Payments for progress

A hands-off approach to foreign aid

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Introduction

At the start of the millennium, the international community committed itself to help developing countries to achieve the Millennium Development Goals (MDG). But there are significant differences of opinion about the role of additional finance in meeting the MDGs, including whether and how aid should be given in 'fragile states', whether additional aid on the scale needed can be effectively used and the extent to which donors should give aid through recipient country systems. In this paper, we make a proposal which would reconcile these tensions: namely linking more aid to clear evidence of progress on the ground. We suggest that this approach, by giving flexibility and autonomy to local institutions, yet ensuring aid only pays for real, measurable achievements, would command support from all points of view.

The G8 and EU countries have committed themselves to large increases in aid between now and 2010 and the full cost of meeting the MDGs would be larger still. The OECD estimates that, on existing commitments, aid would increase by about 60% in real terms between 2004 and 2010.[1] In many countries, especially in sub-Saharan Africa, the planned increases in aid would mean increasing the proportion of all government spending that comes from donors from up to 30 percent now to as much as 60 percent or more.[2]

How much more funding?

The first tension is about the role of additional funds in promoting the achievement of the MDGs. There is no dispute that the MDGs cannot be achieved in those countries without more money from donors. For example, annual public spending on health in the 25 poorest developing countries is below $10 per capita, including government revenues and foreign aid.[3] That is almost certainly too low to deal effectively with current disease burdens, let alone reduce infant mortality and make progress against malaria and AIDS.

Estimates of the full cost of meeting the MDGs suggest that aid would need to double if the targets are to be met by 2015.[4] But what should we conclude from these estimates? Some views emphasise that a substantial increase in funding would enable at least some developing countries to move more quickly toward the goals.[5] But others emphasise that there are many other constraints on delivering the MDGs, including weak institutions, poor governance and conflict. In about fifty or more countries in the developing world – the so-called 'fragile states' – it is unlikely that additional money would, on its own, accelerate progress towards the MDGs.

In these countries, additional money is a necessary but not sufficient condition of making faster progress. Without steps to lift these other constraints, a significant increase in aid in these countries would be "pushing on a string". There is not a consensus at the moment about whether and how additional aid should be delivered to the fragile states, given that lack of resources does not appear to be the only, or even the main, constraint on progress.

Effective use of additional funding

The second tension in scaling up is whether even well-governed developing countries can make effective use of the proposed substantial increase in resources. For a range of reasons – microeconomic, macroeconomic and political economy – it is possible that additional aid would not bring the intended benefits and could actually do harm.[6] Many of the problems are direct or indirect results of inefficiencies in the global aid system. Fragmentation, high transactions costs, skills bottlenecks, poorly-judged conditionality and lack of predictability all make it difficult for developing countries to make good use of extra aid.

Donors have committed themselves to an agenda of aid reforms which would go a long way towards relaxing these constraints.[7] But in practice, progress on aid reform has been slow. Individual donors find it difficult to subsume their contributions into a collective effort while at the same time remaining accountable to their domestic stakeholders for the contributions they make.[8]

Accounting for funding

The third tension is a consequence of donors' legitimate desire that aid should be properly used and accounted for, which requires that it is channeled through systems of adequate financial accountability. But many developing countries are poor in part because they have weak systems for budgeting, procurement, performance management and accountability. Some donors conclude that it is necessary to manage aid projects separately, so that they can be sure that aid delivers the intended results.

Other donors are concerned that this approach may emphasise short-term results and accountability at the expense of long-term

institutional development. If donors create parallel systems then this may distract attention from the need to improve the country's own, fragile systems. At worst, the proliferation of multiple donor systems may erode domestic capacity and accountability. Additional resources in aid-dependent countries that are channeled outside the government's own financial systems could undermine local political mechanisms of accountability and feedback that are a key ingredient of "good governance". In this case, aid might be worse than ineffective: it could actually have damaging effects on the development of systems on which long term success depends.[9]

New approach

These three dilemmas represent real obstacles to scaling up aid. Policymakers and taxpayers in donor countries would have little hesitation in providing additional resources if they had greater confidence that the additional aid would be used effectively to promote economic growth and reduce poverty.

In this paper we propose that a new approach be tested which we believe would reconcile all three of these dilemmas. It would be a new mechanism, progress-based aid, which would not only take into account the problems of poor governance in fragile states and the weaknesses in the aid system, but would actually directly address those problems.

