Centre for Aid & Public Expenditure

Development Progress

Financing for development

Lessons from Development Progress case studies

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Synthesis paper
February 2015

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Abstract

With a new and more ambitious set of Sustainable Development Goals (SDGs) being negotiated in 2015, understanding how financial resources and mechanisms can help achieve them and how development can be financed more effectively becomes more crucial than ever before. However, evidence on the contribution and effectiveness of development financing to large-scale interventions is scant in some sectors and, where available, ambiguous.

This synthesis paper attempts to partially fill this gap by drawing on the large body of evidence and lessons from the country case studies of the 'Development Progress' (DP) project. This project aimed to explain how progress has happened in 50 developing countries in the past two decades across eight dimensions of well-being. Finance features as one of the main factors contributing to development progress across these countries, and is addressed in detail in 20 of the DP project case studies. This working paper therefore predominantly draws on evidence from these case studies.

Assessing a direct causal link between financial resources and development outcomes and outputs is challenging, especially across the very diverse sectors reviewed in the DP project. Nonetheless, we identified some common patterns across several case studies.

- Progress is often associated with sustained economic growth performance and with shifting financial burdens for accessing services from households to governments and/or to bilateral and multilateral donors.
- Improvements in well-being indicators were correlated both with policy advice and a rise in external assistance from bilateral and multilateral donors in the low-income and lower-middle-income countries reviewed in the project.
- In those middle-income countries whose aid volumes were small in proportion to the size of their economy, technical assistance was usually targeted to areas where the government had low capacity and effectiveness, making a substantial contribution to improvements in well-being.In those middle-income countries whose aid volumes were small in proportion to the size of their economies, technical assistance was usually targeted to areas where the government had low capacity and effectiveness, making a substantial contribution to improvements in well-being.

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Acknowledgements

We are grateful for helpful comments provided by peer reviewers Richard Manning and Susan Nicolai, in addition to those provided by Andrew Rogerson as advisor and Romilly Greenhill. We would like to thank authors of Development Progress case studies on which this working paper is based. The usual disclaimers apply.

This working paper was funded by the Bill & Melinda Gates Foundation as part of 'Development Progress', a four-year research project that aims to better understand, measure and communicate what has worked in development and why. Its findings and conclusions are those of the authors and do not necessarily reflect the positions or policies of the Bill & Melinda Gates Foundation.

Abbreviations

ADB	Asian Development Bank
DAC	Development Assistance Committee
DP	Development Progress
GDP	gross domestic product
MDG	Millennium Development Goal
NGO	non-governmental organisation
NTD	neglected tropical disease
ODA	official development assistance
SDG	Sustainable Development Goal
SOE	state-owned enterprise
SWAp	Sector-Wide Approach

Executive summary

With a new and more ambitious set of Sustainable Development Goals (SDGs) being negotiated in 2015, understanding how financial resources and mechanisms can help achieve them and how development can be financed more effectively becomes more crucial than ever before. At the same time, with aid budgets under the axe and partner countries' needs growing (ERD, 2014; Kharas et al. 2014; Greenhill and Ali, 2013), decision-makers in both donor and developing countries are grappling with the policy dilemma of maximising results with limited financial resources.

While at a microeconomic level the literature on randomised controlled trials has shed light on how incentives can be fine-tuned to improve several aspects of human development (see for example Banerjee and Duflo, 2009; Duflo et al., 2007), evidence on whether and how financial resources matter for development outcomes is still narrow at the macroeconomic level and is often based on cross-country quantitative analysis. Evidence on the role and effectiveness of development financing and how this influences wider gains in development is far from clear-cut (for a review, see Naudé, 2010).

This synthesis paper attempts to partially fill this gap between micro-level studies and cross-country macroeconomic analyses by synthesising evidence emerging from the Development Progress (DP) project[1] – a series of 50 country case studies exploring the character and drivers of their progress on development achieved over the past two decades. The analysis in this paper is predominantly based on 20 of these case studies[2] which addressed financing issues. By 'progress' we refer to improvements in outputs (e.g. higher enrolment rates) and/or outcomes (e.g. improved learning skills). Each case study benefited from an in-depth analysis of the plausible financial drivers of improved development outcomes and outputs and provided lessons for other countries trying to achieve similar policy objectives (such as expanding enrolment rates in post-primary education or improving maternal health). Most of the case studies asked whether better outputs and outcomes were associated with support from bilateral and multilateral donors, either financially or through policy advice and capacity development. In other words, by explaining how and why progress has happened in a large set of developing countries, DP case studies offer concrete examples of the role played by financial resources (public finance, household expenditure and external assistance) and financing mechanisms in fostering human development across countries.

Complementing the large body of sector-level literature looking into whether additional resources are associated with better outcomes (partially reviewed in Section 2), this synthesis paper draws examples from the case studies of the DP project that showcase country-level experiences and common patterns of how progress has been financed, looking into the following four questions:

1. Who pays for 'progress' – between government, households and bilateral and multilateral donors – and how has their relative contribution changed over time?
2. Were financial measures designed to include vulnerable groups and the poorest?
3. What was the role of bilateral and multilateral donors?
4. Is progress financially sustainable?

While there are methodological challenges – often impossible to overcome (see Annex 1) – to providing robust answers to these questions, this review identified a series of common patterns that emerged from the case studies of the DP project.

Common elements of financing development across case studies

- Most of the countries recorded good, if not high and sustained, economic growth performance from the mid-1990s and this was correlated with better outputs and outcomes. In all the case studies, progress was associated with rising financial resources (from government and/or bilateral and multilateral donors and/or households) to the sector and often better targeting, suggesting that financial resources were a necessary condition for the improving development outcomes.
- Most of the case studies identified three main groups financing progress: (1) government, (2) bilateral and multilateral donors and (3) households. There was no evidence about the role played in large-scale and country-level progress by philanthropic organisations or by South–South cooperation, both of which have expanded their financial assistance in recent years at the

1 For further information on case study analyses, reports are available at the website www.developmentprogress.org

2 Bangladesh, Benin, Brazil, Cambodia, Chile, China, Ethiopia, Ghana, Indonesia, Kenya, Liberia, Mongolia, Mozambique, Nepal, Rwanda, Sierra Leone, Sri Lanka, Timor–Leste, Uganda and Viet Nam.

global level (see Hudson Institute, 2013; Greenhill et al. 2013; Severino and Ray, 2009).
- The role of the private sector did not emerge strongly in the case studies except in Cambodia and Sierra Leone. The pharmaceutical sector provided in-kind support, which was found to be key in reducing morbidity rates.

Question 1: Who pays for progress?

- At the macroeconomic level the DP case studies tell a relatively straightforward story of governments and/or bilateral and multilateral donors playing an increasingly important financing role in development progress over the past two decades, taking the burden off households or adding very substantially to their contribution.
- Abolishing user fees or increasing subsidies reduced cost barriers to access for the poor and marginalised (e.g. in the case of the abolition of school fees in Uganda and Kenya for primary and secondary education, respectively), but service quality worsened in most cases as service providers struggled to cope with the rapid increase in demand.

Question 2: The role of financial mechanisms in extending the benefits of progress to vulnerable groups and the poorest

- The case studies suggest financing has helped to promote equity and inclusiveness in access to services and development outcomes, but there are also notable stories of financing approaches that have had negligible or even negative effects on equity.

Question 3: The role of donors

- In most of the low-income and lower-middle-income countries, such as progress was associated with growing financial support from bilateral and multilateral donors, either in the form of covering recurrent costs or financing infrastructure development.
- In middle-income countries, such as China (water management), Indonesia (quality of education) and Viet Nam (sustainable energy), technical assistance was strategic and targeted in areas not covered by the government or where government capacity was low.
- Improved donor alignment through sector budget support and other forms of pooled funding helped raise the quality of national and local institutions and build their capacity for service delivery.

Question 4: Financial sustainability

- The sustainability of progress outputs and outcomes depends on the prospects of its main financing source and the balance struck between the three sources (government, donors, households). Financial sustainability might be a challenge: (1) if dependency on external financing, notably from bilateral and multilateral donors, is high and governments have limited capacity to increase their share of costs; (2) if public revenues are highly volatile, typically where a large share of revenue is accounted for by non-renewable resource rents, which are affected in turn by depletion of reserves and volatility of commodity prices; and (3) if progress outputs and outcomes are too dependent on government subsidies to consumers or state-owned enterprises and/or tax incentives, which may be difficult to sustain.

A staff member counts a wad of Tanzanian Shillings at a branch of CRDB bank in Dar es Salaam © Mikkel Ostergaard.

1. Introduction

1.1 Setting the scene

This working paper reviews whether and how financial resources and mechanisms are associated with improved development outputs and outcomes. It draws from a large body of evidence emerging from the Development Progress (DP) project (see Box 1), a series of 50 country case studies exploring development progress across the world over the past two decades. This paper presents evidence predominantly from 20 of these case studies: those which address financing issues most extensively.

Financing development has not been so in the spotlight since the 2002 Financing for Development conference in Monterrey, when bilateral and multilateral donors articulated their commitments to help mobilise resources to attain the eight Millennium Development Goals (MDGs). Commitments made in Monterrey were among the main drivers for the peaking of aid in the mid-2000s associated with the debt relief initiatives (see Bourguignon et al., 2008; Moss, 2010; Melamed and Sumner, 2011; Greenhill and Prizzon, 2012).

A new conference is scheduled for July 2015 in Addis Ababa to identify solutions and commitments to support the new set of Sustainable Development Goals (SDGs). The development finance landscape has changed remarkably since 2002, however. A lot of ink has been used on describing the rise (or re-emergence) of new development financiers, such as non-Development Assistance Committee donors, philanthropic organisations and the private sector, with new motives (such as climate-related finance) and new instruments (see Severino and Ray, 2009 and Greenhill et al. 2013 among others). The effectiveness of aid, which represents a minor share of total development finance to partner countries (ERD, 2014), has also been highly scrutinised.

With the more ambitious SDGs (numbering 17 at the time of writing) under negotiation in 2015, understanding how financial resources and mechanisms can help achieve them and how development can be financed more effectively becomes more crucial than ever before. With aid budgets under the axe, paired with the growing needs of partner countries (ERD, 2014; Kharas et al., 2014; Greenhill and Ali, 2013), decision-makers – both in partner countries and bilateral and multilateral donors – are grappling with the policy challenge of maximising results with limited financial resources.

