

Cash on Delivery Aid: A different kind of results- based development approach

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***based on work by
N. Birdsall, W. Savedoff, O. Barder, K. Vyborny, and A. Mahgoub***

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Overview

- The idea of COD Aid
- Obstacles to aid effectiveness
- Making it practical: Primary Education
- What would it mean for Ethiopia?

Based on ...

- O. Barder and N. Birdsall. "Payments for Progress: A Hands-Off Approach to Foreign Aid." CGD Working Paper 102.
- COD Aid initiative, led by Nancy Birdsall, William D. Savedoff & Ayah Mahgoub
- N. Birdsall, W. D. Savedoff, & K. Vyborny. *Cash on Delivery: A New Approach to Foreign Aid, An Application to Primary Schooling*. (forthcoming).

The Idea: Cash on Delivery Aid

- An open ‘contract’ offered by one or more funders for recipients to sign on
- Specific amount for specific progress, e.g. \$200 per child taking a competency test in the final year of primary school
- Not meant to substitute for existing aid

The Idea: Countries use funds for what they think will work best . . .

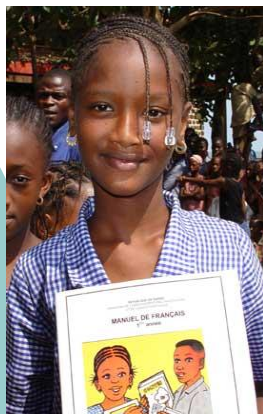


Photo: U.S. Department of State



Photo: Anna Lindh Euro Mediterranean Foundation

textbooks...

teacher training ...



Photo: Horizons Unlimited

...improving roads so children can get to school ...



Photo: Pierre Holtz, UNICEF

...early nutrition programs to boost learning outcomes...



Photo: Prefeitura Municipal de Erechim

...Conditional cash transfers...

The Idea: . . . and receive funds in proportion to their success

The Problem: Accountability goes in wrong directions

- In high-income countries, taxes finance outcomes and taxpayers monitor
- In aid-dependent countries, citizens have weak incentives to monitor aid-financed programs
- Absent local scrutiny and weak outcome measurement, funders seek to control inputs
- Neither funder nor recipient knows real production function

Solutions? Aid-financed approaches that focus on results

- Sectoral
 - Global Alliance for Vaccines Initiative (GAVI)
- Macro level
 - Global and sectoral budget support (GBS)
 - Development Policy Loans (DPLs)
- Micro level
 - Conditional cash transfers (CCTs)
 - Global Partnership on Output Based Aid (GPOBA)

COD Aid builds on but differs from other approaches

- Macro level (not household or provider)
- Program outcomes that are incremental (not pass/fail like many policy conditions)
- Measurement and transparency makes recipient government accountable to citizens rather than funders
- Funders are also more accountable – to their own legislators and taxpayers for outcomes

Key features of COD Aid

- Funder pays for outcomes, not inputs
- Recipient chooses how to achieve progress not the funder (“Hands-off”)
- Independently verified by a third party
- Transparent to the public
- Complements other aid modalities

