

# **THE EDUCATION FOR ALL - FAST TRACK INITIATIVE**

*INVESTIGATING THE UNEQUAL DISTRIBUTION OF BILATERAL PARTNERS  
AS CAUSE OF ITS RESOURCE MOBILIZATION FAILURE*



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To acquire a digital version of this report, containing working links to online versions of the references, you can send a request to [aartjancollee@gmail.com](mailto:aartjancollee@gmail.com). Note that getting access to some online articles requires a subscription. These articles can be accessed online from the Erasmus University network, and probably via other universities.

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## ABBREVIATIONS

AfDB	African Development Bank
ADB	Asian Development Bank
bp	bilateral partners
CF	Catalytic Fund
CPIA	Country Policy and Institution Assessment
CPR	Country Performance Rating
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DC	Development Committee
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EFA	Education For All
EPDF	Education Program Development Fund
FDI	Foreign Direct Investment
FTI	Fast Track Initiative
GDP	Gross Domestic Product
GMR	Global Monitoring Report
GNI	Gross National Income
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IADB	Inter-American Development Bank
ICRG	International Country Risk Guide
IDA	International Development Association
IMF	International Monetary Fund
IOB	Inspectie Ontwikkelingssamenwerking en Beleidsevaluatie (Inspection Development Cooperation and Policy evaluation)
IRAI	IDA Resource Allocation Index
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goal
MOU	Memorandum Of Understanding
NER	Net Enrolment Ratio
NGO	Non Governmental Organization
OA	Official Aid
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PRS(P)	Poverty Reduction Strategy (Papers)
PRS Group	Political Risk Services Group
SP	Silent Partnership(s)
SWAp	Sector-Wide Approach (programme)
UK	United Kingdom
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations International Children's Emergency Fund
UPC	Universal Primary (school) Completion
US	United States
WDI	World Development Indicators
WEF	World Education Forum
WIDER	World Institute for Development Economics Research

## DEFINITIONS

countries with/ having more partners	countries having $\geq 5$ bilateral partners
direct donor funding	donor funding for the implementation of EFA primary programs in FTI countries (direct = not through CF)
donor orphans	countries having $< 5$ bilateral partners
EFA primary program	the part of the education sector plan that is dedicated to primary education
external financing need	EFA primary program costs minus government funding
financing gap	EFA primary program costs minus government funding, direct donor funding and catalytic fund (eventual deficit)
intended supports	intended or considered new bilateral relations
resource mobilization	the mobilization of resources over a certain period, resulting in the availability of certain resources at a certain moment
silent partnerships	delegated cooperation arrangements

b	direction coefficient of the estimated trendline
a	y-value when crossing its axis
$s_b$	standard error of b
$s_a$	standard error of a
$(r_{xy})^2$	coefficient of determination
S	standard error
F	F-ratio
d.f.	degrees of freedom
$ss_{req}$	sum of squared errors explained by the regression
$ss_{re}$	sum of squared errors not explained by the regression (residue)



## SUMMARY

Generally formulated, this research tries to contribute to the realization of the core Education For All (EFA) of Universal Primary school Completion (UPC). The Fast Track Initiative (FTI) is a major initiative trying to accelerate progress to this goal. The most serious problem infesting this initiative is its failure to mobilize resources for FTI endorsed countries, especially where it concerns donor orphans. The FTI sums up several causes, the main one being the unequal distribution of bilateral partners. As the title suggests, this research investigates the unequal distribution of bilateral partners as cause of the resource mobilization failure. At first, this research aims at understanding the relation between these two concepts. Secondly, it aims at understanding the background of the unequal distribution of bilateral partners. Finally, it aims at contributing to the solution of the resource mobilization failure by proposing strategies to change the unequal distribution of bilateral partners.

Our first conclusions are that the unequal distribution of bilateral partners among FTI developing countries indeed causes a resource mobilization failure, especially for countries with <5 bilateral partners (donor orphans). Because other types of bilateral aid are not disadvantageous to these donor orphans, our solution should not address the unequal distribution of bilateral partners in general, but has to stick to the FTI. Therefore, the solution lies in making all FTI countries equally attractive for aid allocation.

To learn what makes developing countries attractive to donors, we must know something about the selection criteria used in aid allocation processes. There are several general theories concerning the basis on which decision makers decide: for example the theory of rational choice and the theory of rule following. Rational theories are supposed to be unable to explain the mix of donor interest and country need, which we both expect to play a role, and are unlikely to take into account the complexity of decision making. Therefore, instead, we expect donors to follow rules of bounded rationality (reducing reality until it can be understood and utilized), satisfactory results (instead of maximal outcomes), and proper behaviour and identity development (conformation and distinction). These rules are replenished by the theory of path dependence.

Looking at global patterns of aid, we conclude that donors use criteria of economic, historical and political interests, as well as poverty and policy performance. In the way these criteria are applied, we are able to identify many theoretical concepts, indicating that these criteria might have resulted from decision making processes that were path dependent and based upon the rules we described.

To acquire knowledge of concrete aspects of decision making in the field of aid allocation, we made use of an example, elaborating upon Dutch aid allocation from 1998 to 2004. Again, our theories are validated.

To attract donors, the FTI has to anticipate on the criteria they use for the allocation of aid. This is done to a great extent. The main discrepancy is the use of FTI endorsement criteria – presence of a Poverty Reduction Strategy (PRS), an Education Sector Plan, and agreements on benchmarking – which are lacking visibility and credibility.

Since we prove that the solutions proposed by the FTI – increasing the use of multilateral channels and expanding the FTI Fund – will not work, the initiative will have to synchronize its endorsement process with generally used aid allocation criteria. This is to be done by subjecting the endorsement process to discussion and trying to convince partners of the initiative’s potential at the same time, bargaining agreement between FTI endorsement / progress criteria and donor selection criteria. Bargaining is one of the processes involved in positive feedback processes. Because path dependence proves to play a large role in decision making, change is not easily accomplished. An accumulation of positive feedback – through mimicking, attention shifting, analysis, bargaining, imitation, selection, and learning – is needed to overcome the obstructions formed by institutions or values. In case of the FTI, other ways to accomplish change are: attracting attention to successes of its selectivity based approach, providing analyses exposing future consequences of current donor behaviour, stressing key challenges, recording experiences to learn from, and taking along donors in the successes of educational aid.

# 1. INTRODUCTION

This research concerns the Education for All (EFA) Fast Track Initiative (FTI): a “global partnership of developing and donor countries and agencies to support global EFA goals by focusing on accelerating progress towards the core EFA goal of *universal primary school completion (UPC), for boys and girls alike, by 2015*” (*EFA-FTI framework, 2004b: p.3*). The initiative is built on mutual commitments. Partner developing countries agree “to put primary education at the forefront of their domestic efforts and develop sound education plans”, while donors “provide coordinated and increased financial and technical support in a transparent and predictable manner” (*Fact Sheet: About the FTI*). A main requirement for the endorsement process for developing countries is the presence of an Education Sector Plan. The FTI Catalytic Fund (CF), consisting of donor contributions, provides transitional funding for endorsed ‘donor orphans’, being countries with four or fewer bilateral donors contributing at least US\$ 1 million to the education sector (FTI Secretariat, 2006a: p.5). Funding through the CF is provided to support a quick start of the implementation process of the Education Sector Plan. After a maximum of three years, these countries must be attractive enough to receive longer-term support of other donors. However, in December 2005 the FTI Secretariat concluded that “the partnership has not been successful in transiting recipients of CF grants to more sustainable, longer-term financing” (FTI Secretariat, 2005a: p.14). This resource mobilization failure is the focus of our research.

## 1.1 THE PROBLEM

At the Dakar World Education Forum (WEF) in 2000, the participants affirmed that “no countries seriously committed to education for all will be thwarted in their achievement of this goal by a lack of resources” (UNESCO, 2000: p.9). However, the original resource mobilization strategy has not been successful, especially in that recipients of CF (donor orphans) do not acquire more sustainable, longer-term financing from existing donor partners while new donors are not attracted.

This financial support is needed to finance the EFA primary programs, the part of the Education Sector Plan that is dedicated to primary education. These programs are designed by the recipient countries, endorsed by the FTI Secretariat, and are to be financed by the government, donors and the CF. Using estimates of total EFA primary program costs and domestic financing, which are extensively addressed in the program itself, the secretariat (*EFA-FTI Progress Report – April 2006*) calculates the size of the financing gap in 2006: “The 20 FTI endorsed countries need a total of US\$ 1.1 billion annually in external financing. Donors are providing US\$ 490 million through regular channels and US\$ 115 million through the FTI Catalytic Fund, leaving an annual gap of around US\$ 510 million”. Furthermore, it is estimated that “if 40 more countries are endorsed by the end of 2008 as projected, the total external financing needs will be US\$ 3.7 billion.” This amount is needed annually to cover the financing gap, which remains after having deducted the input of developing countries from the estimated incremental costs of (an annual average of) US\$ 9.7 billion needed to achieve UPC. The estimates are

drawn from a research by Bruns et al. (2003). Finally, summing up the key challenges, the FTI Secretariat argues that “to maintain credibility and to expand, the donor community must help ensure long term and predictable financial support” (*EFA-FTI Progress Report – April 2006*).

## **1.2 ASPECTS OF THE PROBLEM**

The resource mobilization failure appears to be the most serious obstacle on the road to success. The FTI Secretariat (2005a: p.16-17) sums up three aspects of this problem. The first aspect mentioned is the unequal distribution of bilateral partners over low-income countries. Most countries have few bilateral partners, and the secretariat fears that resource mobilization will remain unsuccessful in these countries. A second aspect of the resource mobilization failure is that silent partnerships (SP; delegated cooperation arrangements) do not originate very easily, because it might be hard to find a proper partner in countries with few bilateral donors, and uneasy to establish and agree upon delegated cooperation arrangements. A third aspect is the unpredictability of aid. Donors are often unable to make multi-year commitments, due to agency structures, changing strategies and political terms. A fourth aspect, which the FTI Secretariat does not mention in the section referred to, but nonetheless is an important aspect throughout the document, is the huge financing gap that remains after having discounted all donor commitments (see paragraph 1.1).

This research will be restricted to the first aspect, namely the unequal distribution of bilateral partners. Although the disappointing number of originating silent partnerships, the unpredictability of aid and the remaining financing gap are all important aspects of the failure of FTI resource mobilization, it is impossible to investigate all elements of the problem. Furthermore, as argued above, the disappointing number of originating silent partnerships largely results from the unequal distribution of bilateral partners, while the unpredictability of aid and the huge financing gap are caused by rather obvious restraints. On the opposite, the underlying causes of the unequal distribution of bilateral partners are less obvious. The FTI Secretariat (2005a: p.17) confirms this obscurity and the need to address the subsequent problem: “With this type of distribution, unless the underlying causes are understood and addressed, the resource mobilization strategy for the majority of countries is unlikely to be successful”.

## **1.3 RESEARCH OBJECTIVES**

Generally formulated, this research tries to contribute to the realization of the EFA goal of UPC. The FTI is a major initiative trying to accelerate progress towards this goal. The most serious problem infesting this initiative is its failure to mobilize resources for FTI endorsed countries, especially where it concerns donor orphans. The FTI sums up several causes, the main one being the unequal distribution of bilateral partners. As the title suggests, this research investigates the unequal distribution of bilateral partners as cause of the resource mobilization failure. At first, this research aims at understanding the relation between these two concepts. Secondly, it aims at understanding the background

of the unequal distribution of bilateral partners. Finally, it aims at contributing to the solution of the resource mobilization failure by proposing strategies to change the unequal distribution of bilateral partners.

#### **1.4 PROBLEM DEFINITION AND RESEARCH QUESTIONS**

Taking into account the research objectives formulated above, the main question for this research is formulated as follows:

*How does the unequal distribution of bilateral partners relate to the FTI resource mobilization failure? How can this unequal distribution of bilateral partners be explained and how can it be influenced?*

The FTI Secretariat suggests that the unequal distribution of bilateral partners is the main cause of the resource mobilization failure. However, they do not provide any proof for this statement. Therefore, our first question asks how the unequal distribution of bilateral partners relates to the FTI resource mobilization failure. To answer this question, we must first visualize the distribution of bilateral partners in FTI endorsed developing countries. As the initiative tries to recruit new donors where needed, resource mobilization results are indicated by a comparison of the distribution of bilateral partners in FTI countries and non-FTI low-income countries. After this comparison, we must investigate whether FTI resource mobilization for countries having few bilateral partners stays behind in comparison with countries having more partners. For this purpose, the group of FTI countries is split up in countries having  $<5$  bilateral partners – labelled as ‘donor orphans’ by the FTI Secretariat (2006a: p.5) – and countries having  $\geq 5$  bilateral partners. Finally, we investigate whether other types of bilateral aid are also disadvantageous to donor orphans. If so, the problem occurs in a broader context, meaning that the distribution of bilateral partners in general has to be changed. If not, the problem is specifically related to the FTI, meaning that a change in the FTI design or resource mobilization efforts is needed.

Our second question asks how the unequal distribution of bilateral partners can be explained. To answer this question, we will make use of several theories, namely of rational choice, rule following and path dependence. The use of these theories is explained in paragraph 1.6, and the theories are described in chapter 4. To test our theories, at first we plan to look at general patterns of aid allocation in international context, deducing the types of criteria decision makers use. Secondly, to compare these types of criteria to some concrete criteria that are actually used in decision making processes regarding aid allocation, we turn to the case of the Netherlands as an example. This choice is accounted for in paragraph 1.6.

Finally, we link this explanation to the design of the FTI, asking in our third question what implications our findings have for the FTI. Therefore, we first have to ask whether and to what extent the FTI design already anticipated on the factors explaining bilateral donors’ aid allocation. Secondly, we want to analyze some by the FTI proposed solutions to the unequal distribution of bilateral partners. Subsequently, the final question asks for other solutions that can be drawn up as following from this research.

The research questions are broken down into sub questions and formulated as follows:

- 1) *How does the unequal distribution of bilateral partners relate to the FTI resource mobilization failure?*
  - a. *How is the distribution of bilateral partners in FTI countries and how does this compare to the distribution of bilateral partners in non-FTI low-income countries?*
  - b. *Does FTI resource mobilization for donor orphans stay behind in comparison with developing countries having more donor partners?*
  - c. *Is there also a relation for FTI countries between being donor orphan and being disadvantaged where it concerns the allocation of other types of bilateral aid?*
  
- 2) *How can the unequal distribution of bilateral partners be explained?*
  - d. *How can the observed aid allocation of bilateral donors be explained?*
  - e. *Which concrete criteria are actually used in the decision making process regarding the allocation of aid in the Netherlands?*
  
- 3) *What implications do our findings have for the FTI?*
  - f. *Has the FTI design anticipated on the factors explaining bilateral donors' aid allocation?*
  - g. *Which solutions to the unequal distribution of bilateral partners does the FTI propose?*
  - h. *Which other solutions to the unequal distribution of bilateral partners can be drawn up?*

## **1.5 RESEARCH RELEVANCE**

The relevance of this research can be proved by describing the place of the FTI in its broader context. That is what this paragraph shortly does. A more elaborate description can be found in paragraph 2.2.

The initiative is part of a broader movement around the Millennium Development Goals (MDGs), which are a rather special phenomenon in international relations because of their concreteness and the involvement of deadlines. The FTI is designed to increase the efforts needed to achieve the goals. It makes use of the momentum created by the goals, the attention of world leaders, politicians and decision makers, and the prominent place of education within the goals.

The FTI is also part of the efforts for Education for All, as an important element of the MDGs. More than the other MDGs, the achievement of universal primary education gives hope for the development of the underdeveloped part of the world. In the long term, it might even cause the attainment of some of the other MDGs. This turns education into a very interesting area to focus on. In response to the need for the improvement of effort and efficiency in this sector, the FTI was launched.

Finally, the initiative is pioneering some rather new principles for effective development cooperation. It combines new applications of the old concept of conditionality (World Bank / IMF) with the newly introduced concept of selectivity (World Bank, 1998; see paragraph 2.2.3). Furthermore, the FTI is one of the first programs obviously operating on basis of modern indicators of aid effectiveness, which were later internationally recognized and written down in the *Paris Declaration on Aid*

*Effectiveness* (2005). The concepts mentioned in this document are: country-ownership, alignment, harmonization, managing for results, and mutual accountability.

## 1.6 RESEARCH METHOD

The first main question regards the relation between the unequal distribution of bilateral donors and the FTI resource mobilization failure. Sub question (a) focuses exclusively on country selection. The sub questions (b) and (c) relate this selection process to the eventual amount of aid that each developing country receives. In this research, the concept of ‘aid allocation’ refers to the total result of country selection and the amounts of aid provided to each country.

To answer our first sub question (*a. how is the distribution of bilateral partners in FTI countries and how does this compare to the distribution of bilateral partners in non-FTI low-income countries?*) we visualize the distribution of bilateral partners in all low-income countries. Subsequently, the distribution of bilateral partners within the 20 FTI countries is compared with the distribution in non-FTI countries. Finally, because the secretariat claims that the failure mainly occurs with regard to donor orphans, the countries that fall under this designation are defined.

The second sub question (*b. does FTI resource mobilization for donor orphans stay behind in comparison with developing countries having more donor partners?*) will at first be addressed by analyzing FTI documents on resource mobilization successes and failures. Secondly, the amount of direct donor funding for the implementation of EFA primary programs in FTI countries will be related to the number of bilateral partners present. Thirdly, relating the amount of aid to the need of a country, a variable of direct donor funding as percentage of the external financing needs for implementing the EFA primary program is related to the number of bilateral partners present. Fourthly, to acquire an idea of resource mobilization over time for FTI donor orphans and FTI countries having more partners, direct donor funding from 2002-2006 will be described separately for these two country groups. Finally, to visualize the actual situation that has resulted from the unequal distribution of bilateral partners, we will create an aid concentration curve for relating the share of direct donor funding a country receives to the share of the problem (or the need) a country represents. With UPC being the main goal of the initiative, the amount of children aged 6-11 not in primary school is considered to be a good indicator of the problem at stake, or the need of a country. The data for the aid concentration curve also enables us to compare FTI donor orphans and FTI countries having more partners in this regard.

The third sub question (*c. is there also a relation for FTI countries between being donor orphan and being disadvantaged where it concerns the allocation of other types of bilateral aid?*) concerns a broader context. If the distribution of bilateral partners is seen as the underlying problem, this problem will not only cause the FTI resource mobilization failure, but also a more general aid allocation failure concerning FTI donor orphans. We use the share of Official Development Assistance (ODA) intended for primary education as well as the total amounts of ODA as indicators for bilaterally provided aid. Using these aid indicators, we will describe aid allocation from 2001-2004 (using the most recent data available) for FTI donor orphans against FTI countries having more partners. As we did

for direct donor funding, in answer to sub question (b), we will also provide aid concentration curves using the two ODA indicators for aid.

The second main question asks for an explanation of the unequal distribution of bilateral partners. This distribution is the result of decision making processes in donor countries concerning the selection of bilateral developing partners. To explain these processes, we make use of several decision making theories.

Literature provides several different assumptions about which interests motivate donors to involve in foreign aid. Three important general paradigms of international relations theory on this matter are the realist, the idealist and the neo-Marxist paradigm. These paradigms assume that the decision making process is based on a rational reflexion upon certain (internal or external) interests. The theory of rational choice, upon which these paradigms are based, thus provides a certain direction for the explanation of the decision making process regarding the selection of developing partners. We will see to what extent this theory, which is often used in aid allocation research, is able to explain the reality we observe.

Obviously, the theory of rational choice oversimplifies reality to deduce a constant explanatory factor. On the contrary, the theory of rule following takes the complexity of decision making into account, providing three general rules that decision makers follow: rules of bounded rationality, satisfactory results, and proper behaviour and identity development. On basis of this theory we expect donors to make use of criteria presented as rational and employed to rationalize the decision making process. We also expect donors to adjust expectations and make satisfactory decisions without continuing the search for optimal results. Finally, we expect donors to make decisions that refer to expectancies, appropriateness and identity.

Another important notion regarding policy development is path dependence, which is inserted as a separate ‘rule’ alongside the rules provided by the theory of rule following. On basis of this theory, we expect that “preceding steps in a particular direction induce further movement in the same direction” (Pierson, 2000: p.252). Both the theory of rule following and the theory of path dependence will be tested against the results from our research regarding question (d) and (e).

To test these theories to reality, we look at general patterns of aid allocation in international context and decision making processes regarding aid allocation in donor countries. To answer the fourth sub question (*d. how can the observed aid allocation of bilateral donors be explained?*) we will focus upon general patterns that can be recognized. From econometrical research on the outcomes of decision making processes, we can deduce the types of criteria decision makers use.

However, the process itself remains a ‘black box’, while the distribution of bilateral partners eventually is the result of the decisions regarding aid allocation and partner selection in donor countries. Therefore, we add the results of a concrete case study done by Hout & Koch (2006), analyzing the Dutch decision making process as well as its outcomes. This case study will be used in order to answer the fifth sub question (*e. which concrete criteria are actually used in the decision making process regarding the allocation of aid in the Netherlands?*). The Netherlands is chosen because it fulfils a pioneering role regarding the FTI and the justification of aid allocations. Furthermore, as



will be addressed more specifically in chapter 6, it is one of the few countries that recently tried to implement the concept of selectivity, which was promoted by the World Bank in 1998 and is one of the basic principles of the FTI. This means that if there are countries advantaging FTI endorsed developing countries and selecting developing partners on the criteria embedded in the FTI, the Netherlands will be one of them. In other words, this case study addresses a probable best practice. Adding up to the reasons mentioned, the availability of such a concrete and relevant study as the one by Hout & Koch (2006) is unique and very useful.

The third main question can be answered by relating the criteria used for aid allocations to the design of the FTI. The initiative tries to change donor behaviour, making involved countries more attractive to donors. At first, we want to know whether the FTI took the criteria donors are using for allocation and selection into account in its attempts for improvement (*f. has the FTI design anticipated on the factors explaining bilateral donors' aid allocation?*). For answering this sub question, the FTI design will be related to the allocation and selection criteria used by donor countries. As the FTI wants the involved developing countries to be advantaged, we expect that the FTI to some extent anticipated on the characteristics of donors' decision making processes.

The next sub question (*g. which solutions to the unequal distribution of bilateral partners does the FTI propose?*) asks for the improvements in the initiative's design that the FTI itself proposes. Answering this question, we address two solutions circulating within FTI regions.

The final sub question (*h. which other solutions to the unequal distribution of bilateral partners can be drawn up?*) can be answered with the help of yet another theory, namely of punctuated equilibrium. With this theory and our research as background, we make a first attempt to construct a strategy for changing the distribution of aid. In the first place, the FTI might be able to improve its anticipation on the factors explaining bilateral donors' aid allocation. Addressing this, we do not put the explanatory factors for the unequal distribution of bilateral partners in a normative position, but only recognize that the FTI will have to deal with these factors, at least in the short term. Then we do a step beyond, asking for ways in which the factors currently explaining bilateral donors' aid allocation can be influenced or changed.

## 1.7 STRUCTURE

Chapter 2 will provide an elaboration on the context of our research problem, which is essential for a good understanding of its aspects. Paragraph 2.1 provides information on the FTI, its structure, endorsement process, donor commitment and history. As announced, paragraph 2.2 describes the broader context and importance of the FTI. It addresses the MDGs, the role of primary education in these goals, and the role of the FTI as a model, linked up with modern global beliefs on how international development cooperation should work.

Chapter 3 starts with our analysis, following the method described, and provides the information on basis of which the first research question can be answered. Paragraph 3.1 provides some commentary on the use of aid concentration curves and the selection of

data, and refers to the sources that are used. Subsequently, paragraph 3.2 visualizes the unequal distribution of bilateral partners, paragraph 3.3 continues to prove the relation between the resource mobilization failure and the presence of few bilateral partners in countries referred to as donor orphans, while paragraph 3.4 ends up relating the unequal distribution of bilaterals to the unequal allocation of aid.

Chapter 4 will describe the theories that were already shortly mentioned while addressing our research method in the previous paragraph. At first, paragraph 4.1 describes the theory of rational choice. Secondly, paragraph 4.2 provides an explanation of the theory of rule following, emphasizing the differences with the previous theory. Subsequently, the theory of path dependence is reproduced in paragraph 4.3, while the theory of punctuated equilibrium is taken into consideration in paragraph 4.4. The main concepts of these three theories are summarized in a box at the end of every paragraph. Finally, paragraph 4.5 clarifies some obscurities with regard to positive and negative feedback processes.

Chapter 5 regards the second main question, providing the results of a literature review in search of criteria that donors seem to use in their decision making process for the selection of developing partners and the allocation of aid in international context. Paragraph 5.1 pays attention to the criterion of poverty. Paragraph 5.2 is dedicated to the criterion of policy performance, addressing several indicators, the use of policy performance as criterion for aid allocation and some examples of recent developments. Subsequently, the importance of economic interests is explored in paragraph 5.3, while paragraph 5.4 does the same for historical and political interests. Finally, paragraph 5.5 uses the theoretical concepts from the theories of rule following and path dependence to explain the use of these rather diverse criteria.

Chapter 6 pays attention to the Netherlands in order to have a closer look at concrete criteria used in decisions on aid allocation. The paragraphs make a distinction between different periods and, with that, different selection methods. Paragraph 6.1 comprises the period between 1998 and 2002; paragraph 6.2 the years 2003 and 2004. Paragraph 6.3 uses our theoretical concepts to explain our findings.

Chapter 7 addresses the third research question. In paragraph 7.1, the FTI design will be related to the allocation and selection criteria used by donor countries. Furthermore, paragraph 7.2 will review two by the FTI Secretariat proposed solutions. Finally, paragraph 7.3 makes an attempt to construct a strategy for changing the distribution of aid.

Chapter 8 concludes, formulating an answering to our research questions.

## 2. BACKGROUND

### 2.1 THE FAST TRACK INITIATIVE

For a good conception of the rest of this research, it is crucial to understand the main principles of the FTI. Therefore, we open with a paragraph on the initiative, attending to its main principles, the endorsement process for developing countries, the commitments of donors, the FTI funds, and the history of the initiative.

The FTI is a “global partnership of developing and donor countries and agencies to support global EFA goals by focusing on accelerating progress towards the core EFA goal of *universal primary school completion (UPC), for boys and girls alike, by 2015*” (*EFA-FTI framework*, 2004b: p.3).