While at a microeconomic level the literature on randomised control trials has shed light on how incentives can be fine-tuned to improve several aspects of human development (Duflo et al., 2007; Banerjee and Duflo, 2009), evidence on whether and how financial resources matter for development outcomes is still scant at the macroeconomic level and is often based on cross-country quantitative analysis. Evidence to guide policy-makers on the role, contribution and effectiveness of development financing for large-scale interventions is still far from clear-cut.[3] Several studies have found that greater financing resources to the education and health sectors are associated with improvements in access to these services and to related human development outcomes; however, the same studies show that financing levels only explained some of the variation in education and health indicators across countries, and others studies[4] have even found that financing levels explain little of the progress across countries.

This working paper attempts to partially fill this gap between micro-level studies and cross-country macroeconomic analyses by synthesising evidence emerging from DP case studies completed so far illustrating how progress across eight well-being dimensions has been achieved (see Box 1). Throughout this paper the term ‘progress’ will refer to improvements in development outputs (e.g. higher enrolment rates) or outcomes (e.g. improved learning skills). Annex 2 lists the case studies reviewed in the project and describes the dimension of progress analysed. Each case study benefited from an in-depth analysis of the plausible financial drivers of progress, providing lessons for other countries trying to achieve similar policy objectives (such as expanding enrolment rates in post-primary education or improving maternal health). In other words, by explaining how and why progress has happened in a large set of developing countries, DP case studies offer concrete examples of the role played by financial resources (public finance, household expenditure and external assistance), mechanisms to foster human development, and common financing mechanisms in countries in which measurable progress took place.

3 See Gupta et al. (1999) and (2002), Lopes (2002), Anyanwu and Erhijakpor (2007), Gebregziabher and Niño-Zarazúa (2014).

4 See Musgrove (1996), Burnside and Dollar (1998), Filmer and Pritchett (1999) and Al-Samarrai (2003).

Box 1: What is 'Development Progress'?

'Development Progress' is a four-year research project that aims to better understand, measure and communicate what has worked in development and why.

The analysis of this review builds on the case studies conducted in two different phases (Figure 1 and Annex 2). A first phase was concluded in 2011 and included a set of 24 country case studies and a report card assessing how countries have performed against the Millennium Development Goals (ODI, 2011).*

In the second phase the DP project reviewed progress across eight well-being dimensions, as identified by the Commission on the Measurement of Economic Performance and Social Progress (Stiglitz et al., 2009): health, education, environment, political voice, women's empowerment, security, material well-being and employment.

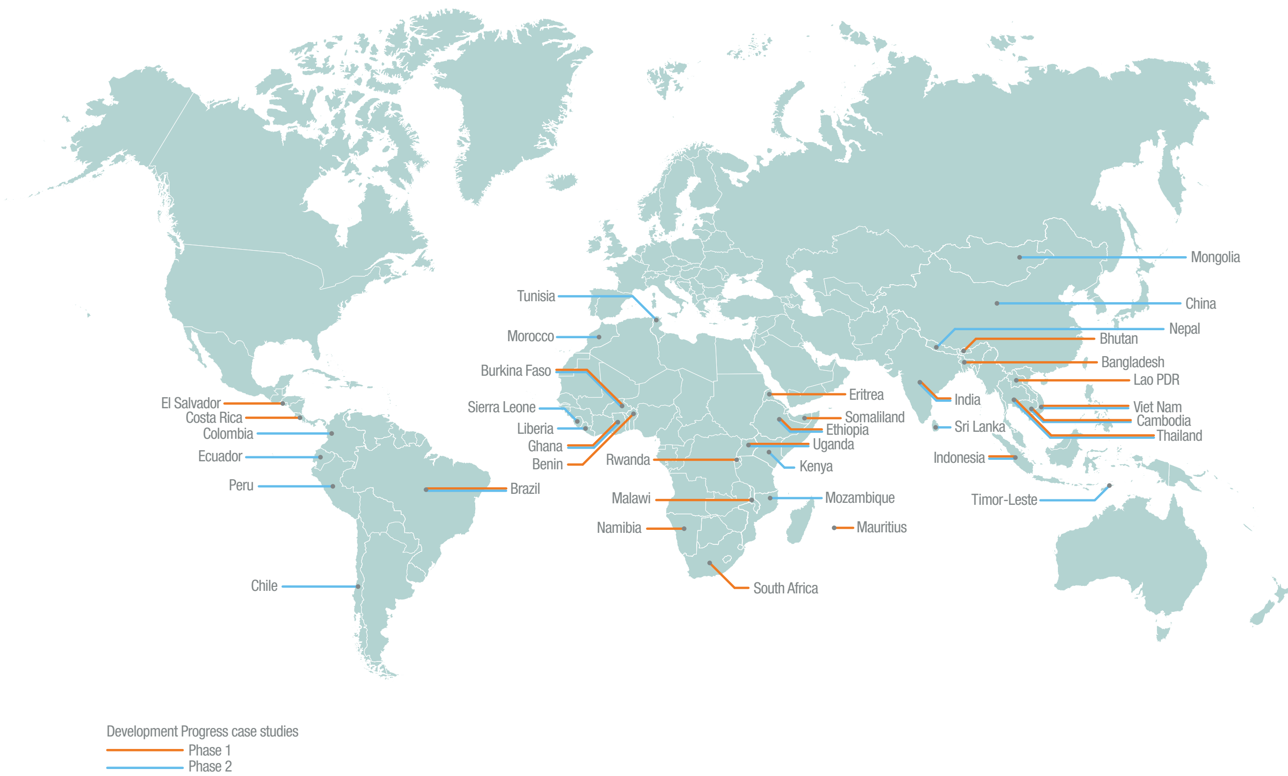
Annex 2 provides a list of the stories of progress. This synthesis report reviews case studies whose research phase was completed by September 2014.

In the second phase the case study selection process combined quantitative methods (ranking of absolute and relative performers on outcome/output progress indicators; deviation from fit) and qualitative techniques (interviews with sector experts, balance between geographical regions). The case study methodology is based on literature reviews, phone interviews and, for some case studies, semi-structured interviews during country visits and consultation workshops.

Each case study explains the factors behind progress in one or more well-being dimensions. It does not portray country experiences as successes: each case study acknowledges the challenges in expanding and sustaining progress results (especially from a financial point of view) and in limiting potentially undesired negative effects on other dimensions of well-being.

* *We will review case studies from the first phase of the project as well. While the analysis of the financial drivers was not part of the research framework in that phase, several of these case studies have nonetheless reviewed financial resources and mechanisms as one of the drivers enabling progress.*

Figure 1: Development Progress case studies phase 1 and phase 2



Notes: Blue refers to case studies undertaken during the first phase (concluded in 2011); orange denotes case studies of the second phase (2012-2015).

1.2 Research questions and methodology

Against this backdrop, and complementing the large body of sector-level cross-country literature looking into whether additional financial resources are associated with better development outputs and outcomes (reviewed in Section 2), this working paper draws examples from the case studies and showcases country-level experiences on how progress has been financed. It addresses the following four questions in particular:

1. Who pays for 'progress' – between government, households and development partners – and how has their relative contribution changed over time?
2. Were financial measures designed to include vulnerable groups and the poorest?
3. What was the role of bilateral and multilateral donors?
4. Is progress financially sustainable?

Each case study aims to explain the factors contributing to large-scale progress at the national level over a certain period of time. This approach has the advantage of combining multiple perspectives (economic, political and sociological, among others) to enrich the analysis. The case study analyses were qualitative, based on literature reviews and semi-structured interviews, and did not embark upon multivariate quantitative analysis.

This working paper is not a critical literature review as it does not assess the strength and plausibility of the arguments in each case study. It is also worth stressing that the DP objective of portraying positive stories of development necessarily biases the selection of case studies (which were all best country performers under a certain indicator either in absolute or relative terms over the past decade). Therefore in this working paper we are not reviewing failures. It is worth noting that the contribution of financing resources to progress did not pre-empt or inform case study selection.

While the DP case studies illustrated the contribution of greater financing resources and changing financing mechanisms to improved development indicators, all the case study analyses identify an association between progress and financing rather than a causal link. Isolating the contribution of finance to development progress is a methodological challenge (also because of the lack of a counterfactual), and so is assessing the direction of the causal link, i.e. whether more financial resources triggered progress or whether good results attracted more financial resources. Moreover, the sectors investigated in the DP project and the methodologies applied are too diverse to allow robust conclusions to be drawn across the case studies. Annex 1 elaborates on some of these issues.

Despite these caveats, the review of the DP case studies provides evidence to inform country-level financing strategies for countries aiming to embark on large-scale development reforms and for bilateral and multilateral donors supporting them. It does so by illustrating the impact of certain policy decisions on progress outcomes and the context in which these decisions were taken. The DP case studies offer several stories illustrating how additional financial resources from governments and bilateral and multilateral donors, policy advice from donors and shifting aid modalities towards greater alignment with national systems had a positive, sometimes decisive, impact on development indicators. These experiences and recommendations do not offer magic-bullet solutions that can be extended to all developing countries, but they can provide food for thought for policy–makers discussing financing strategies to meet the new set of SDGs.

The paper is structured as follows. Section 2 identifies some of the main themes that emerged from the research and policy literature exploring the relationship between finance and development progress, bringing the case study analyses of the DP project into perspective. Section 3 reviews the evidence from the case studies across four main common themes: (1) whether and how progress is associated with shifting the burden across financiers (government, households and bilateral and multilateral donors); (2) the role that finance played in promoting greater inclusiveness (widening the experience of development progress across groups in society) and equity (the degree to which all societal groups benefit equally from the development progress achieved); (3) whether and how additional financial resources, policy advice and shifting aid modalities towards greater alignment with national systems had an impact on development indicators; and (4) the challenges to sustaining progress achieved from a financing point of view. Section 4 draws conclusions and lessons emerging from these four areas as well as directions for further research and data requirements.

2. Financing for development: main insights from the research literature

In this section we attempt to identify some of the main themes that emerge from previous studies on the relationship between finance and development progress in order to situate the findings from the DP country case studies within the research and policy literature. This analysis focuses attention specifically on the questions of whether and to what degree financing is an explanatory factor in achieving development progress. It attempts to identify findings on these questions across both the different sectoral dimensions in the DP project and the different sources of finance that have played a role in supporting development progress.

