EXTERNAL FINANCING OF SOCIAL PROTECTION – OPPORTUNITIES AND RISKS

Göran Holmqvist, Nordic Africa Institute, Uppsala/Sweden

ABSTRACT
Social transfers have reached the policy agenda of low-income countries in Africa, where affordability is a key concern while aid dependency is high. In terms of magnitudes, aid could make a substantial difference in relaxing the affordability constraint. This paper addresses issues that arise as external financing of social transfers is contemplated, both risks as well as opportunities. External financing of social transfers would have to address three requirements: i) be politically supported by donor countries’ home constituencies, ii) be based upon a credible aid contract, where the permanent character of transfers has to be reconciled with time-bound aid, and iii) build on, and avoid disturbing, the political ownership in partner countries. Different aid modalities are considered in relation to these three requirements, viz. traditional project aid, general budget support and sector wide programmes. Cash on delivery aid (COD aid), is discussed as an alternative which could combine three attractive features: a) a credible burden-sharing formula over time that provides predictability for partner countries and an exit strategy for donors; b) a hands-off approach by donors that respect partner countries’ ownership over design and implementation; and c) clarity over which results aid money has paid for, which may be communicated to the donors’ home constituencies. Such an approach would require a long-term engagement by donors, aligned with country-owned strategies, and harmonized around a joint financing mechanism.

The potential for external financing of social transfers in those cases where political ownership is lacking is discussed. Based upon the literature on political economy of aid and conditionality, the limitations of aid to induce permanent policy reforms and institutional changes are pointed out. Lesson number one for donors is to recognise these limitations and risks. To support partner countries to do more of good things that they are already doing, is a more realistic ambition than to bet on the potential of scaled-up external financing to re-shape political economies.

Goran Holmqvist
Nordic Africa Institute, Uppsala/Sweden
e-mail: goran.holmqvist@nai.uu.se
1. Introduction

In the developing world, there has been a wave of social protection initiatives over the past decades, which has sometimes even been labelled a “silent revolution”. Large-scale social transfer schemes have been introduced, benefiting millions of people living in poverty, mainly in middle-income countries with domestic financing and design (Barrientos and Hulme 2008). These kinds of interventions are now increasingly also on the policy agenda of low-income countries in Africa, where affordability is a key concern, and aid dependency is high.

That such a large share of public spending in sub-Saharan Africa is made up of foreign aid – aid volumes equivalent to one third or more of public expenditures are not uncommon – is a phenomenon without historical parallels to the introduction of social protection policies elsewhere. However, so far, only limited aid flows have been destined to support the introduction of social transfer schemes. The availability of external financing for poverty reduction clearly provides an opportunity, but also opens up for critical questions. That is what this paper intends to address - issues that arise as external financing of social transfers is contemplated, risks as well as opportunities. How much aid money is really available and how much of a difference could aid make? Which aid modality would be most appropriate? How is the contradiction between the need for long-term and predictable financing reconciled with the more restricted time horizons of donors? How is the political economy of social protection in partner countries affected as external actors enter the scene?

Definitions of social protection vary. A common approach is to define social protection as policies and actions to support a set of objectives related to human well-being, with these objectives then being more or less narrowly defined (ranging from “coping with risks” to more general development objectives). Social transfers constitute just a sub-set of various other potential instruments to achieve such objectives: protective legislation, the delivery of social services, social insurance and various others could also be put on the list (it could even be argued that it is unclear where that list ends).

This paper mainly focuses on external financing of social transfers, and not on external financing of social protection interventions in general. The choice to focus on social transfers is hence not made because they are the only, or necessarily the most important, form of social protection intervention. It is, instead, due to the fact that external financing of social transfers raises some specific concerns, which go beyond the fact it is something of a newcomer to the aid and development debate. First of all, there is an issue of magnitudes: social transfers are costly, and aid might be a necessary ingredient to bring them about. Secondly, there is the issue of recurrent costs that need to be met by long-term predictable financing (not a unique feature to social transfers, but maybe accentuated). Thirdly, the fact that social transfers function as a permanent re-distributive mechanism raises a number of questions with regard to the connections between external aid and the political economy.

The organisation of the paper is the following: Section 2 discusses the affordability restriction and the potential of foreign aid to relax it in terms of mere magnitudes. The sections that follow review different aid modalities and aid contract models, and how well they satisfy various requirements. This discussion is structured around two cases. In the

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1 Reliable data on aid flows destined for social transfers or social protection is lacking. Within OECD/DAC efforts are underway to produce more accurate estimates. At present the OECD/DAC Creditor Reporting System has no sector code for social protection, but there is a purpose code labeled “Social/Welfare Services”. Of all Official Development Assistance committed in 2008 only 1.5 percent was registered with that purpose code: http://stats.oecd.org/Index.aspx?DataSetCode=CRSNEW
first case – the “benign” case - the full political ownership of the social transfers is assumed to be in place in the partner country, so the political economy aspects are side-stepped. In the second case, the social transfer policy is not fully owned by the partner country, and the discussion focuses on the restrictions which aid providers would face under such circumstances.

2. The price tag of social transfers and the potential of aid to fill the gap

Disregarding other issues, are the magnitudes such that aid could make a difference to the affordability of social transfers in African low-income countries?

Table 1 below illustrates some simple arithmetic on the cost of social transfers and its relation to domestic revenue and external aid. The first columns of the table display the cost of three basic social transfers in relation to GDP for a handful of sub-Saharan African countries, as estimated by the ILO. Together, these transfers constitute three out of four elements in the so-called social protection floor advocated by the UN (the fourth one being universal access to health). Calculations are based upon the following assumptions (ILO 2008):

a) **A child grant**: Benefit per year and child equivalent to 15% of GDP per capita for maximum two children per woman, in the age bracket 0-14;

b) **An old age pension**: Benefit equivalent to 30% of GDP per capita for all individuals above 65 and for disabled persons (1% of population);

c) **An employment scheme**: Benefit equivalent to 30% of GDP per capita provided to poor and unemployed (assumed to be 10% of population) for 100 days per year.

d) **Administrative overhead**: 15% of transfer value.

The cost of introducing these social transfers would amount to 3-5% of GDP in these seven countries. The child grant is clearly the most expensive element in this package of transfers. A recurrent issue of some controversy is whether costs of this magnitude are to be labelled “affordable” or not.

In the last columns of Table 1, these estimates are related to the two main potential sources for financing: domestic resource mobilization or external aid. The statistical measures used here are “Government revenue excluding grants” and “Official Development Assistance” (ODA net).

