



COD Aid: Transfers for Transformation

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COD Aid

I. Why

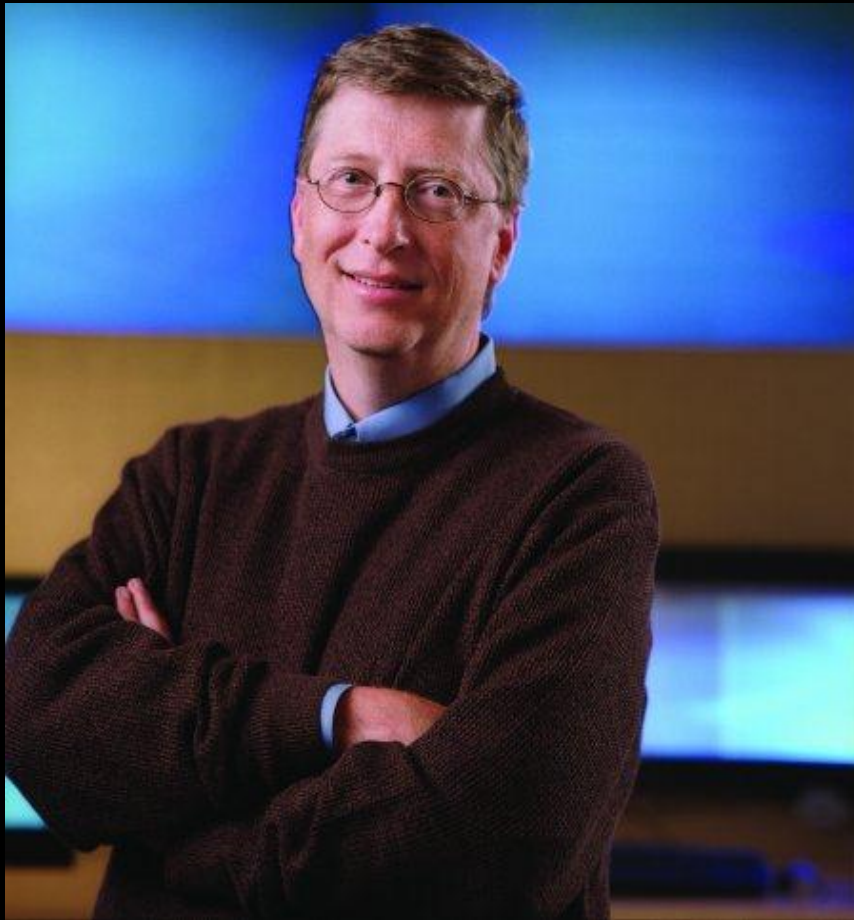
II. How (and how different)

III. Benefits and Concerns

Why #1: Connects two major aid objectives

- Short term: To reduce poverty and improve well-being (better lives now)
- Long-term: To encourage broad-based growth and accountable government; build “institutions”; transform the state and society