Understanding the contribution of financing in supporting development across all of its sources and mechanisms and exploring the relevant nuances across the eight sectoral dimensions of the DP project is a task that goes well beyond the scope of this synthesis report. Nevertheless this review will help to inform the synthesis of findings from DP case studies presented in the following section.

A range of studies have explored the macroeconomic relationship between public financing and development progress at cross-country level, largely with a focus on the health and education sectors. Most of these studies found that financing[5] in the education and health sectors is associated with improvements in both access to these services and related human development outcomes (Gupta et al., 1999 and 2002; Lopes, 2002; Anyanwu and Erhijakpor, 2007; Arndt et al., 2011; Gebregziabher and Niño-Zarazúa, 2014), but financing explained only some of the variation in health and education indicators across countries. On the other hand, other studies (Musgrove, 1996; Filmer and Pritchett, 1999; Al-Samarrai, 2003) found that financing resources[6] marginally contributed to progress in these sectors across countries. These findings would therefore suggest that although financing is necessary for achieving development progress, it is not sufficient on its own, and that a range of other factors are important (in some cases of comparable or greater importance than financing) in driving development progress. This conclusion matches the experience of many of the DP case study countries, where finance was only one factor among others or resourced other drivers of change.

As highlighted in the introduction to this paper and in Annex 1, assessing the contribution of finance to development progress presents significant methodological challenges, including the lack of a counterfactual and difficulties in isolating the effect of financing from other factors influencing development progress. As a result, the research is not definitive about this question: the DP project contributes to this debate by illustrating selected country-level experiences.[7] The sections that follow largely reflect the first three research questions outlined in Section 1.2.

2.1 Shifting the financial burden

The literature on the abolition of user fees – changing the financing mix – has generally found that the introduction of user fees reduces the access to services of those facing the most significant resource constraints (Palmer et al., 2004; Lagarde and Palmer, 2008). Studies have largely found that once fees were removed the poor and marginalised have been able to access these services much more readily (Lagarde and Palmer, 2008; Yates, 2009).

However, it is important to note that such policies have not always been implemented effectively, as there have been many cases where complementary policies (including targeting investment at all relevant sector inputs) have not been consistently pursued (Ridde and Morestin, 2011).

5 These studies measured resources expended in relevant sectors both as a share of GDP (Gebregziabher and Niño-Zarazúa, 2014; Gupta et al., 1999, 2002; Lopes, 2002) and on a per capita basis (Anyanwu and Erhijakpor, 2007; Arndt et al., 2011; Lopes, 2002).

6 These studies measure resources expended in relevant sectors as a share of GDP, although Al-Samarrai (2003) found the same results using spending per person and a proxy measure.

7 This review focuses on the direct (primary) relationship between levels of different forms of financial expenditure (including aid and public spending) and development outcomes. It doesn't therefore focus on the indirect (secondary) effects, i.e. those emerging through finance's impacts on variables which then influence development outcomes directly. So, for example, this review does not focus on the literature linking levels of different forms of financial expenditure to growth, as growth is an intermediate variable that acts as a link between financing and development outcomes.

Ridde and Morestin report that in many recent cases health user fees were removed without adequate preparation, which left service providers without sufficient financial and human resources to cater for greater demand on their facilities, ultimately undermining service quality. This effect has also been observed in the education sector, where fast-expanding enrolment in the context of less rapid investment in educational capacity has led to increased pupil–teacher ratios and thus undermined educational quality (see Kadzamira and Rose, 2003, on Malawi and Grogan, 2006, on Uganda).

2.2 Promoting equity through financing

There are two main ways in which financing modalities relate to equity in access to services and to sharing the benefits of well-being improvements.

First, and most significantly, the impact on equitable access depends on the degree to which financing policies and instruments address the financial constraints facing poorer segments of society in accessing services. Most important for these groups are financing policies that shift the burden of financing away from households and towards other actors (usually governments and donors), a prime example of which is provided by the policy of abolishing user fees (see above). Cash transfers targeted at poor households have also been found to be helpful in this regard, with a recent systematic review finding that such transfers increase the chances of children in recipient families being enrolled in school by 23%-41%, with the most significant impacts found where these transfers were made conditional on children attending school and where these conditions were monitored and enforced (Baird et al., 2013). Other research has found that such transfers have their most significant impact where they are complemented by financing and policies targeting the supply side (DFID, 2011).

The second way that financing can help to increase equitable access is by focusing investments on interventions that are accessed by the poor to a larger extent. For example, investments in primary rather than secondary or tertiary health and education facilities (including complementary support across the system, not simply resourcing of the frontline) are thought to be of greater significance for equity due to the fact that primary services are commonly more accessible to and more intensively utilised by those with lower incomes (Gupta et al., 2002; Roberts, 2003; Baldacci et al., 2003; World Bank, 2004).

2.3 Fundamental questions about the impact of aid

The parts of the literature most critical of linkages between financing and development progress tend to be those that relate to aid. Studies have found positive linkages between aid and access to services (e.g. Michaelowa, 2004, and Dreher et al., 2008, on education), although the quality of services provided has been questioned (e.g. Riddell, 2012; World Bank, 2011a). Others have found a link between aid and energy capacity (e.g. Gualberti et al., 2012) or some limited impact of aid in supporting strengthened political voice and accountability (McGee and Gaventa, 2011).

It is more difficult to find studies that identify a relationship between aid and human development indicators. Taylor et al. (2013) and Arndt et al. (2011) find a moderate link between aid and maternal and reproductive health, although Williamson (2008) and Wilson (2011) find no relationship between aid and health and mortality levels.

The weaker evidence for linkages between aid and development progress as compared with that between public spending and development progress may in large part relate to a range of fundamental questions that have emerged with regard to aid as a financing instrument. These questions centre on its potential to undermine the quality of institutions (Brautigam and Knack, 2004), inefficiencies in its delivery (Wood et al., 2011) and its volatility and lack of predictability (Kharas, 2008).

3. Financing progress: evidence from Development Progress studies

3.1 Who pays for development progress?

This section explores the question of which actors have helped to finance development progress across the case studies addressed by the DP project and how the mix of financing sources has evolved.

Overall the DP case studies illustrate a relatively straightforward story at the macroeconomic level, with governments (and in some cases bilateral and multilateral donors) having played an increasingly important financing role in achieving development progress over the past two decades, taking the burden off households or adding very substantially to household contributions. However, looking across the individual cases studies there is a great deal of variety in their stories, especially as they relate to sub-sectors (e.g. certain categories of education), the experience of different socioeconomic groups, and issues related to financial sustainability. These are elaborated in the following sections.

3.1.1 Growth and increased government revenues as a backdrop to a growing role for increased public spending

Following a phase in the 1980s and into the 1990s characterised by significant episodes of economic mismanagement and decline and stagnation, the period since the late 1990s has seen some developing countries achieve rapid and relatively steady economic growth. This growth, together with institutional strengthening, has helped to stimulate very significant increases in government revenues.

Importantly these trends are observable for DP case study countries across the period from the early 1990s to 2010 – the broad progress time frame addressed by most of the case studies in this review – but more especially during the 2000s, the period when the most rapid progress was generally achieved across the DP case studies.

Figures 2 and 3 (overleaf) illustrate these trends. Figure 2 illustrates how two-thirds of a sample of the 15 DP case study countries reviewed most extensively in this paper outpaced global average growth levels during 1990-1999, with all of these countries growing significantly faster than the global average during 2000-2010, when most episodes of improvements in well-being indicators were recorded.

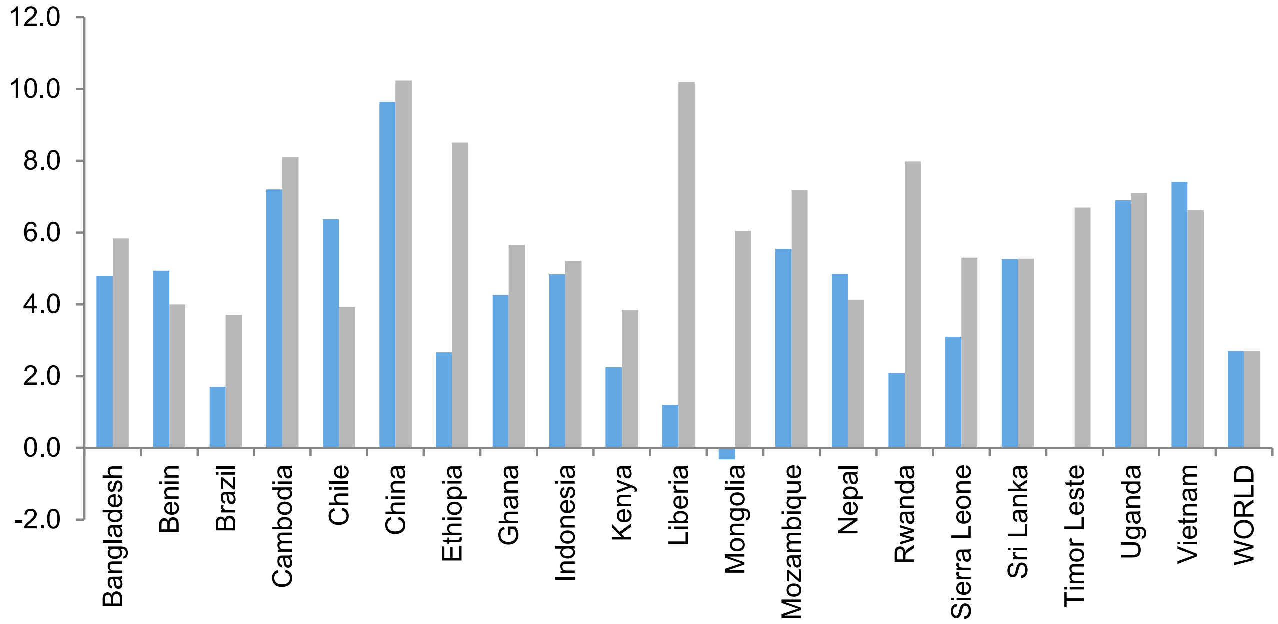
Figure 3 presents an index of revenues (in constant 2005$) for six of the nine[8] countries (from the sample of 20 DP countries for which this paper quotes evidence on) that more than quadrupled their revenue over the period 1990-2010. A further six countries more than doubled their revenue over this period.