The cost of the package in relation to Government revenue (excluding grants) ranges from 16% in Cameroon to approximately 40% in Burkina Faso and Ethiopia. Under the assumption that the present capacity to raise revenue remains unchanged, and that the social transfers are purely financed out of domestic revenue, this social transfer package clearly appears to be unreachable, at least among countries with less favourable conditions. However, this obviously does not imply that nothing can be done at all. First of all, it should be kept in mind that there is nothing like a fixed-price tag on these ambitions; less generous age requirements, lower benefits or a more targeted approach could obviously reduce the costs. It would hence be possible to start slowly and expand as economic conditions permit. Secondly, there is also some room (at least) for raising more domestic revenue or for re-prioritising expenditure; for instance, just raising it from 13 percent to 14 percent of GDP in a country such as Burkina Faso would be enough to finance a universal

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2 “Government revenue excl grants” includes primarily various taxes, but in addition to that social security contributions, fines, fees, rent and income from property and sales. The no-tax/no-grant part amounts to approximately 1-2 percent of GDP in these countries.
old age pension for all Burkinabés above 65. Finally, there is the option of external financing, which is the subject of this paper. A conclusion drawn within the framework of the UN Social Protection Floor is that financing the proposed package of interventions initially would also require the mobilisation of external resources, particularly in the countries with lowest per capita incomes (ILO/WHO 2009).

So how much difference could aid make? The last columns of Table 1 compare the cost of this transfer package to the present net flow of ODA to these countries. The transfer package cost is approximately 40% of ODA net in Guinea, Burkina Faso, Ethiopia, Tanzania and Senegal, but above 100% in the richer and less aid dependent countries (Kenya and Cameroon). Including only EU aid (EC and Member States) would roughly double this ratio. It should also be kept in mind here that ODA is measuring what donors claim they give, not what recipient government actually receives and disposes (in between is the support to non-government actors, donors’ administrative costs, costs for refugees in donor countries, over-priced technical assistance, etc.).
## Table 1: Cost of social transfers in relation to domestic and external sources of revenue, 2008

<table>
<thead>
<tr>
<th>Country</th>
<th>a) Universal pension/ GDP</th>
<th>b) Child benefit/ GDP</th>
<th>c) Employment scheme/ GDP</th>
<th>Transfer package/ GDP (a+b+c+15%)</th>
<th>Revenue excl grants/ GDP</th>
<th>Transfer package/ Revenue excl grants</th>
<th>ODAnet/ GDP</th>
<th>Transfer package/ ODAnet</th>
<th>Transfer package/ ODAnet from EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guinea</td>
<td>0.6</td>
<td>1.5</td>
<td>0.3</td>
<td>2.8</td>
<td>15.6</td>
<td>17.7</td>
<td>7.5</td>
<td>36.9</td>
<td>67.3</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>1.1</td>
<td>2.8</td>
<td>0.6</td>
<td>5.2</td>
<td>13.1</td>
<td>39.5</td>
<td>12.5</td>
<td>41.3</td>
<td>77.8</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>1.0</td>
<td>2.8</td>
<td>0.6</td>
<td>5.1</td>
<td>12.0</td>
<td>42.2</td>
<td>12.6</td>
<td>40.3</td>
<td>108.3</td>
</tr>
<tr>
<td>Tanzania</td>
<td>1.1</td>
<td>3.1</td>
<td>0.6</td>
<td>5.5</td>
<td>17.3</td>
<td>31.9</td>
<td>11.4</td>
<td>48.5</td>
<td>109.8</td>
</tr>
<tr>
<td>Senegal</td>
<td>1.1</td>
<td>2.0</td>
<td>0.5</td>
<td>4.1</td>
<td>19.6</td>
<td>21.1</td>
<td>8.0</td>
<td>51.7</td>
<td>108.1</td>
</tr>
<tr>
<td>Kenya</td>
<td>0.9</td>
<td>3.0</td>
<td>0.6</td>
<td>5.2</td>
<td>20.8</td>
<td>24.9</td>
<td>3.9</td>
<td>131.3</td>
<td>331.9</td>
</tr>
<tr>
<td>Cameroon</td>
<td>0.8</td>
<td>1.8</td>
<td>0.4</td>
<td>3.5</td>
<td>20.0</td>
<td>17.3</td>
<td>2.2</td>
<td>154.0</td>
<td>259.5</td>
</tr>
</tbody>
</table>

**Sources:**
- Transfer costs: based on ILO 2008.
- Revenue excluding grants: IMF 2010
- ODAnet: OECD 2010b
The social transfers/ODA net ratio of 40 percent means that, if the international community were to step in and match domestic financing of the full package on, let us say, a 50/50 basis, then 20 percent of the 2008 ODA levels would be required in countries such as Guinea, Burkina Faso, Ethiopia or Tanzania.

One may also relate the cost of this transfer package to the committed increase in ODA flows to Africa. The widely announced “doubling of aid to Africa by 2010” at Gleneagles 2005, was estimated at the time to mean approximately an additional 25 billion USD. According to calculations by OECD/DAC, this would require an increase in ODA from DAC-members to Africa by approximately 17% annually between 2007 and 2010 (OECD 2008). This is to be compared with the 20% increase needed to co-finance 50% of this package of social transfers. However, the latest estimates by OECD/DAC indicate that Africa, in 2010, is likely to receive only about 11 billion USD of the 25 billion increase envisaged at Gleneagles (OECD 2010a). The shortfall of 14 billion is close to 35% of the level of ODA net to Africa in 2008.

So to summarise:

• A social transfer package on a scale similar to the one projected in the UN social protection floor could hardly be financed purely by domestic revenue at present tax ratios in the African low-income countries with less favourable conditions;

• Mere magnitudes are such that aid could, in theory, make a substantial difference in financing these transfers, particularly in the more aid dependent countries. For instance, a 50 percent co-financing of the suggested transfer package could, with wide margins, be accommodated under the pledged increase of aid to Africa, if these pledges were to be met and allocated among countries as at present.

The potential for external financing of social transfers is hence there in terms of the mere magnitudes. But is it feasible and desirable, given the various constraints of donors and partner countries and the complexities of the aid relationship?
3. On aid modalities and the aid debate

If external aid is to be used for financing social transfers, what should the aid modalities be? And what are the restrictions, risks and particular concerns that need to be addressed?

