

“CASH ON DELIVERY” AID – RESPONSE TO CAFOD

1. [CAFOD’s briefing paper of October 2009](#) provides a helpful and succinct summary of the proposal for Cash on Delivery Aid. The CAFOD brief sets out nine risks; this note answers those points in turn. It also addresses the recommendations of the CAFOD brief.

A. HOW WOULD RECIPIENT COUNTRIES FUND DEVELOPMENT INITIATIVES UP FRONT?

2. Anyone who advocates that aid should be linked to what has been achieved, rather than making payments in advance, has to explain how the transition from *ex ante* to *ex post* payment will be managed. (This is not an question confined to Cash on Delivery aid – it applies to any system which links aid to results.) It is a transitional problem, rather than a problem in steady state; and it is straightforward to overcome.

3. There is no problem at all when aid budgets are rising. Cash on Delivery aid could be phased in to supplement existing aid budgets – it would be a way of allocating part of the growth of the aid programme.

4. But even if aid budgets were not growing, the transition would be straightforward. If donors made a commitment to provide Cash on Delivery payments from 2012 according to results achieved in education in 2011, the normal arrangements for aid would contribute to education spending in 2011. The effect would be that, for the transition year only, donors would provide traditional aid in advance *and* then they would provide cash on delivery aid at the end of the year for the results achieved.

5. CAFOD refers to the possibility of up-front financing through loans or private sector investment. One of the benefits of Cash on Delivery aid is that it turns social benefits (such as health, education, clean water) into fiscal revenue streams, against which governments can, if they wish, borrow. Suppose a government believes it can expand services faster than donors are willing to finance through existing aid flows. With Cash on Delivery aid they can expand services knowing that they will subsequently recover the costs through payments from donors. But they may face a one-off funding gap because they need to pay for services in advance of being reimbursed. Hence the government would need to raise money temporarily to finance the expansion for up to a year before it is reimbursed: this might be from domestic revenues, a grant from a traditional donor, a loan from a development finance institution, or a commercial loan. Such an arrangement would be subject to market discipline from both borrower and lender, since both would need to be convinced that the additional services would actually be produced as a result of the investment so that the financing could be repaid. This market discipline on finance would reduce the risk of investment in white elephant schemes. The ability to borrow against future revenues is an *additional* option available to Governments under Cash on Delivery aid; with traditional aid, by contrast, governments are limited to spending the revenues they can raise domestically plus what donors are willing to provide in advance.

B. WOULD CASH ON DELIVERY AID IMPOSE A DOUBLE PENALTY IN POOR PERFORMING COUNTRIES?

6. Any form of results-based funding (i.e. not only Cash on Delivery aid) raises a concern that it might impose a double penalty on the poor. The CAFOD brief relates a worry 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”*. As we shall see, the

opposite is true: it is traditional aid that imposes a double penalty on the poor and which creates donor darlings and orphans. Cash on Delivery aid helps to reduce these problems.

7. It is not true that the poor are doubly penalised by results-based aid. If a government is unable or unwilling to provide schooling to its citizens, those people are not penalised *again* if donors then provide less money to the government. You can only be deprived of your education once: so there is no double penalty for you if your government is not paid for services which it does not deliver.

8. The traditional form of aid, by contrast, does impose a double penalty on the poor. If donors give money to a government for education which is not provided, then two groups of poor people lose out. The citizens of that country lose out because they are denied an education. And the money could have been given to a different country whose government is able and willing to provide education to its people but cannot afford to do so without more aid. So the citizens of that other country are also denied an education. When traditional aid is provided to governments whether or not they provide services, the result is that poor people in both poor-performing and high-performing countries are denied an education.

9. Furthermore, if traditional aid provides money to a government that does not deliver services, there is a risk that this source of finance softens the domestic accountability of government, weakens the pressure for change, and perhaps the defers the change of government needed to ensure that the interests of the poor are served. This is a double penalty for the poor: they do not receive the services they need and traditional aid may defer the day when they have a government which gives priority to their needs.