The initiative is built on mutual commitments. Partner countries agree “to put primary education at the forefront of their domestic efforts and develop sound education plans”, while donors “provide coordinated and increased financial and technical support in a transparent and predictable manner” (*Fact Sheet: About the FTI*). FTI is established around several principles, which are covered by the following key concepts: sound education plans, better coordination, country led programs, predictable aid, measurable results and mutual accountability.

The FTI partnership is co-chaired by two bilateral agencies. Overall policy guidance is provided by a Steering Committee, consisting of five standing members, including the two co-chairs, the World Bank, UNESCO and the most recent outgoing co-chair, and three rotating members, including UNICEF, civil society and a developing country Education Minister. The FTI Secretariat provides technical and administrative support and is comprised of eight World Bank staff members.

#### 2.1.1 ENDORSEMENT PROCESS

The FTI is not open to all countries. Only low-income countries can apply for increased donor support through the initiative. The definition of low-income countries is borrowed from the classification utilized by the World Bank for determination of IDA eligibility. IDA stands for International Development Association: a World Bank lending arm providing interest-free credits and grants to the poorest developing countries. To select these countries, the association makes use of the criteria mentioned in box 1. Only IDA eligible countries may apply for FTI participation.

- Relative poverty, defined as GNP per capita below an established threshold, US\$1025 (as of July 1, 2006).
- Lack of creditworthiness to borrow on market terms and therefore a need for concessional resources to finance the country's development program.
- Good policy performance, defined as the implementation of economic and social policies that promote growth and poverty reduction.

*Box 1. Criteria for IDA eligibility*

To become part of the FTI and acquire increased donor support, these countries have to pass through an endorsement process which is mainly aimed at gaining donor confidence. It contains three elements (*EFA-FTI framework*, 2004b: p.5-6).

At first, endorsement requires an approved national Poverty Reduction Strategy (PRS). With the help of this criterion, the initiative tries to ensure that the education strategy is anchored in country level consultative and budgetary processes, and that both national government and civil society are committed to poverty reduction and education improvement.

The second element comprises the required presence of an Education Sector Plan, developed in consultation with domestic stakeholders and local donors. This plan has to address key constraints to accelerating UPC by providing an appropriate strategy for key issues like HIV/AIDS, gender equality, monitoring and evaluation, capacity building, and financing. Besides, it should align primary education priorities with other stages and forms of education. The presence of a sound Education Sector Plan is envisaged to entail several advantages. Firstly, it should ensure that developing country governments and civil society are committed to education improvement. Secondly, it is meant to provide a basis for confidence that aid will be distributed in such a manner, that education is effectively promoted. For development countries lacking the technical and institutional capacity to develop sound education plans, grant funding from the Education Program Development Fund (EPDF) is available. More about this fund can be found in paragraph 2.1.3.

Thirdly, agreement to monitor benchmark indicators is required. The *FTI Indicative Framework* provides a common set of education policy, service delivery, and financing indicators, thus providing the opportunity of benchmarking and learning from best practices. The indicative framework is based on the “Benchmarks for Primary Education Efficiency and Quality” as provided by Bruns et al. (2003: p.73). A summary of the FTI benchmarks is reproduced in annex 1. Countries are supposed to set annual targets on this framework and monitor them. The indicators are to be locally adapted if necessary, and must be complemented by measurements of student learning and the quality of teaching. Furthermore, countries are encouraged to develop a broader range of indicators for measuring progress against national education goals.

The assessment and endorsement process is led by local donor agency representatives. A coordinating agency is appointed to maintain the formal contacts between the national government on the one hand, and the donor agencies and the FTI partnership on the other hand. The main element of the endorsement process is the appraisal of the primary

education component of the Education Sector Plan, for which the FTI Secretariat provided some guidelines<sup>1</sup> as an aid for the teams conducting the appraisal.

The fully endorsed FTI countries are mentioned in box 2, as well as the donor partners taking part in the FTI. An overview of the EFA FTI process can be found in annex 2.

### 2.1.2 DONOR COMMITMENT

Donor partners are expected “to maximize coordination, complementarities and harmonization in aid delivery, and reduce transaction costs for FTI recipient countries” (*EFA-FTI framework*, 2004b: p.3). To stimulate this effort, funding partners are encouraged to previously note down their interventions at the country level in a sector-wide approach (SWAp) and common work program; to employ donor practices and financing in a flexible manner, striving to support country-owned education sector strategies, institutions, systems and procedures (alignment); and to ensure transparent and predictable support.

In some countries, the partnership between government and FTI partners is set out in a Memorandum of Understanding (MOU). The ‘donor indicative framework’ is a new means of ensuring accountability from the side of the donor parties (*Fact Sheet: About Aid Effectiveness*). The indicators are being aligned with the indicators of progress from the *Paris Declaration on Aid Effectiveness*.

**Developing countries** within the FTI compact (28): Albania, Burkina Faso, Cambodia, Cameroon, Djibouti, Ethiopia, Gambia, Ghana, Guinea, Guyana, Honduras, Kenya, Kyrgyz Republic, Lesotho, Madagascar, Mali, Mauritania, Moldova, Mongolia, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tajikistan, Timor-Leste, Vietnam, and Yemen. (webpage of *EFA Fast Track Initiative*, 31.01.07)

**Donor partners** within the FTI compact, comprising more than 30 bilateral, regional and international agencies and development banks: Australia, Austria, Belgium, Canada, Denmark, European Commission, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Russia, Spain, Sweden, Switzerland, the United Kingdom, the United States, African Development Bank (AfDB), Asian Development Bank (ADB), Inter-American Development Bank (IADB), Joint United Nations Programme on HIV/AIDS (UNAIDS), United Nations International Children's Emergency Fund (UNICEF), United Nations Development Programme (UNDP), United Nations Educational, Scientific and Cultural Organization (UNESCO) and the World Bank. (*Fact Sheet: About the FTI*)

Box 2. Developing countries and donor partners within the FTI compact

### 2.1.3 FUNDS

If countries are in need of, and able to manage, more financial aid, they are eligible to receive transitional grant funding from the FTI Catalytic Fund (CF) over a maximum of two to three years. Because the idea is that countries with sufficient donors can receive more and better coordinated aid from their own (bilateral) partners, only ‘donor orphans’

<sup>1</sup> ‘*Guidelines for Appraisal*’, November 2005

are considered to be in need of transitional grant funding from the CF. Donor orphans are countries with four or fewer bilateral donors contributing at least US\$ 1 million to the education sector (FTI Secretariat, 2006a: p.5). The precise allocation of CF funding to development countries can be found in annex 3.

In 2003-2004 the available amount was US\$ 49 million, while commitments to the CF are projected to increase to US\$ 147 million in 2007. A remarkable fact is that the Netherlands is the single largest contributor to the Fund, although its share decreases from 81 percent of total contributions in 2004 to 44 percent in 2006. After a maximum of three years, the countries must be attractive enough to receive longer-term support from other donors. However, in December 2005 the FTI Secretariat concluded that “the partnership has not been successful in transiting recipients of CF grants to more sustainable, longer-term financing” (FTI Secretariat, 2005a: p.14). As referred to in the introduction, this failure to mobilize resources is the focus of our research.

A second FTI fund is the Education Program Development Fund (EPDF), which is available to countries lacking the capacity to develop sound education plans. It strengthens the technical and institutional capacity, and helps countries to obtain knowledge improvement and strengthened partnerships (FTI Secretariat, 2005a: p.22). In 2006, a total amount of almost US\$ 22 million will be available, largely provided by Norway (US\$ 17 million) and replenished by Ireland, Sweden and the United Kingdom. When, with the help of the EPDF, a sound education plan is developed, countries are eligible for CF funding after having successfully gone through the review process.

However, as was recognized at the start of the global initiative towards education for all, from which the FTI emerged, “particularly significant is the fact that the initiative is *not* to be understood as a global fund, (...) the initiative goes beyond financing EFA to interpreting the principles and mechanisms for international cooperation as related to all of the stipulated six elements and their use in achieving EFA. Providing adequate financial resources is but one of the strategies.” (UNESCO, 2001: p.8) The elements referred to are: increasing external finance, predictable aid, debt relief, donor coordination, sector-wide approaches and monitoring of progress. The FTI continues to interpret the principles and mechanisms for international cooperation, ascending to a model designed for securing aid effectiveness.

#### 2.1.4 HISTORY OF THE FTI

As is the case with most developments, it is hard to label a specific event as being the very start of the FTI. Many meetings and documents – some of which are mentioned in paragraph 2.2 – played a role in clearing the way for and recognizing the urgency of the initiative. Anyhow, this overview<sup>2</sup> starts with the official endorsement of the FTI by the Development Committee<sup>3</sup> during the Spring Meetings in April 2002.

This was followed by a G8 meeting in June 2002 in Kananaskis (Canada), during which the G8 agreed to support the FTI by significantly increasing bilateral assistance for

<sup>2</sup> This overview is based on the Development Committee document DC2003-0004/Add.1, p.10

<sup>3</sup> Joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the transfer of real resources to developing countries

achievement of EFA and working with bilateral and multilateral agencies to ensure implementation of the FTI.

In the same month, based on the criteria of having in place a PRSP and an effectively implemented Education Sector Plan, 18 countries were invited for participation in the FTI: Albania, Bolivia, Burkina Faso, Ethiopia, Gambia, Ghana, Guinea, Guyana, Honduras, Mauritania, Mozambique, Nicaragua, Niger, Tanzania, Uganda, Vietnam, Yemen, and Zambia. At the same time, 5 countries containing half the world's out-of-school population were invited to receive technical and analytical assistance to increase EFA efforts: Bangladesh, Democratic Republic of Congo, India, Nigeria, and Pakistan.

During a first partnership meeting, hosted by the European Commission (EC) in November 2002 in Brussels, the donors endorsed the programs of 7 countries: Burkina Faso, Guinea, Guyana, Honduras, Mauritania, Nicaragua, and Niger. The first donor partners were the Netherlands, Norway, Canada, Germany, Japan, the UK, France, Italy, the USA, and the EC.

## **2.2 FTI IN BROADER CONTEXT**

The FTI clearly does not stand on itself: it is part of a broader context, of which the Millennium Development Goals and Education for All are the most important parts. This paragraph starts with the introduction of the MDGs, emphasizing the present uniqueness in ambition, concreteness and general acceptance. It subsequently focuses on the second and third goal concerning primary education, illustrating the importance of education as an investment in the future and a catalyst with regard to the other MDGs. Finally, the paragraph provides a review of the exploring role of the FTI, and cites its opportunity to develop into a model for other initiatives regarding development cooperation in general and the MDGs in particular. In short, this paragraph aims at describing and underlining the important and relevant role of the FTI with regard to its broader context.

### *2.2.1 MILLENNIUM DEVELOPMENT GOALS*

In September 2000, the United Nations (UN) General Assembly affirmed its “faith in the organization and its charter as the foundations of a more peaceful, prosperous and just world” by adopting the *United Nations Millennium Declaration* (A/RES/55/2). This document stresses the responsibility of the heads of state and government “to uphold the principles of human dignity, equality and equity at the global level.” Within the framework of these statements, the declaration contains several actions and targets. One year later, these actions and targets were elaborated in a follow-up: the *Road map towards the implementation of the United Nations Millennium Declaration* (A/56/326). The most remarkable part of this road map is formed by the Millennium Development Goals.

The MDGs are eight goals, reproduced in box 3, responding to the world's main development challenges. The goals were developed after consultations among members of the United Nations Secretariat and representatives of the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD) and the World Bank. This group was able to develop a comprehensive set of indicators for each

goal. The goals are broken down into 18 quantifiable targets that are measured by 48 indicators. Such concreteness is a rare phenomenon in the field of international relations, even more so because most targets have a deadline: the year 2015.

Goal 1: Eradicate extreme poverty and hunger Goal 2: Achieve universal primary education Goal 3: Promote gender equality and empower women Goal 4: Reduce child mortality Goal 5: Improve maternal health Goal 6: Combat HIV/AIDS, malaria and other diseases Goal 7: Ensure environmental sustainability Goal 8: Develop a Global Partnership for Development
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*Box 3. The United Nations Millennium Development Goals*

The UN Millennium Development Goals (MDGs) have the attention of many a politician, organization and scientist. The main question that occupies the general public is obviously whether these goals will be reached by 2015, or not. The most general answer is the political but activating one given by Kofi A. Annan, the United Nations Secretary General (webpage of *The UN Millennium Development Goals*, 10.05.06):

“We will have time to reach the Millennium Development Goals – worldwide and in most, or even all, individual countries – but only if we break with business as usual. We cannot win overnight. Success will require sustained action across the entire decade between now and the deadline. It takes time to train the teachers, nurses and engineers; to build the roads, schools and hospitals; to grow the small and large businesses able to create the jobs and income needed. So we must start now. And we must more than double global development assistance over the next few years. Nothing less will help to achieve the Goals.”

The FTI is designed to increase the efforts needed to achieve the goals. It makes use of the momentum created by the goals, the attention of world leaders, politicians and decision makers, and the prominent place of education within the goals. The next part focuses on this last point, as well as on the origins of the two millennium goals regarding education (MDG 2 & 3; see box 5).

### 2.2.2 PRIMARY EDUCATION

Next generations have the future. This has been recognized since the creation of the world and forms the basis of many policies, including the MDGs. Interestingly enough, the idea of education for all as a universal responsibility even goes back to the *Universal Declaration of Human Rights*, which asserted that “everyone has a right to education”. The importance of this human right was affirmed in the *World Declaration on Education for All* at the World Conference on Education for All in 1990 in Jomtien (Thailand). The declaration contains six EFA goals, which were altered and set to be achieved by 2015 at the subsequent global meeting on education: the World Education Forum April 2000 in Dakar (Senegal). This forum was attended by 1500 delegates from governmental and non-governmental organizations in 181 countries. The two MDGs on education are



deduced from the six EFA goals in the *Dakar Framework for Action*, which are presented in box 4.

i.	expand and improve comprehensive early childhood care and education, especially for the most vulnerable and disadvantaged children;
ii.	ensure that by 2015 all children, particularly girls, children in difficult circumstances and those belonging to ethnic minorities, have access to and complete free and compulsory primary education of good quality;
iii.	ensure that the learning needs of all young people and adults are met through equitable access to appropriate learning and life skills programmes;
iv.	achieve a 50 per cent improvement in levels of adult literacy by 2015, especially for women, and equitable access to basic and continuing education for all adults;
v.	eliminate gender disparities in primary and secondary education by 2005, and achieving gender equality in education by 2015, with a focus on ensuring girls' full and equal access to and achievement in basic education of good quality;
vi.	improve all aspects of the quality of education and ensuring excellence of all so that recognized and measurable learning outcomes are achieved by all, especially in literacy, numeracy and essential life skills.

Box 4. EFA goals from the *Dakar Framework for Action*

More than the other MDGs, the achievement of universal primary education gives hope for the development of the underdeveloped part of the world. In the long term, it might even cause the attainment of some of the other MDGs. According to the World Bank, there is “overwhelming evidence that education – particularly for girls – can halt the spread of AIDS, increase economic growth and break the cycle of poverty” (*Fact Sheet: About the FTI*). Because of the general acceptance of these statements, primary education has the attention and support of many assisting organizations. This turns education into a very interesting area to focus on. The targets and indicators concerning primary education are reproduced in box 5. In the official documents, the goals, targets and indicators are numbered separately. This official numbering is copied.

<b>Goal</b>	<b>2</b>	<b>Achieve universal primary education</b>
Target	3	Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
Indicators	6	Net enrolment ratio in primary education (UNESCO)
	7	Proportion of pupils starting grade 1 who reach grade 5 (UNESCO)
	8	Literacy rate of 15-24 year-olds (UNESCO)
<b>Goal</b>	<b>3</b>	<b>Promote gender equality and empower women</b>
Target	4	Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015
Indicators	9	Ratio of girls to boys in primary, secondary and tertiary education (UNESCO)

Box 5. MDG: goals, targets and indicators concerning primary education

In spite of the importance of education and the increased attention to it, Official Development Assistance (ODA) for education has only increased modestly since the adoption of the United Nations Millennium Declaration in 2000. There is time left to reach the goal, but if the achievement of the second MDG is understood as the completion of primary education (Universal Primary Completion; UPC)<sup>4</sup>, the net enrolment ratio (NER; indicator 6) will have to be 100% already by 2009 (Gurria & Gershberg: p.12-13). Although different studies<sup>5</sup> have used different methodologies to quantify the resources necessary to achieve the MDG of UPC, the common conclusion is that major improvements in effort and efficiency are required. In response to this need the FTI was launched, focusing on one of the most important goals, if not the most important goal. The seriousness of this initiative is not only confirmed by the importance of its focusing area, but also by the methods it uses. It is a pioneering initiative that sticks to the latest principles regarding aid effectiveness, which are broadly supported. This is illustrated in the paragraph below.

### 2.2.3 FTI AS A MODEL

In the last decade, development cooperation has been pushed in new directions. The design of the FTI is based on this recent development.

For a long time, the World Bank and IMF favoured the use of conditionality as a means for aid to be accompanied by lasting changes. However, this strategy does not seem to have worked, for several reasons. Firstly, reforms do not occur without domestic commitment. Furthermore, the pressure for compliance was weak because donors were not willing to withdraw assistance. Recognizing this, the World Bank (1998) encourages donors to select poor countries with good policies and policy environments, instead of imposing conditions afterwards. The FTI follows this trend, reinventing the use of conditionality and promoting the use of selectivity in aid allocation policies.

The PRS and Education Sector Plan are both *conditions* for participation within the FTI, and progression on several indicators is used as a condition for increased and better coordinated aid. In this way, conditionality is utilized because of its assumed positive signalling effect and ability to catalyze additional financing. So, the FTI renews the application of conditionality by requiring the meeting of conditions preceding the provision of increased funding. The choice for developing countries to try and meet these conditions is a voluntarily one, while the expected increased support becomes a well deserved reward.

On the other hand, donor countries are able to *select* the endorsed countries as trustworthy and effective partners. Furthermore, the *FTI Indicative Framework* makes it even possible to distinguish and favour the better performing developing countries within the initiative. In that way, the FTI promotes the selection of low-income countries with good policies for increased and better coordinated aid. Summarizing, donor countries are

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<sup>4</sup> As is done by Bruns et al. (2003) and the Millennium Project (led by prof. Jeffrey Sachs, advisor to the UN Secretary General)

<sup>5</sup> An overview is given in: Gurria & Gershberg, *Costing the Education MDGs: A Review of the Leading Methodologies*

encouraged to make a distinction between developing countries, and allocate aid on basis of criteria of performance and effectiveness.

As was brought up in paragraph 2.1, the FTI is also built around some effectiveness-supporting principles, namely sound education plans, better coordination, country led programs, predictable aid, measurable results and mutual accountability. These principles largely correspond with the indicators of progress from the *Paris Declaration on Aid Effectiveness*, which are: country-ownership, alignment, harmonization, managing for results, and mutual accountability.

The Paris Declaration dates from March 2005 and the FTI is one of the first programs obviously operating on basis of its indicators. Therefore, the initiative has the potential to serve as a normative model with respect to aid effectiveness. This awareness is already present at the FTI partners, considering their statement that “by bringing donors, civil society and developing country governments together around the same goal, FTI is improving the effectiveness of aid by strengthening donor collaboration, alignment and harmonization. FTI is also evolving as a good model for the country driven implementation of an MDG linked global initiative” (*Informal World Bank Executive Board briefing*, p.2). Moreover, trying to prove the FTI’s role as a model, the secretariat proudly announces that “in some countries, FTI partners are leading the way with new harmonization instruments like partnership agreements and Memoranda of Understanding between governments and agencies” (*Fact Sheet: About Aid Effectiveness*).

Although the contemporary role of the FTI as a model is not yet broadly recognized, its characteristics are linked up with modern global beliefs of how international development cooperation should work. Therefore, it is all the more interesting to comment upon some of its related processes.

### **3. FTI RESOURCE MOBILIZATION FAILURE FOR DONOR ORPHANS**

This chapter starts with our analysis, following the method described in paragraph 1.5, and provides the information on basis of which the research question can be answered. We will at first turn to a methodology that is used to visualize the uneven distribution of bilateral partners and the limitations it poses on an effective implementation of the Fast Track Initiative: aid concentration curves. Secondly, the paragraph attends to the origin of the data we use in this chapter. After that, we address the first three sub questions, successively paying attention to the unequal distribution of bilateral partners, the number of bilateral partners in relation to the allocation of direct donor funding for the implementation of EFA primary programs in FTI countries, and the number of bilateral partners in relation to the allocation of (primary education) ODA.

#### **3.1 COMMENTARY ON METHOD, DATA SELECTION AND SOURCES**

As stated in the introduction, we first comment upon the methodology of aid concentration curves, which are used in this chapter. The use of these curves by Baulch (2006) is taken as an example, and deviations from his version will be explained. Furthermore, we provide some clarifications on the way we selected and gathered the data that are used for the analyses in this chapter.

##### *3.1.1 AID CONCENTRATION CURVES*

To examine whether aid is distributed in a ‘fair’ way, the use of aid concentration curves is very helpful. Baulch uses this methodology to show “whether the distribution of a donor’s development assistance is targeted toward or away from the poorest countries” (Baulch, 2006: p.934). The curves can, however, be used in different ways. The methods that will be used for this research are explained separately, beginning with the specific one used by Baulch.

As said, Baulch uses the aid concentration curves to visualize whether most donor aid goes to the poorest countries. This is done by constructing a chart plotting the cumulative percentage of aid on the vertical axis against the cumulative percentage of a population variable on the horizontal axis. The net Official Development Assistance (ODA) plus Official Aid (OA) is the common measure for aid. Box 6 reproduces the definition of these terms by the OECD. The population variable indicates the problem that is at stake. In our research, this population variable is set to be the amount of children aged 6-11 that is not in primary school. This variable suits best to indicate the distance towards achievement of the second MDG of universal primary education. The ranking of the percentages of aid and population starts with the poorest country and ends with the richest country, based on per capita incomes in terms of Atlas GNI, meaning that the incomes are converted to current US\$. The chart shows a diagonal line, pointing out the situation in which both cumulative percentages remain equal: 10% of the aid is targeted

towards 10% of the problem; 50% of the aid towards 50% of the problem; etc (see for example figure 9). If the graph begins steeper than the diagonal, poor countries are getting a share of aid that is higher than the share of the problem located in these countries.

This research builds on this type of aid concentration curves, though with some variations which change the meaning of the graph. Next to the variable of net ODA plus OA for the visualization of aid, the variables of direct donor funding for the implementation of EFA primary programs, and the number of bilateral partners are used. The use of these factors forces the results in the direction of primary education and makes them more relevant for drawing FTI related conclusions.

*Official Development Assistance (ODA)* is defined as those flows to countries on Part I of the DAC List of Aid Recipients (developing countries) and to multilateral institutions for flows to Part I aid recipients which are:

- i. provided by official agencies, including state and local governments, or by their executing agencies; and
- ii. each transaction of which:
  - a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
  - b) is concessional in character and conveys a grant element of at least 25% (calculated at a discount rate of 10 per cent).

*Official Aid (OA)* consists of flows that meet all the tests of ODA, except that they are directed to countries on Part II of the DAC List of Aid Recipients (countries in transition) and to multilateral institutions which primarily benefit Part II aid recipients.

*Box 6. Definition of Official Development Assistance and Official Aid*

As McGillivray (2003: p.6) makes clear, aid concentration curves do not provide a normative guideline for the distribution of aid. One can not state convincingly that the curve would at best be situated along the diagonal, because poorer countries might need more aid to solve a certain share of the problem than richer countries. On the other hand, a curve situated above the diagonal does not ratify aid as being ‘fairly’ allocated. If the poorest country gets all aid, the curve will be situated above the diagonal, but in this case many other poor countries will be denied. Furthermore, we are generally not sure whether the poorest countries will be able to absorb the amount of aid and spend it in an effective way. For these reasons aid concentration curves can not prescribe an ideal situation.

However, in research one does want to draw conclusions on basis of the curves. Therefore, we make use of the, at least plausible, premise that a curve that runs under the diagonal suggests an ‘unfair’ allocation of aid. In case of the FTI, this premise becomes even more plausible because countries lacking the implementation capacity to spend increased aid in an effective way can be excluded.

### 3.1.2 DATA SELECTION AND SOURCES

The data used for this research are gathered from reliable sources, mostly online databases and publications. This paragraph provides some explanations, while all data and sources are listed in annex 4. Data concerning the distribution of bilateral partners in

low-income countries are based upon a detailed map of the FTI Secretariat, matching donors and 78 low-income countries (FTI Secretariat, 2005a, annex 3: p.33-35). Silent partnerships and intended or considered supports are included to make the graphs as complete and recent as possible. This is considered necessary since the FTI only started recently (in 2002), and at least some part of the relevant changes or results might show up in the details.

The following FTI developing countries are ignored in the remaining part of this research: Albania, Cambodia, Cameroon, Kyrgyz Republic, Mali, Mongolia, Rwanda and Senegal. These countries joined the initiative after August 2006, when parts of this research were at an advanced stage. Moreover, data on resource mobilization for these countries is not yet available. The term ‘FTI (developing) countries’ will therefore refer to twenty countries, namely Burkina Faso, Djibouti, Ethiopia, Gambia, Ghana, Guinea, Guyana, Honduras, Kenya, Lesotho, Madagascar, Mauritania, Moldova, Mozambique, Nicaragua, Niger, Tajikistan, Timor-Leste, Vietnam, and Yemen.

To compare the number of bilateral partners with the educational aid a country gets, amounts of direct donor funding for the implementation of EFA primary programs are used. In many cases costs are higher than funding, leaving a financing gap. The data regarding direct donor funding, EFA primary program costs and financing gaps are taken from the file *FTI country profiles*, containing the country profiles of the FTI developing countries. For Vietnam, this file only provides the total EFA program costs (including early childhood care and education, lower secondary education, and non-formal education), which is why we used the data regarding Vietnam provided in the *Progress Report* (FTI Secretariat, 2005a), after having compared these data with Vietnam’s Education Sector Plan (Socialist Republic of Vietnam, 2003, p.xi). Data are not complete for Djibouti, Guyana, Moldova, and Nicaragua, which will therefore be left out of the figures that are based on amounts of direct donor funding and program costs. Unless indicated differently, we used data of the most recent year, being 2005 for Ethiopia, Gambia, Guinea, Honduras and Mozambique, and 2006 for the other countries. This choice is made because data are rather stable in most countries, while for others they are very instable. In both cases it is useless to use the average over a few years as a representative amount, so we provide the most recent picture.

