were seen as less burdensome as Sector Wide Approaches (SWAs), since they ensure that all donors work towards the same sector goals (Bartholomew & Lister, 2002, p.23). These donors' voices may endorse the implementation of targeted budget support for EFA and PRSC in Vietnam. An underlying principle for providing foreign aid in Vietnam should be to build government capacities, not substitute for them (p.25). Donors with strong in-country representation and the flexibility to adapt headquarters' requirements to country circumstances are likely to be more effective (p.31).

OECD (2005b) analyzes the current situation regarding donors' activities in Vietnam. A wide range of donors has either joined the PRSC or is considering whether to do so in the future. As a result, PRSC was worth around \$220 million in 2004 (p.140). Regarding delegation, 45% of donors in Vietnam claim to be party to an agreement to perform tasks on behalf of other donors (p.140).<sup>161</sup> Approximately 400 missions took place in Vietnam in 2003. Seven donor agencies—the World Bank, NGOs, Japan, Germany, Denmark, the ADB, and the U.K.—accounted for 75% of the total number of missions (p.140-141).

In conclusion, some European countries have embraced the initiative to introduce new aid modalities. While this initiative proactively uses the system of the Vietnamese government in delivering foreign aid, its magnitude differs depending on the agencies' policy.

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<sup>161</sup> The LMDG, EC, the U.N., and the World Bank accepted this idea, while Belgium, France, Germany, Japan, the U.S., the ADB, and the IMF rejected it (OECD, 2005b).

### 7.3.4 Traditionalists

Traditionalists consider a project-oriented approach as fundamentally appropriate. Japan and some other donors fit this category. Traditionalists prefer approaches that reduce unnecessary burdens for the recipients to: 1) strengthening government capacity and systems; 2) making the donor more responsible for a larger share of the transaction costs that arise, either directly or through consultants; and 3) encouraging donors to work together with governments to eliminate differences in rules and procedures are arbitrary and unnecessary procedures to achieve convergence (Bartholomew & Lister, 2002, p.20). Traditionalists tend to emphasize the importance of cross-country procedures laid down by their donor headquarters; there is a lack of local discretion to depart from centrally determined rules (p.20).

Japan stands out as one of the major donor countries whose position opposes that of European donors, especially DFID. A Japan Bank for International Cooperation (JBIC) representative describes Japan as the “most cautious and prudent” harmonizer (Jacquemin & Bainbridge, 2005, p.4). A Japanese professional emphasizes the significance of diversity in terms of how aid is provided in Vietnam. According to the officer, it is not in the interest of the government of Vietnam to have too few voices from the donor community (Jacquemin & Bainbridge, 2005, p.16).

Diversity of donors gives the government a wider portfolio to choose from and mitigates against the fluctuations of ODA volumes. If donors speak with one voice then there is a monopoly. This might be good for donors but not for the development of the country. It is a question of balance, 20 donors might be too many, but one is too few. (Jacquemin & Bainbridge, 2005, p.16)

This Japanese perspective significantly differs from the spirit of the Paris Declaration on Aid Effectiveness, which attempts to simplify and streamline the donors' policies and activities in order to reduce the transaction cost of the government.

Furthermore, other Japanese aid workers in Vietnam indicate a situation brought about by introducing the aid effectiveness agenda, which includes its negative byproducts. According to a representative of a Japanese aid agency, "The aid effectiveness agenda had in fact slowed the delivery of aid" (Jacquemin & Bainbridge, 2005, p.11). Another Japanese aid worker confesses that the adjustment to an internationally agreed-upon agenda of aid harmonization would be "very costly and time consuming," because the aid effectiveness agenda "tends to dominate our [aid agencies'] work and produce a lot of paperwork but very little on the ground" (p.11).

A professional of other aid agencies in Vietnam echoes this perspective. Because the aid effectiveness agenda is based on the experiences of donors in Africa, it is not entirely applicable to the Vietnam or Asian context (Jacquemin & Bainbridge, 2005, p.11). Also, several donor agencies' staff suggests that modalities that emphasize government ownership should not be implemented at the expense of technical assistance (p.12). An expert of an anonymous donor agency asserts that "the government needs a range of resources, not just financial, what donors can bring is technical expertise" (p.12). It should be noted that these comments stem from the desire to provide better aid for Vietnam, not for the benefit of donor agencies.

Even among the European donors, many of which are "radicals," some agencies argue that the new aid modality is neither a workable nor feasible option. Belgium, along with the international financial institutions and the Japan International Cooperation Agency (JICA), faces policy obstacles at the headquarters level and some contradictory internal policies in introducing

new aid modalities (Jacquemin & Bainbridge, 2005, p.4). An aid worker of the EC eloquently spells out the discrepancy between its headquarters and its field office in Vietnam.

Brussels [i.e., the EC's headquarters] says whenever possible we need to align with the [Vietnamese] government and to harmonize. However a lot of people in Brussels still think in project mode and therefore, the preparation of sector budget support is not always easy. In the field, everyone recognizes that harmonization and alignment is the only way to go but back at the headquarters they are still contradictory. Every project document has guidelines on visibility but that is impossible to do in a harmonized approach. (Jacquemin & Bainbridge, 2005, p.14)

It is noteworthy that the EC, one of the leaders of a radical pro-aid effectiveness donor, has a similar challenge, such as the visibility of donor agency, that traditionalists like Japan and the U.S. face. However, this officer concludes that “the only visibility should be that of the government of Vietnam” (Jacquemin & Bainbridge, 2005, p.14).

A European aid worker points out that aid harmonization does not benefit the Vietnamese government. “It was not in the interest of MPI (Ministry of Planning and Investment) [of Vietnam] in general to promote alignment to donors to sectors, especially via sector budget support” (Jacquemin & Bainbridge, 2005, p.13). While the World Bank and some bilateral donors have launched the sector budget support for EFA with the Ministry of Education, the MPI loses a lot of power since the line ministry manages the funds. This European officer predicts that the MPI of the Vietnamese government will be “the key stumbling block to moving toward greater harmonization and alignment” (p.13).



A U.N. staff member also stresses that the Vietnamese government does not necessarily welcome new aid modalities. While the U.N. would like to move away from parallel structures, “it is not the interests of line ministries to get rid of PMUs [project management units]” (Jacquemin & Bainbridge, 2005, p.14). The Vietnamese staff members at PMUs earn higher salaries, and “a contradiction exists between the goal of government ownership and of alignment with government structures because elements of the government had a strong desire to maintain parallel structures” (p.14).

The traditionalist’s approach may have an advantage over the radical pro-harmonization approach. For example, the expansion of co-financiers has led to growing difficulties within the coordination and cohesion of the process (Bartholomew et al., 2006, p.S8). Also, little coordination with other aid modalities and inadequate attention to technical assistance and capacity building harm the implementation of policy actions (p.S8). This point may explain why some donors like Japan, which have strength in providing technical assistance, have been occasionally reluctant to join the budget support program.

A JBIC officer states that project type financing will remain a principle for JBIC’s operation in Asia, while JBIC has co-financed the World Bank’s PRSC (but not in the education sector). PBAs will be promoted as far as they are effective for JBIC (Iijima, 2004).

Use of the government system is a major challenge. Aside from funds provided by budget support, most donors are required to meet prescribed standards that are incompatible with the government’s standards (Partnership Group on Aid Effectiveness, 2006, p.25). Donors are concerned that the Vietnamese governmental systems do not adequately meet international standards in terms of the level of transparency, fiduciary risk, and corruption in the government. The rate of disbursement for projects and specific programs remains very slow (p.25). Most

donors use the core diagnostic work prepared by the major international agencies (such as the World Bank, the ADB, UNDP, and the Vietnamese government), but the extent of sharing individual country analysis is limited (p.25). Most donors use similar analysis and management tools (such as log-frame analysis, project appraisal formats, monitoring and evaluation processes, and procurement processes), but modification to suit the particular agency needs makes these tools not readily adaptable by other donors (p.25). The use of PBAs is increasing, but confusion regarding approaches and modalities, concerns about limited transparency, fiduciary risk, and corruption make it difficult for many bilateral donors to increase support through budget support modalities (p.25). These facts demonstrate that there is still a long way to go until new aid modalities are properly introduced in Vietnam; the costs and potential benefits from employing new modalities should be carefully examined.

OECD (2005b) reports that, from a German perspective, Vietnam's fiscal and administrative systems are not transparent or accountable enough, although this view may also be linked to the question about whether budget support is an effective approach (p.137). Traditional modalities provide considerable scope to reduce inconsistencies in donor approaches, both by systematic headquarters-level harmonization and by ad hoc country-level harmonization (Bartholomew & Lister, 2002, p.31). This implies that individual aid workers in the field can make a difference in improving aid effectiveness, regardless of the aid agencies' overall policy at the headquarters level.

In conclusion, not only Japan, a lead donor in Vietnam, but also some European donor agencies have taken the position of traditionalists. These agencies are not necessarily obsessed with implementing their traditional project-approaches, but they are willing to selectively and complementarily employ new aid modalities, such as PRSC, where available. However, these

agencies continue to value the traditional project approaches by placing priority over new aid modalities.

#### 7.4 REALISTS

Some donor agencies in Vietnam are neither radicals nor traditionalists. Such donor agencies as CIDA, AusAID, and USAID have taken pragmatic and case-by-case approaches to harmonization (Jacquemin & Bainbridge, 2005, p.4).

The five bilateral and multilateral financial institutions, including ADB, AFD (Agence Française de Développement, France), JBIC, KfW (Kreditanstalt für Wiederaufbau, Germany), and the World Bank, have taken the lead in supporting the Vietnamese government in its work on harmonization and alignment of procedures, including project preparation and reporting (Partnership Group for Aid Effectiveness, 2004, p.13).<sup>162</sup> However, the magnitude of commitment varies. In reality, a large group of donors, including Belgium, Canada, Denmark, Japan, the Netherlands, the U.S., the ADB, EC, and the World Bank, are either currently planning (through PRSC), or preparing budget support to Vietnam (OECD, 2005b, p.137).

Japan and DFID, the most radical donor and the most traditional donor, have worked together to draft a paper of new aid modalities in the Vietnamese context. This cooperation has become the agreed upon format for future discussions on the diversification of aid modalities (OECD, 2005b, p.136; Partnership Group for Aid Effectiveness, 2004, p.15).

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<sup>162</sup> The World Bank, ADB, JBIC, KfW, and AFD make up the Five Bank Harmonisation Initiative (OECD, 2005b, p.135).

The World Bank's role in this aid effectiveness debate is pivotal. The Bank is a major exponent both of the traditional project approaches and, increasingly, of non-project approaches in Vietnam. By making deliberate use of its ability, the Bank has attempted to engage with all parties in pursuit of non-project modalities and in strengthening the delivery of project aid (Bartholomew & Lister, 2002, p.21).

A tendency to exaggerate differences can undermine how to address the diverse perspectives of aid agencies regarding the means of aid disbursement. Both radical and traditional sides discuss SWAps as if un-earmarked budget support is the essence of SWAps. However, both sides need to consider how to increase the donors' and partners' understanding of the subtlety of alternatives in order to recognize the potential common ground that their approaches share. A better understanding of sector approaches and other technology is one of the outcomes sought from LMDG work programs (Bartholomew & Lister, 2002, p.21).

One bilateral donor's comment in relation to aid modality, which implies a realistic solution to aid effectiveness, states that there is no "right" aid modality for every circumstance (OECD, 2005b, p.136):

There is a common understanding among both the donor community and the government in Vietnam that a diversification of aid modalities is important for efficient and effective ODA mobilisation and it is necessary to utilise the most appropriate aid modalities in response to varying development needs. (OECD, 2005b, p.136)

The Vietnamese government has also expressed increasing concerns about the high transaction costs associated with the multiplicity of donor agencies' operational policies, procedures, and practices (OECD, 2005b, p.140). In Vietnam, the "majority of donors tend to

agree that a mix of different aid modalities will result in the most effective implementation of assistance to achieve sector coherence in the work of a government-led strategy” (p.140).

The difference, among donor agencies in Vietnam, in terms of harmonization, can be depicted as follows:

**Table 15.** Differences among donor agencies in Vietnam

1) Enthusiastic harmonizers (Radicals)	<ul style="list-style-type: none"> <li>- Norway: Having set the goal of fully aligning its programs with government programs.</li> <li>- DFID: Champion of harmonization. Having led the way in using government systems through the budget support.</li> </ul>
2) Cautious harmonizers	<ul style="list-style-type: none"> <li>- Japanese grant aid: Providing in-kind (different from most other donors’ grant aid).</li> <li>- JBIC: Viewing its position as cautious and prudent harmonizer. Shifting significantly to a more favorable approach to harmonization.</li> </ul>
3) Limited harmonizers	<ul style="list-style-type: none"> <li>- AusAID, NZAID, CIDA, USAID, UN: Taking pragmatic and practical approaches to harmonization. Modest ambitions and achievable targets in harmonization both in international agreements and in the Vietnamese context.</li> <li>- AusAID: While moving toward harmonization, reserving the right to go with a stand-alone project. Australian national interest is a goal as well as poverty reduction.</li> <li>- USAID: Newcomer to harmonization agenda. Has been instructed to significantly increase the use of local contracts and grants to fund host country experts, NGOs and firms in providing technical assistance, and to program funds through the host government, where appropriate policies and accountability exist.</li> </ul>
4) Constrained harmonizers (Traditionalists)	<ul style="list-style-type: none"> <li>- International Financial Institutions (IFI): Constrained by headquarters’ policy.</li> <li>- JICA: Trying to transfer the “Japanese model” of development.</li> </ul>

Source: Jacquemin & Bainbridge (2005, pp.17-18)

Some European donors, particularly those from LMDG countries, have been promoting aid harmonization with emphasis on using the system of the Vietnamese government and minimizing the traditional project approaches. Similarly, many other donors have attempted to contribute to the harmonization where appropriate and available, depending on each organization’s judgment. The international financial institutions (IFIs) and Japan seem to distance themselves from the aid harmonization movement. Since such IFIs as the ADB and the World Bank conduct lending projects and have fiduciary responsibility, it is understandable that

their resource transfer is constrained by their headquarters. However, the situation of Japan, especially JICA, seems to be different from any other international donor agencies.