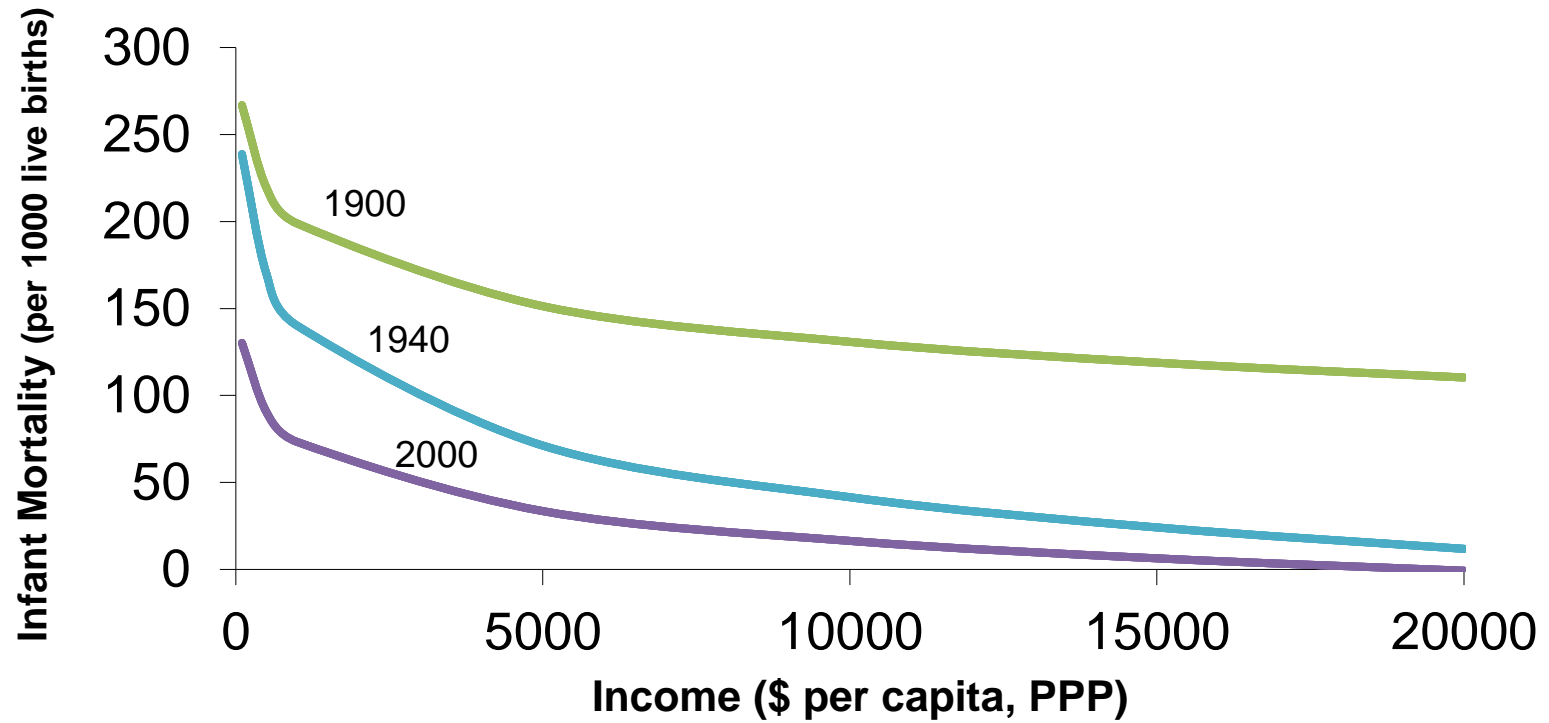
Short term: Better lives now



Better lives now

- Outsiders can help: We know a lot about how
- Good evidence this kind of aid works
- Donor taxpayers like it: Generosity tied to knowing results/outcomes

Infant Mortality



Source: CGD Essay by Charles Kenny, February 2011

Long term: to transform state and society



WORLD BANK HEADQUARTERS
Washington, D.C.



Transforming societies long-term

- Institutions and systems – how?
- Implementation “science” – new
- Complexity and chaos!
- Evidence that aid builds institutions or transforms societies is weak and controversial
- Donor taxpayers and legislators wary

Connecting short and long-term:

- Focus on “a small number of priority projects (aka results/outcomes) to drive the system”.

Who said that?:



*Tony Blair, Center for Global Development
(December 2010)*

Why #2

- Makes recipient governments accountable to their own citizens -- by shifting responsibility and risk for implementation

Traditional aid: donor is responsible and accountable; puts donor between the government and its citizens