The number of children aged 6-11 not in primary school are for most countries taken from the online World Development Indicators (WDI online; World Bank). We used the data of the most recent year, being 2005 for Ghana and 2004 for the other countries. For Ethiopia, Guinea, Vietnam and Yemen, the number of children aged 6-11 not in primary school is not available from WDI online, and is therefore calculated on basis of the population aged 6-11, taken from the World Population Prospects (UN), and the primary school enrolment (net %) from WDI online. This also applies to Guyana, except for the net primary school enrolment, which is not available from WDI online, and is therefore taken from UNICEF’s *The State of the World’s Children 2006*. For Timor-Leste, we took over the estimate from its Education Sector Plan (Timor-Leste Ministry of Education and Culture, 2005: p.11).

The per capita incomes in terms of Atlas GNI for 2005, needed for the ranking of the aid distribution curves, were taken from WDI online.

The Official Development Aid to the sector of primary education, referred to as Primary Education ODA, corresponds with the specific sector of primary education (code

11220) from the OECD/DAC Creditor Reporting System (CRS) database (dataset 1), from which these data are drawn. Unless indicated differently, we measured this variable in 2004 because that is the most recent year available, while aggregating the amounts for 2002-2004 gives the same results. With regard to the donors, we only measured the assistance provided by the DAC countries (and not the multilaterals), since this research discusses bilateral aid. The results were ranked per country per year. This format is only available in donor commitments, not disbursements. Data for Guyana is not available at all.

The total net Official Development Assistance (code 206) is available from the OECD DAC database (table 2a). Unless indicated differently, we measured for the year 2004, including only DAC country donors. The results were ranked per country per year. This format is only available in donor disbursements.

### 3.2 THE UNEQUAL DISTRIBUTION OF BILATERAL PARTNERS

a. *How is the distribution of bilateral partners in FTI countries and how does this compare to the distribution of bilateral partners in non-FTI low-income countries?*

The unequal distribution of bilateral partners over low-income countries is reflected in figure 1, which is based on a chart by the FTI Secretariat (2005a: p.33-35), matching numbers of 78 low-income countries with numbers of bilateral partners, including silent partnerships and intended supports.

Figure 2 shows the distribution of bilateral partners within the 20 FTI countries. In order to be able to compare this with the distribution in the 58 non-FTI countries, we show the share of low-income countries in each group corresponding to the number of bilateral partners on the x-axis. For FTI countries, every 5% represents one of the 20 countries. Comparing the two groups will reveal whether distribution in the first group is more equal, which might be expected if FTI attempts of resource mobilization have any influence. Figure 3 cumulates the shares of low-income countries in order to get a more univocal conclusion.

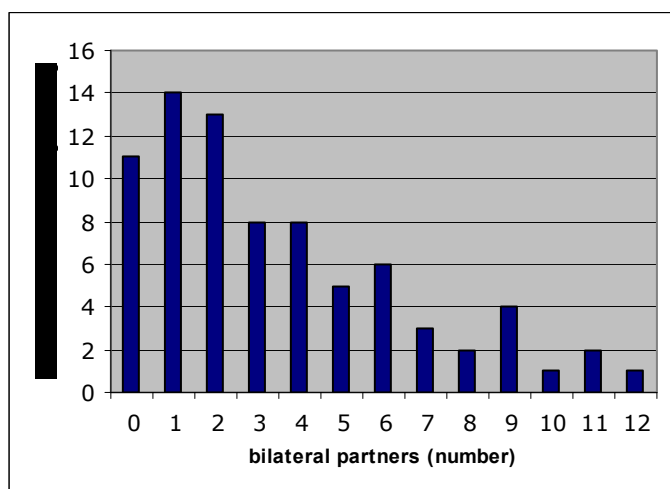


Figure 1. Number of bilateral partners in 78 low-income countries

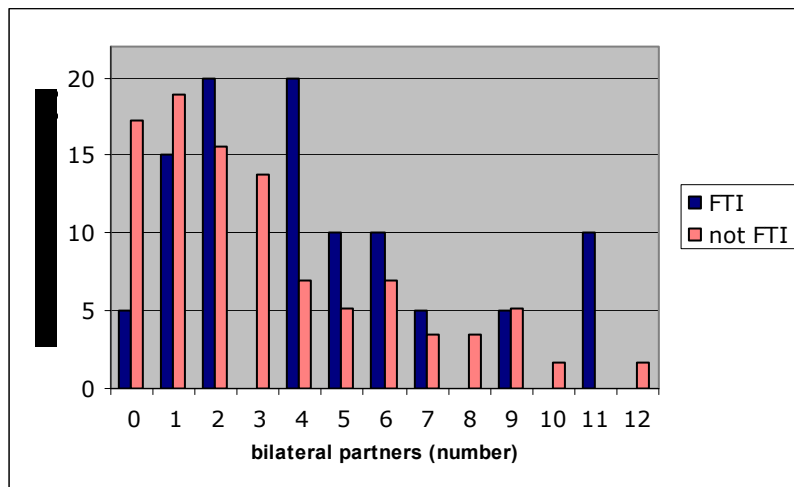


Figure 2. Number of bilateral partners in FTI countries vs. non-FTI countries

From figure 1, we conclude that the distribution of bilateral partners in general indeed is unequal: 54 low-income countries have  $<5$  bilateral partners, while only 24 countries have  $\geq 5$  partners. This situation will inevitably affect the FTI. Anyhow, this is the starting position with which the initiative has to deal. However, the initiative has a huge amount of committed donors, which in theory offers the possibility to change the initial situation in the short term. But if this fails, the problem remains.

Looking at figure 2, we must conclude that the distribution of bilateral partners in FTI countries also proves to be unequal. However, there are some differences with the distribution in non-FTI countries. What we see is that the FTI group contains fewer countries with 0 bilateral partners. The only country with 0 partners is the Gambia, which joined the FTI in 2003 and received CF funding (US\$ 4 million per year) from 2004 until 2006. It does have 2 multilateral partners in education, namely the AfDB and UNICEF, but until now failed to attract bilateral partners. So, although the Gambia is the single country without bilateral partners, which stands out positively compared to non-FTI countries, it is also an example of the partly disappointing effect of FTI endorsement and resource mobilization. Looking at the countries with  $<5$  bilateral partners, the higher share of FTI countries with 2 and 4 bilateral partners respectively compensates for the lower share of FTI countries with 1 and 3 partners. This indicates a slight advantage of the countries participating in the FTI. Furthermore, the FTI group contains a larger share of countries with  $\geq 5$  partners. This can be read out more obviously from a graph that uses cumulative shares of low-income countries.



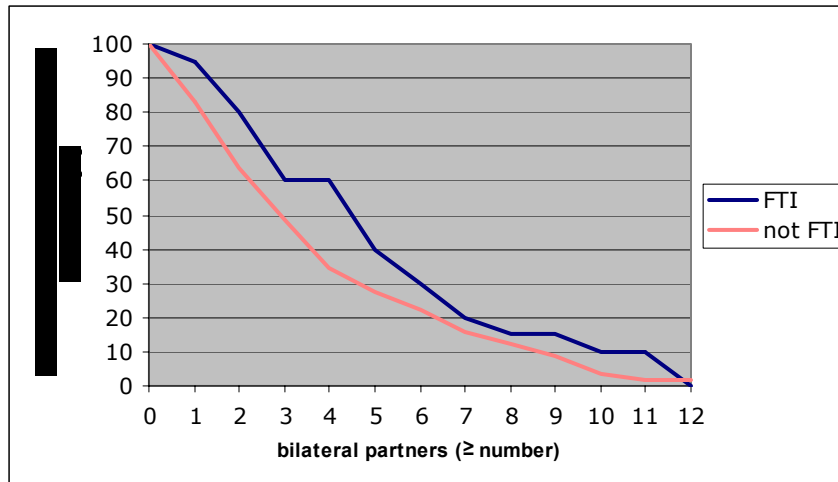


Figure 3. Cumulative share of FTI vs. non-FTI countries for nrs. of bilaterals

Figure 3 starts with the share of low-income countries having 0 or more bilateral partners, and continues with 1 or more, 2 or more, etc. Except for countries having 12 bilateral partners, the blue line remains higher, meaning that the share of FTI countries is larger than the share of non-FTI countries for every group ranging from having 1 or more partners to having 11 or more partners. For example, we see that the share of FTI countries having  $\geq 5$  bilateral partners is 40% vs. 28% for non-FTI countries, meaning that the share of donor orphans is 60% for FTI countries and 72% for non-FTI countries.

Summarizing, bilateral donors favour FTI countries above non-FTI countries, but the difference does not impress yet. And although it seems likely, the difference is not necessarily a result of FTI attempts to mobilize resources. The relation with FTI participation can not be proved with these data.

### 3.3 NUMBER OF BILATERAL PARTNERS AND ALLOCATION OF DIRECT DONOR FUNDING

*b. Does FTI resource mobilization for donor orphans stay behind in comparison with developing countries having more donor partners?*

More important than the number of bilateral partners in a certain developing country is without doubt the total amount of development aid that these partners provide to the primary education sector. We already recognized that bilateral donors do not provide increased support to CF countries. According to the FTI Secretariat, “in fact, an opposite trend is occurring, with bilaterals starting to focus on fewer countries and sectors” (FTI Secretariat, 2006b: p.7), meaning that many developing countries are more and more excluded. This trend causes an increasingly diverse picture of the successes the FTI obtains in mobilizing resources through regular channels. Countries with many bilateral partners seem to be in the position to attract new partners and commitments (FTI Secretariat, 2005a: p.14-15). Ethiopia, Vietnam, Mozambique and Burkina Faso, accounting for more than half of the overall financing gap, are examples of the

initiative's effectiveness in this regard. In Mozambique and Burkina Faso implementation capacity did not increase as fast as needed to keep up with the increasing ODA flow, but when this problem is remedied, direct donor funding will also increase. Ethiopia and Vietnam already witnessed an increase in direct donor funding. Efforts still have to increase, but the fruits of FTI involved are already clearly visible. Other examples are Yemen, Niger and Nicaragua which will receive increased financing from respectively the Netherlands, France and Canada. Furthermore, Norway plans to start bilateral aid to Madagascar, and the Netherlands actively pursues silent partnerships to provide longer term financing to Ghana, Nicaragua and Kenya. Constraints in these countries often have to do with a lack of implementation capacity rather than a lack of resources.

However, in general resource mobilization remains a huge problem for donor orphans. According to the FTI Secretariat, donor orphans are countries with four or fewer bilateral donors contributing at least US\$ 1 million to the education sector (FTI Secretariat, 2006a: p.5). The US\$ 1 million rule is only to be understood as a condition for receiving CF funding, and will therefore not be taken into account in this research. Box 7 shows a classification of FTI countries, distinguishing between countries having <5 donor partners (the donor orphans), and countries having  $\geq 5$  partners.

**Donor orphans (12)** within the FTI: Djibouti, Gambia, Ghana, Guinea, Guyana, Lesotho, Madagascar, Mauritania, Moldova, Tajikistan, Timor-Leste, Yemen

**Countries having  $\geq 5$  partners (8)** within the FTI: Burkina Faso, Ethiopia, Honduras, Kenya, Mozambique, Nicaragua, Niger, Vietnam

*Box 7. Donor orphans and countries having  $\geq 5$  partners*

Countries having <5 donor partners remain largely dependent on the CF. Furthermore, because countries with few donors have more difficulties in developing a PRSP and an Education Sector Plan, they are slow in entering and passing through the endorsement process. This means that potential endorsements from 2006 to 2008 will enlarge the share of countries with few donors and increase the demand on the CF (FTI Secretariat, 2005a: p.21).

The data and results in this paragraph will be restricted to the FTI countries. Although a comparison with non FTI countries may have proved that the distribution in FTI countries is more equal, the problem obviously remains. Direct donor funding for the implementation of EFA primary programs is the most important indicator for resource distribution and mobilization in FTI countries. Since non-FTI countries do not have an EFA primary program, donor funding in these countries can not be measured in the same way. Therefore, it is impossible to make a similar comparison between FTI and non-FTI countries, like in the previous figure. The focus will be on FTI countries only.

To link resource mobilization with the distribution of bilaterals in the group of FTI countries, the number of bilateral partners is compared with the amount of direct donor funding. Figure 4 combines these variables to locate the position of each FTI country, using the most recent year for which data is available. Figure 5 provides a linear trendline, proving that countries with more bilateral partners acquire more funding.

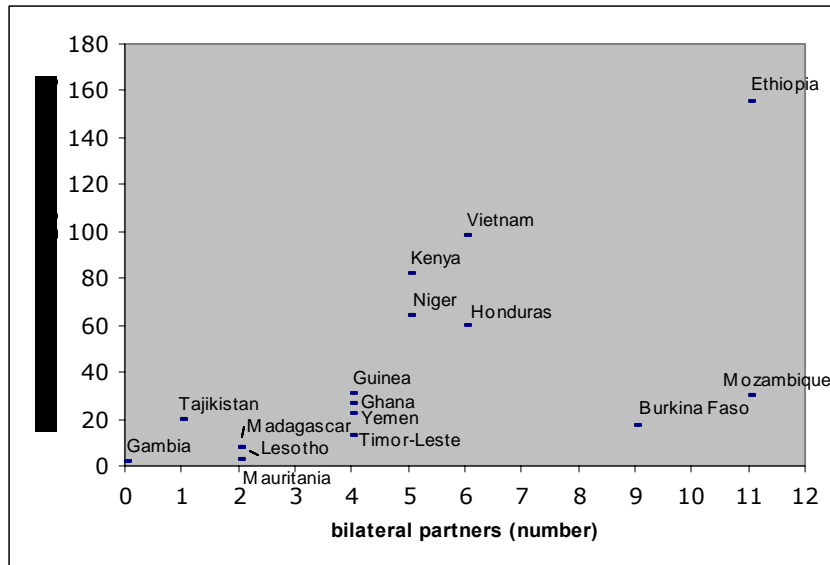
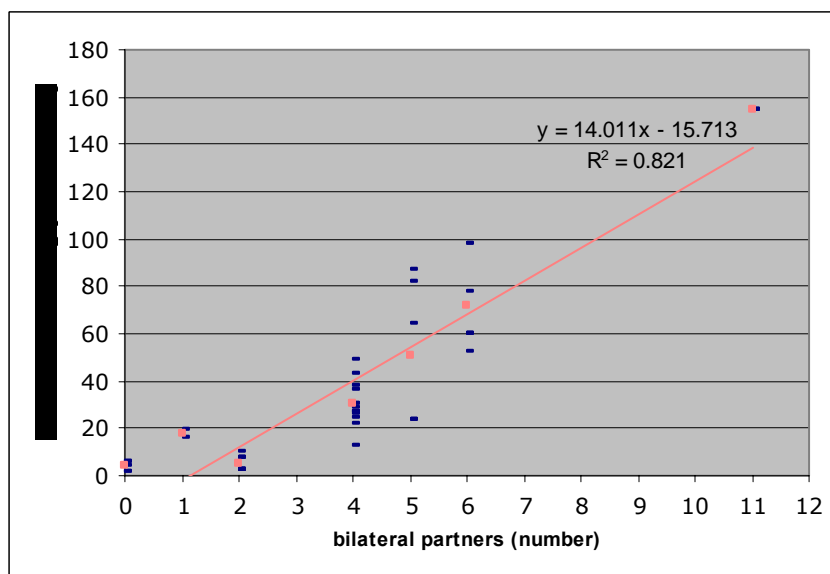


Figure 4. Number of bilateral partners related to direct donor funding



b	14.0	a	-15.7
S <sub>b</sub>	1.0	S <sub>a</sub>	4.7
(r <sub>xy</sub> ) <sup>2</sup>	0.8	s	17.7
F	197.2	d.f.	43.0
SS <sub>req</sub>	61795.7	SS <sub>res</sub>	13472.6

Figure 5. Linear trendline: nr. of bilaterals related to direct donor funding

Out of the seven developing countries with  $\geq 5$  bilateral partners, five are clearly better off than the countries with  $< 5$  partners. Mozambique and Burkina Faso are the exceptions, having respectively 11 and 9 partners without receiving considerably more aid than countries with few partners. According to the FTI Secretariat (2005a: p.14), the constraint in these countries has been implementation capacity rather than a lack of resources. It adds that “donor partners, however, must be ready to increase their financing as implementation capacity improves.” This will probably be the case, since the secretariat states that these countries, as well as Ethiopia and Vietnam, acquired new partners and increased commitments from the moment that they joined the FTI.

The short blue lines of figure 5 are based on all available data from 2002 up to and including 2006. There is more data presented than the figure suggests, because the amount of direct donor funding remains stable in some cases, meaning that some blue ‘dots’ overlap. As explained above, Mozambique and Burkina Faso disturb the figure and are therefore excluded. The small red squares are averages for each number of bilaterals. The red line is a linear trendline and projects the global relation between the variables. For countries having 0 or 1 bilateral partner, direct donor funding might approach zero, but will never be negative or zero, so in fact the line has to curve here. Furthermore, there appears to be a large gap between the x-values of 6 and 11, while Ethiopia is the single one country having 11 bilaterals, meaning that it determines a disproportionate part of the figure. However, the line is rising anyhow, meaning that direct donor funding is to some extent dependent on the number of bilateral donors.

It is hard to draw conclusions on basis of the amount of donor funding to a developing country. It proves that having more partners means receiving more funding, but it does not address the needs of the receiving country. To take an example, direct donor funding to Timor-Leste is low. But a small island like Timor-Leste will not need too many US\$ millions for an improvement of its education sector anyway. One way to relate the amount of bilateral partners to the extent to which direct donor funding meets the needs of a developing country, is to use the amount of direct donor funding as a percentage of the external financing needed for implementing the EFA primary program (EFA primary program costs minus government funding). This is done in figure 6, while figure 7 presents a linear trendline for this variable.

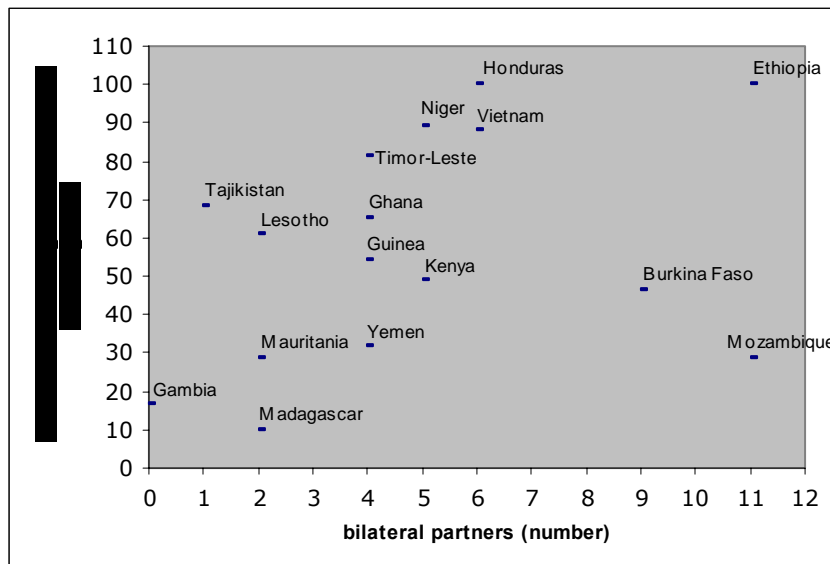


Figure 6. Nr. of bilaterals related to funding as % of ext. fin. need

b	7.5	a	27.6
S <sub>b</sub>	1.2	s <sub>a</sub>	5.7
(r <sub>xy</sub> ) <sup>2</sup>	0.5	s	19.2
F	41.5	d.f.	40.0
SS <sub>reg</sub>	15252.8	SS <sub>res</sub>	14713.3

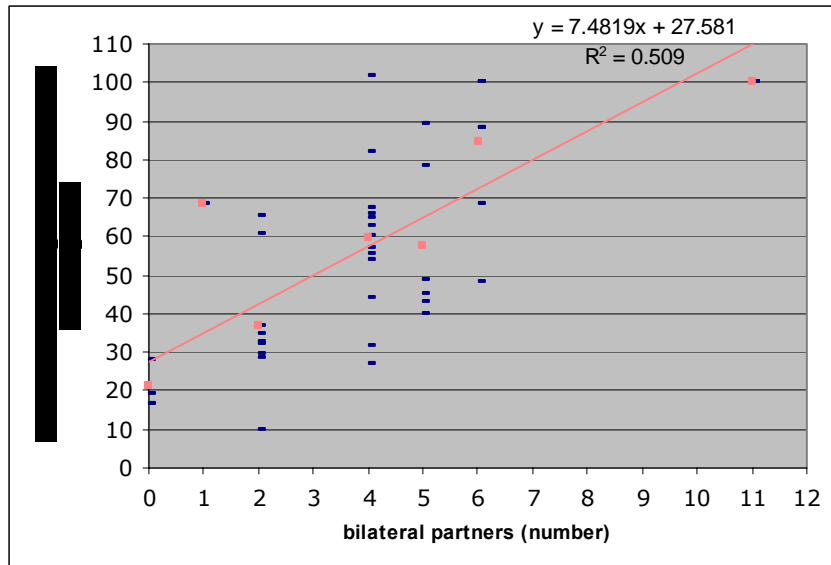


Figure 7. Linear trendline: nr. of bilaterals related to funding as % of ext. fin. need

Taking Timor-Leste as an example again, this country proves to be receiving a rather high amount of donor funding in relation to its external financing need, even though it only has 4 bilateral partners. Honduras and Ethiopia seem to have 100% of their external need financed, but for Honduras it remains unclear whether this external financing is actually received or only estimated, while for Ethiopia it is unclear whether this external financing actually fills the financing gap or only an unforeseen deficit of Ethiopian government funding. Mozambique and Burkina Faso still have a low score, due to the earlier mentioned capacity constraints. The figure suggests a relation between the factors reflected.

The linear trendline in figure 7 supports this presumption. The data-points, averages per x-value and trendline can be read out. The average for countries having 1 bilateral partner is based on one single blue line (representing Tajikistan in 2006), which reduces the value of this outlier. The percentage crossing the 100% indicates a financing surplus, which will only occur occasionally. Therefore, in fact the line has to approach the 100% for countries having more than 10 bilateral partners, instead of crossing it extensively.

An important disadvantage of the figures above is that they do not tell anything about resource mobilization over time, which is quite important for the assessment of FTI success. As the FTI Secretariat argued, resource mobilization fails for countries having few bilateral partners. This is confirmed again by figure 8 beneath, comparing resource mobilization from 2002-2006 for donor orphans and countries with many donor partners. Although in practice the number of bilateral partners is dynamic, we only found data for December 2005 to be available.

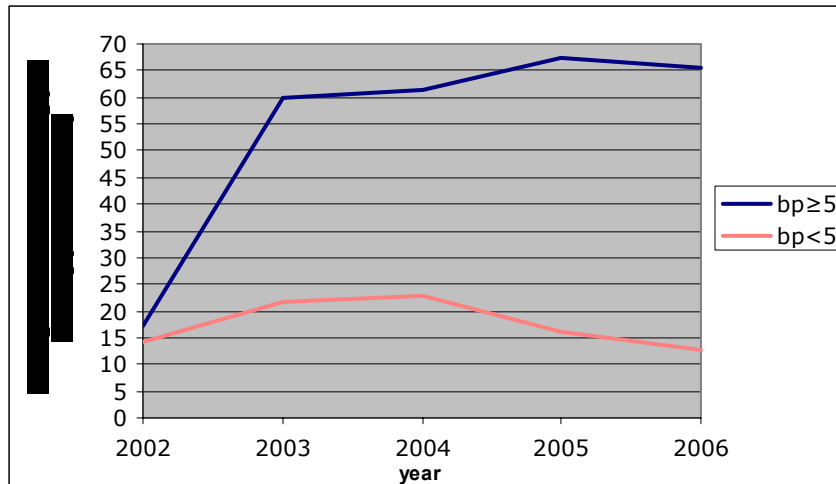


Figure 8. 2002-2006 funding for FTI countries having  $\geq 5$  and  $< 5$  bilaterals

For FTI countries with  $< 5$  bilaterals, direct donor funding increased slowly from 2002 but decreased again in 2004. In 2006, the average direct donor funding per country is even lower than it was at the start of the initiative. For countries having  $\geq 5$  partners, entrance in the FTI meant a huge rise of resources. However, in the years following, direct donor funding stagnated. Domestic capacity restraints might partly explain this development, but it is too easy to consider this factor to be solely responsible. The most striking aspect of the figure is that in 2002 direct donor funds for both groups approach each other with 45.1% of the total amount going to ‘bp $< 5$ ’ and 54.9% to ‘bp $\geq 5$ ’, while in 2006 these percentages avoid each other, being 16.5% for ‘bp $< 5$ ’ and 83.5% for ‘bp $\geq 5$ ’. Concluding, resource mobilization over time has clearly been more successful for countries having  $\geq 5$  partners.

Now we turn to the direct relation between direct donor funding and the actual problem of children aged 6-11 not in primary school. If the total number of children aged 6-11 not in primary school within the FTI countries makes 100%, every FTI country owns a share of this problem, reproduced in table 1. In this table, the countries are ranked on basis of the per capita incomes in terms of Atlas GNI. The cumulative share is also reflected, as a tool to help understand the aid concentration curves in the figures 9, 11, and 13.

The first aid concentration curve is given in figure 9. In this case, aid is defined as direct donor funding for the implementation of EFA primary programs. Djibouti, Guyana, Moldova and Nicaragua are excluded because direct donor funding data were not available for these countries. However, it is unlikely that including these countries would change the overall course of the curve, because their cumulated share of the problem is only 1.0%.