One JICA representative eloquently explains the organization's unique stance among donor agencies in Vietnam as follows:

It is rather difficult for JICA to harmonize its operational procedures with other donors. Compared with procedural similarity among the banks or the LMDG, JICA has a unique procedure because we give in-kind assistance so it would be not cost-effective to harmonize with other grant donors in the short term. Thus we are taking a bilateral approach to rationalize and simplify our procedures based on the request of the Vietnamese government, which we consider more practical and cost effective to reduce procedural transaction costs in the short term. (Jacquemin & Bainbridge, 2005, p.19)

It is important to recognize that the Vietnamese government has a strong ownership in foreign aid activities. A Vietnamese government official explicitly states that "it is our duty to show which modalities work best for which sectors" (Jacquemin & Bainbridge, 2005, p.20). This statement, not an obsession with the achievement of internationally agreed upon objectives, should be the basis in discussing aid effectiveness in Vietnam.

## **7.5 TRANSACTION COSTS**

Transaction costs include all the costs arising from the preparation, negotiation, implementation, monitoring, and enforcement of an agreement in the delivery of overseas development aid. Transaction costs take three forms: 1) administrative costs, which arise from

the impact of resources needed for the transaction, including administrative overheads, such as staff time; 2) indirect costs, which result from the impact of the delivery mechanism on the achievement of development goals; these include poor recipient ownership and longer disbursement delays which discourage both donors and governments from entering into new agreements; and 3) opportunity costs, which measure benefits forgone from alternative applications of the resources consumed in the transaction; senior officials, for example, may need to trade off their time between aid management and policy development (Bartholomew & Lister, 2002, p.5). While these costs may be high when launching a new system, the actual cost of operating that system may be more modest.<sup>163</sup>

## **7.6 TARGETED BUDGET SUPPORT FOR EFA**

The education sector is the most progressive sector in terms of harmonization and alignment in Vietnam. The education sector working group meeting used to be chaired jointly by the government and donors, but since July 2004, the government has taken the lead. Eighty-one percent of donors participate in these discussions (OECD, 2005b, p.138).

Donor agencies have directly supported the Vietnamese government's targeted program for EFA. This program provides 5% of the requirement for achieving the government's goals in primary education by using the government system under the coordination of one lead agency: the World Bank (Partnership Group on Aid Effectiveness, 2006, p.3).

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<sup>163</sup> Regarding the National EFA Plan, "The first time you do it, it is bound to be laborious because it is breaking new ground but afterwards you would expect it to be simpler and faster for all the stakeholders involved," and "even if the start up costs are high, the running costs are much lower" (Jacquemin & Bainbridge, 2005, p.17).

The World Bank and several other bilateral donor agencies, including Belgium, Canada, EC, New Zealand, and the U.K., have implemented the targeted budget support for EFA in Vietnam from 2005 to 2008.<sup>164</sup> This targeted budget support for EFA was designed as a transitional one from traditional projects to full budgetary support (World Bank, 2005d, p.9).

The targeted budget support aims at assisting the government of Vietnam in the implementation of its National EFA Plan, in terms of the expansion and quality of primary education opportunities. Although the primary enrollment rate in Vietnam is high (91% in 2003), “an estimated 20% of ethnic minority children have no access to basic education” (World Bank, 2005d, p.1).

The Vietnamese EFA Plan shows that EFA goals will remain elusive without an additional investment of at least \$2-2.5 billion for the period of 2003-2015 (World Bank, 2005d, p.2). “In spite of substantial government and overseas contributions to education, the existing level of effort is not yet sufficient to achieve Vietnam’s target for EFA by the year 2015” (p.2).

This targeted budget support intervention would partially bridge the estimated financing gap at the primary level for the period of 2005-2008 (World Bank, 2005d, p.2). The World Bank has played a coordinator’s role with the five co-financiers, including Belgium, Canada, EC, New Zealand, and the U.K., in targeted budget support (p.3). The project strives to more efficiently channel ODA more efficiently and reduce transaction costs through the utilization of a sector budget support aid delivery mechanism (p.3). This operation builds on existing budget support arrangements under the PRSC series (p.3).

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<sup>164</sup> The amount of contributions from each donor agencies is IDA (the World Bank) \$50 million, Belgium \$6 million, Canada \$11 million, EC \$20 million, New Zealand \$3 million, and the U.K. \$38 million, respectively.



The funding agreement consists of an IDA credit of \$50 million and parallel bilateral donor grant funds in the order of \$78 million. Since this project is disbursed as budget support, donor and government funds are indistinguishable; this project, which relies on the Vietnamese government's own rules and procedures for implementation, this is a relatively new funding approach at the sector level in Vietnam (World Bank, 2005d, p.4). Making future funding dependent on the previous year's performance not only motivates provinces to add to expenditures on the identified sub-components at the district level but also encourage, that ODA resources act as additions to, not substitutions for, existing levels of financing (p.7)

In this project, ODA funds fully merge with domestic funds to support the Vietnamese education objectives. This approach honors governmental ownership, facilitates donor harmonization and alignment with government's procedures, reduces transaction costs, and strengthens sector management capacity (World Bank, 2005d, p.9).

Sector budget support empowers the Vietnamese government to rationally manage spending. It also forces donors and the government to focus on systematic weaknesses and to build capacity. Finally, sector budget support reduces some of the transaction costs associated with traditional project approaches and promotes accountability within the country (World Bank, 2005d, p.9).

The donor agencies that finance this targeted budget support have worked together during project preparation by providing financing and technical assistance to the Ministry of Education and Training; they act in the spirit of increasing donor harmonization and speaking with "one voice" (World Bank, 2005d, p.10). Operationalizing education SWAs in Vietnam by focusing on EFA is in the trial stage. Most of the major education donor agencies, except for Japan, participate in this targeted budget support.

In addition to this targeted budget support for EFA, donor agencies have conducted the following activities in Vietnam:

**Table 16.** Donor agencies' activities in Vietnam

World Bank	Primary Education Project, Promoting Education for Disadvantaged Children Project, Higher Education Project, Primary Teacher Development Project, Building Capacity for Educational Planning (with CIDA's trust fund)
Belgium	Teacher training
EC	Strengthening Ministry of Education and Training, Support to the renovation of educational management
EU-DFID	Support to Secondary Education Development Program 2006-2010
JICA	Primary school construction project
NORAD	Educational development support to ethnic minorities
UNICEF	Education in disadvantaged areas, ethnic minorities
Oxfam Great Britain	Teacher training, Basic education for ethnic minorities
Save the Children Australia	Primary teacher training
Save the Children France	Education for ethnic minorities
UNESCO	Support for National EFA Plan

Source: World Bank (2005d)

In conclusion, the World Bank-led targeted budget support for EFA has brought about the spirit of the FTI in terms of promoting aid effectiveness. Harmonization, alignment, and donor coordination have materialized through this sector budget support, and a number of major donor agencies, except for Japan, have joined this World Bank-led activity. However, it is important to note that nuances exist among the stakeholders at the country level, as well as within the FTI Secretariat, regarding the interpretation of the aid effectiveness agenda. An obvious example is Japan. Due to its domestic policies and aid philosophy, Japan does not buy into such new aid modalities as budget support. Yet, there is room for Japan to contribute to the internationally agreed-upon mechanism of the FTI; both the donor community and the Vietnamese government appreciate Japan and its endeavors in terms of the FTI in Vietnam. It is important for donor agencies in Vietnam to be flexible enough to listen to these voices which differ from their

beliefs. They should also selectively and experimentally employ different aid modalities to improve aid effectiveness. At all times, donor agencies need to make maximum use of their “comparative advantages,” those approaches which fit best the context and philosophy of each aid agency.

## 8.0 CAMBODIA

The Cambodian government and in-country donor agencies in the education sector have developed the sector-wide approach (SWAp). This approach supports a single sector policy and expenditure program under government leadership, adopts common perspectives across the sector, and relies on government procedures to disburse and account for all funds (Cambodia's Education Sector Working Group, 2006, p.7).<sup>165</sup> Currently, only ADB and EC provide direct budget support to benefit the education sector, while most other donors support the sector with more traditional project-type modalities (p.7).

The following tables show the current condition of ODA in Cambodia:

**Table 17.** ODA in Cambodia

Receipts	2003	2004	2005
Net ODA (\$ million)	514	483	538
Net ODA/GNI	12.3%	10.4%	10.4%
Net private flows (\$ million)	-128	-167	2
Top 10 donors of gross ODA (2004-05 average) (\$ million)	Japan (94), AsDF (84), U.S. (60), IDA (43), France (28), Australia (27), Germany (24), Korea (21), U.K. (20), Sweden (19)		

Source: OECD (2007a)

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<sup>165</sup> SWAps have been the mechanism for ensuring that all donor assistance is aligned with the Ministry's strategic priorities and that, as far as possible, the Cambodian government's procedures are used in the implementation of donor programs (UNICEF, 2006, p.5).

Due to the political conflict and instability of the 1980s, much of the physical and human infrastructure of education was destroyed in Cambodia. In the 1990s, Cambodia heavily depended on external assistance; the amount of foreign aid increased significantly during the decade (Asian Development Bank, 2003, p.1). However, “the lack of clear education policy reform priorities and a proliferation of discreet and often unconnected donor projects were contributing to policy fragmentation and undermining development impact” (p.1).

However, of the Consultative Group meeting in 2000, the Cambodian government began to circulate discussion papers offering an alternative partnership paradigm. These documents, which drew on early experiences on education development programs in Mongolia, Indonesia, and Thailand, made donor agencies more familiar with alternative approaches to project aid (Asian Development Bank, 2003, p.1).

The Education Sector Working Group (ESWG) was established in 1999 as part of the CG process. EFA-FTI assessment is one of its topics (UNICEF, 2006, p.4). In 2003, the Cambodian Education Ministry prepared a national plan for the achievement of EFA by 2015. In December 2004, the FTI co-chairs (i.e., USAID and SIDA) suggested that Cambodia consider participating in the FTI. While the donors active in the education sector were responsible for the FTI appraisal, a consultant hired by the World Bank in 2005 drafted the main part of an assessment. Also in 2005, the Cambodian Department of Planning hired a consultant to develop a finance model which, it was hoped, would allow the funding needs and funding gap to be calculated with greater precision (p.7). The FTI proposal was endorsed by all the donor agencies in Cambodia and approved by the FTI secretariat in 2006.

Some existing mechanisms of the Cambodian government enabled donor agencies to recognize that Cambodia has the potential to be an FTI country. The National Poverty Reduction

Strategy (NPRS), which is the Cambodian version of PRSP, and the Education Strategic Plan (ESP) 2004-08 have emphasized UPE: the achievement of nine years of high quality basic education by 2015 and the promotion of equity in educational opportunities.<sup>166</sup> In addition, the Ministry of Education, Youth and Sport (MoEYS) has adopted a rolling Education Sector Support Program (ESSP), which identifies specific action plans. All education partners, including the government, NGOs, and international donor agencies, annually and jointly review this ESSP.<sup>167</sup> Both ESP and ESSP have adopted a sector-wide approach to education planning and development that provides the overarching framework for the development (World Bank, 2005e, p.1). Cambodia, using this solid framework, joined the FTI.

A number of international donor agencies conducted the following activities in relation to UPE and the FTI in Cambodia (World Bank, 2005e, pp.9, 25):

**Table 18.** Donors' activities in Cambodia

World Bank	Education quality improvement (2002-07, \$4.8 million) Japan Social Development Fund (JSDF) grant for education in reconciliation area (with Save the Children-Norway, 2002-03, \$1.5 million) JSDF grant for public education for disadvantaged children (with Save the Children-Norway, 2004-07, \$1.8 million)
ADB	Second education sector development (2004-07, \$15 million) Targeted assistance for education of poor girls and indigenous children (2002-07, \$3 million) Strengthening education sector management (2004-07, \$1 million) ADB-financed Japan Fund for Poverty Reduction implements a pilot scholarship program in 93 lower secondary schools.
Japan	Primary school construction in Phnom Penh (2004-07, \$4.8 million) Secondary school teacher training project in science and math (2002-07, \$2.8 million)

<sup>166</sup> The Education Strategic Plan (ESP) is the principal document specifying the targets and the strategies for education in Cambodia. Its first installment was made in 2001-05, while the latest installment ranges from 2006-10. The ESP 2006-10 is set within the framework of the National Poverty Reduction Strategy (NPRS) and the National Strategic Development Plan (NSDP) 2006-2010. Both documents emphasize the importance of education as an enabling factor for income generation and job creation (Cambodia's Education Sector Working Group, 2006, p.7). Also, as a long-term strategy, the Education for All National Plan 2003-2015 was created, while the ESP only covers the short term (p.8). The ESP 2004-08 and EFA Plan were produced in parallel, but are being managed separately rather than as two parts of a single integrated strategy, they focus on the same broad goals (p.8). The ESP 2004-08 and EFA Plan yield different projections, even for primary enrollments (pp.7-8).

<sup>167</sup> ESSP is supported by ADB's education sector development loan, EC's targeted budget support, and bilateral grants from Sida, Japan, and Belgium (Asian Development Bank, 2003, p.2).

BTC (Belgium)	Basic education and teacher training (2002-07, \$8.75 million) Scholarship programs
WFP	School feeding program (2002-07, \$19 million) Supporting MoEYS through primary school breakfast schemes and take-home rations for upper primary girls.
AusAID	CARE/MOEYS highland children's education project (2002-07, \$2.2 million)
EC	Targeted budget support (2002-07, \$15 million)
SIDA/ UNICEF	Basic education capacity building priorities for SWAp readiness (2002-07, \$8 million) Expanded learning opportunities for school and child readiness (2002-07, \$6 million)
USAID	Basic education project (2004-07, \$6.5 million)
Others	Service delivery quality enhancement interventions—NGOs (KAPE, Save the Children-Norway, VSO: Voluntary Service Overseas) Belgium (BTC) and UNICEF/SIDA—avoid overlapping and duplications, promote harmonization and integration in procedures and interventions.

## 8.1 DONOR RESOURCE FOR EDUCATION

The total external funding to the education sector from 2002 to 2007 is estimated at \$282.5 million. Of the total projected financing from 2002 to 2007, 42% is expected to come from the ADB and the World Bank. There is a growing diversity of the methods used to optimize the impact on various MoEYS's education reform policies. Some patterns of donor assistance include direct project support, direct budget support, off-budget support, support through NGOs, and agency direct support. The main traditional type of assistance in Cambodia, i.e., direct project expenditure, remains the predominant method from 2002 to 2007 (Asian Development Bank, 2004, p.40).