The best-performing countries in terms of growth and revenue generation include the following (with the sector in which progress was analysed in parentheses):

- **Chile** (education quality): The economy grew at an annual rate exceeding 7% 1984-1997, then 3.8% across 1998-2012 and an average of 5.7% during 2010-2012; this led to government revenue increasing (in nominal terms) from $7.7 bn in 1990 to $16.7 bn in 2003 and over $50 bn in 2010 (despite a fall in 2009).
- **China** (water management): Recorded annual GDP growth of around 10% and revenues increased by more than a factor of six (from $147 bn to $917 bn in 2005$) over the period 1995-2012.
- **Ethiopia** (education): Achieved an average annual GDP growth rate of 7.6% and revenues quadrupled (from $0.9 bn to $3.5 bn in 2005$) over the period 1995-2012.
- **Kenya** (post-primary education): The economy grew by 6.1% per year 2004-2007, leading to government revenues expanding, and rising as a share of GDP from 21% in 2003 to a peak of 26.9% in 2009 as revenue collection improved.
- **Mozambique** (maternal health): Economic growth averaged 8% during the 2000s; at the same time revenue levels also rose as a share of GDP, from 11.5% in 2005 to 13.5% in 2008.

8 In addition to the six countries illustrated in Figure 3, Cambodia (data only for 1996-2012), Liberia (2000-2012) and Timor-Leste (2000-2012) more than quadrupled their revenue levels over the period 1990-2010.

Figure 2: Average annual GDP growth, 1990-1999 and 2000-2010 (%)



Source: World Development Indicators (annual GDP growth).
Note: Average is author calculation, based on averaging each annual figure for the period 1995-2010.

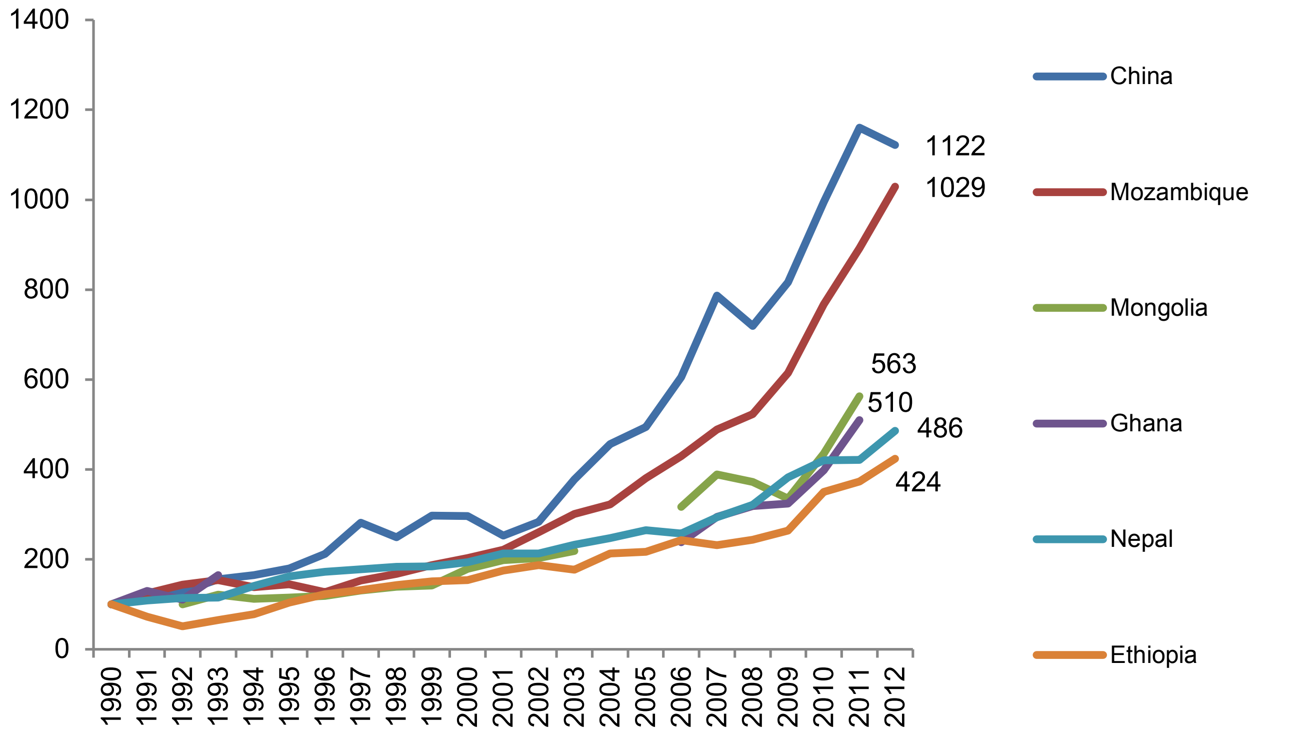
- **Rwanda** (education): Average annual GDP growth rate reached 8.6% during 1995-2012; revenues increased by a factor of almost four (from $0.2 bn to $0.6 bn in 2005$) over the period 2001-2012.
- **Viet Nam** (sustainable energy): The average annual GDP growth rate was 6.8% and revenues increased by more than a factor of three (from $6.6 bn to $22 bn in 2005$) over the period 1995-2012.

In the case studies of Kenya, Mongolia, Mozambique and Nepal, specific reference was made to the contribution that increased efficiency in revenue collection and strengthened public financial management has made to overall progress in generating revenues. In Mongolia, increased revenue from extractive industries was an important factor.

The improvements in revenue levels achieved by governments have helped the state to re-establish its resourcing role in supporting progress in most of the sectors addressed by the DP case studies, a role which had diminished during much of the much 1980s and 1990s. In some cases (e.g. Cambodia, Mongolia, Mozambique and Nepal), increased levels of sector spending were achieved without any notable increase as a share of GDP or the government's budget. However, in most cases sector spending as a share of the government budget and GDP also increased, helping to support very rapid increases in sector spending (albeit possibly at the expense of constraining spending growth in other sectors of significance for development). The most significant examples are presented below:

- **Benin** (primary education): Between 1992/3 and 2006/7 public spending on education increased from 2.8% to 3.9% of GDP, equivalent to a real-terms doubling of this spending.
- **Chile** (education quality): Between 1990 and 2002 public spending on education grew from 2.4% to 4% of GDP, helping education spending to more than treble in absolute terms from $907 m. to $3.07 bn.
- **Ethiopia** (education): In the 1980s public spending on education was typically under 3% of GDP and under 10% of the government's budget; by 2007 it constituted 5.5% of GDP and 23.6% of the government's budget. This increase was equivalent to a more than quintupling of spending in absolute terms across this period.
- **Ghana** (multi-dimensional): Education spending as a proportion of GDP has increased from between 2% and 3% of GDP in the 1980s to 8.2% in 2012.
- **Indonesia** (primary and lower secondary education): Between 2005 and 2012 public spending on education increased by more than 50%; this trend was supported by a 2002 government commitment to allocate 20% of the budget to education, a level which was reached in 2009.
- **Kenya** (post-primary education): Education has been a long-standing government priority and been sustained at over 20% of government spending, even during the

Figure 3: Domestic revenue index (first year of data = 100), based on revenue in 2005



Source: Revenue/GDP from IMF FAD database; GDP (2005$) from World Development Indicators.
Note: Index calculated on basis of revenue in 2005$ calculated by author using quoted data sources, with initial year of data for each country given value of 100.

structural adjustment era. Public spending on education increased 31% in real terms between 2003/4 and 2008/9.

- **Sierra Leone** (neglected tropical diseases): Government spending on health has increased from approximately $11 m. in 2004 to $41 m. in 2012. Its share of the government's budget increased to an average of more than 8% during 2009-2012 (compared to just over 5% during 2004-2008).

3.1.2 Burden of financing on households eased, especially for services that were the main focus of increased government and donor investment

In at least five of the 20 DP case studies for which evidence was available to inform this paper,[9] increases in government spending were more rapid than increases in out-of-pocket expenditure at the time when progress took place. This evidence is very much in line with the findings identified in part of the literature on the macroeconomic impact of additional financing resources to development outcomes (illustrated in Section 2). Households' relative contribution to overall sector investments fell in these cases, with government taking greater responsibility. The evidence supporting these conclusions for these case studies is presented below:

- **Cambodia** (basic education): Helped by the elimination of school fees from 2000 onwards, the share of the cost of primary schooling covered by households fell from 77% in 1997/8 to 56% in 2004.
- **China** (agricultural water management): The relative level of government investment in agricultural water management has increased in the past two decades in relation to the level of investment by farmers; this trend emerged as the government increasingly took responsibility for field-level irrigation, which until 2000 had been resourced through in-kind labour from farmers through the state's 'labour accumulation system'.

9 We suspect that this story may also be relevant to a number of the other DP case studies given how rapid government and donor spending increases were; however, it is only for these five countries that the DP case studies present evidence to support such a trend.

- **Kenya** (post-primary education): Shortly after the abolition of user fees in primary education in 2003 it was estimated that 80% of primary education spending was contributed by government; government investments in secondary education have also increased significantly since the abolition of user fees.
- **Nepal** (maternal health): Increased government and donor investments over the period 1995-2010 led to the share of total health expenditure provided out-of-pocket by households falling from just over 70% to approximately 50%.
- **Viet Nam** (sustainable energy): Household contributions to rural electrification used to be high, reaching 64% of its cost in 1996-2000; however, following sustained and significant increases in levels of government spending (and the introduction of sector regulation), these contributions fell to 17% of the total cost in 2006-2010 and 9% in in 2011-2012.

Not only will these trends have taken some of the pressure off households in resourcing these services and interventions, they may well have also had implications for the social contract between government and citizens – an effect which could support broader improvements in governance and accountability. At the same time, high public subsidies in a particular sector may introduce challenges related to the sustainability of financing.

In at least three case studies donors have been the dominant financers of sector interventions for a significant period. In two of these cases (security in Liberia and in Timor-Leste) donors have begun to take more of a back seat and the government has increased its responsibility for sector financing. However, in the case of Mozambique the dominance of donors in sector financing has increased and been sustained over the past decade and has led to the government share of total health expenditure falling. These cases are illustrated below:

- **Liberia** (security): Donor support to the security sector (the army and police) increased rapidly during the first half of the 2000s but has been in decline since at least 2008/9; international peacekeeping assistance has also fallen since the mid-2000s, partly due to high cost in comparison to local security interventions. In response to these trends the government has begun to increase its spending on security since the mid-2000s, although these have remained fairly stable as a share of total government expenditure at 12%-14%.
- **Mozambique** (maternal health): Increases in donor assistance to the health sector between 2002 and 2011 led to the donor share of total health expenditure increasing from just under 30% to approximately 70% (with out-of-pocket household expenditures remaining at around 10% and the share from government falling).
- **Timor-Leste** (security): The cost of peace-keeping and security was initially shouldered by donors after independence, with the government increasingly taking on this role over the past decade as international security assistance has been scaled down; communities have played an important financing role through their informal security systems throughout.