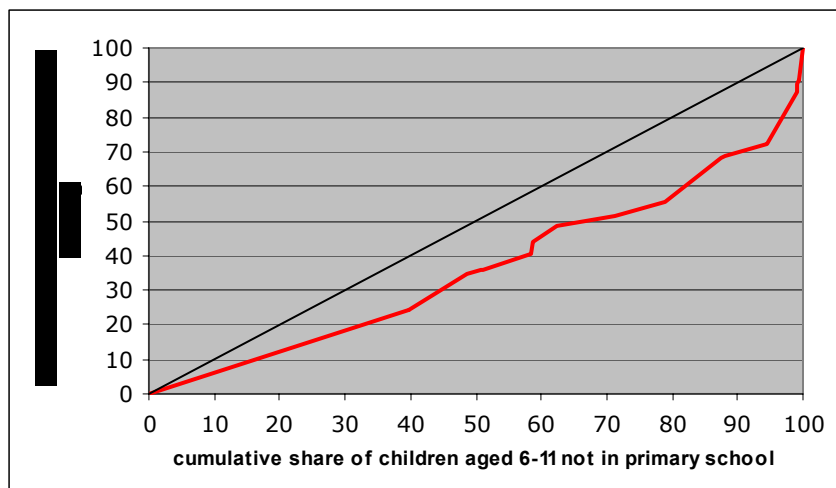


Figure 9. Aid concentration curve: direct donor funding

	%	cum %
<b>Ethiopia</b>	39.2	39.2
<b>Niger</b>	9.0	48.2
<b>Madagascar</b>	1.8	50.0
<b>Gambia</b>	0.4	50.4
<b>Mozambique</b>	7.4	57.7
<b>Tajikistan</b>	0.1	57.9
<b>Guinea</b>	3.8	61.7
<b>Burkina Faso</b>	8.6	70.3
<b>Ghana</b>	7.7	77.9
<b>Kenya</b>	8.3	86.2
<b>Mauritania</b>	0.8	87.0
<b>Yemen</b>	6.3	93.3
<b>Vietnam</b>	4.7	98.0
<b>Timor-Leste</b>	0.2	98.2
<b>Moldova</b>	0.1	98.3
<b>Nicaragua</b>	0.3	98.7
<b>Lesotho</b>	0.3	99.0
<b>Guyana</b>	0.0	99.0
<b>Djibouti</b>	0.6	99.5
<b>Honduras</b>	0.5	100
<i>total</i>	<i>100</i>	

Table 1. Share and cumulative share of children aged 6-11 not in primary school

A notable aspect of the curve is the rather steep line at the end, indicating that the four richest countries (i.e. the four countries with the highest per capita income: Vietnam, Timor-Leste, Lesotho, Honduras), representing 5.5% of the problem, receive 28% of the total amount of direct donor funding. Remarkably, although richer than most FTI countries, Timor-Leste and Lesotho are donor orphans. The poorer countries are less well-off. Another interesting fact is that Ethiopia, determining the first part of the curve, represents 39.7% of the problem and receives 24.4% of the aid, while figure 6 made clear that Ethiopia has no financing gap. One might expect this country to be an example of a recipient restrained by a lack of capacity rather than a lack of funding. Another option is that it adjusts its EFA primary program to the amount of external financing it expects to receive. Other countries suffering from the unequal allocation of direct donor funding are, starting from the poorest country, Madagascar, Gambia, (Mozambique, Burkina Faso,) Ghana, Mauritania and Yemen. Leaving out the two countries deliberately receiving a lower share of aid because of their capacity constraints (Mozambique and Burkina), all disadvantaged countries, except for Ethiopia, are donor orphans.

Summarizing, according to the FTI Secretariat, countries with many bilateral partners seem to be in the position to attract new partners and commitments while resource

mobilization remains a huge problem for countries with few donors. According to our own research, having more bilateral partners means receiving more direct donor funding for the implementation of EFA primary programs, except for Burkina Faso and Mozambique, which do not have the capacity to process any more aid. Taking direct donor funding as percentage of the external financing need, there still is a relation between the number of bilateral partners and the amount of direct donor funding. Furthermore, from 2002-2006 resource mobilization for developing countries with  $\geq 5$  bilateral partners increased from 54.9% to 83.5% of the total amount of direct donor funding. For FTI countries having  $< 5$  bilaterals the amount of direct donor funding increased in 2002 and 2003, but fell back again. Finally, direct donor funding for FTI developing countries is not distributed in proportion to the share of children aged 6-11 not in primary school. The countries receiving a lower share of aid than the share of the problem they represent are all donor orphans, except for Ethiopia and leaving out Mozambique and Burkina Faso.

### 3.4 NUMBER OF BILATERAL PARTNERS AND ALLOCATION OF ODA

*c. Is there also a relation for FTI countries between being donor orphan and being disadvantaged where it concerns the allocation of other types of bilateral aid?*

In the previous paragraph, we saw that FTI resource mobilization had some success for the countries having more partners, while it obviously failed for donor orphans. The relevance of the number of bilateral partners for the mobilization of resources is clear. A possible solution to this resource mobilization failure for donor orphans would be an adjustment of the distribution of bilateral partners. However, if the distribution of bilateral partners is seen as the underlying problem, this problem does not only cause the FTI resource mobilization failure, but a far more general aid allocation failure. To provide a test for this, we will compare the aid allocation for both groups of FTI countries (donor orphans and countries having more partners) with regard to two broader types of aid: Primary Education ODA and total ODA. To limit the comparison and to be able to compare the results to the results with regard to FTI direct donor funding, we provide data for the FTI countries and use the same definition for ‘need’ as in the previous aid concentration curve (children aged 6-11 not in primary school).

In figure 10 and 11, we use this share of ODA that was intended for primary education. Figure 10 compares the allocation of Primary Education ODA from 2001-2004 for FTI donor orphans and FTI countries with more bilateral partners. Mark that, because the available data are less recent, this figure covers a different period than figure 8. Figure 11 is another aid concentration curve, relating shares of Primary Education ODA (2004) to shares of children aged 6-11 not in primary school.



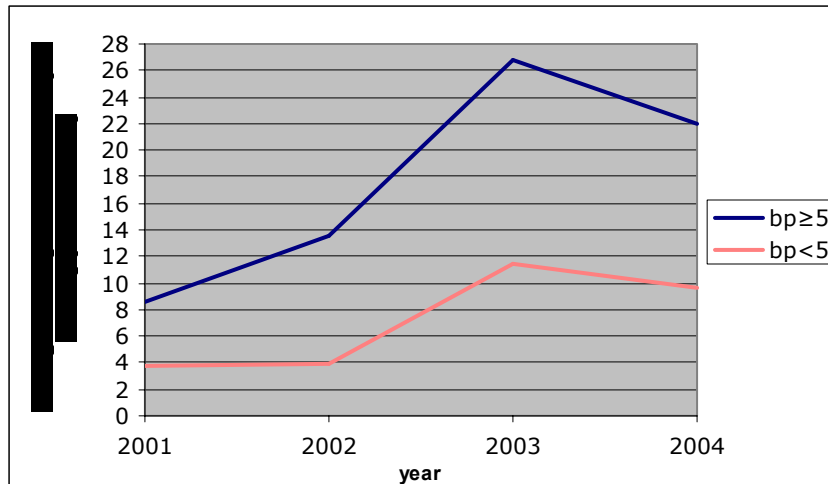


Figure 10. 2001-2004 Primary Education ODA for FTI countries having  $\geq 5$  and  $< 5$  bilaterals

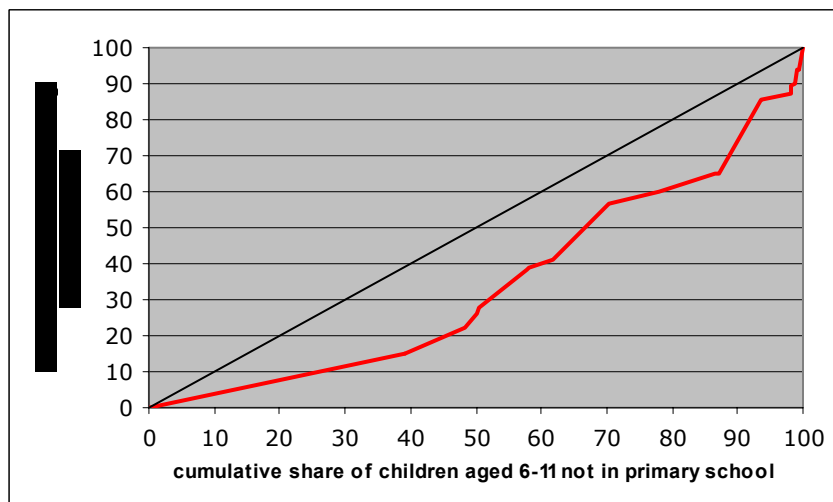


Figure 11. Aid concentration curve: Primary Education ODA

A short analysis of figure 10 learns us that for FTI countries with  $< 5$  bilaterals, ODA for primary education increased in 2002, making it three times as high as in 2001, but decreased again in 2003 although not to the same level as before. For countries having  $\geq 5$  partners, ODA for primary education increased earlier, at least since the year 2001. It gets more than three times as high as in 2001, but also decreased from 2003. The share of Primary Education ODA for 'bp < 5' remains stable at more than 30%, except for the year 2002 in which it decreased to 22.6%. However, the average Primary Education ODA per country through the years is much higher for countries having more bilateral partners, and in dollars the difference between both groups increased. This means that the unequal distribution of bilateral partners also results in an unequal allocation of aid where it concerns ODA for primary education. Mark that this comparison disregards the needs of the different countries. Countries may have more bilateral partners and receive more aid just because their needs are bigger.

Figure 11 looks approximately the same as figure 9, but the general conclusions are different. Ethiopia and Niger, determining the first horizontal half of the curve, represent 48.3% of the problem and receive 22.0% of the aid. Other countries suffering from the unequal allocation of Primary Education ODA are, starting from the poorest country, Tajikistan, Guinea, Ghana, Kenya, Mauritania, Vietnam, Moldova, Guyana and Djibouti. Seven out of the eleven disadvantaged countries are donor orphans (63.6%). Since 60% of the FTI countries is donor orphan, this division seems to be rather random in this regard. A remarkable fact is that Mozambique and Burkina Faso are not ‘disadvantaged’ when it concerns Primary Education ODA, in spite of their by the FTI Secretariat suggested lack of capacity. However, in general, countries with many bilaterals are not favoured, which was obviously the case with respect to direct donor funding. On the other hand, allocation of Primary Education ODA appears to be more disadvantaging towards the poorer countries than the distribution of direct donor funding is.

Finally, we further broaden the definition of aid, taking the total net amount of ODA as determining variable for aid. Figure 12 compares the allocation of ODA from 2001-2004 for FTI donor orphans and FTI countries with many donor partners. Figure 13 is yet another aid concentration curve, this time relating shares of ODA (2004) to shares of children aged 6-11 not in primary school.

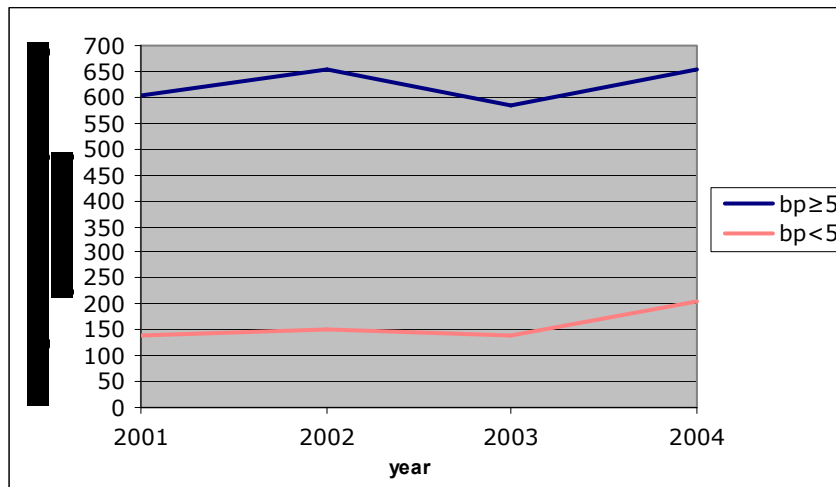


Figure 12. 2001-2004 ODA for FTI countries having  $\geq 5$  and  $< 5$  bilaterals

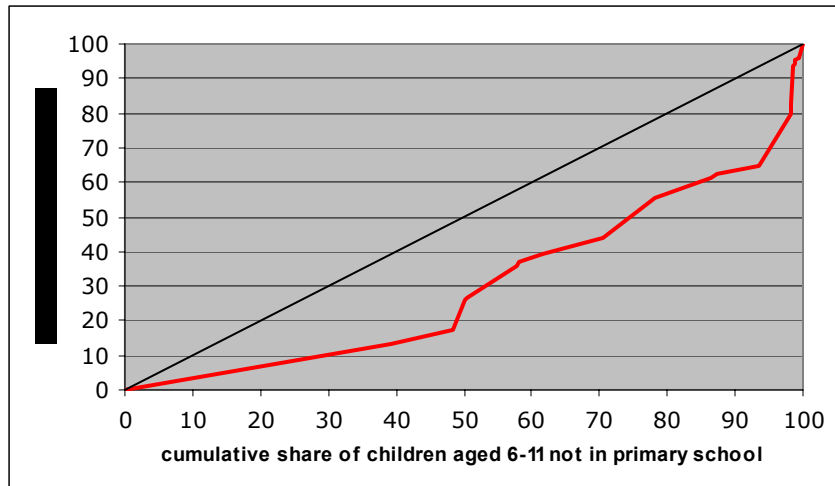


Figure 13. Aid concentration curve: ODA

Looking at figure 12, ODA for countries having  $\geq 5$  partners is much higher than for donor orphans. In 2001, donor orphans receive 18.6% of the total amount of ODA for FTI countries. Although this share slightly increases to 23.8% in 2004, the difference remains huge. The number of bilateral partners has obviously still more influence on aid distribution with regard to total net ODA than it has where it concerns Primary Education ODA. However, this influence decreases, in contrast to the distribution of Primary Education ODA and direct donor funding. Again, country needs are disregarded in this figure.

Continuing the comparison, figure 13 shows that ODA distribution is more unequal than the distribution of its primary education share and direct donor funding. The first horizontal half of the curve, again determined by Ethiopia and Niger of course, is less steep than the 45 degrees line and than this part of the curve in figure 9 (direct donor funding) and 10 (Primary Education ODA) describes. The disadvantaged countries are, from poor to rich: Ethiopia, Niger, Gambia, Guinea, Burkina Faso, Kenya, Yemen and Djibouti. Strangely enough, only half of these countries is donor orphan: 4 out of 12 donor orphans and 4 out of 8 countries with more partners are disadvantaged, meaning that donor orphans are relatively more advantaged than countries having more partners. Instead, the poorer countries, particularly Ethiopia and Niger (having 11 and 5 bilateral partners) are considerably disadvantaged.

We summarize. Looking at the allocation of Primary Education ODA, donor orphans receive 30% of the total amount of aid. Although resources increase in 2002 and decrease again in 2003, this percentage remains stable. Relating the amounts of aid to the share of the problem the countries represent, donor orphans are not significantly disadvantaged. Instead, the poorest countries, Ethiopia and Niger, are remarkably disadvantaged. Looking at the total of ODA streams, donor orphans receive an increasing share of aid, namely from 18.6% in 2001 to 23.8% in 2004. In relation to their share of the problem, donor orphans are slightly advantaged by the flows of total ODA.

### 3.5 CONCLUSION

Concluding this chapter, we learned that the distribution of bilateral partners in FTI countries indeed is unequal, although slightly more equal than in non-FTI countries. This unequal distribution appears to cause a problem for the initiative, namely that donor orphans receive less funding than donors having  $\geq 5$  partners. This disadvantage remains when relating funding to needs. Furthermore, between 2002 and 2006 FTI resource mobilization for donor orphans remains behind in comparison to other FTI countries. As the FTI suggested, we found that resource mobilization failed, especially for donor orphans, regarding both recent funding and funding between 2002 and 2006. Although the distribution of aid is unequal in all investigated cases, the unequal distribution of bilateral partners only causes this problem for direct donor funding, and not for other types of bilateral aid, like Primary Education ODA and total ODA. This implies that the FTI does not link up with global criteria used in aid allocation processes. A lack of trust and commitment probably makes donors cautious to provide funding for the implementation of an Education Sector Plan. In this case, donor orphans will be considerably disadvantaged, since the absence of more donors reduces the chance for visibility and success. The things mentioned mean that our solution does not have to address the unequal distribution of bilateral partners in general, but can stick to the FTI. A solution lies in making all FTI countries equally attractive for aid allocation, by linking the initiative up with existing aid allocation criteria. The next chapter provides some theories about decision making processes, which we will later try to validate for donor decisions regarding aid allocation.

## 4. THEORIES

*d. How can the observed aid allocation of bilateral donors be explained?*

This chapter concerns the theories we use in this research. In paragraph 1, we describe the contents of the rational choice theory. In paragraph 2, the decision making theory of rule following is presented and elaborated. This theory provides some rules that are followed during the decision making process. Both the theory of rational choice and the theory of rule following can be used to explain behaviours within this process as well as the decision that is ultimately based upon that behaviour. The differences between both theories will be underlined. Paragraph 3 turns to the theory of path dependence and increasing returns, providing an additional rule decision makers might follow. Paragraph 4, attending the theory of punctuated equilibrium, explains the difficulties accompanying attempts to change policies and adjust them to societal developments, new scientific insights, or changes in beliefs. On the other hand, it provides the characteristics of processes that are necessary for change to occur. Paragraph 5 clarifies some obscurities with regard to positive and negative feedback processes.

### 4.1 RATIONAL CHOICE

Literature provides several assumptions about which interests motivate donors to involve in foreign aid. Three important general paradigms of international relations theory on this matter are the realist, the idealist and the neo-Marxist paradigm (Schraeder, Hook & Taylor, 1998).

According to the realist paradigm, international relations are primary or exclusively conducted for the sake of national security and self-preservation. Nowadays, we would use the term self-interest, which leaves room for a more diverse spectrum of national interests. Anyhow, it leaves no room for economic development and humanitarian needs in the recipient country to play any role in the decision making process. Neorealists replenish the realist paradigm by underscoring the role of the recipients' economic potential in foreign aid provision.

The idealist paradigm postulates exactly the opposite in many respects. Idealists assume, on basis of the observed foreign assistance, that humanitarian need plays a major role in foreign aid programs. They believe as it were in the benevolence of mankind. This also results into a more optimistic attitude with respect to its potential utility and future possibilities.

On the contrary, the neo-Marxist paradigm puts the role of economic interests at the extreme, going beyond the neorealist point of view. Neo-Marxists share a belief that foreign aid is meant to empower elites in both Western and developing countries in order to eventually preserve or widen economic disparities between North and South. Although the three paradigms comprehend different and sometimes even contradictory visions, they have one aspect in common. These paradigms assume that the decision making process is based on a rational reflexion upon certain (internal or external) interests, and are therefore ultimately based upon the theory of rational choice.

The theory departs from the assumption that decision makers act rational and intentional. This means that they know which actions are possible, which consequences follow from each alternative, and which value they assign to each consequence. Decision makers choose the alternative that brings along the most valued consequences. The logic of consequences provides the rules that must be followed to make a rational choice, for example rules of efficiency, effectiveness, or satisfaction/utility maximizing. William Riker (1990: p.172) combined these aspects in his definition of the model of rational choice:

“The rational choice model consists of the following elements:

1. Actors are able to order their alternative goals, values, tastes and strategies. This means that the relation of preferences and indifference among the alternatives is transitive so that, for a set of alternatives,  $A: \{a_1, a_2, \dots, a_m\}$ , if  $a_i$  is preferred or indifferent to  $a_j$  and  $a_j$  is preferred or indifferent to  $a_k$ , then  $a_i$  is preferred or indifferent to  $a_k$ .
2. Actors choose from available alternatives so as to maximize their satisfaction.”

Rational choice and its logic of consequences analyse decision making processes as producing rational and calculated decisions, “based on evaluation of alternatives in terms of their consequences for preferences” (March, 1994: p.57). Most of the times, however, the pure theory is only used to predict aggregate behaviour with regard to economic processes. This is connected to the thick theory of rationality (Pellikaan & Hout, 1998: p.18). Advocates of the thick theory of rationality suppose that an individual always makes use of criteria of effectiveness and efficiency to order the alternatives (homogeneity of decision makers). In contrast to this, the thin theory assumes “that the individual orders social states by whatever standards he deems relevant” (Arrow, 1963: p.17). To provide a more adequate reflection on observed behaviour, some other key assumptions (on knowledge, actors, preferences and the decision rules) also often have been softened, resulting in theories of limited or bounded rationality (March, 1994: p.7-8). However, the pure theory remains visible at the basis, and conceptions of ambiguous or unstable preferences are kept out.

## 4.2 RULE FOLLOWING<sup>6</sup>

The theory of rule following can be contrasted with the theory of rational choice. Rule following and its logic of appropriateness recognize the complexity of society and look at decision making as a rich drama, in which many factors can play a role. “Understanding any specific decision in a specific situation requires a great deal of concrete contextual knowledge – details about the historical, social, political and economic world surrounding the decision and about the individuals, organisations and institutions involved.” (March, 1994: p.vii) The core of the theory is that decision making pursues the fulfilment of an identity by following the appropriate rules.

The theory of rule following exposes several shortcomings of the rational choice theory. The principles of the approach comprise the following statements: not all

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<sup>6</sup> For this paragraph I gratefully made use of the sheets provided by prof.dr.ing. Geert R. Teisman during the course *collective decision making*. He provided a decent and neat arrangement of the outlines in March (1994), which has been the main source for this paragraph.

alternatives are known, not all consequences can be taken into consideration, not all preferences enter into the calculus at the same time, and decision rules are not always explicit and unambiguous. This implies that decision makers are not able to make rational decisions. This is often referred to as the ‘incapability of decision makers’. Making it more concrete, this incapability can be recognized in many decision making practices, for example if decision makers are uncertain about the future, if alternatives are taken into consideration sequentially, if there is little attention for undesired and unforeseen consequences, and if decisions are rationalized afterwards in a modelled reconstruction. As one might notice, these examples all have to do with information constraints (March, 1994: p.9-11), which are situated at the heart of doubt regarding the presence of rationality in decision making processes. Information constraints concern problems of attention, problems of memory, problems of comprehension, and problems of communication.

If actors do not act in accordance with the logic of consequences, on which basis do decision makers decide? The theory of rule following postulates that a decision can be made using the following questions, given as formulated by March (1994: p.58):

1. The question of *recognition*: What kind of situation is this?
2. The question of *identity*: What kind of person am I? Or what kind of organization is this?
3. The question of *rules*: What does a person such as I, or an organization such as this, do in a situation such as this?

Whereas the answers to the question of recognition and the question of identity can be manifold, the answer to the question of rules appears to be more limited. The theory of rule following identifies some rules that decision makers, instead of maximizing profits, follow in practice. Below, these different forms will be discussed, including their processes, features, and mechanisms. A summary is provided in box 8.

Firstly, they follow rules of bounded rationality, reducing reality until it is understood. March (1994: p.12-15) mentions four fundamental processes for acquiring such a simplification: editing, decomposition, heuristics, and framing. *Editing* means that only small parts of information are used, combining them simply to form a whole that is easily recognized and accepted. *Decomposition* breaks a problem down into parts and thus aims at providing a general solution by solving the smaller parts. Allocating the various parts to different divisions makes the problem even more manageable. *Heuristics* are “rules-of-thumb for calculating certain kinds of numbers or solving certain kinds of problems” (March, 1994: p.13-14). Decision makers recognize patterns on basis of earlier experiences and apply rules that appeared to be appropriate. *Framing* refers to the ascertained existence of paradigms and beliefs, which frame decisions by focussing attention and simplifying analysis.

Secondly, instead of maximizing outcomes, decision makers follow rules of satisfactory results. Satisficing as a theory in fact provides search rules, possessing some principle features (March, 1994: p.28-30). *Search* is understood as being *thermostatic*. This means that targets are not formulated as a means to choose between alternatives, but rather to limit time and space of the search process. The search for better alternatives stops when a target is obtained. Furthermore, *targets are considered sequentially*, and not all at one

time. Beginning their search in the neighbourhood of the defined demonstrations of a problem, decision makers are likely to regard and accept inferior and partial solutions earlier. The complexity of the problem and of the cumulation of targets is ignored and more comprehensive alternatives of (expert) outsiders are distrusted. Finally, satisficing is accompanied by *dynamic aspirations and performance*, bringing them closer together. Aspirations adapt to performance as decision makers learn what they should expect. Performance also adapts to aspirations. On the one hand, failure causes an increase in search: the search area is extended and new opportunities are explored. On the other hand, success causes a decrease in search: familiar solutions are exploited.

Thirdly, and most obviously following from the logic of appropriateness, decision makers often follow rules of proper behaviour and identity development. The logic of these rules will become clear when we look at the construction of identities (March, 1994: p.62-63). Any identity has two ingredients. It contains a self-constructed and distinctive aspect, ensuring a certain degree of uniqueness and attracting the attention of others. Besides, identity contains an adjudged element, meaning that it is accepted as part of a group. In other words, identities are shaped by distinction and conformation, or individualization and socialization. Trying to develop a unique identity, decision makers follow rules of identity development, while they follow rules of proper behaviour to ensure their acceptance within a group.

Decision makers use different mechanisms to estimate which identities are relevant in a given situation, and what behaviour would (thus) be appropriate (March, 1994: p.69-71). The first mechanism is *experiential learning*. Individuals might have learned from former decisions which choices were rewarded. It is remarkable that decision makers generally learn most from their own experiences, and less from lessons of others. Another mechanism to simplify the process is *categorization*. To cope with information constraints, decision makers try to recognize the situation, their identities and the appropriate rules on basis of their central aspects, making use of stereotypes and typologies. They select one characteristic from a compilation of characteristics, suggesting that single characteristic represents the compilation as a whole (stereotypes), and use classifications of people as well as other things in types with common characteristics (typologies). The third mechanism involved in evoking identities and rules is *recency*. This means that one assumes that the answers to the questions of identity and rules remain the same, even when the factors of time and situation slightly differ. Decision makers refer to trends of the moment to justify their decisions. The fourth mechanism is that of *social contextuality*. An estimate of appropriateness can be made by looking at the other persons who are present.