Hands-On Approaches

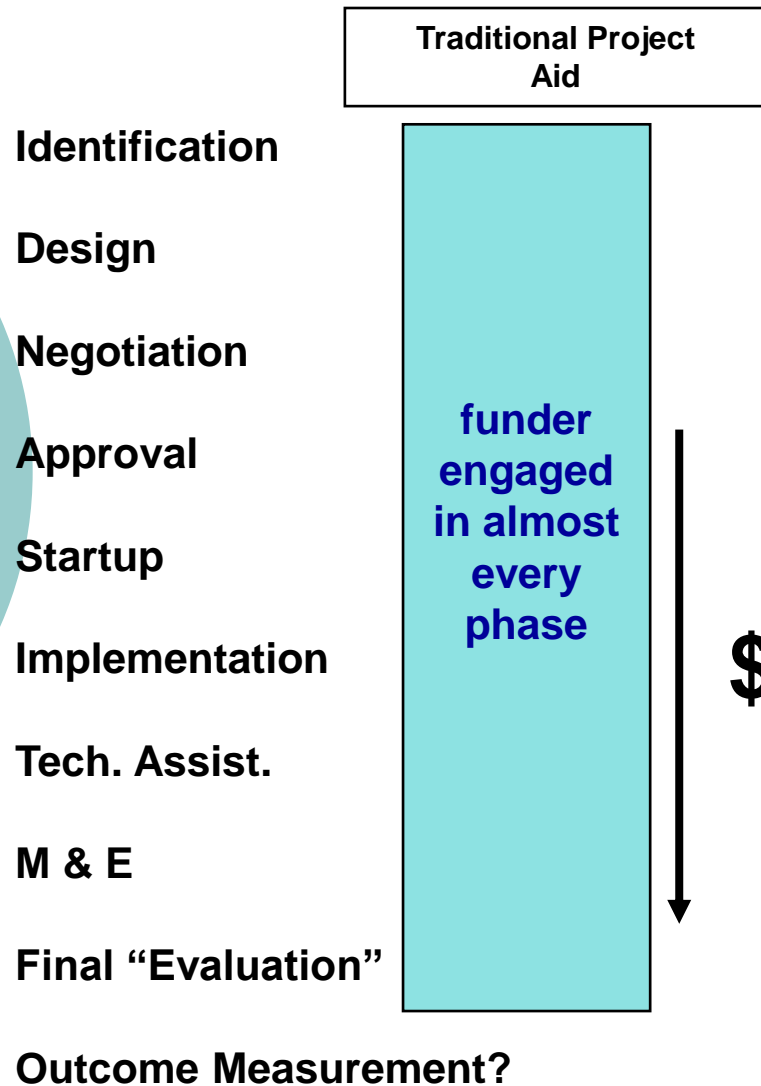
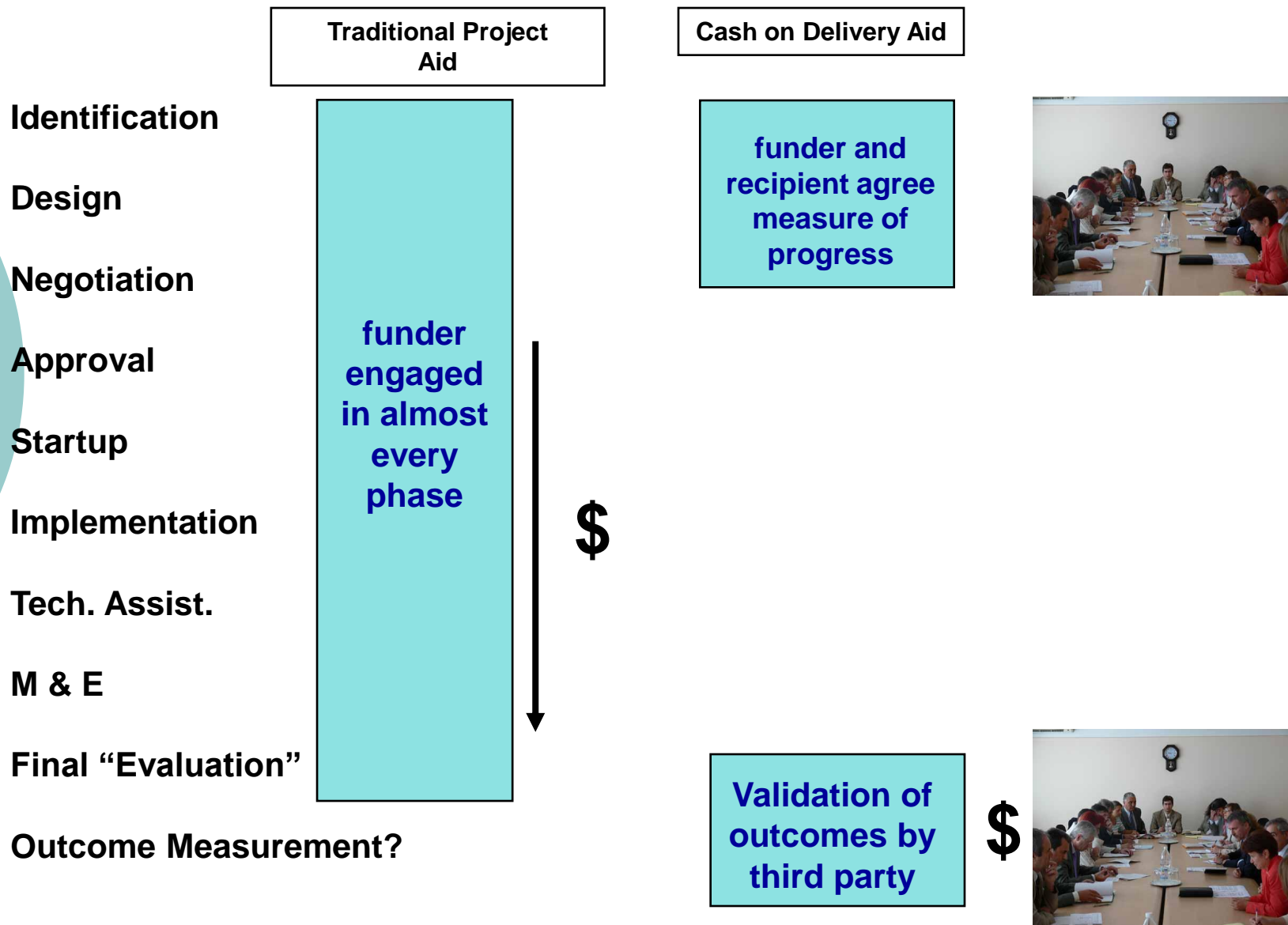


