



Discussion Paper

For

**„Results Based Financing – the Potential for a Greater Results Focus“**

An event with members of the German Parliament (Bundestag) on 28 September, 2011

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Dr Stephan Klingebiel

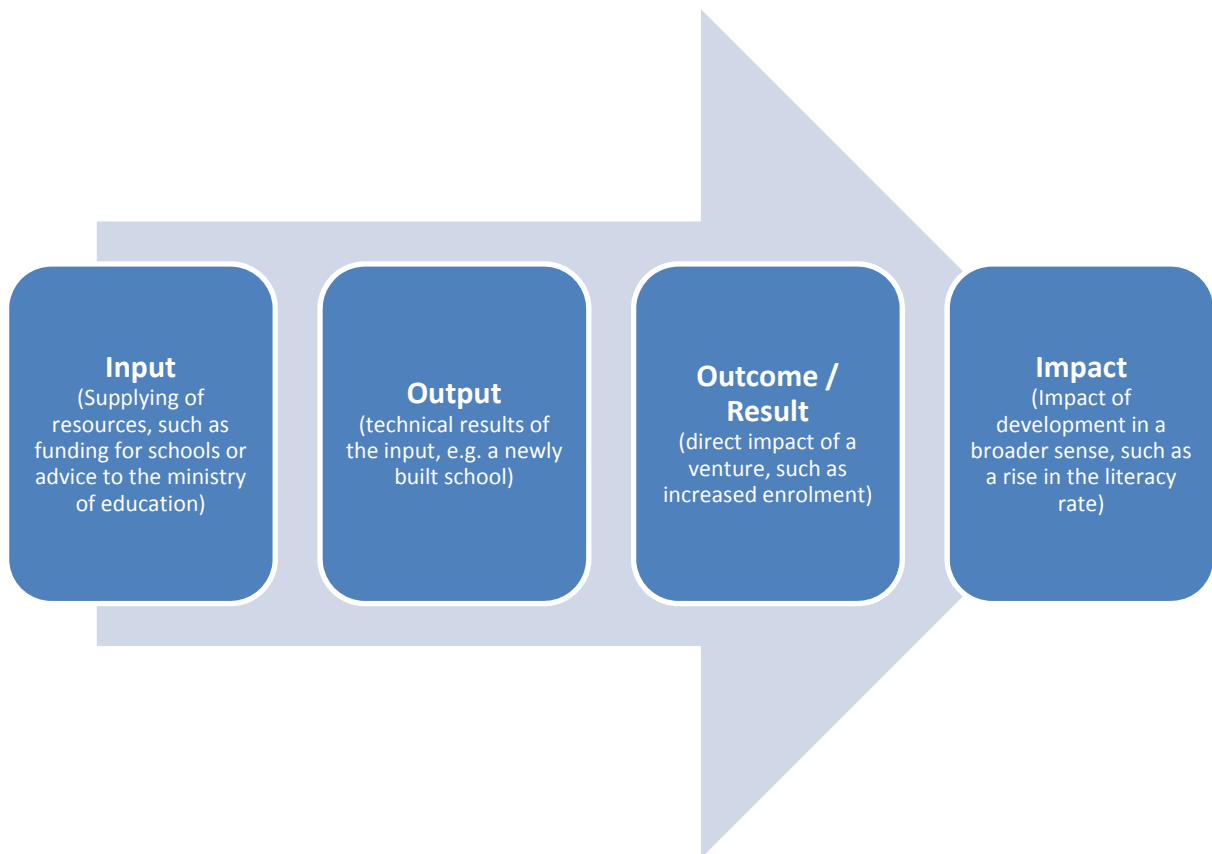
Deutsches Institut für Entwicklungspolitik (DIE)/  
German Development Institute

**1. What are results based approaches in the context of development cooperation?**

All approaches in development cooperation (DC) aim to achieve “results”. The current international discussion on results based approaches differs from debates so far in as much as in practice, DC has been frequently inputs and progress oriented. For instance, approaches tend to be geared towards the allocation of funds for investment (e.g. to build schools) or providing advisory services (e.g. to the education sector), with no way of accounting for the success of such DC measures based on verifiable “results” (in the sense of *outcomes*). Success in DC is instead often recorded based on input or progress indicators, such as whether a country has raised its budget for education, or whether agreed upon reform documents (e.g. a general strategy for the education sector) have been adopted. Such an approach can indicate how the development activities in a partner country can be evaluated, but for two reasons its information value is limited: Firstly, it is not always clear whether the intended results have actually been achieved. For instance, do a greater budget and the advice given really result in more pupils in schools? What about the quality of their education? Secondly, the question arises, what part the development aid has in the over-all situation. If results were achieved, is there a cause-and-effect relation to DC activities (attribution challenge)?