These mechanisms make clear that decision making is tied by roles. Interpretations protect their own conviction, selecting the proper information from the ‘overload’ in order to support decisions, while other information might plead against this conviction. The roles and identities shaping interpretations are, in turn, shaped by social constructions. Strong and lasting social constructions are scientifically designated as institutions. In theories of policy dynamics, institutions play a major role, notably in negative feedback processes, retarding changes of convictions and policies. Paragraph 3 will come back to this.



<b>Bounded rationality</b>	<b>Satisfactory results</b>	<b>Proper behaviour and identity development</b>
Editing	Search is thermostatic	Experiential learning
Decomposition	Targets are considered sequentially	Categorization
Heuristics	Aspirations and performance are dynamic	Recency
Framing		Social contextuality

Box 8. Three forms of rule following and their characteristics

### 4.3 PATH DEPENDENCE AND INCREASING RETURNS

From the early 90s, most political scientists recognize the complexity of society. This complexity has many consequences for the analyses of policy processes. It means that policy makers can not know society, and thus can not make rational decisions or predict policy outcomes. More generally spoken, they are unable to control the changes that they wish to achieve. This poses an important question: if policy makers can not determine policy outcomes or even policy decisions, who or what does? The concept of *path dependence* provides a possible answer; in a broad sense, it poses that the present largely depends on the past. A narrower definition includes the idea of *increasing returns* and establishes greater clarity. In this conception of path dependence “preceding steps in a particular direction induce further movement in the same direction” (Pierson, 2000: p.252). This also means that it gets harder and more costly to reverse the process. This idea is also covered by the terms *self-reinforcement* and *positive feedback*.

Processes of increasing returns have the following characteristics, as summarized by Arthur (1994: p.112-113). Box 9 contains the same concepts and is added to replenish box 8.

1. *Unpredictability*. Because early events have a large effect and are partly random, many outcomes may be possible. We cannot predict ahead of time which of these possible end-states will be reached.
2. *Inflexibility*. The farther into the process we are, the harder it becomes to shift from one path to another. In applications to technology, a given subsidy to a particular technique will be more likely to shift the ultimate outcome if it occurs early rather than late. Sufficient movement down a particular path may eventually lock in one solution.
3. *Nonergodicity*. Accidental events early in a sequence do not cancel out. They cannot be treated (which is to say, ignored) as “noise”, because they feed back into future choices. Small events are remembered.
4. *Potential path inefficiency*. In the long-run, the outcome that becomes locked in may generate lower pay-offs than a forgone alternative would have.

Recapitulating, our definition of path dependence includes the idea of increasing returns. In this version, path dependence does not only mean that the present largely depends on the past, but more specifically that the unfolding of history tends to induce further movement in the direction that was determined by events in the past. In the end a certain outcome becomes locked in and equilibrium is established. This new situation is characterized by *negative feedback* and *diminishing returns* regarding processes urging

for change, meaning that every attempt to change is counterbalanced by strengthened factors in support of the end-state. Or, following David Truman's *disturbance theory*, every disturbance to the established order will naturally and inevitably lead to a reaction of the potential 'suffering group', that will try to 'put things right' again (Baumgartner and Jones, 2002: p.363). Due to negative feedback processes, the system might move away from its equilibrium, but will return to the status quo ante (Baumgartner and Jones: 1993). However, this does not mean that a particular alternative becomes permanently locked in. There are always opportunities for change: moments one can jump off the path and choose for an alternative direction. The main implication is that after a period of positive feedback, change is difficult and the options for change are limited.

<b>Path dependence and increasing returns</b>
Unpredictability
Inflexibility
Nonergodicity
Potential path inefficiency

Box 9. Path dependence

#### 4.4 PUNCTUATED EQUILIBRIUM

Baumgartner and Jones developed a model to account for both periods of stability and moments of change in policy areas. Their theory of punctuated equilibrium strengthens our earlier statement that a particular alternative will not become permanently locked in, or, in other words, "that no single equilibrium could be possible in politics" (Baumgartner and Jones, 1993: p.4). The agenda setting process assures a continuing debate between old and new ideas. Path dependence and its increasing costs of reverse, however, imply that political actors will only be convinced by new ideas when the inaccuracy of old ideas has become clearly visible in the occurrence of undesired and unforeseen policy outcomes. This also means that, by that time, dramatic changes rather than marginal revisions will be needed to turn into another direction.

If the theory of punctuated equilibrium is to be applied to existing practices, it is necessary to define the different factors supporting both negative and positive feedback processes. We speak of *negative feedback* processes if attempts to change are counterbalanced in order to protect the existing situation. On the other hand, we speak of *positive feedback* processes if attempts in a certain direction are taken over and multiplied.

Negative feedback processes are mainly supported by two factors. Firstly, a general acceptance of the importance of the value that is given priority in a certain policy area, or the presence of a mobilized majority of people convinced of the value of some existing policy. Secondly, the continued power of certain political institutions. When these factors occur, the existence of a policy monopoly, in which the influence of a certain group or institution is uncontested, is proven. Baumgartner and Jones (1993: p.7) define the

characteristics of policy monopolies as follows. “First, a definable institutional structure is responsible for policymaking, and that structure limits access to the policy process. Second, a powerful supporting idea is associated with the institution.” These characteristics largely correspond with the supporting factors mentioned above.

The theories of path dependence and increasing returns already made clear that, when positive feedback for a certain direction results in negative feedback towards alternative options, and a specific alternative consequently becomes ever more locked in, it is hard to change track. Theories of agenda setting recognized these difficulties in an early stadium, designing models with obstacles between the different stages of the agenda setting process. For change to be accomplished, attempts will need to accumulate and multiply or, in words of the theory, will require positive feedback from society. According to Kingdon’s streams metaphor of agenda change, policies can be made or changed when *windows of opportunity* occur (Birkland, 2001: p.113-115). These windows open when two or more streams – the presumed streams being politics, the problem, and policy – are coupled. In many cases, for change to occur, interest groups are needed to exploit the opportunity by mobilizing and attracting attention. Changes in indicators or focusing events can be of great help to them.

Baumgartner and Jones (2002: p.15-23) identify two processes that are generally responsible for positive feedback: *mimicking* and *attention shifting*. The first process, mimicking, describes situations in which humans make decisions while taking the behaviour of those around them into consideration. The second process, attention shifting, departs from the assumption that people can only focus on a limited number of dimensions while making decisions. At the time that new dimensions of the same issue enter the public or political area, attention might be shifted towards that dimension because it is considered to be of greater weight. So, both processes can cause a decrease of support for prominent ideas in policy monopolies, and thus provoke structural changes within institutions or give the chance to other institutions to assert their authority and become involved.

March (1994: p.78) also recognizes that institutions are not immune to changes. He mentions several intertwined processes by which rules adapt to the environment:

1. *Analysis*, through the anticipation and evaluation of future consequences by intentional decision makers
2. *Bargaining*, through negotiation, conflict, and compromise among decision makers with inconsistent preferences and identities
3. *Imitation*, through the copying of rules, practices, and forms used by others
4. *Selection*, through differential birth and survival rates of unchanging rules and the decision making units that use them
5. *Learning*, through experience-based changes of routines and of the ways routines are used

Summarizing, according to the theory of punctuated equilibrium, processes of positive feedback are involved with a shift off the path towards some other direction, while processes of negative feedback try to prevent these kinds of changes. Both processes are summarized in box 10 below.

Negative feedback	Positive feedback
General acceptance of a value Continued power of an institution	Mimicking Attention shifting Analysis Bargaining Imitation Selection Learning

Box 10. *Negative and positive feedback*

#### 4.5 ONCE AGAIN: POSITIVE AND NEGATIVE FEEDBACK

Before applying the theory of path dependence and the theory of punctuated equilibrium, one should notice that the definition of positive feedback provided by the first slightly, but very confusingly, differs from the one given by the second theory. This difference concerns the moment a situation dominated by positive feedback shifts to a situation dominated by negative feedback. At a certain moment, change has been realized up to a point that ‘returns’ hardly increase anymore, and positive feedback in favour of change stops to be the dominant process. From this moment on, the situation is characterized by feedback preventing change and defending the realized situation. Because this feedback counterbalances attempts to change the situation, we call it negative feedback. Mark that, in fact, this negative feedback process stands for the same value and pushes for the same direction as the earlier positive feedback process. It is like progressives, having reached most of their objectives, becoming conservatives to defend this new situation.

The difference between the theories is that the theory of punctuated equilibrium seems to locate this moment earlier. It defines the short moments of change as caused by positive feedback, while the consequent difficulty to change the evolved situation is suggested to be caused by negative feedback processes. On the contrary, the theory of path dependence assumes that the process of path dependence, during which a situation of change is also followed by a situation of stability, is only caused by ever increasing returns and positive feedback processes.

In anticipation of the confusion this difference might cause when the theories are combined, this research only uses the definitions of negative and positive feedback provided by the theory of punctuated equilibrium, which are given in box 10. When the concept of path dependence is used, it will not refer to positive or negative feedback processes, but to the difficulty and costs of changing conventional values, processes and instruments.

## 5. GENERAL PATTERNS OF AID ALLOCATION

There is a huge amount of literature about foreign aid. This literature can broadly be classified into three categories (McGillivray, 2004: p.275). One part of the literature is aimed at explaining the observed distribution of aid. A second part develops normative criteria for the allocation of aid, describing and evaluating the observed distribution against these criteria. A third part is occupied with the calculation of the amounts of aid a developing country should receive, prescribing a certain distribution of aid based on normative criteria. This chapter will only address the first part of literature: explanations for the observed distribution of aid.

For this explanation, we need to know the criteria that countries actually use to allocate foreign aid to developing countries. These criteria might be either in the interest of the recipients or in the interest of the donor. As stated above, this research does not provide information on normative criteria for aid allocation or aid effectiveness. What we do is to provide a literature review in which the use of different criteria is investigated. Therefore, this paragraph heavily depends on research with different theories and assumptions as starting point. Most of these theories are based upon the theory of rational choice, and the rational paradigms we discussed in the previous chapter are often easy to recognize. This also means that the criteria chosen for investigation, and thus the criteria mentioned below, are selected on basis of assumptions that do not completely cover the assumptions we would make on basis of the theory of rule following and path dependence. However, the analyses of our findings will prove that all criteria fit in our model, which gives room to the complexity of reality.

The different studies we use comprise different periods, which determine the review structure in order to be able to uncover certain trends. The survey in box 11 will be useful to look up the period covered by a quoted research.

Alesina & Dollar (2000)	1970-1994
Schraeder, Hook & Taylor (1998)	1980s
Berthélemy & Tichit (2004)	1980-1999
Dollar & Levin (2004)	1984-2002
Dollar & Levin (2006)	1984-2003
Hout & Koch (2006)	1992-2001

Box 11. *Periods covered by different studies*

### 5.1 ECONOMIC INTERESTS

One of the more obvious donor interests is bilateral trade. On basis of self-interest, donors may decide to provide more aid, as a reward or investment, to countries they have more trade with. Schraeder, Hook & Taylor (1998), who address aid allocation in the 1980s state that the level of trade with a recipient country has been an important determinant of aid allocation policies in the US, France, Japan, and Sweden. They suggest that “the end of the cold war merely laid bare the growing importance of trade in a foreign aid regime that was already being readjusted to meet the new economic

challenges of the 1990s. Berthélemy & Tichit (2004) investigated *bilateral donors' aid allocation decisions*, including 22 donors, 137 recipients, and covering the years 1980-99. They confirm that bilateral trade and aid commitments were positively correlated for all donors in the 1980s, although the sums of aid involved are rather small. They also agree that in the 1990s, despite the fact that trade partners became richer and therefore needed less aid, the majority of donors increasingly uses criteria of trade relations for the allocation of aid. France for example tried “to create better links to countries with greater commercial potential” (Berthélemy & Tichit, 2004: p.267). Other countries using criteria of trade are Australia, Austria, New Zealand, and probably and to a lesser degree Belgium, Denmark, Finland, Italy, and Japan. In contradiction to Schraeder, Hook & Taylor, the research of Berthélemy & Tichit concludes that in most large donor countries (in Denmark, France, Germany, Ireland, the Netherlands, Norway, Sweden, Switzerland, the UK, and the US), trade flows have no influence on aid allocations from 1980-99.

## 5.2 HISTORICAL AND POLITICAL INTERESTS

According to Berthélemy & Tichit (2004), the impact of trade flows on aid allocations is rather small compared to the factor of former colonial links. As former colonies are mainly located in the very poor area of Sub-Saharan Africa, the interest of donors must be sought beyond trade relations. Former colonies might be political allies, or donors might provide aid because of a notion of duty. Alesina & Dollar (2000), using data covering the period between 1970 and 1994, also recognize the importance of a recipient's colonial past. However, Berthélemy & Tichit conclude that the importance of colonial variables on aid allocation decisions declines from the 1980s to the 1990s. Although colonial variables are still much more important than economic interests, the trend might be that this relation slowly reverses to the opposite.

Countries in which these reasons apparently play a major role are France, the UK, Spain and Portugal. The latter two started providing aid only recently and might feel obliged to do so, but at the same time try to bend this in their own interest. Using the log of the number of years in the 20<sup>th</sup> century in which a recipient was a colony, Alesina & Dollar find that France, Japan and the UK show a strong positive reaction on this variable. To demonstrate, the share of aid that goes to former colonies is 6.3% for Japan (which had few colonies), 57% for France and 78% for the UK. On average, a country that has a relatively long colonial past receives 87% more aid. Schraeder, Hook & Taylor (1998) find that 70% of all Japanese aid to Africa during the 1980s went to former British colonies, probably for doing business in the English language. According to the same research, Sweden focused on Southern Africa and with that ‘accidentally’ on the Portuguese colonies of Angola and Mozambique. France apparently favoured former French colonies (Central Africa), and disadvantaged former British colonies.

Aid to Egypt and Israel form a distinct and interesting case, although the latter is not a developing country. These two countries are highly advantaged, mainly by the US, on basis of political ties which are mainly maintained because of the conflict in the Middle East. According to Alesina & Dollar (2000), Israel also received large support from Germany, Italy, Austria, and the Netherlands. As Israel is no developing country or

former colony, strategic interests must account for the total amount of aid. Egypt gets unusual large support from (besides the US) France, Japan, Germany, Australia, and Austria, receiving 481% more aid than other countries with similar characteristics. The importance of strategic interests in this case does not stand alone. Schraeder, Hook & Taylor (1998) measure the importance of ideological stance in the last decade of the cold war. They find that the US favoured capitalist countries, Sweden favoured like-minded progressive socialist countries and Japan favoured capitalist over Marxist regimes. Furthermore, they suggest that France used aid policies to strengthen and extend the francophone world. However, it is recognized that the decline of Marxist and socialist regimes after 1989 will imply a decreased importance of ideology in decision regarding aid allocation. Schraeder, Hook & Taylor also tested the importance of national security on basis of maintained security alliances, military spending and population part of the army in the receiving country. In the US and France, both pursuing global political leadership, these strategic interests played an important role. Alesina & Dollar also found a relation between voting patterns in the UN general assembly and developing aid. For a developing country, voting with a major international player (the US, Japan, France, Germany, and the UK) results in receiving significantly more aid from this country. On average, a country that voted relatively often with Japan receives 172% more aid. This might mean that votes are bought with developing aid, or that “UN votes are a reliable indication of the political alliances between countries and that these political alliances in part determine aid flows” (p. 46).

### 5.3 POVERTY

Rich countries do not need development aid. The poorer a country is the more aid it needs. Researchers often use the Gross Domestic Product (GDP) measured at purchasing power parity (PPP), the Gross National Income (GNI), or IDA eligibility as an indicator for poverty. Alesina & Dollar (2000) find that most donor countries use criteria of poverty for the allocation of aid. Berthélemy & Tichit (2002) provide aid concentration curves for 1980, 1990 and 1999, suggesting “that, overall, aid policies are not necessarily geared toward assistance to the poorest countries” (p.3). However, the curve is above the diagonal at several places. Moreover, they also conclude that poorer countries generally receive more aid. Comparing aid allocations over time, Berthélemy & Tichit suggest that, although the difference is not significant, compared to the 1980s poverty indicators are of less importance for aid allocation decisions in the 1990s. Dollar & Levin (2006), using data over 1984-2003, confirm this development, but observe an opposing trend at the beginning of the 21<sup>st</sup> century: their poverty elasticity index (elasticity of aid with respect to recipients’ per capita income) for bilateral aid ranges from -0.520 (in 1984-89), via -0.347 (in 1990-94) and -0.272 (in 1995-99), to -0.353 in (2000-03).

Schraeder, Hook & Taylor (1998), using life expectancy and daily caloric intake as indicators of humanitarian need, conclude that this factor is of no importance for aid policies in the US, France, Japan, and Sweden(!). According to Alesina & Dollar the Nordic countries, the US and the Netherlands have a strong bias towards poorer countries, whereas poverty indicators have no influence in France, and little in Japan. Berthélemy & Tichit conclude that the US, together with Australia, Canada, Germany,

and the UK take less note of income poverty. While most of these countries seem to use non-monetary dimensions of poverty, for example infant mortality, the US does not seem to care about poverty variables as judged by this research. Note that different researchers draw different conclusions with regard to Sweden (as part of the Nordic countries) and the US. Dollar & Levin (2004) provide a ranking (#1-42) of multilateral and bilateral donors on their poverty elasticity index. To mention some remarkable positions and important bilaterals of 2002: the Netherlands (#10), Denmark (#12), Norway (#13), the UK (#16), Sweden (#18), the US (#20), France (#29) and Japan (#35). Compared to other donors, in 2002, criteria of poverty have most influence on the decision making process of several multilateral agencies (#1-8). These agencies are designed to channel aid to the poorest countries and their objectives are less complex than those of donor countries.

Concluding, bilateral donors' policies favour poorer countries but it is possible to be much more selective, especially for some major bilateral donors. Furthermore, allocation on poverty indicators decreased remarkably between 1984 and 1999, but increases again between 2000 and 2003.

## 5.4 POLICY PERFORMANCE

More recently, the World Bank as well as some bilateral donors recognized the importance of policy performance for an improvement of aid efficiency. Aid allocation on basis of policy performance favours countries with sound institutions and policies. The World Bank (1998) argued that there are several examples of country cases in which foreign assistance combined with sound institutions and policies produced good results: the Marshall Plan, South Korea (1960s and 70s), China (1980s), Uganda (1990s) and Vietnam (1990s). Moreover, all kinds of projects in all kinds of sectors tend to succeed in well performing countries, whereas they tend to fail in others. The effect of aid proves to be conditional on the institutions that directly affect growth (Dollar & Levin, 2004).

### 5.4.1 POLICY PERFORMANCE INDICATORS

Some frequently used indicators for policy and institutional performance are the World Bank's Country Policy and Institutional Assessment (CPIA), the Freedom House democracy index, or the International Country Risk Guide (ICRG) index.

The CPIA index addresses the quality of a country's present policy and institutional framework in four policy clusters: Economic Management, Structural Policies, Policies for Social Inclusion and Equity, and Public Sector Management and Institutions (Operations Policy and Country Services, 2005: p.3-4). Its more specific contents are presented in annex 5.<sup>7</sup> The review is initiated by the World Bank as guide for its IDA allocation process. The score on the index indicates how capable a country is to foster poverty reduction, sustainable growth, and the effective use of development assistance. On each of the sixteen criteria, countries are rated on a scale of 1 for weak performance to 6 for strong performance. The overall country score is referred to as IDA Resource Allocation Index (IRAI).

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<sup>7</sup> The more detailed contents of the 16 criteria of the CPIA, and instructions for applying them, can be found in the cited document by the Operations Policy and Country Services (2005)



“Since 1972, Freedom House has published *Freedom in the World*, an annual comparative assessment of the state of political rights and civil liberties in 192 countries and 14 related and disputed territories” (webpage of Freedom House, *Freedom in the World*, 04.12.06). This assessment is widely used by policy-makers, journalists, and scholars. With regard to political rights, it uses three subcategories: Electoral Process, Political Pluralism and Participation, and Functioning of Government (webpage of Freedom House, *Methodology*, 07.12.06). The survey concerning civil liberties is grouped in four subcategories: Freedom of Expression and Belief, Associational and Organizational Rights, Rule of Law, and Personal Autonomy and Individual Rights. The main survey questions can be found in annex 5.<sup>8</sup> Both for political rights and for civil liberties, the resulting Freedom House index increases from 1 for the highest level of freedom to 7 for the lowest. The average of the ratings on political rights and civil liberties result in a country status: free (1.0–2.5), partly free (3.0–5.0), or not free (5.5–7.0).

The ICRG index has “been cited by experts at the IMF, World Bank, United Nations and many other international bodies as a standard against which other ratings can be measured” (webpage of *International Country Risk Guide*, 07.12.06). It is a business-oriented risk model that provides a monthly updated “detailed country-by-country breakdown of the comparative risks of investing time and money in each country” (webpage of PRS Group, *International Country Risk Guide*, 07.12.06). The rating comprises 22 variables in three categories being political, financial and economic risk. The variables are summed up in annex 5. The total score eventually ranges from zero to 100, a score between 80.0 and 100 percent indicating a very low risk and a score to 49.9 a very high risk. Intermediary categories are high risk (50.0-55.9), moderate risk (60.0-69.9), and low risk (70.0-79.9).

#### 5.4.2 THE USE OF POLICY PERFORMANCE AS CRITERION FOR AID ALLOCATION

With the help of the CPIA index, Dollar & Levin (2004) conclude that countries with good policies are generally rewarded by bilateral donors. It is remarkable that in their research the most poverty focused donors are also the most policy focused ones, which means “that it is possible to do well in both poverty and policy selectivity by focusing assistance on low-income countries with relatively good institutions and policies.”

Making use of the CPIA index, they find that in 2002 Denmark (#1), the UK (#3), Sweden (#4), Austria (#5), Norway (#8), and the Netherlands (#9) are the most selective donors regarding policy performance, whereas the US (#27) and France (#30) rank rather low.

Alesina & Dollar (2000) make use of the Freedom House index and find that on average, a relatively democratic country receives 39% more aid. After a democratization process, a developing country can expect an increase in donor assistance of 50%. Berthélemy & Tichit (2004) also find that recipients receive higher aid commitments when political rights and civil liberty improve, and conclude that adopting democratic institutions is the best way to obtain better assistance from the donor community. Their research perceives

<sup>8</sup> Detailed questions and sub questions of both surveys can be found on the cited webpage of Freedom House, *Methodology*

a decreasing importance of democracy variables for bilateral aid allocation after the cold war. Dollar & Levin (2006) confirm this trend, but prove that it reversed as from the second half of the 90s. Their democracy elasticity index (elasticity of aid with respect to the Freedom House index, which assigns a higher number to more authoritarian countries) for bilateral aid ranges from -0.692 (in 1984-89), via -0.256 (in 1990-94) and -0.289 (in 1995-99), to -0.385 in (2000-03).

Alesina & Dollar find that the use of criteria for democracy varies among major donors. The US, the Netherlands, the UK, the Nordics and Canada have the strongest positive response to democratic institutions, whereas democracy indicators have no influence in France, and little in Germany and Japan. Berthélemy & Tichit mention the US and Australia as countries valuing democracy more than other donors, while France and Belgium show a non-significant preference for non-democratic (African) countries.

Dollar & Levin (2004) also make use of the ICRG rule of law measure. The correlation between the ICRG ranking and the CPIA ranking is rather high at .57. However, recipients scoring high on the ICRG index are less advantaged than countries with a high score on the CPIA index. To compare policy selectivity throughout the years, Dollar & Levin make use of a policy elasticity index that combines the Freedom House and the ICRG index, because “the CPIA is not available in a consistent format back in time” (p.13) Their data justifies the conclusion that selectivity on policy performance improves: the mean policy elasticity index for bilateral aid ranges from 0.152 (in 1984-89), via 0.128 (in 1990-94), to 0.500 (in 1995-99).

In a succeeding report, Dollar & Levin (2006) distinguish political institutions and economic institutions, separating the ICRG index from the Freedom House index. They perceive a positive trend: the rule of law elasticity develops from -0.174 (in 1984-89), via -0.097 (in 1990-94) and 0.074 (in 1995-99), to -0.140 in (2000-03). This means that the negative valuation of sound economic institutions has changed into appreciation. But although the trend is clear, the reward is not yet significant.

Sachs & Warner (1995) developed a simple zero-one index for trade openness. In brief, they assume that “a ‘closed’ trade regime has average tariffs on machinery and materials above 40% and/or a black market premium on foreign exchange of at least 20% and/or pervasive government control of exports” (Alesina & Dollar, 2000: p.36). In fact however, this indicator does not only measure trade openness, but a broader notion of open policies or growth-enhancing policies. When testing on this indicator, Alesina & Dollar find that open countries receive 20% more aid on average. However, in general this ‘reward’ does not succeed a period of economic policy reform. The open countries that receive more assistance appear to be former colonies or strategic allies of the US, the UK, France, Japan, Australia, Austria, or the Nordics. So, colonial past and strategic considerations are the real causes for aid allocation towards open countries.

The indicators mentioned above merely focus on the quality of institutions as a guarantee for policy performance. Another way to measure policy performance is by looking at the actual policy results. Berthélemy & Tichit (2004) tested for the role of inflation, budget deficit, foreign exchange black market premium, aggregate growth rate (of GDP), flow of foreign direct investment (FDI) received, gross primary school enrolment, and the infant

mortality rate. Only FDI proves to be significantly correlated with aid commitments. Subsequently, FDI is highly and positively correlated with growth because foreign investors are sensitive to growth performance. FDI and growth also have a positive correlation with school enrolment (countries investing in education are likely to invest in growth as well) and a negative correlation with infant mortality rate (infant mortality proves to decrease when growth increases). The US does not seem to take indicators of economic performance like growth and FDI into account. This might be explained by the fact that policy performance indicators like the ones mentioned are also used as indicators of countries' need. This seems to be done for infant mortality rates and primary school enrolment in Germany, Italy, and probably and to a lesser degree for Australia, Denmark, France, the Netherlands, and the UK. Berthélemy & Tichit (2004) state that compared to the 1980s growth plays a larger role in aid allocation in the 1990s, suggesting that good economic policies are better rewarded. This corresponds with several donors' rhetoric on development cooperation policies, and the by the World Bank promoted selectivity in favour of well-performing countries.

