



Results-based aid approaches



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List of abbreviations

CCT	Conditional cash transfers
CGD	Center for Global Development
CMI	Christian Michelsen Institute
COD	Cash on delivery
CSO	Civil society organization
DFID	Department of International Development
DIB	Development impact bond
DIE	German Development Institute
DLI	Disbursement linked indicator
EVAL	Evaluation Department, Ministry of Foreign Affairs of Denmark
GAVI	Global Alliance for Vaccines and Immunizations
HRTF	Health Innovation Trust Fund
M&E	Monitoring and Evaluation
MDG	Millennium Development Goals
MFA	Ministry of Foreign Affairs of Denmark
MOE	Ministry of Education
NGO	Non-Governmental Organization
NICFI	Norwegian International Climate and Forest Initiative
ODI	Overseas Development Institute
OECD/DAC	Organisation for Economic Co-operation and Development/Development Assistance Committee
PBR	Payment by results
PFM	Public financial management
PforR	Programme for Results
RBA	Results based aid
RBF	Results based financing
SIB	Social Impact Bond
SSP	Sector Strategic Plan
TOR	Terms of reference
TYR	Two-year review
WB	World Bank

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Resumé – summary in Danish

Denne rapport har til formål at levere et grundlag baseret på evidens og erfaringer til Udenrigsministeriets (UM) overvejelser om en eventuel fremtidig brug af bistandsformer baseret på ”betaling for resultater” i dansk udviklingsbistand.

Rapporten præsenterer indledningsvis tre modeller i kategorien ”betaling for resultater”, som har fået særlig opmærksomhed fra donorer og i litteraturen, nemlig, ”cash-on-delivery”, sociale velfærdsobligationer og ”conditional cash-transfers”. I praksis eksisterer dog kun få reelle eksempler på de to førstnævnte, og mens sidstnævnte er generelt udbredt i Latin Amerika, findes kun få eksempler i Afrika. Ingen af modellerne ville umiddelbart kunne tages i brug af en donor uden en del yderligere udvikling og konkret tilpasning af deres design.

Hvis ”betaling for resultater” introduceres som instrument, bør det ske på baggrund af en afklaring af overordnet formål, målgruppe af partnere og programområder, så instrumentet kan udformes på den basis. Modsat den eventuelle forventning, eksisterer der ikke en enkelt, universel model, som umiddelbart kan anvendes. Da de relevante former vil variere ud fra kontekst og ønskede typer partnere, resultater, og forandringsteori, vil man i praksis skulle arbejde med forskellige modeller på tværs af programmer og partnere.

Tre donorer har været særligt ambitiøse omkring brug af ”betaling for resultater”, nemlig Storbritannien, Norge, og Verdensbanken. De har hver fulgt en forskellig generel tilgang. Storbritannien har bl.a. introduceret ”betaling for resultater” på tværs af britisk udviklingsbistand, mens Verdensbanken har afgrænset instrumentet til en bestemt kategori af programmer. Begge donorer har udarbejdet særlige mål, principper og kriterier for hvornår og hvordan, de bruger ”betaling for resultater”, mens det ikke er tilfældet for Norge. Introduktionen af tilgangen har for hver af de tre donorer været motiveret af helt egne og forskellige hensyn, som har bestemt, hvordan tilgangen er udformet og anvendes.

De mest innovative programmer indenfor ”betaling for resultater” er endnu i deres tidlige stadier, men en række nye programmer er på vej. Få af programmerne er skåret skarpt efter de tre ovenfor nævnte modeller. Donorenes gennemgående erfaringer fra arbejdet med ”betaling for resultater” er behovet for mere erfaringsopsamling, et stort tidsforbrug, og nødvendigheden af at tilpasse egne systemer og personalemæssige kompetencer.

En gennemgang af donorrapporter og studier afdækker de væsentligste problemstillinger forbundet med ”betaling for resultater”, som falder indenfor tre kategorier:

Hvad ved man om ”betaling for resultater” i praksis?	Overvejelser for/imod brug af ”betaling for resultater” i hvert tilfælde	Overvejelser til brug for design og gennemførelse af indsatser baseret på ”betaling for resultat”
<ul style="list-style-type: none"> Evidensbasen til dokumentation af faktiske resultater og praktisk brugbare modeller er endnu svag Et blandet billede af effektiviteten af tilgangen Finansielle incitamenter vil sandsynligvis ikke virke som antaget, men ”betaling for resultater” kan alligevel indvirke positivt på resultater ad andre veje, fx ved at fange opmærksomheden hos politiske og administrative ledere i forhold til ønskede resultater samt ved at understøtte gennemsigtighed og ansvarlighed for resultater 	<ul style="list-style-type: none"> Potentialet for at anvende ”betaling for resultater” varierer på tværs af sektorer og typer af partnere Potentialet for at anvende ”betaling for resultater” afhænger af typen af udviklingsproblem, der skal håndteres Risici for at fokus fordrejes mod det kvantitativt målbare og kortsigtede resultater uden hensyn til de reelt centrale udviklingsmål og bæredygtighed Uklart hvordan risici for korruption samt sociale og miljømæssige konsekvenser skal håndteres Store omkostninger i tid og ressourcer forbundet med design og gennemførelse 	<ul style="list-style-type: none"> Sikre tilstrækkelige personalemæssig tid og kompetencer til arbejdet med at definere og måle resultater, indikatorer, og betalingsmekanismer Sikre at ”betaling for resultater” anvendes som del af en pakke, hvori også indgår reformer, kapacitetsudvikling, og anden nødvendig støtte Beslutte om en aktiv eller mere passiv tilgang skal anvendes donor Sikre at donorens interne systemer og kapabilitet kan håndtere ”betaling for resultater” Investér tid i erfaringsopsamling og opbygning af partnerskaber

Konklusionen er overordnet, at ”betaling for resultater” på forskellig måde kan tilføre dansk udviklingsbistand værdi, hvis mulighederne herfor forfølges målrettet. Således ville brug af ”betaling for resultater” kunne:

- Levere et håndgribeligt signal overfor politiske og administrative ledere til at henvende deres opmærksomhed på aftalte resultater, og derved forstærke effekterne af andre igangværende støtteindsatser rettet mod de samme partnere og organisationer
- Hjælpe til at samle opmærksomheden og debatten i offentligheden omkring særlige resultatområder, som politikere og administrative ledere har forpligtet sig til, hermed samtidig understøtte en menneskerettighedsbaseret tilgang med fokus på transparens, ansvarlighed, deltagelse, og ikke-diskrimination
- Levere en platform for UMs udveksling med trendsættende donorer og nye typer af udviklingsaktører omkring nye bistandsformer og samarbejder
- Hjælpe til at sikre den forventede værdi – eller ”value-for-money” - af danske bistandskroner
- Sendte signaler til partnere og danske skatteydere om en stærk dansk vægtning af opnåelsen af resultater.

Nogle af de forventede styrker ved “betaling for resultater”, fremhævet af instrumentets oprindelige fortalere, viser sig ikke at finde støtte i den eksisterende evidens. Tilgangen sikrer ikke per automatik eller ved egen kraft de væsentligste udviklingsresultater; ikke alle typer partnere reagerer på finansielle incitament; og transaktionsomkostningerne er typisk store.

Hvis “betaling for resultater” skal tages i brug af UM, er der behov for nærmere afklaring af, hvordan instrumentet skal anvendes for at det kan skabe den forventede værdi. Særligt er afklaring af formål og målgruppe af partnere nødvendig som basis for udformningen af både overordnet tilgang og specifikke modeller og initiativer.

“Betaling for resultater” ville bedst kunne indføres i dansk udviklingsbistand som en tværgående tilgang, der tages i brug, hvor det specifikt er relevant og fordelagtigt på tværs af programmer, og funderet i en bred og åben definition. Mulige specifikke initiativer kunne kortlægges på basis af den generelt definerede tilgang.

De tre donorer – og øvrige - er relevante som potentielle samarbejdspartnere for Danmark omkring brug af “betaling for resultater”, men på kort sigt er der få konkrete muligheder for fælles programmer. Ikke desto mindre ville det være vigtigt at søge partnerskaber med andre donorer for at sikre tilstrækkelig tyngde og effektivitet af en eventuel dansk brug af tilgangen.

Man må være forberedt på at skulle håndtere en række generelle udfordringer ved en indførelse af ”betaling for resultater” i dansk udviklingsbistand, særligt følgende:

- Behov for målrettet indsats for at identificere partnere og programmer i dansk udviklingsbistand, hvor tilgangen umiddelbart kan tages i brug sammen med andre donorer
- Det tidlige udviklingsstadium og de endnu begrænsede erfaringer med ”betaling for resultater”, særligt de nyere varianter, skaber endnu usikkerhed om, hvor godt tilgangen virker, og hvordan den virker bedst.
- Behov for mobilisering af et betydeligt input af personalemæssig tid og særlige faglige kompetencer
- Erfaringsmæssigt svært at definere kriterier for udbetalinger, indikatorer, og monitoreringsprocesser på en måde, hvor målingerne er utvetydige og indiskutable.
- Mindsket forudsigelighed for udbetalinger
- Risici relateret til korruption og sociale og miljømæssige omkostninger skal håndteres

Executive summary

The objective of the study is to provide a basis of evidence and documented experience for the Danish Ministry of Foreign Affairs (MFA) to decide on the future use of payment for results in Danish development assistance.

The report initially presents three payment for results “models” often referred to by donors and the literature: Cash-on-delivery, development impact bonds, and conditional cash-transfers. In reality, few real-life examples exist of the two former ones, while the latter is implemented extensively in Latin America, but only to a limited extent in Africa. They are not models a donor could readily adopt without significant further development and adaptation of the designs.

Should any donor decide to adopt payment for results as approach, most value would be gained by basing it on clear definitions of purpose, target group of partners and programme-areas, and then shape the specific variations of the instrument on this basis. There is not a universal model readily available to apply. The specific relevant models would vary according to context, type of partner, level of results, and theory of change, in practice leading to various designs across programmes and partners.

Three donors have been particularly ambitious in the area of payment for results, namely DFID (the United Kingdom), the World Bank (WB), and Norway. They all differ in the general approach applied to payment for results. DFID e.g. has adopted it as a cross-cutting approach, while the WB integrates it as a confined programme-instrument. These two donors have both defined general goals, principles and criteria for when and how to use payment for results, while Norway has not done so. For each donor, the adoption of payment for results was driven by their own particular motivations and concerns, which in turn have determined how the approach is shaped and used by each.

The most innovative payment for results programmes of the three donors are still in the early implementation stages, but a pipeline of new programmes exists. Very few of the programmes follow the three models mentioned above. All donors emphasise the need for greater learning and adjustment of internal systems, a requirement of time, and strengthened capabilities involved in the work with payment for results.

