Cash on Delivery Aid: For Energy Access?

Nancy Birdsall

Results Based Approaches in Energy – Learning from Other Sectors

World Bank

May 7th, 2012
What is COD Aid?

- A contract: Funder pays a government $XX for each increment of progress against an agreed outcome
- E.g.: $100 for each additional child entering secondary school; each new household with access to water or electricity
- Donor pays annually over (at least) 5 years
- Following recipient’s annual report on measured progress
COD Aid a specific form of P4R:

- The “result” is an OUTCOME not an output or input
- Ideally it is a SINGLE outcome
- That can be measured in increments, e.g. percentage decline in deforestation; average increase in learning of schoolchildren; number of additional households with access to x am’t of water or energy
- (And can be independently verified)
COD Aid: Five Key Features

• Government paid for an outcome not inputs
• Hands-off funder (“ownership”)—unless asked
• Independent third-party verification
• Transparency through public dissemination
• Complementarity with input-based aid programs
Donors pay annually for outcomes not inputs...(5 years. . . )
Hands-off funder leaves plans and decisions to the recipient government ...

Perhaps textbooks

improving roads so children can get to school

early nutrition programs to boost learning outcomes

conditional cash transfers

teacher training
... and changes in policies, bureaucratic rules, and/or political relations

- Pay incentives for teachers in rural areas
- Transferring authority to local government
- Making a deal with the union
- Changing the minister
The government’s annual reports on results are independently verified...
Contract, annual government-reported results, and annual third-party verification reports are all public...
Why COD?: Connects two major objectives of aid spending

• Short term: To reduce poverty and improve well-being (better lives now)

• Long-term: To encourage broad-based growth and accountable government; build “institutions”; transform the state and society
Short term: Better lives now

Good evidence this works
Source: CGD Essay by Charles Kenny, February 2011
Long term: to transform state and society

Much harder to show this works
Why #2

• Makes recipient governments accountable to their own citizens -- by shifting responsibility and risk
World Bank loans and grants often put Bank between the government and its citizens: whether projects or PBLs
So: Why COD Aid?

I. Links better lives now to long-term transformation

II. Makes governments accountable to *their* citizens

III. (Oh: And . . . helps funders focus on results instead of disbursements)
COD Aid #1: For increased rural access (only off-grid?; only “clean”?) , e.g.:

- Malawi government is paid $XX for each new rural household with YY megawatts available
- By any process, product, at any price
- Via any provider: local private providers, co-ops, local govts; co-generation among households
- Creates incentive to fix policy, pricing, financing, other constraints; experiment and adapt; govt can pass on payment to providers
COD Aid #2: For increased urban access

- Donor pays Karachi (Pakistan) govt 10% “bonus” on revenue collected against (metered) billings for electricity
- Karachi govt supports higher tariffs; peak-load pricing; pays its own bills owed the utility(!); lobbies central govt on circular debt problem
- Innovates on guarantees to wary private investors
Common concerns

• Upfront costs
• Disbursement “risk”
• Attribution issue
• Donor staff expertise/role?
• What about waste and corruption?
• Fragile states: “capacity” constraints
Some benefits of COD Aid

• Governance; social contract
• Emphasizes measurement!
• Managing complexity: focus on results
• Funder experts respond to demand for ideas, for help, for consultants
• Allows for experimenting, adjusting
• Could leverage other money
• Helps meet Paris commitments
• Can try might work in fragile states
COD Aid in practice: examples under discussion

Ethiopia and Rwanda education pilots

Clinton Health Access Initiative: sustaining malaria control (Zanzibar)

CGD study group on financial incentives for tobacco control

African Development Bank: “cash for cash” – water bills paid? energy bills paid?
More examples...

FORMA: Forest Carbon Partnership Facility
World Bank P4R?
“With Cash on Delivery, developing countries can choose which investments will move them forward most quickly.”

-Andrew Mitchell

“The idea is to give recipients more control over aid spending—long an aspiration of thoughtful activists who point to waste, bureaucracy, unpredictable flows and confusion among foreign-aid programs.... With cash in hand and new ideas, Britain has a rare chance to blaze a trail.”

-The Economist

“The central idea of handing over ownership to countries and paying for performance is well worth experimenting with.”

- Nicholas Kristof
“[The COD Aid approach] has the potential to change the relationship between donors and partner governments and reinforce the development community's focus on results.”

-Kofi Annan

“[COD Aid] is especially refreshing in an aid world with so much dogma about how to do specific aid interventions and far too little reward for trial and error experimentation...”

-Bill Easterly

“[COD Aid is] designed to liberate donors from their usual bureaucratic constraints and make recipient governments truly accountable to their own citizens. In fragile states, Cash on Delivery Aid offers one way for outsiders to contribute to nation-building, helping to strengthen rather than undermine local institutions.”

- Ashraf Ghani, Finance Minister of Afghanistan (2002-2004)
Some benefits of COD Aid

- Makes governments accountable to citizens not outside donors
- Expertise from outside ("technical assistance") is demand- not supply-driven
- Can leverage non-public money
- Allows for experimenting, failing, learning
- Can work where governments weak – and help to strengthen them
Why ?: When the enabling environment is the problem

- Problem is not technical or ROI but political and “policy” risk (pricing/local govt monopoly)
- Problem is not human “capacity” but system dysfunction, lack of incentives
- Problem is not lack of solution but social and political consensus on the “problem”
- Institutional and political change takes time; outsiders cannot do it