



## Issues in Applying the Cash on Delivery Approach

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*The Center for Global Development (CGD) has been working on a new foreign aid approach called Cash On Delivery Aid (COD Aid) which transfers funds in proportion to progress toward a mutually agreed upon outcome such as universal primary completion or reductions in illness. The COD Aid approach is described elsewhere in greater detail, especially with attention to helping countries achieve universal primary schooling (Birdsall and Savedoff forthcoming). The purpose of this note is to briefly describe COD Aid and guide discussions on applying it to new sectors.*

### Overview of COD Aid

The essence of a COD Aid approach is for donors to offer a contract to low- and middle-income countries which pays a specific amount for achieving a share objective: universal completion of primary school, reduced transmission of HIV/AIDS, cleaner air. The key elements of such an approach are:

- COD Aid **pays for outcomes and not for inputs**. The outcomes have 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.
- COD Aid **requires recipients to assume full responsibility** for the design and implementation of strategies to make progress. Donors do not specify or monitor inputs; rather they contract independent verification of progress and pay, as agreed, for improved outcomes. This aligns incentives squarely to achieving progress rather than to spending money.
- The trigger for COD Aid payments is progress and therefore requires **independent verification**. This way, both recipient and donor can have confidence in the way progress is measured. This focus on good quality information about outcomes is also

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a benefit of this form of financial assistance – facilitating policymaking through provision of better data on outcomes.

- The COD Aid contract and progress measures require **transparency** and therefore 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.
- 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.

### Desirable Features of Outcome Measures for COD Aid

Choosing an appropriate outcome measure for the COD Aid agreement is critical to its success. In developing the COD Aid concept, two of the most common concerns were that the choice of a particular measure might have **unintended consequences** and that progress was **too difficult to measure**. Some of the unintended consequences include diverting attention to achieving the COD Aid outcome and away from other important initiatives; aiming for quantity and jeopardizing quality; or encouraging manipulation of data rather than realizing real progress. Some of the issues that arose regarding difficulty of measuring outcomes included costs; the capacity of local institutions to generate and manage reliable information; or whether any survey or test could accurately measure the desired outcome.

In the case of education, the COD Aid team consulted with experts and was able to identify an outcome measure – the number of assessed completers – that was reasonably simple to understand and either solved or mitigated a number of foreseeable problems. For example, rather than paying for the number of students who completed primary schooling, the proposed aid agreement pays for the number of students in the final year of primary schooling who complete a test. By including a test, the effect of the program on quality of schooling becomes visible and can be monitored.

We also identified a number of ways in which choosing a simple indicator and a relatively simple incentive will increase the likelihood of success. Above all, the indicator must be a good measure of the desired outcome. Beyond that, it must be clearly defined, focused, measurable with sufficient precision and verifiable so as to reduce uncertainty over the deliverable. It will help if the indicator can be easily explained to the public since it will facilitate dissemination and debates that serve to hold funders and recipients accountable for compliance. Furthermore, making the COD Aid agreement indicator simple does not preclude encouraging other agencies, civil society groups, or research institutions to monitor the full range of desirable outcomes in the affected sector. Such

initiatives outside the COD Aid agreement can be highly beneficial to the program's success and can be explicitly encouraged in different ways.

### Questions when applying COD Aid to new sectors: HIV/AIDs, Malaria and Water

When beginning to think about whether COD Aid could be applied in a sector, a few key questions need to be addressed:

- Can donors and recipients agree on a share objective?
- Once an objective is agreed upon, what is the correct way of defining the outcome?
- Is there a reasonably precise and relevant indicator that measures progress for that outcome?
- Can it be verified independently?
- What incentives might choosing such an indicator create, both positive and negative?
- Can modifications be introduced to mitigate any problems, without introducing significant complexity or difficulties?
- When and how will COD Aid payments end?