When aid modalities are discussed, a distinction is often made between categories such as “project support”, “budget support”, “sector programme support”, etc. These categories are characterised by referring to various dimensions, such as whether funding is earmarked for specific expenditures, aligned with national plans and budget procedures, harmonised among donors and how the conditionality of the donor-recipient aid contract is structured (on actions or on outcomes, or a blend, linked to broader or more narrowly-defined programmes, ex-ante or ex-post, etc) (Foster and Leavy 2001). In practice, there is a lack of clear-cut definitions in all this, as there are hybrids, overlaps, grey zones and numerous combinations along these dimensions.

The art of providing aid is contested terrain. In this multi-faceted debate, “accountability” is one of the key-words. Accountability arises as an issue at three different levels, at the very least. First, there is an accountability issue within donor countries. Donors are ultimately accountable to tax-payers and they need to show that the intended results are achieved. Results that are tangible and easy to communicate are often in demand, while any mis-management with aid linkages in partner countries tends to backfire. Secondly, there is an accountability problem in the relationship between the donor and the partner country, often portrayed as a principal-agent problem, with “incentive incompatibility” and “asymmetric information” being just two of the main concerns. The aid contract needs to be formulated so as to set the right incentives, assure predictability and facilitate monitoring. Third, accountability is also an issue in the relation between government and citizen in partner countries, where a frequent aid critique stresses the risk that aid distorts domestic accountability by replacing it with accountability towards external actors and by reducing policy space.

The solutions to these three layers of aid-related accountability problems do not always go in tandem. Instead, they are marked by trade-offs. When home-constituencies in donor countries want concrete evidence of what their tax money has paid for, this may run into conflict with the harmonisation and alignment agenda meant to facilitate “ownership” in partner countries. And when attempts are made to define bullet-proof aid contracts between the “principal” and the “agent”, then this may disturb domestic accountability between the partner government and its citizens. The sometimes messy aid-debate is often a reflection of movements around such dilemmas.

It follows that, in order to identify the most appropriate aid modality for the financing of social transfers, then at least the three following requirements must be dealt with:

- Donors having domestic support: donors must be able to sell the idea of financing social transfers to their domestic constituencies. There are various motives for giving aid, and the actual outcome may be the result of a broad coalition of heterogeneous interests. However, being able to show tangible and easily understood results for a “good cause” clearly makes the task of defending aid easier, and, possibly, social transfers may pass that test better than many other donor-supported interventions. Even so, if the financing is to be on a long-term basis, this long-term engagement must have the acceptance of domestic constituencies. This, in turn, is likely to be facilitated if there is something like a long-run exit strategy that shows that the external financing is not meant to be forever.

- A credible aid contract: the aid contract needs to be structured so as to make both partners confident that what is agreed is also delivered. A vast aid literature has dealt with this issue and has often pointed out shortcomings in the way aid is normally
handled. Different kinds of solutions have been proposed. If the engagement needs to be long-term, this poses some additional challenges to the aid contract.

- Political sustainability of social transfers in partner country: long-term social transfers require sustained political support in partner countries, also the day when external financing ends. The external financing should (at the very least) not disturb the political economy processes that are needed to assure such sustained political support.

In reviewing how different aid modalities meet these requirements, a distinction will be made between two cases. The first is labelled “the benign case”, in which political support in the partner country is not an issue; instead, the issue is about how to meet the first two requirements, i.e., formulating a credible aid contract which also can be met with acceptance by the home constituencies of the donors. The third requirement is simply overlooked in this case. The second case is where the vision of scaled-up social transfers is not fully “politically owned” in the partner country, and donors might be tempted to exercise some form of “leverage”, which leads to a different set of political-economy related questions.

### 4. The benign case: well anchored vision but with a financing constraint

Let us imagine a hypothetical aid dependant, low-income African country that has defined its strategy for social protection. It has been convinced by the arguments that enhanced security for people living in poverty will, in addition to its short-term impact on well-being, also produce long-term gains in terms of human capital, “empowerment from below”, social cohesion and improved investment behaviour from less risk exposure. Given the limitations of contributory insurance-like schemes to reach out to the neediest, the country has defined a set of non-contributory social transfers as an element in its social protection strategy. This has been debated among key stakeholders, is well anchored in society, and has been included in the overall development strategy.

So, while the political sustainability has been solved, the remaining constraint in the partner country is financing. Some initial steps have been identified on a path that would progressively lead towards the full implementation of these transfers; initially, benefit levels and age requirement have been made less generous, some components are postponed and some easy implemented targeting mechanisms have been introduced to reduce costs. External financing, upon a long-term basis, is now sought to extend coverage and to speed up the implementation of this vision.

What should the response of the donor community be? Let us assume that donors are reasonably convinced about the merits of the vision as such, so that this is not the issue. Let us also assume that they have read and understood the OECD/DAC policy statement and guidance note for social protection (OECD/DAC 2009), so they have agreed to stay harmonised, aligned and respect domestic ownership (even if some donors have ideas about social protection policies being designed differently in one way or the other).

The concern over long-run sustainability and aid dependence is likely to be one of the first questions that come to mind in the donor community: Will we, as donors, be stuck with a long-term obligation to pay out these transfers? Will we contribute to long-term expectations among poor people, which at some point, will be frustrated, or to a situation in which the country is stuck with unaffordable obligations? And will our home constituencies buy/accept this?

Let us review four categories of possible donor responses:

- **“We just cover investments or temporary costs”**: There are many things donors may do to support the introduction of these transfers without entering into explicit or implicit long-
term obligations. There may be need for studies and other planning activities, capacity building, pilots, technical assistance, cross-country learning, the engagement of civil society groups, etc., and all of this may lend itself to the kind of project aid modalities, with defined time horizons, that donors are used to. There is a considerable investment cost in introducing social transfer systems, so a potential contribution along these lines is by no means negligible. However, this approach does not respond to the fundamental constraint that has to be resolved in the partner country: the need for more long-term financing. Another problem with it would be if it led to a too deep and interventionist donor involvement during the design phases, which could crowd out domestic political processes. Another way for donors to avoid long-term commitments would be to take the role of an insurer. For certain social transfers, such as an employment scheme in which people move in and out as they experience temporary economic downturns, such short-term undertakings would make some sense. However, to the extent that the positive impact of social transfers rests on them being long-term, reliable and predictable, such a donor approach would just be a limited contribution to the fundamental constraint that needs to be resolved.

“We give general budget support”: another potential donor response would be to refer to the existing budget support mechanism. Such mechanisms are in place in many low-income countries in Africa, with pooled resources from multilateral and bilateral donors directly entering as revenue in the state budget. Funds are in this case not earmarked and are fully integrated into national budget procedures. It is normally defined as support for the national poverty reduction strategy, or its equivalent, and guided by a jointly agreed Performance Assessment Framework (PAF) that defines a set of urgent policy actions and results. The joint reviews of performance against the PAF are meant to strengthen policy dialogue and mutual accountability, with disbursement intended to be as predictable as possible. In practice, there are elements of more or less explicit conditionality in this, which are frequently applied and interpreted differently by individual donors.

