

Cash on Delivery: A New Approach to Foreign Aid

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CGD Brief

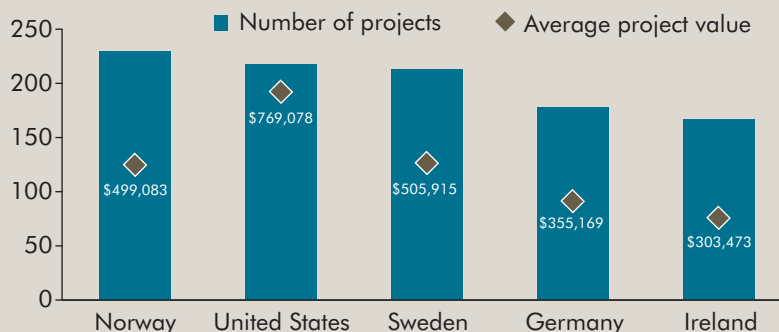
Foreign aid often works, but it is often criticized for being ineffective or even for undermining progress in developing countries. This brief describes a new approach, Cash on Delivery Aid, which gives recipients full responsibility and authority over funds paid in proportion to verified measures of progress. Through the example of using COD Aid to support universal primary-school completion, the brief illustrates a practical approach to aid that holds the promise of making aid more effective and less burdensome by fundamentally restructuring the relationships of accountability among funders, recipients, and their respective constituencies.

Buying things versus buying development: Shortcomings of traditional aid

Critics of foreign aid contend that much of it is ineffective or even hinders development. They argue that risk aversion—being concerned more with disbursing funds than achieving results—discourages local innovation and that a presumption that funders and their professional staff know which strategies will succeed discourages local learning. They maintain as well that the aid system is cumbersome, costly to administer, difficult to explain, and rarely transparent. (See figure 1 for an example of burdensome aid in Tanzania.)

These and other problems have encouraged the donor community to emphasize country ownership and promote results-based programs. These changes are in response to a fundamental challenge: foreign aid fosters a nontransparent relationship of accountability between

Figure 1. Large numbers of funders and projects can burden recipient countries:
Tanzania, 2007



Source: OECD Stat Extracts.

This brief is based on the book *Cash on Delivery: A New Approach to Foreign Aid with an Application to Primary Schooling* by Nancy Birdsall and William D. Savedoff, with Ayah Mahgoub and Katherine Vyborny (Center for Global Development, 2010), available at www.cgdev.org/content/publications/detail/1423949/. CGD is grateful for contributions from the William and Flora Hewlett Foundation in support of this work.

recipients and foreign funders that undermines accountability between governments and their own citizens. With weak local accountability and pressure from their own taxpayers and contributors, funders try to control the use of their assistance, often by financing and monitoring inputs, which are easier and quicker to track than outcomes. Funders that try to channel aid on the basis of results are often forced to backtrack in the face of objections: that giving local governments discretion will facilitate corruption; that it takes too long for results to be manifest; that it is too costly or difficult to measure outcomes. Consequently, funders end up buying things instead of buying development.

International agreements such as the Paris Declaration and Accra Agenda for Action call for a number of things that would characterize more effective aid: a focus on results, more predictable aid, improved accountability, greater country ownership, and harmonization of foreign assistance approaches. However, these agreements don't provide practical mechanisms to achieve these aims.

A new approach: Cash on Delivery Aid

Cash on Delivery Aid builds on other approaches that have pushed toward increasing country ownership and paying

for results. It is designed to strengthen the accountability of recipient governments to their citizens, funders to recipient governments, and recipient governments to funders by making financing contingent upon transparent and measurable incremental progress on specific shared goals. The novelty of COD Aid is in the combination of five basic features: payments for outcomes, hands-off implementation, independent verification of progress, transparency through public dissemination, and complementarity with other aid programs.

