

Social Policy and Development

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Can Foreign Aid Agencies Genuinely Help Developing Countries Produce And Implement Effective Social Policy?

Introduction

Developing countries all over the World are dealing with numerous issues of education, health, poverty, unemployment, poor social wellbeing indicators, low human development indicators, and environmental degradation. This is because developing countries have limited resources. Scarcity of economic and technical resources limits their ability to invest in developmental activities. Foreign aid, whether bilateral, multilateral, or through Non-Governmental Organizations (NGOs), is the only way for these developing countries to meet their developmental needs. These foreign resources inflows are in the form of direct foreign investment, official development assistance, or budgetary support and technical assistance. The role of foreign aid in the development of poor countries has drawn a lot of controversy. There are countries like South Korea, Tanzania, Indonesia, Vietnam, and Ghana where foreign aid has played major role in the growth of their economies (Martens 2005). But, there are other countries like Kenya, Haiti, and Papua New Guinea, where foreign aid had little impact on development and growth of their economies. Pakistan has received foreign aid for the last sixty years. There have been ups and downs in the foreign resources inflows, but the trend has been quite consistent. In the early stages, Pakistan received foreign aid for increased industrialization. Later, foreign aid was used for development of social services in the country like education, health, poverty reduction, and women empowerment (Malik 2007). Despite huge inflows of foreign aid, Pakistan was not able to meet targets of economic growth, poverty reduction, literacy rate, universal primary education, and health (Anwar and Aman 2010).

Donor countries and agencies have committed huge amount of aid to achieve United Nations Millennium Development Goals (MDGs). The MDGs give high priority to health and education sectors. Pakistan has received millions of dollars in foreign aid to achieve

universalization of primary education by 2015, but it seems highly unlikely to achieve the target by due date. This paper will analyze the impact of foreign aid and role of foreign aid agencies in Pakistan's primary education sector. By employing case study method, this paper will investigate whether foreign aid has helped in achieving the target of universalization of primary education in the country or not. The paper is organized as follows: section II reviews the existing literature on foreign aid and its effectiveness. Section III presents the case study, which is an overview of foreign aid interventions, government policies, and important statistics regarding education sector. Analysis will be done in section IV. Last section concludes the essay.

Literature Review

Foreign aid can be defined as transfer of resources on concessional rates from one country or multilateral agency to another country or NGO or international organization for development purposes (Lancaster 2009). Developing countries lack resources, which is why they need foreign aid. Growth, investment, and poverty reduction can be achieved through expanding production. Developing countries have no resources for investment in the means of production, and whatever resources they have are poorly managed and wasted due to mismanagement and corruption (Lancaster 2009). Foreign aid plays crucial role in domestic economic growth. Two-gap model of Chenery and Strout (1966) states that foreign aid fills the savings-investment and export-import gaps. As for the effectiveness of aid, there are two schools of thought: resource fundamentalists believe that more aid will cause development, while market fundamentalists believe that foreign aid cannot solve development problems, there should be more markets (Lancaster 2009). Burnside and Dollar (2000) link effectiveness of aid to good policies. They argue that aid is misallocated that is to the wrong recipient because donors have other strategic reasons, aid is misused because recipient government uses the aid for non-developmental purposes, and GDP growth is not the right measure for aid effectiveness. This approach looks at the developing countries' problem as lack of resources. There are economic, social, and political conditions that are very important (Lancaster 2009). It ignores the human element in development. For instance, the leaders who are corrupt or oppressive, and the people

who do not invest or do not or cannot ask for the accountability of their leaders (Lancaster 2009). Rajan and Subramanian (2005) support the view that foreign aid is more effective where there are better policies. Governance quality in the recipient country determines the success or failure of the aid interventions and development (Lancaster 2009).

During the last two decades, role of NGOs in foreign aid has increased (Masud and Yontcheva 2005). NGOs are now significant players in the development arena. They receive considerable amount of foreign aid. NGOs are seen as advocates of the poor and vulnerable population and their conduct is seen as efficient (Masud and Yontcheva 2005). In allocation of funds, NGOs are motivated by concerns for donor funding (Gauri and Fruttero 2003). Masud and Yontcheva (2005), while comparing official bilateral aid and NGOs aid flows, show that NGO aid is more effective than official bilateral aid in reducing infant mortality. Martens (2005) argues that preference alignment is essential between donor and recipient. This alignment is unlikely if donor and recipient are living thousands of miles from each other, and come from different social, economic, and cultural backgrounds. Intermediation in such cases is provided by organizational structures that mediate between the donor and the recipient. These voluntary organizations are NGOs. NGOs reduce transaction cost by providing information to potential donors about recipients. NGOs ensure preference alignment between donor and recipient communities (Martens 2005).