The main issues raised in donor reports and studies on payment for results fall within three categories, as summarised below:

What is known about payment for results?	Pre-decision considerations	Design and implementation issues
<ul style="list-style-type: none"> • Still a weak evidence base for documenting achievements and workable models • A mixed picture on the effectiveness of payment for results • Financial incentives may not work as expected, but payment for results could work by transmitting effective signals and by helping transparency and accountability 	<ul style="list-style-type: none"> • Varied scope for use of payment for results across sectors and actors • Varied scope for use of payment for results depending on the nature of development issue addressed • Risks of distorting the focus towards measurable and short-term results at the expense of core development results and sustainability • How to manage social, environmental, and fiduciary risks • Significant design and management costs 	<ul style="list-style-type: none"> • Mobilising time and skills for defining and measuring results and disbursement mechanisms • Ensuring payment for results as part of a package of reform and wider support • Decide a hands-off or hands-on approach • Address requirements to donor systems and capabilities • Invest in learning and partnerships

The study concludes overall that the payment for results approach could add value to Danish development assistance in certain respects, provided the opportunities are pursued purposefully. Payment for results could:

- Provide tangible signals to political leaders and managers to attract their attention to agreed outputs or outcomes, reinforcing effects of other development support provided to such partners and organizations
- Promote public attention and debate on results, thereby also supporting the human rights based approach applied in Danish development assistance
- Provide a platform for the MFA to engage with trendsetting donors and new development actors on new approaches to aid, to shape future agendas on aid instruments
- Help manage risks regarding value for money in development assistance
- Send a signal to partners and to Danish tax payers about a stronger Danish position on achievement of results.

Some of the claims made by proponents about how payment for results would add value are not supported by the available evidence. It will not on its own, automatically generate good results achievement, not every type of partner will respond to financial incentives, and the transaction costs are likely to be significant.

Should payment for results be adopted by the MFA, the general purpose and approach would need to be clarified in order for it to generate the expected value. Clarification on overall purpose and the target group of partners and programmes is critical as basis for shaping both overall approach and the specific models and initiatives.

Any adoption of payment for results, would best be done in the form of a cross-cutting approach applied to Danish development assistance as a whole, grounded in a broad definition of the concept. Specific initiatives could be identified on that basis, where relevant and beneficial.

All three donors – and others as well - are relevant as partners to the MFA in any further work with payment for results, but few immediate opportunities for joint-programmes currently seem to exist. Yet, in order to ensure adequate leverage of Danish payment for results, it will be important to work towards collaboration and joint approaches.

The MFA should expect to face a number of general challenges in case payment for results is adopted in Danish development assistance. These relate to:

- Need for a special effort in order to identify possibilities among existing partners and programmes that are relevant and immediately available for Danish support through a payment for results approach
- The early stage of developing this approach and the limited experience with innovative payment for results forms
- A need for a significant input of staff time and technical skills
- Defining criteria for payments and result indicators and monitoring them, so as to ensure assessments are unambiguous
- Lower disbursement predictability
- Possible fiduciary, social, and environmental risks

1. Introduction

This study reviews experiences with approaches to development assistance that link payments to achieved results.¹ Headings such as results-based aid or results-based approaches are often used for these forms of aid. They cover a wide range of concepts, such as cash-on-delivery, development impact bonds, payment by results, performance contracts, and others. In addition, many other aid forms are also oriented towards results without linking payments directly to results. In this report, “payment for results” is used as a catch-all term to pinpoint the common feature of the aid forms under review here.

The objective of the study is to provide a basis of evidence and documented experience for the Ministry of Foreign Affairs (MFA) to decide on the future use of payment for results in Danish development assistance. The MFA expressed an interest in certain models to be considered, and the terms of reference (TOR) ask for definitions and distinctions of payment for results, international experiences, Danish experiences, and overall considerations on the value-added, opportunities, and risks to consider when applying such approaches (see annex E). The study therefore has a broad scope.

The report is primarily based on a desk-review of studies, reports, and strategies dealing with approaches and experiences of payment for results, including donor specific reviews and broader think-tank studies looking at experiences and issues across donors.

An important finding from the study is that many of the concepts used under the headings of results-based aid (and similar) are not necessarily fully-fledged and distinct models, which present a menu of real options for the donor to compare and choose from. They are more a mix of theoretical forms and donor-specific solutions that may not be generally applicable. For this reason, the study does not attempt to assess and compare certain models.

The study rather addresses the objective as follows:

- Section 2 answers the MFA’s request for models, definitions, and distinctions by presenting a few often-mentioned models, and then pinpointing the main, general features to consider for defining a payment for results approach fit for the specific donor purpose.

¹ The study was commissioned by the Evaluation Department of the MFA and carried out in collaboration with Technical Advisory Services and Development Policy and Global Cooperation. It was prepared by Thomas Juel Thomsen/TJT Consult Aps, tjt1000@gmail.com.

- Section 3 presents approaches, status, and experiences of three important donors in the field of aid using payment for results, Norway, DFID, and the World Bank (WB).
- Section 4 identifies a set of common issues across payment for results approaches, based on the evidence of how payment for results has worked in practice, including pre-decision considerations to make and main design and implementation questions to expect after embarking on payment for results.

Section 5 concludes on potential value-added, opportunities, and risks of payment for results.

2. Specific models and general distinctions

Aid forms that pay for results have gained wide interest in recent years, and now encompass a broad range of concepts, with a variety of goals and expectations attached: Results-based aid, cash-on-delivery, output-based aid, payment by results, development impact bonds are just some examples. The terminology is not clear, and the multitude of concepts gives the impression that a menu of distinct and ready-made payment for result-options is available for a donor to pick and choose from, based on needs and the merits of each.

In reality, however, not all of these forms are well-defined, nor clearly distinguishable, and some are mainly theoretical models while others are donor-specific solutions to own needs. Rather than distinct alternatives, these concepts are variations over a general idea, with the common feature of linking payments to achieved results.

The purpose of this section is to clarify the terminology and the relevant issues to consider for a donor planning to use payment for results. First part of the section briefly describes three models of payment for results that have received much attention. Since a donor like the MFA would quickly find these standard models inadequate, the second part of the section points to the general questions to consider for deciding an approach to payment for results fit for purpose.

2.1. Selected payment for results models

Cash-on-delivery (COD) is by many considered the archetype of the payment for results approach and has received widespread attention, since the concept was developed by the Center for Global Development (CGD). According to CGD, donors under COD “would pay for measurable and verifiable progress on specific outcomes, such as USD100 for every child above baseline expectations who completes primary school and takes a test”. COD’s key features are defined as²:

- Payment for outcomes, not inputs
- Hands-off funders, responsible recipients
- Independent verification
- Transparency through public dissemination
- Complementarity with other aid programs

²CGD has a website designated to explaining the COD approach:
<http://www.cgdev.org/page/approach-0>

CGD and other proponents see COD as promoting development in a very different way than conventional aid approaches (Klingebiel, 2012, CGD, 2013), including:

- Through strong incentives, it facilitates progress on results by shifting the focus from inputs and processes towards measurable results, creating incentives to generate better information about these results.
- It reduces transaction costs of aid by requiring fewer reporting processes and promoting the use of national partner systems.
- It ensures ownership by partner countries for the programmes and clarifies roles and division of labour between donors and the government, reducing the donor role in implementation, and enhancing domestic accountability on the partner-side.
- Compared to traditional, prescriptive programmes, it provides greater flexibility in intervention strategies, because the funder does not commit the recipient to follow specific strategies or monitor inputs, creating space for learning and innovation.

As shown in section 3, COD in the pure form above has not in practice been adopted by the donors. When Perakis and Savedoff in 2015 examined a “universe” of programmes based on the COD approach, they found only four that had the above COD features. Donors have instead used a selective approach, and picked certain features from the COD model to form their own individual approaches, designed to meet each donor’s specific concerns.

Development Impact Bonds (DIB) (a concept designed by CGD) have received attention from the more experimental donors in recent years, and has developed from recent years’ trend in “social impact bonds” (SIB) in developed countries. Under SIB investors provide funds to implement social interventions, service providers work to deliver outcomes, and outcome funders, primarily public sector agencies, repay investors their principal plus a financial return if independently verified evidence shows that outcome targets have been achieved. DIBs in theory share the features of SIBs, but in addition involve donors to provide the outcome payment, or some portion of it, in partnership with a developing country government. Presently, less than a handful of DIBs are being implemented, and lessons are still being learned with the way forward not being fully clear. Annex D has more background on the status and experiences with DIBs.

Finally, **conditional cash-transfers (CCT)** focus on families or individuals, where the government (or a charity) transfers money to these if they meet certain criteria such as enrolling children into schools, getting regular health check-ups, receive vaccinations, or similar. The intention with CCTs typically focus on reducing poverty, including chronic, intergenerational poverty, reduce stress, and addressing food security, by incentivising families or persons to make use of welfare programs and social safety nets. CCT pro-

grams have become widespread in Latin-America during the past 15 years, where many studies indicate some positive results, but also clear challenges (most famous is Brazil's "Bolsa Familia").

There is an unfinished discussion of whether the conditionality works, and the success in improving social outcomes through CCT. Importantly, CCTs rely on parallel reforms and initiatives to boost public policy and provision of social services. Families who wish to send their children to school or have them vaccinated to get the cash rewards must also be able to find functioning schools and health centres. Very few CCT so far exist in Africa, due to a host of reasons, including weak systems for managing payments, weak traditions for progressive social policy in many countries, and generally less comprehensive systems for social service provision.

2.2. General definitions, distinctions, and design choices

The three models above do not describe the full set of payment for results approaches seen in practice, and neither would they be adequate for meeting the range of specific needs a donor such as the MFA would have in practice, given the variety of actors and sectors in Danish development assistance. As a result, parts of the literature have "unbundled" the payment for results-concepts to single out the elements, which may be modified to design a model fit for purpose in each case. The following summarizes the resulting definitions and distinctions.

A first distinction concerns the **level of results** that payments are linked to. "Results" are the effects of the inputs and processes supported, and they materialize as outputs, outcomes, or impacts (Klingebiel), in accordance with the OECD/DAC definition also followed by Danida. Normally, the decision is whether to focus payments on outputs or on outcomes (since impacts are not meaningful to link payments to). Outcomes will typically better describe the development targeted by the support, but outcomes also tend to be too complex for delivery through a single contract by a single provider, and difficult to define in a simple measurement. Outputs can more easily be linked to payments, but may not always reflect well enough the outcomes ultimately targeted. In practice it is rarely easy to distinguish between the levels, since the results-chain may be complex and not neatly split in outputs and outcomes. COD focuses payments on outcomes, and DFID for example views outcome-based approaches as the innovative and more ideal form to strive for (e.g. DFID, 2014, CGD, 2013).