Dealing with the governance problem: conditionality forsaken

The donor community has sought to deal with the problem of inadequate governance in recipient countries in a variety of ways over the last quarter of a century. In the 1980s and much of the 1990s, bilateral donors followed the lead of the IMF and the World Bank by linking lending and major grants programs to policy change in recipient countries – for example trade opening, privatisation and financial sector liberalisation as well as greater fiscal and monetary discipline to reduce macroeconomic instability. By the mid-1990s, there was mounting evidence that this policy conditionality was not having a significant effect on improving the policy environment.[10]

Policy conditionality

The debt problems of the very poor countries, many in Africa, were embarrassing evidence that structural adjustment programs supported by the IMF and the World Bank had not helped countries grow and indeed by adding to their debt had possibly undermined their growth prospects.[11] Nor was there compelling evidence that policy conditionality had encouraged governments to address the needs of the poor. Many observers concluded that it was not effective to use conditionality to try to impose from the outside policy changes that governments were otherwise unwilling or unable to implement.[12]

Process conditionality

In the mid-1990s donors began to shift to what is now called "process conditionality". They required that recipient governments demonstrate and ensure local "ownership" of reforms, through extensive involvement ("participation") of NGOs and local communities in discussions of government policies and strategies. For the poorest and most aid-dependent countries this was generally in the form of Poverty Reduction Strategy Papers which were prepared for, and with, donors as a precondition for receiving support. Process conditionality has evolved in the last decade toward an emphasis by donors on minimum levels of corruption, respect for human rights, adherence to the rule of law and greater accountability of government to its citizens. Indeed, donors began to categorise as "fragile states" those countries which fell below particular thresholds on one or more of these and other political and institutional characteristics.

In what is now called "selectivity", the U.S. Millennium Challenge Account aid program is by design targeted to the least fragile of the poorest countries; similarly the World Bank's limited IDA funds are allocated in part as a function of low-income countries' scores on these kinds of characteristics (as well as according to their policies). Other donors use these characteristics to determine which way they will deliver aid: that is, for less "fragile" states donors will be more willing to provide support directly to government budgets and to sector-wide programs; in more "fragile" countries donors provide aid through stand-alone projects, NGOs and other non-government channels.

But this emphasis on process conditionality and selectivity has given rise to two new problems. First, selectivity by definition (and process conditionality, were it comprehensively implemented) excludes from support many countries with poor governance, including some with enlightened leaders who are stymied not by lack of will but lack of institutional capacity to tackle corruption, enforce the rule of law and implement their vision.

Second, process conditionality, with its emphasis on "participation", is intended to strengthen the hand of civil society groups; but in practice it has led donors to make quite intrusive and difficult judgments about whether a recipient government is "open" and "democratic"; at its worst, it may weaken indigenous institutions of transparency and accountability, including local governments and civil society organisations, in favor of internationally-visible non-government organisations. In practice, process conditionality may be harder to measure and enforce than policy conditionality was before it.[13]

The difficulties with process conditionality serve to highlight the fundamental dilemma of fragile states: how can donors best help those countries that most need help to meet the MDGs, but which are the least able to absorb additional resources and use them effectively?

Donor accountability 'vs.' recipient country institutions

Challenge of effective use

The challenge for donors in fragile states is to find ways to provide support in ways that will be used effectively, despite the weakness of local institutions, and which will not undermine the longer term development of institutions and capacity to achieve the MDGs.

There is a growing recognition that the institutions or "software" of an economy have to be locally developed.[14] Development can be thought of as the process by which societies experiment with and continually fine-tune the political, social and economic institutions that are appropriate to their evolving needs, constraints and opportunities. As a result, good institutions come in many forms, ranging from the European Union's independent central bank to the ingenious Chinese experiment with the village enterprise system.[15]

In some societies it can take less tangible forms, such as the longstanding trust that exists between private contracting Chinese parties that fueled growth in Malaysia. In other societies, it takes the form of legally-enforceable property titles and contracts and an uncorrupted court system. The only generalisation is that there is no universal recipe – and outsiders are unlikely to help if they try to push institutional forms and norms that have worked for them, in one place and time, as the solution for others in another place and time.

Accountability

But there are some general lessons. A common characteristic of effective political institutions and good governance is accountability. Governments that are accountable to their citizens are more likely to make effective use of resources. But this gives rise to another dilemma for donors. Donors legitimately expect that the resources they provide be used effectively and they set restrictions and conditions that they intend will increase the probability of this.

These conditions require governments to respond, at least in part, to the priorities and expectations of donors; but this in turn, can make them less accountable to their own citizens. Some scholars worry that more outside aid will reduce the need for recipient governments to tax their citizens and so weaken the 'social contract' between government and its citizens which lies at the heart of accountable and effective governments.[16]

Compounding the dilemma for donors is their need to respond to reasonable demands from their legislatures and public to show that aid funds have been well spent. For the purposes of their own domestic accountability, they frequently have to create mechanisms within recipient countries for accounting, measuring and evaluation which are based on their own trusted and recognised systems. (That is one reason for the creation of parallel systems in the recipient country such as project management units.)

