

# The Challenge of Aid in Pakistan: Is Cash on Delivery Part of the Solution?

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CGD Brief

A thorny set of obstacles stands in the way of the United States and other donors as they try to scale up development spending in Pakistan. The sheer scale of the country's population and development challenges requires effective mobilization of local resources and local institutions. Incentives for politicians to push for reform are weak. Monitoring spending is difficult, especially when it is spent through Pakistan's own government. Donors and local stakeholders may disagree about which development projects are most needed. A possible solution to these problems is Cash on Delivery Aid. In COD Aid, funders pay for measured and verified progress against an agreed-upon development outcome. The approach has been most clearly thought out in application to the education sector, but it can be applied whenever a donor and recipient can agree on a clear, measurable metric for assessing progress. This brief examines options for a COD Aid contract in Pakistan's education sector and its potential benefits for improving the relationship between official donors and the government of Pakistan, and for increasing the effectiveness of aid spending in Pakistan.

## Structuring Aid to Promote Functional Politics

The political obstacles to effective, sustainable development in Pakistan are not new, and they are not unique to Pakistan. These problems have blunted the impact of billions of dollars in development spending in Pakistan over the past decades. In the energy sector, in education, and in health, donors have found that their investments were not matched by local resources or local commitment. Recognizing that fact, donors are already trying new approaches to development cooperation. As one example, as the World Bank implements comprehensive education projects in Sindh and Punjab provinces, they are working within the bounds of plans developed jointly with the respective provincial governments. They are tying loan disbursements to a set of disbursement-linked indicators (DLIs) which, at least in theory, require serious action from the provincial governments in order for aid to flow. USAID's own plans to spend a greater share of the aid budget through Pakistani governmental and nongovernmental institutions reflect another new approach.

In each of these cases, donors are searching for ways to enable aid to support local political processes better. However, the political economy of the Pakistani state reveals a potential gap. Does aid conditionality truly create pressure on those in power to push hard for reforms that can be quite politically treacherous? Does aid strengthen the hand of those in government who are already inclined to support such reforms?

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Cash on Delivery Aid will begin to address these questions. In COD Aid, funders pay for measured and verified progress against an agreed development outcome—rewarding governments *ex post* that find a way to accelerate progress in educating their children, in delivering clean water, or in safeguarding the health of their expectant mothers. Fifty million dollars per year (of an USAID education sector budget that stood at \$330 million in fiscal year 2010) would be sufficient to fund a COD contract covering all of Pakistan. Besides the incentives created in the recipient government, COD Aid helps donors and recipients alike place greater emphasis on measuring development outcomes and learning from both successes and failures. It reduces the administrative burden on both parties in an aid transaction, and offers a clear way to summarize for citizens in donor and recipient countries the progress aid is helping to achieve.

### What Is Cash on Delivery Aid?

While the details can be adapted to the specific conditions of a particular sector and country, COD Aid has at its core five simple principles, summarized in box 1. In any sector,

a donor adopting a COD approach would agree to pay a certain amount for each incremental unit of progress toward a development goal shared by both donor and recipient. As an example (which will be elaborated upon below), a donor could agree to pay \$100 for each additional child beyond a baseline who finishes primary school and takes a standardized test of learning. Over the course of five or more years, recipients would measure progress; an independent, third-party auditor would annually verify their reported gains.

COD Aid is designed specifically to promote better use of existing recipient and donor resources. By paying for outcomes and encouraging donors to adopt a hands-off approach to the design and implementation of a country's programs, COD aid reduces the administrative burden on aid donors and recipients alike. The funds earned under a COD contract would not be subject to expensive and intrusive monitoring by donors, nor would recipients be required to file multiple interim reports detailing their use. Furthermore, by emphasizing comprehensive measurement of a critical development outcome, COD aid creates a stream of information that can

#### Box 1. Essential Features of Cash on Delivery Aid

**Pays for outcomes, not inputs:** COD Aid pays for outcomes and not for inputs. The outcome has to be closely related to an objective that is shared by the donor and recipient. The outcome also has to be measurable in a way that is continuous, making it possible to reward incremental progress.