A need for improved donor aid coordination to enhance development effectiveness also exists. Over 50% of all development has gone towards capacity buildings, while ad hoc project-based salary supplementation schemes are also common (World Bank, 2005a, p.14). The large number of donors providing foreign aid without an effective strategic or coordinated framework has fragmented assistance and limited its impact. The multiplicity of implementation and financing structures has undermined the development of government systems and has increased

the costs of providing assistance to Cambodia. Similarly, different policy prescriptions by development partners have sometimes undermined the achievement of sustainable and unified development policies (pp.14-15). However, the ADB and the World Bank both advocate a division of labor to support the Cambodian government in its development of SWAp. The ADB favors the education sector SWAp, while the World Bank, in collaboration with DFID, embraces the health sector (World Bank, 2005a, p.38).

The resource needs of the education sector, excluding technical and vocational education, amount to \$293.7 million from 2006-2008; \$110.5 million of the total is projected as being provided by the government of Cambodia. Since the donor commitment for education is \$156 million, a \$27 million funding gap exists (Cambodia's Education Sector Working Group, 2006, p.27). To fill this gap, the NSDP (National Strategic Development Plan) points out the need to significantly reduce freestanding technical assistance and to instead increase the budget support linked to measurable qualitative and quantitative performances and states that there is much inconsistency between individual donor commitments as reported by donors themselves and as recorded in the Cambodian government's Public Investment Program 2006 to 2008 (p.27).<sup>168</sup>

In 2003, about \$546 million in ODA was disbursed for Cambodia, this figure represents nearly 8% of Cambodia's GDP on a per capita basis. Cambodia, which has received significantly more ODA than other low-income countries during the past decade, primarily uses its aid inflows to improve health and education, rebuild physical infrastructure, and increase institutional capacity building. Given Cambodia's substantial financial needs and its limited capacity to mobilize domestic revenues, it will continue to depend heavily on ODA in the mid

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<sup>168</sup> Regarding the resource availability and funding gap in the education sector in Cambodia from 2006 to 2010, the government and donor agencies will finance 50% and 9% for resource demands, respectively, and 41% for the funding gap (Cambodia's Education Sector Working Group, 2006, p.33).



term (World Bank, 2005a, p.2). In light of Cambodia's weak governance, a significant portion of ODA is handled off-budget and is, therefore, difficult to assess (p.14).

## 8.2 FINDINGS FROM THE INTERVIEWS

Blunt and Samneang (2005) report the qualitative findings based on semi-structured interviews conducted during 2005 in Phnom Penh that targeted aid workers in Cambodia.<sup>169</sup> They conclude that while the government and donor agencies understand the notion of harmonization and alignment, they do not grasp the concepts of national ownership, managing for results, and mutual accountability (p.5).

Cambodia spends a great deal of time on aid coordination, sometime at the expense the design and implementation of programs and projects. Donor agencies, therefore, experience a degree of "coordination fatigue" and "information overload" (Blunt & Samneang, 2005, p.5). An aid worker points out that "aid coordination seems to have become an end itself, rather than one of a number of means to poverty reduction. It is difficult to see a clear link time spent on aid coordination and result achieved" (p.5). While some aid workers label the time spent on aid coordination as about right, some others feel that the aid effectiveness agenda is too time-consuming, too structured and too inflexibly in terms of diversity (p.5). One interviewee adds that aid coordination in Cambodia is "over-engineered" and too "choreographed" (p.27).

The following section analyzes the situation of Cambodia from the perspective of donors' concerns, contracting problems, and capacity.

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<sup>169</sup> The small sample size, the limited time available for conducting interviews, and the anecdotal nature of the evidence make the findings suggestive at best (Blunt & Samneang, 2005, p.5).

### 8.3 CONCERNS

A consultant familiar with the FTI appraisal process in East Asia mentions that Cambodian government officials were skeptical of the FTI, especially because FTI membership did not necessarily guarantee an increase in external resources for education. The World Bank and several other donors argue that Cambodia should join the FTI to develop better sector planning and an education master plan. Because donor agencies often implement their projects according to their own agency procedures, some also assert that being an FTI member could enable donor agencies to “sing in the same choir” and thus avoid distortion in the education sector.<sup>170</sup>

Although donor agencies see aid effectiveness, a core agenda of the FTI, as the “front-center” on development agendas, aid effectiveness tends not to be the subject of much formal explicit discussion (Blunt & Samneang, 2005, p.14). An aid worker states that the Paris Declaration on Aid Effectiveness “had not really been well thought through from an operational standpoint” (p.14).

Nearly all the people interviewed expect to talk about aid effectiveness solely in terms of aid coordination (Blunt & Samneang, 2005, p.14). Donors’ agreement that aid coordination is desirable may translate into peer pressure not to criticize it. Others looking at aid coordination raise questions about “who was leading whom.” Donors, rather than the Cambodian government, may be “the main driving force behind the aid coordination agenda.” This constitutes a clear case of being “hoisted by your own petard” (p.15).

Every donor agency seems to agree that the issue of “visibility was unlikely to fade away anytime soon” and that visibility would probably always be a source of tension for donors,

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<sup>170</sup> Interview with a consultant familiar with the FTI appraisal process in Cambodia, Mongolia, and Vietnam.

particularly for some bilateral agencies where development assistance is clearly an extension of foreign policy. This concern constitutes “a fundamental barrier to how far you can go without harmonization” (Blunt & Samneang, 2005, p.20). Some aid agencies, with the exception of the Like-Minded Donor Group (LMDG), may share this concern.

ADB is one of the donors that has promoted SWApS and adopted budget support for education. The ADB has taken this approach due to the “government recognition of the disappointing sector performance in the 1990s, and the limited development impact of external assistance of \$30-40 million per annum between 1994-1999” (Asian Development Bank, 2003, p.2). Another reason is a determination within the highest level of government to move from “donorship” to ownership and partnership, set out in the Cambodian government’s partnership paradigm paper (p.2). Also, an alliance of LMDG has facilitated the ADB to take such an approach (p.3). Between 1999 and 2001, ADB, SIDA, EC, and UNICEF jointly financed a sector-wide education policy dialogue and analysis in Cambodia. This work culminated in the draft ESP (Asian Development Bank, 2003, p.4).

EC also supports a SWAp in education (European Commission, 2005, p.2). To strengthen policy planning and management in education, EC’s assistant program for Cambodia from 2003 to 2008 consists of budget support combined with institutional support and technical assistance (p.10). Its budget support approach reflects the concern of EC. “The addition of resources through the budget support will be conditional upon acceptable pro-poor progress in the education sector as verified in the independent EC technical monitoring missions” (pp.12-3). Coordination between donors, which is institutionalized through the monthly Education Sector Working Group meeting, includes a representative of NGOs (p.14). EC reports the lessons learned from its past support to education sector in Cambodia underscored the importance of 1)

ensuring a close alignment with government policy, 2) developing nation-wide support and covering reforms and capacity building, and 3) dispersing support in a manner that strengthens provinces, districts and communes as well as the central level (European Commission, 2004a). The current EC programs consist of a sectoral budget support combined with institutional support and technical assistance to strengthen policy planning and management in education. In 2001, the total ODA disbursed to Cambodia from EU member states accounted for \$112.5 million, which is 28% of total ODA.<sup>171</sup> This large contribution is second only to Japan's of \$120 million.

The World Bank provides the Education Sector Support Credit, a combination of \$8 million IDA Credit and \$20 million of grant. The project was appraised jointly with the ADB's Second Education Sector Development Program (ESDP2) to ensure programmatic alignment and complementarity between both programs of financial assistance (World Bank, 2005e, p.8). Although direct fiduciary (i.e., financial management and procurement) risks for this project are limited, the countrywide fiduciary environment remains weak—strong financial management and procurement guidelines and supervision will be instituted through the implementation of the project, including annual independent audits (p.13). This is why the World Bank, as well as some other donor agencies, consider it premature to introduce budget support to Cambodia.

The current World Bank's Country Assistance Strategy (CAS) has a strong focus on strengthening national budgetary and financial management systems; it has considered a budget support for this operation (World Bank, 2005e, p.8). ADB and EC are presently providing targeted budget support to the education sector and addressing challenges through technical and

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<sup>171</sup> EU member states active in Cambodia include Belgium, Denmark, France, Germany, Switzerland, and the U.K.

financial assistance (p.8). Financing to education has increased significantly in the past few years, but the timeliness and reliability of disbursement continue to be problematic (p.8).

In Cambodia, the ADB and EC have taken an initiative to promote education SWAps and to introduce budget support. Other donor agencies have tried to transcend their traditional constraints and to align their aid with such multi-donor mechanism as SWAps, although the magnitude of bilateral agencies is not necessarily sufficient to meet the internationally agreed upon goals.

#### **8.4 CONTRACTING PROBLEMS**

The ADB and the EC are providing budget support to the education sector in Cambodia. However, the Cambodian government does not yet function well owing to political infighting in the wake of the country's recent tragic history. The sector strategy developed by the government was not as sound as many donors would like it to have been, and the government misused some of the budget support earmarked by the ADB and EC for education, diverting it to other ends. Considering this background and the weak capacity of the government, delivering aid resources through governmental mechanisms in Cambodia may be premature at this time.<sup>172</sup>

Blunt and Samneang (2005) present several conflicting perspectives among stakeholders in Cambodia in relation to the contracting problems of aid. They observe fundamental philosophical differences between two types of donor agencies in Cambodia. Some donors interpret “national ownership” as being linked with the employment of a national system

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<sup>172</sup> Interview with a consultant familiar with the FTI appraisal process in Cambodia, Mongolia, and Vietnam.

delivery despite the evident shortcomings of the Cambodian government. According to these donors' perspectives, it is better to be "in there" and to be helping things to improve than to be operating "in parallel" (Blunt & Samneang, 2005, p.15). These donors include European LMDG-type of agencies. On the other hand, another type of donor agencies believes that minimal levels transparency and accountability of government systems should be ensured; these agencies primarily interpret national ownership in terms of development objectives and their priority, not in terms of how development assistance is rendered (pp.15-16). Japan and the U.S. can be classified in this group.

Furthermore, some tensions between government and some donor agencies with regard to the different interpretation of the term "national ownership" occur. One view sees virtue in a harmonized program approach involving multiple donor support to a government initiative, in tune with the Paris Declaration on Aid Effectiveness, while another view perceives this as a threat to genuine government ownership (Blunt & Samneang, 2005, p.16). Because of Cambodia's high level of aid dependency, a tension exists between the rhetorical claims of interest on the part of government in coordination and the incentives to maximize donor investment at the expense of the interest of Cambodian government (p.16). An aid worker said that overall transaction costs for the government and donors should decrease as a result of effectiveness donor coordination, but no verification exists that this yet happened (p.18).

MoEYS and the international community recognize that the coordination and programming of external assistance will need to respond to changing sector priorities, especially in a shift towards the expansion of secondary and post secondary education opportunities anticipated in the revised Education Strategic Plan 2004-2008 (Asian Development Bank, 2004, p.41). For example, the support for capacity building, which is projected to shift towards sector-

wide planning and management as opposed to project implementation and management, requires a review of the nature of technical assistance (p.41).

Education donors meet every month in Cambodia. The Education Sector Working Group (ESWG) addresses the issue of donor coordination and serves as an information exchange on programs and projects supported by donor financing and technical assistance.<sup>173</sup> Donors also finance the position of the Donor Coordination Advisor who compile information, works closely with MoEYS, and responds to the other heavy demands prior to and following the ESP and ESSP reviews (Cambodia's Education Sector Working Group, 2006, p.9).

Cambodia's external assistance portfolio is a heavily technical assistance-oriented one. Technical assistance, comprising personnel charges, training and associated operational spending, is estimated at 45% of the project portfolio, while 21% of the portfolio deals with total domestic and externally financed investment spending. The key issue is to focus more resources on capacity enhancing technical assistance and to shift from technical assistance to investment and budget support for priority sectors (World Bank Institute, 2004, p.2).

A case of the World Bank's CAS (Country Assistance Strategy) exemplifies the strengths and challenges of donor coordination in Cambodia. The World Bank has shared the latest CAS, which covers from FY 2005 to 2008, with the ADB, DFID, and U.N. Development System. Also, the ADB, Japan, and the World Bank have worked over the last year to improve synergies among their programs (World Bank, 2005a, p.i). The Bank will contribute to improving the

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<sup>173</sup> ESWG, established in 2001, is chaired by UNESCO and EC. ESWG has two representatives of the NGO Education Partnership (NEP), also established in 2001. The ESWG serves as a regular forum for the many private organizations working in support of education (Cambodia's Education Sector Working Group, 2006, p.9).

government-led coordination of external assistance, either by working through or helping to promote the evolution of coordination structures such as SWAps (p.ii).

The CAS is also substantially aligned with UNDAF (World Bank, 2005a, p.1). During the preparation process of CAS in October 2003, the ADB, DFID, and the World Bank organized joint consultation workshops with partners and stakeholders, including the Cambodian government, other donors, NGOs, civil society, and the private sector. In the wake of the CAS development process, less duplication and fewer gaps in terms of sectoral coverage of the partners' programs vis-à-vis Cambodia's needs and priorities have reduced the transaction costs for the Cambodian government. Meanwhile, the transaction costs for the donor agencies have either stayed the same or grow larger than would have been the case had they prepared their own stand-alone country strategies. Staff overtime and the length of the process have also increased the overall costs. However, all four partners consider this an acceptable price to pay for the gains made. (p.2)

## **8.5 CAPACITY**

Donor capacity is seen by some as an impediment to aid effectiveness. Those who work in the field assert that “many staff are not technically qualified in any particular discipline to a level that enables them to engage in high level debate or substantive issues, which sometimes leads to poor judgment about aid coordination” (Blunt & Samneang, 2005, p.15).

