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# Cash On Delivery

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A new approach to foreign aid

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with Ayah Mahgoub and Katherine Vyborny

Revised Edition with a New Preface

With an application  
to primary schooling



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# Contents

<b>New preface</b>	<b>v</b>
<b>Original preface and acknowledgments</b>	<b>ix</b>
<b>Part I</b>	
<b>A proposal for Cash on Delivery Aid</b>	<b>1</b>
<b>Chapter 1</b>	
<b>Buying things versus buying development</b>	<b>3</b>
<b>Chapter 2</b>	
<b>A solution: Cash on Delivery Aid</b>	<b>17</b>
<b>Part II</b>	
<b>Applications of Cash on Delivery Aid</b>	
<b>Chapter 3</b>	
<b>Applying COD Aid to primary education: a contract between partners</b>	<b>45</b>
<b>Chapter 4</b>	
<b>Applying COD Aid to primary education: funding and implementation</b>	<b>67</b>
<b>Chapter 5</b>	
<b>Learning what works: the research challenge</b>	<b>75</b>

**Chapter 6****Federal systems: a COD Aid proposal for Mexico's  
upper secondary schools      87****Chapter 7****Beyond primary education: COD Aid for  
other development goals      97****References      105****Appendix****Term sheets for COD Aid contracts      111****Index      119**

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## **Preface to the second edition**

Since Cash on Delivery was published in March 2010, the ideas we proposed have been embraced by presidents and ministers, by heads of public and private institutions, and by researchers and practitioners. The Education Ministry in Malawi sent us a letter asking for help creating a COD Aid program there, the British government has publicly committed to financing pilot experiences, and articles and essays have addressed COD Aid in a range of publications including *The Economist*, *The New York Times*, and *Public Choice*. In the debates that have ensued, we have learned even more about the Cash on Delivery Aid (COD Aid) approach and how significant a departure it could be from current aid practices.

One of the first things we learned is just what sets COD Aid apart from other results-based aid programs. While most results-based approaches focus on structuring incentives to change behavior in developing countries, COD Aid aims at changing the behavior of both funders and recipients. Results-based approaches that pay service providers for improving performance, individuals for changing behaviors, or local governments for delivering particular services, have their merits and should continue to be explored; however, they are not geared to address constraints to development at the national level or to give recipient countries full flexibility to try interventions or address policy issues outside the domain of the relevant sector ministry. They are also not meant to make the recipient government primarily accountable to its own citizens rather than to the outside donor. COD Aid does all of these things by transferring full ownership and responsibility over strategies to the recipient country.

Feedback on the book has also helped us clarify how COD Aid could transform the risks facing developing countries when they receive aid.

Currently, aid-dependent countries are vulnerable to changing priorities and domestic politics in funding countries and face considerable uncertainty over how much aid they will receive in any given year. By contrast, COD Aid legally binds funders to pay a fixed amount for each verified unit of progress. A clear enforceable contract with independent verification, as proposed in this book, means that the recipient country only assumes risks related to delivering outcomes. These risks are closely related to the country's own efforts and are more responsive to its own actions—if not in any given year then certainly over the five or more years we recommend for a COD Aid contract.

Discussions about “preconditions” for successful COD Aid agreements strengthened our conviction that the only true preconditions for this new approach are a good measure of progress and a credible way to verify it. We have heard a number of proposals for such preconditions, but none seem particularly compelling. Requiring that recipients submit plans as a precondition would undermine the “hands-off” nature of the COD Aid agreement. It would perpetuate assumptions (despite substantial evidence to the contrary) that joint planning can substitute for country ownership and that donor-sponsored planning, rather than country-driven experimenting, is the key to progress. Similarly, conditioning a contract on adequate financial controls assumes that it is better to control the use of funds by tracking where they go than to control the use of funds by verifying what they yield. Finally, waiting until countries have information systems in place is a recipe for delay when alternative approaches to measuring progress are available. In short, the key features of COD Aid—defining the outcome indicator, the amount of the payment, the means of verification, and requirements for transparency—are the only real preconditions for COD Aid. Any further eligibility conditions are likely to undermine the restructuring of the accountability relationships or to simply delay implementation.