10. Cash on Delivery aid does not exacerbate the problem of donor darlings and orphans, it helps solve it. The problem of donor orphans is that some countries are under-aided, in the sense that aid could be effectively used in those countries, but for a variety of historical, political or aid coordination reasons they don't get enough aid. Aid is given instead to "donor darlings" in excess of the amount that they can efficiently use. That does not happen with Cash on Delivery aid because it is an commitment to give more money to countries that can use it to deliver services, and to give less aid to countries that cannot or will not use it.

11. The CAFOD brief notes that natural disasters or broader economic conditions can derail initiatives beyond the control of those leading them. This is correct, of course. Normal aid mechanisms (whether results-based aid or traditional aid) should deal with day-to-day service delivery and should be supplemented by complementary mechanisms for additional emergency financing to deal with the costs earthquakes and hurricanes, or financial crises. It does not make sense to try to design a single instrument which both funds public services in normal times, in a way that ensures accountability and maximises service delivery, and which also copes with unavoidable one-off shocks. These are different problems for which separate, complementary instruments are needed.

C. WOULD CASH ON DELIVERY AID INCENTIVIZE CHERRY PICKING?

12. This is a feature of Cash on Delivery aid, not a risk.

13. One of the advantages of market-like mechanisms is that they make it more likely that people on the ground will identify the easiest, quickest and most effective ways to deliver the desired results. If there are children who are not at school but could be provided with education relatively cheaply and easily, then it is an advantage (not a disadvantage) of Cash on Delivery aid that it makes it more likely that these services will be provided. The result is that more people will get the services they need more quickly.

14. Under traditional aid, there is a direct trade-off: if you spend limited aid money serving people who are easy to reach, this comes at the expense of providing services to poor and marginalised groups. Under

Cash on Delivery aid there is no trade-off: these are complements, not substitutes. There is an open-ended commitment to pay for services, so if a government provides services to easy-to-reach groups, it does not use up the budget which could be spent on the poorest and most marginal groups; on the contrary, it may actually supplement it.

15. The CAFOD brief is right to emphasize the importance of ensuring that poor and marginalised communities have access to services and do not have their exclusion reinforced. To take account of this, donors that take this seriously could offer a premium payment for services provided in particular regions or to particular groups reflecting the additional cost of providing services to these communities and the social value of doing so.

16. Cash on Delivery aid avoids the “levelling down” that can occur with traditional aid, in which governments are prevented from providing services to people who are relatively easy to reach because donors require that their funding is only used to meet the needs of the poorest and most marginalised. We should be aiming to help every child go to school and get a quality education. If there were “cherry picking” under Cash on Delivery aid this would be a good thing because it would increase the number of people who benefit from services *and* it would provide surplus revenues which could help to pay for services to poor and marginalised communities.

D. GOVERNMENTS WOULD NOT GAIN FROM UNANTICIPATED BENEFITS AND HIGH RISK PROGRAMMES?

17. The CAFOD brief suggests that *“it is not always possible to predict the outcome of a development initiative and there may be valuable outcomes that are not anticipated in advance. Further COD would not incentivize governments to take on more exploratory or experimental aid programmes, or those where the risk of failure is high”*.

18. Again, this seems to be a feature of Cash on Delivery aid rather than a risk. The CAFOD brief suggests that traditional aid is financing programmes whose results are not known in advance and where the risks of failure are high; and that this would be less likely with Cash on Delivery aid.

19. It is important that donors should finance small scale experimental programmes and subject them to rigorous evaluation, and there is nothing about Cash on Delivery aid that prevents them from doing this. But donor agencies should not be using large amounts of aid money to run experiments or hope that results are achieved by serendipity. It would be for developing country governments to decide how to increase services, but it is reasonable to expect that they would be likely to turn to tried-and-tested approaches which are currently constrained by lack of resources. Cash on Delivery aid would therefore channel money mainly to successful programmes, rather than spending substantial sums of aid money on “high risk”, “experimental” aid programmes whose “outcomes are not anticipated in advance”.

E. CASH ON DELIVERY AID COULD “STUMBLE ON” THE DIFFICULTY OF MEASURING IMPACTS?

20. Far from “stumbling on” this problem, the need for better and more systematic information about impact is at the heart of the case for Cash on Delivery aid. It is true that in many countries there is very poor data on key social indicators (such as school enrolment, access to water or maternal mortality). It is a feature, not a risk, of Cash on Delivery aid that it creates incentives and provides resources to collect reliable information on these.