The donor dilemma: No representation without taxation

Aid from outside without scrutiny from inside

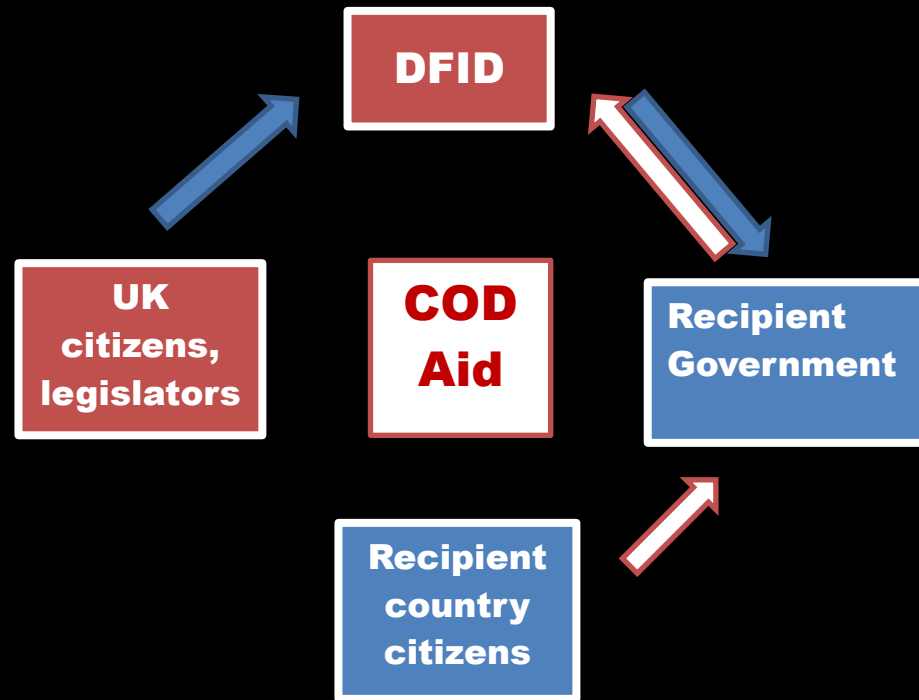
- London: Taxpayers hold politicians accountable for outcomes their taxes finance
- Malawi: Citizens have no real control over donor-financed programs
- Absent citizen scrutiny, donors micromanage inputs fearing incompetence, waste and corruption
- Aid finances inputs without any link to **outcomes**

Aid Dependency

| | Net ODA as a % of GNI (2008) | Revenue as a % of GDP (2008) | Net ODA: Revenue Ratio (2008) | Freedom House 2010 Rating |
|--------------------|---------------------------------|------------------------------------|-------------------------------------|------------------------------------|
| Afghanistan | 38.9%* | 8.2%* | 4.96* | 6.0 |
| Burundi | 43.7% | 18.5% | 2.35 | 4.5 |
| Malawi | 22.7% | 19.9% | 1.07 | 3.5 |
| Rwanda | 21.0% | 12.6% | 1.65 | 5.5 |
| Ethiopia | 12.8% | 13.1% | 0.98 | 5.0 |
| Tanzania | 11.3% | 15.8% | 0.71 | 3.5 |

Sources: World Bank World Development Indicators; IMF Article IV Consultations; Freedom House Freedom in the World 2010 Survey

Resolving the principal-agent problem among funders and recipients



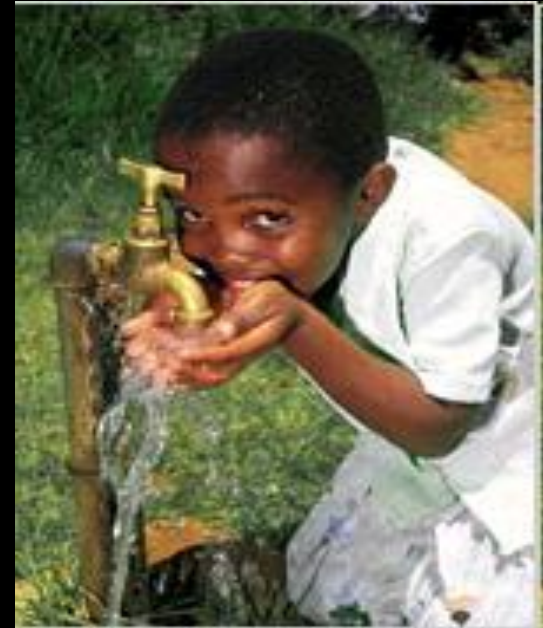
So: Why COD Aid?

- I. Links better lives now to long-term transformation
- II. Makes governments accountable to their citizens
- III. (Oh: And more. . . helps donors focus on their results)

HOW: Key features of COD Aid

- Payment for outcomes, not inputs
- Hands-off funders – except if asked
- Independent third-party verification
- Transparency through public dissemination
- Complementarity with other aid programs

Donors pay annually for outcomes and not inputs...



Hands-off funder leaves plans and decisions to the recipient government ...

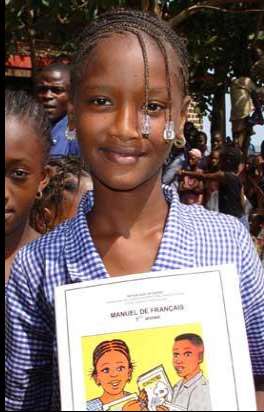


Photo: U.S. Department of State

Perhaps textbooks



Photo: Anna Lindh Euro Mediterranean Foundation

teacher training



Photo: Prefeitura Municipal de Erechim

conditional cash transfers



Photo: Horizons Unlimited

improving roads so children can get to school



Photo: Pierre Holtz, UNICEF

early nutrition programs to boost learning outcomes

...as well as changes in policies,
and/or bureaucratic rules,
and/or political relations.