The limited number of preconditions for COD Aid may make it ideal for so-called fragile states, countries like Liberia after emerging from civil war or like Malawi after deposing its long-lived dictator. In some of these countries, strong positive leadership emerges, but in a context of weak public institutions. Budget support mechanisms cannot be applied fully because recognizable public expenditure frameworks are lacking, and traditional aid projects bypass rather than strengthen public institutions. In such places, COD Aid might be ideal because it effectively controls the use of funds by verifying the progress it achieves rather than the inputs it buys. By working through the government, COD Aid arrangements strengthen public institutions and motivate politicians (and not just technocrats) to care about measuring the country's progress against clear goals. In these ways, they could help generate the very change that we call development.

Finally, we came to see that the amount that funders should offer to pay for each increment of progress is not necessarily linked to the input costs of achieving those

gains, which are in any event difficult to assess *ex ante* in any particular country or setting. In principle, the amount should instead be based on how much funders value those outcomes. At the same time, funders justifiably want to get as much value as possible for limited aid budgets, and they will also want to avoid overpaying relative to the true costs. If the COD aid payments are comparable with the cost of progress through conventional aid, then they represent good value for money. To the extent they supplement conventional aid—providing an additional incentive for countries to use existing resources more efficiently or triggering helpful changes in political and bureaucratic arrangements—COD Aid payments can be lower than conventional aid that finances inputs at cost. Of course, ultimately no one knows how much it costs to alter institutions, reconfigure political bargains, or expand capacity in each service in each country. Such knowledge takes time and insight about local politics and institutions that is possible when funders focus less on inputs and more on outcomes, as envisioned in COD Aid.

In essence, we are not arguing that COD Aid is worth trying because it creates a better incentive for recipient countries. We are arguing that it is worth trying because it creates a better relationship between funders and recipients. It would focus attention on the jointly desired outcome, on getting precise and reliable information about that outcome, and on directing funds in proportion to progress. Any variability in payments would result not from political and bureaucratic processes in the funding institutions, but from factors related to achieving progress that are more in the purview of the developing country. COD Aid would change the structure of information reporting and payment triggers for both funders and recipients. Ultimately, it would invite the kind of institution building at the state level that is key to sustainable service delivery and to development itself.

While we were tempted to alter the book and respond to these issues in the main text, we have chosen to leave the text in its current form. The points we have offered in this preface are consistent with and emerge from the principles, analysis, findings, and proposals that you will find here. Readers who take the time to see how COD Aid could be applied to primary schooling will also be able to judge whether we have demonstrated the practicality of the approach. We expect to see a number of COD Aid programs in operation soon. That will be the time to write the next chapter.

Nancy Birdsall and William D. Savedoff  
December 2010





## Preface and acknowledgments

Since its inception, the Center for Global Development has put a premium on translating independent research into practical ideas. This book is firmly in that tradition. It is part of a broader initiative I have led at the Center—with enthusiasm and with increasing passion—to develop and disseminate a simple and practical approach to development aid that can help official and private funders realize the reforms they have promised on paper but failed to deliver on the ground. The approach is called, simply but revealingly, Cash on Delivery Aid.

Even the fiercest aid critics recognize that some aid programs bring results: millions of lives have been saved and millions of children educated because of aid programs. But tougher questions remain: has aid helped—can it help—strengthen the institutions of an effective and responsible state that eventually provides services by, for, and with its citizens on its own? Does aid in some settings actually makes things worse by, for example, short-circuiting state building (for instance, reducing the incentive for tax collection) and sustaining corrupt or ineffective governments? Even “good” aid to responsible states has come into question. As aid has become an increasingly complicated and difficult business—with unhealthy competition among funders and high transaction costs for aid-dependent governments—has the aid system itself become a constraint on state-building? As aid-dependent governments focus on satisfying the demands of their donors rather than those of their own citizens, has aid set back the elusive process of building state institutions that are responsive to their own citizens?