An ADB officer states that the Cambodian government, not the donors' capacity impedes aid effectiveness. Education sector SWAps in Cambodia used to lag behind those of the health sector. Cambodia developed its education SWAps based on the initiative of ADB. Quality



enhancement of education cannot be reached without the ownership of the ministry of recipient countries. SWAps have lowered transaction costs for developing countries by reducing the reporting requirements, etc. Donors need transparency in introducing SWAps in order to track where the money goes and how much recipient countries can expect. Although SWAp has been established in Cambodia, much work still needs to be done before the government bureaucracy assumes an ownership position. This includes the establishment of network systems to connect villages.<sup>174</sup>

## 8.6 CONCLUSION

Donor agencies have striven to support the educational development of the Cambodian government by using each donor's comparative advantage and aid modalities available for respective agencies. Blunt and Samneang (2005) conclude:

Donors may decide to work together and pool funds or to provide budget support to government, or delegate to other donors, or to work separately. All forms of support have strengths and weaknesses that will vary from one situation to another. There are considerable risks to assuming a "one best way" approach to development assistance that pays no attention to circumstance. Which approaches to use, where and when should be a matter of informed judgment based on a careful assessment of circumstances and available development assistant methods. (Blunt and Samneang, 2005, p.25)

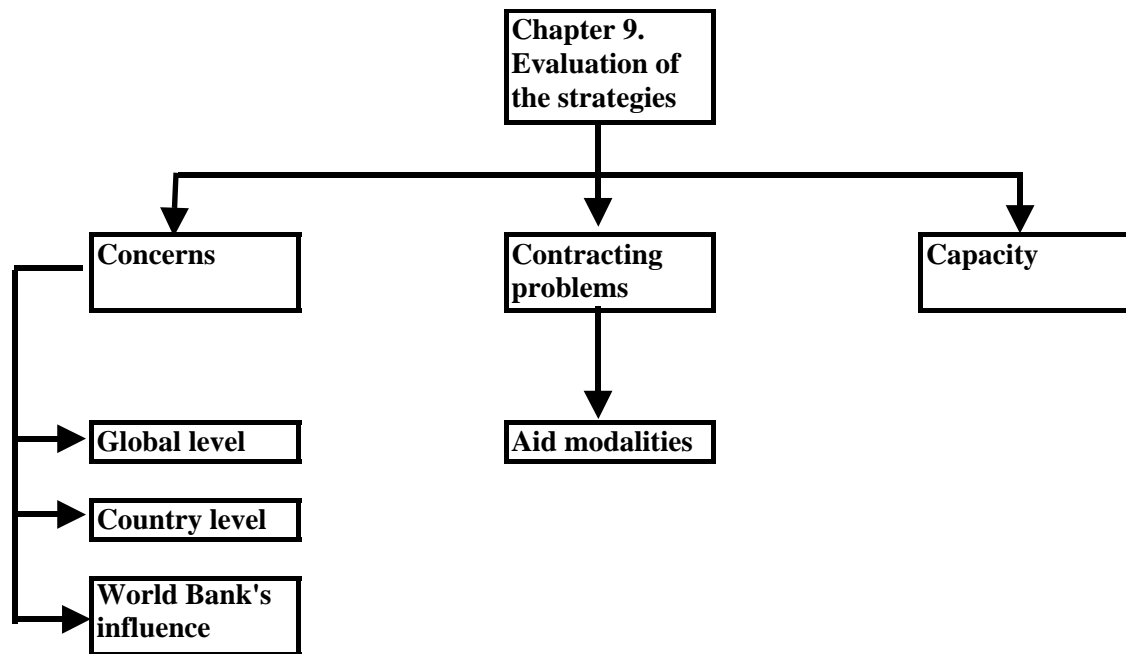
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<sup>174</sup> Interview with a staff member of ADB.

After examining the case of Cambodia, I would like to echo this perspective. “Singing in the same choir” for all donor agencies may be preferable but not compulsory. Taking it for granted that donor agencies, particularly some bilateral agencies, are more or less controlled by their home countries’ policies and diplomacies, a realistic solution should respect each donor’s different approach based upon the assumption of good will. Designing global guidelines may help donor agencies improve aid effectiveness, but flexibility should be ensured in the application of aid field-level activities.

## **9.0 EVALUATION OF THE STRATEGIES**

This section evaluates the strategy of the FTI in relation to the donor agencies from the viewpoints of concerns, contracting problems, and capacity. Since the international donor community launched the FTI in 2002, it may be premature to evaluate the successes or failures of the Initiative. However, like UNESCO (2005), I have attempted to make an initial assessment of the results of the FTI. Because various donor agencies have already made general assessment of the FTI, I focus particularly on donor agencies and their institutions here. The following figure is a flow chart of Chapter 9.



**Figure 16.** Chapter 9 flow chart

UNESCO (2005) concludes that since the launch of the FTI, the amount of foreign aid for basic education has increased.<sup>175</sup> The Initiative has heightened the visibility of UPE in the international society and facilitated donor coordination and harmonization in the education sector. Still, the FTI has received criticism. Various research findings demonstrate that the increase of foreign aid is not sufficient for many developing countries to reach the goal of UPE. Moreover, some educational practitioners question the “value added” of the FTI, particularly for the developing countries which already have a poverty reduction strategy and credible education sector plan.

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<sup>175</sup> According to UNESCO (2005), total bilateral aid to education increased from \$3.55 billion in 2000 to \$4.65 billion in 2003, but education’s share of total foreign aid declined from 8.8% in 2002 to 7.4% in 2003 (p.108). Meanwhile, the budget support, which is not counted as aid for education in the OECD’s system, accounted for 5% of the total ODA in 1999-2003; the FTI Secretariat analyzes that 15% of budget support can be ascribed to education, half of which goes to basic education (p.111).

The following figure, obtained from document analysis and interviews, depicts the structural tensions among major stakeholders in relation to the FTI. On the field level, recipient countries try to mobilize resources from donor agencies in order to fill the gaps in achieving UPE, while aid workers in the field attempt to improve the effectiveness of their aid projects. Developing countries, by taking advantage of the international conferences, also appeal to the international society regarding the necessity for more external resources from donor agencies. However, donor-led international conferences usually expect the recipients to help themselves by developing poverty reduction strategies and credible education sector plans. Meanwhile, tension exists within donor agencies: the donors' top management and policymakers tend to promote innovative and appealing initiatives such as the FTI, while the aid workers in the field tend to prefer their traditional way of implementing projects in order to ensure credible outcomes from their aid activities. While international conferences call for more contributions from donor agencies, donors attempt to advertise their contributions at the international arena and justify that their way of aid delivery is effective in terms of assisting developing countries. In this chapter, I analyze these tensions from the viewpoint of donors' concerns, contracting problems, and capacity.

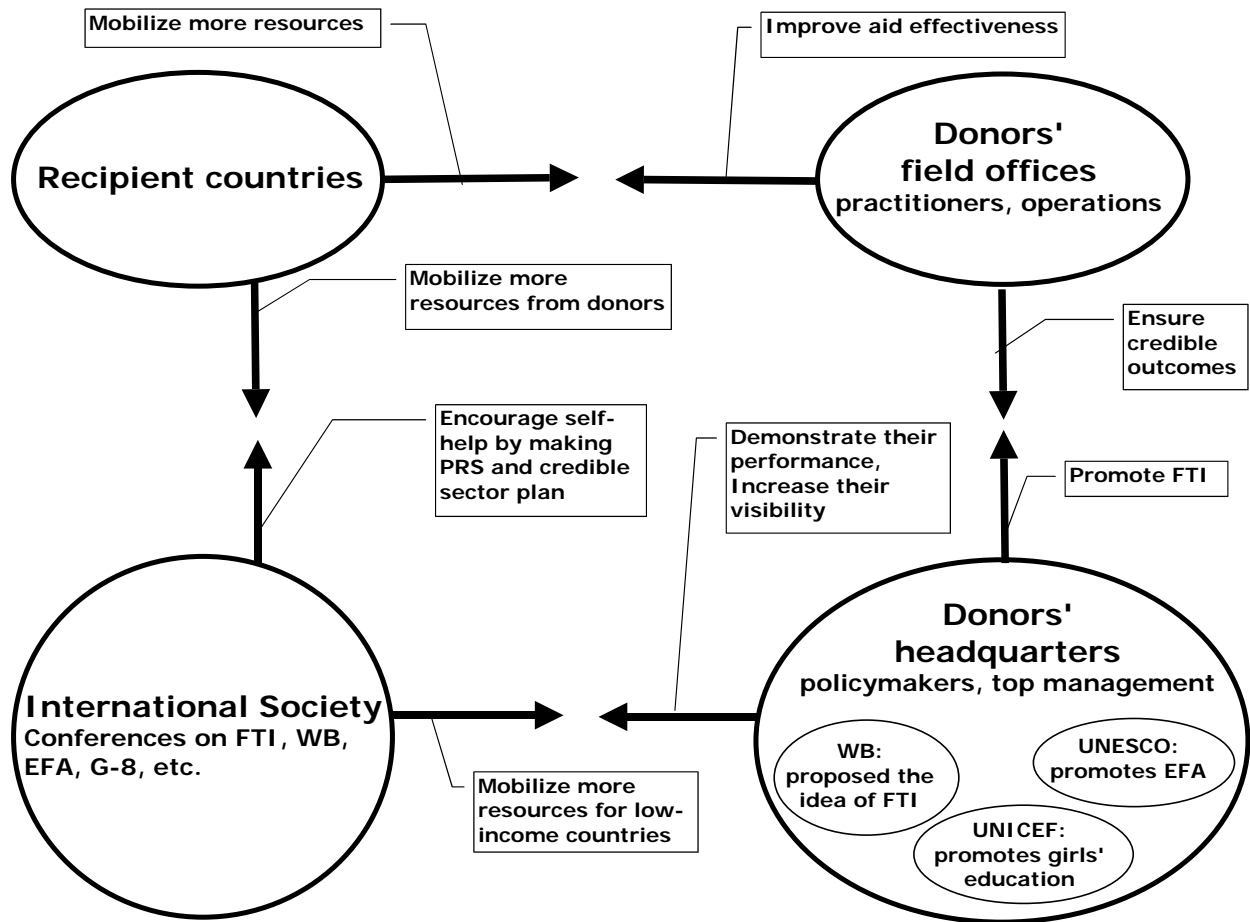


Figure 17. Mapping of tensions among stakeholders of FTI

## 9.1 CONCERNS

The following section evaluates how donors' concerns make a difference in the FTI in terms of the global and country levels.

### 9.1.1 Global level

On the global level, the strengths of the FTI derive from the Initiative's effort to make maximum use of the concerns of participating donors. The FTI has made an effort to keep the challenge of basic education in developing countries "catchy" so that the politicians of rich countries will pay attention to this agenda. For example, the FTI has proactively involved the G8 summit in its activities of advocacy and public relations. Although industrialized countries have demonstrated their commitment to the objectives of the FTI by pledging to a series of international agreements such as EFA, MDGs, and the Declarations of Aid Effectiveness, it is imperative to keep the Initiative attractive to the politicians of wealth countries in order to keep mobilizing resources from them. The amount of resource transfer from developed to developing countries was modest during the 1990s after the international community committed to the EFA in 1990. The FTI, therefore, recognizes the importance of advocacy for the politicians in donor countries.<sup>176</sup>

Specifically, in collaboration with the participating donor agencies, the FTI has made UPE an agenda item not only at the annual EFA High-Level Meeting, which UNESCO convened, but also at the Annual Meetings of the World Bank Group and the International Monetary Fund, and the G8 Summit. Through these international events, the heads of state and the Ministers of Finance and Education of wealthy countries acknowledge the urgency of establishing a basic education, or UPE. This political advocacy is critical for maintaining the momentum of foreign aid flow from rich to poor countries. To convince the policymakers, not only the aid workers of wealthy countries, to give aid for UPE in developing countries is formidable undertaking. To

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<sup>176</sup> UNESCO (2005) concludes that the FTI gained political visibility in 2005 through a series of international meetings: the Millennium Project, the Development Committee of the World Bank and the IMF, the Commission for Africa, and the G8 Summit in Gleneagles; however, these commitments in the international arena have not yet resulted in a significant increase in aid to basic education (p.120).

maintain the momentum, therefore, it is critical to use the above-mentioned international coordination mechanisms to support basic education in developing countries by targeting policymakers of rich countries. Consequently, the FTI has strived to keep UPE attractive for the policymakers. Such efforts have so far succeeded in increasing the number of donor agencies committed to supporting the FTI.

Yet, the FTI's inability to control donors' concerns limits the Initiative. The FTI insists that mutual accountability of both donors and recipients forms the basis of the Initiative; it expects participating donor agencies to provide aid resources in a transparent and predictable manner. Due to the lack of capacity and/or willingness of aid workers, however, the FTI has no guarantee that all participating donors will comply with its guideline. An interview with a U.S. aid worker implies that the U.S., believing that its aid delivery system is a sufficient one, will not reconsider the effectiveness of its system when interacting with other donor agencies. The U.S. only expects the sharing of knowledge and exchange of information. Although donor agencies at least respect the internationally agreed upon consensus, such as EFA, the MDGs, and the Paris Declaration on Aid Effectiveness, the magnitude of their commitment to these goals varies because each donor provides foreign aid in accordance with its own multiple incentives. The FTI does not have the power to alter the behavior of the donor agencies.

As analyzed in Chapter 5, the perspective of the FTI secretariat regarding the stance of the FTI towards participating donor agencies appears to have changed, moving from a leadership role to that of mediation with various stakeholders. While the former director of the FTI secretariat asserted that the FTI should address the "market failure" in the allocation of ODA by promoting aid harmonization, an interviewee of the FTI secretariat from this study concluded that the FTI should remain low key and support the activities in the field simply by putting



questions on the table. Although both officers seem to share a common concern regarding the promotion of the FTI, this change in approach benefits developing countries. The FTI would not be able to gain anything if it imposed a certain aid modality on donor agencies; rather such action might make donor agencies reluctant to join the FTI and instead embrace a stand-alone strategy.

In addition, a strong and undue influence from specific donor countries on the FTI makes the participation of other donors difficult. Some of the key concepts of the FTI, particularly the promotion of budget support, are derived from the discussion of the Like-Minded Donor countries and their experiences in Sub-Saharan Africa. It is widely known that major European donor countries took the initiative by directly providing their foreign aid to the national budgets of recipient governments and by intervening with the management of the public finance of low-income countries to improve aid effectiveness. This has occurred because the traditional way of donors' delivering foreign aid by establishing project implementation units has not worked well in a number of recipient countries, especially in sub-Saharan Africa, due to the weak governance of recipient countries.

On the other hand, some other donor agencies such as Japan, whose major aid recipients in East Asia have enjoyed some socio-economic success, believe they do not have to introduce budget support. Because the context of East Asia differs from that of Sub-Saharan Africa, budget support seems a more relevant solution for European donors in Africa. Japanese aid workers reached this conclusion for several reasons. Since major recipients of Japan's foreign aid in Asia usually have more organized institutions than Sub-Saharan African countries, Japan has not faced the necessity of introducing a new modality, such as budget support, to their aid system. Providing technical assistance and infrastructure development has been an impetus for socio-

economic development in those Asian countries which have most benefited from Japan's foreign aid. In addition, the principal-agent structures of some donor countries, such as the relationship between the headquarters and field offices of donor agencies, do not allow the aid modality that gives the developing countries receiving aid priority over the visibility of donor countries in the field. Moreover, the lack of capacity of donor agencies to ensure the accountability of their aid resources under the environment of coordinated and harmonized aid makes some donors hesitant to join the FTI.