If social transfers are a national priority, then they may be seen as being integrated in this framework. Rather than arranging any specific financing of social transfers, the donors would just go as far as to include social protection in their budget support dialogues, and possibly agree with the partner country to bring in related indicators to the Performance Assessment Framework. As there is no earmarking, donors are not tied to any particular expenditure and the issue of long-term financing obligation of social transfer is avoided as far as the donors are concerned. Partner countries would then be free to set priorities, estimate what is affordable, and allocate resources for these transfers accordingly. Some hopes have been expressed that general budget support could be a vehicle to facilitate the expansion of social protection policies, although they would nonetheless be dependent on a high-quality partnership between the donors and the partner country (Barrientos 2007).

There are a few problems with this response to the need for additional financing for social transfers, and some of them are related to inbuilt difficulties with the budget support mechanism as such. Even if it is declared to be “the preferred aid modality” in many instances - a mechanism that should guarantee predictable financing, harmonisation, alignment, ownership, result orientation and mutual accountability - in practice, budget support has become hard to sell to the home constituencies in donor countries. Information asymmetries, with “voters” not fully trusting their “aid administrators”, may contribute to explain these difficulties (Jain 2007). Financing “the entire state budget” opens up a broad and comprehensive dialogue that can have its attractions, but it may also make donors accountable to their home constituencies for almost anything that goes on in the partner country, where political realities do not always match ambitions in high-flying policy declarations. It pushes donors to seek guarantees, to set conditions, despite the rhetoric of ownership and less conditionality (Lister et al. 2006, p 13). What has evolved has been described as a process of permanent negotiation (Whitfield 2009, p 350). Many donors
either have stayed away or dropped out from the budget support mechanism, and one frequently aired critique is that it has still not delivered in terms of securing a hands-off, long-term, predictable financing for development strategies in partner countries (Knoll 2008). This is also its main shortcoming when it comes to resolving the constraint related to long-term financing of social transfers.

“A sector wide approach” or a special budget support tranche in favour of social transfers: a third option would be to create a specific link between the external financing and the social transfers, while avoiding some of the drawbacks of traditional project aid and general budget support. An aid modality that is of frequent use in low-income African countries is the “sector wide approach”, SWAP. Funding is provided as general revenue to the government, and, in this sense, its macro-economic effects are similar to general budget support, but it is linked to the implementation of a specific “sector” programme. Dialogue and conditions are hence more narrowly defined than in the case of general budget support. Donors are harmonised and aligned with a nationally-owned “sector” programme that defines prioritised actions and results. Just as there are SWAPs for education or health sector reforms, one could imagine a SWAP for social transfers or for a wider social protection strategy.

A somewhat similar approach would be the creation of a special budget support tranche that is more long-term and is directly linked to the social transfers, while being de-linked/separated from wider budget support conditionality. It could be structured in a way similar to the “MDG contracts” handled by the European Commission, which is a longer term and more predictable form of general budget support (European Commission 2008). It has a special variable MDG-based tranche that rewards performance against MDG-related outcomes (notably health, education and water) after a mid-contract review. Its long-term nature (six years) and reduced conditionality is meant to make it more predictable and less vulnerable to the ups and downs of previous forms of budget support. Linking it to clear outputs has the advantage that it is easier to communicate and explain to domestic constituencies, and also to defend the idea of entering into a more long-term engagement. If already existing frameworks of budget support were to be used for social transfers, an adaptation of the “MDG contract”-approach to the delivery of social transfers would be one option to look into.

An external financing modality that is more explicitly linked to social transfers, whether as a SWAP or a special budget support tranche, would have to be more explicit about the time horizon and the exit strategy. The commitment by donors would need to be more long-term and predictable if reliable social transfer systems are to be co-financed. The EU, with the six-year MDG contracts, and the DFID, with ten-year partner agreements, have shown that donors can be pushed to move in this direction. But what would such an aid contract look like, if it is to satisfy both the partner countries’ need for predictable long-term financing, and the donors’ need for having a credible exit strategy from its engagement at some point in the future? What would be needed is a contract with a formula for a shifting of the burden-sharing over time, in which both parties to the contract are confident that the other will deliver its share. Preferably, it should also have some inbuilt flexibility for cases in which the partner countries are unable to expand their social transfer systems as expected. A recently proposed aid modality, presently under discussion in aid circles, which claims that it, at least partially, solves this dilemma is Cash-on Delivery aid, or COD-aid.

Cash on delivery, COD-aid: this is an aid modality that has been proposed by CGD, Centre for Global Development (Birdsall and Savedoff 2010). It has some similarities with the MDG contract approach of the European Commission, but it has taken some additional steps in refining the idea of paying for results. The core idea is a contract which defines a mutually-desired outcome and a fixed payment for each unit of progress towards it. The contract is all about results; choices about how to reach these results are left to the partner, and disbursements are made upon delivery and after independent monitoring. It avoids the
disadvantages of project aid (fragmentation, transaction costs, donors becoming micro-managers and auditors), while still keeping it very clear “what has been delivered for taxpayers’ money”. It is hence designed both to satisfy the requirement for public support in donor countries, and the requirement that the aid contract should be credible. As the contract would be open and transparent, it is argued that it could also lend itself to the monitoring of civil society groups, making recipient governments more accountable to their citizens.

Expansion of primary schooling has been the showcase for COD-aid, with detailed proposals drawn up with regard to what such a contract should look like. As an example, it is of interest here, as expansion of primary education, just like social transfers, means that long-term recurrent cost obligations (teachers’ salaries, etc) increase while donor engagement is time-bound. The “COD-aid” has a contract feature that somehow “deals” with this dilemma. In the case of primary education, it has been stipulated that there should be five-year contracts, with the expectation that they are renewed in five-year increments (donor funding should, ideally, be paid up front and put in escrow based upon projected disbursements for the coming years). Payment is a fixed amount for each additional primary student who passes a final exam over and above a given baseline. An expansion that is made in year 1, will, if kept, be rewarded each year for the following five years. After five years, the base-line is moved on an annual basis. The partner country must hence be ready to cover the full cost of a unit of expansion after five years. When expansion stops, because full coverage is met or because the government finds further expansion unaffordable, it will take an additional five years for external funding to fade out gradually. It reduces the risk of partner countries being trapped into expanding beyond their affordability, as they gradually have to take responsibility for each step of expansion. In other words, it is a kind of contract which would define a predictable formula for a gradual shift in the burden-sharing over time between donor and partner country, while having some in-built flexibility for unforeseen events. Donors can rightly claim that they exclusively pay for additional expansion and that they have a pre-defined exit strategy, while partner countries know beforehand that they will bear the full cost of a unit of expansion after a certain number of years.

