



Progress-Based Aid for Education: A Hands-Off Approach
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In this note we outline a proposal for a hands-off approach to providing aid. We describe the outlines of an open contract that donors could offer to reward progress in education; any eligible low-income country could sign on to the contract. Testing this approach would allow for systematic analysis of the effects of this new form of aid, on schooling and on local political and other institutions in recipient countries. We intend for this summary outline to encourage discussion of the proposal in the official donor community and among officials, civil society activists and researchers in recipient countries. Please send comments to kvyborny@cgdev.org.

The Problem: Donor countries have committed themselves to major increases in spending on development assistance; but significant questions remain about how additional aid can be made effective.² Among other problems, the traditional “hands-on” approach to development aid can be burdensome, inflexible, and more responsive to donor than recipient country interests, with the risk of undermining the local institutions that are key to long-term development.

A Proposal: We propose that donors commit to pay a specific amount for clear evidence of measurable progress against agreed goals in low-income developing countries. Participating countries and donors would enter a contract in which they would agree to a progress measure – such as the number of new students who complete primary school and take a competency test – with a fixed payment for each unit of progress. The cash amount would be the same for all countries, making the payment relatively more generous in poorer countries. Each year, donors would make payments on the basis of independently audited statements presented by participating governments. The payments would be “hands-off” unconditional transfers – linked only to the achievement of progress over some benchmark (whether through public or private delivery mechanisms) and not to the implementation of any specific policies, practices, programs, or intermediate outputs.

\$100 for new primary school graduates: A pilot experiment could be used to accelerate progress toward the Millennium Development Goal of universal primary completion by 2015. Under the pilot program, a donor or donors would offer low-income countries US\$100 for each

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² Donors have already made commitments to significant increases in the Monterrey declaration and other contexts. Estimates by the UN Millennium Project suggest that significant increases in aid volume would be necessary (but not sufficient) to reach the Millennium Development Goals. The major bilateral donors and the multilateral banks have also pledged significant resources for aid for education, including through the Fast Track Initiative. This proposal constitutes one mechanism to spend the additional funds while addressing some of the institutional development challenges not addressed by traditional aid.



child who completes primary school and takes a nationally administered standardized competency test over and above a baseline and verified by an independent agent.³ While the details must be worked out, this formulation demonstrates how issues can be addressed in practice: the payment (and therefore the incentive) is oriented toward increments in school completion; the testing requirement – without linking payments to test scores – would generate information about school quality but avoid creating incentives to manipulate results; independent verification would reduce the risk of manipulating coverage data.

The Advantages: Progress-based aid could demonstrate new ways of providing foreign assistance, encourage local innovation and be conducive to the strengthening of local systems and institutions.

- Progress-based aid would increase transparency by focusing attention on monitoring outcomes. Citizens would have full information about the financing available to their governments, making governments accountable for progress to those citizens, rather than primarily to donors.
- Progress-based aid would automatically bring greater compliance of donors to their existing commitments regarding aid delivery enumerated in the Paris Agreement, such as increasing the share of untied aid; improving “harmonization” among participating donors; and assuring “alignment” of aid to recipient government priorities.⁴
- Research that would accompany the pilot experience could enhance our understanding of how aid can strengthen, rather than burden, local institutions and provide insights about institutional change and “good practices” in different settings.

Some Issues: The design of the pilot program would have to resolve a number of issues, such as:

- establishing an appropriate payment amount and outcome indicator
- assuring accurate measurement of progress
- minimizing incentives to manipulate outcome measures
- responding to unforeseen setbacks that are beyond the country’s control
- ensuring that PBA funding would not invite undue reduction of current flows of aid, and
- making the donors’ commitment credible, both to pay for progress and to pay only for progress.

Next steps: Attached are a sample contract and a discussion document intended to obtain further feedback on designing a pilot project. We welcome comments and suggestions from all interested individuals and organizations and particularly from technical experts, donor representatives, developing country officials and civil society representatives.

³ The UN 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. Estimates are average annual costs from 2003 to 2015 in 2000 US dollars. UN Millennium Project, 2004. “Millennium Development Goals Needs Assessments: Country Case Studies of Bangladesh, Cambodia, Ghana, Tanzania and Uganda.”

⁴ Paris Declaration on Aid Effectiveness, March 2005; available online at <http://www.oecd.org/dataoecd/11/41/34428351.pdf>



Sample Donor-Recipient Contract for Progress-Based Aid for Education

One or more donors could publicly offer a contract for Progress-Based Aid to which any recipient country meeting pre-specified eligibility criteria could sign on. With fixed payment amounts and terms across countries, the open contract would eliminate the resource-intensive process of planning and negotiating aid packages, and would be completely transparent to citizens of the donor and the recipient country. **This document presents a more precise formulation of the proposed Progress-Based Aid contract so that feedback, comments, and suggestions can be used to modify it in ways that will improve the chances of a successful outcome.**