Friends of aid argue that aid is less politicized now than it was during the Cold War and that the official donors are making progress fixing the system’s problems: fragmentation, lack of coordination, lack of ownership,

lack of alignment with recipient-country priorities, lack of transparency, lack of results, lack of evidence about results, and more lacks! But insiders know that progress is painfully slow and, in many low-income countries, worryingly reversible.

The Cash on Delivery Aid (COD Aid) approach presented in this book is designed to allow funders and recipients to escape the “lacks” of the system listed above. Mostly it allows funders to escape the trap that many aid programs create, a trap that makes recipients responsible to funders for inputs instead of to its own citizens for development outcomes.

COD Aid builds on a rich body of earlier work on aid effectiveness at the Center: on debt relief and reduction with its implications for the larger aid architecture (*Delivering on Debt Relief*), on demonstrably effective large-scale international public health programs (*Millions Saved*), on use of aid for performance incentives to non-governmental organizations and households (*Performance Incentives in Public Health*), on the seven sins of donors and what to do about them (*Reinventing Foreign Aid*), on why evaluation doesn't get done (*Evaluation Gap*), on the Millennium Development goals (*The Trouble with the MDGs*), on aid and growth (*Counting Chickens When They Hatch*), on rethinking the U.S. foreign assistance program, on advance market commitments (contingent spending in the rich world buying measurable gains in the poor world), on aid and institutions (*After the Big Push?*), and more.

Like so many good ideas, this one began with a short note I received from Owen Barder, at the time a part-time staff member at the Center. That note led to a jointly authored 2006 CGD working paper, “Payments for Progress: A Hands-Off Approach to Foreign Aid.” In 2007, I joined forces with CGD visiting fellow William Savedoff to further refine the idea. We began a comprehensive process of research and consultation to further develop and improve it. We undertook new research, commissioned background papers from experts, interviewed dozens of practitioners, and engaged in extensive consultations with officials, technical experts, and civil-society representatives. We convened meetings to discuss our proposal and participated in events sponsored by others to present our work and receive feedback and insights on what to take into account when refining the idea. From a good idea to the challenges of a practical program has been a long and still unfinished journey of discovery and learning in itself.

In this book we present the results of our work so far. We do so in the spirit of matchmaker, hoping our work will bring together funders and aid-receiving governments. In Part I, we situate the literature on whether aid is effective within the realm of questions about the shortcomings of the system. We then describe our idea, COD Aid, as a new kind of delivery mechanism for aid that we believe addresses the inherent problems with transfers of any kind from a funder (bilateral or multilateral official agency or private foundation) to a recipient (a government or major program implementer). In Part II, we apply the approach to primary education, showing one example of how the approach could be practically implemented. We also briefly propose

applications of COD Aid to other sectors. Ultimately, the parents of this approach (country and donor partners) will decide how to raise it, but we hope this book will serve as a practical guide.

This book and our initiative are a result of the generous and immensely valuable input of many people over the past few years. My coauthors and I would like to extend a very special thanks to several individuals. First we thank Owen Barder whose keen thinking and commitment to making aid work started us down this path. We are immensely grateful for the valuable insights and stellar advocacy of Desmond Bermingham, Ambassador Mark Green, Robin Horn, CGD Board member Ngozi Okonjo-Iweala, Elizabeth King, Nancy Lee, Rakesh Rajani, Smita Singh, and Alcione Vasconcelos. Their guidance and outreach were and continue to be critical to the enhancement of our proposal and to sharing the idea with a broad audience. We would also like to extend a special thanks to President Jakaya Kikwete of Tanzania, Kofi Annan, and Minister Maghembe of Liberia for their strong support and their request for donors to try COD Aid.