Payments for outcomes, not inputs

First, the funder pays for an outcome, not an input, agreeable to both the recipient and funder. The outcome must be measurable and should be continuous (such as number of children enrolled in school or surviving to age five), making it possible to pay in proportion to progress.

There are several benefits to providing aid in this way. It helps funders show measurable results to their constituents. It enables funders to complement existing projects and programs of support in countries that may not be eligible to receive budget support. It also creates incentives to collect reliable performance information, whereas traditional aid forces recipients to spend time on detailed reporting of expenditures and activities. Finally, the data produced under a

Box 1. Basics of COD Aid

Key features

- Payment for outcomes, not inputs
- Hands-off funders, responsible recipients
- Independent verification
- Transparency through public dissemination
- Complementarity with other aid programs

Basic steps

- Two parties negotiate and sign a medium-term (for example, five-year) contract
- Recipient government pursues its own strategy
- Recipient government collects and reports data (for example, annually)
- Funder arranges independent audit (for example, annually)
- Funder makes payment for confirmed results (for example, annually)
- Third party finances research (optional)

Advantages

- Accountability
- Local ownership and institutions
- Learning by doing
- Workable in most low-income developing countries
- Opportunities to attract private funders
- Progress toward the 2005 Paris Declaration

Risks and concerns

- Displacement of other aid programs
- Too little, too late
- Unintended consequences
- Waste and corruption
- Difficulty measuring outcomes
- No progress means no payment

COD Aid program help policymakers and researchers learn which programs are effective and why.

Hands-off funders, responsible recipients

Second, the funder embraces a hands-off approach, affirming recipients' responsibility and authority to implement development programs in their country. The funder does not pay for inputs and entirely eschews designing or demanding any particular new intervention or investments. The recipient in turn has complete discretion over the chosen strategy. Furthermore, the recipient can use the funds it receives after making progress in any way it chooses. This hands-off feature distinguishes COD Aid sharply from most existing aid modalities and reduces administrative costs considerably (see figure 2).

Giving governments the flexibility to design and implement policies and programs promotes country ownership and allows them to build their own capacity and make full use of local knowledge and experiences to innovate and learn. Recipients can request technical assistance, ideas, and

guidance from funders. Such technical help, being demand-driven, is more likely to be used well.

Independent verification

Third, COD Aid requires independent verification of progress toward the agreed-upon outcome. While recipients are responsible for measuring and reporting their progress, independent verification—based on new information obtained by a third party independent of the recipient—is critical to the credibility of the agreement. Obtaining such information is also the only way for recipients to accurately assess and improve their reporting systems. Funders should pay for the costs of independently verifying the measure of progress.

Transparency through public dissemination

Fourth, COD Aid transparently and publicly disseminates the content of the COD Aid contract itself, the amount of progress, and the payments. To encourage public scrutiny and understanding, the indicator or measure of progress should be as simple as possible. Simplicity and transparency increase