With each donor introducing its own reporting and monitoring arrangements and with dozens of donors operating in the poorest countries, individual donors' separate approaches to their own accountability create an enormous administrative burden on recipient countries in addition to undermining their governments' accountability to their own citizens.[17]

These can add to transactions costs, divert scarce resources from the countries' own institutions and divert donors and government attention from reforming local institutions. In this way, the provision of aid and the proper insistence on accountability contribute to the continuing problems that developing countries face in getting their own institutions on their feet.

Short-term and long-term objectives

The Millennium Development Goals, which define targets to be achieved in 2015, invite a longer planning horizon, but over-ambitious quantitative commitments risk turning success into apparent failure. For example, countries that by historical standards are enjoying unprecedented success, such as Burkina Faso, Mali and Uganda,[18] are currently characterised as "off-track" on such measures as education and infant mortality in UN reports (e.g. the Human Development Report of 2003, which uses a simple linear measure of trends) and unless they can accelerate progress even more dramatically will not meet certain of the goals by 2015.[19]

This highlights another dilemma for the donors: there is a tension between a focus on measurable results and the need for patience with the long-term, complicated process of building institutions. Impatience to demonstrate progress has led donors to monitor inputs (such as purchase of goods and/or the agreement of contracts) and intermediate outputs (such as an increase in government spending on social programs). Only in rare cases has there been emphasis on actual results that can be attributed to new programs or inputs financed or inspired by a donor, such as a reduction in infant mortality, an increase in what students are learning in school, or a decline in the cost of transportation as a result of the provision of an adequately-maintained road.[20]

Impatience to demonstrate that results are being delivered and the incentives within donor agencies, have made donors reluctant to invest in long-term development of institutions and capacity for effective budgeting, personnel management, auditing, accounting, and other administrative functions.

Output-based aid

Some donors have recently begun to experiment with a new approach: performance-based and output-based aid. The Global Alliance for Vaccines and Immunization (GAVI) and the Global Fund to Fight AIDS, TB and Malaria have started to base funding on past performance – including reducing grants to countries that under-perform. An evaluation of GAVI's immunization support services program, which links payments to the number of children vaccinated, found it produced a modest increase in vaccinations and at the same time greatly benefited from the flexibility accorded to local decision-makers when they had stronger incentives to deliver results.[21]

Separately, a small number of programs financed by a fund for "Output-Based Aid" at the World Bank, primarily in the water sector, pay private contractors or concessionaires only upon demonstration of their "output" – for example, household water connections made. The concept is enormously promising in terms of ensuring funds are disbursed against clear objectives and ideally will lead public water utilities and other public and quasi-public institutions to institutionalise habits and mechanisms for more effective public-private partnerships with greater accountability of private contractors to the public purse.[22]

Our proposal for progress-based aid, set out in the paragraphs that follow, builds on these approaches of linking aid to specific results. It is both more ambitious and yet more simple than output-based aid. We anticipate that, if the approach proposed

here were successfully implemented, it would resolve the challenges described above. It would both enable and compel donors to act together and would introduce predictable, progress-based, harmonized development assistance that supports rather than undermines the evolution of more effective local institutions which are accountable to local citizens.

A proposal: payment for progress

Outline

We propose that donors bind themselves as a group to pay a specific amount for clear evidence of progress against a set of agreed goals (such as any of the Millennium Development Goals) in low-income developing countries. For example, donors could promise to pay governments $20 for every child that is vaccinated or $100 for every child that completes primary school, beyond the number that completed school in 2000.

Delivery and accountability

Each year, developing country governments taking part in the scheme would present an independently-audited statement reporting their performance on the measures for which the donors had made pledges. (In practice, donors would want to test the mechanism in one sector in a small number of countries before moving to implementation in many sectors.) The auditors would be chosen by the developing country from a list of independent auditors pre-qualified by the donors and the costs would be borne by the donors.

On receipt of the audited statement of progress, the donors would pay the agreed amount. The payments would be unconditional transfers to the Finance Ministry, to be used by the recipient government in accordance with its priorities. Payments would be determined by the achievement of the outputs and not linked to the implementation of any particular policies, or any other intermediate outputs. Nor would this aid be "tied" to purchases from particular suppliers or companies. The only criterion would be the audited statement of progress.

Stability

The "price list" for each output would be the same for all countries. The payments would be correspondingly more valuable in least developed countries, where wages and costs are typically lower. In the richer developing countries, the payments would subsidise but not pay in full the cost of delivery. In the poorer countries, the payments would be sufficient to provide the service, perhaps with some left over to meet the overhead costs of government. Governments that found ways to provide services efficiently and so reduce the costs of providing them would benefit from a larger surplus.