The ideas in this book were shaped by the excellent background papers prepared for this initiative by Maurice Boissiere, Luis Crouch, Paolo de Renzio, Merilee Grindle, Marlaine Lockheed, Jonathan Mitchell, Michael Woolcock, and Ngairé Woods. We also extend sincere thanks to our colleagues Satish Chand, Mead Over, and April Harding for both their contributions to this proposal and to alternative applications of COD Aid.

We are grateful for valuable feedback on initial drafts of this book from many people, including Jenny Aker, Marcelo Cabrol, Michael Clemens, Homi Kharas, Vijaya Ramachandran, David Roodman, Ana Santiago, and Nicolas van de Walle. We appreciate the openness of the Mexican government in allowing us to publish the results of a workshop at which we assessed the possibility of applying COD Aid to intranational transfers.

We are grateful for the feedback and guidance of countless other people, but especially to that of K.Y. Amoako, Jean Arkedis, Tayani Banda, Amie Batson, Luis Benveniste, Nicolas Burnett, Robin Davies, Mourad Ezzine, Linda Frey, James Habyarimana, Brian Hanssen, Nigel Harris, Harry Hatry, Ward Heneveld, Sheila Herrling, George Ingram, Pierre Jacquet, Lars Johannes, Michael Keating, Elizabeth King, Timo Mahn, Jeremy Mark, William Masters, Nadim Matta, Gavin McGillivray, Lynn Murphy, Carmen Nonay, Marianna Oforu, Patrick Osakwe, Richard Parr, Claudia Pieterse, Mary Joy Pigozzi, Alice Poole, Ben Power, Lant Pritchett, Olivier Ray, Sonal Shah, Sarah Jane Staats, Miguel Szekely, Binh Thanh Vu, Patricia Veevers-Carter, and Jane Wales.

We also appreciate how much the analysis and design were improved by listening to the comments, critiques and ideas that were offered by so many people who gave their time, expertise, and encouragement at meetings at the UN Economic Commission for

Africa in Addis Ababa, Ethiopia; at the Meeting of European Union Member States Education Experts in Brussels, Belgium; at the Education for All—Fast Track Initiative Technical Meeting in Dakar, Senegal; with the Development Partner group in Dar es Salaam, Tanzania; at the UN Follow-up International Conference on Financing for Development to Review the Monterrey Consensus in Doha, Qatar; at the World Bank and International Monetary Fund Annual Meeting in Istanbul, Turkey; at the U.K. Department for International Development in London, United Kingdom; at the Ministry of Education and Mexicanos Primeros in Mexico City, Mexico; at the Hemispheric Think Thank Meeting and at the Canadian International Development Agency in Ottawa, Canada; at the AidWatch launch in New York City, United States; at the Sixth Plenary Meeting of the Leading Group on Financing for Development in Paris, France; at the Eighth Annual Global Philanthropy Forum, Washington, D.C., United States; at meetings and seminars at the Johns Hopkins School for Advanced International Studies, the Brookings Institution, the World Bank, the Inter-American Development Bank, the U.S. State Department, and other organizations in Washington, D.C., United States; and at many other meetings in Lilongwe, Malawi; Addis Ababa, Ethiopia; and Stockholm, Sweden. We appreciate as well the numerous private interviews and email exchanges that informed this book.

We are grateful to Lawrence MacDonald for his continued feedback and guidance on many aspects of the initiative, and for his creativity in naming our idea Cash on Delivery Aid. John Osterman was generous with his guidance and helped shepherd the book to completion—we are very grateful for his help. We want to express our appreciation to Amy Smith for unraveling some of the more complicated arguments and her professional and comprehensive editing.

The work of this book and this initiative are coming to fruition through the generous support of the William and Flora Hewlett Foundation.

Any remaining errors are our full responsibility—and an opportunity for you to further advance these ideas!

Nancy Birdsall  
President  
Center for Global Development  
January 2010