Photo: Government of Bulgaria

...compared to a *Hands-Off* Approach



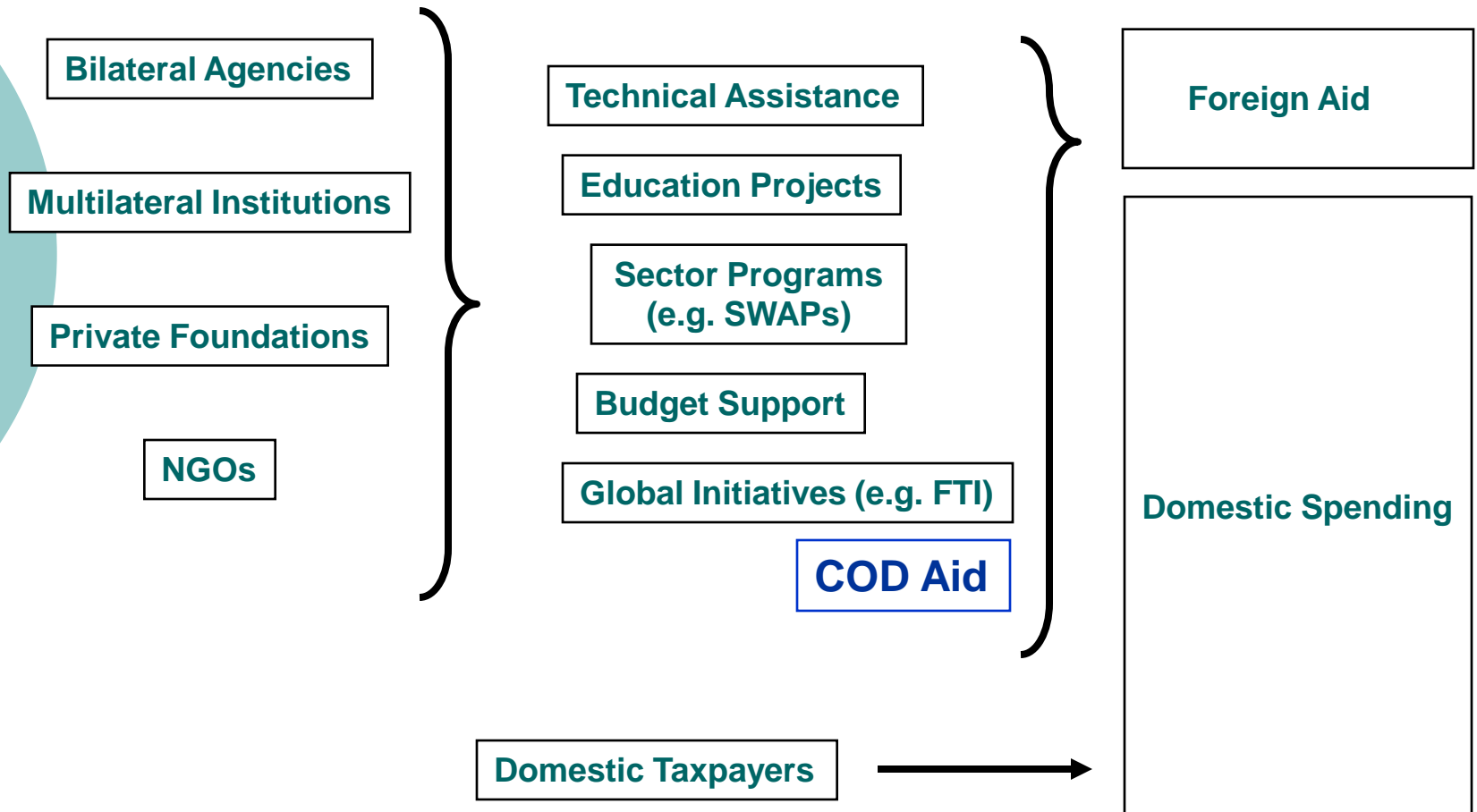
Citizens' roles in making government accountable