The commitment would be binding on donors. It would need to be sufficiently predictable for developing countries to be able to enter into contracts with third party suppliers on the basis of the expected revenues from donors. For example, a government could arrange for an NGO or private sector firm to deliver health services and pay the bills for that service with the funds provided by donors. Alternatively, some governments might choose to borrow money from capital markets or international financial institutions, against the promise of payments for progress, to invest in increased government provision of services.

Benefits, ways and means

Because the donors' pledge would translate future social benefits (e.g. increased schooling) directly into a stream of revenues, a government with a good record of delivery and with credible business plans would be able to secure the confidence of private investors and scale up the provision of those services.

In practice, governments would be likely to choose a mixture of increased private and public provision of services to move towards meeting the MDGs. The exact mixture in each sector would depend on political priorities in that country and on the effectiveness of existing institutions. Some governments might use new funds to finance transfers directly to poor households when children finish school, or to establish a voucher-like system to enhance a decentralisation effort (see Box 1). Or governments might choose to use progress-based funds at the central level: to train more teachers, pay higher salaries, build new schools or buy new books. These decisions would be for the governments themselves to take, for which they could be held to account by their own citizens.

Outcomes

Under this system, donors would be able to demonstrate to their own stakeholders that they were increasing aid only in circumstances in which it was effectively used and resulting in measurable progress. They would be able to say with some certainty how many additional children were in school as a result of the aid they were giving. However, while donors could show better than they can now that aid was contributing to progress overall, they would necessarily eschew the ability to link the aid they give to particular activities or particular results.

Free technical assistance would be available from donors on demand; but no recipient country would be obliged to accept it. De-linking technical assistance from resource flows would enable recipient countries to decide for themselves how much advice they needed, in what form and from whom.

Separate humanitarian and emergency aid would be provided for natural disasters. Donors would be free to make additional grants or loans to recipient countries, on top of the agreed progress-based aid, for humanitarian, strategic, commercial or other reasons, if they chose to do so.

Such an approach would clearly need to be tested in a few countries and probably initially, in no more than one or two sectors. We describe here specifically how it might be applied to education.

Progress-based aid in the case of education

Introduction

The Millennium Development Goal for Education is that by 2015, all boys and girls should complete a full course of primary schooling.[23] In 2005, an estimated 100 million children were out of school, of which about two-thirds were girls. Most girls out of school come from households that are members of social

minorities or socially excluded groups in their countries.[24] Other out-of-school children come mostly from poor, usually rural, families. Though some children, including in South Asia, never attend school at all, in many developing countries it is common for children to begin school but to fail to complete the five or six years of primary school that are generally believed to provide a minimum level of literacy and numeracy.[25]

Costs

Current estimates of the total annual costs of putting every child in the world in primary school range widely – from $7 to $17 billion. Assuming developing countries increase their own spending by 1 percent a year, the conventional estimate is that bilateral and multilateral donors would need to contribute at least $10 billion annually in external assistance, compared to the $1.2 billion a year actually disbursed by donors for basic education in 2001-2002.[26]

If about $10 billion has to be provided by donors from a total cost of between $7 and $17 billion, then in many countries most of the resources for education would be externally provided. One estimate is that African countries would need more than three-quarters of all donor resources provided.[27] Aid increases on this scale, within the existing aid architecture, raise the spectre of exactly the dilemmas described above.

An alternative way to estimate the resources required is to sum up the estimated costs of the inputs needed to provide education – teachers, books, desks, subsidies for poor children and so on – in specific settings. This is not without controversy, as it requires consensus on the minimum inputs needed and their costs and the difficulty of estimating the likely costs for large numbers of children, given uncertainty about the likely effect on marginal costs of a large increase in numbers. Despite these uncertainties, the Millennium Project has estimated the annual cost of putting every child through primary school in five developing countries would be between $50 and $100 per child.[28]

We propose that donors pledge to pay developing country governments $100 for each child who completes six years of schooling, over and above the number that completed schooling in 2000. This cash amount would be the same for all developing countries – it would be relatively generous in the very poorest countries, but perhaps meet only part of the cost of expanding or improving education in the better-off countries.

Fast tracking

Donors have gone further in education than in other sectors to establish and implement a framework for undertaking their heretofore separate and disparate programs, thus making education a good sector for a pilot test of a hands-off, progress-based approach. Under what is called the Fast Track Initiative (FTI), donors are committed to increasing and pooling their education financing in a select group of countries that have developed "credible education plans" (see Box 2).