In terms of foreign aid philosophy, both the U.S. and Japan share a similar perspective. An American NGO worker has the skepticism toward the FTI and EFA goals per se due to their feasibility. "The idea of EFA came out of the U.N. The action plans which were agreed upon in Jomtien and Dakar are the same as those being used by the U.S. Regarding UPC's unrealistic goal, I doubt that aid workers are able to stick to it and question why the goal is set too high."<sup>177</sup> This perspective is in line with that of Easterly (2006). Most major donor agencies, including the U.S., attended a number of international conferences which designed those internationally agreed upon objectives of education.

The fact that Japan and some non-European donor countries have selectively adopted budget support and aid harmonization for the countries in which such a system may work marks a favorable shift. The case study in Vietnam demonstrates that Japan, to improve aid effectiveness, has dialogued with the DFID, which has actively promoted budget support; Japan has selectively introduced this new aid modality wherever possible and appropriate. Conversely, the DFID, like Japan, acknowledges the usefulness of technical assistance projects in the context of Vietnam. Japan has generally been cautious of using the system of low-income countries in

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<sup>177</sup> Interview with an American NGO worker. When disbursing its foreign aid resources, the U.S. government increasingly favored contractors over NGOs (Johnes & Nickinson, 2006, p.351).

delivering its aid resources. Yet, it is significant that those aid workers in the field with the capacity and willingness to improve their aid have applied the good practices of other donors to their system.

### **9.1.2 Country level**

On the country level, the FTI generates the leverage by interacting with international donor agencies in the field. The concerns of the FTI in the field are mobilizing more resources for UPE and developing the capacity of recipient governments, while local donor agencies are interested in generating the results and demonstrating them in accordance with their respective strategies. The FTI provides a forum for communication and knowledge exchange among local donor agencies for UPE. By doing so, the participating donor agencies satisfy both the needs of the FTI and of themselves.

Nonetheless, some limitations of the FTI's role in developing countries still exist. Since donor agencies usually work in accordance with their own strategy to ensure the accountability for their constituencies in industrialized countries, their commitment to the FTI is finite in all cases. The incentives of donor countries have typically been reflected in the selection of their recipients and the amount of their aid resources and disbursement. Although the initial FTI selected countries were the most likely ones to achieve UPE to ensure the FTI's effectiveness and efficiency, all low-income countries are currently eligible to apply for the FTI. Within developing countries, the FTI hopes to support the donors' existing system and to provide Catalytic Funds in those areas with insufficient donor resources. However, the change of donors' concerns can stop the disbursement of the pledged amount of aid resources. For example, the country strategy of Japan in providing aid for Vietnam explicitly mentions that Japan aids

Vietnam because of its economic importance for Japan. The FTI's Catalytic Fund also depends on bilateral donor countries and their contributions, which are subject to the policy of each donor country. The amount of the Catalytic Fund is not sufficient to enable developing countries to reach UPE. Even if they become FTI partners, developing countries have no guarantee that they will receive the necessary amount of resources from the regular donor channel or the Catalytic Fund. This fact undermines the incentives for some low-income countries to participate in the FTI.

### **9.1.3 World Bank's influence**

Although the FTI is technically a multi-donor network independent from the World Bank, some stakeholders regard the FTI as a World Bank's initiative. While all the decisions regarding the FTI have been made through the discussion and consensus of FTI partners, some donor agencies, equating the FTI with the World Bank, tend to distance themselves from the FTI rather than enrich the Initiative by incorporating their respective perspectives. An aid worker in Mongolia and Cambodia says that some donors' staff, rather than seeing a consultant as a representative of as a representative of all international donor agencies supporting education, instead saw him as an employee of the EPDF<sup>178</sup> represented the World Bank.<sup>179</sup> It is obvious that the FTI has a connection with the World Bank since the Bank proposed its idea, took initiative for its launch, housed its secretariat, and managed its trust fund such as the Catalytic Fund. However, since the core implementation mechanism of the FTI is to use donor agencies' existing channels in the field,

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<sup>178</sup> An FTI Trust Fund.

<sup>179</sup> Interview with a consultant familiar with the FTI appraisal process in East Asia.

the FTI would not be successful without the active participation of donor countries. The World Bank launched a number of global development initiatives, such as the Strategic Partnership with Africa (SPA) and the Association for the Development of Education in Africa (ADEA), that later became independent from the Bank. These experiences reinforce the necessity of making the FTI more multilateral and of minimizing the influence of the World Bank in order to increase the number of donor countries that actively support the FTI.

The FTI and the World Bank have discernible differences in their concerns. The ideal picture of the FTI includes: 1) having the recipient country develop a master plan; 2) endorsing the plan by donor agencies; and 3) introducing budget support, or using the country's mechanism, as much as possible. A World Bank economist described that “this is different from the standard investment project of the World Bank. Even in the case of policy lending, the World Bank sets the conditions and asks recipient countries to fulfill them.”<sup>180</sup>

A senior World Bank official makes a multilateral and pro-FTI statement regarding an ideal stance that donor agencies should take in relation to supporting UPE in developing countries:

International donor agencies in the field are expected to understand FTI's culture, the details of FTI's plan, the value of working with countries, and the consistencies within the Indicative Framework. Bilateral donors involved in the FTI should transcend their own political interests. The FTI framework enables donor agencies to coordinate their efforts better. Bilateral donors should not implement “niche programs,” but should pursue uniform plans so that they can

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<sup>180</sup> Interview with a World Bank economist.

implement consistent financing and reduce the administrative burden on the government and the transaction costs. (Interview with a World Bank official)

As these two experts clearly indicate, considerable differences divide the World Bank's top management from its practitioners in the field. The senior officer urges participating donor agencies to "transcend their own political interests" to help developing countries achieve UPE under the FTI. Yet, even a field level officer within the World Bank recognizes that the Bank's operation is different from what the FTI attempts to do. Bilateral donor countries, which have more explicit political interests in providing foreign aid, have more difficulties in adjusting their aid practices to the FTI's.

An American education specialist of an NGO shows an apathetic view toward the FTI. According to this specialist, "The FTI does not make a lot of difference; the idea is the same as that which American aid workers have done. There are no ways to avoid the tensions that have arisen from donors' concerns, i.e., between pursuing donors' national interests and helping poor countries. Often, a donor's major concern is how the aid money is used while, generally speaking, donor coordination does work well in many places."<sup>181</sup> This perspective exemplifies a challenge that FTI members must overcome in order to make the Initiative really work: presenting an explicit value added from the FTI and a realistic solution to reconcile with donors' various concerns.

The FTI is making a difference in the effort to reach UPE by the international community by utilizing various concerns of different donor agencies. Despite the Initiative's limitations mentioned above, the FTI is significant because it provides donor agencies and recipient governments with an arena of doing "experiments" for reaching UPE. Through the mechanism of

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<sup>181</sup> Interview with an NGO worker. He also points out that "the EMIS (Education Management Information System) is usually shared by many donor agencies in the field."

the Initiative, the participating donor agencies pilot various approaches for UPE and share those lessons with other participants. In this way, the FTI mediates the participating donors' various concerns.

However, judging from the case study of Vietnam, donor agencies should care about the absorptive capacity of recipient governments when they do "experiments" regarding new aid initiatives. Due to their excellent governance and socio-economic performance, donor agencies have provided significant amounts of aid resources, sometimes by using new aid approaches. By collaborating with major bilateral donor countries, the World Bank has taken a leadership role in providing both general budget support and targeted budget support to assist Education for All, which includes UPE, in Vietnam. While these new initiatives seem to have worked well in Vietnam, donor agencies must recognize that it is the recipient country that should sit in the driver's seat. The donors' role should be no more than assisting developing countries in learning how to drive, rather than "experimenting" with the donors' new ideas in the field.

## **9.2 CONTRACTING PROBLEMS**

Although the FTI asserts that the mutual accountability of both developing and industrialized countries makes the Initiative different from other aid activities, the power structure of the contractual relationship between recipients and donors is uneven. Developing countries cannot receive assistance from the FTI unless they satisfy the requirements of the Initiative: using the Indicative Framework, prepared by the FTI to create a poverty reduction strategy and a credible education sector plan. Even if developing countries fulfill these requests, they have no guarantee that they will receive a sufficient amount of aid; the amount of foreign aid depends on the

discretions of each donor agency. While all low-income countries are eligible to apply for FTI membership, the FTI may lose its attraction if it does not live up to its launch by making a difference in filling the gap of data, policy, capacity, and resource in achieving UPE. This limitation of the FTI may cause developing countries to reconsider whether they want to become members.

Meanwhile, donor agencies are not subject to the guidelines of the FTI. The FTI, in line with the standards set by the OECD-DAC, prepares the criteria regarding donor coordination and harmonization, which is known as the Donor Indicative Framework; it attempts to improve the effectiveness of foreign aid from the participating donor agencies. Ultimately, however, donor agencies can selectively join or even leave the FTI, if the Initiative's guideline is unfavorable for them. They can then use their modalities so that donor countries can maximize their own benefits by providing foreign aid. This reality may negatively affect the morale of the FTI's stakeholders.<sup>182</sup>

Regarding the transaction costs in relation to the contracts between donors and recipients, the FTI's core strategy, i.e., donor coordination, harmonization, and alignment toward the system of recipient governments, contributes to reducing the administrative costs of developing countries. As part of the process for low-income countries to become an FTI member, donor agencies in the field assist these countries in creating poverty reduction strategies and credible education sector plans; the developing countries and donor agencies then assess those documents in a collaborative manner. This process, which forms the basis that allows donor agencies in the field to work together under the common framework of FTI, shows that donor agencies bear the

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<sup>182</sup> Former World Bank economist Easterly (2006) concludes that voters in rich countries choose the actions of foreign aid; they love "the promises of easy solutions, the utopian dreams, the side benefits for rich-country political or economic interests, all of which hands the aid agency impossible tasks" (p.170).



administrative costs on behalf of the recipient countries. Consequently, an agency that has an incentive to be a mediator among donor agencies usually plays the role of Lead Coordinating Agency in the field.<sup>183</sup> Such donor agencies include some U.N. organizations, whose mandate is donor coordination per se, as well as Like-Minded Donors, who have promoted harmonization over the past decade. These donors have already established an accountability system, such as DFID, in their home countries, so that their own visibility in developing countries does not matter as long as their foreign aid contributes to the development of poor countries.

However, both the case study of Mongolia and the many interviewees of different donor agencies indicate that successful donor coordination depends on the personality of aid workers in the field rather than the policies and strategies of aid agencies. The three case studies in this paper illustrate that motivated individual aid workers, not officially selected Lead Coordinating Agencies, are the ones who contribute to the coordination among donor agencies and who make a difference in the preparation for the FTI. This is a significant point since all donor agencies have more or less committed to providing assistance for developing countries to achieve UPE. In other words, with aid agencies already motivated for the FTI, it becomes more important to stimulate the capacity and willingness of individual aid workers to take piecemeal action in the field for the FTI.

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<sup>183</sup> Easterly (2006) asserts that “aid agencies are rewarded for setting goals rather than reaching them, since goals are observable to the rich-country public while results are not” (p.185). The donors who took an initiative to set goals have an incentive to be mediators. Donors can also take an initiative to modify the standards or setting goals that follow the current one.

### 9.2.1 Aid modalities

Each donor has different contracting problems in relation to the FTI, particularly concerning the aid modalities. While it seems that Japan has become open to the new aid modalities and promotes harmonization, alignment, and donor coordination, some Japanese aid workers place higher priority on demonstrating Japan's spirit in its foreign aid activities.<sup>184</sup> This stance may have an adverse effect on global efforts, including those of the FTI, towards aid effectiveness. Japan has officially expressed its willingness to play a more active role in the FTI, including its financial contribution to the Catalytic Fund; like other donor agencies, the magnitude of its commitment differs, depending on each aid worker.

A Japanese aid worker spells out the significance of donor coordination for Japan:

In promoting donor coordination and participating in aid harmonization, it is important to consider and estimate costs and benefits. For example, Japan may simply disseminate its information to other donor agencies in the developing countries in which it is a leading donor. On the other hand, in the developing countries in which Japan's input is relatively small, proactive participation in donor coordination is rational in order to better demonstrate its contribution. Japan should use donor coordination to implement "Japan's foreign aid" effectively. Donor coordination sometimes instigates an excessive volume of meetings and brings about "coordination fatigue" among some donor agencies.

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<sup>184</sup> A Japanese aid worker expressed his concern on new aid modality. "Participating in budget support makes it difficult for donor countries to track how their aid resources are actually used" (Interview with a Japanese official aid worker). However, this view seems to be myopic. Because foreign aid resources are fungible, it is necessary to pay attention to how recipient countries' budget monies are used, regardless of the participation in budget support, in order to ensure the effective use of aid resources.

Taking into account the rationale of donor coordination, Japan should avoid being involved in such a situation. (Interview with a Japanese official aid worker)

The priority of Japan seems to be putting its spirit into the operation in developing countries and, thereby, contributing to the development of recipient countries. This seems to explain why Japan has kept its distance from playing an active role in the FTI at the country level, although it would be ideal for Japan, like the U.S., take a leadership position to promote the FTI in these countries where Japan is the leading donor.

An ADB officer concludes, “Nuances exist in the collaboration efforts among donors because each donor agency has different products. A challenge for collaboration with other donors is different for the budget cycle. The consciousness of donor coordination is different for upstream policy dialogue and project preparation and operations.”<sup>185</sup> Both the case studies of Mongolia and Cambodia indicate that “nuances” seem to exist even within the ADB. While the ADB has attempted to promote education sector wide approaches in Cambodia with EC, the ADB, reluctant to participate in the preparation of the FTI in Mongolia, has concentrated on implementing its lending projects in Mongolia. This ADB case shows that it is important for donor agencies to show their presence and credit in the field; without field presence, a donor is not willing to collaborate with other donors, even if donor coordination may benefit recipient countries.

An American NGO worker warns against the impetuous introduction of new aid modality. “SWAs, or the approach using the recipients’ systems and harmonization, will not work unless the recipient countries create a corruption-free climate. Aid workers do not want to be blind when delivering aid money to developing countries in which there may be corruption. Before

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<sup>185</sup> Interview with a staff member of ADB.

offering budget support, aid workers must be aware of the risk that tax money paid by hard-working citizens of donor countries may go to the elite of other countries for their personal enrichment.<sup>186</sup> American and Japanese official aid agencies share similar evaluations.