- The COD Aid contract is public:
 - People know that funds could be available
- The outcome measures are public:
 - People observe the government's progress
- Other related information is public:
 - E.g. Test scores show whether quality is suffering

Local learning and institution building

- Recipient has opportunity to learn due to: full responsibility, long time frame, outcome measurement.
- Technical support from Funders is available but demand-driven.
- Parallel research looks at both Aid Effectiveness (i.e. does COD Aid work?) and Education Strategies (i.e. do these educational strategies work?).

COD Aid complements other funding



Making it Practical: Choosing an outcome measure

- Shared goal that is significant and relevant (e.g. MDGs)
- Outcome is reasonably close incremental indicator of progress toward goal
- Measurable and verifiable
- Simple enough for focused decisions & public understanding
- Complex enough to address perverse incentives, be relevant, etc.

Making it practical: Universal Primary Completion

- The shared goal is to reach universal completion of quality primary education.
- The unit of progress is an “Assessed Completer” (a student enrolled in the last year of primary school who takes an approved standardized test).
- The funder pays US\$200 per Assessed Completer beyond base year enrolment.
- Transparency: The recipient publishes enrolments, Assessed Completers & test scores; while the funder contracts an agent to conduct retests in a random sample of schools.

Making it practical: Ways to address concerns

- Displaces other aid programs/funds?
- Too little, too late?
- Unintended consequences?
- Waste and corruption?
- Difficulty measuring outcomes?
- No progress means no payment?