Among the challenges the initiative, announced in 2002, originally faced was the difficulty donors had in reconciling this tendency for imposing priorities from the centre rather than country-specific planning and the resistance of recipient countries ("partners") to the appearance of "conditionality" involved in the selection process and the donor judgment of "plans". Four years on, the FTI has made progress in sorting out these problems and has received new pledges of support from donor governments, though what might be measured as new or additional financing for education in any of the countries is still hard to assess.

Box 1 Institution-building and the benefits of vouchers

- One advantage of this progress-based approach is that it could provoke greater self-discovery on the part of public education officials, including at local level, about where the bottlenecks are to "supply" of effective services. Is it that teachers are not adequately trained? Is it that they lack support on an ongoing basis? Or is the bottleneck caused by a shortage of books or the lack of school meals? It might also encourage governments to address lack of demand - by reducing school fees – when it is a constraint on take-up.
- This progress-based proposal shares many of the virtues of using vouchers to fund public services. In principle, vouchers can increase the power of the consumers of services, by giving them choice of which services they want to use. They increase the incentives on the part of providers to deliver a good service at a low cost. They constitute a mechanism by which parents and consumers can make school systems and local governments accountable.
- Many of the challenges that afflict education systems and constrain access to education might be addressed by changing incentives within the education system. For example, if poor households were given education vouchers that could only be cashed by the Finance Ministry, that might encourage schools to find ways to attract more students – for example, through school feeding programs – in order to obtain vouchers which they could "sell" up the chain to district education offices. They in turn, would sell the vouchers to the Education Ministry, who would redeem them for cash at the Finance Ministry. A school voucher system could thus complement the system of payments for progress that we propose.
- Further consideration would be need to be given to whether the benefits of creating an actual voucher system would be sufficient to warrant the transactions costs of implementation and monitoring that would be involved.
- Incentives on the demand and supply side are likely to generate many different local responses in a process that, in effect, constitutes the creation of home-grown institutions. Tracking changes could provide lessons relevant to other local settings and other countries – or not, since institutional arrangements, particularly for a service like education, will not necessarily be exportable.[29]

Box 2 The Education Fast Track Initiative (FTI)

In 2002, the major bilateral donors and the multilateral development banks agreed on a joint strategy to "fast track" selected poor countries in ramping up progress on primary education. The idea is to coordinate large long term and predictable financial support of countries own national education plans in countries in which leadership and commitment to education have already produced visible progress. The program is premised on mutual accountability: donors need to be held accountable for their financial commitments and national leaders for reforming their education systems, with financing and reforms going hand in hand.[30]

FTI currently supports 22 countries and is set to expand to over 30 over the next two years. Initially, the FTI faced challenges including developing country resistance to the appearance of any "conditionality", bureaucratic and political pressures to include more countries (the initial group was seven countries; there are now twenty countries deemed eligible, with eleven more slated for 2006 approval) and the donors' reluctance to firmly commit new money where existing aid was available, but for one reason or another, not being disbursed. However, recent funding commitments by Britain and general commitments by the Dutch and Japanese governments have demonstrated new support for the initiative.[31]

In any event, the FTI provides a framework and a forum where a mechanism for progress-based aid in education could be discussed, given that donors are already committed in principle to pooling and to aligning their financing with recipient countries' own programs.

Cost to donors

If donors introduce progress-based aid in primary school completion, what kind of resources would they have to commit? Table 1 provides estimates of the approximate cost to donors of such a commitment. In this policy experiment, if these five countries successfully reached the MDG of 100% primary completion in 2015, donors would be required to make additional annual transfers of about $207 million over and above current aid and domestically financed spending, an increase equal to about half the current aid earmarked for education in those countries.

These estimates present the additional costs of providing education to additional children, over and above levels of education and their associated costs in 2000. We propose a pilot program in which a group of donors would use payments for progress in a few countries to fund the additional costs needed to move towards the Millennium Development Goals. This proposal constitutes a mechanism for spending a portion of the significant additional aid already pledged by donor countries to meet the MDGs. If successful, the mechanism could also be used to provide funding for existing levels of service.

Payments for progress: on primary completion or exams?

Some countries, especially those where enrolment and completion rates are already high, might prefer to adopt a more challenging goal, such as increasing the number of children who attain an adequate score on an internationally-recognised competency test. In other words, they might define for themselves a "Millennium Learning Goal" over and above the Education MDG.[32]

If donors were to link payments to the number of children that reach this standard, it would reduce the risk that incentives to meet the quantitative targets in the MDGs would shift focus away from quality and perhaps erode the funding of relatively well-resourced schools. Such an approach might be used to complement payments linked to school completion rates. A combination of both incentives for countries in appropriate circumstances could produce progress towards both the quantitative and qualitative goals encompassed in the education MDG.