Overall, foreign aid, whether official development assistance or through NGOs, has not been totally effective in reducing poverty or improving other social indicators. It is because donor objectives are not clear and recipient governments are not efficient. Donors have mixed objectives/purposes behind aid – development is just one of them. These motives are diplomatic goals, commercial interests, spread of culture and language (Lancaster 2009). The United Nations Millennium Project Report notes that foreign aid is “highly unpredictable, poorly targeted, frequently tied, badly coordinated, driven by donor rather than recipient objectives, influenced by the donors geopolitical interests with resulting policy incoherence and not systematically evaluated” (Eyben 2005:98).

Case Study

Primary education in Pakistan is taken as case study to assess the effectiveness of foreign aid in achieving the goal of universal primary education. Pakistan like other developing countries is faced with resource gap. Education sector in Pakistan has failed to achieve its targets because of resource constraints. The UN Millennium Development Goals (MDGs) give high priority to primary education. International donors have provided assistance in the form of loans and grants at bilateral and multilateral levels to achieve MDGs. Net primary enrolment rate is at 57 percent, improved from 42 percent in 2002. Literacy rate for ten years and above has gone up to 58 percent from 41 percent. Gross Enrolment Rate (GER) at primary level for the age group 5-9 year at national level has decreased to 91 percent from 92 percent in 2010-11 (economic survey 2012-13). At present there are 154650 primary schools in the country that are fully functional. Government spending on education, as percentage of GDP, is less than 4 percent, which is not enough to achieve targets in education sector. Over the years, donors have provided foreign aid to assist Pakistan in the education sector. The aid flows as percentage of government spending on education were 45 percent in 1973, but reduced to 10 and 20 percent in 1980s, further reduced to 5 and 10 percent in 1990s. In 2000s, there has been an upward trend with up to 15 percent of government spending on education (Malik 2007). But, this upward trend was not because of some renewed interest in the education sector, but due to international response to the devastating earthquake and floods in 2001 (Anwar and Aman 2010). Pakistan has eight bilateral donors that are providing assistance for its education sector. Multilateral donors are nine and one non-governmental organization (Malik 2007). Asian Development Bank (ADB) is the largest donor in education sector with US\$ 815.853 million, followed by the World Bank (WB) US\$ 325.00 million, USAID US\$ 213.971 million, Canadian International Development Agency (CIDA) US\$ 130.00 million, and European Commission (EC) US\$ 110.368 million (Malik 2007). Recently donors have shifted their attention from project specific funding to policy reforms. Now education sector aid is made conditional with introduction of policy reforms, standardization, reducing unit cost of primary education, encouragement of private sector, and decentralization (Malik 2007).

Along with foreign aid, government introduced many national policies and action plans for education sector improvement with specific targets. Most of these targets remained unmet. The National Plan of Educational Development, 1951-1957, envisaged free and compulsory primary education by 1975-1980. This target was never achieved. First Five year Plan, 1955-60, envisaged to increase primary enrolment rate to 49 percent. It was not achieved. Second Five year Plan, 1960-65, planned to achieve 50 percent primary school enrolment by 1965. This time 56 percent enrolment was achieved. Over the years many Five year Plans and national policies have set the targets and failed to achieve those targets. It is interesting to note that during all those years, there has been a fluctuating but consistent inflow of foreign aid for education sector. Despite this consistent inflow of foreign aid and policy formulations, education sector in general and primary education in particular, targets were never fully met.

Analysis

There is that issue of financing in education sector. Because private sector sees little incentive for investment, primary education all over the World is funded by public money (Malik 2007). Primary school enrolment and completion have constraints such as access to school, quality, facilities, and teaching standards. Public spending can address these issues, which may include fee waivers, reducing cost of education for the poor, and giving incentives to the poor households (Colclough 2003). But governments in the developing countries do not have enough resources to meet all their spending needs. Pakistan is spending less than 4 percent of its GDP on education, which is much lower than what is required. This gap between available and required resources has been the centre of debate in the international development circles. There are some who view more aid as the solution for the developmental needs of the developing countries, while there are some who insist on market based solutions (Lancaster 2009). Developing countries also lack political commitment and have wrong priorities. The World Education Conference held in Dakar in 2000 set goals for education sector in the developing world, the international community

made commitments and aid was tied to policy initiatives to rearrange priorities and raise the level of spending in education sector (Malik 2007). This leads us to important questions of adequacy, cost effectiveness, and resource gap.

