

CHAPTER 1

Introduction

The Asian Development Bank (ADB) approved its education policy in August 2002.¹ The policy defines ADB's vision for the sector in the region, namely that "All children and adults will have equitable access to and complete education of sufficient quality to empower them to break out of the poverty cycle, to improve their quality of life, and to participate effectively in national development." The policy paper further argues that this vision can be best achieved through a policy-oriented approach that (i) links investment to an overall framework for sector reform and development, and (ii) helps government identify and implement policies and strategies that focus on the needs of the poor. The policy paper specifically stresses the need to give more attention to education sector analysis. To accomplish this, the paper notes that ADB will need to strengthen its own capacity in the education sector.

The aim of *Sector Diagnosis in Education: Economic Retrospective 2004 (Retro 2004)* is twofold. First, it reviews ADB's experience in analyzing education sector problems to assess how well the policy recommendations have been applied in practice. Second, it introduces a number of tools that could be used by ADB staff to conduct or strengthen sector diagnosis and presents findings from relevant research so that they can be reflected in ADB's policy advice or operations (or both), as appropriate. In line with the education policy recommendations, *Retro 2004* focuses more prominently on assessing the context for education development (sector analysis) rather than cost-benefit analysis of individual intervention (how to calculate economic internal rate of return, etc.). In this respect, the retrospective complements the 1994 "Framework and Criteria for

the Appraisal and Socioeconomic Justification of Education Projects,"² which were more project focused, in that discussion of project context and sector analysis was very limited in this framework. Furthermore, and in line with the broad mandate of the Economics and Research Department (ERD), *Retro 2004* seeks to reinforce the two-way link between operations and research within ADB—namely ERD's research products must influence ADB operations, which in turn must inform ERD's research agenda.

The retrospective is grouped into an operations review exercise (Chapter 2) and a broader research agenda (Chapters 3, 4, and 5). **Chapter 2** looks at **ADB's experience in analyzing education sector problems**. The review focuses on selected reports and recommendations of the President (RRPs), project (or program) preparatory technical assistance (PPTA) reports, and advisory technical assistance (ADTA) reports. Most were processed after the approval of the education policy. In contrast to the recommendations of ADB's education policy, it seems that ADB has paid insufficient attention to education sector analysis. In addition, the resources spent (mostly PPTA) are very thinly spread out over a wide range of tasks, and mix sector work with project preparatory work. It is also clear that the lack of attention to sector analysis often leads to projects with weak analytical underpinnings and rationale, such that the projects may address only some of the symptoms of a problem, rather than its real causes. Even worse, lack of clear identification of these real causes may result in proposals for inappropriate solutions (the analysis of alternatives being based on incomplete assumptions). Sector analysis is, therefore, an

¹ Available: <http://www.adb.org/documents/Policies/Education/Education.pdf>.

² Economics and Development Resource Center and Infrastructure Department. 1994. "Framework and Criteria for the Appraisal and Socioeconomic Justification of Education Projects: A Reference Guide for Bank Staff, Consultants and Executing Agencies." Asian Development Bank. January.

essential step to identify the key problems, their causes and effects, and consequently the basic rationale for a project and its objective. The chapter then discusses three key areas of sector analysis where shortcomings were identified: macro-economic linkages, social dimensions, and institutional context—with the last point particularly important in the education sector.

The rest of *Retro 2004* introduces various tools or techniques for analyzing the underlying institutional causes of poor performance in education. While the discussion focuses on the education sector, the tools introduced can be applied to other sectors as well.

Chapter 3 introduces a **basic framework of accountability in the education sector**. This framework, elaborated in the World Bank's *World Development Report 2004*,³ is useful to (i) identify who are the key actors involved in the chain of education service delivery, and (ii) understand how these various actors interact with each other through various relationships of accountability. Ultimately, this framework helps analysts understand why public service delivery works or fails. The chapter describes the characteristics of education services that make creating those relationships of accountability so crucial and so difficult. The main thesis is that the currently observed poor education outcomes are largely the results of *endogenous* and *systemic* failures. What that means for ADB education practitioners is that institutional, organizational, and incentives concerns must be addressed as an integral part of the problem diagnosis, to assess whether a working structure of accountability exists.

Chapter 4 discusses the **use of public expenditure analysis in the education sector**. It presents a framework for analyzing the level and composition of public expenditure and discusses how this framework can be applied to the education sector, drawing upon some key findings in the literature. The main conclusions are as follows. First, to ensure macroeconomic stability, the level of public spending should be kept at a level consistent with the country's long-run financing ability. Second, with respect to

its composition, expenditure should be evaluated in terms of the rationale for public sector intervention. This involves asking two questions: If market-generated allocation of resources has led to efficiency losses, would public sector intervention enhance efficiency? And: Could the public sector intervention be justified because it contributes to a more desirable distribution of income? If the answer to both of these questions is no, the public sector activity should be carefully reviewed or, failing adequate justification, be cut. The chapter also provides several suggestions to assess how well the state is performing in its role, on both efficiency and equity grounds.

Chapter 5 discusses the **use of microeconomic surveys for assessing public service delivery performance**. It focuses on two relatively new survey tools—the public expenditure tracking survey (PETS) and the quantitative service delivery survey (QSDS)—and suggests that they can indeed be useful instruments both for diagnostic purposes (identifying problems) and analytical purposes (trying to understand why the problems occur). The PETS and QSDS reviewed confirm that the translation of new funds and resources into improved education outcomes cannot be taken for granted. They also show some of the reasons why service failures may occur—often, leakage of funds and provider absenteeism.

Chapter 6: Conclusions. *Retro 2004* introduces various tools or techniques that can be used to further strengthen sector analysis. From ADB's perspective, the benefits of using such tools should be clear. They can help diagnose problems in the service delivery chain more rigorously, understand the underlying causes of these problems, and design more effective interventions. Undertaking such sector work also generates benefits beyond project preparation per se, by providing a sound basis to further policy dialogue and to carry out information benchmarking in a given country or sector context. Despite these obvious benefits, these tools have seldom been used in ADB, largely due to concerns over costs and over the potential trade-off between lending quality and volume.

³ World Bank. 2003. *World Development Report 2004: Making Services Work For Poor People*. Washington, DC.