Figure 2. COD Aid changes the roles of funders and recipients

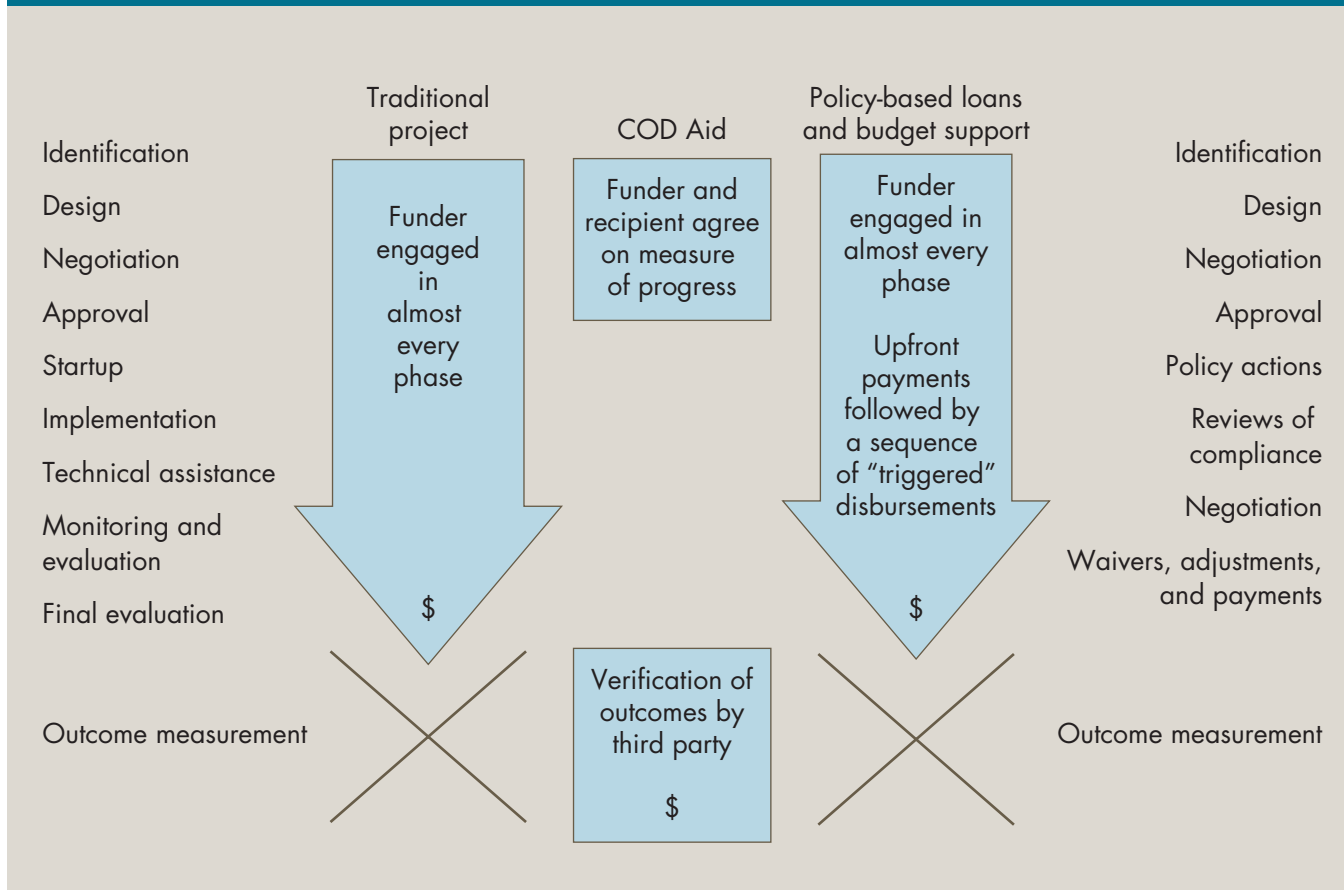
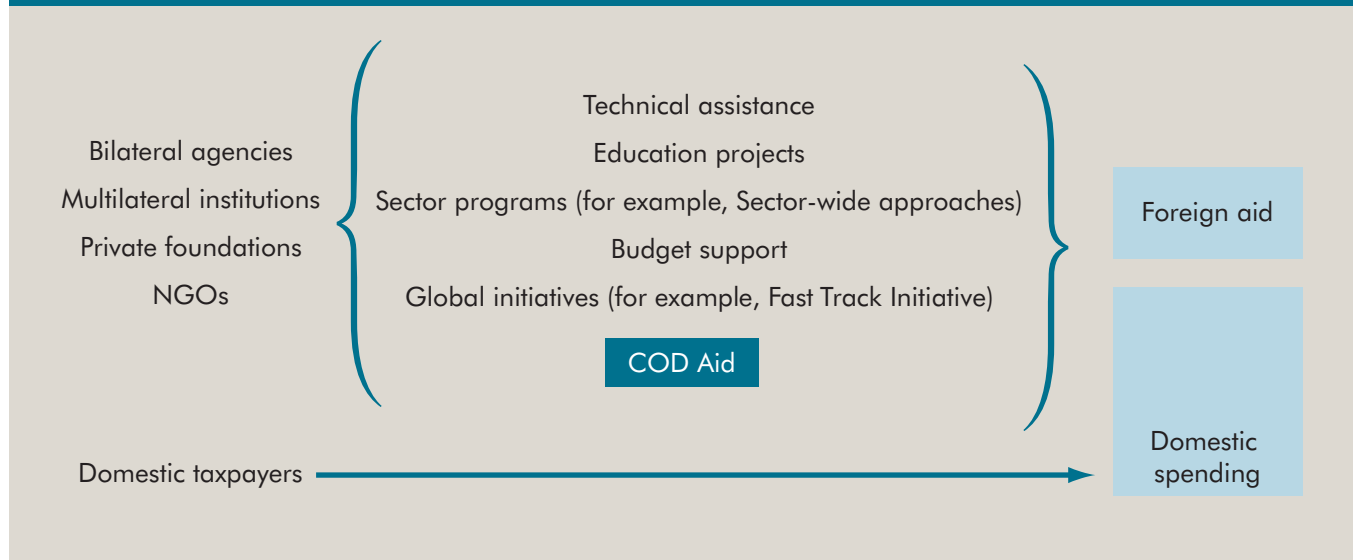