1. The donor commits to paying the government of any “eligible country” that signs on to the contract US\$100 per “additional student completion” and US\$20 per “completed student examination” (see below for definitions of terms in quotation marks).
2. The contract is for a 10-year period and is extendable in 4-year increments.
3. The number of “additional student completions” is calculated as the difference between the actual number of students completing primary school in a particular year and the predicted number of students who would have graduated that year (see below for a more precise formulation).
4. The donor will contract an agent (from a list of organizations pre-approved by the donor and recipient) to audit the government’s report and verify the outcome and test figures using a statistically representative survey. Adjustments in the payment (positive or negative) will apply to the subsequent payment. No adjustments will be made if the verification estimates indicate that the reported data are accurate to a 90% statistical confidence level.
5. The payment for the first year of the program will be made within six months after the audit is complete. In subsequent years, payments will be made within six months of the date that the government submits its full report of completions and testing.
6. The participating donor commits to ensuring that the progress-based aid payments are treated as additional to other assistance to the country. The donor commits to abide by existing aid commitments and to act in good faith so that progress-based aid payments are additional to the donor’s other forms of assistance.
7. At the inception of the contract, the donor will place a guarantee in escrow equivalent to the amount that would be disbursed over the subsequent two years if the country increased the completion rate by the current trend, calculated as the average annual rate of increase achieved over the previous three years. The donor will replenish the escrow account on an annual basis, so that in any year, there are sufficient funds in the account for the subsequent two years.
8. If the country experiences a recession, as defined by the IMF, due to changing international economic or domestic environmental conditions (e.g. severe drought), the country can petition the donor to reset the baseline to a level equal to



- the primary completion rate three years earlier, but in no case below the initial baseline determined at the beginning of the contract.
9. The recipient country must test at least 20% of completing students in order to receive payments. Donors will designate an account of [XX per recipient country] to which countries may charge up to 90% of the direct costs of developing a robust information system on student enrollment and completion, and the initial cost of developing the standardized competency test.
 10. At a minimum, the standardized competency test will allow accurate tracking of learning outcomes from year to year, useful for assessing whether the quality of schooling is increasing and to assist management and education policy decisions. Any additional criteria for judging the adequacy of the standardized competency test will be explicit in the contract.
 11. The country commits to publicly report student completion figures and average test scores, with disaggregation at least to the smallest subnational government level or school administration district; by gender; and by any other social categories relevant to issues of discrimination and social exclusion.
 12. The country commits to allow and facilitate research into education policy, the development of institutions, and the effects of the contract, and to make education and public finance data available to researchers for this purpose.

Further options to consider:

- The baseline trend could be calculated in some other fashion than proposed below.
- The “additional student completion” could be calculated against the base-year completion total rather than against the trend.
- The additional student completion could be substituted by a similar calculation for additional students enrolled in secondary school.
- The unit payment could be increased or decreased.
- Payment could be made conditional on average test scores – either that they do not decline or that they increase at a negotiated rate.
- Student testing could be substituted by teacher testing.
- The number of students taking the test could be replaced by a measure of success in achieving the testing program’s goals, e.g. the number of students who completed the test divided by the number of students who, according to the information system and testing plan, were supposed to have completed the test.
- The payment could be conditioned on the recruitment / retention of qualified teachers and a community-monitored measure of teacher attendance.
- The contract could designate additional payments for girls or children from excluded ethnic groups who complete primary schooling.

Definitions

The following definitions are provided to encourage discussion and will be modified in any ways necessary to improve the chances of a successful outcome.



“Eligible Countries”

In order to be eligible for the program, a country might have to satisfy criteria such as:

- gross national income per capita that places it in the “low-income” category as determined by the World Bank,
- a demonstrated minimal degree of effective governance in the management of public funds, and
- engagement with the Fast Track Initiative on developing a national action plan for improving primary education.

“Student Examination”

A unit of “student examination” is equivalent to the completion and scoring of an eligible standardized competency test by a student in the final or penultimate year of primary school. The standardized competency test will be eligible under the terms of the contract if it provides sufficient information for the country to assess changes from year-to-year in the quality of schooling.

“Additional student completion”

The number of “additional student completions” is proposed to be calculated as the difference between the number of students who actually complete primary schooling and the number of students who would have completed primary schooling if the country had simply maintained the primary completion rate achieved five years earlier. This approach adjusts only for changes in school-age population and implicitly rewards a country five years in succession for each additional student who completes primary school. Other methods of establishing the baseline, including sophisticated enrollment predictions, could also be considered. The precise formulation proposed here is:

$$\mathbf{PMT}_t = \$100 * (\mathbf{Comp}_t - \mathbf{PComp}_t) + \$20 * (\mathbf{Test}_t - \mathbf{PTest}_t)$$

$$\mathbf{PComp}_t = (\mathbf{Comp}_{t-5} / \mathbf{POP}_{t-5}) * \mathbf{POP}_t$$

$$\mathbf{PTest}_t = (\mathbf{Test}_{t-5} / \mathbf{Comp}_{t-5}) * \mathbf{Comp}_t$$

Where:

\mathbf{POP}_t = completion-age population in year t

\mathbf{PComp}_t = number of students predicted to complete primary school in year t of the contract

\mathbf{Comp}_t = the number of students actually completing primary school in year t of the contract

\mathbf{PTest}_t = number of students predicted to take standardized competency test in year t of the contract

\mathbf{Test}_t = number of students actually taking standardized competency test in year t of the contract

\mathbf{PMT}_t = the payment made by donors at the end of year t