The initiative is recent, and, at present, there are no real-world examples where it has been practiced on a large scale (although there are examples of aid-modalities with some similarities to it being implemented, such as the EC MDG contracts and “output-based aid”). Efforts are underway to design a number of COD-pilots.³

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³ Up-dated information on COD-aid is found at: [http://www.cgdev.org/section/initiatives/_active/codaid](http://www.cgdev.org/section/initiatives/_active/codaid)
A COD-aid contract for social transfers, what could it look like? (with inspiration from Birdsall and Savedoff 2010):

**Parties:** Country X (the Country) and a group of donor agencies (the Funders)

**Purpose:** The Country has defined increased coverage of social transfers to certain target groups as an essential ingredient in its social protection strategy. The purpose of this contract is to facilitate this expansion.

**Goal:** Long-term and predictable social transfers should be made available to individuals in groups defined by a set of criteria C [i.e., eligibility criteria for different kinds of social transfers defined by the Country: children, unemployed, elderly, disabled...]. Expansion towards full coverage will be gradual, estimated to take X years/decades. [Benefit levels may vary over time and depend on the target group and do not have to be pre-defined in this contract, more than, possibly, by a ceiling.]

**Base-line:** In year 2010, social transfers to groups defined by criteria C amounted to XXX USD at current value.

**Unit of measurement and payment:** The Funders commit themselves to pay, upon an annual basis, the Country 75% of the value of social transfers delivered the previous year over and above the base-line, provided the transfers have reached the individuals in the groups defined by criteria C. Upon first renewing the contract (after 5 years), the base line will be adjusted annually, becoming equal to the amount of social transfers paid five years earlier.

Once disbursed by the Funders, there are no restrictions on the use of the funds by the Country.

In providing the transfers, no discrimination shall be made by the Country based upon ethnic, religious or political affiliation of potential beneficiaries. Apart from that, the Country is free to set priorities while expanding towards intended coverage (i.e., adjusting benefit levels, targeting criteria, conditions, starting with certain sub-groups or geographical areas, etc).

**Reporting:** The Country will report on the number of beneficiaries and benefit levels, in a format that facilitates analysis of the information’s validity. Reporting should be made open to the public.

**Verification:** An independent Verification Agent will assess the report, based upon random sampling. The Verification Agent will also assess if the process of delivering transfers has been affected by any form of systematic discrimination not permitted under this contract.

**Term:** The contract term is five years, with the expectation that it will be renewed in five-year increments.

**Other possible conditions:**
- cap on benefit levels: benefit levels to fall below some specified ceilings.
- cap on annual disbursement by Funders.
- More generosity in the start-up phase by financing a lower percentage of social transfers below the set base-line in the first x number of years.

COD-aid is obviously not without its limitations (see de Renzio and Woods 2006 for a critical overview). The risk of creating perverse incentives, as when a quantitative measure is rewarded while some important qualitative aspects are neglected, is a feature common of any performance-pay system (as is well known from the “bonus-debate”). It is for obvious reasons that the COD showcase has been constructed around primary education, which produces a relatively homogeneous and easily-measured outcome (albeit still not void of complicating qualitative aspects). Many development outcomes do not share this feature. However, when it comes to social transfers, with a target such as “social transfers delivered to beneficiaries within a set of pre-defined target groups”, one could argue that it is even more “digital” and quantifiable than primary schooling. So, while the risk of creating perverse incentives is a critical aspect of COD-aid, this is probably less so in the case of social transfers than for many other aid targets.
One crucial factor is also the requirement on donors to enter into a binding-commitment to provide a variable amount of funding over a period as long as five years or more. This is a feature that it shares with the MDG contract. It would, on the one hand, require partner countries to initiate expansion with their own resources, which would, on the other, have the advantage of reducing the risk for purely donor-driven initiatives. COD-aid could combine with “project aid” to cover the investments needed to set up the system.

Summing-up the “benign” case (the case in which “political ownership” is not a worry):

• First of all, we may simply repeat what has already been stated by donors in their Policy Statement and Policy Guidance Note negotiated within the OECD/DAC (OECD/DAC 2009): i) stay aligned, build on developing countries’ own efforts, and respect ownership; ii) provide support through harmonised financing mechanisms; and iii) commit to a long-term engagement.

• On aid modalities, it is clear that all this implies that traditional project aid is not appropriate, except to support very specific actions in the planning and design phase. General budget support has the advantage of leaving it to the partner country to set priorities and to allocate resources accordingly, but, as implemented by the donor community at present, it has some clear limitations (sensitive to political ups and downs, and hard to sell to the donors’ home constituencies). Sector Wide Approaches (SWAPs) or a special budget support tranche linked to social transfers, with a more reduced conditionality, could facilitate a more long-term and predictable approach that could also be sold to the home constituencies in the donor countries.

• Even if support exists on a long-term basis, support from donors cannot be assumed to last forever. A credible aid contract would then ideally need a formula for burden-sharing over time that is both predictable and with some in-built flexibility for unforeseen events. COD-aid, with cash on delivery contracts that reward “units of progress” above a baseline for a certain number of years, is an example of such a formula. The “delivery of social transfers” is a relatively homogeneous output that could lend itself to the kind of straightforward measurement that the COD-aid requires. COD-aid would have the advantage of making donors take a complete hands-off approach, with partner countries taking full responsibility for design and implementation, while still making it clear to the donors’ home constituencies what the aid money has actually paid for.

5. The second case: Lack of “political ownership” with external actors seeking leverage

Some country case-studies of the political economy of cash transfers in sub-Saharan Africa have concluded that national ownership is weak and that what is going on is mainly donor driven. Cash transfers are “tolerated” if they are externally funded and targeted towards the very poor who are unable to work, but do not really reflect domestic priorities (McCord, 2009). On the other hand, one may also point out that, in quite a few sub-Saharan African countries, as well as elsewhere in the developing world, scaled-up social transfers have been implemented following purely domestic political processes and without external funding (Hanlon et al. 2010). This has happened not only in sub-Saharan African middle income countries, where a handful of countries have introduced near-universal social pension schemes, but also in low-income Lesotho, where the introduction of social pensions took the donor community by surprise (Pelham 2007). Malawi is another case, in which a universal fertilizer voucher for farms was introduced by parliament, albeit against the advice of the donors (Devereux and Cipryk 2009). Mozambique seems to be an incipient case, where, since 2009, a Government decree regulates social protection priorities, one of them being to expand unconditional and regular social transfers to certain target groups, building
on an existing government programme that was established already in the 1990s (Rep. de Mozambique 2009). So the jury may still be out on this, and maybe the continent is just as diverse in this as it is in so many other aspects.

