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Expanding Skills in the Hemisphere: A Proposal for a Partnership for Secondary Education

**Nancy Birdsall, William Savedoff,
Katherine Vyborny, and Ayah Mahgoub**

Center for Global Development



FOCAL

1 Nicholas St., Suite 720, Ottawa, ON K1N 7B7

Tel: 613-562-0005

Fax: 613-562-2525

Email: focal@focal.ca

www.focal.ca

About the Hemispheric Think Tank Working Group in Support of the 2009 Summit of the Americas

This paper was produced as part of the Hemispheric Think Tank Working Group in Support of the 2009 Summit of the Americas, a joint project of the Canadian Foundation for the Americas (FOCAL) and the Inter-American Dialogue (IAD) with the financial support of the Government of Canada provided through the Canadian International Development Agency (CIDA).

The Working Group brought together researchers and policy analysts from the Western Hemisphere's leading think tanks to engage in intensive debate and dialogue and develop a strong intellectual and policy foundation for preparing and conducting the Summit.

In meetings in Ottawa and Washington, D.C., attended by leading national and multilateral officials, the group explored the critical problems the Summit could address, identified key areas of agreement and disagreement among countries, deeply probed the disagreements, and, where possible, sought to develop pragmatic approaches. These discussions and research have resulted in a series of policy papers that hope to mobilize and raise awareness of the Summit amongst regional governments and civil society.

The Fifth Summit of the Americas in April 2009 gives the region an opportunity to forge a public-private partnership and apply a new, results-based form of aid to improve secondary education, a goal critical for boosting growth and competitiveness, reducing inequality, and promoting socioeconomic mobility.

Challenges to Education Reform in the Region

The countries of Latin America and the Caribbean have made impressive progress toward attaining universal primary enrollment. But major problems in educational quality and secondary school access and completion remain, particularly for marginalized populations. The following are key challenges:

Educational quality

Poor student learning and the poor quality of education are among the largest challenges confronting the region.¹ Countries in Latin America and the Caribbean are among the poorest performing nations on international assessment exams such as the Programme for International Student Assessment (PISA).² In both 2000 and 2003, participating countries from the region scored between one and three standard deviations below the international average on the PISA exam. Poor educational attainment contributes to exceptionally high repetition rates, compounding resource shortages in poor communities.³

Access to secondary education and completion rates

Despite the substantial increase in primary school enrollment and completion in the region, enrollment and completion figures for secondary education remain low.⁴ Approximately 6.5 million of the 8.8 million youth of age to complete lower secondary school in the region were able to do so in 2004, and less than 4.3 million of the 9.5 million youth of age to complete upper secondary school were able to do so in 2004.⁵

Socioeconomic and ethnic inequalities in education consumption

Access to secondary education differs sharply across socioeconomic and ethnic groups. The gap between the average number of years that youth in the richest and poorest quintiles attend school in the region is approximately five years across the majority of countries in the region.⁶ Unequal access to education is a major factor in impeding economic mobility.

Lack of engagement of civil society

Parents and other members of civil society have been weakly engaged in the education process in countries in the region. As a result, the government and suppliers of education were often not held accountable by their domestic constituencies, but rather by donors that provided them with funding for education.⁷ This has sometimes created discrepancies between what domestic consumers of education needed and what was provided to them. In some countries, domestic civil society has become more engaged, but much more progress is needed.

Limitations of current foreign assistance

Traditional education aid can sidestep the real obstacles to better performance. Aid is usually given for specific inputs because inputs are easier to measure. An emphasis on numbers of schools, supplies, or teachers hired, however, may not address the real constraints on educational access and quality. Additionally, aid is often given with conditions (e.g. a country must implement a specific strategy in order to receive funding). At times, governments have chafed under strategies which they do not perceive as serving the needs of recipients.⁸

Cash On Delivery Aid (COD)

We propose an alternative approach that would structure some portion of aid in a way that makes the recipient government fully accountable for outcomes (and not for inputs). Our proposal builds on existing initiatives that focus on outcomes, such as the Global Alliance for Vaccines and Immunization (GAVI) which pays low income governments a fixed amount per additional child vaccinated, and “output-based aid”, such as donor programs that pay private contractors for each water connection completed.

The basic concept of Cash on Delivery Aid (COD Aid) is that donors enter into a public contract with a recipient government and agree to pay a fixed amount for each additional unit of progress toward some commonly agreed goal, e.g. \$500 for each additional child who completes some level of educational attainment (with completion objectively verified by testing). That is, the donors pay “cash” only upon “delivery” of the agreed unit of progress on a particular outcome. By firmly disengaging donors from implementation and making recipients fully responsible for outcomes, this approach holds the promise of addressing several of the flaws in the current framework for foreign aid. In particular, COD Aid:

- generates *accountability* for results by firmly linking payments to outcomes that represent measures of progress toward a shared goal;
- involves *full ownership* by recipient governments who have full flexibility to choose how to accomplish the goal, allowing for local self-discovery and institutional development;
- improves *learning* because the contract requires information on outcomes rather than inputs, generating data on progress more than expenditures;
- guarantees *harmonization* and *alignment* because the arrangement involves a single agreement with each country no matter how many donors are involved; and
- makes *predictability* of donor flows a function of recipient country planning and performance and less a function of donor country politics and budgets.