This is where the results based approaches come in. Their aim is to identify outcomes that can be measured and quantified, i.e. results that can be directly linked to development activities.

**Figure 1: Impact Chain**



Generally speaking, it is possible to distinguish two discourses on the way that DC is based on results (there is occasionally confusion on the terminology in the international debate):

- (i) **Results Based Aid:** The approaches of *Results Based Aid* (RBA) address a new contractual relationship between the development partner (donor) and the partner government (recipient).<sup>1</sup> In this financing instrument, a result is clearly defined, and a set reward in the shape of DC support will only be granted, if that result is achieved. These results should be both quantifiable and possible to reach in gradual steps. The DC component needs to be relevant enough to create a large enough incentive to actually achieve the result. Each incremental (partial) success will then be supported or rewarded ex post facto. That a result has been achieved is to be determined and evaluated by an independent third party.

Such an RBA contract can, for example, stipulate that a partner government is to be granted certain funds for every pupil to successfully finish the educational system (as based on internationally recognised general standards of quality). Upon achieving this goal, the amount per pupil would be paid out on a yearly basis, without any further requirements. This form of DC support does not really try to actually reflect the expected costs of achieving the goals, but rather to give the partner country an incentive to eliminate particular obstacles to development, which might involve a lacking of resources and/or inappropriate policies. In this example, this could mean agreeing on paying

<sup>1</sup> The term *Aid on Delivery* (AoD) can be used synonymously. The concept of *Cash on Delivery* in particular, developed by the *Centre for Global Development* (CGD) has in recent years been discussed internationally.

50 Euros per pupil; as an added incentive for educating girls, it could be possible to agree on a premium for girl pupils (80 Euros instead of 50).

In order for RBA approaches to work, it is important to not only have clearly defined results, but also very reliable indicators and the necessary data (to be surveyed at regular intervals). As the success of RBA is clearly determined by properly quantifiable indicators, it applies especially to such areas that involve providing services, such as the social sectors, but also access to tap water and energy supply. In other areas (such as decentralisation or public financial management) conditions are more complicated, but they can be adapted to apply to individual cases.

The RBA proposals that are currently discussed cover a wide spectrum of different approaches, ranging from results oriented restructuring of budget support instruments (such as the variable tranches of the EU budget support), all the way to approaches geared at a specific result in a particular sector (such as the number of pupils reaching a specific educational level). So far, there is limited practical experience of RBA along with performance based budget support measures (see below).