However, we depart here from an imaginary case in which political ownership is, indeed, lacking: social transfers are tolerated if mainly externally funded, but domestic, political processes do not give them much priority. Is there still a role for an external financing of social transfers? Or should donors simply stay away?

Donors could, of course, by-pass government structures and run pilot cash-transfer schemes more or less on their own or via civil society organisations. This is also what is being done at present. Donor-driven pilots are seen across sub-Saharan Africa, but this is an approach with obvious limitations in terms of reach, financial sustainability and institutionalisation (Barrientos et al. 2010). A widespread view seems to be that the “pilot project route” towards domestic policy agendas has, for various reasons, not delivered (CSP et al. 2010).

Another, more radical and futuristic idea, would be to by-pass governments through the creation of a truly global and more permanent re-distribution mechanism, with a Global Welfare Agency using taxes from the rich in rich countries (there could be an international tax on air fuel, for example) and transferring them directly to poor individuals in poor countries as cash grants. In the literature, we find some proposals along these lines (Milanovic 2007, Ortiz 2009). However, as the global architecture needed to make that idea feasible is lacking, and, as such, we may treat it as a non-viable option in the context of this paper.

Leaving the by-pass solutions aside, what is left as option for donors (apart from staying away) would be to seek some form of impact on the development of both policies and institutions in partner countries. “Small but important things” can obviously be done, such as promoting cross-country learning, dialogues, providing inspiration and support to the drivers of change, etc. But could a temporary external financing of social transfers, brought to scale, also be designed to stimulate the formation of the policies and institutions capable of sustaining these transfers in the long-run?

There is a large amount of literature on the role of aid in promoting various forms of policy reforms or institutional changes. Its dominant message is about how difficult, or impossible, this is, and how many traps there are that risk backfiring on the donors, even if they are acting benevolently. “You can’t buy policies” is a message that echoes in the literature as well as in the rhetoric of institutions such as the World Bank. We will review some of these arguments here (without any claims of being exhaustive of this huge literature), and how they relate to the special case of policies and institutions that could sustain social transfer systems.

There are some apparent contradictions in the debate on aid and conditionality. While the official rhetoric of the World Bank and many other donors is that “conditionality does not work”, it is quite obvious that conditionality is still practiced (even if there are attempts to reform it, as in the case of the MDG contract). And while, in the north, it is preached that conditionality has not been effective in changing policies, in the south, there seem to be an equally strong conviction that their policy space has been drastically reduced by these practices.

Why cannot policies be “bought”, or, at least, influenced? One may distinguish between two rather different strands in the literature. One approach is to focus on aid contracts as such. The driving force in this strand of the “you can’t buy policies” literature has to do with a combination of moral hazard, asymmetric information and the lack of credibility of donor threats (due to incentives to disburse ex-post, etc). A large number of theoretical aid models have illustrated this point (Mosley et al. 1991, Svensson 2000, White
and Morrissey 1997, Mosley 1996, Killick 1997, Collier 1997). These theoretical arguments later on coloured the analysis made in the policy documents of the World Bank and other donors (World Bank 1998, “Assessing Aid”, is an early and influential example). Without entering into details, the point to be made here is that, when the critique of conditionality is limited to the shortcomings of the aid contract per se, then a solution could be to re-formulate the contract, making it credible with conditions that bite better with increased precision (make donors disburse only after the conditions have been implemented, let the conditions relate to outcomes that are easier to observe, handle asymmetric information by formulating tournament contracts, etc.). In principle, this is do-able and there are various proposals going in this direction in the literature (Svensson 2003, Gunning 2006). The COD-aid is an example of a contract that, at least in theory, addresses the principal agent problem.

The other strand of the conditionality critique is less concerned with whether the “stick and carrot” method used by donors lacks in credibility or precision. Instead, its point is that what seriously limits the scope of conditionality has to do with its potential negative political economy impact. It undermines domestic ownership by disturbing the political processes that are needed for the creation of more lasting policies and institutions. It might work in the short-run, but it may not lead to processes of change that are sustained at a deeper level. This statement by Joseph Stiglitz (while Chief Economist of the World Bank) summarizes the critique:

“Rather than learning how to reason and developing analytic capacities, the process of imposing conditionality undermines both the incentives to acquire those capacities and confidence in the ability to use them. Rather than involving large segments of society in a process of discussing change – thereby changing their ways of thinking – it reinforces traditional hierarchical relationships. Rather than empowering those who could serve as catalysts for change within these societies, it demonstrates their impotence. Rather than promoting the kind of open dialogue that is central to the democracy, it argues at best that such dialogue is unnecessary, at worst that it is counterproductive.” (Stiglitz 1998, pp 10-11)

If this critique is valid, then much of the literature that focused on defining the optimal aid contract has mis-directed its attention. This deeper conditionality critique expressed by Stiglitz cannot be addressed simply by making the conditionality imposed by donors more credible. It is also a critique that could be directed against a strategy whereby donors try to provide strong (and credible/enforced) incentives for unconvincing governments in order to implement social transfer systems.

A first conclusion is hence that there are many instances in which the conditionality will not work at all, or work only to promote limited short-run changes that are not sustained.

Are there, then, at least some specific instances in which conditionality can work to produce genuine and sustained changes? And if so, are any of these instances of relevance to the case of social transfers?

In the debate on the use of conditionality, some defence lines have also been put forward claiming that it may, at least, work in some cases. We will refer to three groups of such arguments here: i) time-bound inducement producing irreversible changes; ii) process conditionality being different; and iii) aid as commitment device.

Inducing irreversible changes: There are at least some cases, it is claimed, where changes that are externally-induced tend to become irreversible once introduced (Dreher 2008). Conditionality would still have to be credible in these cases, so we have to imagine an aid contract that solves the credibility problem of donors. A case in point could be where a country is in a mess at point A and clearly would prefer to be at the better point B, but
fails to agree on how to get there, maybe because of uncertainties over the distribution of
gains and losses. Once induced by external incentives to move to point B, there is then no
pressure for policy reversal and the change becomes permanent. External pressure for
privatisation reforms could be another example; once entities are privatised, new interest
groups come into existence and shift the political economy equilibrium so that the reform is
kept in place. So, according to this reasoning, in some cases, changes have the
characteristic that they tend to re-inforce themselves.