Or?

The government's annual reports on results are independently verified...



Contract, government-reported annual results, and third-party verification reports are all public...



How not: Transactions- oriented aid

Transactions-oriented aid (donor focuses on the transaction and on making disbursements)

Vs.

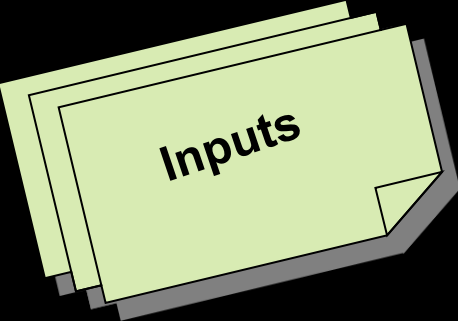
Results-oriented aid (donor encourages recipient to focus on results)

Transactional Aid

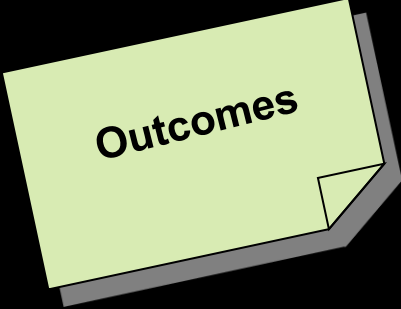
COD Aid



DESIGN



NEGOTIATION



**CONTRACT
SIGNED**



Transactional Aid

COD Aid

Donor supervises,
provides TA,
monitors inputs,
sends consultants,
tracks \$\$\$

N/A

???

IMPLEMENTATION

VERIFICATION
OF OUTCOME

EVALUATION

Recipients manage and
decide on input mix;
Donor provides assistance
if asked



Results known to all

Getting away from transactions-oriented aid...

Results-based financing:

- Pay NGOs and private contractors for supply (OBA)
- Pay households to encourage demand (CCTs, vouchers)

Results-based aid:

- Pay governments tied to reforms: SWAps, budget support
- EU variable tranches
- COD Aid

COD: strong version of RBA

- **Level** – government gets the cash (like budget support)
- **Outcomes** – not policy conditions, not outputs, not targets (incremental)
- **Government has full discretion** – what and how
- **Third-party independent verification** - donor outsources

Some benefits of COD Aid

- Why #1 and #2
- Donor experts respond to demand for ideas, for help, for consultants (!)
- Could leverage other money
- Allows for experimenting, learning
- Helps meet Paris commitments
- Can work in some fragile states

Common concerns

- Implementation risk implies even more disbursement risk
- Attribution issue?
- Donor staff expertise/role?
- What about waste and corruption?
- Fragile states: “capacity” constraints

Making it practical: Ethiopia

- Outcome to measure and pay for
- Unit of payment
- Third-party verification
- Transparency arrangement
- Monitoring and evaluation?

“With Cash on Delivery, **developing countries can choose** which investments will move them forward most quickly.”

-Andrew Mitchell

“The idea is to give recipients more control over aid spending—long an aspiration of thoughtful activists who point to waste, bureaucracy, unpredictable flows and confusion among foreign-aid programs.... With cash in hand and new ideas, Britain **has a rare chance to blaze a trail.**”

-The Economist

“The central idea of handing over ownership to countries and paying for performance **is well worth experimenting with.**”

- Nicholas Kristof

“[The COD Aid approach] has the potential to change the relationship between donors and partner governments and reinforce the development community's **focus on results.**”

-Kofi Annan

“[COD Aid] is **especially refreshing** in an aid world with so much dogma about how to do specific aid interventions and far **too little reward for trial and error** experimentation...”

-Bill Easterly

“[COD Aid is] designed to **liberate donors from their usual bureaucratic constraints** and make recipient governments truly accountable to their own citizens. In fragile states, Cash on Delivery Aid offers one way for outsiders to **contribute to nation-building, helping to strengthen rather than undermine local institutions.**”

- Ashraf Ghani, Finance Minister of Afghanistan (2002-2004)