**Hands-off:** Without conditions or restrictions on use of funds, COD Aid requires recipients to assume full responsibility for the design and implementation of strategies to make progress at the lowest possible cost. This aligns incentives squarely to achieving progress at the lowest possible cost, rather than to spending money.

**Independent Verification:** The trigger for COD Aid payments is progress. Therefore, both recipient and donor have to have confidence in the way progress is measured. A process of independent verification, paid for by the donor, is essential. This focus on good-quality information about outcomes is also a key benefit of this form of financial assistance.

**Transparency:** The COD Aid contract and progress should be as simple as possible and publicly disseminated. Such transparency increases the credibility of the arrangement; helps assure that the parties fulfill their commitments; improves accountability to the public; and encourages broader social engagement in aspects of progress that are not the specific object of the contract.

**Complementarity:** COD Aid is complementary to other aid programs so as not to disrupt ongoing programs that provide other kinds of support. In this way, COD Aid acts as an incentive not only for the country to make progress but also to use existing resources—domestic and foreign—more effectively.

help governments and donors use their other resources better and can help civil society play a greater role in holding the public sector accountable for services delivery.

## What Would Be Measured?

Paying Cash on Delivery requires careful thought about what a single representative measure of progress in a given sector would be. The pressure created by a promise to pay against a single indicator necessitates a metric that is simple to apply, easy to verify, and doesn't invite cheating.

In education, both access to education and education quality are critical goals. However, measurements of education quality are troublingly easy to falsify and difficult to audit. Nancy Birdsall and others have suggested that a sensible indicator in the education sector would create information on education quality, while minimizing the stakes of any assessment of student performance. In short, recipient governments would be paid for all children who complete primary school (education access) and take a standardized test of learning (education quality), regardless of their performance on that test. Such students are termed "assessed completers."<sup>1</sup>

The COD contract would require the government to disseminate the results of annual assessments widely so that the information produced would begin to push schools to improve quality. However, avoiding paying directly for performance shields the test from the inevitable pressure to cheat.

Pakistan currently has no national learning assessment at the primary level (in fact, the only national examination is the secondary school completion exam, which requires students to pay a fee and is used to determine admission to higher education). Sample-based assessments have been conducted (most notably in the past decade by the World Bank and DfID-funded National Education Assessment System, founded in 2003), and expansion of the NEAS model seems to be the most direct path to universal national assessment. The Pakistan Education Task Force, a joint UK-US-Pakistani effort, has included testing student learning and publishing the results among its progress benchmarks.<sup>2</sup> As the task force continues dialogue and technical assistance aimed at improving school management and education sector governance, a COD Aid contract could add useful

impetus on the assessment front and could offer a means to highlight actual student achievement.

Key to any such national assessment will be testing learning in public and private schools alike. Sources estimate that at least 25 to 33 percent of primary school students in Pakistan attend private schools. A study conducted in Punjab province found that private schools compared favorably to public schools in their educational outcomes.<sup>3</sup>

In Pakistan, measuring assessed completers would necessarily be a long-term project. Over the first few years, the easiest way to increase the number of assessed completers in Pakistan (or in any of its provinces) would simply be to roll out the assessment speedily. Other interventions—aimed at either increasing early-grade student intake or decreasing the number of students who drop out before the final grade of primary school—will produce visible results only over a longer timeframe. However, pushing ahead now on expanding assessment is critical to eventually securing accurate measures of the effects of those other interventions. The Pakistan Education Task Force has, among its benchmarks for progress, included the development and implementation of student assessments. A Cash on Delivery contract in one or more provinces could be an important complement to the good work already being done by the task force.

## Who Would Be Paid?

Ideally, the Cash on Delivery contract would be drafted with an eye toward country- and sector-specific political dynamics. COD Aid seeks to recognize and ameliorate the bureaucratic and policy constraints on positive change. Some thought should therefore be put into the question of which level of government is most appropriate to receive the aid, given the policy levers held at each level and given the specific bureaucratic obstacles in play.