Although in most of the DP case studies it appears that the share of households in sector resourcing was reduced by fast-growing spending by governments and donors, there are a number of sectors addressed by case studies where relative household contributions remained stable or even increased. In most of health case studies (including Bangladesh, Cambodia, Ghana, Nepal and Sierra Leone) the shares of household contributions to total sector resourcing were stable over the past 10-20 years. Only in one case study was there clear evidence of the share of household contributions to total sector resourcing increasing. This related to tertiary education in Mongolia – a sub-sector that is of greater relevance for higher-income households – for which government funding was reduced in order to support funding increases to primary and secondary education. It is likely, though, that such nuances in terms of financing at the sub-sector level (i.e. specific categories of services or interventions within a sector) are relevant to other DP case studies, given that where governments or donors prioritise spending on a specific set of interventions some other interventions will be de-prioritised, leading to households taking on more of the burden of resourcing. However, additional evidence to support this conclusion was not available from the other DP case studies.

While other financiers, such as philanthropic organisations and South–South cooperation, have expanded their financial assistance in recent years at the global level (see Hudson Institute, 2013; Greenhill et al., 2013; Severino and Ray; 2009), none of the case studies discussed their role and contribution to progress outputs and outcomes. This finding may be due to: their small volume compared with public finance and contributions from bilateral and multilateral donors; their focus on project-level or micro-level activities rather than large-scale projects (the DP case studies reviewed progress outcomes and outputs at the country level); and their financial assistance being scaled up only towards the end of the 2000s (so later than most of the DP analyses, which try to explain improved development outcomes over the period 1990-2010).

3.2 Promoting inclusiveness and equity through financing

This section explores the role that finance has played in promoting greater inclusiveness (widening the experience of development progress across groups in society) and equity (the degree to which all societal groups benefit equally from the development progress achieved). In terms of the societal groups, the most important analytical lenses relate to socioeconomic status (especially understanding the experience of lower-income groups), gender (especially understanding the experience of women), ethnic identity (especially understanding the experience of marginalised groups, such as lower castes and minorities) and geographical location (especially understanding the experience of people living in rural and more remote regions, where poor and marginalised communities are more commonly found).

The first sub-section below includes an analysis of the various financing policies and instruments that have been used to pursue inclusiveness and equity, a range of which have commonly been applied simultaneously in the DP case study sectors.

The second sub-section includes some insights on the contributions of each of these financing policies and instruments for inclusive progress and the factors that explain their effects.[10] Overall the DP case studies seem to show notable achievements in recent decades, with financing policies focused on increasing the accessibility of services and reducing the costs to service users. In the health and education sectors the DP case studies illustrate how the dominant focus of governments (and donors in some cases) in scaling up support to service delivery has been important as these services are more relevant and accessible to lower-income segments of society, who are more likely to be excluded from such services because of their cost and other constraints.

The third sub-section looks at the significant challenges and limitations in using financing policies and instruments in pursuit of the goal of equity. On this point it seems that it is not the origin (e.g. aid versus public expenditure) of the financing mechanisms utilised that determines their outcomes, but the specifics of the way they are designed and implemented and whether they are able to reach out to poor and marginalised households.

The final sub-section illustrates the trade-offs between the goals of inclusiveness and equity and those of the sustainability and quality of service delivery and outcomes. These trade-offs have been dealt with differently in each country, with different consequences for the type of financing approaches used and their impact in promoting inclusiveness and equity.

3.2.1 Promoting inclusiveness and equity through bringing services to communities

As highlighted in the literature review in Section 2, one of the main ways in which financing can contribute to promoting inclusiveness and equity in development progress is by supporting investments that bring services closer to communities (i.e. supply-side responses), particularly where the focus is on poorer, more marginalised and isolated communities. In such cases, financing plays a role in supporting the investments in physical, human and technical capacity required to reach these communities.

The DP case studies in the health and education sectors provide very vivid illustrations of how financing has been used in an attempt to support a strategic focus on inclusiveness and equity in service delivery:

- **Bangladesh** (health): Financial support from international NGOs and aid agencies was critical in developing and taking forward a range of health interventions that responded to the health needs of the poor and marginalised (including oral rehydration, immunisation and family planning services), with a strong emphasis on ensuring these services were provided to reach households through door-to-door delivery involving village health volunteers. The provision of such services coincided with improvements in life expectancy and child mortality, which were felt across all income, gender and rural/urban groups (with gender inequality in relation to these outcomes falling and income and rural/urban inequalities remaining relatively unchanged).
- **Benin** (primary education): Government and coordinated donor finance has been an important input in affirmative action programmes targeting areas where gross enrolment rates for girls were particularly low, including supporting investments in school infrastructure. These investments have coincided with increased access (Benin reached nearly universal access to primary education) and reductions in educational inequality across gender groups.
- **Cambodia** (basic education): Financing played an important role in supporting school construction, especially in remote and rural areas. Financing was also used to provide subsidies for the training of teachers from rural areas, which was vital to ensuring that rural schools had adequate human resources.
- **Chile** (education quality): A number of education programmes have targeted resources for funding school running costs towards the lowest-performing schools, rural schools and lower-income students, although the most ambitious of these only began in 2008 and inequities in education have remained high (which may be down to other financing policies undermining the promotion of equity in education – see Section 3.2.3).
- **Ethiopia** (education): Increased government financing played an important part in constructing an additional 6,000 schools between 1996/7 and 2008/9, 85% of which were in rural areas. These interventions are likely to have been important for significant reductions in gender inequality in school access as distance to

10 These conclusions are presented very tentatively given that the DP case studies were not able to empirically test the impacts of the various financing approaches on the inclusiveness and equity of the development progress achieved.

schooling is one of the most significant barriers to girls' participation in education. The expansion in school infrastructure also coincided with reductions in gaps in access for some disadvantaged regions.

- **Mozambique** (maternal health): Increased government financing has been vital to efforts to expand health facility construction, which has been most rapid in the areas with the fewest health facilities (largely the areas most affected by the civil war), helping to reduce inequities in access to health facilities across regions. Significant resourcing has also been required to train and employ non-physician staff, who have been vital to expanding services in rural areas.
- **Nepal** (maternal health): The government has attempted to focus health-care provision on under-served parts of the population – with an emphasis on rural and remote areas – including through investments to expand the number of primary health-care facilities (from 351 in 1991 to 1,204 in 2011) and to support the enrolment and oversight of almost 50,000 community health volunteers tasked with widening outreach to these communities.
- **Rwanda** (health): Government and donors have emphasised the provision of resources to scale up the role of community health workers in order to improve outreach to communities across the country. This expansion in community health services was associated with reductions in the gaps in many health indicators across income, gender and rural/urban groups.
- **Viet Nam** (sustainable energy): The government has used lower electricity tariffs for rural areas (i.e. a cross subsidy supported by higher tariffs in urban areas) as well as significant investment in physical electricity infrastructure to successfully promote wider and more equitable access to electricity.

3.2.2 Promoting inclusiveness and equity through addressing cost barriers in accessing services

As highlighted in the literature review in Section 2, the costs (e.g. user fees and informal payments, and accompanying costs for medicines, school books and travel) and opportunity costs involved in accessing services in sectors such as health and education have been a significant barrier to lower-income groups accessing these services, so reducing such costs can be important in promoting inclusiveness and equity. The DP case studies on these sectors illustrate the significant impacts that widespread efforts to reduce such costs (that is, to address demand-side factors through financial interventions) have had in promoting more inclusive and equitable outcomes in access to services and related development objectives. These interventions include two main categories. The first comprises those that helped to broaden access across all groups but inevitably had a greater impact on the poor and marginalised groups most affected by cost barriers. These cases include the removal of user fees in education in Cambodia, Ethiopia, Indonesia and Kenya. The second comprises interventions specifically targeting poor and marginalised groups. These latter cases are presented in more detail below:

- **Benin** (primary education): User fees were removed first for girls in rural areas from 1993, then for all rural children, and then nationally in 2006. This policy has coincided with rapid increases in primary school enrolment and gender equity and nearly universal primary education; socioeconomic and regional equity has also improved as primary school fees have been progressively removed.
- **Cambodia** (basic education): Scholarship programmes for poor families introduced initially by NGOs were integrated into the government's programme from 2005 onwards.
- **Ghana** (health/multi-dimensional): The Ghanaian government introduced the National Health Insurance Scheme in 2003, which has part-subsidised health care, especially for vulnerable groups, who have been exempted from paying subscription charges. The government and NGOs have also scaled up health infrastructure in rural areas, helping to reduce spatial inequality in health service provision.
- **Indonesia** (education): Two main instruments have been used to address cost barriers to education faced by students from lower-income households in Indonesia. The first is the Scholarships for the Poor programme, which was introduced in 2007 and reached 6 million students in 2013. An early variant of it has been proven to provide effective support to poor rural families. The second are conditional cash transfers targeted at extremely poor households, which currently reach 5 million people.
- **Kenya** (post-primary education): Bursaries for schooling were introduced in the mid-1990s and have reportedly helped to reduce the financial burden of secondary schooling for lower-income students, although concerns have been raised about whether they are targeting some of the poorest and most vulnerable students effectively.
- **Mongolia** (post-primary education): The narrowing of rural–urban gaps in education enrolment rates has coincided with policies to reduce the costs of education, such as abolishing fees for dormitories (especially important for rural children, given distances from schools) and introducing bursaries and subsidies for low-income families.
- **Rwanda** (health): In Rwanda the government introduced a health insurance scheme (Mutuelle de Santé) across the country in 2004-2006, with half the fee paid for by the government and half by households. The government and donors pay the fees for those who cannot pay.
- **Viet Nam** (sustainable energy): Since 1998 a series of tariff structures have ensured that rural and lower-income households are offered lower prices, with

tariffs applied to higher-income and urban households helping to fund these subsidised prices. These policies have coincided with a rapid increase in the share of population with access to electricity, which reached 97% in 2010.