21. Traditional aid provides incentives and resources for measuring all kinds of intermediate indicators and targets for the purpose of filling in log-frames. Agencies spend a fortune on an army of evaluators doing monitoring and evaluation reviews; and developing countries have to report against tens of thousands of indicators, all checked and double checked by the donors. But despite all this spending on monitoring and evaluation the traditional aid system does not invest enough in systems to collect reliable data about outcomes and impact.

22. As a consequence of the incentives and priorities of traditional aid, there is often not sufficiently reliable information which could be used to link aid to outcomes. But this is because of lack of interest and incentives, not because there is any insurmountable technical obstacle to collecting proper statistics and subjecting them to independent professional scrutiny and verification. If Cash on Delivery aid were widely used, the present industry of monitoring and evaluation would continue only to the extent that it actually helps improve service delivery, instead of collecting data on intermediate targets for the sake of ticking boxes and meeting donor conditions. Under Cash on Delivery aid there would be both incentives and resources to invest in reliable information that we actually need – in particular, about what is actually achieved. The cost of collecting this information about impacts and outcomes would be a fraction of cost of gathering the much less useful data paid for by traditional aid. The result would be better information about the things that matter *and* significant savings to the aid industry.

F. CASH ON DELIVERY AID IS LIKELY TO BRING UNPREDICTABLE AID FLOWS?

G. DEVELOPING COUNTRIES BEAR MORE RISKS WITH CASH ON DELIVERY?

23. Both of these concerns are both completely unfounded. Levels of school completion are *much* less volatile, from one year to the next, than traditional aid flows. So aid paid in proportion to levels of school completion would be less volatile and more predictable than traditional aid.

24. The biggest risk currently borne by highly aid-dependent countries is not variations in service delivery but capricious donor behaviour and priorities. That risk is currently borne entirely by the recipient country which has to cope with variations in aid revenues that are significantly higher than volatility in their own domestic revenues.

25. Cash on Delivery aid envisages that donors will enter into a long-term contract which commits them to finance services when they are delivered. This transfers the biggest risk in the aid relationship from recipients to donors, namely the risk that donors will decide that they no longer wish to provide aid to a particular country or sector. Under Cash on Delivery aid the donor therefore bears the risk that they might have to go on paying for services delivered after they have lost political interest in the sector or country, for as long as the contract lasts.

26. Far from increasing the risk to developing countries, one of the possible challenges in persuading donors to move to Cash on Delivery aid is that it transfers the biggest risks substantially to donors.

27. The allocation of risks under Cash on Delivery aid is a feature, not a risk, of the proposal. It is a principle of good policy that risks should be borne principally by the party most able to manage or mitigate them. It is therefore right that developing countries should no longer bear the very big risks of donor capriciousness, which they presently bear but can do little to control. The risk that developing countries retain is the (much smaller) risk of failures of service delivery, which – once predictable financing is available – they are in the strongest position to control. Under Cash on Delivery aid, therefore, the overall risk to developing countries is much lower than with traditional aid, and limited to risks that developing countries are in a position to control.

28. If Cash on Delivery aid were successful and it were extended to a wide range of public services, then to the extent that there are revenue risks for developing countries arising from the possibility of failure of service delivery, these risks would be diversified across a number of services.

H. IT IS NOT DETERMINED HOW THE REWARDS OF SUCCESS WOULD BE DISTRIBUTED?

29. Once again, this is a feature, not a risk. The payments under Cash on Delivery aid would be made as unhypothecated transfer to governments, who would be able to use the money as they please. Governments would be likely to invest the money in the future delivery of services, to maintain the flow of future Cash on Delivery funds. They would be free to decide how to do so: they might, for example, choose to deliver through sub-national levels of government, or through NGOs or the private sector. If Cash on Delivery aid were available for a variety of different services, then governments could also decide which services to give priority to.

30. When they give traditional aid, donors feel entitled to interfere in a wide range of decisions about how resources should be used in and by developing countries. They bring with them ideological baggage about the role of the state, commercial interests in using aid in particular ways, and biases towards particular sectors, providers and approaches. These opinions are sometimes not well-founded on evidence, and the views of different donors are often contradictory. Most importantly, the imposition of these ideas undermines the accountability and legitimacy of the states that donors are aiming to help.