Another distinction concerns the **type of partner**, where the literature identifies two general options. The partnership can be between a donor and a government, or it can be between an entity of the partner government and a service provider offering specific services (e.g. health services, cash-transfers, or other). In the latter case the funding to the entity may come from domestic resources of the government (hence, not necessarily aid), or from a donor.

The type of partner separates the two broad categories of payment for results (e.g. Klingebiel, 2012) often referred to in the literature and by donors. Results-based aid (RBA) refers to a partnership between a donor and a government, while Results-based financing (RBF) refers to a partnership between a government and a service provider entity. Both RBA and RBF can focus on either outputs or outcomes. In practice it appears that direct partnerships between a donor and entities such as NGOs, UN organizations, or service delivery providers/fund managers tend also to be categorized as RBF.

Further, payment for results can target the **supply- and/or the demand-side** of public service delivery. This depends on the desired effect and theory of change. A service contract with a health service provider would be a supply-side initiative, while a conditional cash-transfers arrangement is a demand-side effort (DFID WP39, 2013).

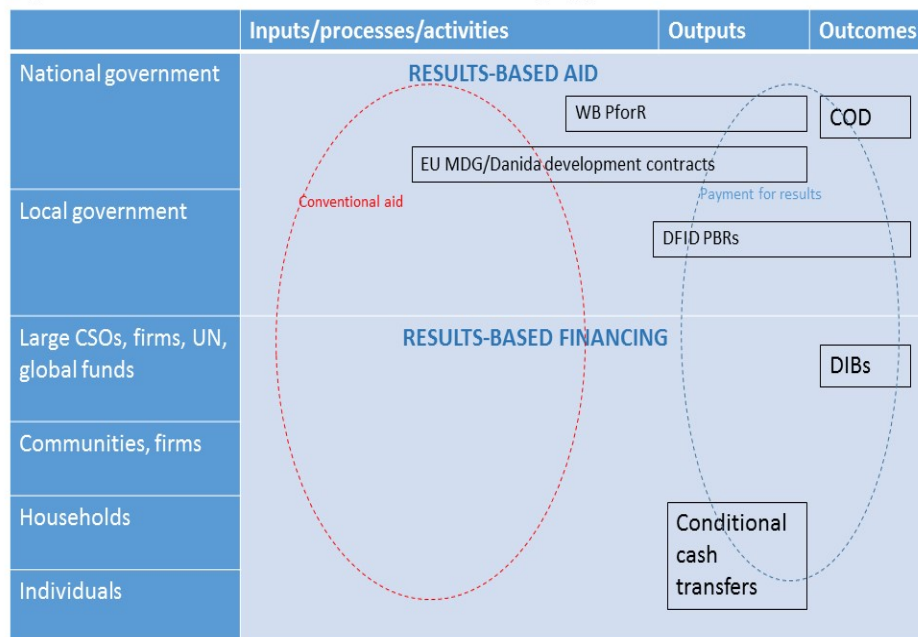
How then may the models discussed in this study be categorized? Figure 1 (adapted from Perakis and Savedoff, 2011) illustrates various forms of “payment for results” by partner and by results level (input, process, output, and outcome). Conventional aid forms – paying for inputs or processes - fit in the left-hand side of the figure, while the innovative forms – paying for outputs or outcomes - belong in the right-hand side. COD has government as partner and focuses on outcomes, so it belongs in the right-hand side of the RBA category. A few, recent general budget-support programmes have increased performance tranches, which put them in the RBA category, though payments may focus on outputs or processes (e.g. EU’s “MDG contract” and Danish “Development Contracts” in Tanzania and Burkina Faso). The WB’s Programme for Results (PforR) focusses on government and links payments mainly to outputs (see section 4). DIBs focus on outcomes and service providers, hence the RBF category’s right-hand side. A number of DFID programmes have contracts with NGOs or contractors for delivery of outputs or outcomes, placing them in the RBF category.

Figure 1 underlines the need to start from the choice of partner as a basis for designing the relevant model of payment for results, since this is paramount for determining actual opportunities and relevant designs options. Financial incentives work in different ways for government partners, NGOs, multilateral bodies and contractors, and the scope for focusing on outputs or outcomes may also differ. An initial step for the MFA in deciding a general approach to payment for results would then be to set priorities for the type of partners and areas where payment for results would be relevant.

The following shows part of the spectrum of partners and opportunities to consider:

- Sector ministries, agencies, or local governments at country level, supported via Danish bilateral country programme support
- Civil society organizations/NGOs at country level providing services

Figure 1: Results-based aid and results-based financing by partner and result



- Multilateral and international organizations, receiving core-funding based on the organization strategies (payment for results to core fund these would be new)
- Multilateral and international organizations at country level, receiving earmarked support to implement particular programmes or provide services
- Private contractors/firms providing services and outputs according to contracts

An important consideration concerns the **theory of change** to follow, since that determines the relevant design of each model. Perakis and Savedoff identify four general theories of change, which may be used to argue the case for and drive design and implementation of payment for results models. Since they mainly focus on cases with a government as partner, the below is a modification of their outline. The key design features associated with each theory are also mentioned below.

- 1) When payments are linked to results, the partner will respond because of the **monetary incentives**. The partner will move faster or shift priorities because they need the funding, or value it highly.³ The RBA features of importance would be outcomes, payments, and credibility. *This theory may be more appropriate for organizations and individuals than for governments.*

³ The counter argument is that this theory has mainly been applied to organizations or individuals, not to governments. Political-economy approaches are likely to be more relevant in regard to governments.

- 2) Linking payments to results will make those results more visible and through this **draw the attention** of politicians, civil servants, and/or managers overseeing or directly in charge of achieving the results. Since leaders or managers focus their attention and act on what is being measured, simply shifting the measurements from inputs and processes to results will provide tangible signals for decision-makers to act on and promote achievement of results. Important RBA features here would be well-defined outcomes closely reflecting the actual, desired public policy goals, while the payment amount is less important.
- 3) RBA affects change by generating **accountability to constituents**. RBAs if designed around goals that are truly shared and openly reported can become instruments for public accountability. This can also have implications for a donor government to its own constituents to show what aid has “bought”. The RBA features of importance are outcomes, recipient discretion, and transparency.
- 4) When recipients have greater **discretion in implementation** they can better learn and adapt implementation to opportunities arising to improve service delivery. In contrast to conventional aid, payment for results – provided it is hands-off such as COD - give recipients the freedom to pursue a range of solutions, and use their local knowledge “embedded in local political and social dynamics”, to achieve the results with better chance of success. Discretion in implementation as implied by a hands-off approach by donors is key here.

These theories can overlap and there be more than one of these at play in an agreement. But each is also distinct in a way where not all can be at work at the same time. Many times the “real” theory of change is not stated explicitly, but must be inferred by looking at how the payment for results is designed (Gelb and Hashmi). It is critical to be aware of the real, inherent theory of the approach used, since otherwise expectations and promises for what will be achieved may not be realistic.

Finally, the **detailed design of the payment for result-mechanism** can be rounded off by considering Perakis and Savedoffs’ six features (Box 1). These are not predetermined in the choice of a payment for results model, and must be put together for each model, based on the considerations above on objectives, type of partner, and theory of change, etc. In case the theory of change is not explicit, a look at the design features would reveal the underlying theory of change.

Box 1: Design features of payment for results (summarised from Perakis and Savedoff)

Design element	Design options
Result levels	E.g. outputs or outcomes
Payment function	Payments can be made in proportion to progress <u>or</u> in tranches for results achieved at a certain date (continuous, thresholds)
Recipient discretion	Level of authority of recipients to decide for themselves how to achieve results and spend the payments. More discretion means more scope for flexibility for innovation, responsiveness, efficiency
Credibility	The funder's credibility to pay is key for the recipient to respond as expected, and should be supported by independent verification
Transparency	Creates opportunities for more actors to influence a programme, enables accountability and feedback.
Payment amount	Payments may be significant relative to unit costs (or alternative funding sources), or large relative to the relevant budget or other foreign aid or funding sources. Small payments mean lower financial incentives, but may provide equally significant signals from being withheld/paid out.

3. Payment for results in practice: Selected donor experiences

Several donors have started using payment for results approaches in recent years, including WB, DFID, Norway, Germany, Sweden, EU, Asian Development Bank, and IDB. This section looks at general approaches, status, and experiences of three particularly ambitious donors in the area of payment for results. Boxes in this section and annex A list selected donor cases.

The WB, UK, and Norway are among the frontrunners in the field of payment for results, and all have significant leverage by the scale of their operations in the areas where payments for results are used. DFID is one of the strongest proponents of the results agenda and has increased the priority to use payment for results in recent years, an effort promoted under the heading of “payment by results” (PBR). PBR is a broad-based approach to be applied across DFID’s support areas⁴, and payments focused on outcomes in particular should increasingly be used in DFID-supported programmes. Norway has been a frontrunner in piloting payment for results, specifically in health, climate and energy, sectors where Norway maintains a high international profile and provides substantial funding. The WB’s major payment for results initiative is the “Programme for Results” (PforR), approved in 2012 as its third main financing instrument alongside investment finance loans finance and development policy loans. Where investment finance loans target large infrastructure, development policy loans fund policy actions, and PforF finance service delivery through national expenditure programmes.

The three frontrunners follow different general approaches in how they adopted payment for results. Overall, PforR is a distinct programme area in the WB, whereas PBR is a cross-cutting approach to be applied across DFID’s development assistance, while in Norwegian aid results-based approaches is the heading for a set of programmes involving payment for results supported via a number of multi-donor baskets and bilateral initiatives. None of the donors pretend to follow anything like the COD as a general approach.

- PBR in DFID is a broad term that can be used for any programme where payments are made after the achievement of pre-agreed results. The type of results can vary according to context, and may be outcomes, outputs, and any measurable improvement in performance – also “intermediate outputs” or processes, if shown as measurable improvement in performance. DFID requires the scope for use of payment for results to be assessed in all support areas, but decisions should

⁴ See <https://www.gov.uk/government/publications/dfid-guidance-on-payment-by-results-and-spreadsheet-of-pbr-projects>

be made based on certain criteria (see Box 2). Each programme should be designed flexibly based on context, but guided by certain principles on type of partners, development issues, and funding level.

- A WB PforR programme must have certain design features, such as: Financing and supporting the borrowers' expenditure programmes and activities; disburses against achievement of programme results instead of inputs (outputs or outcomes); focus on strengthening institutional capacity to implement the programme; addressing WB integrity requirements and social and environmental safeguards. A PforR has active WB involvement during implementation in monitoring, technical assistance, and capacity building, and are subject to the same oversight functions as other WB operations.
- The approaches for Norway's payment for results programmes appear to be decided on a case by case basis for each programme.