Could a case be made that this line of defence of conditionality would hold also for
externally-induced social transfers – i.e., that, once introduced, they lead to a process of
"self-reinforcement"? An argument along these lines could be constructed around the "path
dependence" concept that is frequently referred to in the literature on comparative social
policy. It claims that, once introduced, social policies shape the interest groups, economic
incentives, institutions and values which tend to re-inforce them (see Pierson (2000) or
Béland and Myles (2005) for an overview). Studies of the social pension systems in
countries in Southern Africa sometimes make the same claim that, once introduced, political
dynamics has tended to make them irreversible (Pelham 2007). But how strong is this
factor of self-reinforcement if policies are introduced as a product of external inducement,
rather than as a result of domestic political processes? If the mechanisms which Joseph
Stiglitz points out in the citation above are at work, then a strategy relying on temporary
inducements to produce permanent social transfers, may backfire.

**Process conditionality:** donors can avoid conditioning their aid on specified actions,
policies or outcomes, and instead just demand that the programme which they are to
support has followed certain processes (that of being transparent and democratically
processed, consulting with interest groups who represent "the poor", etc.). The way in
which the external community relates to the poverty-reduction strategies (PRS) has some
elements of in-built process conditionality. Rather than dictating outcomes, the idea is to
stimulate domestic consultative processes that will have beneficial outcomes. Political
economy models have been developed in which it is shown that, under ideal conditions, this
is a form of conditionality that could work as intended (Hefeker and Michaelowa 2005). But
these ideal conditions are quite restrictive (particularly regarding the motivations of the
donors and the ability to understand political economy). Process conditionality is hardly a
panacea, but one could, at least, argue that some conditions on the process, such as
requiring transparency and openness (as is done in the COD-aid proposal), is a form of
conditionality that would be less prone to producing the harmful political economy effects
which undermine long-term domestic ownership.

**Aid as commitment device:** a third line of defence of conditionality is related to the
idea that aid may serve as a commitment device in cases where a government’s lack of
credibility blocks an outcome desired by everyone. In relation to IMF programmes, it is
sometimes claimed that they may work as a commitment device to address time
inconsistency problems, for instance, by tying the government to a policy that minimizes
the risk perception of investors (Dhonte 1997, Dreher 2008). To be tied by certain
conditions is, then, in the direct interest of the recipient government. There are also some
case studies which support the idea that conditionality has sometimes worked in this way
(Devarajan et al. 2001). Another case which illustrates the commitment device argument is
the way the international community, at least sometimes successfully, intervenes in peace
processes: lack of trust between the adversaries is an obstacle to a mutually-desired peace
agreement, but external actors may play the role of a broker, providing independent
verification and committing aid which is conditioned to the implementation of the
undertakings in the peace agreement (Frerks 2006). The external actors then compensate
for the lack of trust between the parties by providing a commitment device.

It has been argued that lack of a "contract" for social protection between states and
citizens often constitutes the largest barrier to the expansion of successful social protection
policies in sub-Saharan Africa (Hickey 2007). We also know that lack of trust, being unable to commit with credibility, can be a reason which explains why contracts are not entered into. So the question then becomes: Could aid conditioned to the implementation of social transfer systems serve as a commitment device that supports the formation of social contracts? Let us look at a hypothetical case in which a government embarks on certain structural reforms that are in the country’s long-term interest, but also leads to increased insecurity among certain segments of the population. Popular protests block these reforms. Combining the structural reforms with a package of social transfers could be a remedy. However, the government lacks sufficient credibility both to sell the idea of social transfers to the protestors, and to convince taxpayers to accept the necessary tax increases. The social contract is hence blocked by lack of trust in the government. We may then imagine that the international community enters the scene and provides financial support that is conditioned to the implementation of a social transfer system, with some guarantees of transparency. The incentives provided by the external community, if credible, could - in an ideal case - make the intentions of the government to implement transparent social transfers more trustworthy.

Paving the way for social contracts in countries where the idea of social transfers is not fully “politically owned”, could this be a strategy for donors to pursue in some cases at least? And would it be riskless? In the literature on political economy, in particular the literature that builds on theories that link re-distribution and democratisation, the findings indicate that such a strategy would be far from riskless. The basic story is the following: in re-distributive theories of democratisation (see Acemoglu and Robinson 2006 for a frequently cited contribution) the assumption is that democratisation develops as a response to claims for re-distribution by “the people”. In periods when the masses are unusually mobilised, these claims become threatening to “the élite”. The élite then seek a deal – re-distribution for law and order – but is unable to strike such a deal because its monopoly on power does not constrain it from running away from its promises in the future when masses are less mobilised. The solution then becomes one of building institutions, i.e., democracy, which makes it possible for the élite to commit itself with credibility. So, in this class of models, institution-building and re-distribution go hand in hand.

Using a formalised political economy model with these features, and then adding foreign aid conditioned to re-distribution, what is the result? In Morrison 2007, a formal analysis is made along these lines, adding foreign aid to the basic model presented in Acemoglu and Robinson 2006. The results are as discouraging as they are intuitive: if the creation of strong institutions, such as democracy, is driven by the need of rulers to make credible commitments, and aid is introduced and plays a role that substitutes for this, then the incentives to build these institutions are undermined. It is a result that captures some of the basic complexities about aid relationships: If aid works as a “by-pass” around more fundamental problems, then it risks delaying the correction of these problems. “By-pass does not work” is a frequently cited lesson learnt in aid evaluations.