31. Under Cash on Delivery aid, donors would not justify aid by the influence they have had on policy but the results for which they have paid. Developing countries would be able to decide how to use the money, and governments would be accountable to their citizens for their decisions. This would help to build, not undermine, the social contract between a state and its citizens – a relationship which traditional aid routinely undermines.

I. DONORS WOULD HAVE TO ESTIMATE HOW MUCH BUDGET TO SET ASIDE?

32. Under any mechanism which makes aid more predictable, donors have to take account of planned future spending in their forward budgets. (In this respect aid is no different from other public services which have to take account of expected future costs, much of which is contractual, such as salaries, pensions, rent, and procurement).

33. It is a feature, not a risk, of Cash on Delivery aid that it would be more predictable and less volatile than traditional aid (since, as explained above, traditional aid is more volatile and less predictable than service delivery in developing countries). Moving over time to greater use of Cash on Delivery aid would make it easier, not harder, for donors to make well-informed judgements about likely future spending.

34. Furthermore because most donors give aid to many different countries, they have a diversified portfolio in which under- and over-estimates of future service delivery are likely to balance each other out.

35. An attractive feature of Cash on Delivery aid is that donors would only face unanticipated spending pressures if developing countries over-achieve progress towards the Millennium Development Goals. These are precisely the circumstances in which donors would have a strong political case for finding and releasing additional funds.

OPPORTUNITIES

36. CAFOD's briefing note summarizes some of the benefits of Cash on Delivery aid. But it understates one of the key advantages: Cash on Delivery aid puts developing country governments back in control of their own development progress.

37. Cash on Delivery aid turns social benefits – education, health, reductions in maternal mortality, infrastructure – directly into fiscal revenues. This enables developing countries to invest in those services and earn immediate returns, rather than having to wait for the long-run social and economic benefits to feed through. They can decide what priorities to pursue; what policies to pursue; and whether to use the public, NGO or private sector to increase delivery.

38. Most importantly, developing country governments can be held to account for those decisions. They can take the credit where they succeed; and they cannot blame lack of resources, or hide behind claims of donor interference when things go wrong. It will be clear to everyone that the money is available to pay for services if the government is willing and able to deliver them.

CAFOD'S RECOMMENDATIONS

39. Based on the risks it identifies, discussed above, the CAFOD brief offers three recommendations:

- Find a way to prevent aid from being used for easy wins instead of the poorest
- Do not undercut traditional aid
- Use qualitative as well as quantitative measures to reduce unintended consequences

Let's look at each of these in turn.

40. CAFOD recommendation: Find a way to prevent aid from being used for easy wins instead of the poorest

Answer: It is a good idea, not a bad idea, for governments to allocate resources to easy wins. As explained above, under Cash on Delivery aid providing services to these groups complements rather than competes with funding for the poorest communities. Cash on Delivery aid would mean that more people would get more services more quickly.

41. CAFOD recommendation: Do not undercut traditional aid.

Answer: Cash on Delivery should be tested in a variety of circumstances before widespread adoption. In principle, Cash on Delivery would lead to a better allocation of resources; it would accelerate service delivery to the poor; it would increase ownership by developing country governments; it would increase accountability; it would reduce transaction costs; it would reduce perverse incentives to focus on inputs and intermediate targets; it would increase information about key social indicators; it would ensure that no development programme would fail as a result of lack of resources. If it delivers these benefits, Cash on Delivery aid would be an improvement on traditional aid and so should over time replace a substantial portion of it.

42. CAFOD recommendation: Use qualitative as well as quantitative measures

Answer: Quality certainly matters, and the agreed measures should take account of this; but we can – and should – make more use of quantitative measures of quality of services. Any system of targets creates the risk of perverse incentives and unintended consequences. But Cash on Delivery aid has the merit of targeting a small number of universally agreed outcomes – such as increased learning in schools, reduced maternal mortality, or access to safe water. Targeting these directly and consistently is much less likely to result in

unintended consequences and perverse incentives than the incentives created by traditional aid which focuses on inputs and intermediate indicators which may or may not be well chosen with respect to the intended goals.

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