COD Aid for the Region

To address the particular needs of Latin America and the Caribbean, the approach could be structured in the following fashion. Donors and interested recipients will agree on a specific dollar amount for a predetermined measure of progress, e.g. \$500 for each additional child who completes secondary school and takes an agreed test of learning outcomes. The process will involve the following steps:

- a performance contract is agreed between interested countries and donors;
- a credible baseline survey is conducted;
- the recipient country determines and implements a strategy to improve performance;
- the recipient country publishes completion numbers and test scores as required by the contract;
- an independent audit is conducted to verify the numbers; and
- aid payment is made upon a successful audit.

There will be no threshold or minimum improvement required for funding: if one additional child completes school, the payment would be \$500. If five children complete school, the payment would be \$2,500, and if ten thousand children complete school, the payment will be \$5 million.

To give a sense of possible aid magnitudes and objectives, Table 1 shows two different scenarios. In one case, aid would fund universal completion of lower secondary school with payments of \$500 per child. Using data from the World Bank EdStats and UNESCO UIS to establish the current baseline, countries in the region would earn more than \$1.2 billion if they were to achieve lower secondary completion for approximately 2.4 million additional children. Another option is to reward governments for halving the upper secondary completion gap. The upper secondary completion gap is substantially larger than the lower secondary completion gap in most countries in the region. Since there is a greater level of difficulty associated with achieving additional completions at this stage of the education process, we provide cost estimates for achieving the goal of halving the completion gap as opposed to achieving universal completion. Even with this relatively modest goal, based on our estimates, countries in the region could earn approximately \$1.3 billion for halving the completion gap at the upper secondary school level which would add approximately 2.6 million children to the ranks of those completing secondary school.

Table 1: Cost of payments for 100% lower secondary completions and halving the upper secondary completion gap

| Country | Payment on reaching 100% completion of lower secondary (\$500 / additional student) | Number of additional students completing lower secondary | Payment on halving upper secondary completion gap (\$500 / additional student) | Number of additional students completing upper secondary |
|--------------------------------------|---|--|--|--|
| Bolivia | \$10,169,000 | 20,338 | \$16,286,000 | 32,572 |
| Colombia | \$140,315,000 | 280,630 | \$136,807,250 | 273,615 |
| Cuba | \$4,248,500 | 8,497 | \$32,394,750 | 64,790 |
| Dominican Republic | \$26,160,500 | 52,321 | \$33,328,750 | 66,658 |
| Ecuador | \$52,773,000 | 105,546 | \$50,878,000 | 101,756 |
| El Salvador | \$19,298,500 | 38,597 | \$31,410,250 | 62,821 |
| Guatemala | \$79,521,500 | 159,043 | \$62,789,500 | 125,579 |
| Guyana | \$1,910,000 | 3,820 | \$1,625,250 | 3,251 |
| Honduras | \$48,822,000 | 97,644 | \$25,132,250 | 50,265 |
| Nicaragua | \$28,409,000 | 56,818 | \$18,168,250 | 36,337 |
| Paraguay | \$19,389,000 | 38,778 | \$18,827,250 | 37,655 |
| Peru | \$41,345,000 | 82,690 | \$28,377,500 | 56,755 |
| Suriname | \$2,789,500 | 5,579 | \$1,391,500 | 2,783 |
| Total - lower middle income | \$475,150,500 | 950,301 | \$457,416,500 | 914,837 |
| Belize | \$1,128,500 | 2,257 | \$798,750 | 1,598 |
| Brazil | \$385,246,500 | 770,493 | \$366,371,500 | 732,743 |
| Chile | \$5,754,000 | 11,508 | \$44,950,750 | 89,902 |
| Costa Rica | \$22,007,500 | 44,015 | \$15,129,250 | 30,259 |
| Dominica | \$13,000 | 26 | \$84,000 | 168 |
| Grenada | \$203,250 | 407 | \$180,000 | 360 |
| Mexico | \$168,923,000 | 337,846 | \$299,227,750 | 598,456 |
| Panama | \$15,882,500 | 31,765 | \$11,663,250 | 23,327 |
| Saint Kitts and Nevis | \$3,500 | 7 | \$92,000 | 184 |
| Saint Lucia | \$283,000 | 566 | \$230,500 | 461 |
| Saint Vincent and the Grenadines | \$529,500 | 1,059 | \$365,000 | 730 |
| Uruguay | \$6,343,500 | 12,687 | \$3,627,750 | 7,256 |
| Venezuela | \$97,955,000 | 195,910 | \$80,267,000 | 160,534 |
| Total - upper middle income | \$704,272,750 | 1,408,546 | \$822,987,500 | 1,645,978 |
| Total - all LAC Middle Income | \$1,179,423,250 | 2,358,847 | \$1,280,404,000 | 2,560,815 |

Notes: Latin America and Caribbean, excluding territories, high-income states, and Haiti (due to lack of data). Calculations based on most recent data from World Bank EdStats and Unesco UIS, 2000 or more recent. Lower secondary and upper secondary duration differ by country, for a total of between 5-7 years. Figures represent the annual payment in the year the country reaches 100% lower secondary completion or halves the upper secondary completion gap. Payments in initial years would be lower as a country achieves incremental progress.