#### 5.4.3 RECENT DEVELOPMENTS: SOME EXAMPLES

With the World Bank publication *Assessing Aid* (1998), the notion of selectivity was introduced. The acceptance of this new view to aid allocation, in which the use of criteria like policy performance and sound institutions is strongly supported, has started only recently and not all consequences of this trend are visible or researched yet. Therefore, it makes sense to pay attention to some developments and intentions that still have to pay off. The below given examples are provided by Hout & Koch (2006: p.23-33).

In 2002, the US for example announced the Millennium Challenge Account (MCA), which was established in 2004 and aimed at increasing the American aid budget with US\$ 5 billion by 2005. Aid allocation of this account is based on selectivity and several criteria are used to select developing countries that rule justly, invest in their people, and encourage economic freedom (webpage of MCC, *About MCC*, 17.01.07). To implement this approach, the Millennium Challenge Cooperation (MCC) uses 16 indicators (*Fact Sheet: The Millennium Challenge Account*), which are summarized in box 12.

Canada also plans to provide extra aid to well performing countries, which are working on improving governance quality, reducing corruption, and the protection of human rights (Canadian International Development Agency, 2002: p.2).

Apart from the Netherlands, which will be attended to in the following chapter, other donors seem to have decided to provide more money to activities meant to improve the quality of governance in developing countries. Australia is a clear example of this idea, which opposes the theory behind the concept of selectivity. However, this development does not influence the selection of developing countries. Apart from that, Denmark, Sweden and Norway have not introduced new selection criteria in their aid allocation process after the World Bank report of 1998, while the UK only changed its policy in favour of a small group of low-income countries (Hout & Koch, 2006: p.24-27).

Finally, a quantitative comparison by Hout & Koch (2006: p.28-33) of aid allocation to several recipient countries between 1992 and 2001 makes clear that aid flows do not concentrate on well performing countries. Instead, the largest changes in aid allocation seem to be caused by natural disasters, financial crises, and political changes.

- I. Governing justly*
1. Civil liberties (Freedom House)
  2. Political rights (Freedom House)
  3. Voice and accountability (World Bank Institute)
  4. Government effectiveness (World Bank Institute)
  5. Rule of law (World Bank Institute)
  6. Control of corruption (World Bank Institute)
- II. Investing in people*
1. Public primary education spending relative to GDP (World Bank/ national sources)
  2. Primary education completion rate (World Bank/national sources)
  3. Public expenditures on health relative to GDP (World Bank/national sources)
  4. Immunization rates: DPT and measles (World Bank/United Nations/ national sources)
- III. Promoting economic freedom*
1. Country credit rating (Institutional Investor Magazine)
  2. Inflation (IMF)
  3. Three-year budget deficit (IMF/national sources)
  4. Trade policy (Heritage Foundation)
  5. Regulatory quality (World Bank Institute)
  6. Days to start a business (World Bank)

Box 12. Selection criteria of the Millennium Challenge Account

## 5.5 THEORETICAL CONCEPTS AS EXPLANATION TO OUR FINDINGS

The involvement of economic, historical and political interests in the decision making process regarding aid allocation can be linked to theories of rational choice. The major influence of former colonial links is emphasized by the neo-Marxists, while in the neorealist paradigm donor interest in general is assumed to be the most important factor determining aid allocation. Some research, for example Maizels & Nissanke (1984), also shows that strategic interests of foreign policy play a dominant role in foreign aid allocations, and thereby favours the neorealists. However, most research justifies a more balanced position, rejecting a purely altruistic explanation on the basis of empirical research. Alesina & Dollar (2000: p.35) for instance confirm that “there is some general agreement about what matters for aid giving, namely poverty of the recipients, strategic interests, colonial history, trade, political institutions of the recipients”. On the other hand, they agree with Schraeder, Hook & Taylor (1998) that the determinants of aid flows are complex and that there are many “interesting differences between donors, related to their position in the world order, strategic interests and relationship with former colonies”.

This analysis, and especially the quotation, leaves room for concepts from the theory of rule following. Most notably, decision makers follow *rules of proper behaviour and identity development*. Development aid is used to confirm existing relations and their accompanying expectations. This is underlined by the aid allocation to former colonies, the support of like-minded countries during the cold war, the relation of aid with UN voting patterns, the aid to Egypt and Israel, and the important role of strategic interests we came across. This, as well as the mere fact that general patterns of aid in certain periods can be pointed out, stresses the occurrence of *path dependence*: aid allocations

have historical grounds, or are intertwined with other processes. However, now that identities are more and more determined by economic relations, the use of criteria of trade slightly pushes these historical and political considerations aside. Either way, the role of donor interests remains unchallenged: donors are aware that provision of development aid might pay back.

The use of indicators of poverty and policy performance as described above fits perfectly in the idealist paradigm. Alesina & Dollar (2000: p.35) provide the example of Lumsdaine (1993), who confirms this vision on aid allocation by emphasizing the use of aid determinants like income levels and the democratic status of the recipient. However, these determinants do not fully explain aid allocation. Other (donor) interests also seem to play a role. The research by Alesina & Dollar (2000: p.41) even asserts that “political-strategic variables have more explanatory power than the measures of poverty, democracy, and policy”. Furthermore, the accentuated differences between donor countries ask for an explanation that leaves room for differing accents.

Relating the use of poverty and policy performance indicators to the decision making process, there is considerable room for several concepts from the theory of rule following. When countries are using criteria of poverty, this is an obvious attempt to introduce some idealistically founded *rationality* into the decision making process. However, there are many ways to give room to criteria of poverty, because it is often a poorly defined concept. Poverty can for example be expressed in money (GDP, GNI) or in closely related but still different indicators of well-being (life expectancy, daily caloric intake). This makes it easy for donors to *edit* and present information concerning poverty in a way that supports their aid allocation decision. Furthermore, IDA eligibility is an internationally recognized *typology* that is gratefully used as a clear rule to distinguish poor countries. The given conclusion that aid allocation on basis of poverty could be much more selective indicates that decision makers follow *rules of satisfactory results*. Apparently, politicians hardly assessed development aid on criteria of poverty, so that a poor performance in this regard is not noticed and aspirations are not adjusted. This mediocrity might also have been stimulated by the *social context*, consisting of many other (large and influential) countries that appeared to attach little value to the use of poverty as criterion for aid allocation. As poverty generally lost significance in decision making processes throughout the 80s and 90s, there were probably other criteria that gained importance. However, recent developments attracted attention to poverty reduction, causing a global shift in favour of poor countries.

Compared to poverty, policy performance is an even more *ambiguous* term. It can be used to cover concepts like good policy, sound institutions, democracy, political rights, civil liberty, trade openness, policy results, and growth. Likewise, selection on basis of this criterion can be measured by a whole range of indicators: the CPIA index, the Freedom House index, the ICRG measure, the Sachs & Warner index, and several measures for the accomplishment of results. This makes it easy to *rationalize* decisions by *editing* and *categorizing* information, following *rules of bounded rationality* and *rules of proper behaviour*. With regard to indicators of policy results, decision makers make use of different *frames*, consisting of beliefs on what works for development aid. The question rises whether donors must reward countries with good policy results, or rather help countries lacking the means to produce good results. The World Bank made a shift

from the latter vision, which matched the efforts with regard to conditionality, to the first vision, which is based upon the model of selectivity. This shift was substantiated by lessons drawn from several *experiences*. Most countries have not embraced this new trend yet. This might have different reasons: the presence of change-obstructing processes due to *path dependence*, experiences were not broadly shared, decision makers were not criticized and continued to follow *rules of satisfactory results*, or they felt a shift would not pay out. However, although there appear to be major differences between countries when tested on the indicators mentioned, developments of the Freedom House and ICRG index suggest that selectivity on policy performance indicators increases. It is striking that adopting democratic institutions appears to be the best way to obtain better donor assistance. Democracy seems to be a globally recognized *frame*, focusing attention and simplifying analysis. No matter what the true impact of becoming democratic is, it is *by definition* the largest possible step towards development. In this regard, democracy also functions as a *stereotype*: democratic institutions are presumed to design better policies and perform better, irrespective of the actual performance in a specific case.

## 5.6 CONCLUSION

Concluding, we described some general patterns of aid allocation, in order to deduce the most important criteria that decision makers are using. The use of these criteria is related to several concepts of the theory of rational choice, rule following and path dependence. We proved that decision makers use indicators of economic, historical and political interests, poverty, and policy performance, although in very different ways and degrees. The use of these criteria was partly explained by the theory of rational choice: the importance of recipient interests follows from the idealist paradigm, while the importance of donor interests follows from the neo-Marxist and neorealist paradigm.

However, these paradigms do not seem to provide an explanation that covers the entire complexity of the determinants of aid flows, and the differences among donors, which are likely to relate to views and contexts. For these reasons, we suggested that policy processes are path dependence and donors are likely to follow rules of bounded rationality, satisfactory results, and proper behaviour and identity development. It has become clear that the theories of rule following and path dependence would fit the outcomes of the decision making process, namely the patterns of aid allocation. But to strengthen our premise, it is necessary to have a look at the actual decision making process regarding aid allocation. This is done in the next chapter, in which we have a closer look at the Dutch case.

## 6. THE DUTCH CASE: CONCRETE CRITERIA FOR AID ALLOCATION<sup>9</sup>

e. Which concrete criteria are actually used in the decision making process regarding the allocation of aid in the Netherlands?

As suggested in paragraph 1.6, the Netherlands is chosen because it fulfils a pioneering role regarding the FTI and the justification of aid allocations. The pioneering role of the Netherlands regarding the FTI becomes clear from its large contribution to the Catalytic Fund. Its emphasis on the justification of aid allocations can be recognized from a decision made in 1998 to change the basics of Dutch bilateral aid (Hout & Koch, 2006). The old system was said to be largely ineffective because of two reasons: donor activities were fragmented at the country and sector levels, and aid was provided to countries showing bad governance and bad policy. In the new structure, countries would have to be selected on criteria of poverty, good governance and good policy, deduced from international standards. Subsequently, the principle of the sectoral approach would be applied. The new approach would fit recent international scientific convictions, which were later internationally recognized and written down in the *Paris Declaration on Aid Effectiveness*, and World Bank encouragement regarding for example the rather new concept of selectivity. This recent ‘shift’ of Dutch bilateral aid adds up to the relevance and interestingness of analysing the concrete criteria for aid allocation in the Netherlands.

According to Hout & Koch, the first nuances regarding the criteria were announced soon enough. The appliance of criteria of good governance and good policy would restrict bilateral relations to only a small group of ‘white’ developing countries, while the total application of Dutch aid capacity would require fifteen to twenty structural partners. Furthermore, the selection regarding poverty was only based on the criterion of IDA eligibility, without making further distinctions within this group. The range of programs in which the new criteria were involved also remained limited. Separate country lists for several special programs remained unaffected: the environment program, the good policy, human rights and peace maintenance (GMV) program, and the business program. Furthermore, the budget involved in the new plans only comprised 12% of the total budget for official development cooperation in 2000, and still only 14% in 2004.

### 6.1 DEVELOPMENTS FROM 1998 TO 2002

The development of concrete criteria was a very dynamic and interesting process. It began with the strict criteria of poverty, good governance and good policy (TK<sup>10</sup> 26024/10: p.93), which had to be applied on all structural bilateral aid. Poverty and need would be the first criterion, with IDA eligibility as main indicator. Socio-economic policy and good governance had to specify the selection. Appraisal of the quality of governance was done with the help of several benchmarks, comprising the integrity of the

<sup>9</sup> This chapter is based upon a study done by Hout & Koch (2006).

<sup>10</sup> Second Chamber document (kamerstuk Tweede Kamer)

government apparatus, occurrence of corruption, transparent administration of public resources, supervision on government finances, extent of people participation, separation of powers, legal security, democratization and compliance with human rights. Answering chamber questions, the minister also explained that this appraisal would have a relative rather than an absolute character: Dutch aid capacity would require between fifteen and twenty structural partners, while the selection of countries with good policy and governance on strict and absolute criteria would only leave six or seven possibilities. Therefore, reasoning that bad policy and governance often directly originate from poverty, countries with similar circumstances (income, region, other) were compared in order to select countries having *better* policy and governance (TK 26433/2: p.2). For the appraisal of socio-economic policy, the judgment of relevant multilateral organizations would be followed, or else an own appreciation would be given.

Finally, other considerations also played a role: aid from the international community and the coordination of aid supplies, both supporting aid effectiveness and counteracting a concentration of aid flows exceeding the absorption capacity (Minister of Development Cooperation, 1998: p.4). The added value of a Dutch bilateral aid relation and the possibilities for the realization of a multi-donor sectoral approach under management of the recipient country were also taken into account (TK 26433/1: p.3-4). Furthermore, the focus would be on the 78 countries that received more than one million guilders of Dutch aid in 1997 (TK 26200V/8: p.3). Countries that did not meet the criteria could still receive aid in cases of ‘the application of specific aid instruments’ and ‘a limited or incidental cooperation relation’.

The most complete list of Dutch criteria eventually used for country selection is found in an internal memorandum of the Deputy director-general International Cooperation (2002), and is reproduced in box 13.



1. IDA Country Performance Rating (CPR)
2. Financial-economic and social policy of the recipient country
  - (a) Financial-economic policy / structure
  - (b) Social policy of recipient country
  - (c) Commitment recipient country with respect to gender-issues
  - (d) Commitment recipient country with respect to environment
  - (e) Commitment recipient country with respect to 20/20 perspective\*
3. The situation concerning good governance
  - (a) Integrity and effectiveness of the government apparatus
  - (b) Transparent administration of public resources
  - (c) Absence of corruption
  - (d) Adequate supervision on government finances
  - (e) A well functioning Court of Auditors
  - (f) Sound parliamentary monitoring of government expenditure
  - (g) Participation
  - (h) Separation of powers, independent jurisdiction
  - (i) Legal security for all
  - (j) A free and honestly chosen parliament
  - (k) Human rights
  - (l) Relation expenses in social sectors to expenses defense
4. The extent of poverty and the need for aid
  - (a) GNP per capita in US dollars
  - (b) Internal social and geographical division of poverty
  - (c) Aid efforts of other donors
  - (d) The extent to which aid takes place coordinated
  - (e) The extent to which the country has access to the finance market / financing gap
5. Additional considerations
  - (a) Appreciation of the quality of the current development cooperation program / continuity
  - (b) The active role of a country in supporting the legal order in its region
  - (c) Relations with the Netherlands of socio-cultural nature
  - (d) Relations with the Netherlands of economical nature / size trade relation (<1 billion, between 1 and 5 billion, >5 billion)
  - (e) Relations with the Netherlands of economical nature / potential for doubling in the next five years (small/medium/large)
  - (f) Presence of government-to-government cooperation of other departments in the recipient country
  - (g) Attention of the parliament for developing country (number of chamber questions / number of parliamentary visits)
  - (h) Geo-strategic interest significance of the recipient country
  - (i) Other considerations

\*The 20/20 initiative is agreed upon as follow-up to the social summit in Copenhagen in 1995: it concerns a mutual agreement between developing countries and donors to spend 20% of their budget respectively developing cooperation budget on basic social facilities. (Workgroup effectiveness and coherence of development cooperation, 2002-2003: p.31)

*Box 13. Dutch criteria for country selection 1998-2002*

The criteria for country selection were translated in country screenings done by the Dutch embassies. On basis of criteria 1-4 (see box 13), thirty countries were found to be rich of possibilities and inspiring confidence with regard to the results and expectancies in the

field of policy and governance. Because this number was still too high, the additional considerations under 5 (see box 13) were added. According to the civil servants involved in the selection process, the criteria were so many and diverse that the deliberation that took place was in fact very qualitative and almost intuitive. Eventually, 19 countries were selected, being Bangladesh, Bolivia, Burkina Faso, Eritrea, Ethiopia, Ghana, India, Yemen, Macedonia, Mali, Mozambique, Nicaragua, Uganda, Pakistan, Sri Lanka, Tanzania, Vietnam, Zambia, and Zimbabwe. Besides these 19 countries, 3 other countries were selected for the maintenance of a special relation: South-Africa, Egypt, and the Palestinian areas, respectively to support the political transition after the Apartheid, because the country is close to a next developmental stage, and to support the peace process in the Middle East (TK 26433/1: p.5). Both lists were regularly (sometimes temporarily) adjusted for several country specific and often political reasons. The three countries and criteria mentioned can be taken as examples; we will not elaborate on the countries and criteria that were involved later on.

Among the reasons mentioned for the drop out of countries was the argument that structural aid could better be strengthened through the multilateral channel of the World Bank. In the cases of Armenia, Georgia, Kirgizia, and Moldova the World Bank was designated because the Netherlands did not have an embassy (TK 26433/1: p.8), and in case of Bosnia Herzegovina because donor coordination had to be prioritized and bilateral activities would not offer any added value (TK 26433/3: p.97-98). For Cape Verde and Ivory Coast, the number of donors active was already large, as a result of which the absorption capacity would be too small.

In 2000, a workgroup *Allocation structural bilateral development aid* was established to provide further methodologies for selection and screening of developing countries. Its report (Timmerman et al., 2000) presented a model based on a zero-base approach, meaning that the optimal distribution of aid is calculated, presuming that maximal poverty reduction is the purpose. The score per country following from this model is based upon several indicators (Timmerman et al., 2000: p.7): need of aid (50%), composed on basis of data regarding GNP, receiving of ODA and foreign debt of the government; policy and governance quality (50%), calculated with the help of data from the World Bank CPIA and the Portfolio Performance Rating, and an own estimation regarding human rights. This model, however, was not meant to provide eventual decisions, because it does not take the absorption capacity into consideration. In practice, since 2001 it provides one of the arguments for decision making around the rise or reduction of country budgets.

## **6.2 FURTHER DEVELOPMENTS IN 2003-2004**

In 2003, the new minister stated that Dutch expertise and resources in bilateral cooperation had to become more concentrated on countries and sectors, on basis of the trend in bilateral cooperation in the preceding four years, and because of the strive for quality, efficiency and effectiveness (TK 28600V/65: p.4). Furthermore, the country lists for the different programs would be merged, with exception of the business program. Poverty and *prospect on* better policy and governance were the main selection criteria,

the latter including the involvement of social organisations and businesses in the development process. Other important criteria were complementarity, meaning the surplus value that might originate from cooperation with other donors, and concentration, meaning the bundling of knowledge and resources in a limited number of countries.

Thematic, sectoral and partner concentration were the key words in this new selection process (TK 29234/1: p.14-20). For the thematic concentration four priority topics were selected: education, reproductive health, HIV/Aids, and environment and water. Sectoral concentration meant that aid would concentrate on two or maximal three sectors per partner country. Partner concentration would be reached by merging the different lists to one list with 36 partner countries.

To guarantee reliability and continuity, only countries with which the Netherlands already had a bilateral development relation were included in the zero-base analysis (DGIS<sup>11</sup>-246/2003: p.3). The eventual selection criteria are mentioned in a policy report (TK 29234/1: p.19-20) and summarized in box 14.

- poverty, as indicated by IDA eligibility;
- quality of policy and governance, as indicated by IDA performance, on basis of the CPIA score, a score for the quality from the World Bank project portfolio, and a score for the quality of governance;
- need, indicated by the added value of one euro aid on basis of the presence of other donors, the size of total aid and the absorption capacity;
- the added value of Dutch aid, coinciding with complementarity and concentration of aid;
- arguments of foreign policy, like the contribution to stability in a region, the compliance with treaty duties and the maintenance of a good relation with poorer countries in the Dutch constituency at the World Bank, IMF and EBRD.

*Box 14. Dutch criteria for country selection 2003-2004*

On basis of these criteria, the relation with thirteen countries was ended. Brazil, China, Ecuador, El Salvador, Philippines, Namibia and Peru were dropped because they were considered relatively rich. The relation with Cambodia, Guinea Bissau and Zimbabwe was ended because they were considered to have relatively bad policy and governance. Finally Bhutan, Brazil, Cambodia, El Salvador, Guinea Bissau, Namibia, Nepal and Zimbabwe were (also) considered to have a relatively small Dutch program, and therefore inappropriate for the prolongation of Dutch bilateral aid programs. The list of the 36 selected countries is reproduced in box 15.

A final interesting notion is that the minister declared to provide aid preferably via the budget of the recipient country, in order to lay down the responsibility at its government and to support coordination and harmonization of donor efforts. Budget support would have to meet three conditions: support should take place within the framework of the PRSP process; there should be an effective policy dialogue concerning the quality of governance, including the political dimension, and poverty reduction; and progress

<sup>11</sup> Directorate-General International Cooperation document (kamerstuk Directoraat-Generaal Internationale Samenwerking

should be tested by means of progress indicators for institutional and policy reform (TK 29234/1: p.19-21).

1. Afghanistan	10. Colombia	19. Macedonia	28. Senegal
2. Albania	11. Egypt	20. Mali	29. South-Africa
3. Armenia	12. Eritrea	21. Moldova	30. Sri Lanka
4. Bangladesh	13. Ethiopia	22. Mongolia	31. Surinam
5. Benin	14. Georgia	23. Mozambique	32. Tanzania
6. Bolivia	15. Ghana	24. Nicaragua	33. Uganda
7. Bosnia Herzegovina	16. Guatemala	25. Pakistan	34. Vietnam
8. Burkina Faso	17. Indonesia	26. Palestinian Authority	35. Yemen
9. Cape Verde	18. Kenya	27. Rwanda	36. Zambia

Box 15. List of the 36 partner countries selected in 2003

### 6.3 ACTUAL ROLE OF DIFFERENT CRITERIA

As concluded in the previous paragraph, Dutch aid allocation criteria are numerous and not always frankly formulated. The introduction of ‘additional considerations’ for the country selection in 1998 meant that the logic of the selection process got lost. Furthermore, the decision in 2003 to select countries displaying *prospect on* better policy and governance made the selection process even more subjective. Therefore, it is hard to test the policy outcomes to the formulated objectives. What Hout & Koch (2006) do, however, is tracing the importance of different criteria.

In the country selection process of 1998, the IDA country performance ratings played a large role. Poverty indicators were also taken into account, but the new selection was not significantly more directed towards poor countries than before. Secondly, Dutch aid in previous years appears to be a very important explanatory factor. Finally, donor interests like trade, social-cultural ties, and attention of the parliament played a minor role. However, when the Dutch embassies’ country screenings assigned a major role to donor interests, these were always more important than considerations of poverty and need.

The distribution of aid between 1998 and 2002 largely took place in accordance with the same as utilized in the selection process. Additional criteria that played a role, especially for allocations to Surinam and Indonesia, were good governance and geo-strategic interests.

Changes in allocations between 1998 and 2002 mainly resulted from the adopted sectoral approach, attention of the parliament, geo-strategic relevance, lack of absorption capacity, and political factors. Path dependence and changes in the World Bank ratings for good policy and good governance hardly played a role here.

In the selection of 2003, existing aid relations played a decisive role. Considerations of foreign policy, more specifically membership of the Dutch constituency at the World Bank, also seem to have determined the selection of some countries. Criteria of poverty and good policy and governance were of marginal importance.

With regard to the distribution of aid between 2003 and 2004, path dependence again played a large role. Furthermore, the CPIA score and Dutch export appear to have played a minor role.

With regard to the education sector, the Netherlands cooperates bilaterally with Bangladesh, Bolivia, Burkina Faso, Ethiopia, Indonesia, Macedonia, Mali, Mozambique, Pakistan, South-Africa, Surinam, Tanzania, Uganda, Yemen en Zambia (Dutch Ministry of Foreign Affairs, 10.04.07). All funding goes via national government budgets, supporting national education policies. Within this group of 15 countries, only 5 countries are FTI endorsed: Burkina Faso, Ethiopia, Mali, Mozambique, and Yemen. Furthermore, according to data from the FTI Secretariat (2005a: p.33-35), the Netherlands has (intended) silent partnerships in Nicaragua, Rwanda, Vietnam, Kenya, Malawi, and Ghana. Except Malawi, these countries are FTI endorsed. Overall, the Netherlands supports the education sector in 10 countries, among which are 3 donor orphans.

Taking the selection and allocation process into account, the fact that some of the Dutch partner countries are endorsed by the FTI does not indicate that the Dutch selection criteria correspond with the FTI endorsement criteria. The Dutch efforts concerning the FTI seem to be not specifically related to a general tendency to reward poor countries with good policy and governance.

#### **6.4 THEORETICAL CONCEPTS AS EXPLANATION TO OUR FINDINGS**

As chapter 5 suggested that the patterns of aid allocation leave room for the theory of rule following, this chapter has taken a closer look at the decision making process itself, which the theory of rule following is designed to address. And actually, we are able to recognize many concepts of this theory in Dutch practice. It starts with the decision made in 1998 to change the basics of Dutch bilateral aid. In revising the structure, the minister tried to confirm the *identity* of the Netherlands as one of the few countries that really care about development aid, having learned from *experience* that this position is generally appreciated by the international community. Doing this, the minister made sure that the latest findings from international discussions, such as the World Bank's *Assessing Aid* and the convictions later written down in the *Paris Declaration on Aid Effectiveness*, were taken into consideration. In other words, the government looked at the *social context* and followed the trends that were represented by acknowledged institutions (*recency*). It is clear that Dutch decision makers followed *rules of proper behaviour and identity development* in this regard.

In fact, this phase constructed the *frame* within which decisions would have to be made. However, soon enough some practical restrictions were brought forward. Criteria of good governance and good policy could not be applied, because the remaining group of countries would be too small, while IDA eligibility was the only (rough) poverty indicator used. This indicates that decision makers followed *rules of bounded rationality* and *rules of satisfactory results*. Furthermore, the range of programs and share of budget this new aid allocation system would apply to remained very limited, meaning that search was *thermostatic*: it stopped when the targets could reasonably be presented as obtained.

The decision making process continued between 1998 and 2002. The focus of development aid would remain at the 78 countries that received more than one million guilders of Dutch aid in 1997. Here we obviously witness the role of *path dependence*, including the characteristic of *path inefficiency* because an ‘unbiased’ aid allocation on basis of poverty, good governance and good policy would probably involve other countries.

With regard to good policy and good governance, the minister admitted that the appraisal would have a relative (comparing countries and selecting the *better* scoring) rather than an absolute character (selecting only countries above a certain score), and civil servants involved in the selection process state that the deliberation was very qualitative and almost intuitive. These remarks prove at least that decision makers followed *rules of bounded rationality*, in spite of (or due to) the overload of criteria and (measurable) indicators. Countries not meeting the criteria would still be able to receive aid in cases of specific aid instruments or limited cooperation. This leaves room for pursuing Dutch geo-strategic or political interests.

