

## **“Cash on Delivery” Aid A CAFOD briefing**

### **What is it?**

1. “Cash on Delivery” (CoD) is a recently developed approach in aid, where donors would reward recipient governments a certain amount of money for a specific measure of development progress. For example, £100 for every extra child who receives a decent standard of education, or every extra mother who gives birth with good medical care. It works by measuring indicators before and after a development intervention, so that the impact made by the intervention can be quantified and rewarded. The approach is a key aspect of the Conservative Party’s recent Green Paper on International Development.

### **Rationale: A focus on impact**

2. The rationale behind CoD, originally pioneered by the Center for Global Development in Washington, centres on a concern that development work must be assessed on its impact. A core element of the Conservative agenda is to demonstrate to British taxpayers that their money is being well spent. As it rewards concrete development progress, theoretically at least there is no risk that CoD funds are spent on interventions that have not been successful. Thus the anxieties of UK taxpayers around wasted aid money should be alleviated.
3. The approach represents a shift away from both tracking the energies and resources that agencies invest in aid – ‘inputs’, and also the activities and facilities it has produced – ‘outputs’. Instead it aims to focus on how the lives of poor people have been transformed – ‘impact’. So, instead of rewarding a government for building a road between two villages, they might be rewarded when the journey time for those travelling between the villages is consistently halved. This would not only incentivise the maintenance of infrastructure (rather than just its construction), but also give governments the flexibility to concentrate on whichever intervention is best suited to produce results in their particular context (building roads, improving public transport etc.). The Centre for Global Development is working to facilitate a pilot of CoD in the primary education sector, where governments would be paid, say, \$200 for each extra child who completes primary school and takes a competency test. Governments would be free to choose how to achieve that goal (whether to invest in building more schools, paying teachers, training, extra textbooks etc) – depending on their circumstances.
4. With this focus on impact, CoD aims to give recipient governments greater flexibility and choice about how they achieve development objectives. Donors would avoid interfering with the policy choices or being prescriptive about how agreed goals should be achieved.

### **Conservative proposals**

5. The Green Paper does not explain exactly how CoD would operate. In which sectors would CoD be rolled out? What would the time-frame of assessments and rewards? How would developing countries finance the up-front investments necessary? The paper acknowledges how CoD would be “most suitable for observable, measurable outputs” and recognises the difficulty of judging whether “institutional and policy

changes” have been meaningfully achieved (p.13). However, it does not describe how the approach might be adapted for these more complex issues or whether it would be targeted at certain country contexts. Conservatives state simply that they will explore different applications of the idea and test a variety of options.

### **Existing and similar work**

6. Alongside the CoD pilot scheme in primary education, the Center for Global Development has proposed a research programme to evaluate its success. This is being led by Nancy Birdsall (CGD) and William Savedoff (Social Insight), with Ayah Mahgoub (CGD).
7. ‘Output based aid’ (OBA) works by providing the bulk of finance up-front, and then a smaller tranche (5-20%) being linked to the level of outputs that an initiative has produced. The Global Partnership on Output Based Aid has identified 123 OBA schemes within the World Bank, and a further 23 schemes in other agencies. World Bank OBA schemes comprise \$3.7 billion, with the majority of schemes in the infrastructure and health sectors, with some in education. OBA rewards service providers directly for results, whereas CoD rewards government at national or sub-national level.
8. One form of OBA are ‘MDG Contracts’ introduced by the EU. In May 2008 they introduced a system which linked at least 15% of the EU’s direct budget support to performance in the MDGs. The MDG contracts last for 6 years – twice as long as the EU’s previous initiative to drive a results agenda, ‘outcome conditionality’. Whereas CoD works by measuring a single outcome, these Contracts assess the cluster of issues encompassed by the MDGs.

### **Risks**

9. The most obvious question around CoD is that of **how would recipient countries be expected to fund development initiatives up-front**. Whilst the Conservatives acknowledge this problem they do not provide concrete assurances. The OBA model, linking a percentage of aid support to impacts but also providing significant capital ex-ante is one option. Nancy Birdsall stresses that CoD needs to be complementary to existing aid flows, and suggests that in some areas governments may be able to ‘get more bang for their current bucks’ rather than requiring new funding. Others have suggested that governments would need to take out loans or find investment from the private sector to fund their CoD work initially.
10. The CoD approach might impose a **double-penalty on poor performers**. It assumes that governments whose initiatives do not achieve impacts are responsible for their own poor results – which may or may not be the case. Natural disasters, wider failures in the economy, and political upheaval can derail initiatives in ways that those leading them have no control over – how would CoD take account of this? Given the complex, multidimensional nature of poverty it may not always be fair to draw lines of causality between government action and results. Several commentators have suggested that CoD risks increasing the disparity between ‘donor darlings’ and ‘donor orphans’, as cash rewards will be most easily won by those governments who already have capital for investment and have significant capacity for implementing

programmes. Those who face the most profound challenges risk being the least rewarded.