A World Bank economist agrees that the ultimate ideal picture is to abolish Project Implementation Units and use the Ministries of Finance of recipient countries for delivering aid. He adds that “the starting point is parallel financing, where FTI funds are used to support specific Government priorities in primary school education. We have to take some risks for budget support in order to improve aid effectiveness.”<sup>187</sup> This perspective appears favorable when seen from the viewpoint of improving aid effectiveness for the sake of recipient countries. If the World Bank took more risks and extended more budget support, it would be an exemplary prototype for other education donors as well. However, judging from the concerns of major donor agencies, it would be difficult for donors to take risks unless their credit and presence in the field are guaranteed.

A senior World Bank officer also takes the position of pro-harmonization. The officer declares that “an ideal modality to achieve UPE is budget support, which focuses on broader country programs. PIU could function as a ‘ring fence.’ The ‘ring fence’ should be changed so that the whole sector can be supported properly. SWAp is an inevitable trend, but it is important to ensure that money is spent judiciously and the flow of money can be tracked.”<sup>188</sup> This officer’s comment that budget support is ideal for the FTI is in accordance with the early stage perspective of the FTI secretariat. Currently, however, the FTI secretariat explicitly states that the FTI does

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<sup>186</sup> Interview with an NGO staff member.

<sup>187</sup> Interview with a World Bank economist.

<sup>188</sup> Interview with a World Bank staff. "Ring fencing" means ensuring that an agency's own projects are corruption-free and implicitly worrying less about what happens outside the fence.

not support a certain aid modality, but that it does respect the discussion between donors and recipients in the field. The “ideal” way of assisting developing countries may differ, depending on the context of the recipient country and its donor agencies. As this officer explains, the donors’ stand-alone projects, or “ring-fence,” should definitely be minimized, but it is important not to exclude major actors from the discussion in order to make the multilateral initiative, such as the FTI, successful. In this sense, all stakeholders should tolerate diversity of various ways of providing aid.

While each donor agency has a different position concerning the optimum way to deliver aid resources, all donors must recognize their limitations and the roles they are expected to play. The relatively small portion of foreign aid in the education budget of recipient countries illustrates that donors’ aid activities alone cannot make a difference. Instead, the bulk of educational funding should come from a domestic budget. According to UNESCO’s EFA Global Monitoring Report 2007, 80-90% of total financing for education typically comes from domestic sources (EFA-Fast Track Initiative, 2006, p.18).

Therefore, if donor agencies intend to support the UPE in developing countries, donors should pay more attention to the education budget of developing countries. Rather than simply managing their aid projects, donor agencies should instead help recipients effectively use their own funds. This context justifies the recent trend of introducing sector-wide approaches and budget support. Because a large portion of aid for education is still off budget and off plan, the latest FTI Partnership Meeting asserts the necessity of increasing the share of finance that supports the national education sector plan. This promotes the FTI’s principle of harmonizing donors’ aid in support of a single and locally-owned education sector plan (EFA-Fast Track Initiative, 2006, p.19).

Also, for donor agencies to improve how recipient countries manage their education budget to reach UPE, they need to decentralize their decision-making system. A Japanese education scholar points out that “no entity other than developing countries themselves can claim to be responsible for financing education and setting educational agendas” and donor agencies “should recognize their limitations and seek modest and appropriate EFA roles in close cooperation with the respective countries they aid (Sutton et al., 2007, p.236). For this purpose, it is critical for donor agencies “to transfer authorities, budgets, and people from their headquarters to their field offices” (pp.236-7).

### **9.2.2 Anti-corruption**

Many donor agencies see a policy of anti-corruption as indispensable to improving aid effectiveness. It is widely known that former World Bank President Paul Wolfowitz, who was tough on corruption in recipient countries, strengthened the function of the Bank’s anti-corruption unit (Mallaby, 2006, February 20). Some of the interviewees’ comments on their aid deliveries seem to stem from their own anti-corruption efforts. While a retired USAID worker and an American NGO worker both describe their aid delivery systems as sufficiently sophisticated, they add that using recipient countries’ system in disbursing their aid resources is risky. Their assertion, understandable from the viewpoint of ensuring quality outputs of foreign aid, may not be applicable to all developing countries because the level of governance differs in each recipient country.

When donor agencies argue anti-corruption, they usually refer to the recipient countries’ corruption, not the corruption in aid organizations. However, corruption exists within aid agencies. Chakravarti (2005) insists that “the majority of officials in aid organizations cannot

have the mind set to take a critical view of their own work or the desire to try to understand whether aid is achieving any of its long-term objectives or goals” (p. 102). He describes that staff members at donors’ headquarters as focusing on their own career enhancement rather than having an altruistic motivation to help low-income countries. On the field level, aid workers care about ensuring their generous benefits and “so-called diplomatic life style” provided by aid agencies. Chakravarti concludes that “this mind set is very far away from the requirement of development” (p.103).

The FTI attempts to minimize such corruption within aid agencies. In line with the international consensus on aid effectiveness, as described in Chapters 4 and 5, the FTI encourages donor agencies to follow alignment (i.e., respecting the ownership of recipients), harmonization (i.e., promoting donor coordination), and mutual accountability (i.e., implementing their commitment to provide more and better aid). It is true that changing the mindset of individual aid workers that causes corruption within aid agencies is difficult. However, if donor agencies promote alignment, harmonization, and mutual accountability in the context of the FTI, then their aid delivery systems will become more transparent. Such change will mitigate corruption within donor agencies.

## **9.3 CAPACITY**

### **9.3.1 Absorptive capacity and donor agencies**

A number of researchers and practitioners conclude that the capacity of recipient countries to absorb aid is limited by the administratively cumbersome aid of donor agencies (See Chapter 5).

These experts assert that donor agencies should improve their own mechanisms so that recipient countries could receive greater and better foreign aid. While this assertion sounds reasonable, judging from the case studies that I conducted, it appears that recipient countries also should bear some costs so that donor agencies could improve the quantity and quality of their aid.

First, the case study of Mongolia shows that two large donors, ADB and Japan, were reluctant to join the FTI, preferring to instead implement their projects in a more traditional manner (See Chapter 6). These donor agencies viewed participation in the FTI as leading to the increase in the donors' administrative burden and a decrease in the recipients' aid absorptive capacity. The requirement of all donors' signatures on the Mongolian FTI proposal exacerbated the situation. Both ADB and Japan have a centralized structure in relation to providing foreign aid. Their aid workers stationed in Mongolia had to get permission from their headquarters to sign the FTI proposal. As a result, the administrative burdens involved in FTI participation exceeded those of other decentralized donor agencies.

Second, the case study of Vietnam demonstrates that two influential donors, the U.K. and Japan, dialogued to improve their aid delivery by stating good practices with each other (See Chapter 7). Other international donors in Vietnam were proactively willing to test new aid modalities such as general budget support and targeted budget support.

Third, the case study of Cambodia indicates the complexity among donor agencies. While ADB and European Commission attempt to introduce sector-wide approaches in the education sector to promote the ownership of the Cambodian government, many other donors prefer to disburse their aid resources by a donors' system; they do not support the Cambodian governmental system due to its lack of governance (See Chapter 8).



Participation in the FTI, which adds an additional administrative burden for donor agencies, therefore, reduces the aid absorptive capacity of recipient countries, at least in the short run. However, once the FTI functions well, those costs will decrease; the FTI will allow donors to provide more and better aid, and it will give recipients more benefits for UPE. The case of Vietnam is the closest to this ideal picture. The FTI will benefit both donors and recipients if both parties are willing to accept additional costs, particularly at the introductory stage.

### **9.3.2 Donors' capacity**

The donors' capacity to mobilize resources, specifically in terms of coordinating the stakeholders in the field, makes a difference in the foreign aid for UPE. Since the launch of the FTI, donor agencies have mobilized more aid resources aiming at the recipient country's plan to achieve UPE. In order to go beyond the limitations of the FTI, as mentioned in the above sections, and to make the FTI more effective, the following types of capacity are required of donor agencies.

Donor agencies need to have the capacity to coordinate the events in developing countries and to coordinate the stakeholders of foreign aid in their home countries. The FTI, as well as many other recent trends and agreements of international development, attempts to harmonize the process of foreign aid and alignment with the recipient countries' system. The Paris Declaration on Aid Effectiveness emphasizes that making foreign aid more useful for developing countries and, where necessary, compromising donor countries' visibility in the field are becoming the consensus of the international community. As the case study of Vietnam spells out, Japan and the U.K., two major donors with totally different aid approaches, have dialogued to review their respective practices and traditional ways of providing aid in order to learn from each other's effective practices. This is possible because of those officers who have the capacity

to coordinate different perspectives and the willingness to transcend their traditional beliefs in the field. To be successful, the FTI needs to create such officers.

However, donor agencies can use the new modality resulting from this consensus, such as the budget support or pool fund, only when their domestic resource providers accept such a modality. In order for some donor agencies to adjust to aid harmonization, reorganization of their principal-agent structure around foreign aid will be necessary. The interviewees of both Japanese and American aid workers point out a constraint of domestic policy in providing foreign aid; this implies that Japan and the U.S. cannot exclusively provide foreign aid to support developing countries.

Many donor agencies attempt to program their solutions based on the recipient countries' contexts; therefore, more aid agencies are decentralizing their decision-making systems to the field offices. This is a favorable transformation from the viewpoint of improving aid effectiveness for developing countries. However, the roles of aid agencies in their home countries, particularly the capacity of these agencies to create a bridge between the discussions in the field and the stakeholders in rich countries, are equally critical. No matter how many recipient-friendly aid programs an aid agency designs in the field, aid resources cannot be predicted unless such programs are accepted by the donors' home countries. Taxpayers and politicians will not support the foreign aid programs that do not respond to the concerns of the people in the donors' home countries. The capacity to connect and coordinate the arguments in the field with those of northern industrialized countries is, therefore, important in order to make the FTI effective.

A Japanese aid worker asserts that donor agencies should strengthen the following three capacities:

- 1) Capacity of human resources: donors should improve the capacity of aid workers in terms of monitoring, evaluation, appraisal, and sector analysis;
- 2) Capacity of aid modality: donor agencies should promote both regional cooperation and South-South cooperation. We [the Japanese government] welcome that new donor countries, such as China, are emerging. At the same time, it is important to encourage them to observe established international rules regarding providing ODA of OECD-DAC and other international bodies; and
- 3) Capacities of operation and institution: Donor agencies should make their aid activities user-friendly and sustainable. Local procurement of aid goods, for example, should be promoted where appropriate. (Interview with a Japanese official aid worker)

Not only does the FTI open the door to all kinds of donor agencies, but it also welcomes the participation of all low income countries. In addition to official donor agencies, both NGOs and private sector representatives have started to participate in the FTI. The policies and practices of these new donor agencies, including those from China, are critical agenda items in ensuring aid effectiveness. Having donor countries such as Japan play a mediator's role between the international society and emerging donor countries in relation to the FTI is also of value. The international society should address the participation of new donor countries, such as China, in order to make the FTI work properly.<sup>189</sup> Unlike the more traditional OECD-DAC member donors, many advanced developing countries tend to use their foreign aid for their political and diplomatic purposes. As a result, advocacy and pressure from a multilateral body like the FTI

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<sup>189</sup> For example, see Naim (2007, February 15).

will be necessary to enable those new aid agencies to comply with international consensus and rules.

In May 2007, the King of Jordan, concerned about new donors' contributions, invited leaders from ten lower-middle income countries, as well as the current and next G8 presidents as observers to organize a "G-11" meeting.<sup>190</sup> Asserting that "the success of lower-middle income countries will create an anchor for regional stability and prosperity and provide a crucial model of what structural and economic reform can achieve," the "G-11" meeting called for international support to help development, especially in education, one of four priority areas (Hussein, 2007, May 21). For donor agencies, providing foreign aid in collaboration with this kind of South-South movement will help enhance the ownership of recipient countries.

From the U.S. perspective, an American NGO worker emphasizes the necessity of strengthening donors' technical capacity in order to better identify, implement, monitor, and evaluate projects for the staff of donor agencies; he also warns about the dangers of the aid effectiveness agenda, especially in terms of an excessive administrative workloads and the number of meetings:

Aid workers are overwhelmed by all the bureaucratic red tape, including excessive reporting requirements and ad hoc meetings, all of which increase donors' transaction costs. In order to avoid taking on these administrative burdens, the U.S. can say, "this is the way we do business," which is different from European donors. U.S. aid workers are constrained by, among other things, Congressional legislation and the requirement to supply U.S.-made goods. The

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<sup>190</sup> The countries include Croatia, El Salvador, Ecuador, Georgia, Honduras, Indonesia, Morocco, Pakistan, Paraguay, and Sri Lanka.

U.S. process for granting foreign aid is well-established and under close scrutiny.

(Interview with a U.S. NGO worker)

This comment exemplifies a typical U.S. perspective that defines the FTI as a forum for various stakeholders to understand each other; it asserts that participants should respect each other's way of providing aid.

How the U.S. views the aid effectiveness agenda differs from that of the international society. The OECD-DAC concludes that “the U.S. Government sees results-based management of its bilateral system as synonymous with aid effectiveness and the best way to address Congressional insistence on ‘value for money’” (OECD, 2006b, p.14). However, the internationally-recognized OECD perspective on aid effectiveness stresses “an international issue, involving interaction between partner countries and the donor community, as much as a bilateral one,” which is “organized across government action that fosters ownership, strengthens partner country systems and procedures, and collaboratively tracks results would support the international Paris Declaration effort to address effectiveness” (p.14). The U.S.’s apparent ignoring of this view makes it difficult for other agencies to promote collaboration with U.S. aid agencies.

A World Bank economist claims that the FTI should play a more active role in changing the World Bank's operations, since the Bank's activities in the field make a difference in the success of the FTI.<sup>191</sup> This officer also pointed out that the FTI Secretariat should contribute

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<sup>191</sup> “FTI should understand how rigid the World Bank's operations are and should exert its influence to change the World Bank's structure. Other donors should disseminate their information more. U.N. agencies lack the knowledge about FTI.” (Interview with a World Bank economist)

more to developing FTI guidelines that are more clear for these aid officers willing to work for the FTI.<sup>192</sup>

In conclusion, as pointed out by Martens et al. (2002, pp.8-9), the delegation in foreign aid, especially regarding donors' concerns, contracting problems, and capacities results in two problems: moral hazards and adverse selection. It is obvious that a kind of moral hazard has been generated between donor agencies' headquarters and field offices. A number of comments from different aid agencies imply that many aid workers at the country level, who have direct contact with recipient governments, take it for granted that foreign aid should be recipient-friendly and should be provided flexibly to meet the demands of recipient countries, regardless of aid modality or consensus in the international community. Although almost all donor agencies have, more or less, attempted to use the aid effectiveness agenda as an impetus to improve their foreign aid policies and activities, many donors, particularly non-European ones, insists that new aid modalities generate additional costs for donor agencies. A number of aid workers comment that aid effectiveness depends upon the personalities and abilities of individual officers in the field. Despite the political constraints imposed by the headquarters, the goodwill and craftsmanship of each aid worker can make a difference in aid effectiveness and in minimizing the "moral hazard."