Figure 3. COD Aid for education complements other approaches



the credibility of the arrangement, help ensure that the parties fulfill their commitments, improve accountability to the public, and encourage broader social engagement in aspects of progress beyond the specific object of the contract. Public access to information about a government's progress could enable civil society to hold the government to account for the quality and quantity of its services.

Complementarity with other aid programs

Fifth, COD Aid complements other aid programs. We believe that COD Aid can and should be introduced as an addition to current aid flows without disrupting ongoing programs. Indeed, we argue that COD Aid would create healthy incentives for funders and recipients to use existing resources more efficiently. Over time, recipients and funders can assess the COD Aid mechanism and its effectiveness relative to other aid mechanisms (see figure 3).

Application to primary education

The most common objection to COD Aid is that it is not practical. To assess this objection, we convened experts and policymakers to help us design a COD Aid program in primary education. We chose primary education in part because governments and funders have already publicly committed to a shared goal: one of the eight Millennium Development Goals is universal primary school completion. The resulting proposal outlined below is explained in detail in our book,

Cash on Delivery: A New Approach to Foreign Aid with an Application to Primary Schooling.

Under our proposal, the unit of progress would be an "assessed completer," a student enrolled in the last year of primary school who takes an approved standardized assessment exam. The funder would agree to pay \$20 for each assessed completer up to the total enrollment in the base year and \$200 for each assessed completer in excess of that number. The recipient would commit to disseminating its information on student enrollments, assessed completers, and test scores. The funder would commit to contracting a third party to verify the accuracy of the recipient's reports. Payments would be offered for assessed completers regardless of their test scores to limit incentives to misreport progress—a recurring problem associated with high-stakes testing worldwide. Public dissemination of student achievement would equip governments and civil society with information about schooling quality and help them learn which schools work.

In contrast to traditional education programs, COD Aid funds would give whole governments an incentive to tackle all kinds of constraints on educational progress, many of them outside the education system itself, whether that requires simplifying financial administration to disburse funds on time, assuring good transportation and reliable electricity to reach schools, or linking antipoverty programs to school attendance. It

Box 2. Strong interest in COD Aid

Governments, researchers, and the press have shown a strong and continuing interest in COD Aid. Heads of state and cabinet officials in Ethiopia, Liberia, Malawi, and Tanzania have written to CGD expressing interest and requesting support to convince funders to work with them on COD Aid agreements. The British government has explicitly cited COD Aid in public documents and is committed to piloting the approach; the Germans, the Swedes, the Canadians, and the Americans have engaged us in discussions. The African Development Bank is exploring the possibility of a COD Aid approach in the water sector; at the World Bank, their first-ever guidelines on results-based operations are meant to make COD Aid and other outcome-based operations easier for staff to initiate; at the Clinton Foundation, the Clinton Health Access Initiative is exploring the potential of a COD application to health.