Adequacy of resource allocation is judged in terms of percentage of GDP allocation to education. In Pakistan, public spending on education remained quite low. In 1990s it was 3 percent, which later declined to 2 percent in 2004. Now it is slightly better, but still less than 4 percent (Anwar and Aman 2010). How much is adequate is measured against the achievement of targets like universalization of primary enrolment, literacy rate, and better quality of education. Since the targets are still unmet, government needs to increase its spending relative to GDP to achieve these targets. Cost effectiveness refers to how effective is the spending. It is judged against the educational outputs (Benson 1995). Benson (1995) argues that indications of low efficiency are (i) higher student wastage, (ii) excessive repetition, and (iii) student failure. These issues can be addressed through sound management practices.

According to a study conducted by the Government of Pakistan in 2003, annual cost of achieving universalization of primary enrolment and adult literacy rate by 2015 is US\$ 20900 million. The resource availability is US\$ 13551 million, which leaves a resource gap of US\$ 7349 million (Malik 2007). It is here that foreign aid becomes essential for Pakistan. Even if Pakistan is able to address the question of adequacy, by increasing public spending on education relative to GDP, and cost effectiveness by adopting better management practices, it still requires substantial amount of foreign aid to meet its education sector targets.

International donor agencies have been providing assistance to Pakistan over the years to fill the resource gap. There has been a fluctuating trend in the flow of foreign aid to Pakistan. The foreign aid was lowest in 1980s, at 5-10 percent of public spending on education. It reached 15 percent in 2000s. These fluctuations negatively impacted on the progress towards achieving education sector goals. Nevertheless, foreign aid flow has been consistent despite these fluctuations. Asian Development Bank (ADB) has been the oldest

and largest donor in education sector for Pakistan (Malik 2007). Its support was mainly project based. ADB's loans are structured in a way that government puts a certain amount of funding in each project. ADB has funded projects in primary education, technical and vocational education, and teachers' training. Between 2002-2011 ADB has provided US\$ 815.853 million in loans (Malik 2007). Other areas where ADB has assisted include quality control in service delivery, provision of better facilities, infrastructure development in schools, and management trainings. One of the reasons for successful implementation of ADB's project is its flexible approach and sensitivity to local environment, culture, and socio-economic conditions. ADB has separate project design and implementation strategies for each province according to its specific conditions. This flexibility has allowed the provincial governments to design and implement projects as per their needs.

Another foreign aid agency that has provided substantial support to Pakistan education sector in recent years is UK's Department for International Development (DFID). It has provided both financial and technical support. During 2013-14 it is estimated to provide £ 400 million to Pakistan, 51.7 percent of which is allocated for education sector (OECD 2012). In the 1990s average support from DFID for Pakistan was around 20-25 million pounds. DFID, like ADB, is focusing on increased interaction with provincial governments for designing and implementation of projects. DFID also works with non-governmental and civil society organizations to improve social service delivery and encourage communities to participate in developmental activities. Its major initiative is encouraging public-private partnership in education. Given the reluctance of private sector to invest in education, especially in the rural areas, this initiative will help increase education coverage in the rural areas (Anwar and Aman 2010).

World Bank (WB) is a major foreign aid provider to Pakistan. Its financial assistance is in the form of loans. Initially it focused on vocational and higher education, but during the 1980s it shifted its focus to primary education. Now the WB is involved in primary education projects with the provincial governments on sectoral-based programs. Other foreign aid agencies, which are providing financial assistance for Pakistan's education sector, are USAID, Canadian International Development Agency (CIDA), European

Commission (EC), World Food Program, Islamic Development Bank, AusAID, JICA, UNICEF, GTZ, ILO, UNDP, UNFPA, and UNESCO.

Foreign donors earlier focused on individual projects, which were implemented through international or local NGOs (Malik 2007). The result of this approach was disconnected projects and lack of coordination among the NGOs and with the government. It was realized that implementing stand-alone projects, disconnected from government's social service delivery programs, and ignoring social context, are negatively impacting the effectiveness of donor interventions. To make the process more effective recipient governments needed policy reforms in all sectors. That is why recent foreign aid is made conditional with policy reforms focusing on efficiency, reduction in the cost of primary education, increasing government spending on education, encouragement of private sector, standardization, and decentralization. However these goals are difficult to achieve where governments are corrupt and institutions are inefficient. Good governance, like transparency, accountability, and responsiveness of political leadership to people, is necessary for effective social service delivery (Lancaster 2009).