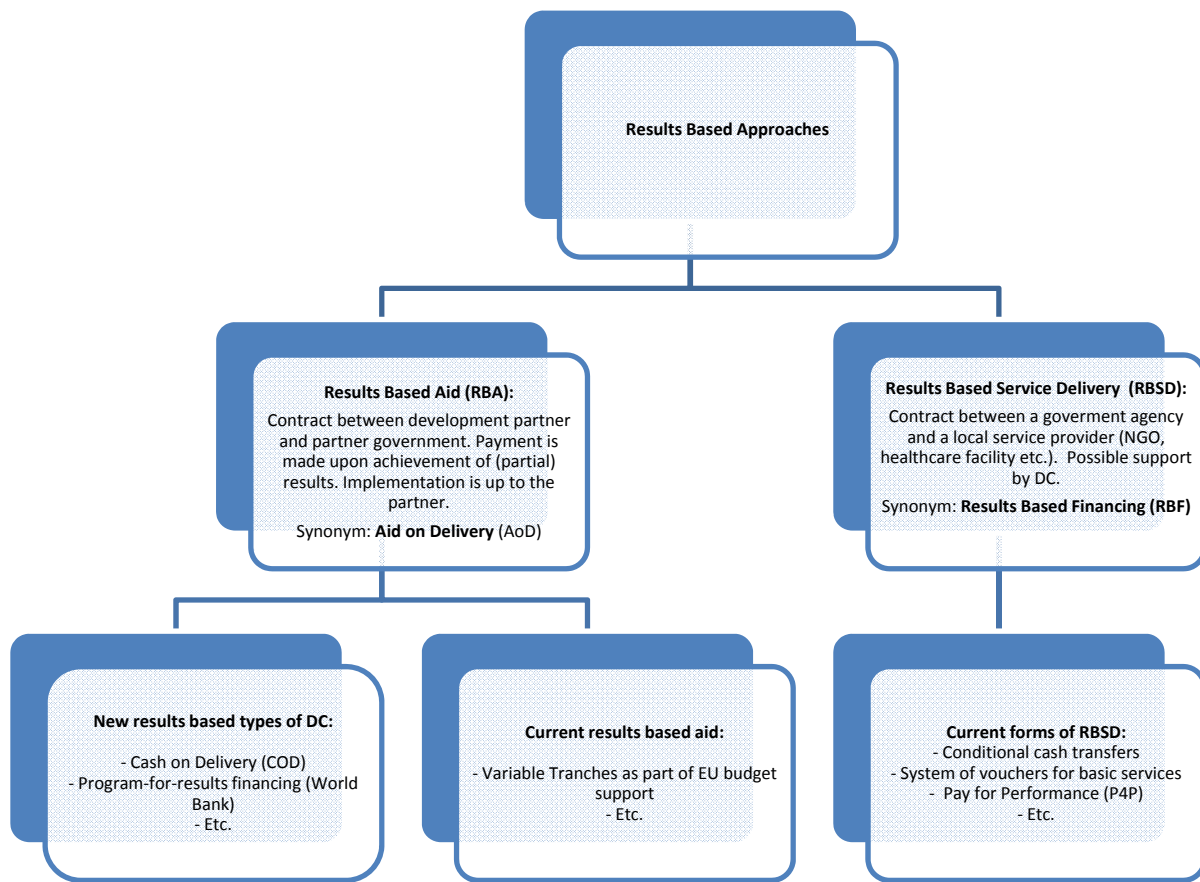
- (ii) **Results-Based Service Delivery:** *Results Based Service Delivery* (RBSD)<sup>2</sup> refers to a concept that works within a partner country. For instance, a contract to deliver certain services can be drawn up between a government entity and a service provider (like civil society groups or a healthcare centre). Such a contract could have as its goal to increase the number of births under medical supervision. And if, for example, travel to medical facilities (and the cost thereof) constitutes a major problem, travel vouchers could remove a crucial hurdle for pregnant women.

Approaches from this area have been in use in DC for more than ten years. In the international debate they are often referred to as Output Based Aid (OBA). They are applied mostly to the social sectors and to basic infrastructure.

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<sup>2</sup> When referring to these approaches, the term *Results Based Financing* (RBF) is frequently used in the international debate. However, for a clearer differentiation of terms, this paper will introduce the term *Results Based Service Delivery* (RBDS).

**Figure 2: Results Based Approaches**



Even though both approaches are based on the same rationale (the effect of incentives), there is a fundamental difference when it comes to their level of intervention: While RBA is concerned with the relations between the development partners and the partner countries, the second approach is focused on a solution to problems within a partner country. As the case may be, both approaches can be combined, but that is not strictly necessary.

The current international debate focuses on the first approach (RBA).

## 2. What could the benefits and drawbacks of RBA approaches be?

As with all DC instruments, RBA has its various advantages and weaknesses, or at least limitations.

Advantages can be:

- *Action is directly aimed at results:* The behaviour of all actors (development partners as well as partner governments) significantly influenced by the results. There are direct links between the intentions and the result of DC; the benefits are immediate and quantifiable.
- *Relevance of incentives:* The input of DC creates incentives to perform for the partner country. It can have a spill over effect into other sectors of the partner country.
- *Strengthened domestic accountability on the part of the partners / Partner government is responsible for implementation:* The task of achieving the goals is with the partner govern-

ment. The donors have no responsibility for implementation. This strengthens the partners' political systems.

- *Better verification of the results of DC*: Closing the "attribution gap" (proving a direct causality of DC measures and their results) can be more successful in specific cases. This can help the donor countries to demonstrate the concrete benefits of DC (visibility of the development partner).