11. CoD would incentivise governments to **cherry-pick the easiest districts** to work in – rather than those where the needs are most acute. Having a fixed price on results takes no account of how difficult it may have been to achieve those results. Governments might therefore work only in areas where it is easiest to ‘get the numbers up’, rather than prioritising the poorest and most vulnerable.
12. As only pre-specified impacts are rewarded, under CoD governments would **not gain from the unanticipated benefits** that can result from development initiatives. Particularly with governance work, it is not always possible to predict the outcome of a development initiative and there may be valuable outcomes that were not anticipated in advance<sup>1</sup>. Further, CoD would not incentivise governments to take on more exploratory or experimental aid programmes, or those where the risk of failure is high.
13. CoD could stumble on the **difficulty of measuring impacts**. In the education sector, for example, a one-off test may not be an adequate measure of whether children have received a high quality education. In other sectors the challenges may be even more acute. CGD advocates that CoD schemes provide up-front money to improve national information systems which are vital to measuring impact. Third party estimates would be used where national information systems are poor.
14. CoD is likely to bring **unpredictable aid flows**, which would have a very negative effect on the ability of recipient governments to plan their budgets. Whilst predictability is a stated Conservative priority, under CoD there would be no certainty about whether governments would receive aid money. They would only secure funds after assessments, for the period until the next assessment – and might endure significant delays until funds were released (CGD are proposing 5-10 year targets in the education sector). Essentially, developing countries are being asked to bear the risk that their initiatives will not succeed in achieving development results. This being the case, should they not only be remunerated for the cost of achieving the development outcome, but also compensated for the risk?
15. It is not determined under CoD **how the rewards of success would be distributed**. If a service providing agency has implemented a development initiative, would the CoD reward be passed onto them? Would the funds be kept by the recipient government? CoD will only incentivise success if those who are actually in a position to influence success also share in its rewards. If CoD effectively becomes simply a ‘bonus’ for government officials, front-line staff might simply find themselves under more pressure to achieve more without the benefits of conventional aid flows.
16. Under CoD, donors would have to **estimate how much budget to set aside** for rewards. If recipient governments are much more successful than predicted, donors

---

<sup>1</sup> An example would be the Decentralisation Support Facility in Indonesia. Although it struggled to meet its original goal (synthesising the work of multiple donors on harmonisation), the process of working towards this objective led to more coherent decentralisation policy in the Indonesian government, and improved working between the different government ministries. This unpredicted outcome was a major step forward in making decentralisation more pro-poor.

may find themselves with an unexpected bill; if they are less successful, donors may find themselves with large reserves of undisbursed cash.

## Opportunities

17. CoD is a **hands-off mechanism for aid**. Whereas conventional aid involves donors being involved at each stage of the policy process – from intervention design to evaluation and assessment, in CoD donors would only be involved at the initial phase of agreeing a measure of progress, and when results are measured by a third party. This would reduce transaction costs for both sides.
18. With less donor involvement, CoD should **improve country ownership**. Recipient governments would be at liberty to pursue whatever kind of initiative they feel is most appropriate to their national context, and would not be under pressure to pursue interventions particularly favoured by donors.
19. **Technical assistance would be available on demand**. Donors would provide TA at the invitation of recipient governments, meaning that there would be no unnecessary or unwelcome assistance.
20. CoD could **improve the transparency of aid flows**. The CoD agreement would be a publicly available legal contract. Citizens in both developed and developing countries would theoretically be able to scrutinize the agreement and pressurise their governments if they were dissatisfied with it.
21. CoD is **not an all or nothing** approach. Governments would receive more money depending on how much impact their initiatives had – it would not be a ‘pass/fail’ system.
22. Providing **assurance to UK taxpayers**, CoD might shore up support for international development in the UK. This would protect the budget and income streams of the sector as a whole.

## Recommendations

Given the significant risks of Cash on Delivery, CAFOD recommends that the Conservatives keep plans for the scheme in proportion. The approach has potential in certain contexts and certain sectors, but it should be no more than an additional aid modality in the great tapestry of aid modalities. CoD can be no replacement for conventional aid.

- CoD urgently needs to address the problem that governments will be incentivised to help those who are ‘easiest’ to assist, rather than the poorest and most vulnerable. Rather than giving a standard sum per child, per mother etc, it would be better to give payments of varying levels, calibrated to the social and economic factors which make it more difficult to raise some people out of poverty than others.
- The CoD approach should not be used to delegitimize or undercut conventional, upfront aid – or aid where impact cannot easily be measured. CoD will only work if governments are able to access initial funding to invest in services, so must be

complementary to up-front aid, rather than replacing it as a 'stand-alone' approach. Advocacy, governance and policy reform work will be vital to address many of the risks of CoD, and the success of such programmes is not easily quantifiable.

- The measurement of impacts should draw on qualitative, as well as quantitative methods. It is critical that CoD scrutinises its potential unintended consequences, and assesses the quality of outcome measurements – not simply whether or not targets have been hit. Replicating successful development interventions in the poorest and most challenging contexts depends on an understanding of 'how' and 'why' development works, not just 'what' to do and 'where' to do it.

**Amy Pollard, October 2009**