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<sup>192</sup> "There are no FTI guidelines on how, for example, governments and donors could work better together, and there are few best practices available. The FTI Secretariat should improve the dissemination of FTI information. The Q&A section should be improved." (Interview with a World Bank economist)

## **10.0 CONCLUSION**

This section summarizes the major findings of the research, including how this study clarifies the “black-box” of foreign aid in the FTI. I also describe the discussion between the theoretical perspectives reflected in the literature review (Chapter 2) and the research findings, as well as the usefulness of the analytical framework that I used for this research. Finally, I present the implications of the finding of this research for foreign aid policy makers and practitioners, as well as a future research agenda.

### **10.1 MAJOR FINDINGS**

This paper discusses the effectiveness of the EFA-FTI from the donors’ perspective by focusing on donors’ concerns, contracting problems, and capacity in relation to aid provision. This study further attempts to clarify the donors’ aid delivery mechanism, which many economists who have researched aid effectiveness treat as a “black box.” The document analysis, as well as interview research vis-à-vis my research problems, yield major findings:

First, the multiple incentives of donor agencies influence their delivery of foreign aid in the FTI. The FTI participating donors share common concerns, such as helping low-income countries achieve quality universal primary school completion with gender equality and promoting aid harmonization and alignment. Yet, each donor agency has its own incentives,

which affect each donor's aid delivery. The DFID of the U.K. emphasizes promoting development-oriented and recipient-friendly aid; consequently, the DFID has been active in strengthening and enriching the function of the FTI. The U.S. would like to promote its own agenda, such as endorsing a public-private-partnership in education and integrating foreign aid into diplomacy. Thus, USAID has been reluctant to encourage collaboration with other donor agencies. Japan, believing in the importance of being visible, uses a hand-in-hand modality, such as technical assistance, to provide foreign aid.

Second, it is difficult to conclude whether the donors' delivery of foreign aid resources influences the outcomes of the FTI. This is because the cause-and-effect between donor's aid delivery and the improvement of primary education completion in developing countries is hard to prove. However, in view of the fact that the portion of foreign aid is relatively small in the education budget of developing countries, it is critical that recipient countries properly and effectively use their resources to achieve the UPE goal. The core strategy of the FTI, one that relies on poverty reduction and a credible education sector plan made by the recipient countries and endorsed by the donor community, makes sense. It allows donor agencies to monitor how recipient countries use their resources, and it provides them with proper advice where necessary. Also, by promoting an aid effectiveness agenda that includes harmonization and alignment and that introduces a new aid modality, such as Sector-Wide Approaches and budget support when appropriate, both donors and recipients move in the right direction to achieve the UPE goal, despite their limited resources.

Third, the coordination among different donors' foreign aid policies for the FTI has reduced the transaction cost in aid delivery and the administrative burden of developing countries in receiving external assistance. However, it is noteworthy that some donor agencies,



like the U.S., consider their aid system the best; they are more interested in knowledge sharing and information exchange with other donors than in a collaboration that reduces the administrative burden of developing countries. The huge financial gap within developing countries trying to achieve the UPE goal makes it critical for these nations to draw more resources from donor agencies, no matter what kind of aid delivery systems they prefer. The FTI has taken a realistic and understandable stance in relation to donor coordination by respecting each donor's concerns and priorities, by encouraging donors to promote alignment and harmonization, and by keeping a low profile so that all donor agencies could feel comfortable being FTI members.

Last, friction does exist in the transfer of resources for the FTI from donors to recipients; this may hinder the effective use of those resources. Particularly, a discernible disparity occurs between policy makers in the headquarters and practitioners working in the field offices in relation to donors' aid provision for the FTI. Policy makers tend to propose something innovative and attractive in order to draw the attention of various stakeholders, but aid workers prefer to produce quality outcome, which will not only ensure their own reputation but also contribute to the socio-economic development of recipient countries. Therefore, while policy makers in the headquarters promote, or at least express an understanding of, the aid effectiveness agenda, a number of practitioners in the field prefer traditional ways to secure quality outcome.

## **10.2 CLARIFICATION OF THE “BLACK-BOX”**

This study, as presented in Chapter 1, attempts to clarify the portion that economists treat like a “black box” in their analysis of aid effectiveness, i.e., aid delivery by donor agencies. I

demonstrate a causal pathway of aid effectiveness by using donors' concerns, contracting problems, and capacity in relation to the FTI. This causal pathway has a significance for other foreign aid initiatives, especially the viewpoint of donor agencies, because the FTI is designed upon a number of international agreements; it is influential not only in promoting UPE in developing countries but also in facilitating aid effectiveness. This clarification of a "causal pathway" would contribute to the clarification of cause and effect between aid and the performance FTI in future research.

The FTI makes a difference in reinforcing the weakness of donor agencies. Carol Lancaster, a researcher in international development and foreign aid, presents a perspective that is relevant to the FTI. She asserts that political constituencies inside and outside donor governments increase the development purpose of foreign aid. As a constituency outside the government, "NGOs supporting aid grew in numbers and influence in most major aid-giving countries" (Lancaster, 2006, p.213). As a constituency within the government, "Aid agencies were set up, expanding their budgets and their staffs, strengthened their professional capacities, and increased their 'development education' programs with their own publics" (p.213). According to Lancaster, the development-orientation of foreign aid weakened in which those constituencies were weak. A role of the FTI in relation to donors' aid delivery is to reinforce such "constituencies." The FTI attempts to improve the donors' existing aid delivery channels by putting pressures on donor agencies via various mechanisms such as international conferences and NGO networks. These illustrate the contributions of the FTI in relation to the "black box."

Moreover, a recent study on aid effectiveness, which the Swedish Development Cooperation Agency (Sida) proposes, points out the challenges of the donor agency. "Powerful incentives are built into structures over which a development agency has little control: the

structure of political institutions in both donor and recipient countries beget rules that can work directly against effective development aid” (Gibson & Andersson, 2005, p.224). “Development assistance will continue despite its problems because its funding does not depend on its sustainability. There are no institutions or market mechanisms that ensure the efficient delivery of sustainable aid. The only way that an understanding of incentives will lead to better development assistance is through the determination of an agency’s own staff to create rules that ‘good’ incentives” (p.225). The FTI attempts to create the “good incentives” among donor agencies and aid workers by facilitating “mutual accountability” between donors and recipients and by supporting existing aid agencies to become more development-oriented and less politically oriented.

### **10.3 RESEARCH FINDINGS AND THEORETICAL PERSPECTIVES**

This study contributes to enriching the theoretical perspectives that I reviewed in Chapter 2: development economics, institutional economics, foreign aid effectiveness, and education and development. First, development economics plays a significant role in designing the FTI. To justify their education projects, many donor agencies conduct economic analyses before prepare and design these programs. While each donor agency has its own organizational priority with economic analysis not necessarily the most important component, many donor agencies use indicators based upon economic analysis in preparing, monitoring, and evaluating their projects in the education sector. For example, the FTI encourages donor agencies to finance recurrent costs of primary education in its initial stage. The World Bank proposed this idea as one based upon its economic analysis of education projects. Development economics is a useful tool to

analyze the FTI if donor agencies emphasize economic analysis and create policies that are development-oriented.

However, since donor agencies have multiple concerns, they sometimes implement education projects that cannot be justified by economic analysis; development economics cannot always address the reality of foreign aid. Although some bilateral donor agencies use their foreign aid as a means to ensure their national interests, it is not productive to criticize their policies simply because they cannot be justified by development economics. Low-income countries face a huge resource gap in their efforts to achieve UPE. Therefore, the FTI attempts to involve as many donors as possible by serving as a low-key coordinator among various donor agencies. This shift is preferable because it can provide all participating donors a win-win situation. Development economics cannot fully explain the complexity of donors' incentives and the policy of multi-donor initiatives such as the FTI.

Second, institutional economics, particularly principal-agent theory, is a useful tool to analyze the FTI from the donors' points of view. Asymmetry of information between principals and agents can explain moral hazard and adverse selection between donors' headquarters and field offices (Martens et al., 2002). Institutional economics could be a useful explanatory tool to analyze donors' capacity, because "the moral hazard problem is further exacerbated by the fact that there are no well-defined or quantifiable objectives against which a staff member's performance can be assessed" (Chakravarti, 2005, p.99).

Institutional economics have some limitations when applied to the analysis of the FTI. Marten et al. point out the difficulties in collecting quantifiable data and in conducting cross-country analysis. Also, external actors have influence on the principal-agent structure in the FTI. The international consensuses or advocacy activities by NGOs often affect the way donor

agencies deliver their foreign aid. These external actors' roles should be taken into account when applying institutional economics to the analysis of the FTI.

Third, regarding the arguments of foreign aid effectiveness, it is obvious that a series of international consensus facilitate the development of the FTI. The FTI operationalizes its international aid effectiveness agenda, particularly in relation to promoting the ownership of recipients and partnerships among donor agencies, by asserting the importance of enforcing the commitment by both recipients and donors (i.e., "mutual accountability").

It is important to explore ways to find a compromise between the ideal of the FTI and reality of foreign aid. Judging from the arguments of the aid effectiveness agenda and international consensus such as the Paris Declaration on Aid Effectiveness, all donor agencies seem to agree that foreign aid should be development-oriented; donors should not pursue their individual interests by providing foreign aid. However, the magnitude of commitment to enforcing the international consensus differs for each donor agency. Generally speaking, since the European Like-Minded Donor countries proposed and developed the aid effectiveness agenda in collaboration with OECD-DAC, non-European donor countries, particularly the U.S. and Japan, have tended to take different approaches from European donors. It is a favorable shift that the FTI supports the diversity of aid modality among aid agencies and leaves its strategies to the donor agencies in the field of recipient countries; in its initial stage, the FTI encouraged donor countries to finance the recurrent cost of primary education through budget support. The FTI should pay more attention to how donor agencies are motivated to work within the framework of the FTI and to how donors support UPE in low-income countries. Without greater donor participation, the FTI will not be attractive for recipient countries. So far, the FTI has functioned well for both donors and recipients by playing a low-key coordinator's role. Yet, this

role should be revisited in line with the changes of donor agencies' policies. Also, the division of labor between the FTI and UNESCO should be analyzed. What the FTI currently does (i.e., playing a coordinator's role to promote UPE) also serves as a mandate of UNESCO.

Last, the arguments in education and international development make it necessary to mainstream the educators' perspectives in the FTI. A number of interviewees cite as a problem the lack of expertise in education among aid workers involved in the FTI. In order to make the FTI more beneficial for recipient countries, it is necessary for the economists, bureaucrats, and diplomats who are involved to share the educators' perspectives regarding development in low-income countries. Likewise, the FTI should encourage more active participation from educators. While economists and bureaucrats dominate the field of foreign aid, a counter proposal from the educators' perspective should be welcomed as a way to improve the quality of the FTI. Therefore, educators need to understand the logic of aid workers and to have sufficient knowledge of foreign aid. In this sense, this paper contributes to bridging the gap between aid workers and educators.

#### **10.4 USEFULNESS OF THE RESEARCH FRAMEWORK**

The conceptual framework of this study, the donors' 3Cs (concerns, contracting problems, and capacity), intends to clarify the complexity of foreign aid by focusing on the FTI. This framework is not only useful in analyzing the FTI from the donors' perspectives, but it is also significant from the viewpoint of international comparative education. Educational development in low-income countries is a critical topic in international comparative education. As some of the interviewees point out, educators are expected to be more actively involved in the education

sector of such foreign aid initiatives as the FTI, while economists and bureaucrats tend to take leadership roles in launching aid initiatives. Therefore, it is important for the scholars and practitioners of education to have an in-depth understanding of foreign aid so they can contribute to designing aid programs in the education sector for developing countries. As I explain in Chapter 3, political economists propose the concept of the “3Cs” to analyze the effectiveness of a multi-donor aid initiative in the environmental sector. The analysis of the FTI in this study demonstrates that the “3Cs” are also useful for the analysis of the international education initiative. It is worthwhile for educators to know this conceptual framework.

However, some difficulties regarding the application of the “3Cs” occurs in this study. First, regarding donors’ concerns, this study is not fully able to clarify how foreign aid policies reflect the taxpayers’ interests of donor countries. In order to clarify the complexity of the policymaking process in foreign aid, it will be necessary to conduct in-depth research by contacting more stakeholders in donor countries. In some donor countries, such as Japan and the U.S., multiple governmental agencies manage foreign aid programs, thereby creating conflicts among ministries. It will also be beneficial to clarify the expectations of donor countries’ taxpayers regarding public donor agencies, especially because of the other active players in foreign aid, such as the private sector and NGOs.

Second, regarding the donors’ contracting problems, this study does not fully touch upon how the consensus in the international arena was built. As I explain in Chapter 4, the World Bank proposed the FTI and developed it based upon a number of international consensuses. The World Bank and some European donor countries took leadership roles to make the FTI active. This study demonstrates how some individual donor countries contribute to the FTI. However,

collecting information from more donor agencies will aid in the clarification of how each individual donor agency influences the mechanism of this multi-donor initiative.