Box 2: DFID's principles for deciding specific PBR approaches

DFID does not apply a pre-defined payment for results approach but rather defines concrete approaches flexibly based on criteria about type of partner, payment level, and type of result. Whether to use PBR, should be answered from the questions if 1) it is believed that the needed performance improvement could be helped by strengthening of incentives, and 2) the benefits of payment by results outweigh the costs in the specific case. The strategy spells out three (four) key design choices for use of PBR across DFID's areas of support: 1) The level of payment (and thus risk sharing), which can range from 100% to a smaller amount. This should depend on partner capacity. 2) Type of organization (government, supplier, or investor). The greater the control over the results achievement, the more ability to base payments on their achievement. 3) Type of result (along the results-chain between outputs and outcomes). A broader sphere of influence of the organization, and greater need for flexibility/innovation to address the problem, should mean results being defined closer to the outcome level. 4) The need for capacity development and TA to ensure results delivery.

The differences in these donor approaches reflect that payment for results was introduced into their systems on the back of different motivations and purposes.

DFID's PBR originates from a UK government-wide agenda where performance-mechanisms are piloted across several departments as instruments to secure *value for money* as a cross-cutting priority in the UK public sector. The WB's PforR was driven by the Bank's need for a standardized instrument that would better enable it to fund service delivery through national (sector) expenditure programs, what other donors might have used sector programme or sector budget support for. It was a measure for the WB to stay relevant as funder in the face of new competing and "easier" development finance institutions and donors, like China. In Norway, payment for results was driven by a political idea that emerged with Norway's prominent international position on health and climate, without the technical levels promoting or shaping its detailed content.

As organizations DFID and WB have overarching strategies or approach documents which outline the objectives, efforts, and principles for implementing payment for results in their development assistance, while Norway has no such

overarching strategy outline. DFID has a PBR strategy, dictating principles and ambitions to be applied across its support areas⁵, and stating DFID's ambition to be pioneer in the field, complemented by a guidance note⁶. The strategy defines principles for when and how to use PBR in UK development assistance, and asserts that PBR will not always be the best tool to secure value for money. The PforR is outlined in a policy note, which defines purposes of the instrument and the specific processes for designing, appraising, and implementing it.⁷ Currently, Norway does not appear to have a strategy or guideline for its payment for results initiatives, and there does not seem to be a requirement or any principles to apply it across Norwegian development assistance.⁸

The donors differ in the basic criteria for when and where to use payment for results. DFID requires use of PBR to depend on two questions, namely if 1) it is believed that the performance improvement needed could be helped by strengthening of incentives, and 2) the benefits of payment by results outweigh the costs in the specific case. As a guiding principle, a PforR is the WB's choice of instrument when the aim is to support a government's own programme; expenditures are required to achieve results; and risks mainly concern the capacity of systems to deliver the results. Norway has no specific criteria.

All three donors see payment for results as complementary to on-going, conventional aid programmes. None of the donors envisage a full-scale shift in their development assistance towards payment for results, and neither is payment for results the only approach at country level.

WB and DFID maintain a hands-on approach to their payment for results programmes, both in principle and practice. The basic PforR design involves WB staff engagement in monitoring, capacity development, and implementation support. DFID's strategy speaks of the need to include capacity development, and while at least one concrete DFID PBR case is without direct DFID involvement, the actual level of involvement typically depends on other DFID supported programmes running in parallel in the sector. Norway does not state a position on the issue and in practice supports programmes using both hands-on and hands-off.

⁵Payment by Results: Sharpening incentives to perform, 2015

⁶ Designing and Delivering Payment by Results Programmes: A DFID Smart Guide, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/352519/Designing-Delivering-PbR-Programmes.pdf.

⁷A New Instrument To Advance Development Effectiveness: Program -For-Results Financing, Operations Policy and Country Services December 29, 2011, World Bank

⁸ Two evaluations were implemented by Norad's Evaluation Department in 2015⁸ to look at payment for results across the Norwegian development assistance.

The most innovative payment for results programmes of the three frontrunners are still in their early implementation stages, but all have a pipeline of new programmes underway.

- DFID presently has 21 payment for outcomes-based programmes (see annex B) in the early stages of implementation, covering health, education, climate, water and sanitation, family planning, and employment, though health and education dominate.
- The WB had a total of 22 PforR operations approved (total commitment of USD 3.5 billion) by the end of 2014 and an additional 17 operations under preparation (total commitment of USD 4.5 billion), covering education, health, social protection, public sector management, and in some cases mix of sectors⁹. All focus on service delivery provision and on improving systems for service delivery, through capacity development and institutional strengthening.
- Norway supports via the Vaccine Alliance (GAVI) since 2000; the Health Innovation Trust Fund (HRTF) since 2007; the Norwegian International Climate and Forest Initiative (NICFI) since 2008; and Energy+ since 2011, where e.g. HRTF now has 38 RBF pilot-programmes implemented, each based on own specific designs. Energy+ and NICFI both use phased approaches, where results-based financing only applies to the last phase. The last stage is so far only reached by Brazil and Guyana for NICFI.

Box 3: DFID – Results-based Aid in the Education sector, Ethiopia

This pilot-project (2012-2016, GBP 31 million) aims to improve lower secondary education participation and performance in Ethiopia by providing result based aid, incentivizing Ministry of Education (MOE) to increase the number of students sitting and passing the exams. DFID pays a sum to MOE annually for achieved outcomes, measured by the additional sitters and passers of the grade 10 national examination above an agreed ‘payment baseline’. A unit tariff is paid for each additional sitting/passing student. Higher tariffs are paid for girls and for children from emerging regions. For example, GBP 50 are paid for each additional boy and GBP 85 for each additional girl sitting for the secondary exams. The ‘payment baseline’ for a particular year is the performance in the previous year. The funds are disbursed by DFID only after the results have been achieved.

The pilot does not itself include capacity or institutional support, but its funding is additional and complementary to DFID Ethiopia’s other education support programmes (General Education Quality Improvement Programme, phase II, and Promotion of Basic Services programme phase III).

Key experiences based on the 2015 annual review:

- Considerable progress was made with “more” boys and girls sitting and passing grade 10 ex-

⁹ The PforR review however reported all government officials and 78% of WB staff to be satisfied or somewhat satisfied with the PforR, and the majority to be “somewhat” or “very” likely to use it again. Its greatest strength was reported to be i) its focus on results (not substantiated) and ii) the focus on government systems and institutional strengthening. The PforR’s main advantages as viewed by WB staff is that it enables the WB to co-fund national programmes with other donors, which was more difficult under the two other instruments only available before (e.g. WB participation in the Ethiopia joint-donor MDG Performance Fund)

ams, and this has triggered the release of reward funds. However, as expected from RBA programmes, results achieved did not trigger the maximum possible disbursement under the budget, which in practice has prompted a no cost extension. Moreover, the progress is not attributed to the pilot.

- The financial rewards are paid into the MOE at federal level, but some regions choose to distribute funds across all schools, some send funds to the best-performing schools, while others send funds to the under resourced/underserving schools. In practice performance at school level is not necessarily rewarded directly, and equity rather than performance in some cases drive actual government payments
- The education sector budget system in Ethiopia (as elsewhere) works on an input and plan basis with emphasis on budget discipline, while the RBA financing by nature is more unpredictable.
- The biggest advantage of the pilot for schools receiving the rewards has been the input of flexible funding into their budgets, which in some cases represents a 100% increase in their non-salary recurrent budgets.
- Meanwhile there are gaps exist in the understanding by many schools about how the incentive works, which hamper the intended effects.
- School officials are concerned that urban schools are in a better situation than rural schools to mobilize pre-financing resources and to act to improve quality. The Government responds to this concern by allocating funds according to needs, rather than based on performance. The review notes how this raises wider questions about equity as an outcome of the RBA.
- The review points to construction of schools as the real binding constraint to increasing secondary education outcomes in Ethiopia, but for this challenge the RBA budget is minimal, and the RBA may in fact be rewarding previous years' federal budget decisions, rather than current efforts by schools to improve quality.

The review concludes that certain issues “question the validity of continuing the pilot”: 1) It is uncertain to what extent progress in student passing/sitting exams can be attributed to the pilot, since Government in the same period made a strong overall push to improve secondary education and has been sending clear signals about the results expected of the schools. 2) Doubts are raised over the suitability of using financial rewards to strongly performing schools when Ethiopia’s constitution and Government’s political ideology and policies focus on equity. 3) It has been highly difficult to agree a robust methodology to evaluate and measure progress. Sources: Annual Review, 2015.

Box 4: World Bank - Programme for Results in Public Sector Governance, Rwanda

This PforR (USD 66 million, 2014-2018) has the development objective to enhance Rwanda’s Public Financial Management and statistics systems to improve transparency and accountability in the use of public funds, revenue mobilization and the quality and accessibility of development data for decision making. It aims to achieve the following results:

- Increased efficiency in national and subnational revenue collection;
- Improved national and subnational transparency and accountability in the use of public funds;
- and Improved use of development data for decision-making.

The PforR is based on the Government’s Public Financial Management Sector Strategic Plan 2013-18 (PFM SSP), which in turn consists of 7 programmes and 23 sub-programmes. Each programme has defined outcomes that feed into Government’s results monitoring system.

The PforR only supports a subset of the PFM SSP in the form of selected programmes, sub-programmes and strategic areas. The results framework of the PforR is based on Government’s results frameworks for the PFM SSP, and represents a results chain for achieving the development objective, covering the three key results areas above.

A total of 8 disbursement-linked indicators (DLIs) have been defined as triggers for payments under this PforR. They cover the three results areas, and represent a spread across the PSM SSP programme

areas and the programme implementation plan. The DLIs signal and monitor milestones along the results chain to the development objective, *and* incentives for rewarding achievement of outputs or outcomes to encourage management for results. The DLIs are combinations of outputs and intermediate outcomes.

Disbursements are based on targets set for the DLI in an indicative annual time frame. Confirmation is based on agreed verification protocols. Once an indicator is achieved/completed, the Government can make a disbursement request up to twice a year. However in order to implement activities to achieve DLIs, the Government can receive 25% of programme proceeds to be paid as an advance. Scalable disbursements apply to some DLIs.