In a contract focused on Pakistan's education sector, at least two different levels of disbursement could be reasonable. Under the Pakistani system, the bulk of responsibility and authority for basic education lies at the provincial level (implementation and supervision are devolved even further to the districts). The federal government, however, controls curriculum development and plays a coordinating role around

1. Nancy Birdsall and William D. Savedoff, *Cash on Delivery: A New Approach to Foreign Aid* (Washington, DC: Center for Global Development, 2010).

2. Pakistan Education Task Force Scorecard. <http://pakistaneducationtaskforce.com/scorecard.html>.

3. Tahir Andrabi, Jishnu Das, Asimljaz Khwaja, Tara Vishwanath, and Tristan Zajonc. "Learning and Educational Achievement in Punjab Schools (LEAPS): Insights to inform the education policy debate." [http://www.leapsproject.org/assets/publications/LEAPS\\_Report\\_FINAL.pdf](http://www.leapsproject.org/assets/publications/LEAPS_Report_FINAL.pdf).

assessment. The NEAS cell within the federal Ministry of Education, for example, helps provinces design and implement tests.

With this in mind, I present three alternative scenarios. In the first, a COD contract would be signed with a single provincial government deemed to have the institutional capacity to quickly implement a test of learning—perhaps as a complement to a broader aid commitment along the lines of the World Bank’s Education Sector Programs in Punjab and Sindh. The COD payout would provide incentives for recipient governments to use other flows of aid as effectively as possible. It would increase in direct relation with the amount of progress they were able to make in increasing the number of students who finish primary school and are tested.

In the second and third scenarios, the COD Aid contract would be signed with the federal government. Progress anywhere in the country would be rewarded—and the government would decide how best to distribute aid money to best achieve progress. Under one approach, the federal

government could have access to a fixed pool of aid to be divided among Pakistan’s provinces depending on relative progress compared to their peers. Provinces already receive the vast majority of their budgets in the form of cash transfers from the federal government; a Cash on Delivery revenue stream would provide a kind of bonus on top of expected current transfers.

At either level of disbursement, the idea is that the recipient government faces no restrictions on how COD funds can be spent once they are awarded. Governments might decide to use these funds to reward individual districts (or even individual schools) that perform especially well. They might use the funds to remove bottlenecks to expanding educational access and quality found outside of the education system altogether (for example, better child health or better infrastructure for transporting children to and from school). While donors could continue to provide technical assistance, advice, and other funding, the decision of how best to spend COD funds would be up to federal or provincial government officials themselves.

**Table 1: Simulated COD Aid Program in Sindh Province, Assumed Accelerated Enrollment Growth**

Year	Candidate pool	Growth of pool	% tested	Assessed completers	Over baseline (2yr lag)	Payment A level	Payment B level	Payment A	Payment B
0	500,000								
1	520,000	4%	20%	104,000	0	\$30		3,120,000	0
2	540,800	4%	40%	216,320	0	\$30		6,489,600	0
3	562,432	4%	60%	337,459	233,459	\$20		6,749,184	0
4	584,929	4%	80%	467,943	251,623	\$15		7,019,151	0
5	608,326	4%	90%	547,494	210,035	\$15		8,212,407	0
6	632,660	4%	90%	569,394	101,450		\$200	0	20,290,027
7	657,966	4%	90%	592,169	44,675		\$200	0	8,935,099
8	684,285	4%	90%	615,856	46,463		\$200	0	9,292,503
9	711,656	4%	90%	640,490	48,321		\$200	0	9,664,203
10	740,122	4%	90%	666,110	50,254		\$200	0	10,050,771

No data on class 5 enrollment in all of Sindh’s public and private schools are available. However, data on public school enrollment from the 2006-2007 school year report a total of 333,190 Class 5 students. Assuming that this represents approximately 67% of the total enrolled student population, I estimate that there were 500,000 class 5 students in Sindh during that year.

## What Would It Cost? Three Simulated COD Aid Contracts

Below are three types of potential COD Aid contracts that a donor and the national government or provincial governments might agree upon.