To the extent that countries agree to judge performance on the basis of achieved competency, governments and donors would finally have a tool for assessing quality –which has been recognised by UNESCO as the fundamental challenge and without improvement of which there seems little chance that students will complete primary cycle anyway.[33]

The challenge and benefits of independent monitoring

Under a system of progress-based aid, there is a significant risk of cheating, since there are strong incentives for exaggerating completion rates (or number of students that score adequately on competency tests) at all levels: teachers, schools, local communities and central government. The issue of how to implement an effective, independent monitoring and auditing system constitutes the main technical and political challenge to implementation of this approach.

At the same time we note that simple outcomes are much easier to monitor accurately and verify, than the thousands (in some cases tens of thousands) of performance criteria on which current aid is based. With independent auditors investigating a smaller number of simpler measures of progress, donors should have much more confidence in these measures of success then they do in existing criteria for aid payments.

An important advantage of linking aid to audited performance is the new attention and priority it will bring to improving the local systems for data collection and auditing – which have not attracted the attention and support that they deserve. By shifting resources from collecting low-value information about inputs from a plethora of projects to a systematic approach to gathering information about the number of children in school across the country, payments for progress would create incentives for a much more valuable, comprehensive and potentially less expensive, monitoring framework.

Gathering accurate data on these indicators is a desirable and necessary investment both for donors and recipient countries in

future policy planning. It is a merit of the proposed approach that it would enable donors to shift resources from the largely unproductive industry of monitoring and appraising individual projects and performance criteria, to the much more important task of building effective national statistical and auditing systems.

Reducing volatility

Many factors other than aid may affect a good performance (or a bad performance) in a given year, independently of a government's actions - including natural disasters, unexpected growth due to a commodity boom and political changes. To some extent, such shocks will be smoothed out by the use of outcome variables (as distinct from input conditions or linking aid to intermediate indicators which are likely to be more volatile). The predictability of the payments will also allow countries to make use of capital markets to smooth flows (e.g. by borrowing against future performance).

The markets (including local banks) will be the judge of the likelihood of successful performance. If necessary, volatility could also be reduced by linking payments to a backward-looking, three-year moving average. This would also help to address the challenge to donors of planning for aid flows within the framework of existing budget cycles; in addition, beginning with a small pilot program of several countries as we propose, would create uncertainties of funding that would fit comfortably within the margin of error in current aid budgets.

Increasing the accountability of recipient governments

The simplicity and transparency of the mechanism is at the heart of the institution-building role of progress-based aid mechanism. If parents know that funding is unquestionably available for their government to meet the costs of providing primary education for all children, unencumbered by other conditionality, it would permit them to hold the government accountable for whether they deliver the service. Responsibility is not diluted or distorted by the donors, nor can governments hide behind lack of resources as an explanation for failure.

If payments for progress are to translate into greater accountability, it is essential for the donor pledge to be transparent, widely understood and couched in simple, unambiguous and consistent terms. Even a modest proliferation of additional conditions or complexity would greatly reduce the benefit of progress-based aid for improving the accountability of governments.

Increasing the accountability of donors

A significant shortcoming in the aid relationship has been the difficulty of holding donors to account for their commitments. They have made individual and collective commitments on both quality and quantity of aid which have proven sufficiently vague or ambiguous to make it difficult for donors to be held to account.

Just as a transparent and simple pledge has the potential to improve the internal governance relationships in recipient countries, it also makes the aid commitment more binding on donors, because both recipients and civil society groups will be able to assess more readily whether they have kept their promises. If donors agree to be held jointly and severally liable for their commitment to pay for progress, they can exert peer pressure on each other to bear the costs as they fall due.

Progress-based aid: the advantages for donors

We believe that our proposal for progress-based aid offers a number of clear benefits for donors:

Table 1 Cost to donors of progress-based aid for education

Transfers of $100 per Additional Primary School Completion

Country	*Total Aid for Education in 2000 (millions)*	*Total Aid Earmarked for Basic Education in 2000 (millions)*	*Completion Rate in 2000*	*Annual Transfers for 80% Completion in 2015 (millions)*	*Annual Transfers for 100% Completion in 2015 (millions)*
Ghana	$15.8	$8.0	64%	$16.5	$29.4
Bangladesh	$53.7	$38.5	70%	$15.5	$65.3
United Republic of Tanzania	$29.3	$13.6	59%	$38.2	$61.4
Uganda	$83.1	$12.1	65%	$25.3	$42.1
Cambodia	$12.1	$2.0	70%	$3.1	$9.1
TOTAL	**$194.0**	**$74.1**	**67%**	**$98.5**	**$207.3**

Sources: Current aid from all donors, OECD Development Assistance Committee CRS Database Table 2. Completion rates in 1999-2000 (for the United Republic of Tanzania, reference year is 1997): Bruns, Mingat, and Rakotomalala (2003), Tables B.3, B.9, and B.11. New transfers: author's calculations based on projections of school-age population in 2015 in Table A.5.