In **education**, our work with education specialists and aid experts found that we could answer all these questions. First, we were able to focus on universal primary completion as an objective that is widely shared – in both international declarations and domestic legislation. The outcome of “students completing primary school” can be reasonably approximated by requiring that a competency test be applied to students in the final year of primary school. The count of “assessed completers” becomes an accurate and relevant indicator of progress toward universal primary completion. Concerns arose that paying for additional students could lead countries to stress quantity at the expense of quality. At the same time, paying only for students who achieved passing scores on the exam would create inordinate pressures to game the test or even cheat. The resulting solution was to pay for the *number* of additional assessed completers, regardless of their scores on the test; however, the test scores are required to be public information so that civil society can monitor whether education quality is being maintained or deteriorating. By introducing a lagged baseline, we were able to structure a proposal in which COD Aid payments would gradually taper off once universal primary completion was achieved.

Mead Over and Tim Hallet are drafting a working paper that considers how COD Aid could be applied to **HIV/AIDS**. They note that donors and recipients are grappling with at least two different objectives: halting the spread of HIV/AIDS and treating those who are already infected. Prevalence, they point out, cannot be used as an indicator because it is affected both by the rate of new infections and the rate of death from infection. Ideally, we want to reduce the rate of new infections – which can be measured through surveying particular cohorts over time – and increase the number of people who *sustain* treatment once they've contracted the disease. Thus, a COD Aid agreement for HIV/AIDS might need to encompass at least two kinds of payments – one for reduced incidence and another that rewards a country for both initiating and sustaining treatment. Since HIV/AIDs is not going to be eradicated, efforts to manage the disease are going to be a

continuing challenge. How long should COD Aid payments be sustained? Will they only reward reductions in new infections or pay for maintaining rates below a baseline level?

Initial discussions on applying COD Aid to **malaria** have identified a number of issues. First, it is not clear whether donors and recipients are in agreement over the objectives when trying to define the desired outcome. In particular, are we aiming to contain malaria or eradicate it? Second, malaria is costly to diagnose and current administrative reporting systems are inadequate for tracking progress. Nevertheless, new diagnostic tests are becoming available and good survey methods might be able to track changes in incidence in children. Would this be adequate as the basis for making COD Aid payments? Third, could paying for reductions in malaria create perverse incentives – to overtreat affected populations and thereby risk developing malarial resistance? to focus resources on malaria even in areas where other illnesses (e.g. pneumonia) may pose greater risks? Would it be better to pay against a broader indicator, such as reductions in child mortality, as an incentive for countries to increase anti-malarial efforts only in those areas where malaria can be addressed cost-effectively and where it represents a significant disease burden? Finally, if the goal is containment, how long will COD Aid payments continue? Are payments made only for reductions or for maintaining lower rates of infection?

Similar questions arise in applying COD Aid to **water**. International and domestic policies generally agree on the goal of reaching universal provision of potable water, but often disagree over the means. In principle, this should make a COD Aid agreement quite attractive – the agreement would specify the end (universal coverage) while leaving the choice of means to the recipient. A range of questions, however, emerge in defining universal coverage of water service. What standard of water quality would apply? Does “access” require that water be piped into a house? If access includes standpipes or wells, what distance or transportation cost is considered acceptable? What is considered adequate in terms of the volume of water per person and the reliability of supplies? How do costs figure in, as absolutes or relative to family income? One potential adverse consequence relates to sanitary disposal of wastewater – should it be a condition for payment as well? Since a key problem in water provision is maintenance and sustainability, will COD Aid payments only address expansion of coverage or can they pay for maintaining coverage? If the agreement pays for maintaining coverage, will COD Aid payments ever be phased out?

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These are a few reflections on applying COD Aid to new sectors. Comments and suggestions are welcome. Though there are no magic answers, we have found in researching the education sector that reasonable solutions can be found to most objections. COD Aid is sufficiently different from existing aid modalities and holds enough promise that it is worth grappling with these questions to see if workable proposals can be developed and tested.