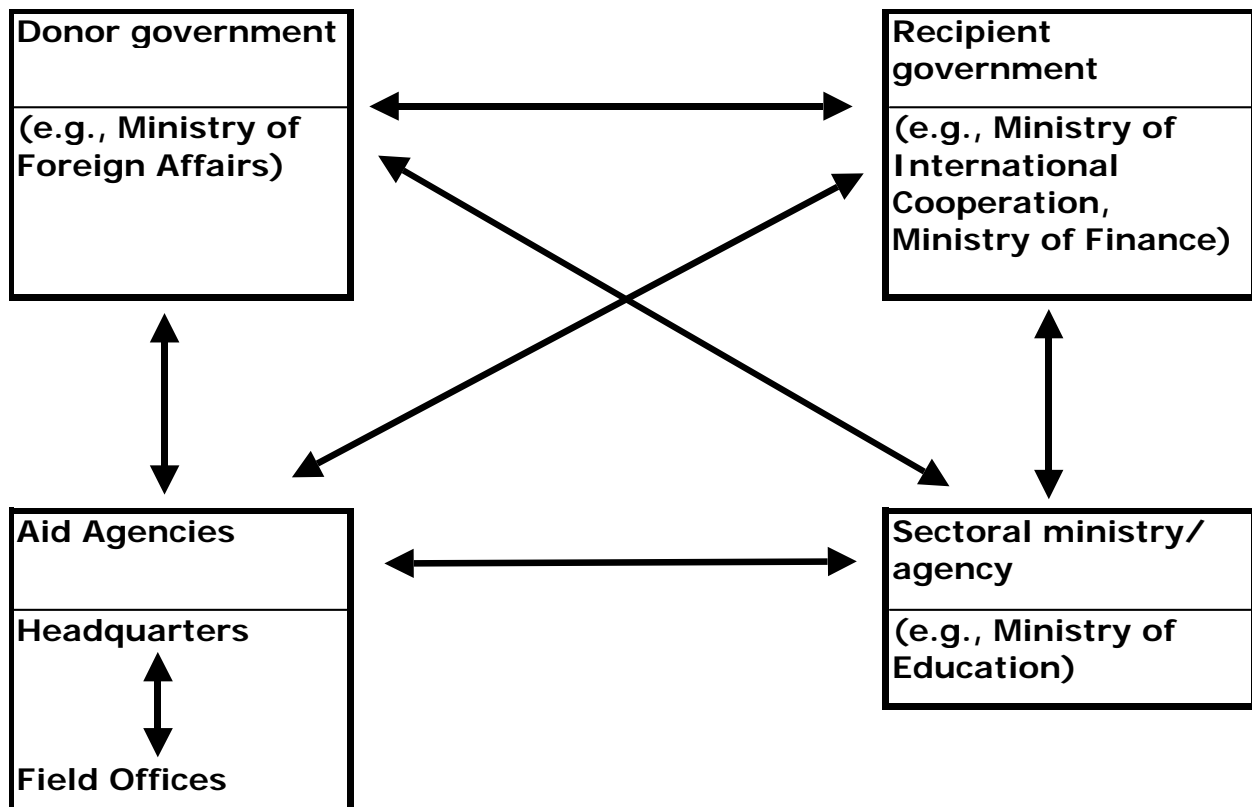
Third, it is difficult to evaluate the donors' capacity because of the absence of mechanisms to do so. The internationally agreed-upon aid effectiveness goals, such as the Paris Declaration on Aid Effectiveness, could be a benchmark to evaluate the donors' capacity, but the contribution to the aid effectiveness agenda shows merely one aspect of this donors' capacity. Considering the fact that other agencies criticize Japanese foreign aid for its lack of transparency, the donors' capacity should be evaluated based upon how the donors communicate with other stakeholders, including recipients and other agencies, to make their aid programs transparent and to ensure their justifications. This point should be noted as a future research topic.

I conducted document analyses and interviews to clarify the causal pathways of foreign aid in the FTI. My interview research proved useful in collecting candid opinions from foreign aid professionals and in contributing to the clarification of the "black-box" to a certain extent. It should be recognized that the informants may be responding to my questions in terms of self-interests related to the particular aid organizations with which they are affiliated. For example, World Bank informants may be over-emphasizing the role of the Bank in facilitating the FTI, while aid workers from other agencies may be underestimating the significance of the FTI. Although the informants provided me with their opinions as individuals, not as representatives of their agencies, it may be appropriate to interpret the findings from the interviews vis-à-vis the official policies or perspectives of their aid agencies in order to understand the pathway of foreign aid in the FTI.



## 10.5 IMPLICATION OF PRINCIPAL-AGENT THEORY

As shown by the following figure, the principal-agent relationship occurs among ministries of the donor and recipient governments, contractors who are responsible for carrying out aid projects, and political leaders and bureaucracies (Gibson & Andersson, 2005, pp.69-70). Asymmetry of information among these stakeholders often impedes the effective use of foreign aid resources, particularly for the purpose of development.



**Figure 18.** Principal-agent relationship within donor and recipient countries

One of the contributions of the FTI is that it mitigates the risks derived from the complex principal-agent structure of foreign aid from the following two points. First, the FTI has encouraged the decentralization of donor agencies' operations. To be a member of the FTI, low-income countries are required to build a credible poverty reduction strategy and education sector plan, and donor agencies are expected to support, assess, and approve these activities in the field. The FTI secretariat in Washington, D.C. asserts that the role of the secretariat is to support the donors' and recipients' activities in the field. Participation in the FTI gives many donor agencies a decentralized decision-making structure and the ability to implement field-oriented operations. This favorable trend mitigates the asymmetry of information, that is, it alleviates the discrepancy between aid policy makers and implementers within aid agencies.

Second, the FTI's approach to involve not only education stakeholders but also other critical non-education stakeholders has contributed to easing the risks from the principal-agent structure of foreign aid. In addition to serving as a mediator among ministries of education within recipient countries and educational professionals of aid workers, the FTI has targeted politicians of industrialized countries to raise their awareness of supporting UPE in developing countries by taking advantage of the G8 Summit and other various international events. Also, the FTI has been connected to the international aid effectiveness agenda and has promoted new aid modalities such as budget support. The Vietnam case study spells out how a multi-donor targeted budget support for EFA has been designed and implemented. These attempts of the FTI have contributed to the reduction of the risks coming from the principal-agent structure of foreign aid in the education sector.

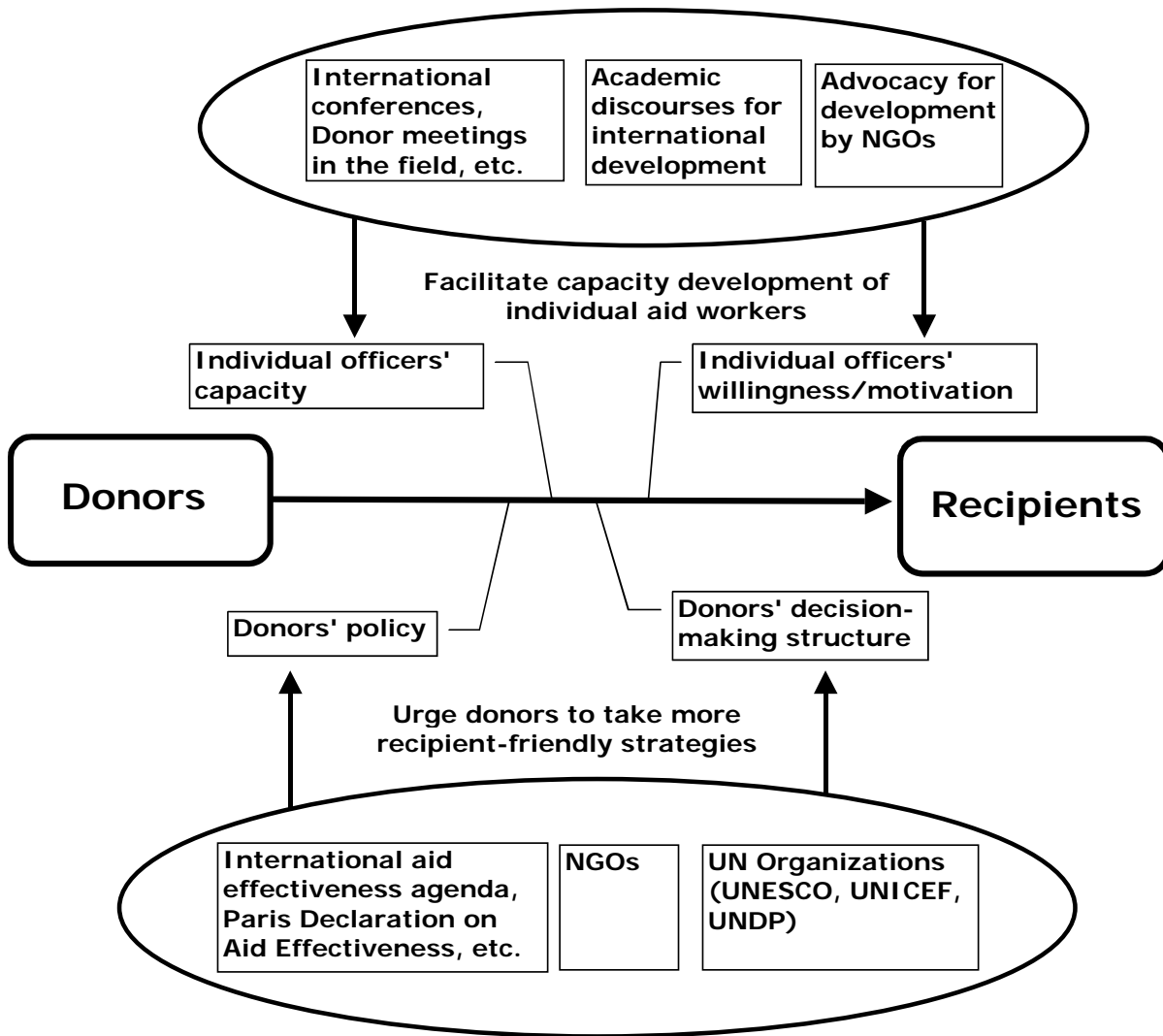
Although asymmetry of information among various stakeholders still exists in relation to foreign aid in the education sector, it is significant that the FTI has proposed a model to mitigate

the negative effects of principal-agent relations by turning this concept into operations in some developing countries. Further analysis of successes and failures of individual FTI countries should be encouraged. Also, to promote aid effectiveness, further arguments regarding how to scale-up the impacts of the FTI and disseminate its model to other countries wherever appropriate should be encouraged.

## **10.6 IMPLICATIONS FOR POLICYMAKERS**

Based upon the findings of this study, I believe that foreign aid policy makers should focus on individual aid workers. By stimulating the motivation and strengthening the capacity of these workers, the FTI will become more effective. This section describes the implications of this thesis for policymakers.

The following figure indicates 1) the causal pathway of foreign aid from donor agencies to recipient countries and 2) the determinants of the effectiveness of aid programs. The lower part reflects how the policies and decision-making structures of donors have influenced the effectiveness of aid. Many mechanisms, including the international aid effectiveness agenda like the Paris Declaration on Aid Effectiveness, as well as advocacy activities by the U.N. organizations and NGOs, urge donor agencies to adopt more recipient-friendly approaches. The upper part describes how the capacity and willingness of individual aid workers are critical determinants of the effectiveness of foreign aid. Likewise, many mechanisms exist that stimulate the capacity and motivation of aid workers to improve aid effectiveness.



**Figure 19.** Causal pathways and determinants of aid effectiveness in FTI

As the findings from this thesis demonstrate, the international aid community has made considerable efforts to urge donor agencies to embrace more recipient-friendly strategies. For example, the international aid effectiveness agenda, such as the Paris Declaration on Aid Effectiveness and the advocacy for Education for All by UNESCO, has encouraged donor agencies to adopt a more development-oriented policy, rather than one oriented to the donors' interests, regarding transferring their foreign aid resources to developing countries. Although the magnitude of commitment to the aid effectiveness differs among donor agencies, all donor

agencies recognize the importance of adopting recipient-oriented aid policy and coordinating with other donor agencies in order to reduce the burdens challenging low-income countries.

A number of aid effectiveness agenda items have led donor agencies in the right direction in terms of assisting developing countries. Some donor agencies, once skeptical of the European-led aid effectiveness agenda, now actively participate in it. As the case study in Vietnam has shown, Japan, along with other donor agencies, has started to provide budget support to Vietnam, thereby transcending the traditional belief that foreign aid should be provided by a hand-in-hand manner to show the donor's face and to convey the donor's value to recipients.

At the same time, however, these interventions to change donor agencies' policy and strategies have limitations. This is because those who advocate for aid effectiveness, including the U.N. organizations and NGOs, do not have the enforcement power to change the policies of donors. Ultimately, external parties have no justification to criticize these policies since the sources of aid come from the taxation of donor countries. Donor countries have the discretion to use their aid resources as they prefer. Furthermore, changing the bureaucracy of donor countries' foreign aid tends to be difficult, because such change requires negotiation with many domestic stakeholders in donor countries.

In order to improve the FTI, I believe in strengthening both its advocacy for aid effectiveness and its targeting of individual aid workers. According to the findings of my research, policy makers and practitioners point out that the performance of the FTI depends upon the personality of individual aid workers who work in the field and their capacity to cooperate with their counterparts in recipient countries. As the case of Mongolia clearly indicates, an individual aid worker of the World Bank turns the concept of the FTI into an operation in the field by coordinating with the government and major aid agencies and by using the mechanisms

of international conferences. It is also important to recognize that UNESCO, which made international coordination for EFA its organizational priority, did not work well in relation to the FTI in Mongolia.<sup>193</sup> While approaching the policy makers and top management of aid agencies to change their organizational strategies may be worthwhile, it is more practical and useful to stimulate the capacity and willingness of individual aid workers to promote aid effectiveness with a view to expecting piecemeal changes in the field. Even one individual aid worker with both capacity and willingness can make a difference in operationalizing the FTI, as the case of Mongolia has shown. Also, as evidenced by Japan's introduced budget support in Vietnam, the accumulation of piecemeal changes at the field level may lead to changes within the organizational strategy of donor agencies.

## **10.7 FUTURE RESEARCH**

This study clarifies the complexity of foreign aid by focusing on a specific international initiative in the education sector and by targeting donor agencies, one of the various stakeholders in relation to foreign aid. Further research will more clearly define foreign aid effectiveness and introduce the following tangible policy recommendations:

First, it will be useful to conduct a case study in the FTI recipient countries by focusing on all kinds of stakeholders in the field, including donor agencies, the governments of developing countries, NGOs, local communities, and the local private sector. Collecting the perspectives from these different positions through field research will contribute to identifying

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<sup>193</sup> One may conclude that this is because UNESCO lacks its field presence in Mongolia. However, other major donor agencies in Mongolia do not necessarily have a decentralized organizational structure.

the reality of the situation and the problems of the FTI in the field. It is critical to pay attention to the local context, because the interpretation of the global aid agenda depends upon the countries' situation; the performance of foreign aid projects also depends upon the individual capacity and personality of aid practitioners working in the developing countries.

Second, it will also be beneficial to conduct a case study focusing on donor countries and to implement comprehensive research by targeting politicians, bureaucrats, voters, journalists, educators, aid workers, and ordinary citizens. Because foreign aid is influenced by the donor countries' interests and concerns, public support in the donors' home countries is critical in conducting a successful foreign aid program.

Third, more quantitative-oriented research will produce more reliable policy recommendation in relation to the FTI. A number of economists have used an econometric model to analyze foreign aid effectiveness. Some institutional economists have also attempted to make a model by incorporating the aspects of donors' aid delivery and the level of donor coordination. A quantitative research by modifying these existing models may contribute to producing more reliable recommendations for policy makers and practitioners who are involved in the FTI.

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