For verification, the Ministry of Finance and Economic Planning project implementation unit is responsible for gathering the necessary data on completion of the DLIs from the implementing agencies. This is delivered to the WB and to an independent body (Office of Accountant General) for verification, backed up by onsite visits. Capacity development support is included as part of the individual programmes and sub-programmes in the PSM SSP. (source: Project Appraisal Report)

Box 5: Norwegian International Climate and Forrest Initiative (NICFI)

NICFI is organized as a three-phased mechanism, where results-based payment only comes into play for countries placed in phase 3. In that phase, payments can be made for measurable/verifiable reductions in climate gas emissions related to forest preservation (this is linked to REDD+). Phase 3 funding has so far only been provided to Brazil and Guyana (Brazil NOK 5.45 billion, Guyana NOK 0.97 billion).

Norway's agreement with Brazil is to pay up to USD 1 billion for reduced deforestation during 2008-2015, calculated as below "business as usual"-scenario (measured as the 10-year average, initially 1996-2005, later 2001-2010). The rewards paid are USD 1833/hectare reduced deforestation, corresponding to USD 5/ton CO. This links the payment to achievement of an outcome. Deforestation rates are easy to measure through satellite imagery, and the data is verified by an independent committee.

The payments are made into the Amazon Fund. This is a traditional development funding mechanism targeting forest related projects broadly, including reduction of deforestation and biodiversity, eco-services, and forest dweller sustainable development. The agreement with Guyana broadly follows the same outline.

NICFI has been criticized for not having a clear theory of change in place, especially to explain actions expected of actors to reduce deforestation as a result of the payments (Helland and Mæstad). Savedoff and Perakis find that NICFI may have affected change by involving attention to results, discretion, and transparency, but not through the actual financial incentive itself.

Several studies have documented the experiences of NICFI, but none have drawn clear conclusions on the effects of the PBR mechanism. The macro-picture is that Brazil has greatly reduced deforestation in the recent decade, but that reduction is calculated to be 10 times larger than what would be paid for by the NICFI. Meanwhile, the NICFI may have worked successfully through political-economy mechanisms, by strengthening deforestation policy domestically within government and holding government accountable to civil society.

By far most of the payment for results programmes supported by the three donors pay for outputs, not for outcomes. Norway's NICFI pays for outcomes, but the other initiatives pay for outputs. By far most of DFID's support using payment for results focus on outputs (although the case described in Box focuses on outcomes), but DFID claims to have a series of payment for outcomes in the pipeline (their list of projects does

not enable a confirmation of this). The WB PforR operations are for the most part payment for outputs or intermediate outcomes (Gelb and Hasmin). Meanwhile, only DFID states the ambition to move towards payment for outcomes.

All three donors work with both governments and other entities as partners receiving the payments. All PforR's and several of DFID's PBR programmes are with a government as partner. Norway's support to Brazil under NICFI has government as partner. In these cases, payments are made directly into the treasuries of the partner governments. DFID and Norway use results-based financing, while the WB may do so through other instruments than the PforR.

The donors use various payment functions defined for each case, and the WB has a preference for scalable indicators to ensure predictable disbursements. Most PforR indicators are linked to intermediate results (outputs), which reflects a concern for ensuring regular disbursements throughout the implementation of a PforR operation. Scalable disbursement indicators rather than thresholds tend to be used for the same reason.

The donors have experienced high transaction and management costs in connection with the payment for results initiatives. DFID points to the need for considerable up-front investment of time and effort (DFID, June 2014). The WB Two-Year Review (World Bank, 2015) finds that formulation of the disbursement linked indicators and disbursement mechanisms are some of the most challenging aspects of the PforR, according to government officials and WB staff. They highlight the "heaviness" of the technical assessments, including the fiduciary risk assessments,¹⁰ and the need to use significant time for introducing the instrument to clients and internal learning.

Both WB and DFID emphasize the need for learning and strengthening of internal capabilities as important areas of attention for moving forward on payment for results. DFID's strategy focuses on 1) expanding evidence on "what works best", and 2) building DFID's capabilities to work with PFR in the right ways, including staff competences in commercial approaches. DFID also focuses on building a community of practice for knowledge sharing, involving external knowledge centers (linking with CDG). The internal finance and disbursement system will be reviewed to be able to accommodate the lower predictability of disbursements under payment for results as compared to conventional aid. The WB review (World Bank, 2015) points out how WB staff skills and competences have not been sufficient, and the need for training to perform the technical assessments required, and fiduciary risk assessment that requires more "judgement" than in their conventional policy-loan operations.

¹⁰ These are conducted by WB staff together with the clients of the programmes supported, covering the strategic relevance, technical soundness, results framework and M&E capacity, and economic justification of the programmes,

Only a few of the more novel payment for results initiatives of the three donors fall both within sectors/issue-areas and countries where Danida's focus will be the next few years. In case of DFID, an example is the RBF for family planning in Kenya, while for WB the examples include the PforRs on enabling open government in Bangladesh and public sector modernization in Burkina Faso (Annex C shows the sub-set of PforRs which operate in Danida priority countries). Overall, the intersections between Danida future focus areas and the payment for results operations of the three donors are few.

Box 6: Examples of Danish experiences with payment for results.

Payment for results has never in any of its forms been used in a general or systematic way in Danish development assistance, but cases exist within certain programme areas with particular traditions for using such approaches.

- Danish development contracts (general budget support) have traditionally had performance tranches linked to achievements of pre-agreed process indicators and results. Examples include Danish development contracts with Tanzania and Burkina Faso. In the most recent phases, the trends have been to increase the relative size of the performance tranches and to shift indicators towards outputs and outcomes.
- Earlier Danish decentralization support (Uganda, Ghana, Tanzania) consistently used performance tranches linked to achievement by local governments of institutional development outputs. Recent cases of Danish supported local governance involving payments for results include the South Sudan Local Governance and Service Delivery Project (joint support with the WB) and the Local Governance and Decentralization Programme for Union Parishad and Upazila Parishad/Bangladesh, supported through UNDP. In both cases the payment for results approaches are designed specifically for the programmes.

4. Key issues in use of payment for results

This section outlines the main issues arising in use of payment for results, as identified from the literature¹¹. The issues generally fall within three categories: 1) How payment for results works in practice, 2) pre-decision factors, and 3) design and implementation issues to expect.

4.1. What is known on how payment for results work in practice

(i) A weak evidence base for documenting achievements and workable models

A paramount finding is that very limited evidence is available on the effectiveness of payment for results programmes, in spite of the popularity of the concept. As noted earlier, few programmes under implementation meet the criteria of the original ideas, such as COD, and most pay for outputs rather than outcomes. Practical experience with performance-based approaches are still mainly from sector and general budget support (Klingebiel 2012). There are few studies or evaluations from other sectors than the health sector. However, a number of more innovative payment for results programmes are currently in the early design and implementation stages, meaning evidence is set to improve in the next few years.

(ii) A mixed picture on the effectiveness of payment for results

The limited evidence shows a mixed picture in relation to the major question about the effectiveness of payment for results. The general indication points to limited success. DFID (evaluation) concludes that the (mainly output-oriented) payment for results programmes in health may have delivered short-term results for “simple and distinct and well-defined behavioural goals”, but the changes do not seem to be sustained for the long term. Their “perhaps most optimistic conclusion” is that any potential results are with respect to access to and use of services, rather than to broader health-outcomes, and the focus on access to specific services may displace attention to other needs (DFID, WP39, 2013). Henin and Rozema (2011) do not find evidence to conclude that payment for results (results based financing) has been a success in showing measurable progress. However, DFID observes that to look for an all or nothing answer on the effectiveness of payment for results may not be useful, given the huge variation in models, and focus

¹¹There is a long-list of studies of individual payment for results programmes, and a few “meta” studies that seek to synthesize findings from the individual programs. The present study mainly draws on the meta-studies (particularly DFID WP39, 2013; Perakis and Savedoff, 2015; and Henin and Rozeman, 2011).

should rather be on understanding better when and how payments for results could work.

(iii) Financial incentives may not work as expected, but chances exist that payment for results can work through the signalling effects and by generating transparency and accountability, if these opportunities are purposefully exploited

The argument that monetary incentives will stimulate recipients to achieve results is prominent in proposal and approval processes. But it seems mainly to serve as a selling-point, since it is pushed into the background during implementation, where it does little to explain actual dynamics (Perakis and Savedoff, 2015). It may further be argued that financial incentives may work in relation to organizations and individuals, but actions by governments are generally driven more by political-economy factors than by financial incentives. Incentives will also be less likely to influence performance in low-income countries where systems of social service delivery are basically malfunctioning (Klingebiel¹² DFID 2013; Vahämäki, Schmidt, Molander, 2011).

There is stronger support in evidence for the theory that payment for results affects results achievement by providing a signal that focuses management and political attention towards the results. Perakis and Savedoff (2015) found the signalling effect to be the most important feature when looking at evaluation reports and talking to people in implementation, since linking funding to results makes the results “visible and salient” in ways that conventional aid does not, and draws the attention of managers and politicians, irrespective of the payment being large or small.¹³

It is difficult to test the hypothesis that greater partner discretion in implementation improves result achievement, since few programmes are hands-off in reality, with the often significant donor preparation work, and the fact that most payment for results initiatives are implemented alongside other capacity development and implementation support programmes (Perakis and Savedoff). Neither has the use of transparency and accountability as levers for strengthening results achievement in reality been exploited in payment for results programmes, so also this theory is difficult to test. Gelb and Hashmi (2014) found many missed opportunities, for instance by publicising disbursement indicators and pro-

¹² There is a vast array of factors that affect implementation in practice, beyond simple contracting out and paying for results. What is actually implemented is the result of the role and decisions of actors at very decentralised levels. This is beyond incentives – hence not just design – since everything always implemented in context with other programmes. This means that many PBR schemes in practice develop very differently from the originally envisages (DFID, WP39 p.8).

¹³In discussions about their next general budget support programmes in Tanzania, several donors emphasised how they considered the role of the variable tranche in sending a signal more important than providing an actual incentive.

vide a space for civil society to monitor and strengthen domestic accountability in PforR operations (Gelb and Hashmi, 2014).

4.2. Pre-decision considerations

A number of issues play into the question of whether a payment for results-approach is relevant for support to a programme or an actor, as well as the possible unintended consequences to consider. These issues are relevant (with section 2.2.) in the assessment of whether or not to use the approach in each case.

(iv) Varied scope for payment for results across thematic areas and actors

The scope for using payment for results varies across sectors and issues. Sectors like health, education, and infrastructure are more amenable to payment for results, given that linkages from service delivery outputs to outcomes tend to be more direct. The scope for payment for results is more limited in governance and private sector development, given the wider set of actors normally involved, and the requirements for more coordination in efforts to deliver the often higher-level, thematic sector outcomes. It is more difficult in the latter sectors to establish meaningful composite measures for indicators, and to find agreement on these among the larger set of stakeholders. But in areas like public financial management, fiscal decentralisation, statistics, and monitoring and evaluation, use of payment for results would be easier (Klingebiel, 2012). Some experimentation with results-based financing is also taking place in energy and climate.