When the use of the initial four criteria (see criteria 1-4 in box 13) brought in too many countries, several additional criteria were introduced to reduce the possibilities, proving that search was *thermostatic*: targets were adjusted in order to limit time and space of the search process.

While aid received by other donors did not seem to play a role in general patterns of aid, the Dutch government utilizes several criteria concerning the presence of other donors: absorption capacity, aid from the international community, coordination of aid supplies, added value of Dutch aid, and possibilities for a multi-donor sectoral approach. Most of these criteria concern country need, adding up to the *rules of bounded rationality*, but some also aim at *identity development*.

In 2003 and 2004, an attempt was made to concentrate Dutch expertise and resources by merging the different lists to one list and concentrating aid on a maximum of three sectors per country. For this selection procedure, decision makers used a zero-base approach, calculating the optimal distribution of aid when aiming at poverty reduction. However, the model was not meant to provide eventual decisions because the absorption capacity had to be assessed separately. In other words, the rational model could not be applied right away because it did not cover all aspects: *rationality* was *bounded*. Furthermore, only the countries already involved in bilateral relations with the Netherlands participated in this approach. So again, *path dependence* is deliberately admitted in the selection procedure.

The main selection criteria were adjusted again. The criterion of relatively good policy and governance altered in *prospect on* better policy and governance, thus leaving more room for qualitative criteria like complementarity and concentration. Relations were ended because countries were considered to be relatively rich, to have relatively bad policy and governance, or to have a relatively small Dutch program. As became clear from the discussion above, the suggested rationality of these decisions can be doubted. Rationality was bounded, and the influence of path dependence, rules of satisfactory results, and rules of proper behaviour and identity development can be clearly recognized throughout the entire decision making process.

## **6.5 CONCLUSION**

Since the theory of rule following concerns decision making processes on detail, the outcomes – global patterns of aid allocation are outcomes – could only make the occurrence of rule following in the decision making process plausible. Therefore, this chapter attended to the Dutch example, which confirms the explanatory power of our theories. The different theoretical concepts are concretely and obviously recognized in the Dutch decision making process with regard to aid allocation.

As mentioned before, the Netherlands is one of the few countries that changed its selection process in order to apply the concept of selectivity. This means that if it did not succeed in applying criteria of poverty, good policy and good governance straightforwardly in its aid allocation process, other countries are even less likely to assign a prominent position to these criteria, on which the FTI is largely based. The next chapter addresses the implications of this conclusion for the FTI.

## 7. IMPLICATIONS FOR FTI: ANTICIPATION AND CHANGE

### 7.1 FTI ANTICIPATION

*f. Has the FTI design anticipated on the factors explaining bilateral donors' aid allocation?*

The FTI design has anticipated on the factors explaining bilateral donors' aid allocation, at least to some extent. It focuses on poor countries, using IDA eligibility as indicator. With that, poverty is mainly deducted from a country's GNP, which seems to be done in many donor countries and can be accounted for as a rational rule. However, on the other hand some large countries seem to use non-monetary dimensions of poverty in aid allocation processes, like life expectancy, daily caloric and infant mortality.

The FTI endorsement process is a fruit of the utilization of the concept of selectivity by the World Bank and other (multilateral) donors. It also joins up with the increasing emphasis on policy performance as criterion for the allocation of aid. However, patterns of aid allocation in many donor countries indicate that they doubt the method of rewarding countries with good policy results, and rather choose to help countries lacking the means to produce good results. Furthermore, as far as the components of the CPIA, Freedom House and ICRG index in annex 5 indicate, the presence of a Poverty Reduction Strategy (PRS), Education Sector Plan, or agreement to monitor benchmark indicators do not turn out in favour of a developing country. This indicates that the criteria, used by the FTI for assessing the credibility of aid programs and the dedication of developing countries to good policy and good governance, might lack agreement and confidence, which is also suggested by ActionAid (2003: p.8) in a critical analysis of the FTI. The FTI assumes that the existence of a PRSP means that there is some civil society involvement (ActionAid, 2003: p.15), and that the presence of a sound Education Sector Plan implies that the entire government is politically committed to achieving EFA. However, many Non-Governmental Organisations (NGOs) and donors recognized that civil society involvement and political commitment has been weak in many cases. These and other criticisms further weaken political support for the initiative (ActionAid, 2003: p.13).

As economic, historical and political interests are hard to integrate in an initiative that is designed to meet the educational needs of developing countries, anticipation on these factors can hardly be expected. What remains are the other rules that decision makers follow. If decision makers pursue satisfactory results, the FTI has to be one of the first options presented. If they follow rules of proper behaviour and identity development, supporting the FTI must be presented as proper, and fitting the identity of western countries. The FTI design anticipated on this, at least to some extent. With regard to the concept of experiential learning, for a new initiative it is important to be able to present some good results rather fast, in order to attract new partners. Looking at the start of the FTI, it seems that the initiative selected well-performing countries, probably in order to get a good start and be able to claim successes in an early stadium. ActionAid (2003:



p.17) states that the “selection of the initial FTI countries is based primarily on ‘good performance’ rather than any assessment of ‘need’ (in relation to economic conditions, current education indicators, or external funding gap for example). Analysis in the GMR (Global Monitoring Report) shows that the initial FTI countries are, in fact, slightly better off compared with other low-income countries, which on average have weaker development and education indicators. The latter group has lower income levels, as well as higher rates of illiteracy and lower primary enrolment rates than the initial group of FTI countries.” When the FTI expanded to less progressive countries, showing its “potential to achieve a more rational allocation of aid flows”, while donors continued ‘business as usual’, the unequal distribution of bilateral partners became a problem (ActionAid, 2003: p.13).

With regard to the concept of categorization, the initiative provides the category of ‘FTI endorsed developing country’ for countries in which educational aid will be effectively invested. In this way, the initiative also presents an easy choice for donors searching for a way to effectively contribute to development education or the obtainment of the MDGs, which connects to the rules of satisfactory results. However, as our remarks on the lacking agreement and confidence with regard to the endorsement process make clear, the value of FTI endorsement is doubted.

The concept of recency is also taken into account, by linking up with the MDGs and stressing the commonly recognized importance of Education for All. Furthermore, the FTI design corresponds to modern beliefs about aid effectiveness, stressing concepts like country-ownership, alignment, harmonization, managing for results, and mutual accountability. Almost every developed country committed to both the MDGs and the Paris Declaration, while politicians and policy makers are pushed by civil society, other governments, and institutions to prove their involvement. This can also be associated with the concept of social contextuality. However, in the developing field, civil society involvement and political commitment has been weak in many cases, leaving a gap between FTI (and donor) intentions and practices.

Finally, path dependence appears to play a major role in decision making processes. This means that a new project would have to appeal to the existing donor partners in the first place. Therefore, the FTI involves donor partners in the development of an Education Sector Plan, the assessment and endorsement process is led by local donor agency representatives, while the coordinating agency is often the national government of a donor country.

Summarizing, the FTI design anticipated on important decision making rules, although with varying results. It especially appears to be difficult to create a supportive basis for the endorsement criteria.

## **7.2 FTI PROPOSED SOLUTIONS**

*g. Which solutions to the unequal distribution of bilateral partners does the FTI propose?*

While posing the problem of the unequal distribution of bilateral partners, the FTI Secretariat simultaneously proposes two solutions, namely “to increase the use of existing channels such as the multilaterals, or commit to financing these countries through an

expanded FTI Fund” (FTI Secretariat, 2005a: p.17). Both options are elaborated upon below.

### 7.2.1 SHIFTING TO MULTILATERAL CHANNELS

The first solution for the unequal distribution – the use of non-bilateral channels – mainly comprehends the integration of multilaterals, like UNICEF, IMF and the World Bank. The use of multilateral development aid has several advantages, but also major disadvantages. Goldstein (2005, p.531) pays attention to the advantages and disadvantages of multilateral development aid through UN programs. The following conclusions can be utilized more generally as applying to all multilaterals. Firstly, multilateral aid is less coloured and no threat to sovereignty or reminder of colonialism. Secondly, multilaterals have more experience in providing aid. Thirdly, a multilaterals’ frame of reference is more global, making it easier to set the right priorities and making it possible to learn from a wide range of similar projects. A major disadvantage is the dependency on voluntary contributions from rich states. Another disadvantage is the reputation of many multilaterals for being inefficient and bureaucratic<sup>12</sup>.

Having these pro’s and cons in mind, the solution of using multilaterals seems to be quite satisfactory. However, some additional remarks need to be made.

The advantages of experience and globality are also mentioned in the FTI framework. More precisely, these are even the main reasons for the initiative’s existence, offering a common working method (most clearly illustrated by the *Guidelines for Appraisal*), a system of monitoring and evaluation (the Indicative Framework), and a forum for mutual learning on what works. Summarizing, one of the FTI goals is the “comparative benchmarking of progress and performance across countries in the initiative and rapid diffusion of global practice and lessons” (*EFA-FTI framework*: p.11). This means that the only advantage of expanding the CF or making use of other multilateral agencies, in comparison with the current situation, is the less coloured and unthreatening character of the given aid.

Shifting to the disadvantages, dependency on voluntary contributions from rich states is also the main difficulty of the FTI. As mentioned before (in paragraph 1.2), the external financing needs will increase to US\$ 3.7 billion per year. The currently committed and expected financial aid only accounts for US\$ 0.7 billion, leaving a financing gap of US\$ 3.0 billion. This amount is not going to change if direct funding is taken over by multilateral agencies. The FTI in its current form is dependent on voluntary contributions from rich states, and so are multilateral agencies.

The remaining disadvantage is the bad reputation of many multilaterals. Van Meerhaeghe (1998: p.19) summarizes the main causes and consequence of this bad reputation in one sentence: “Poor governance, wasteful duplication of efforts and missed opportunities on the part of international organizations have engendered in the public at

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<sup>12</sup> For a general overview of arguments regarding World Bank bureaucracy, see R. Vaubel (1996), *Bureaucracy at the IMF and the World Bank: A comparison of the evidence*, *The World Economy*, 19, p.195-210

large and in the biggest contributors, above all the United States, a growing lack of trust in the ability of multilateral mechanisms to address global problems effectively.”

Furthermore, an increasing use of multilateral channels will logically introduce more bureaucracy and inefficiency. If the group of direct donors will more and more consist of multilaterals, an extra link is inserted in the process chain. Obviously, the money must still be provided by developed countries and thus only follows a longer track, namely via the multilateral agencies. This indirectness adds a reasonable chance of increased bureaucracy and inefficiency to the process, and includes the danger that the same amount of money that would have been available for aid, now also has to cover the management costs of the agency. Finally, the indirectness of aid reduces the ultimate donor's involvement with the concrete projects. This makes it easier for a rich country to withdraw its contribution or reduce its share.

Comparing the pro's and cons, the rather vague advantage of less coloured and threatening character of aid if provided through multilateral channels is weaker than the disadvantages of bad reputation, indirectness and decreasing donor involvement. Therefore, it is not likely that a shift to multilateral channels will pay off.

#### *7.2.2 EXPANDING THE CATALYTIC FUND: THE DUTCH PROPOSAL*

To compensate for the unequal distribution of bilateral partners, the FTI Partnership Meeting of 30 November – 2 December 2005 in Beijing mandated a task force to develop a proposal for expanding the CF. As the chair of this team, the Netherlands convened a two day working session and presented the results in a draft proposal to the FTI technical meeting of 13-14 March 2006 in Moscow (FTI Task Force on an Expanded Financing Mechanism, 2006). The team proposed to maintain the up-front short-term financing, based on the endorsement process (see paragraph 1.3). The maximum duration of this 'first phase' FTI funding will be prolonged to four years. Subsequently, this short-term financing has to be replenished by long-term predictable financing, allocated to countries with an inadequate number of donors ('donor orphans'), meaning <5 donors who fund more than US\$ 1 million per year. Additionally, the reasons why these donors can not provide more aid need to be explained, to avoid that CF becomes 'cheap and easy money'. Besides, allocation and length of this 'second phase' FTI funding will be performance based. Annual sector reviews must be strengthened to monitor national processes. Furthermore, in the third year of the first phase, an in-depth assessment is performed, meaning that "the country-specific baseline is reviewed and the financing gap is reassessed" (FTI Task Force on an Expanded Financing Mechanism, 2006: p.3). On basis of this assessment, there can be progress to second phase funding. Duration of this funding will be in line with the local funding cycle, usually being four or five years, after which a new assessment has to be made.

Let us now shortly consider whether or not bilateral aid is preferable above an expanded CF as described in the Dutch proposal. The task force itself yet recognizes that, for successful funding through the trust fund, donors must commit to providing funds in a predictable manner, and more voluminous contributions will need to be forthcoming. Moreover, it shows the intention to apply a high degree of rigour in considering if and

why a country lacks sufficient donors, which implies that bilateral or multilateral external aid still is preferred above funding through the CF. In other words, the proposal only intends to respond to the direct need of resources to fill the financing gaps in well-performing countries, in order to accelerate progress to the EFA goal. The FTI would still not be designed to replace the bilateral partners' direct financing by funding through the CF. "Increasing overall resources flowing to the sector through a country-by-country approach rather than a single 'global fund'" (*Informal World Bank Executive Board briefing*, p.5) remains one of the principles of the FTI model. The main advantage of this approach is that governance efforts and running costs are shared by different bilateral partners and developing agencies. Finally, the task force itself stresses that the "FTI should have a clear overall resource mobilization strategy which should take into account the resource mobilization strategies of all partners (how do they allocate their existing budgets – bilateral/multilateral? what possibilities are there for an increase in education budgets?)" (FTI Task Force on an Expanded Financing Mechanism, 2006: p.4). Paragraph 6.2.1, comparing aid provision through bilateral and multilateral channels, confirms that the emphasis on bilateral aid is logical, or even inevitable. In principle, this second solution – expanding the CF – is very similar to the first option, because the CF is part of the World Bank, which is a multilateral agency exhibiting all advantages and disadvantages mentioned in the previous paragraph.

Concluding, an increasing use of multilateral channels reduces some important advantages of bilateral aid, while a recent proposal for expanding the CF recognizes the predominance of bilateral aid above funding through the CF. This means that these alternative solutions to straighten the unequal distribution of bilateral partners are at most second best options. On basis of our findings, replenished by the theory of punctuated equilibrium, we are able to find some other, possibly better, solutions.

### 7.3 SOLUTIONS: EXPANDING FTI INFLUENCE ON AID ALLOCATION

*h. Which other solutions to the unequal distribution of bilateral partners can be drawn up?*

In paragraph 1 we concluded that the FTI anticipated on the factors explaining bilateral donors' aid allocation to an important degree, but also that several aspects of donor behaviour were not foreseen. This reduces the effectiveness of the initiative, and is a main reason of the unequal distribution of bilateral partners. Therefore, this paragraph provides some directions for solutions for this problem.

With regard to the FTI design, the main problem is that the endorsement criteria it utilizes are not recognized by bilateral partners as indicators of policy performance or good governance. This means that the FTI criteria for endorsement will have to gain visibility and credibility. This means several things. At first, they must be brought under the attention as important criteria to obtaining EFA and reducing poverty, to which all important donor countries committed by signing the MDGs. Secondly, they must be accompanied by convincing theories and examples, which give prove for the increasing effectiveness that these criteria are said to guarantee. Thirdly, they must be given a

prominent position in the good policy and good governance indexes that are used. The objective is that the criteria become integrated in countries' aid allocation policies.

This could be accomplished by subjecting the endorsement criteria or even the entire endorsement process to discussion, involving donor representatives, in search for ways to adapt it to national donors' preferences and practices. The challenge is to provide convincing reasons for prioritizing FTI developing countries to donor countries that continue business as usual and are unwilling to change their selection criteria. Changing the endorsement process is one way to do this, given shape by for example developing better indicators for civil society involvement and political support within the recipient country. Wider formulated, FTI influence on decision making processes can be increased by synchronizing developing countries' characteristics with donor countries' selection criteria. So on the one hand, FTI development efforts and indicators concerning policy-related as well as institutional affairs will have to emphasize the same priorities as donors do. On the other hand, the initiative must employ its experience and knowledge to convince partners of its vision on development cooperation. This might for example lead to the adjustment of methodologies for measuring policy performance and good governance, like the CPIA index or – less ambitious – nationally developed and utilized methods.

The factors currently explaining the unequal distribution of bilateral partners can not be changed overnight. This is confirmed by the theories of path dependence and punctuated equilibrium. The continued power of a domestically focused government or the general acceptance of the prevalence of domestic interests might obstruct change. The importance of economic, historical and political interests, made explicit in chapter 5, speaks for itself. On the other hand there is a trend, related to the World Bank, the MDGs, the Paris Declaration and other institutions, to pay more attention to recipient need and criteria of policy performance. Positive feedback processes might be able to strengthen this trend.

Several characteristics of positive feedback support or add up to the recommendations made in this paragraph. As paragraph 5.2.3 points out, the *attention* of several donor countries *shifts* to selectivity based approaches. The FTI is one of the international projects based on this concept that attracts attention. Furthermore, it evaluates the developments concerning the initiative, thus providing *analyses* exposing the future consequences of current donor behaviour like the financing gaps until 2015. As becomes clear from its progress report in 2005 (FTI Secretariat, 2005a), the initiative has the ability to gather lots of information. For the progress of the initiative and the modestly appearing attention shift, it remains important to provide statistics to all partners and to stress the deriving key challenges. The aspect of *bargaining* was, earlier in this paragraph, referred to as subjecting endorsement and selection criteria to discussion. Finally, the aspect of *learning* already has an important position within the FTI. Notably, it was experience rather than theory that started the shift from conditionality to selectivity for the World Bank. This indicates that it is important to record experiences, in order to learn from them and to take along donors in the successes of educational aid.

## 8. CONCLUSIONS

This paragraph concludes, addressing the answers to our research questions, which we now are able to deduce from the analyses presented in this paper. The main question is repeated here for the reader's convenience:

*How does the unequal distribution of bilateral partners relate to the FTI resource mobilization failure? How can this unequal distribution of bilateral partners be explained and how can it be influenced?*

The distribution of bilateral partners in FTI countries is unequal: 12 countries have <5 bilateral partners, the so-called 'donor orphans', while 8 countries have  $\geq 5$  partners. A fictive representative group of 20 non-FTI low-income countries has 2.5 more donor orphans, which means that FTI countries are favoured. However, this does not necessarily result from FTI efforts.

Within the initiative, having more donor partners means receiving more funding. Relating this funding to the need of receiving countries, donor orphans comparatively receive less than donors having  $\geq 5$  partners. Moreover, funding from 2002 to 2006 for donor orphans remains stable, while resource mobilization for other developing partners during this period is remarkably more successful. An aid concentration curve on the results of resource mobilization confirms that, relating the recent share of direct donor funding to the share of children aged 6-11 not in primary school, all disadvantaged countries except for Ethiopia are donor orphans.

However, for other types of bilateral aid this problem is not signalled. The recent ODA streams for primary education disadvantage the poorest FTI countries instead of donor orphans, while resource mobilization from 2001 to 2004 remains even for FTI donor orphans and FTI recipient countries having  $\geq 5$  partners. Concerning the total of ODA streams, donor orphans are even slightly advantaged, while the share of aid they received between 2001 and 2004 increases.

Summarizing, as the FTI suggested we found that resource mobilization failed, especially for donor orphans, regarding both resource mobilization over time, as well as its recent results. This means that our solution does not have to address the unequal distribution of bilateral partners in general, but has to stick to the FTI. Therefore, the solution lies in making all FTI countries equally attractive for aid allocation, by linking the initiative up with existing aid allocation criteria.

The observed aid allocation of bilateral donors can be explained by the theories of rule following and of path dependence. Decision makers appear to follow rules of bounded rationality, satisfactory results, and proper behaviour and identity development. Furthermore, decisions appear to be path dependent. More concretely, global patterns of aid allocation indicate that decisions in this area are made on basis of criteria of economic, historical and political interests, poverty, and policy performance. The importance of criteria of policy performance and economic interests seem to increase, mainly at the costs of poverty and historical interests. The use of these criteria was partly explained by the theory of rational choice. However, the rationalist paradigms do not

seem to provide an explanation that covers the entire complexity of the determinants of aid flows. On the opposite, the theories of rule following and path dependence seem to be able to explain the global patterns of aid allocation.

Since the theory of rule following concerns decision making processes in detail, the outcomes – global patterns of aid allocation are outcomes – can only make the occurrence of rule following in the decision making process plausible. Therefore, we included the Dutch case study, which confirms the explanatory power of these theories. The different theoretical concepts are concretely and obviously recognized in the Dutch decision making process with regard to aid allocation.

The FTI design has anticipated on the factors explaining bilateral donors' aid allocation. Starting with the aspect of (bounded) rationality, it uses the indicator of IDA eligibility to select the countries standing most in need of aid. The FTI endorsement process fits within the concept of selectivity and the increasing use of policy performance as criterion for aid allocation. However, the endorsement criteria of PRSP, Education Sector Plan, and benchmarking lack visibility and credibility, and are unable to attract new donors for the partner developing countries. Furthermore the rest, the FTI tried to acquire fast results and impressive experiences by initially selecting well-performing countries, in order to attract partners. For countries caring about the MDGs and primary education, it presents a category of effectively spending countries. The provision of aid to these countries is an obvious and satisfactory choice, which is easy to account for. The initiative also links up to developments that recently attract much attention, like the increasing efforts around the MDGs, the EFA movement and the Paris Declaration. So in a certain way, the social context pushes for involvement in a project like the FTI. Finally, aware of path dependence and thresholds for change, the initiative tries to exploit existing developing relations, involving donor partners in the endorsement process. However, donor support is still disappointing.
















The FTI Secretariat proposes two solutions to the unequal distribution of bilateral partners, namely to increase the use of existing channels such as the multilaterals, or commit to financing these countries through an expanded FTI Fund. However, an increasing use of multilateral channels reduces some important advantages of bilateral aid, while a recent proposal for expanding the CF recognizes the predominance of bilateral aid above funding through the CF. This means that these alternative solutions to straighten the unequal distribution of bilateral partners are at most second best options.

























According to our own research, the unequal distribution of bilateral partners can be solved by increasing FTI influence on the aid allocation process. At first, the characteristics of FTI developing countries must be synchronized with donor countries' selection criteria: the endorsement process must mirror generally recognized methodologies for determining aid allocations. Especially with regard to criteria for policy performance and good governance, synchronization is to be improved. On the one hand, this means that the FTI endorsement criteria will have to be discussed, in order to gain visibility and credibility. On the other hand, the initiative must employ its experience and knowledge to convince partners of its vision on development cooperation. The continued power of governments and values might obstruct change, while positive feedback processes might strengthen the trend towards recipient need and aid allocation criteria of policy performance. The FTI can stimulate these processes by attracting





attention to successes of its selectivity based approach; providing analyses exposing future consequences of current donor behaviour and stressing key challenges; bargaining agreement between FTI endorsement / progress criteria and donor selection criteria; and recording experiences to learn from them and take along donors in the successes of educational aid.