Policy interventions are meant to come up with better policies. Pakistan has made several policies and Five year Plans. All these policies failed to achieve their targets because of resource and capacity gaps. The resource gap is met through foreign aid. Foreign aid has been consistent, but sustainability is the real issue. Unlike ADB, WB, and DFID, most foreign aid concentrates on stand-alone projects. Success on small scale has little impact on the overall social wellbeing indicators. The problem is how to scale up success in one village and expand it to the whole country. There are differences of culture, physical conditions, economic conditions, management capacity, and political support (Lancaster 2009). Sustainability also includes ownership, so that when funding stops, people are able to take care of the project (Lancaster 2009).

An important aspect of donors' demands for policy reforms is that these are not limited to education sector. Increasingly, donors are linking aid to broader political and economic policy changes (Malik 2007). Normally, donor agencies attach conditions to

foreign aid like introduction of social sector reforms and reprioritizing development goals, which often are not the priority of the recipient governments. Donors have political leverage on decision-making, which creates the problem of ownership (Martens 2005). One view regarding conditions is donor's perception of deprivation in the recipient country. If the donor perceives that situation of deprivation is due to recipient's own bad choices, there is no alignment of preferences. In this case donor makes the transfer with some conditions to ensure right use of resources (Martens 2005). In Pakistan's case "policy documents such as Poverty Reduction Strategy Papers (PRSPs), Medium Term Development Framework (MTDF), Annual Operating Plans (AOPs), and Country Assessment Documents reflect the priorities of the donor community" (Malik 2007:11). Donors have objectives to achieve through bilateral aid (Martens 2005).

In 1990, at the World Conference on Education in Thailand, donors decided to stop funding stand-alone projects and move towards sector wide and budget support (Malik 2007). This realization was due to approaching deadlines of MDGs. In 2000, at Dakar Education Conference, donor committed to provide substantial financial resources to developing countries to achieve MDGs. It was realized that technical support was not enough and massive financial inflows were needed. It meant stopping parallel service delivery by donors and focusing on strengthening existing structures. Education Sector reform Program 2001-05 in Pakistan reflected these changes and integrated MDGs. National Action Plan also focuses on achieving universal primary enrolment. Similarly, government has set up National Assessment System with the assistance of World Bank to evaluate learning achievements of students (Malik 2007). These documents show how donors and government can work together to achieve international standards and goals.

Assessment of the impact of foreign aid shows that it has brought improvements, but not to the levels intended. Literacy rate improved from 33 percent in 1993 to 58 percent in 2012. Primary enrolment rate has gone up from 42 percent in 2001 to 57 percent in 2012. Completion/survival rate has dropped from 57.2 percent in 2001 to 50 percent in 2012. Public spending in education sector remained low. It increased from 2 percent of GDP to over 3 percent, but still less than 4 percent (economic survey 2012-13).

Most of the targets remained unmet. Targets like 100 percent literacy rate and universal primary enrolment could not be achieved. Gender disparity still exists. Physical condition of schools is still not up to the mark. There is scarcity of trained teachers. But, it is also a fact that without foreign aid it would have been difficult to achieve current levels. Foreign resource inflows cannot bring improvements in the education outcomes, until these are backed by good governance and policy reforms (Malik 2007). McGillivray (2000) has found a positive correlation between aid and public sector investment in education sector. This project specific approach was incoherent and disconnected from the broader policy objectives (Anwar and Aman 2010). These projects were successful in limited geographical area with visible impact like construction of schools, teachers training, girls' enrolment, incentivizing primary education, but their broad based impact on education outcomes has not been assessed (Malik 2007). With the shift in focus from project specific to supporting governments with budgetary support and policy reforms, it has become difficult to distinguish government spending from donor spending, which makes it harder to assess foreign aid effectiveness (Malik 2007). Having said that, education outcomes do not depend on the foreign aid alone, domestic policies also play a major role.

Conclusion

This paper has assessed the effectiveness of foreign aid in education sector of Pakistan. Aid effectiveness can be judged by the impact it makes in reducing resource gap in recipient country and introduction of policy reforms. It has been shown that foreign aid has helped reduce the gap to a large extent, but has failed to fully meet the requirement. Most of the education targets remained unmet, but foreign aid helped reaching nearer to the targets. Without foreign aid agencies the education sector would have portrayed a more dismal picture. For the last few years most of the foreign aid is going to budgetary support, making it hard to distinguish between government spending and donor spending. Donor preferences have also brought changes in policy formulation and management of education sector, but it is difficult to establish which policy change is influenced by donors. Despite these constraints, foreign aid agencies can genuinely help developing countries produce and implement effective social policy.

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