(v) The nature of the development issue matters

The scope for using payment for results also varies according to the kind of development problem being tackled, both within and across sectors. For instance, public sectors in many developing countries suffer from what some call a “missing-middle” in the systems of service delivery, whereby limited capacity cannot be overcome by funding¹⁴. The promise of a reward cannot influence outcomes if the binding constraints are weak capacity, poor coordination, and other institutional obstacles (which is why DFID requires an analysis of whether paying for results is capable of addressing the development problem before deciding on its use). Also, payment for results is relatively more difficult to apply to initiatives aiming to support institutional change and capacity development. Many view payment for results as inappropriate for fragile states, where basic capacity and commitment to respond to the financial rewards are lacking, though CGD argues for the contrary (CGD Brief, 2013, Gelb).

¹⁴ E.g. ODI in 2010 published the study “Sector Budget Support in Practice” with a key message about the “missing middle” to signify the critical gap in capacity and systems between central-level policy and spending decisions and frontline service delivery staff the main constraint on service delivery improvements. The “missing middle” still constitutes a constraint, which financial incentives can not necessarily overcome.

(vi) Risks of distorting the development focus and low sustainability

Payment for results may risk distorting the focus of service providers towards the narrow service delivery targets being measured and rewarded, regardless of whether these are the most critical for the actual development needs. It creates a bias towards easily achievable, quantifiable, and short-term targets at the expense of quality, and sustainability. This leads some to call for “exit strategies, follow-up, capacity building, and guarantees from the recipient” (Vähämäki, 2011; Klingebiel, Henin and Rozema, 2011). Generally speaking, distortions will be larger when a more limited number of indicators are used, and the measure in practice becomes the objective. Quantifiable indicators may further encourage gaming, misreporting, and “cheating” for the sake of meeting the targets (DFID, WP39).¹⁵

(vii) Managing social, environmental, and fiduciary risks

Support provided through payment for results can involve social, environmental, and fiduciary risks to the same extent as conventional aid, but especially in case a hands-off approach is used, the risk management tools and strategies are not so evident. They may also develop into reputational risks for the donor. For instance, corruption is endemic in public sectors of most developing countries, and the high fiduciary risks will affect all areas including those funded by a financial reward. There may also be risks that the partner ignores (other) social costs when implementing its policy or programmes to achieve the agreed social results, or it may compromise environmental standards or human rights in the process (Klingebiel). There are varied positions on how to deal with these risks under payment for results. Some see it as a major limitation of the payment for results instrument (Klingebiel; Gelb and Hashmin). It has been a major concern in the WB where the PforR is restricted to “lower risk” sectors. The EU applies the same strong principles on good governance and human rights to payment for results support as to conventional support. The opposite proposition is that if payments equal the accurately calculated costs of the agreed results, then paying only for results logically substitutes for fiduciary safeguards (Gelb and Hashmi). Which of the two positions to adopt essentially seems a policy question for the donor.

(viii) Significant design and implementation management costs

Payment for results may seem attractive to donors because of the perceived low costs in the form of time and resources of donor staff and systems for planning and managing the instrument. In theory, the only tasks for the donor are to decide on results and payments and then wait for results to materialize and pay depending on the performance. Contrary to the perception, messages from across donors and studies are that payment for results programmes are at least as burdensome, difficult and complex to design and implement

¹⁵ In DFID’s support to education in Ethiopia, efforts to reduce cheating had the effect of a region losing out on the results-financing, creating a perverse incentive

as conventional aid programmes. The experiences of DFID and the WB (section 3) confirm this. Henin and Rozema (2011) observe that results based aid may turn out to be more expensive in terms of transaction costs than classic project assistance due to the needs to do detailed analysis of the problems, establishing the baseline situation, the technically complex and lengthy processes of defining and agreeing results, indicators, and targets (see (xi) below), and subsequently measuring progress.

4.3. Design and implementation issues

A final set of issues arising will confront donors in the design and implementation stages of payment for results support. Donors should be prepared to work with these if a decision is made to engage in a payment for results initiative.

(ix) Mobilizing time and skills for defining results and disbursement mechanisms, and measuring results achievement

The perhaps most fundamental requirements under payment for results are clearly defined and agreed measurements for the agreed results, and unambiguous and credible mechanisms for deciding to disburse payments or not. The tasks involved in meeting these requirements normally are highly demanding with regard to the technical analysis, ability to craft mechanisms, and the process of negotiations with partners. It is not always evident how to break down a given development issue into a set of specific and measurable results, particularly in governance, private sector development, and environment. It requires a combination of specialist and negotiation skills, which may not be in place at embassies (a general challenge noted by Gelb and Hasmin). The establishment and collection of baseline information is often difficult, since national statistical institutions may not have reliable data or suffer from weak capacity, making capacity development and additional information gathering necessary. Weaknesses here can lead to discussions about progress later (Henin and Rozema, 2011). The design of payment mechanisms will involve dilemmas about what results and indicators justify as progress and release of payments versus concerns about ensuring predictability in payments. Ultimately, to define indicators and payments is not an exact science, so choices remain open to interpretation and discussion.

(x) Ensuring payment for results is part of a package of reform and wider support

A universal message from the studies and donors reviewed is that payment for results programmes cannot stand alone, but must usually be part of wider programmes or reforms to achieve the results. That package must include system strengthening support and where required address issues like sector reform, information systems, capacity building for financial management, administrative capacity, monitoring and control, and human resources (Henin and Rozema, 2011). Such package likely requires donor coordination. This follows from the points about the difficulty of financial incentives to work, when constraints are primarily about capacity and not motivation. It matches how pro-

grammes are working in practice. “PBR approaches never operate alone”, but are always part of a package of increased funding, technical support, training, new management structures, and monitoring systems, and often in a context of significant reform effort (DFID, WP39).

(xi) Decide a hands-off or hands-on approach

While a theoretical form of payment for results such as COD is hands-off in terms of the donor engagement in monitoring, dialogue, and implementation support, in reality few payment for results programmes are hands-off. As observed by Klingebiel, reality is often too complicated not to get involved. Cases such as Norway’s Amazon Fund and DFID education support in Ethiopia (Box 4) were intended to be hands-off, but even the latter leans on other DFID support to the sector. Under the WB’s PforR there is no intention of being disengaged. Even DFID’s strategy speaks of the need for capacity development alongside the payment for results. If (like in PforR) the focus is not only on services but also systems (for sustainability of services), then more complex and direct donor engagement is needed. There is also a question of defining what hands-off means. When recipient capacity is low, keeping hands off implementation may not be feasible (Gelb and Hashmi, CGD). It will have to be considered whether to follow a hands-off approach, or whether to engage actively in dialogue, monitoring, and institutional strengthening, such as in conventional support.

(xii) Address new requirements to donor capabilities and systems

A number of donor documents and studies discuss requirements for donor management set-up and capabilities, which they point to will shift as a consequence of introducing payment for results (DFID strategy, Perakis and Savedoff). The donor budget management and disbursement systems will need to be able to accommodate the more unpredictable and fluctuating disbursement levels, which follow making payments based on results achievement. Several also speak of the need for new types of staff competences, such as in investor and commercial capabilities, which may not be present among long-time civil servants. From experience, organizational cultures must be adjusted to address the habit of staff of focusing on inputs and processes as opposed to results only. The fact that DFID’s strategy defines the task to build own staff competences as one of two main action points in its strategy underscores this points.

(xiii) Invest in learning and partnerships

A consistent message across donors and studies is the need to improve learning and further develop instruments under the payment for results heading. The huge variety in mechanisms makes it important to better understand disadvantages and advantages of the various designs, and under what circumstances they will work (DFID). There are some initiatives to move forward on the joint-learning and a shared effort to further develop the approaches, but they seem scattered and not formalized. OECD/DAC does

not appear to have an established platform on payment for results.¹⁶ More widely there do not seem to be established knowledge networks directly focused on payment for results, but think-tanks having focused on the issue include the CGD (has played a leading role in defining and developing the approaches conceptually); Overseas Development Institute; the German Development Institute (DIE); and Christian Michelsen Institute. Moreover, the WB's Global Partnership for Output-Based AID (GPOBA) was established by DFID as a broad-based knowledge platform, and also aims to work with external actors including donors (funders include Sida, Netherlands, Australia).

¹⁶However, a “technical workshop” on results-based funding took place in OECD/DAC May 2014 with participation from several of the so-called like-minded donors. See the <http://www.oecd.org/dac/peer-reviews/technicalworkshopenresultsbasedfunding.htm>.

5. Conclusions

This study concludes overall that the payment for results approach could in certain respects add value to Danish development assistance. *Payment for results would best be introduced into Danish development assistance as a cross-cutting approach, grounded in general principles and criteria, with specific interventions decided case-by-case, depending on context, type of partners, expected results, and theory of change. The number of instances where the approach could be used immediately is likely to be limited, but opportunities could improve in the coming years. It should not be expected that introducing payment for results would lead to a major transformation in how Danish development assistance is provided. Challenges in implementing the approach must be expected, particular relating to high transactions costs.*

This overall conclusion is substantiated by the further conclusions set out below.

If designed purposefully, the introduction of payment for results could contribute to results-achievement at partner/programme level, provide a Danish entry-point to platforms of discussing innovative aid approaches and send important signals about the emphasis on results and value-for-money in Danish development assistance:

- Used in selected programmes and organizations, it could provide tangible signals to political leaders and managers to attract their attention to agreed outputs or outcomes, reinforcing effects of other development support provided to such programmes and organizations
- If designed with an emphasis on boosting transparency and accountability it could promote results achievement by ensuring public attention and debate on results, thereby also supporting the Danish human rights based approach
- It could provide a platform for the MFA to engage with trendsetting donors and new development actors, such as firms, philanthropists, investors, on new approaches to aid, to shape future agendas on aid instruments
- It could help manage risks of low value for money if by design Danish funding were only provided in proportion to results actually achieved
- It could send a signal to partners and to Danish tax payers about a new, stronger Danish position on achievement of results in Danish development assistance

However, some of the claims made by proponents about how payment for results would add value are not supported by the available evidence. There is limited evidence to support the hope that payment for results on its own will effectively lead to better results achievement than conventional aid, and contrary to expectations, donors and partners should expect significant transaction costs, and not higher aid effectiveness.

At least for government partners, financial incentives are not likely to influence the behaviour as expected. These expectations therefore do not provide a solid rationale for introducing payment for results in Danish development assistance, though it is still early days for implementation and learning.