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## ANNEX 1. FTI INDICATIVE FRAMEWORK

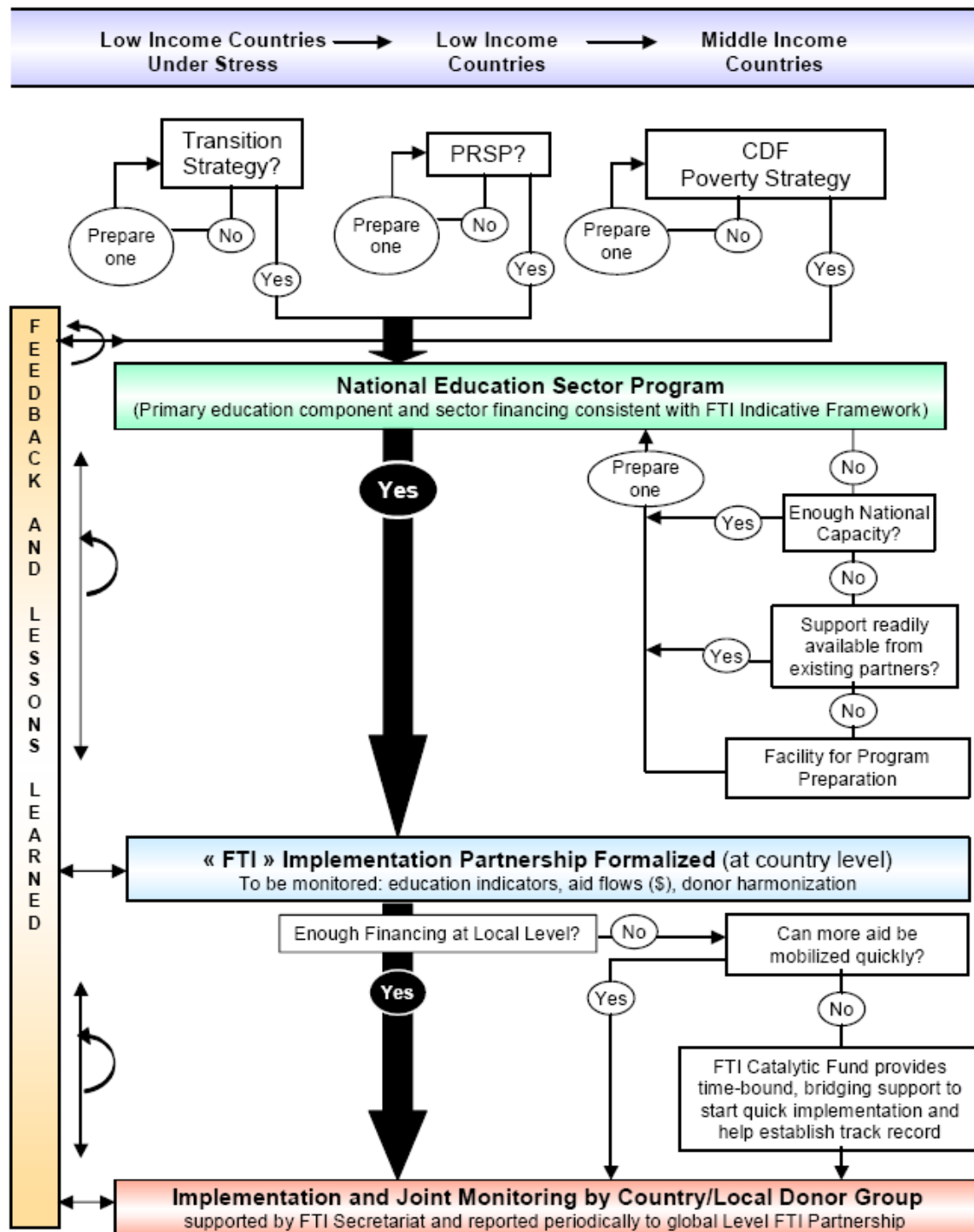
<b>Service Delivery Indicators:</b>	
Avg. annual teacher salary	3.5 times per capita GDP
Pupil-teacher ratio	40 : 1
Non Salary spending	33% of recurrent education spending
Average repetition rate	10% or lower
Annual hours of instruction	850 - 1000
Enrolment in privately-financed schools	10% or less
<b>System Expansion Indicator:</b>	
Unit construction and equipment cost	\$10,000 or less
<b>System Financing Indicators:</b>	
Government revenues	14 - 18% of GDP
Education spending	20% of government revenues
Primary education spending	42 - 64% of total education recurrent spending
<b>Student Flow Indicators:</b>	
Girls' and boys' intake into first grade	100%
Girl's and boy's primary completion rate	100%

Box 16. *FTI Indicative Framework*

Source: European Commission (20.07.06) & *EFA-FTI framework*, 2004b, p.15<sup>13</sup>

<sup>13</sup> The information reproduced in this annex is based upon a webpage of the European Commission and was slightly adjusted on basis of *EFA-FTI framework*, 2004b, p.15

## ANNEX 2. THE EFA FTI PROCESS



Source: EFA-FTI framework, 2004a, p.5

### ANNEX 3. CF COMMITMENTS – COUNTRY ALLOCATIONS

	2003	2004	2005	2006	2007	total
Djibouti	-	-	-	6.0	2.0	8.0
Gambia	-	4.0	4.0	4.0	-	12.0
Ghana	-	-	8.0	11.0	11.0	30.0
Guyana	-	4.0	4.0	4.0	-	12.0
Kenya	-	-	24.2	24.2	24.2	72.6
Lesotho	-	-	-	7.2	4.7	11.9
Madagascar	-	-	10.0	25.0	25.0	60.0
Mauritania	5.0	2.0	2.0	-	-	9.0
Moldova	-	-	-	4.4	4.4	8.8
Nicaragua	-	7.0	7.0	7.0	-	21.0
Niger	5.0	8.0	8.0	-	-	21.0
Tajikistan	-	-	-	9.2	9.2	18.4
Timor-Leste	-	-	-	3.0	3.0	6.0
Yemen	-	10.0	10.0	10.0	-	30.0
<i>total</i>	<i>10.0</i>	<i>35.0</i>	<i>77.2</i>	<i>115.0</i>	<i>83.5</i>	<i>320.7</i>

Table 2. Catalytic Fund commitments - country allocations in US\$ millions

Source: FTI Secretariat, 2006a: p.4 & FTI Secretariat, 2005b: p.3

## ANNEX 4. DATA USED IN CHAPTER 3

number of bilateral partners	low-income countries (number)	FTI countries (number)	non-FTI countries (number)	share of FTI countries (%)	share of non-FTI countries (%)	cumulative share of FTI countries (%)	cumulative share of non-FTI countries (%)
<b>0</b>	11	1	10	5	17.2	100	100
<b>1</b>	14	3	11	15	19.0	95	82.8
<b>2</b>	13	4	9	20	15.5	80	63.8
<b>3</b>	8	0	8	0	13.8	60	48.3
<b>4</b>	8	4	4	20	6.9	60	34.5
<b>5</b>	5	2	3	10	5.2	40	27.6
<b>6</b>	6	2	4	10	6.9	30	22.4
<b>7</b>	3	1	2	5	3.4	20	15.5
<b>8</b>	2	0	2	0	3.4	15	12.1
<b>9</b>	4	1	3	5	5.2	15	8.6
<b>10</b>	1	0	1	0	1.7	10	3.4
<b>11</b>	2	2	0	10	0.0	10	1.7
<b>12</b>	1	0	1	0	1.7	0	1.7
<i>total</i>	<i>78</i>	<i>20</i>	<i>58</i>	<i>100</i>	<i>100</i>		

countries	number of countries	share of countries	average number of bilateral partners
<b>low-income &lt;5 bilateral partners</b>	54	69.2	1.8
<b>low-income ≥5 bilateral partners</b>	24	30.8	7.4
<b>FTI &lt;5 bilateral partners</b>	12	60	2.3
<b>FTI ≥5 bilateral partners</b>	8	40	7.5
<b>non-FTI &lt;5 bilateral partners</b>	42	72.4	1.6
<b>non-FTI ≥5 bilateral partners</b>	16	27.6	7.4



<b>FTI countries</b>	number of bilaterals incl. SP and intended supports	direct donor funding recent (US\$ millions)	EFA primary program costs recent (US\$ millions)	Financing gap recent (US\$ millions)	direct donor funding as % of external financing need	direct donor funding 2002 (US\$ millions)	direct donor funding 2003 (US\$ millions)	direct donor funding 2004 (US\$ millions)	direct donor funding 2005 (US\$ millions)	direct donor funding 2006 (US\$ millions)
<b>Burkina Faso</b>	9	17.3	92.0	19.8	46.6	17.3	17.3	17.3	18.5	17.3
<b>Djibouti</b>	2		32.6	10.6						
<b>Ethiopia</b>	11	155.0	330.0	113.9	100.0		155.0	155.0	155.0	
<b>Gambia</b>	0	1.6	15.2	4.0	16.7	2.0	2.0	5.6	5.6	4.3
<b>Ghana</b>	4	26.5	195.4	3.2	65.1		24.4	27.0	28.4	26.5
<b>Guinea</b>	4	30.4	144.5	25.8	54.1	38.0	36.7	30.4	30.4	
<b>Guyana</b>	1		78.2	-4.0						
<b>Honduras</b>	6	59.7	375.0	0.0	100.0		59.7	59.7	59.7	
<b>Kenya</b>	5	82.0	1318.7	61.2	49.0				87.4	82.0
<b>Lesotho</b>	2	7.3	86.8	4.7	60.8				10.3	7.3
<b>Madagascar</b>	2	8.0	166.9	48.3	9.8				8.0	8.0
<b>Mauritania</b>	2	2.5	31.4	6.2	28.7	2.5	2.5	2.5	2.5	2.5
<b>Moldova</b>	1									
<b>Mozambique</b>	11	29.7	177.3	73.6	28.8		50.8	35.4	29.7	
<b>Nicaragua</b>	7		126.3	24.4						
<b>Niger</b>	5	64.3	126.9	7.7	89.3		24.0	24.0	24.0	64.3
<b>Tajikistan</b>	1	19.8	120.3	9.1	68.5				16.3	19.8
<b>Timor-Leste</b>	4	13.0	23.7	3.0	81.3					13.0
<b>Vietnam</b>	6	98.0	660.0	13.0	88.3		52.0	78.0	98.0	98.0
<b>Yemen</b>	4	21.9	446.0	37.2	31.7		42.8	48.6	27.2	21.9
<i>total</i>		<i>637.0</i>	<i>4547.2</i>	<i>461.7</i>		<i>59.8</i>	<i>467.2</i>	<i>483.5</i>	<i>601.0</i>	<i>364.7</i>
<i>average</i>	4	<i>39.8</i>	<i>239.3</i>	<i>24.3</i>	<i>57.4</i>	<i>14.9</i>	<i>42.5</i>	<i>44.0</i>	<i>40.1</i>	<i>30.4</i>

<b>FTI countries</b>	EFA primary program costs 2002 (US\$ millions)	EFA primary program costs 2003 (US\$ millions)	EFA primary program costs 2004 (US\$ millions)	EFA primary program costs 2005 (US\$ millions)	EFA primary program costs 2006 (US\$ millions)	government funding 2002 (US\$ millions)	government funding 2003 (US\$ millions)	government funding 2004 (US\$ millions)	government funding 2005 (US\$ millions)	government funding 2006 (US\$ millions)
<b>Burkina Faso</b>	56.9	61.1	65.9	80.0	92.0	42.7	45.5	48.5	51.6	54.9
<b>Djibouti</b>					32.6					21.9
<b>Ethiopia</b>	259.8	278.9	304.5	330.0	395.8	140.9	168.1	192.1	216.1	232.2
<b>Gambia</b>		12.4	13.7	15.2			5.2	5.3	5.6	
<b>Ghana</b>		161.4	181.0	189.2	195.4		121.3	137.9	146.2	154.7
<b>Guinea</b>	98.9	123.7	132.8	144.5		61.5	69.4	77.9	88.3	
<b>Guyana</b>		79.4	84.0	80.6	78.2		77.1	81.6	80.1	78.2
<b>Honduras</b>		375.0	375.0	375.0			315.3	315.3	315.3	
<b>Kenya</b>				1208.6	1318.7				1097.1	1151.4
<b>Lesotho</b>				88.4	86.8				72.7	74.8
<b>Madagascar</b>				128.6	166.9				104.0	85.6
<b>Mauritania</b>	24.5	26.1	27.9	29.8	31.4	17.7	18.9	20.1	21.4	22.7
<b>Moldova</b>										
<b>Mozambique</b>		119.2	165.9	177.3	205.4		65.3	69.5	74.0	78.8
<b>Nicaragua</b>	82.0	99.9	111.2	122.5	126.3	82.0	82.0	86.1	90.5	95.0
<b>Niger</b>		83.0	88.0	93.0	126.9		30.0	32.0	33.0	55.0
<b>Tajikistan</b>					120.3					91.4
<b>Timor-Leste</b>					23.7					7.8
<b>Vietnam</b>		534.0	598.0	660.0	660.0		426.0	484.0	549.0	549.0
<b>Yemen</b>		414.0	446.0	446.0	446.0		339.2	336.4	344.5	377.0
<i>total</i>	<i>522.1</i>	<i>2368.1</i>	<i>2593.9</i>	<i>4168.7</i>	<i>4106.4</i>	<i>344.8</i>	<i>1763.3</i>	<i>1886.7</i>	<i>3289.4</i>	<i>3130.4</i>
<i>average</i>	<i>104.4</i>	<i>182.2</i>	<i>199.5</i>	<i>260.5</i>	<i>256.7</i>	<i>69.0</i>	<i>135.6</i>	<i>145.1</i>	<i>205.6</i>	<i>195.7</i>

<b>FTI countries</b>	direct donor funding as % of external financing need 2002	direct donor funding as % of external financing need 2003	direct donor funding as % of external financing need 2004	direct donor funding as % of external financing need 2005	direct donor funding as % of external financing need 2006	Primary Education ODA 2001 (US\$ millions)	Primary Education ODA 2002 (US\$ millions)	Primary Education ODA 2003 (US\$ millions)	Primary Education ODA 2004 (US\$ millions)
<b>Burkina Faso</b>	121.8	110.9	99.4	65.1	46.6	11.4	32.6	7.1	44.3
<b>Djibouti</b>						0.0	3.5	7.2	0.0
<b>Ethiopia</b>		100.0	100.0	100.0		13.0	14.4	22.2	42.1
<b>Gambia</b>		27.8	19.0	16.7		0.0	0.0	0.3	4.4
<b>Ghana</b>		60.1	62.6	66.0	65.1	8.0	7.6	63.9	8.7
<b>Guinea</b>	101.6	67.6	55.4	54.1		6.3	23.0	13.9	7.1
<b>Guyana</b>									
<b>Honduras</b>		100.0	100.0	100.0		3.7	3.0	24.4	17.9
<b>Kenya</b>				78.4	49.0	0.2	5.0	29.4	13.5
<b>Lesotho</b>				65.6	60.8	0.0	1.4	1.0	10.1
<b>Madagascar</b>				32.5	9.8	0.0	0.0	12.4	11.1
<b>Mauritania</b>	36.8	34.7	32.1	29.8	28.7	0.1	2.1	0.1	0.0
<b>Moldova</b>						0.0	0.0	0.2	0.2
<b>Mozambique</b>	94.2	36.7	28.8	0.0		28.9	28.9	29.3	31.2
<b>Nicaragua</b>						3.2	0.1	1.5	1.9
<b>Niger</b>		45.3	42.9	40.0	89.4	3.3	8.4	19.9	19.8
<b>Tajikistan</b>					68.5	0.0	0.3	0.0	0.3
<b>Timor-Leste</b>					81.8	0.3	0.4	6.9	5.3
<b>Vietnam</b>		48.1	68.4	88.3	88.3	5.0	16.2	80.9	4.6
<b>Yemen</b>		57.2	44.3	26.8	31.7	26.1	5.6	20.7	59.2
<i>total</i>	<i>354.4</i>	<i>688.4</i>	<i>652.9</i>	<i>763.3</i>	<i>619.7</i>	<i>109.6</i>	<i>152.6</i>	<i>341.3</i>	<i>281.7</i>
<i>average</i>	<i>88.6</i>	<i>62.6</i>	<i>59.4</i>	<i>54.5</i>	<i>56.3</i>	<i>5.8</i>	<i>8.0</i>	<i>18.0</i>	<i>14.8</i>

<b>FTI countries</b>	ODA, total net, 2001 (US\$ millions)	ODA, total net, 2002 (US\$ millions)	ODA, total net, 2003 (US\$ millions)	ODA, total net, 2004 (US\$ millions)	population aged 6-11	school enrolment, primary (% net) recent	number of children aged 6-11 not in primary school recent	per capita incomes 2005 (Atlas GNI)
<b>Burkina Faso</b>	309.2	303.8	294.1	331.4	2,324,000	40	1,270,906	400
<b>Djibouti</b>	39.6	48.0	40.5	39.4	128,000	33	83,133	1020
<b>Ethiopia</b>	476.3	600.0	1100.4	1024.5	13,134,000	56	5,778,960	160
<b>Gambia</b>	17.4	20.8	21.1	11.6	233,000	75	52,138	290
<b>Ghana</b>	523.7	515.1	528.4	896.8	3,342,000	65	1,129,334	450
<b>Guinea</b>	156.4	150.7	144.9	178.3	1,549,000	64	557,640	370
<b>Guyana</b>	56.8	41.0	31.3	70.3	88,000	99	880	1010
<b>Honduras</b>	510.7	354.4	256.3	328.4	1,123,000	91	70,026	1190
<b>Kenya</b>	355.9	350.7	349.7	470.7	5,417,000	76	1,225,526	530
<b>Lesotho</b>	40.5	37.5	36.4	35.1	273,000	86	44,923	960
<b>Madagascar</b>	188.8	155.4	246.8	684.6	3,150,000	89	272,203	290
<b>Mauritania</b>	105.5	193.8	148.6	83.1	491,000	74	117,488	560
<b>Moldova</b>	94.9	97.7	85.8	76.9	317,000	86	21,102	880
<b>Mozambique</b>	990.1	2199.5	765.3	731.3	3,322,000	71	1,089,033	310
<b>Nicaragua</b>	1021.0	362.1	575.7	856.3	852,000	88	48,821	910
<b>Niger</b>	156.7	146.1	270.7	305.7	2,487,000	39	1,325,885	240
<b>Tajikistan</b>	74.2	144.1	84.7	91.9	1,017,000	97	19,563	330
<b>Timor-Leste</b>	226.2	248.4	141.5	133.2	150,000	80	30,000	750
<b>Vietnam</b>	1020.3	921.5	1052.5	1184.8	9,806,000	93	686,420	620
<b>Yemen</b>	132.9	152.8	137.7	152.6	3,716,000	75	929,000	600
<i>total</i>	6496.8	7043.3	6312.3	7686.8	52,919,000		14,752,981	11870
<i>average</i>	324.8	352.2	315.6	384.3	2,645,950	74	737,649	593.5

FTI countries, ranked by GNI per capita, Atlas method (current US\$)	share of children aged 6-11 not in primary school	cumulative share of children aged 6-11 not in primary school	cumulative share of direct donor funding recent	share of children aged 6-11 not in primary school	cumulative share of children aged 6-11 not in primary school	share of Primary Education ODA 2004	cumulative share of Primary Education ODA 2004	share of ODA, total net, 2004	cumulative share of ODA, total net, 2004
<b>Ethiopia</b>	39.663	39.663	24.409	39.171	39.171	14.947	14.947	13.327	13.327
<b>Niger</b>	9.100	48.763	34.535	8.987	48.158	7.041	21.988	3.977	17.304
<b>Madagascar</b>	1.868	50.631	35.795	1.845	50.003	3.948	25.937	8.906	26.210
<b>Gambia</b>	0.358	50.989	36.047	0.353	50.356	1.575	27.512	0.151	26.362
<b>Mozambique</b>	7.474	58.463	40.724	7.382	57.738	11.065	38.577	9.513	35.875
<b>Tajikistan</b>	0.134	58.597	43.842	0.133	57.871	0.096	38.673	1.195	37.070
<b>Guinea</b>	3.827	62.424	48.629	3.780	61.651	2.514	41.186	2.320	39.390
<b>Burkina Faso</b>	8.723	71.147	51.354	8.615	70.266	15.721	56.908	4.312	43.702
<b>Ghana</b>	7.751	78.898	55.527	7.655	77.921	3.096	60.003	11.666	55.368
<b>Kenya</b>	8.411	87.309	68.440	8.307	86.228	4.806	64.809	6.123	61.491
<b>Mauritania</b>	0.806	88.115	68.519	0.796	87.024	0.000	64.809	1.081	62.573
<b>Yemen</b>	6.376	94.491	71.968	6.297	93.321	21.011	85.821	1.986	64.559
<b>Vietnam</b>	4.711	99.202	87.401	4.653	97.974	1.633	87.454	15.413	79.972
<b>Timor-Leste</b>	0.008	99.210	89.448	0.203	98.177	1.894	89.348	1.733	81.705
<b>Moldova</b>				0.143	98.320	0.063	89.411	1.000	82.704
<b>Nicaragua</b>				0.331	98.651	0.666	90.076	11.140	93.844
<b>Lesotho</b>	0.308	99.518	90.598	0.305	98.956	3.579	93.656	0.456	94.300
<b>Guyana</b>				0.006	98.962	0.000	93.656	0.915	95.215
<b>Djibouti</b>				0.563	99.525	0.000	93.656	0.513	95.728
<b>Honduras</b>	0.481	100	100	0.475	100	6.344	100	4.272	100
<i>total</i>	<i>100</i>			<i>100</i>		<i>100</i>		<i>100</i>	

<b>FTI countries</b>	average direct donor funding per country 2002 (US\$ millions)	average direct donor funding per country 2003 (US\$ millions)	average direct donor funding per country 2004 (US\$ millions)	average direct donor funding per country 2005 (US\$ millions)	average direct donor funding per country 2006 (US\$ millions)	average Primary Education ODA per country 2001 (US\$ millions)	average Primary Education ODA per country 2002 (US\$ millions)	average Primary Education ODA per country 2003 (US\$ millions)	average Primary Education ODA per country 2004 (US\$ millions)	average ODA, total net, per country 2001 (US\$ millions)	average ODA, total net, per country 2002 (US\$ millions)	average ODA, total net, per country 2003 (US\$ millions)	average ODA, total net, per country 2004 (US\$ millions)
<b>≥5 bilateral partners</b>	17.3	59.8	61.6	67.5	65.4	8.6	13.6	26.8	21.9	605.0	654.8	583.1	654.1
<b>&lt;5 bilateral partners</b>	14.2	21.7	22.8	16.1	12.9	3.7	4.0	11.5	9.7	138.1	150.4	137.3	204.5

## Sources for:

- the number of bilateral partners incl. SP and intended supports in each low-income country: FTI Secretariat (2005a), annex 3: p.33-35
- direct donor funding, EFA primary program costs, financing gap, government funding except for Vietnam: *FTI country profiles*, January 2006 (recent = 2005 for Ethiopia, Gambia, Guinea, Honduras and Mozambique; 2006 for all other countries)
- direct donor funding, EFA primary program costs, financing gap, government funding Vietnam: FTI Secretariat (2005a), annex 4: p.36-38 (recent = 2006)
- Primary Education ODA: OECD/DAC CRS (code 11220, dataset 1, commitments)
- ODA, total net: OECD DAC (code 206, table 2a, disbursements)
- population aged 6-11 except for Timor-Leste: UN Secretariat, *World Population Prospects*
- population aged 6-11 Timor-Leste: Timor-Leste Ministry of Education and Culture (2005): p.11
- net primary school enrolment except for Guyana, Timor-Leste: World Bank, *WDI online*
- net primary school enrolment for Guyana: UNICEF (2005), table 5: p.114-117
- net primary school enrolment for Timor-Leste: Timor-Leste Ministry of Education and Culture (2005): p.11
- number of children aged 6-11 not in primary school except for Ethiopia, Guinea, Guyana, Timor-Leste, Vietnam, Yemen: World Bank, *WDI online* (recent = 2005 for Ghana; 2004 for all other countries)
- number of children aged 6-11 not in primary school for Ethiopia, Guinea, Guyana, Vietnam, Yemen: calculated using population aged 6-11 and net primary school enrolment
- number of children aged 6-11 not in primary school for Timor-Leste: Timor-Leste Ministry of Education and Culture (2005): p.11
- per capita incomes 2005 (Atlas GNI): World Bank, *WDI online*

## ANNEX 5. CPIA, FREEDOM HOUSE AND ICRG

### **A. Economic Management**

1. Macroeconomic Management
2. Fiscal Policy
3. Debt Policy

### **B. Structural Policies**

4. Trade
5. Financial Sector
6. Business Regulatory Environment

### **C. Policies for Social Inclusion/Equity**

7. Gender Equality
8. Equity of Public Resource Use
9. Building Human Resources
10. Social Protection and Labor
11. Policies and Institutions for Environmental Sustainability

### **D. Public Sector Management and Institutions**

12. Property Rights and Rule-based Governance
13. Quality of Budgetary and Financial Management
14. Efficiency of Revenue Mobilization
15. Quality of Public Administration
16. Transparency, Accountability, and Corruption in the Public Sector

Box 17. CPIA criteria 2005

### **Political Rights Checklist**

#### **A. Electoral Process**

1. Is the head of government or other chief national authority elected through free and fair elections?
2. Are the national legislative representatives elected through free and fair elections?
3. Are the electoral laws and framework fair?

#### **B. Political Pluralism And Participation**

1. Do the people have the right to organize in different political parties or other competitive political groupings of their choice, and is the system open to the rise and fall of these competing parties or groupings?
2. Is there a significant opposition vote and a realistic possibility for the opposition to increase its support or gain power through elections?
3. Are the people's political choices free from domination by the military, foreign powers, totalitarian parties, religious hierarchies, economic oligarchies, or any other powerful group?
4. Do cultural, ethnic, religious, or other minority groups have full political rights and electoral opportunities?

#### **C. Functioning Of Government**

1. Do the freely elected head of government and national legislative representatives determine the policies of the government?
2. Is the government free from pervasive corruption?
3. Is the government accountable to the electorate between elections, and does it operate with openness and transparency?

Box 18. Freedom House survey (part I)

**Additional Discretionary Political Rights Questions:**

1. For traditional monarchies that have no parties or electoral process, does the system provide for genuine, meaningful consultation with the people, encourage public discussion of policy choices, and allow the right to petition the ruler?
2. Is the government or occupying power deliberately changing the ethnic composition of a country or territory so as to destroy a culture or tip the political balance in favor of another group?

**Civil Liberties Checklist****D. Freedom Of Expression And Belief**

1. Are there free and independent media and other forms of cultural expression?(Note: In cases where the media are state-controlled but offer pluralistic points of view, the survey gives the system credit.)
2. Are religious institutions and communities free to practice their faith and express themselves in public and private?
3. Is there academic freedom and is the educational system free of extensive political indoctrination?
4. Is there open and free private discussion?

**E. Associational And Organizational Rights**

1. Is there freedom of assembly, demonstration, and open public discussion?
2. Is there freedom for nongovernmental organizations? (Note: This includes civic organizations, interest groups, foundations, etc.)
3. Are there free trade unions and peasant organizations or equivalents, and is there effective collective bargaining? Are there free professional and other private organizations?

**F. Rule Of Law**

1. Is there an independent judiciary?
2. Does the rule of law prevail in civil and criminal matters? Are police under direct civilian control?
3. Is there protection from political terror, unjustified imprisonment, exile, or torture, whether by groups that support or oppose the system? Is there freedom from war and insurgencies?
4. Do laws, policies, and practices guarantee equal treatment of various segments of the population?

**G. Personal Autonomy And Individual Rights**

1. Does the state control travel or choice of residence, employment, or institution of higher education?
2. Do citizens have the right to own property and establish private businesses? Is private business activity unduly influenced by government officials, the security forces, political parties/organizations, or organized crime?
3. Are there personal social freedoms, including gender equality, choice of marriage partners, and size of family?

*Box 19. Freedom House survey (part II)*



<p><b>Political Risk Components</b></p> <ul style="list-style-type: none"> <li>Government Stability</li> <li>Socioeconomic Conditions</li> <li>Investment Profile</li> <li>Internal Conflict</li> <li>External Conflict</li> <li>Corruption</li> <li>Military in Politics</li> <li>Religious Tensions</li> <li>Law and Order</li> <li>Ethnic Tensions</li> <li>Democratic Accountability</li> <li>Bureaucracy Quality</li> </ul>	<p><b>Financial Risk Components</b></p> <ul style="list-style-type: none"> <li>Foreign Debt as a Percentage of GDP</li> <li>Foreign Debt Service as a Percentage of XGS</li> <li>Current Account as a Percentage of XGS</li> <li>Net Liquidity as Months of Import Cover</li> <li>Exchange Rate Stability</li> </ul> <p><b>Economic Risk Components</b></p> <ul style="list-style-type: none"> <li>GDP per Head of Population</li> <li>Real Annual GDP Growth</li> <li>Annual Inflation Rate</li> <li>Budget Balance as a Percentage of GDP</li> <li>Current Account Balance as a Percentage of GDP</li> </ul>
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*Box 20. Risk components in the ICRG System*