The recipient governments could use funds earned under the contract for any purpose: to build schools, train teachers, partner with the private sector on education, pay for conditional cash transfers, or for that matter build roads or implement early nutrition programs.

The Cash on Delivery Aid approach would have the added benefit of increasing transparency and accountability to citizens, who would be able to access published information on completions and test scores. It would encourage local innovation, strengthen local institutions, and give committed national leaders political leverage to implement needed education reforms. It would also create incentives for better budget management and monitoring of outcomes.

Ensuring Results

Transparent reporting and verification are essential to the COD Aid agreement. The credibility of the agreement with donor and recipient constituents depends upon information that is easily understood and can be relied upon with confidence. So the COD Aid contract must clearly specify the reporting and verification audit requirements that must be fulfilled before the payment is made. These public reports can then be used both by the donor to verify progress before payment and by a broader audience of policymakers, legislators, media, civil society, and parents' groups to hold public policymakers accountable for the education system's performance. Public disclosure of the audit reports would provide a check on fraud and manipulation of information.

The audit reports can also assist researchers as they study the impact of COD Aid on educational results. Hard data about education system outcomes are often not available. The incentives to improve data under this approach can help authorities better identify which interventions work and which do not.

Possible Funding and Implementation Structure

Such an initiative could be undertaken as a collaboration between public and private entities. Businesses and philanthropists in the region have a clear and urgent interest in raising the region's collective human capital. Governments have a clear and urgent interest in aid that rewards real results without micromanaging the education reform path and resource allocation. And the international financial institutions and other donors have a clear and urgent interest in improving aid effectiveness.

The structure of the public-private partnership could divide responsibilities between entities that provide grant funding and entities that are responsible for verifying and auditing results to ensure that grants go only to countries that meet contract requirements. To receive the grants, a fund at a multilateral development bank could be established. Private and public donors could contribute to this fund. For their part, the multilateral development bank(s) would be responsible for setting up and implementing the framework for the contracts and results measurement. They would also either perform the audits or contract with credible auditors. And they would

disburse the funds upon verification of performance. The private donors would benefit from the zero risk of this approach: if no progress is achieved, no funds are spent.

The COD Aid agreement could be negotiated country-by-country or issued as an open contract. If it were negotiated, the contract could be tailored to specific country challenges, or an open contract could be offered to any country that wishes to sign. The idea of an open contract is attractive because it would:

- 1) reduce the administrative costs (negotiations would be unnecessary);
- 2) increase transparency through simplicity and uniformity; and
- 3) encourage self-selection of countries for which the terms would be most attractive.

Additionally, an open contract would require some provisions to limit the donors' exposure, either by restricting the contract to a specific number of countries or establishing a maximum payout.

If a modest amount of funding were available in initial years, the concept could be piloted in low-income countries or those ready to implement the learning test and the transparency requirements soonest. Additionally, the amount disbursed per student completion could be reduced (taking into consideration an amount that still offers a substantial incentive for progress to be made).

Endnotes

¹ Vegas, Emiliana, and Jenny Petrow. Raising Student Learning in Latin America: The Challenge for the 21st Century. Washington D.C.: The World Bank, 2007: 17.

² Vegas 18. The PISA is an international assessment administered triennially by the Organisation for Economic Co-operation and Development (OECD) to 15 year old students across the world

³ Puryear, Jeffrey. "The Americas: Educational Reform, External Forces, and Internal Challenges." Transnational Social Policies. Ed. Daniel Morales-Gomez. 1999. http://www.idrc.cs/en/ev-85585-201-1-DO_TOPIC.html

⁴ Vegas 2.

⁵ Calculations drawn from 26 lower and upper middle income countries in the region (listed in Table 1) and based on data from World Bank EdStats and Unesco UIS. These calculations were made with country level data from 2004 for all countries with the exception of the following for which reliable 2004 data was unavailable: Guyana (2001), Honduras (2000), Paraguay (2003), Suriname (2003), Brazil (2005), and St. Lucia (2003).

⁶ Vegas 25.

⁷ Puryear 9.

⁸ For more information on the limitation of foreign assistance, please refer to: Radelet, Steven. "A Primer on Foreign Aid," Center for Global Development. Working Paper Series No. 92, 2006.

Further Reading

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