Disadvantages or limitations can be the following:

- *Responsiveness of the partner's political system to incentives*: The concept assumes that the partners are open to incentives to perform better. This applies to those partner countries that show a strong performance orientation (*good performers*), or at least where there are areas of access, such as in specific, viable institutions ("*pockets of effectiveness*").
- *Time horizon*: RBA can create a shortened perspective, because it might cause only those results to be considered that can be achieved quickly. Results that can only be achieved in the medium or long term might clash with short-term political rationales (desire for re-election etc.).
- *Misincentives, unintended consequences and non-systemic strategies*: Generally speaking, there is a danger of misincentives; strong focus on a specific outcome might tend to result in non-systemic analysis and strategy. The pressure to achieve certain goals can thus cause the neglect of other priorities in the same sector. Indicators that might not be entirely suitable to this approach, risk the implementation of policies that are too much focussed on quantitative goals. For instance, if just the number of graduating pupils was recorded as the result, that might endanger the quality of the education (raising the number of pupils per class etc.).
- *Capacity*: The approach implies that the partner countries have the capacity to achieve the results. If their capacities and their public financial management system are deficient, this does not seem realistic.
- *Sectors and data*: Results based approaches cannot be implemented equally well in all sectors. Social sectors, such as education or healthcare, as well as sectors with infrastructure services that can easily be measured (transportation, public water supply etc.) are quite qualified. In other sectors it may be harder to measure these results or to come to an agreement on them with the partner countries (such as complicated agreements on good governance), and the direct impact cannot always be clearly shown as a specific set of results (but rather as a so-called output). This applies, for example, to various areas of public financial management. This approach may further create an incentive to manipulate data.
- *Delinking of (some) RBA approaches and the political context*: Where RBA approaches involve an automatic mechanism for payment following the achievement of certain goals, difficulties might arise if a development partner were forced to pay out, even if faced with an unfavourable political environment, including massive governance problems (such as serious human rights abuses).
- *Insufficient pre-financing capacities / "financial hijacking"*: In the context of this approach, pre-financing by the partner country is intended or even necessary. Because of very tight

budgets in a number of low income countries, this could be a major hurdle.<sup>3</sup> There is the further risk that other development resources in a country might be redirected to this end.

### 3. What practical experience is there?

So far, there has only been limited practical experience with RBA approaches. In the area of budget support, the EU with its variable tranches based on agreements on performance, has thus been using an instrument along the lines of RBA for a number of years. The result indicators used here refer particularly to the sectors of healthcare, education and water. The US Millennium Challenge Corporation (MCC)-Programme also employs a results based approach, as only those countries are included in this instrument that qualify based on a list of indicators. In a small group of African countries, the UK Department for International Development (DFID) is currently preparing results based ventures, especially in the education sector. With its *Programme-for-Results Financing* the World Bank has added a results based instrument to its tool box.

RBSD activities involving DC support have been maintained on a large scale for years (World Bank, DFID, German DC etc). These include so-called conditional cash transfers to certain groups, if they commit to using certain services (such as healthcare). Another form might involve incentives to service providers to make specific services available in an agreed-upon quality (*Pay for Performance* (P4P), *Performance-Based Contracting* etc.). The service providers would, for example, be paid a fixed sum per beneficiary or per unit of service (such as the maintenance of a kilometre of road).

### 4. Conclusions

In light of the international debate, the following conclusions are important:

- Results based approaches involve a wide variety of instruments and strategies. A simple, but important, differentiation needs to be made between approaches of (i) results based aid (RBA) and (ii) results based service delivery (RBSD).
- The debate is conceptually helpful in order to encourage a systematic discussion on results in DC. Generally speaking, proponents can point out the potential benefits; although there are a number relevant limitations and disadvantages.
- With respect to concrete DC approaches, results based aid was already used in recent years as part of the EU budget support. As far as other RBA approaches are concerned (such as *Cash on Delivery*), there is a clear lack of practical experience. Pilot schemes should not only question whether RBA approaches are at all feasible, but also consider if they constitute an added value compared to other DC approaches.
- RBA approaches assume a clear performance orientation on the part of the partner countries, which does apply to the reform dynamic countries (*good performers*).
- RBA and RBDS approaches should adhere to standards of aid effectiveness; i.e. it should be closely aligned with the partner government policies and in a manner that harmonises with donors, as well as using partner country systems as much as possible.

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<sup>3</sup> In this case, it could be possible to develop schemes for start-up financing.