3.2.3 Limits to the impact of financing on equity

Although the DP case studies point towards financing having helped to promote equity (and inclusiveness) in access to services and development outcomes, there are notable stories of financing approaches which have had negligible or even negative effects on equity (even while supporting scaled-up access). These circumstances have emerged where financing mechanisms have failed to recognise and address the extent of factors driving inequality in access. For example, in Indonesia, Kenya and Mongolia, schools have been provided with standard levels of funding per student enrolled (a capitation grant), an approach which has helped to expand enrolment rates by giving schools an incentive to take more children. However, this financing mechanism fails to recognise that in some areas – especially more rural or remote ones – enrolment requires higher levels of financing and schools are more expensive to run because the population is more dispersed or infrastructure is less developed, making incentives less effective. Another example is provided by Chile, where vouchers that can be used to purchase public or private schooling are thought by some to have entrenched inequality in the quality of education as private schools have 'skimmed off' the higher performing students, leaving the less gifted and lower-income students to be catered for by municipal schools.

3.2.4 Trade-offs faced in the pursuit of inclusiveness and equity

The DP case studies also illustrate that the goals of inclusiveness and equity often conflict with other goals that governments and donors may want to pursue. As a result these actors need to take difficult decisions about how to balance these goals in determining their financing policies, which has consequences for the degree to which inclusiveness and equity are promoted.

As noted in the literature review in Section 2, one of the goals that has often come into conflict with promoting inclusiveness and equity of access is service quality. In most of the DP health and education case studies there are indications that expanded access to services has put a strain on existing systems of delivery (e.g. staffing, facilities and other physical resources) that have often not received investment at the same pace as access has been promoted. This has led to significant challenges in improving service quality, as highlighted below:

- **Benin** (primary education): Following rapid expansions in primary school access, efforts have been made to control pressures on pupil–teacher ratios by hiring poorly qualified community teachers, which is likely to have undermined efforts to promote quality education.
- **Cambodia** (education): Efforts to achieve greater access to primary schooling led to an increase in pupil–teacher ratios, although these have declined in recent years; however, the increased emphasis on promoting access to secondary education has led to rising pupil–teacher ratios at this level too, which may be undermining quality.
- **Ethiopia** (education): The pressure on the education system from a rapid expansion in access has limited progress in improving education quality, which is identified as 'the most significant challenge for the Ethiopian education system'.
- **Kenya** (education): Free primary education and free day school education were to a large extent unplanned reforms, which led to a sudden increase in enrolment numbers and may have diverted attention away from issues of quality.

Another goal that is not always consistent with inclusiveness and equity of access is sustainable financing. Concerns have emerged in many of the case studies where aid has been an important financing source, or where premature or unfunded promises of free access to services have been made. Section 3.4 deals with challenges relating to the sustainability of financing approaches used across the DP case studies.

3.3 The role of donors in supporting development

More than a decade after the Financing for Development conference in Monterrey, the evidence illustrated in Section 3.2 about whether and how development assistance has improved human development outputs and outcomes in recipient countries is mixed.

A couple of caveats. First, countries analysed in the DP project found themselves at very different stages of development. Some of them, such as Brazil, Chile and Tunisia, are upper-middle-income countries or have even moved up to high-income OECD status, and their policies are essentially financed by domestic resources (either government or household funding). In these countries, financial contributions or technical assistance from donors is quite limited (e.g. education quality in Chile)[11] or absent altogether (e.g. sustainable energy in Brazil).[12]

Second, countries may have been recipients of aid flows, but in sectors or sub-sectors other than the one in which

11 MECE Básica, an improvement programme to ensure a minimum standard for learning materials, targeted basic components such as textbooks and classroom libraries. It was launched in 1992 with financial and – more importantly – technical assistance from the World Bank.

12 In this latter case it is argued that bilateral donors may have had some importance in the initial post-war development of Brazil's energy infrastructure, but they were negligible over the 1990-2010 period when sector progress took place.

progress took place, as illustrated by the case studies on agriculture in Ghana and post-primary education in Kenya. The expansion of the agriculture sector in Ghana largely took place with domestic resources. The Kenya Education Sector Support Programme received a marginal contribution from donors (5% of the total) and a very limited number of donor-funded programmes were dedicated to secondary and tertiary education.

3.3.1 More financial resources supporting progress

In most of the low-income and lower-middle-income countries investigated for the DP project, progress in a sector was associated with growing financial support from development partners to that sector, either in the form of covering recurrent costs or financing infrastructure development.[13] This finding is more positive than much of the cross-country literature on the impact of aid flows on development progress (Section 2.3). The small sample at our disposal and the methodological constraints of the case study analyses are such that we cannot assess whether financial assistance from donors was a necessary or decisive enabling factor in progress; assistance may have simply followed sectors scoring better results as a risk mitigation strategy to encourage value for money and greater effectiveness. However, there are several examples across sectors (education, health, environment and security) that show that financial assistance from donors rose over the period during which improvements in outputs and outcomes were recorded:

- **Benin** (primary education): Aid to the education sector steadily increased, more than doubling from an annual average of $49 million per year in 1999 and 2000 to $83 million per year in 2006 and 2007.
- **Cambodia** (education): The rise in enrolment rates in both primary and secondary schools was associated with a fivefold increase in aid to education from 1992 to 2011 – particularly following the development of the education Sector Wide Approach (SWAp).
- **Mongolia** (post-primary education): Development assistance helped to partially fill the gap left by the Soviet Union. Not only did official development assistance (ODA) flows grow, but the share allocated to the education sector expanded from 9% of total ODA in 2001 to 26% in 2004. Furthermore, assistance from DAC and multilateral donors – especially the Asian Development Bank (ADB) – has concentrated on post-secondary education, on higher education in particular, and on infrastructure development and maintenance (World Bank, 2009).
- **Nepal** (maternal health): Since the start of the pooled fund – a joint financing arrangement – there has been an enormous increase in donor-funded expenditure on safer motherhood and family planning, coinciding with a substantial increase in outputs and improved outcomes. Aid funded 40% of the health budget, even though the government's share has been rising.
- **Sierra Leone** (health and neglected tropical diseases): Donors provided at least 80% of the financing for neglected tropical disease (NTD) control.[14] These resources were relatively modest (in comparison with other sectors) but strategically focused on low-cost measures to address NTDs.

Donors' financial contributions to peacekeeping operations and security were found to be critical for two post-conflict countries, Timor-Leste and Liberia, albeit with different mechanisms and challenges (see also Section 3.4).

- **Liberia**: Donor financing and technical support to the security sector have focused on the police and army as the two core state security actors. They have been led in large part by the United Nations and the United States (Luckham and Kirk, 2012), and in particular the United Nations Mission in Liberia (UNMIL). From 2004 to 2007, it is estimated that more than $1.2 billion in donor financing was poured into Liberia to support the implementation of the interim Poverty Reduction Strategy (IDPS, 2010: 7) (GDP over that time corresponded to $2.3 billion).
- **Timor-Leste**: The international community disbursed $3.2 billion from 1999 to 2012 (GDP between 2000 and 2012 corresponded to $8.5 billion)[15] to the Timorese government for peacekeeping operations and for interventions in the security sector, more than Afghanistan and other fragile states, at least on a per capita basis.

3.3.2 Shifting aid modalities towards a more harmonised approach

In the DP case studies better outcomes have often been associated with donors strengthening and attributing a more central role to national and local systems for policy development and service delivery and reducing sector fragmentation and duplication.

- **Cambodia** (health): Case study authors found that reduced morbidity for NTDs was achieved thanks in part to the ADB's Communicable Diseases Control Project

13 Exceptions are Indonesia, Ghana and Kenya, for the latter see explanation in the previous paragraph.

14 Although if the full market value of drug donations is taken into account pharmaceutical companies made the most significant contributions.

15 Based on World Development Indicators data.

and the World Bank's Second Health Sector Support Program pooled funds. The funds received have been small but vital in sustaining core programme activities.

- **Mongolia** (post-primary education): The Education Donors Consultative Mechanism and the SWAp were found to have improved donor coordination, with the Ministry taking 'a more active role in coordinating grants and loans provided by donors' (World Bank, 2009: xiii).
- **Mozambique** (maternal health): The shift towards sector budget support was found to have enabled the harmonisation of aid, resulting in a more rigorous policy-making process and an annual planning, budgeting and monitoring system, allowing for improved coordination by the Ministry of Health.
- **Nepal** (maternal health): The development of the SWAp in 2004 was a milestone in allowing donors and government to better align and harmonise their budgets and programmes (RTI International, 2010).
- **Uganda** (water management): Between 1990 and 2008 the government managed to increase water coverage by 50%.[16] During that period, sector aid moved from 100% conventional project aid in 1998 to more than 40% sector budget support or basket funding by 2008. This shift meant donor agencies better aligned their operations with national government priorities, which was one of the factors leading to a large increase in the share of the population with improved water sources.

3.3.3 Beyond finance: the role of technical assistance and policy advice for development progress

Donors' impact on development progress was not restricted to financial resources[17]. In nearly all the DP case studies analysed, technical assistance and policy advice were found to be critical, either alone or combined with financial resources, in improving the effectiveness of government spending.

In middle-income countries whose share of external assistance is small or non-existent compared with the size of their economies, technical assistance was strategic and targeted in areas not covered by the government or where it did not have the capacity to do so.

- **China** (water management): Financial support from donors to agricultural water management was small compared with national investment. However, these programmes were found to be strategic, piloting new approaches or investing in areas in which the government would not.[18]
- **Indonesia** (education quality): Donors' contributions to primary education, although increasing in recent years, represented a small fraction of total spending on education. But donors including the World Bank and the former AusAID have provided substantial support and technical assistance, including training to help clarify programme goals and encourage the effective use of funds (for example, pilot projects designed to adjust the allocation formulas to better address inequities in financing between schools, and to create performance-based incentives by rewarding schools that demonstrate better learning outcomes).
- **Viet Nam** (sustainable energy): Donors, particularly the World Bank, contributed to the design of rural electrification programmes and capacity-building for local distribution facilities. The case study authors argued that technical assistance may have made a more significant contribution to rural electrification than investment support. This form of support contributed to institutional development, policy formulation and planning for the sector in general and to rural electrification specifically.

In several low- and lower-middle-income countries, rising resources from donors were accompanied by technical assistance packages and policy advice. While it is quite difficult to isolate the effect of financial assistance from the contribution of technical assistance to development progress (as they often belong to the same package), there are several examples from the case studies where the combination of technical assistance was decisive in a sector's reform.