Should payment for results be adopted by the MFA, the general approach and specific models would have to be decided specifically for Danish development assistance, since there is not a fixed menu of generally applicable payment for results “models” to pick from. Choice of general approach would have to reflect a decision about overall purposes and expectations of adopting payment for results by the MFA, and an early prioritization of the kind of partners to support via payment for results would make next steps in developing the approach easier. At the level of specific interventions, the relevant design options would depend on type of actor, issue or sector, type of expected result and the specific definition of the theory of change. Box 1 could be used for considering design options in a structured way.

Payment for results would best be introduced by the MFA in the form of a cross-cutting approach, grounded in a broad definition of the concept. A cross-cutting approach would enable the payment for results approach to be applied where most relevant, and where the potential value-added outweighs the costs and risks. That would make it important to define clear principles and criteria for use of payment for results. Moreover, a broad definition of the concept would ensure relevance and flexibility for every kind of actor and programme. Using very specific and narrow definitions, and setting specific goals for the introduction of payment for results, would risk turning the instrument into the objective and lead to discussions on definitions rather than content.

Payment for results will not automatically be more development effective than conventional aid forms. That would be determined by the specific design, and there may be factors pulling in opposite directions. On the one hand, linking payments to national plans, combined with a hands-off approach by donors, will promote alignment and ownership. On the other hand, the high transaction costs in practice, and any unilateral donor approach would reduce harmonization and aid effectiveness. A joint-donor approach is critical for ensuring adequate leverage of payment for results, especially for donors whose support is of a smaller scale, and for aid effectiveness.

The three “frontrunners” follow different approaches to payment for results, and none subscribe in full to any of the popular concepts of payment for results. Each donor has developed a separate approach in response to differing needs and motivations facing their organizations. Denmark could duplicate parts, but not all, of any of the approaches full-scale. Noteworthy inspiration points for the MFA are the definition of payment for results as a supplement to their other aid instruments, use of general strategy notes to outline the approach, and emphasis on using guiding principles rather than specific models.

All three donors would be relevant as potential partners to the MFA at a general level in any further work with payment for results, but few specific opportunities for joint-programmes currently seem to exist. Most of the programmes are outside the Danish country/thematic focus, or at too early an implementation stage, though this could change in future. There are good opportunities to engage at a general level and in international platforms, and also to look for opportunities with Sweden and Germany.

The MFA should expect to face a number of general challenges in case payment for results is adopted in Danish development assistance. These relate to:

- Identifying partners and programmes in Danish development assistance that are relevant and ready for support via payment for results
- During design and implementation, the need for a significant input of staff time and technical skills to set up the programmes and to define and negotiate criteria and payment mechanisms, underlining the importance of a joint-effort with other donors
- The early stage of the approach and the limited experience with the innovative payment for results forms make payment for results a risky investment, due to weak understanding of what works best and how payment for results should best be designed and managed
- Lower disbursement predictability, hence a need for the MFA's budgeting approach to accommodate this
- Depending on the specific approach, results-based funding into the treasury of a government involves the same kind of fiduciary, social, and environmental risks as other "un-earmarked" support, but less possibilities for the MFA to manage risks.

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Annex A: Donor cases of payment for results

Box A: PforR facts

- PforR commitments in the first two years must be limited to max 5% of the WB's total commitments, but already by 2014 accounted for 4,2%.
- The average financing of a PforR operation is USD203 million, larger than the average IPF financing.
- By end-2014, nine out of the 18 effective PforRs had been in operation more than a year, having disbursed on average 30%. The programmes are largely on track, according to the WB-TYR.
- Approximately one-third of the operations are in Africa and a similar level in Middle-East/North-Africa.

Box B: DFID – Facility for Results based financing for low carbon energy access

DFID funds the establishment of a Results-Based Financing (RBF) facility aimed at accelerating access to sustainable energy services in low-income countries (GBP 30 million). The facility should generate and test different forms of RBF mechanisms that stimulate decentralised energy markets for services avoiding or reducing carbon emissions. These may e.g. household biogas, watermills, solar pumps, and micro-hydro mini grids or household solar PV.

A central purpose is to leverage private investments for increased sustainable energy access, since decentralised energy technologies should be particularly amenable to private sector involvement. The RBF instrument designs will be context specific, and be generated in reaction to calls by the RBF facility. *(but presently it has not been possible to find descriptions of these RBFs).*

The Energising Development (EnDev) programme has the task of implementing the facility. EnDev is a multi-donor programme managed by GIZ (funding from Germany, Netherlands, and possibly Norway via their Energy+). EnDev targets improved energy access, mainly through decentralised low carbon approaches, and has operations in 18 countries and a main unit in Frankfurt.

DFID's funding is earmarked only for 10-15 clustered RBFs in at least five low income developing countries, with guidance given to GIZ on selection of countries. The RBF funding is allocated through a challenge fund process directed at the EnDev country offices (and other GIZ offices with substantial energy programmes). It is a requirement to engage private sector, government and other relevant agencies/NGOs, as well as communities/potential users, in the design and implementation process of each RBF.

It appears only a 2013-review report is publicly available. At that time, 7 RBFs had been initiated in 6 countries, which was slightly behind the milestones set. There had been considerable delays in the disbursement of the output-based payments, since more time than expected was needed to set up local structures, monitoring procedures, and ensuring partners understand how the RBF works. The first private sector contracts should be implemented by early 2014. (November 2014 review not available).

Box C: GAVI – the Vaccine Alliance

GAVI was Norad's earliest PBR initiative (from 2000). Originally it worked by paying a reward (USD 20) per additional child vaccinated with DPT3¹⁷ compared to a baseline. Over time, it has developed into a new mechanism, the Health System Strengthening (HSS) support, which rewards for DPT3 and measles vaccinations combined and at a higher payment (USD 60/vaccination). The HSS also introduced other changes to sharpen the incentives for contentious performance improvements, a floating baseline to the best year since the start, paying the rewards only if overall vaccination coverage has also increased, and a separate reward for maintaining coverage above 90%. The HSS has a substantial element of traditional development funding, including an investment component, working along-side the payment for results.

GAVI is not guided by an explicit theory of change. While apparently several evaluations document the experiences with GAVI, none of these look at the PBR element in isolation according to Helland and Mæstad, but instead examine the effects of the PBR and traditional development funding together. Heland and Mæstad conclude that a mixed picture emerges on the question of the PBR has led to increase in vaccination coverage. Studies point in various directions, and results seem affected by choice of variables and base years.

Box D: Health Innovation Trust Fund (HRTIF)

Norway has committed NOK 2.1 Billion during 2007-2022 to HRTIF, which in 2014 had initiated 38 RBF pilot-programmes in 32 countries. Each programme has its own particular design, but certain features cut across all (drawing on Helland and Mæstad). In most cases incentives target the supply-side of the health system (health facilities, health workers, districts/provincial levels), but the demand-side is also being included, focused on payments to citizens and communities to use the system (via conditional cash-transfers). There are allegedly examples of RBA, such as Ethiopia where the national level is rewarded based on national service delivery results.

Indicators for payments tend to focus on the output-level (e.g. service delivery at health facilities, vaccinations, etc.), and in some cases on the input-level. They do not focus on outcomes. The payment schemes used are normally a fee for services, based on outputs (supply-side only). There is normally significant discretion in how recipients may use the funds received.

Data verification is experienced to be difficult, and for that reason much effort tends to be devoted to establishing reliable data collection and monitoring systems. There are concerns about the incentives to misreport, and often external actors like NGOs are brought in for verification. These are costly measures, however.

Experiences from the HRTIF are gathered in evaluations of individual programmes. According to Helland and Mæstad, most studies report positive impacts on the utiliza-

¹⁷ I.e. three doses of diphtheria-pertussis-tetanus vaccine.

tion of some, but not all, incentivized services. The programmes encountered problems relating to implementation, particularly with delays in payments (70% of pilots). This reflects the fee-for-service mechanism, which has no upper bounds, hence can run into budget deficits. There are also huge problems in data monitoring and verification, because of weak national systems. The level of verification in many cases has been much lower than required. Almost all HRTIF programmes remain pilots, and there are concerns in several countries about the real scope for scaling up, hence sustainability¹⁸.

Box 8: Energy+

This initiative was launched in 2011 as an international partnership to facilitate access to efficient energy services to all via renewable energy, renewed attention to energy efficiency, and to mitigate climate impacts of energy production and use. Like REDD+, Energy+ uses a three-phased approach, but no projects have yet reached the third phase where results-based payments are used.

The design of such projects are at the conceptual stage, and will be informed by Norway's preparatory work under the WB Energy Sector Management Assistance Programme (ESMAP).

PBR mechanisms are envisaged both as results-based aid to national governments and results-based financing to energy producers to leverage private investments in clean energy. Energy+ will do both via a mix of auctions, feed-in tariffs, power purchase agreements combined with public guarantees, credits, and grants.

There is no theory of change yet for Energy+, but apparently a fair amount of conceptual development. The causal pathway is expected to work by the increased visibility of the outcomes and high level of autonomy, but is said not to mention "incentives". Local interest to improve results is underscored as a pre-condition. Also mentioned is the particular feature of the energy sector where improvements require large and long-term investments. This may reduce the relevance of donor-funded PBR approaches, given their typically more limited scale and shorter horizons of donors.

¹⁸ Norway also funds Bilateral RBF schemes in Tanzania, Malawi, Nigeria, and India, but difficult specify the exact RBF element due to mix with other funding.

Annex B: DFID list of Payment by Results Programmes

Country or team	Project Name & link to Dev Tracker	Sector	Type of Payment by Results	Who gets paid for results?	Total programme budget (not all of this is Payment by Results)	Indicators being paid on
Climate and environment	Results Based Financing for low carbon energy access (part of the Carbon Initiative for Development)	Climate and Energy	Results Based Financing	Suppliers	£30.000.000	Results Based Financing incentives are paid out on the delivery of clean and modern energy products and services to households (in the form of clean cook stoves, solar lights, mini-grid connections etc.). A portion of payments in some cases are 1 year later linked to ongoing operation and maintenance.
Ethiopia	Pilot Project of Results Based Aid in the Education Sector in Ethiopia	Education	Results Based Aid	Government	£31.066.692	Additional sitter and passer of the grade ten national examination above agreed 'payment baseline', with a higher tariff for girls and children from emerging regions. The 'payment baseline' for a particular year will be the performance in the previous year.
Ethiopia	End Child Marriage Programme	Multisector	Results Based Financing	Suppliers	£9.999.995	<ul style="list-style-type: none"> • Number of girls in East and West Gojam estimated to have delayed the age at first marriage by a least one year • Percentage of girls age 15-18 first married by the exact age of 15 Output indicators are also used.