- Payments would be linked directly to progress. The mechanism would provide full accountability to donor country taxpayers about where money has gone and what it has bought.
- There are lower transactions costs for everyone: there would be no need for project milestones, benchmarks, performance criteria, appraisals, separate accounting mechanisms, etc. While there would be costs involved in auditing progress towards the specific indicators, these are the costs of improving systems and collecting information that is needed for countries' policymaking and planning processes anyway. The monitoring costs of progress-based aid would also be significantly less than the administrative costs of managing individual aid projects.
- There would be no choices to make and defend about conditionality, selectivity, or adjusting aid in response to political or strategic interests. Aid would simply flow to those countries that are making progress towards delivering the internationally-agreed MDGs.
- Donors would be able to show that they were willing to provide the resources needed to meet the MDGs. They would be able to show that, if there is a shortfall in achievement, it is not because they have not made sufficient resources available. Accountability for making progress towards the MDGs would shift from the donors to the developing country governments.
- The scheme would resolve the tension between the desire to directly fund service delivery, in order to produce results and the desire to build up the institutions and systems that will enable governments to ensure the delivery of those services themselves in the future. By pledging a flow of funds, donors pay for the services that governments set up the institutions to deliver.

Progress-based funding: the advantages for developing countries

For developing countries, progress-based aid would also have a number of benefits:

- There would be greatly reduced transactions costs for recipients: the only requirement would be an annual audit of outputs delivered (which is information that they need to collect anyway and which would be paid for by the donors).
- The partnership with donors would be less intrusive into the sovereignty and accountability of governments: there would be no interference in internal processes and priorities. Governments would be able to choose how best to prioritise service delivery in their own country.
- The promised payments would provide predictable, long term funding against which governments could plan, invest and if necessary, borrow;
- The mechanism would strengthen the internal institutions of financial allocation and accountability. For example, finance ministries would allocate resources to those line ministries best able to deliver poverty reduction goals and would provide a reason to hold line ministries to account for performance.
- Internal political accountability would be enhanced. The transparent and guaranteed availability of finance would enable local civil society and media to hold the government accountable for what they deliver and remove from it the excuse that insufficient resources were available.
- Countries could choose for themselves whether and how, to use a mix of public and private provision to meet the MDGs. The donors would translate the social benefits of meeting the MDGs into financial flows which could be used either to finance public service provision, or to purchase goods and services from private sector suppliers.
- Progress-based aid would automatically implement many of the improvements in aid delivery that the international community has committed itself to but not implemented, including untying aid, increasing predictability, avoiding establishing parallel project management mechanisms, linking aid to national priorities and plans, rewarding success, prioritising the MDGs, increasing the proportion of aid flowing to the poorest countries and improving monitoring of indicators of progress.

Conclusion

The report of the UN Millennium Project correctly notes that "changing education systems requires political leadership and institutional reform, as well as additional investments and inputs". This is true for all the MDGs – the need for additional money is only one of the constraints on more rapid progress.The MDG cost studies tell us that those costs are affordable. They do not, however, suggest that we can achieve the MDGs simply by spending more money.

Some donors believe that the world should be more generous in its funding for development. They are right: the efforts of developing countries should not be allowed to fail through lack of resources. Other donors believe that aid funding should be clearly linked to results. They are right too. Increasing aid without linking it to progress is pushing on a piece of string.

We have proposed a mechanism for progress-based aid which seems to us to satisfy both these perspectives. It enables donors to make a serious commitment to fund the achievement of the MDGs, while ensuring that the resources flow only if the other constraints are actually lifted. It ensures that developing countries are more accountable to their own populations: no longer can they blame slow progress on lack of resources, when everyone will know that the funds are guaranteed for those governments that choose to deliver change. It reduces the costs of the aid business, and increases its transparency and effectiveness.

It will take more than additional aid to meet the MDGs; but they will not be reached without it. By making a commitment of this kind, donors can live up to the pledge they made in Dakar in 2000 that no country would be allowed to fail in its efforts to increase school enrolment because of lack of resources. It will shift attention from the willingness of donors to provide aid to the myriad of other decisions which will, in the end, determine whether we achieve the noble and historic goals set out in the Millennium Declaration.