### **Scenario 1: Pilot provincial-level disbursement, simulated for Sindh province**

In Pakistan's federal system, the provinces exercise primary control over the main drivers of educational access and quality. The World Bank has recognized this dynamic in its own education sector programming, choosing to establish separate projects within each of Pakistan's provinces, in consultation with provincial governments. Thus, it could be useful to begin with a pilot Cash on Delivery program in a single province. Starting in a province where the challenges of implementation are surmountable, if not uncomplicated, could provide lessons for programs in other provinces.

I attempted to model a hypothetical COD contract for primary education in Sindh province, where there are roughly 500,000 pupils currently enrolled in grade 5.<sup>4</sup> Depending on the speed with which a test can be implemented and continued growth in enrollment, COD aid payments would be likely to average slightly under \$10 million per year (independent of any associated payments to assist in the direct costs of developing and administering a test and auditing its results). See table 1 for details.

In fiscal year 2011, total spending on education by Sindh's provincial and district governments is budgeted to be approximately \$700 million.<sup>5</sup> Thus, a COD payment for Sindh would likely amount to only a small proportion of the overall education budget. However, the fact that COD aid money is not earmarked for specific projects or purposes would allow provincial officials to use it creatively to address key obstacles to access or to reward specific districts or schools that perform well. Performance-based incentives are an important component of the World Bank-supported Sindh Education Reform Program, which, in addition to linking overall disbursement to certain indicators of reform, awards school

rehabilitation grants on the basis of performance.<sup>6</sup> A COD pilot program might be a useful complement to SERP's efforts to improve management of the education sector.

### **Scenario 2: National fixed disbursement, divided among provinces**

In this scenario, Pakistan's federal government would be given a fixed annual amount of aid, to be distributed to the provinces based on their relative success in increasing the number of assessed completers within their borders. In essence, instead of each assessed completer earning a fixed dollar amount, each would be worth a single share of the COD Aid disbursement. This mechanism simplifies certain aspects of the administration on the donor side, since it would guarantee a steady level of disbursement each year. It also strikes a balance between national and provincial programs—it would require the creation of national standards for assessment, but would direct the resulting aid flows to the provinces, to be spent as they please.

Dividing resources among provinces in Pakistan is a distinctly thorny political problem. The difficulties that arise from basic inequalities among provinces in levels of government capacity, urbanization, and poverty are compounded by pervasive mistrust. Thus, some adjustment of the formula for apportioning payments for each assessed completer might be necessary. The shares could be adjusted (hopefully only for a short initial phase-in period) to account for the unequal logistical difficulties the provinces will face in implementing an assessment. The National Finance Commission award formula, which takes into account factors such as the percentage of provincial populations living in rural communities, could provide the starting point for such an adjustment.

### **Scenario 3: National variable disbursement**

This scenario is a simple, national-level implementation of the basic COD Aid model. It would provide for a payment to the federal government of Pakistan, first for implementing a standard national test of learning at the primary school level, then for increasing the number of students who sit for the test (and thus, who complete primary school). Paying out at the federal level would provide a strong incentive to develop a national assessment and to roll it out quickly in

4. Estimated from data on public school enrollment and rough estimates of the proportion of students enrolled in private schools.

5. "Budget Speech 2010-2011" Finance Department of Sindh. [http://www.fdsindh.gov.pk/site/userfiles/1276422357\\_56820.pdf](http://www.fdsindh.gov.pk/site/userfiles/1276422357_56820.pdf).

6. Project Appraisal Document, World Bank Sindh Education Sector Project. [http://www.wds.worldbank.org/external/default/WDSContentServer/WDS/IB/2009/05/19/000333037\\_20090519032422/Rendered/PDF/476420PADOP107101OfficialUseOnly1.pdf](http://www.wds.worldbank.org/external/default/WDSContentServer/WDS/IB/2009/05/19/000333037_20090519032422/Rendered/PDF/476420PADOP107101OfficialUseOnly1.pdf).

each province. Federal authorities would have leeway to determine if the resulting COD Aid payout would be distributed as a downstream incentive to top-performing provinces or districts, or used in some other way.