Meanwhile, COD Aid is the subject of or referred to in a number of academic, journalistic, and web articles, including the following:

- Lindsay Morgan, "Time for Radical Thinking? Cash on Delivery Aid (COD Aid): Taking Results-Based Financing (RBF) to the Limit," rbfhealth.org, July 2010
- *The Economist*, "Reforming Foreign Aid: More Is More?" June 10, 2010
- David Zetland, "Save the Poor, Shoot Some Bankers," *Public Choice*, Fall 2010
- Duncan Green, "Cash on Delivery—Worth a Try?" Oxfamblogs.com, May 10, 2010
- Nicholas Kristof, "A New Approach to Aid," *The New York Times*, April 29, 2010
- Carol Peasly, "Foreign Aid Reform: The Road Ahead," *Huffington Post*, April 6, 2010
- Felix Salmon, "Cash on Delivery Aid," *Reuters*, February 18, 2010

provides the government with room to involve the private sector and experiment with vouchers or new regulatory approaches. In contrast to most sector- and budget-support programs, a COD Aid agreement would increase transparency by linking funds to a single, easily understood, and credible indicator of real progress. The need to accurately measure primary completion would foster demand for the collection of accurate, comprehensive data on student achievement. The availability of the data would enable civil society to hold the government to account for providing good education; it would also provide better information for policymakers.

Beyond primary education: COD Aid for other development goals

A COD Aid program can be designed to attain any shared goals for which measurable progress can be defined. Possibilities include expanding secondary education, increasing immunization coverage, preventing the spread of HIV/AIDS, expanding access to running water, and slowing

deforestation. To design new applications of COD Aid, funders and recipient governments would agree on a goal, identify an appropriate outcome measure, set a fee per unit of progress, and establish a way to report and verify progress.

Managing risk

As with all initiatives, COD Aid agreements entail risks. We recognize three categories: those that can be managed through program and contract design, those that are associated with all forms of aid, and those related to misconceptions and departures from current practice. We discuss each below; see *Cash on Delivery* and CGD's website for more detailed discussion.

Risks that can be managed through program and contract design

Certain concerns can be managed during the program design and contract negotiation phase. One common concern is the *difficulty of measuring outcomes*. Program designers

can minimize this concern by consulting with experts to determine an appropriate indicator for the shared goal. Incorporating independent verification, with an appropriate system of penalties for misrepresentation, can minimize the risk of overreporting.

Risks associated with all forms of aid that are not specific to COD Aid

Many concerns about COD Aid are not unique to the approach. Government officials might use *the funds for illegitimate purposes*, for example, but all aid is vulnerable to corruption—even aid from programs that strictly monitor spending. COD Aid can be more successful in the face of corruption than traditional aid because it is paid against verified progress while traditional aid disburses against documented expenditures regardless of progress.

Misconceptions and departures from current practice

A common misconception is that COD Aid subjects recipients to *greater unpredictability in aid flows*. In fact, COD Aid is more predictable than traditional aid flows, which are subject to shifting domestic political priorities in donor countries. The variability of COD Aid payments is associated with factors that are more under the control of the recipient (i.e., policies that affect outcomes).

One common discomfort with COD Aid has to do with *not paying countries that fail to make progress*. Many results-oriented funders are in fact compromised by strong incentives to disburse money regardless of progress. Adopting a COD Aid approach demonstrates a strong commitment to pay only in proportion to success.