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Endnotes

1 OECD DAC (2006).
2 Moss and Subramanian (2005).
3 World Bank (2006a) and author's calculations. 2003 data for the twenty-five countries with lowest per capita GDP for which this information is available.
4 Zedillo Panel 2001, Devarajan et al. (2002) UN Millennium Project 2005
5 Sachs (2005), chapters 14 and 16
6 Discussed in detail in Barder (2006).
7 See High Level Commission on Aid Effectiveness (2005) and International Conference on Financing for Development (2002).
8 "At the political level, the efforts and commitment of senior managers in aid agencies to "spread the harmonization gospel" have sometimes been undermined by such external political factors as donor country politicians concerned with visibility, NGOs and private sector lobbies, and lack of commitment and leadership on the part of partner governments." OECD (2005)
9 Moss, Pettersson and van der Walle (2006) refer to this problem as the "aid-institutions paradox." Bräutingam and Knack (2004) provide evidence that aid has weakened bureaucracies in many countries over the last several decades.
10 Killick (1998) and Devarajan, Dollar and Holmgren (2001).
11 Easterly (2002).
12 Another view holds that conditions were inappropriate and pushed countries into reforms that were not growth-enhancing. See Killick (1998). This view is, however, hard to reconcile with the evidence that in most cases countries continued to receive loans and grants whether or not they were honoring promises made. This was the case in the late 1980s and early 1990s even for countries that were already deep in debt and had very "poor" policies according to the World Bank indicator (Birdsall, Claessens and Diwan, 2003)
13 World Bank (2004): "Tensions in the Initiative's design have caused problems during implementation. There is inherent tension in a Bank/IMF–driven initiative involving conditionality that is also meant to foster a country-driven process. This has led to two problems during implementation…Countries have focused more on completing documents, which give them access to resources, than on improving domestic processes."
14 See Rodrik (2000). On the centrality of institutions, see Acemoglu, Johnson and Robinson, 2004; and North, 1990.
15 Rodrik, 2003 cites other examples from China, to help explain its success outside the boundaries of conventional wisdom.
16 See Moore (1998). Moss and Subramanian (2005) report contradictory evidence on this point: in the poorest countries, most taxes are indirect (trade and sales taxes) so tax systems do not currently build in much direct accountability anyway.
17 Knack and Rahman (2004) provide evidence that donor fragmentation has undermined bureaucratic quality in aid-dependent countries.
18 See Clemens (2004) on education, and Clemens, Kenny and Moss (2004) on education, infant mortality and other goals.
19 For example, Burkina Faso is "off-track" from meeting the goal of universal primary schooling by 2015. The net primary enrollment rate was just 35 percent in 2000, and by one estimate (extrapolating from historical experience of more than 100 countries which takes the form of a logistics curve; see Clemens, 2004) would reach "only" 59 percent by 2015. However, compared to the historical performance of today's rich countries, that rate of progress would be impressive. It would roughly match South Korea's progress between about 1945 and 1955, but far outpace the progress of the U.S., which, starting at Burkina Faso's current enrollment rate of 42 percent, took 30 years to increase its rate to 57 percent
20 See Savedoff, Levine and Birdsall (2006), for evidence of the resulting lack of evidence of attributable impact of development programs. Some programs to improve health are notable exceptions; see Levine (2004).
21 Chee et al. (2004).
22 Brook and Smith (2001)
23 The corresponding progress indicators are (a) the net enrolment rate; (b) the proportion of pupils starting grade 1 who reach grade 5; and (c) the literacy rate of 15-24 year olds. None of these addresses the true goal of learning (as opposed to attending school) (see Filmer, Hasan and Pritchett, 2006)
24 See Lewis and Lockheed, 2006
25 Filmer, Hasan and Pritchett (2006) report results of various competency tests that suggest average learning in most developing countries is shockingly low, even for children who complete primary school.
26 See UN Millennium Project report, pp. 78-81 on financing the education MDG.
27 Bruns, Mingat and Rakotomalala (2003).
28 The UN Millennium Project (2004) estimates an average annual cost of $86 for Ghana $56 for Cambodia; $59 for the United Republic of Tanzania; $67 for Bangladesh; and $53 for Uganda. See tables pp. 97, 120, 141, 165, 187. Estimates are average annual costs from 2003 to 2015 in 2000 US dollars.
29 Pritchett and Woolcock (2004) note that imposition of standard models of education in aid "led to schools with standardized curriculum, teachers with little training, low local commitment to the school (which was viewed as "the government's" school), excessive devotion of recurrent expenditures to wages, little real learning, and high dropout rates."
30 This segment draws from United Nations Millennium Project (2005).
31 World Bank (2006b).
32 Filmer, Hasan and Pritchett, 2006.
33 UNESCO (2003).

Biographical notes

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