The contract might be structured as follows: For the first five years of the contract, payments would be made per assessed completer, that is, per student taking the standardized test. In the first and second years of the contract, the government would be paid \$30 for every student who takes an approved test. This payment would decrease in years 3 to 5, dropping first to \$25 in year 3, then to \$15 in years 4 and 5.

At a certain point, either defined as year 6, or when the number of students tested has exceeded a certain threshold (perhaps 90 percent of the grade 5 population in each province), a second payment would replace the first one. The government would be paid \$100 for each additional assessed completer over a baseline, defined as the number of assessed completers two years before.

This set of payments aims to provide a relatively stable level of payment over the entire process of implementation of the test, which would assumedly take several years to reach most schools. The levels of payment envisioned range between \$15 million in the first payout year (when I've assumed only 20 percent of enrolled pupils will be tested) and \$50 million in year 6, when the first baseline-linked payment would be made. See table 2 for details.

### Existing Capacity and Challenges to Implementation

The most daunting obstacle to a COD Aid contract in Pakistan is also the most fundamental: there is no universal test of learning administered at the primary school level. This problem has not escaped the notice of education specialists in Pakistan and in donor agencies. As discussed above, the World Bank has financed the development of a National Education Assessment System unit within the federal Ministry of Education. Thus far, the NEAS has not expanded to anything close to a universal, nationwide test.

Table2: Simulated COD Aid Contract in Pakistan, National Variable Disbursement

Year	Candidate pool	Growth of pool	% tested	Assessed completers	Over baseline (2yr lag)	Payment A level	Payment B level	Payment A	Payment B
0	2,469,198	4%	0	0	0				
1	2,567,966	4%	20%	513,593	0	\$30		15,407,796	
2	2,670,685	4%	40%	1,068,274	0	\$30		32,048,215	
3	2,777,512	4%	60%	1,666,507	1,152,914	\$20		33,330,143	
4	2,888,612	4%	80%	2,310,890	1,242,616	\$15		34,663,349	
5	3,004,157	4%	90%	2,703,741	1,037,234	\$15		40,556,118	
6	3,124,323	4%	90%	2,811,891	501,001		\$100	0	50,100,094
7	3,249,296	4%	90%	2,924,367	220,625		\$100	0	22,062,528
8	3,379,268	4%	90%	3,041,341	229,450		\$100	0	22,945,030
9	3,514,439	4%	90%	3,162,995	238,628		\$100	0	23,862,831
10	3,655,016	4%	90%	3,289,515	248,173		\$100	0	24,817,344

Class 5 enrollment data from the 2007 Pakistan Education Statistics (AEPAM) used for year 1. All other data simulated.

A key ingredient of any contract based on the COD model is the use of trusted, third-party auditors to verify government-reported results. Monitoring and evaluation are, to be sure, a necessary piece of standard development interventions as well. The monitoring burden of COD aid will, especially in the long run, likely be equal to or less than the burden created by traditional aid. Sampling and retesting a small number of schools is simply a less daunting task than tracking and auditing hundreds of millions of dollars in aid expenditures. The process of doing so also creates important collateral benefits in the form of strong data describing where educational outcomes are improving and where they are not. This information can be used by recipient governments and parents to adjust their decisions to achieve best results. As other interventions move forward, it can also be presented to funders as concrete evidence of what aid programs are accomplishing.

## Conclusion

Over the decades, efforts by foreign donors to contribute to solutions to Pakistan's most pressing problems have often run aground on problems of coordination, mismatched incentives, and differences in priorities. While aid can produce positive impacts on its own, larger-scale change requires effective policies and capable governments in recipient countries.

Especially in a context where aid can hope only to fund a very small fraction of need, donors are already recognizing the need to leverage their aid spending to maximize the impact of host country spending. Cash on Delivery Aid, as a means of aligning incentives for government ministries and donors, could be an important piece of this puzzle. As federal and provincial ministries move forward with plans to reform the education system, payment for results should be strongly considered.

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