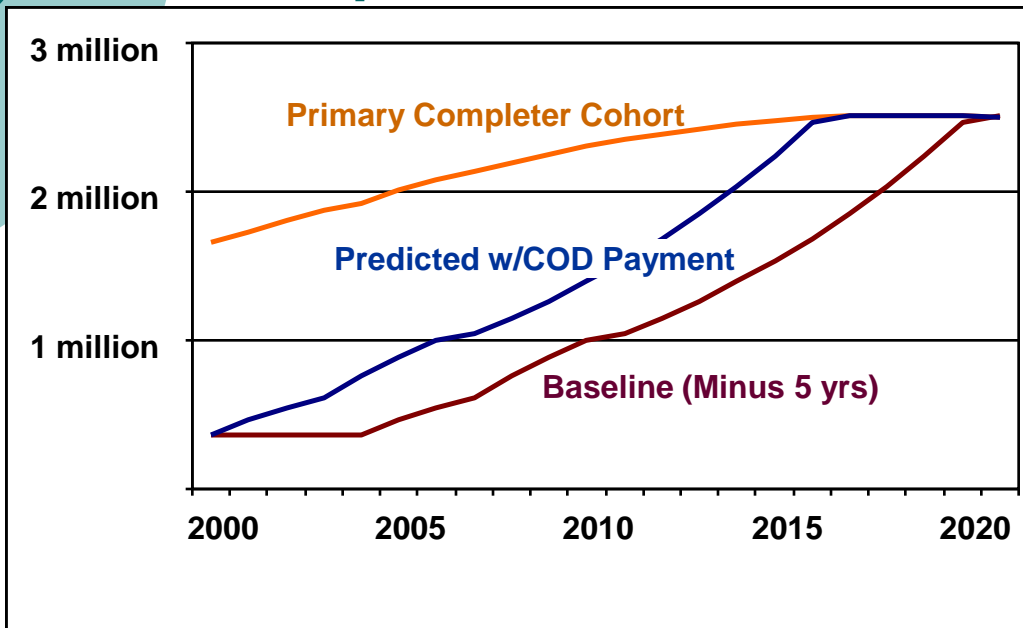
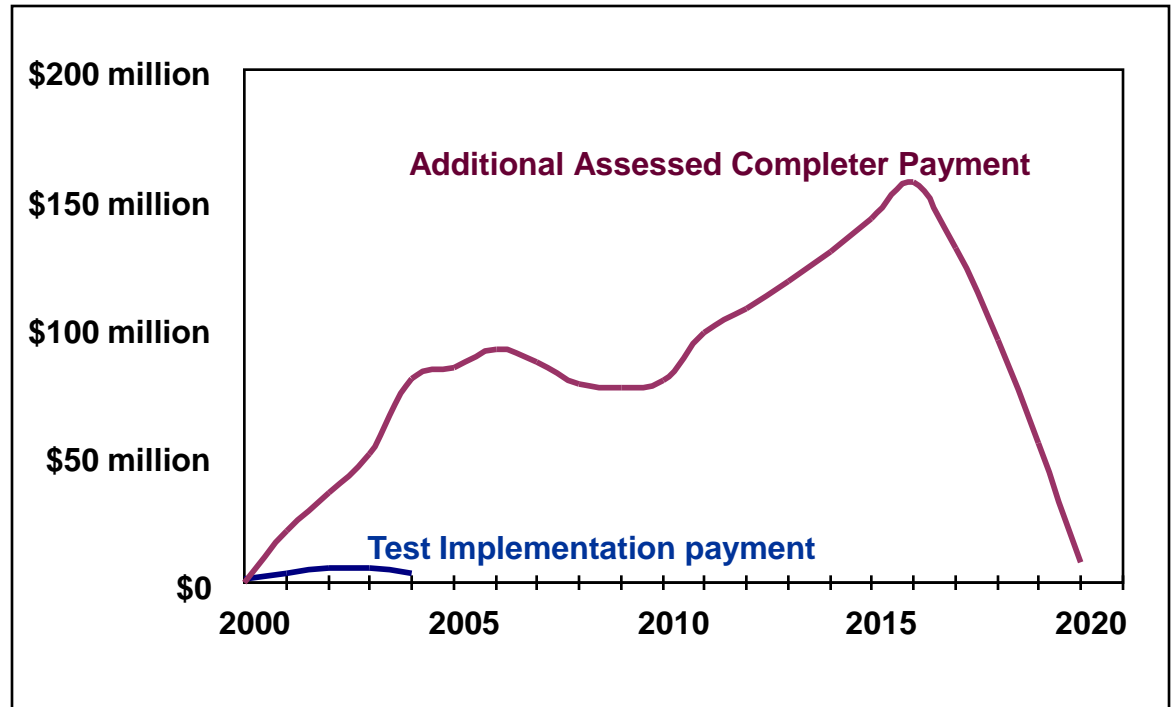
Could COD Aid Work Well for Ethiopia?

- Rapid rise in primary enrollment & completion but only 46% of children reach the final year of primary school.
- Progress has slowed to 5% per year*
- Numbers *and* quality are important
- Good ideas in the education sector & beyond?
- Experience with sector dialogues
- Complements current budget support program
- Political will, funder engagement & incentives?

*Based on Unesco data for 2004-2007

COD Aid Payment Illustration

Primary Completion



Hypothetical calculations show that if Ethiopia had signed a COD Aid agreement in 2000 and the incentive doubled the rate of progress from 5% to 10% per year, then aid would have grown from \$10 million per year to almost \$100 million per year and would reach more than \$150 million per year when universal completion is achieved.

A Challenge

- If a COD Aid agreement were in place, how might that create new opportunities to address the bottlenecks that you see?
- What would it take to make COD Aid agreements possible here?

We welcome your comments and feedback

For further information, please email

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- Ayah Mahgoub at amahgoub@cgdev.org

Or look for “Cash on Delivery Aid” at:

- www.cgdev.org/section/initiatives