Down to business: Funding and implementation

The shift from monitoring inputs to paying against outcomes allows COD Aid agreements to be relatively simple and allows funders to coordinate their assistance at very low cost.

Once a COD Aid model agreement has been designed, any number of funders (whether public or private) can join without any additional negotiations. Funders could be official donors, private foundations, NGOs, multilateral institutions, or collaborations. If the agreement were offered to eligible countries as an “open contract,” provisions would

be necessary to limit the funders’ exposure, either by restricting the contract to a specific number of countries or establishing a maximum payout. As more funders join, the arrangement could accommodate more countries.

A COD Aid program can be offered to any interested country (or subnational entity) that meets basic eligibility criteria, which if possible should be restricted to the conditions necessary for measuring and verifying the outcome indicator. For example, our education proposal would require a primary completion exam of acceptable quality. Funders can identify interested countries and engage in country-by-country negotiations, or they can offer an open contract. The latter is more attractive because it would reduce administrative costs, increase transparency through simplicity and uniformity, enhance fairness by valuing outcomes equally across countries, and encourage self-selection of countries for which the terms would be most attractive (e.g., a fixed amount per child would be relatively more attractive to poorer countries).

Funders may face a number of obstacles to enter long-term agreements that pay for results and dispense with the usual forms of analysis, negotiation, approval, and monitoring. However, funders have shown the capacity to innovate. The creation of the Millennium Challenge Corporation and multi-year budget support partnership agreements are testaments to such efforts.

Once funders have committed to undertake a COD Aid program, funders and recipients can take the following steps to implement an agreement:

1. *Convene potential funders and recipients to review and negotiate a contract with the assistance of technical experts.* The group would specify an outcome indicator, establish eligibility criteria, establish the amount paid per unit of progress, and set a procedure for contracting an independent firm or university to conduct to verify results.
2. *Funders and recipients establish an institutional arrangement for receiving contributions and implementing the agreement.* The agreement could be implemented by a multilateral development bank that creates a special trust fund or by an independent nonprofit organization created especially for the purpose. The entity would sign contracts with contributors to receive funds or guarantees and be responsible for contracting with agents to verify

results, assure compliance with the contract, and make payments as progress occurs. It would be empowered to sign binding credible agreements with developing countries, with the financial backing to make payments in the future in accordance with progress.

3. *Elicit interest from recipient countries.* Countries that meet the basic eligibility criteria would enter discussions about the kinds and quality of information they have available to implement the agreement. If testing and verification methods were in place, a country could sign the agreement, establish a baseline, and implement its strategy. If testing and verification were not acceptable, the funder could offer technical assistance to meet these basic conditions.
4. *Evaluate the pilot experiences.* COD Aid is a significant departure from current approaches and should therefore be assessed carefully. Funders and recipients should work with an independent group to design an evaluation that would accompany the COD Aid agreement. Funders would finance the evaluation, while the country would provide researchers with access to information.

Once the agreement is signed, the recipient would pursue its strategy and collect and report data on the outcomes as agreed in the contract. The funder would arrange for an audit of the report by the designated third party and, once the results are verified, disburse payments to the recipient.

Conclusion

Despite its successes, foreign aid is subject to major critiques that it can be ineffective or even undermine development in recipient countries. COD Aid is an approach that could address these concerns by fully incorporating the principles of country ownership and paying for results. The simplicity of the approach—paying in proportion to progress that is independently verified—enhances its transparency and could contribute to a substantial improvement in accountability relationships among funders, recipients, and their respective constituencies. We do not pretend that COD Aid is a panacea for problems in the aid system but believe it holds enough promise to be worth trying, adapting, and assessing.

Further Reading

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Savedoff, William D. 2010. "Issues in Applying the Cash on Delivery Approach" (concept note, Center for Global Development).

Cash on Delivery Aid Initiative website: www.cgdev.org/section/initiatives/_active/codaid.

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