- **Mongolia** (post-primary education): ADB worked closely with the government and other bilateral and multilateral donors to address challenges in education sector reforms. It launched a sector review that helped frame Mongolia's 1993 Education Master Plan, a detailed strategy for education reform. Its main objective was to increase the internal and external efficiency of the education system.
- **Nepal** (maternal health): Donors extensively funded capacity-building and technical assistance efforts in the area of maternal health, most notably by embedding a DFID-funded Options team within the Ministry of Health.
- **Mozambique** (maternal health): Donors have had significant influence over health policy since the end of the civil war, with the focus on maternal and child health reflecting donor priorities.

16 From an estimated 39% in 1990 to 64% in 2008.

17 The analysis of the impact of policy conditionality goes beyond the scope of the case study reports.

18 For example, the World Bank has had a major role in rehabilitating degraded watersheds in northern China through technical assistance and loan projects (World Bank, 2010 and 2011b; World Bank Institute, 2010; Xie et al., 2009).

- **Sierra Leone** (health): Results in reducing morbidity of NTDs would have been impossible without a range of partners which have provided funding and, more importantly, technical assistance. Technical assistance has been particularly critical to efforts to develop and pilot new community models for programme delivery, as well as the adoption of best practice approaches to preventing NTDs.
- **Liberia** (security): The international community helped restructure and develop the capacity of the police and security apparatus in Liberia, largely but not exclusively through the UN Police.

In the case studies reviewed for the DP project, policy advice and technical assistance from bilateral and multilateral donors have also been subject to criticism. In the Timor-Leste case study the authors stressed how many of the international community's contributions have been criticised, both by many Timorese and a range of practitioners and academics.

Finally, the case of Cambodia (health) illustrates an example of successful collaboration with the private sector. In 2004 the country was the first to reach the World Health Organization's target of deworming at least 75% of school-aged children for intestinal worms. Drugs from pharmaceutical donation programmes have been key in enabling Cambodia to provide NTD treatment free of charge and to reduce prevalence levels. External sources have also funded interventions needed for the distribution of the drugs.

3.4 Financial sustainability: Implications for maintaining and scaling up progress

The DP case studies illustrated improvements in well-being and how these were achieved. Case studies portray stories of progress rather than success: ongoing challenges around equitable access, scale and financial sustainability have emerged across nearly all case studies, especially where donors' contributions have been associated with improved outputs and outcomes and where they are planning to reduce their support to the sector, as the following examples illustrate:

- **Liberia** (security): Donors were the largest contributors to the formal security sector and have made major investments in rebuilding security infrastructure since the end of the civil war, but they are progressively pulling out of the sector. While the public security sector budgets increased steadily between 2006 and 2012, there is still a financing gap to be filled, which may persist given current budget constraints. Lack of government funds will affect priority issues, such as having a larger and more mobile police force.
- **Mozambique** (maternal health): With aid currently funding around 70% of total health expenditure, service delivery is highly vulnerable to aid budget cuts. This is particularly relevant as some donors have pulled out and others are reassessing their levels of commitment following cuts to aid budgets. There are serious concerns as to whether the Mozambican government will be in a fiscal position to compensate for these cuts. Views on the impact of declining shares of foreign assistance were mixed among donors. One representative felt this issue was perhaps not as dramatic as is frequently claimed: 'In the short term there is a donor commitment, and for the medium term incomes will increase and an increasing share can be focused on the most marginalised'.
- **Nepal** (maternal health): A number of interventions are reliant on donor funding, for example cash incentives provided to delivering mothers. The health sector as a whole is 40% funded by donors. In recent years the Nepalese government has been gradually increasing its share of funding to the health sector to address this challenge.

In Section 3.1 we showed how progress outcomes and outputs have often been achieved with additional public spending. They often reflect government interventions in subsiding consumers or state-owned enterprises (SOEs) or providing tax incentives, which may not be financially sustainable in the medium term:

- **Brazil** (sustainable energy): The case study analysis found that future expansion of ethanol production is currently 'on hold' while investors wait to see what direction government policy will take. Several interviewees for the case study saw significant risks to longer-term sustainability in the government's use of state-controlled institutions, such as BNDES and Petrobras, as instruments to implement policy directly, rather than as arm's-length entities with operational independence but that act in accordance with a broad government-defined mandate.
- **Indonesia** (education quality): A certification programme involving major salary upgrades (with more limited investment in school infrastructure) has been implemented. By 2012, slightly over a third of all teachers had obtained certification. Plans to recruit and certify more teachers will put increasing pressure on education budgets. The programme represented 9% of the total education budget and this figure will continue to increase if all 3 million teachers are certified by 2015 as planned (World Bank, 2012).
- **Sri Lanka** (employment): Higher employment rates, in particular in the apparel sector, were associated with tax incentives, concessional financing, export credit insurance and other instruments which were widely used to promote foreign investment into Special Economic Zones, thus foregoing potential government revenue and accumulating large public debts. At the same time, the government has tried to retain public investment in large-scale infrastructure programmes as well as maintaining Sri Lanka's long history of social protection

and welfare policies. While these had positive effects, fiscal incentives for investment have led to restricted fiscal capacity, limiting the potential of social protection investments, especially in reaching the most vulnerable.

- **Viet Nam** (sustainable energy): Energy consumption is subsidised (domestic coal prices have been kept well below world market prices and electricity tariffs have been lower than in other countries) and financial losses for energy-sector SOEs have to be covered by the government to ensure these SOEs can continue to operate.

The financial sustainability of the progress outputs and outcomes achieved can be affected by dependence on non-renewable resource rents for public revenues, both in terms of the outlook for reserves and the volatility of commodity prices.

- **Mongolia** (post-primary): The mining sector is expected to account for half of GDP by 2016 and is a major contributor to fiscal revenues, making the country vulnerable to commodity-price shocks. Such shocks could, in turn, have knock-on effects on tax revenues and, indirectly, on financing for public education at all levels.
- **Timor-Leste** (security): The Timorese government has managed to fill the gap in donor assistance thanks to the revenues from oil (transfers from the Petroleum Fund). However, reserves in undisputed waters are projected to run out by 2024 and there are major concerns that oil and gas revenues are not being invested in ways that will sustain growth over time and benefit the population at large. The oil and gas economy accounts for virtually no onshore employment. Its economic impact is entirely through government spending (IMF, 2013).

Finally, additional financial resources will have to be mobilised to reach vulnerable groups (either the poorest or those in remote areas) and modify incentives (see Section 3.2).

- **Kenya** (post-primary education): Additional financial resources and different sets of financial incentives would be required for reaching marginalised groups – notably the nomadic population in the north-east and rural areas.
- **Mongolia** (post-primary education): Despite strong progress on equity in a number of areas, certain marginalised groups lag behind in access to post-primary education. These include children from ethnic minorities, those with disabilities, migrant children and those who are ‘undocumented’. Capitation formulas can incentivise schools to reach full capacity and decrease drop-out rates, but the allocation formula should be designed to increase equity, an issue which is also applicable to the case of post-primary education in Kenya.
- **Viet Nam** (sustainable energy): To achieve full coverage of energy provision, around 500,000 new household connections will have to be created over ten years. The challenge is to reach the remotest and poorest households in the country: the investment costs per connection will be far higher than before and, even with a national lifeline tariff, the affordability of electricity could still be a problem for the households on the lowest incomes.

Zambia, Kitwe, Copperbelt Province © Sven Torfinn.

4. Conclusions

Photo: Kate Holt/Africa Practice.

Reviewing the DP case studies and analysing the factors contributing to improvement in human development outputs and outcomes generated some helpful insights to improve the understanding of the role played by financial resources and mechanisms for development progress.

There are a series of methodological limits that restrict how much the roles of financial resources and the mechanisms supporting progress outcomes can be disentangled, and there are challenges in drawing conclusions from a small set of case studies in each sector. However, a few patterns emerge from the review of the case studies which either complement cross-country analyses (see Section 2) or challenge them:

1. Most of the countries reviewed for this project have recorded good, if not high and sustained, economic growth performance since the mid-1990s. Together with institutional strengthening, growth has helped to stimulate government revenues and, in turn, government spending, which had diminished during much of the 1980s and 1990s.
2. The case study analyses do not provide robust or unambiguous evidence to demonstrate that higher resources to the sector in question were sufficient to achieve progress outcomes, especially because of the methodological challenges in assessing the contribution of other factors, such as institutional reforms and a different set of incentives. However, in all the case studies reviewed, better development outputs and/or outcomes were associated with rising resources to the sector (government and/or bilateral and multilateral donors and/or households), and often better targeting,[19] suggesting that financial resources were necessary to improve development outcomes.
3. At the macroeconomic level the case studies tell a relatively straightforward story of governments playing an increasingly important financing role (alongside bilateral and multilateral donors in some cases) in achieving development progress over the past two

19 In some cases, such as Sierra Leone, there was a combination of expanding resources – albeit from a small base – and better targeting.

decades, taking the burden off, or at least adding very substantially to, household contributions.

4. Abolishing user fees or increasing subsidies reduced cost barriers for the poor and marginalised, increasing access, but service quality worsened in most cases as service providers struggled to cope with the rapid increase in demand.
5. The case studies largely seem to point towards financing having helped to promote equity (and inclusiveness) in access to services and development outcomes, but there are also notable stories of financing approaches that have had negligible or even negative effects on efforts to promote equity (even while continuing to support a scale-up in access). Any financing policy will have distributional impacts, and therefore pursuing a consistent approach to using finance to promote inclusiveness and equity in development progress requires careful design of financing policies to pursue this goal. At the same time additional financial resources will have to be mobilised to reach vulnerable groups (either the poorest or those in remote areas) and/or incentives will have to be modified.
6. In most of the low-income and lower-middle-income countries progress was associated with growing financial support from bilateral and multilateral donors to that sector, either in the form of covering recurrent costs or financing infrastructure development.
7. In the case of middle-income countries that have seen development assistance falling over time, such as China (water management), Indonesia (quality of education) and Viet Nam (sustainable energy), technical assistance was strategic and targeted in areas not covered by the government or where its capacity was low.
8. Improved donor alignment through sector budget support and other forms of pooled funding helped build the quality and capacity of national and local institutions for service delivery. This was the case in Cambodia (health sector), Nepal and Mozambique (maternal health) and Mongolia (education).
9. The sustainability of progress outputs and outcomes depends on the prospects of the main financing source and the balance between the three sources (government, donors, households) it strikes. Financial sustainability might be a challenge: (1) if dependency on external financing, notably from bilateral and multilateral donors, is high and governments have limited capacity to increase their share of costs; (2) if public revenues are highly volatile – typically where non-renewable resource rents, which are affected in turn by depletion of reserves and volatility of commodity prices, account for a large share of revenue; and (3) if progress outputs and outcomes are too dependent on government subsidies to consumers or SOEs and/or tax incentives, which may be difficult to sustain financially in the medium term.