How relevant are distributional theories of democratisation, with its inspiration mainly from European history, to African political economies? A much more common way of portraying African political economies is in terms of weakly-institutionalised democracies marked by patronage and clientilism (rather than in terms of Acemoglu’s “masses on the barricades demanding redistribution and equal vote”). To the extent that patronage is a key concern, the question that follows is how the externally-induced introduction of social transfers may relate to it. There are two points to be made here: first, if micro-level insecurity feeds patronage, and there are good reasons to believe this to be the case, then,

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4 This is a broad class of perspectives which entails divergent views on how “patronage politics” is to be understood and what its historical roots in Africa are. Booth 2009 provides an overview of some of the issues.
to the extent that social transfers reduce people’s insecurity, it may also reduce their need for patrons. Secondly, the design of social transfer schemes is crucial, as some designs more than others may lend themselves to patronage politics. Designs in which the benefits are transparent - in the sense that the intended beneficiaries can easily know what their benefits are - reduce the risk for patronage as claims can then be made from below and accountability is re-inforced. Simple forms of categorical targeting has a great political economy advantage in this respect, as they underline the “common interest”-character of the social transfer, and are less useful for discretionary politics. On the other hand, designs of social transfer schemes in which the benefits are “awarded” based upon criteria that are not fully transparent to the beneficiaries, and where the sophistication of the targeting mechanism places high demand on local administrative capacity, increase the risk that social transfer schemes may fall prey to patronage politics. If donors are concerned about patronage politics, they should encourage simplicity and transparency in benefits, rather than sophistication in targeting mechanisms. However, what is done by donors in the social-policy area often seems to be the complete opposite (Mkandawire, p 321).

We may conclude this section with the following:

- By-passing governments altogether is a non-option: to run entirely donor-driven social transfer schemes is not recommended if the objective is to build up financially- and politically-sustained social transfer systems. The idea of a global welfare agency, with its own permanent tax base, would require a global architecture that appears remote;

- The scope is limited for external actors to use financial leverage with a view to influencing the political economy of social transfers in partner countries: the key message in the literature on aid and conditionality is that externally-imposed conditions rarely produce intended policy reforms that last. It is not only an issue that is limited to the difficulties in formulating a credible aid contract, but also about how external involvement may distort domestic political economy processes. If conditionality ever works to induce more fundamental and lasting change, it is under quite restrictive assumptions. As a strategy, it is far from riskless. This does not exclude that there are at least some instances in which the international community could play a role by giving a mild push in the right direction: paving the way for social contracts, asking for transparency and possibly placing a bet on the self-reinforcing nature of social transfers and its potential to reduce patronage. However, lesson number one for donors is to recognise their limitations in re-shaping a political economy which is not ripe for the introduction of social transfers.

### 6. Concluding remarks

Social transfers have reached the policy agenda of low-income countries in Africa, where affordability is a key concern while aid dependency is high. In terms of magnitudes, aid could make a substantial difference in relaxing the affordability constraint. Opportunities and risks with external financing then becomes an issue.

Within the framework of OECD/DAC, donors have defined policy-guidelines to themselves on social protection (OECD 2009). These may be summarised as:

- stay aligned: build on nationally-defined strategies and on the developing countries’ own efforts;

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5 Robinson 2005, p41, elaborates on this theme in a paper written for the World Bank on “Politician-Proof Policy”: Promoting a universalistic and blunt policy has a better chance of staying robust to “broad types of political pathologies”.

6 A comparative review of administrative capacities to handle five different pilot cash transfer schemes in Zambia concludes that only the one with least complicated means testing criteria (a universal pension scheme) matched existing administrative capacities (Chiwele 2010).
stay harmonised: provide support through co-ordinated financing mechanisms;
commit to a long-term engagement with predictable financing.

If the objective is to support social protection strategies that are nationally owned, institutionalised and sustainable in political and financial terms, then there is not much room to question these recommendations. Even if they are difficult to object to, they are far from redundant; the donor community still has a long way to go to live up to them.

As an extension of these recommendations two questions beg for an answer: a) What about the cases where there are no nationally owned efforts to build on?; b) For the cases in which this ownership is in place, what should the appropriate aid modality be?

With regard to the first question, this paper has argued that the first lesson for donors is to recognise their limitations in re-shaping political economy constraints. To bypass governments is not a road that leads to sustained policies and institutions. Many "small but important" things may, of course, be done - through engaging in dialogues, evidence building, the sharing of experiences, etc., – but using financial leverage to induce countries to institutionalise permanent social protection policies would be a strategy that could easily backfire. To support partner countries to do more of good things that they are already doing, is a more realistic ambition for the donor community.

With regard to the second question, this paper has reviewed the pros and cons of different aid modalities in relation to the financing of social transfer systems. There are three requirements that an external financing mechanism of social transfers would have to meet: i) it would have to be supported by donor countries’ home constituencies; ii) it would have to be based upon a credible aid contract, in which the permanent character of transfers have to be reconciled with the time-bound character of aid; and iii) it would have to build on, and avoid disturbing, the political ownership in partner countries. Traditional project aid is not appropriate, unless it supports very specific actions in the planning and design phase. General budget support has the advantage of leaving it to the partner country to set priorities and allocate resources accordingly, but, as implemented by the donor community at present, it has some clear limitations (sensibility to political ups and downs, and hard to sell to the donors’ home constituencies). Sector Wide Approaches (SWAPs) or a special budget support tranche linked to social transfers or to a wider social protection strategy, with a more reduced conditionality, could facilitate a more long-term and predictable approach that could also be sold to home constituencies in donor countries. The fact that aid is time-bound would still have to be reconciled with the permanent recurrent cost character of social transfers; ideally, a formula for a predictable burden sharing over time should be in place.

Cash on delivery aid, COD-aid, is an aid contract that provides such a formula, with predictability for partner countries and an exit strategy for donors. The delivery of social transfers to a universe of eligible groups is a relatively homogeneous target that could lend itself to the kind of straightforward measurement that the COD-aid pre-supposes. It would have the advantage of making donors take a complete hands-off approach, while still making it clear to their home constituencies what the aid money has paid for. It would have to build on partner countries’ own efforts, paying upon retroactive basis for additional units of expansion above a base-line. Such an approach would require a long-term engagement by donors, aligned with country-owned strategies and harmonised around a joint financing mechanism.

A question that follows from this is the extent to which these “nationally owned efforts to build on” are to be found in the real world? Few countries might be as “benign” as the benign case presented above, although, on the other hand, we do see cases of apparently home-grown initiatives popping up. European history tells us that political economy conditions do not have to be spotless for social protection policies to be introduced...
and sustained. A number of African middle-income countries have institutionalised ambitious social transfer programmes largely on their own. The cases of low-income countries such as Lesotho, Malawi and Mozambique have been mentioned above. An interesting process of cross-country learning on social protection takes place under the leadership of the African Union and elsewhere. The efforts to build on are those to be found among the cases of large-scale and institutionalised initiatives.

This paper has mainly been composed of messages on what to do and what not to do for donors. What is the message from all this for their partner countries, their governments as well as the stakeholders in society? It is straightforward: take the lead, define strategies and invite donors when your direction is set! If there are financing needs for social transfers in your strategy, then COD-aid could possibly be a way of engaging the donors, without inviting them to share the driver’s seat.
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