To sum up, and more generally, while bilateral and multilateral donors provided financial resources and/or policy advice in most of the cases reviewed in the DP project, improvements in outputs and outcomes in service delivery and environment sectors were associated more closely with rising government expenditure. For the poorest segments of the population, expanding government spending was also crucial for the sustainability of the results and to compensate for the falling assistance from bilateral and multilateral donors (Kharas et al., 2014). This would require a greater focus by governments and the international community on strengthening revenue collection capacity and helping countries to maximise such opportunities within the confines of their economic capacity.

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Annex 1 – Explaining financing progress: methodological challenges and future research

There are a series of methodological challenges in assessing what contribution financing resources and mechanisms have made to progress based on the review of the DP case studies.

- First, isolating the contribution of finance to development progress is normally a hard task as contemporaneous changes in policies and in the institutional framework come into play. In other words, the effects on progress outcomes of higher volumes of financial resources and/or changes in their mix cannot be assessed, all things being equal. Of relevance for this set of case studies, a challenge in assessing a theory of change for interventions lies in the lack of counterfactuals at such level of analysis.
- Second, the financing analyses of 50 case studies are not easily comparable as they investigate very diverse development outcomes and outputs, applying different methodologies and skill sets to analyse such distinct phenomena. The DP project considered quite a broad spectrum of sectors of intervention: the link between development finance and progress may be tenuous and indirect in certain dimensions. For instance, this would be the case of the expansion of employment opportunities and better jobs, where aid may indirectly contribute to better growth performance and a more favourable investment climate in the short or longer term via infrastructure development and greater human capital (education). In the case study on Tunisia (greater women's empowerment) aid was found to be marginal, albeit political relations with the West were identified as an impetus for a new wave of progressive policies with regard to gender policy (Charrad, 1997) and donors such as the EU and UNDP provided support to institutions' development. Furthermore, the lack of reference to financially-related factors to progress in the case study analyses can be the result of financial resources and mechanisms not playing a role in achieving progress.
- Last, but not least, case study analyses are limited to the (plausible) contribution of changes in the financing patterns and mechanisms to the progress outcome under investigation and they do not assess their secondary effects, for instance on other well-being dimensions, on vertical and horizontal inequalities and on longer-term or dynamic effects. As an example, subsidies on secondary school fees have absorbed part of the direct financial constraints of parents. However, as there is strong positive correlation between children's progression to higher levels of education and household income (OECD, 2014), subsidies on school fees at secondary – and even more so at tertiary – level will tend to benefit wealthier households. Tight budget constraints and (short-term) policy priorities could jeopardise achievements in other sectors. In several cases reviewed in the DP project, cost reductions at primary education level increased cost recovery at higher levels (see Dercon and Ruttens, 1998; Engel et al., 2011). At the same time, rise in output is rarely benchmarked for higher (or constant) quality standards. Despite increased potential access to services (health in particular), uptake could be lower as a result of perceived poorer quality; universal primary education achieved through higher pupil–teacher ratios and/or inexperienced (recently recruited) teachers may well be at the expense of teaching quality and thus learning outcomes (Dercon and Ruttens, 1998; Kadzamira and Rose, 2003; Arifianto et al., 2005; Shakil and Khan, 2011).

Assessing the distributional impact of changes in the financing mix was a challenge in the review of the DP case studies.

We illustrated above a series of methodological caveats to assessing whether financial resources contributed to improved human development indicators at country level and whether progress has been inclusive. However, filling some data gaps would help shed light on the questions addressed in this paper on how the financial burden shifts when progress takes place and how financial resources are distributed across income quintiles and vulnerable and marginalised groups. Examples include:

- **Strengthen efforts to collect household data and evaluate programmes.** For the cases reviewed in the DP project there is often limited information to provide a reliable description of the actors bearing the costs (and their relative burden/contribution/cost split) and especially its evolution over time. Several case studies fail to provide any general background on the amount and mix of financial resources or fail to compare ex ante and ex post (to policy and institutional changes) scenarios or even the counterfactual, let alone compare communities receiving benefits with those who did not over the same period. Often data is restricted to one year (and, if not in all the cases, pre-intervention) meaning that there is no information for assessing the impact of the large-scale intervention.
- **Incidence analysis of public spending.** Understanding financing progress also calls for deeper analysis of how resources are distributed across income groups, spatially and horizontally. While analysis of inequality in access and outcomes of project-level interventions are often available, incidence analysis of public spending (or welfare impacts of public spending on different income segments) would help in this direction, but such analysis requires an extensive set of information that only some upper-middle-income countries would be in a position

to run (this was the case for Chile, for instance, in the case studies reviewed).

- **Present clearer evidence on cost-effectiveness of interventions.** Shedding light on the contribution of financial resources to progress is ultimately meant to inform policy makers' decisions on how to allocate limited funds to maximise desired outcomes. In other words, this means identifying the most cost-effective intervention and what drives this result, either because of cheaper sourcing of inputs (economy), more output per unit of input (efficiency), or better outcomes per output (effectiveness). At the project level, in the case of health and education interventions there are standard methods to assess and compare the effectiveness across interventions (QALY, quality-adjusted life year, measuring the number of years of life added by the intervention, and standardised test score improvement), but this is not the case for other progress dimensions. Also, in the service delivery dimensions (education and health), interventions were either relatively recent (Kenya on subsidies to school fees in secondary education) with assessments not yet made, or no assessment or evidence was available to inform the analysis.

Annex 2 – Development Progress case studies (phase 1 and 2)

Blue indicates case studies from the first phase of the project, grey from the second.

Dimension / Area	Country focus	Title
Health	Bangladesh	Bangladesh's Progress in Health: Healthy partnerships and effective pro-poor targeting
	Eritrea	Progress in health in Eritrea: Cost-effective inter-sectoral interventions and a long-term perspective
	Rwanda	Rwanda's progress in health: Leadership, performance and health insurance
	Nepal (maternal and child health)	Nepal's story: understanding improvements in maternal health
	Mozambique (primary healthcare)	Against the odds: Mozambique's gains in primary health care
	Sierra Leone (NTDs)	No longer neglected: tackling Sierra Leone's neglected tropical diseases
	Cambodia (NTDs)	Neglected tropical diseases: the case of Cambodia
Education	Benin	Benin's progress in education: Expanding access and narrowing the gender gap
	Cambodia	Rebuilding basic education in Cambodia: Establishing a more effective development partnership
	Ethiopia	Ethiopia's progress on education: A rapid and equitable expansion of access
	Mongolia (post-primary)	From decline to recovery: post-primary education
	Kenya (post-primary)	Beyond basic: the growth of post-primary education in Kenya
	Chile (education quality)	Improvements in the quality of basic education: Chile's experience
	Indonesia (education quality)	Towards better education quality: Indonesia's promising path
Environment	Bhutan	Valuing the contribution of the environment to Gross National Happiness in Bhutan
	Costa Rica	Costa Rica sustainable resource management: Successfully tackling tropical deforestation
	Namibia	Sustainable natural resource management in Namibia: Successful community-based wildlife conservation
	Brazil (sustainable energy)	Joining the grid: sustainable energy in Brazil
	Viet Nam (sustainable energy)	Turning the lights on: sustainable energy and development in Viet Nam
	China (sustainable resource management for agriculture)	Growing more with less: China's progress in agricultural water management and reallocation
	Burkina Faso (sustainable resource management for agriculture)	A greener Burkina: sustainable farming techniques, land reclamation and improved livelihoods
Political voice and women's empowerment	Morocco (open and inclusive political systems)	Forthcoming
	Tunisia (women's empowerment)	Building momentum: women's empowerment in Tunisia
	Colombia (women's empowerment)	Forthcoming
Material wellbeing	Peru (quality of life in urban areas)	Forthcoming
	Thailand (quality of life in urban areas)	Forthcoming

(continued)

Dimension / Area	Country focus	Title
Material wellbeing (continued)	Ecuador (extreme poverty)	Forthcoming
	Pakistan (extreme poverty)	Forthcoming
Employment	Uganda (access to productive employment)	Productive employment and transformation in Uganda
	Sri Lanka (access to productive employment)	Progress under duress: Employment creation in Sri Lanka
Security	Timor Leste (peace and security)	(Forthcoming) Security progress in post-conflict contexts: From liberal peacebuilding to elite interests
	Liberia (peace and security)	Security against the odds
Multidimensional	Ghana (health, education and political voice)	Ghana, the rising star: progress in political voice, health and education
	Ethiopia	Forthcoming
	India	Forthcoming
Dimensions from DP1		
Governance	El Salvador	El Salvador's progress on governance: Negotiation, political inclusion and post-war transition
	Indonesia	Indonesia's progress on governance: State cohesion and strategic institutional reform
	Somaliland	Somaliland's progress on governance: A case of blending the old and the new
Water, sanitation and hygiene	Lao PDR	Unsung progress in rural sanitation: Building the foundations in Lao PDR
	Burkina Faso	Pipes and people: progress in water supply in Burkina Faso's cities
	Uganda	Rural water supply in Uganda: Major strides in sector coordination and performance
Social protection	India	Progress in providing employment for the poor: The national public works programme in India
	Brazil	Social protection in Brazil: Impacts on poverty, inequality and growth
	South Africa	South Africa's social security system: Expanding coverage of grants and limiting increases in inequality
Economic conditions	Malawi	Improved economic conditions in Malawi: Progress from a low base
	Mauritius	Progress in economic conditions in Mauritius: Success against the odds
	Viet Nam	Viet Nam's progress on economic growth and poverty reduction: Impressive improvements
Agriculture and rural development	Ghana	Ghana's sustained agricultural growth: Putting underused resources to work
	Thailand	Thailand's progress in agriculture: Transition and sustained productivity growth

This publication is based on research funded by the Bill & Melinda Gates Foundation. The findings and conclusions contained within are those of the authors and do not necessarily reflect positions or policies of the Bill & Melinda Gates Foundation.

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