Ghana	Health Sector Support	Health	Results Based Aid	Government	£67.239.304	Annual weighted output and outcome indicators including number of deliveries with a skilled birth attendant.
Global Funds	Performance based funding for health systems strengthening' (part of GAVI Immunisation)	Health	Results Based Aid	Government	£154.000.000	Number of children fully immunised, and number of lives saved.
Global Funds	Health Results and Innovation Trust Fund	Health	Results Based Financing	Suppliers	£114.000.000	A wide variety of indicators are used which measure the quality and quantity of health services provided. These are tailored to the country context. They include: <ul style="list-style-type: none"> • Deliveries with skilled birth attendants • Number of children vaccinated • Number of children fully immunised • Use of modern birth-spacing methods.
Human Development Department	Girls Education Challenge Fund	Education	Results Based Financing	Suppliers	£354.999.986	All projects contain an element of Payment by Results through milestone payments on outputs, with a sub-set of 25 projects having additional payments tied to learning outcomes (measured by children's reading fluency and ability to do basic maths) or attendance at school.
Human Development Department	Payment by Results for water, sanitation and hygiene results	Water, Sanitation and Hygiene	Results Based Financing	Suppliers (three large NGO-led consortia)	£79.600.000	Outputs (4.7 million people gaining access to improved Water, Sanitation and Hygiene) initially, then outcome based payments (people continuing to use improved Water, Sanitation and Hygiene).

Kenya	Delivering Increased Family Planning Across Rural Kenya	Health	Results Based Financing	Suppliers	£30.999.999	The number of new voluntary family planning users served (for example by receiving family planning products or counselling.)
Nepal	Support to the Employment Fund	Employment	Results Based Financing	Suppliers	£13.999.997	Number of trainees who are earning a minimum income of Nepalese Rupees 4,600 (£30) a month six months after the training is completed.
Pakistan	Delivering Reproductive Health Results	Health	Results Based Financing	Suppliers	£30.000.000	£23 million of the programme is for performance-based contracts with two implementing partners. Payments are based on achievement of three Key Performance Indicators (KPIs). One of the KPIs, Couple Years Protection, is an outcome indicator in the log frame, and payment is weighted 70% and 60% for this indicator for the respective implementing partners. The other two KPIs are output-level.
Private Sector Development	Global Partnership for Output Based Aid	Multisector	Results Based Financing	Suppliers	£36.999.999	GPOBA supports a wide range of programmes but in each case the payment is made based on independently verified outputs that have been pre-financed by non-governmental (and usually private sector) organisations.

Research and Evidence	AgResults: Innovation in research and delivery	Agriculture	Results Based Financing	Private sector (local seed enterprises, food processors, agro-dealers, agribusinesses, pharmaceutical companies involved in R&D)	£25.000.000	Varies between pilots, e.g.: <ul style="list-style-type: none"> • For Nigeria aflatoxin biocontrol pilot, payments are made for every tonne of aflatoxin free maize. • For Kenya on-farm storage, payments are linked to volumes of low-cost storage capacity sold within a specific time frame. • In Zambia, payments will be made to food processors per tonne of maize using biofortified maize. • Additional pilots are being designed which would look at payments for a) numbers of poultry vaccinated against Newcastle Disease, b) per volumes of legume seed sold, and c) early stage R&D for delivery of a successful brucellosis vaccine in livestock.
Rwanda	Results Compact in Education (up to £9m as a part of the Rwanda Education Sector Programme)	Education	Results Based Aid	Government	£101.479.812	Annual payments are made for each additional child sitting the Primary Grade 6, Senior Grade 3 and Senior Grade 6 exams, against a 2011 benchmark. A one off payment will be made for each additional teacher competent to use English as a medium of instruction in 2014, against a 2012 benchmark. These are outputs used as a proxy for improved educational outcomes.

Sierra Leone	Support to the Women and Youth Empowerment Fund	Economic development	Results Based Aid	Government	To be confirmed	Improvement in pre-agreed results for women and girls, like increasing the percentage of women accessing micro-credit and reducing gender based violence.
Sierra Leone	Inclusive growth and prosperity grant	Multisector	Results Based Aid	Government	£42.500.000	<ul style="list-style-type: none"> • Improved health. Increases in the immunisation rate of children under the age of 1 (for diphtheria, pertussis and tetanus (penta 3)). We have also measured presence of skilled birth attendants during birth. • Improved education. Measured by the transition rate from primary school to junior secondary school.
Tanzania	Big Results Now in Education	Education	Results Based Aid	Central and local government	£60m	Improved education processes, outputs and outcomes. Indicators include national early grade reading scores, reliable fund flows, more equitable teacher distribution and open data release.
Tanzania	Malaria Voucher Scheme (part of the 'Support for Malaria Control' programme)	Health	Results Based Financing	Suppliers	£26.175.738	Number of insecticide treated nets issued directly to beneficiaries through the scheme?
Tanzania	Tanzania Rural Water Supply and Sanitation Programme	Water, Sanitation and Hygiene	Results Based Aid	Local Government	£150.000.000	Increasing access to clean water through increasing the number of functional water points above a baseline.
Uganda	Inception Phase of Social Impact Bond Pilot: Sleeping Sickness in Uganda	Agriculture	DIB	Investors	To be confirmed	<ul style="list-style-type: none"> • Number of cattle treated. • Reduction in prevalence of parasite determined by blood sampling.

Uganda	Results Based Financing in Health (part of the 'Post-conflict Development in Northern Uganda' programme)	Health	Results Based Financing	Clinics and hospitals	£11.800.000	Improvements in pre-agreed health outputs (quantity and quality) such as: <ul style="list-style-type: none"> • Safe delivery • Full immunisation • Treatment response times. These outputs are used as proxies for the outcome of improved health.
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Annex C: World Bank Programme for Results – by Danida country

Country Name	Operation ID	Program Documents
<i><u>Approved Operations</u></i>		
Bangladesh	P129770 2014	Enabling Open Government <i>Assessments:</i> Environmental/Social Fiduciary Technical
Burkina Faso	P132216 2015	Public Sector Modernization Program <i>Assessments:</i> Environmental/Social Fiduciary (annex 5) Technical (annex 4)
Ethiopia	P133592 2014	Local Government Development Program II <i>Assessments:</i> Environmental Fiduciary Technical
Ethiopia	P151432 2015	Enhancing Shared Prosperity through Equitable Services Program <i>Assessments:</i> Environmental/Social Fiduciary (annex 5) Technical (annex 4)
Kenya	P131305 2013	National Integrated Safety Net Program <i>Assessments:</i> Environmental Fiduciary Technical
Kenya	P131305 2015	Statistics for Results Program <i>Assessments:</i> Environmental/Social (annex 6) Fiduciary (annex 5) Technical (annex 4)

Mozambique	P124615 2014	Public Financial Management for Results Program <i>Assessments:</i> Environmental/social Fiduciary Technical
Nepal	P125495 2012	Results-Based Bridges Improvement & Maintenance Project <i>Assessments:</i> Environmental/social Fiduciary Technical
Pakistan	P132234 2013	Punjab Governance and Service Delivery <i>Assessments:</i> Environmental/social (part 1) (part 2) Fiduciary Technical
Tanzania	P118152 2012	Second Local Government Support Project <i>Assessments:</i> Environmental/social (part 1) (part 2) (part 3) (part 4) (part 5) Fiduciary Technical
Tanzania	P147486 2014	Big Results Now in Education Program <i>Assessments:</i> Environmental/social Fiduciary Technical
Tanzania	P152736 2015	Strengthening Primary Health Care for Results Program <i>Assessments:</i> Environmental/Social Fiduciary Technical

Uganda	P117876	Support to Municipal Infrastructure Development
	2013	<i>Assessments:</i> Environmental/social (part 1) (part 2) (part 3) (part 4) (part 5) Fiduciary Technical

Pilots

Kenya	P1491129	Devolution Support Program
West Bank and Gaza	P148896	Local Governance and Services Improvement Program
Indonesia	P154948	National Affordable Housing Program
Indonesia	P154805	Energy Distribution Efficiency Program

Annex D: Development Impact Bonds (DIB): Background and status

To understand Development Impact Bonds (DIBs), one first needs to look at recent years' trend in "social impact investment" (SIB), which have emerged in developed countries – particularly the USA and UK - as a form where investors provide funds to implement social interventions, service providers work to deliver outcomes, and outcomes funders, primarily public sector agencies, repay investors their principal plus a financial return if independently verified evidence shows that outcomes have been achieved.

Based on inspiration from SIBs, an almost similar instrument in the form of DIB has been developed for use in developing countries. DIBs in theory share the features of SIBs above, but in addition involves donors to provide the outcome payment, or some portion of it, in partnership with a developing country government.

DIBs is meant to be a tool which can improve both the efficiency of public services in developing countries and the efficiency of donor spending. Its particular value-added is to help bring together the diversity of players involved in today's development scene, and use the best resources and expertise each player can offer to improve the quality and efficiency of social programmes and maximise social impact. Hence, it merges partner governments, donors, service providers, investors, and NGOs into a new constellation around a new purpose.

Like other results-based approaches, DIBs aim to align development funding more directly with improved social outcomes and increase the accountability of development spending. However, unlike other approaches, DIBs also provide a source of capital for interventions to be implemented in the first place, and allow governments or service providers to share risks with private investors. Its value over alternative results-based funding approaches relate to: i) access to finance, ii) incentives effectively to deliver results, and a iii) platform for development cooperation.

Currently however it is early days for DIBs in practice. The instrument has been proposed and developed as a concept by the Center for Global Development, but only a few actual DIBs exist so far. E.g. DFID is funding a DIB to tackle Rhodesian sleeping sickness in Uganda, but this appears to be the only case so far. As case in point, Brookings in 2015 published the study "The Potential and Limitations of Impact bonds; Lessons from the first five years of experience worldwide" (See also <http://www.brookings.edu/~media/Research/Files/Reports/2015/07/social-impact-bonds-potential-limitations/Impact-Bondsweb.pdf?la=en>) which in practice is limited to assess SIBs, since only one case of a DIB was identified.

Much of the optimistic expectations about the potential for DIBs are based on the surge in SIBs in developed countries. Here a significant number of SIBs already exist, and it is a

market expected to rise. J.P. Morgan and the Global Impact Investing Network in a study of 125 fund managers, foundations, and development finance institutions found in 2014 found USD 46 billion in sustainable investments, which represents a 20% rise compared to the previous year. A Social Impact Investment Taskforce under the G8 outlines policy steps to increase the impact investment market. This for instance includes requirements to pension funds to consider social, targeted economic, or environmental factors in investment decisions, as they affect the long-term financial performance of their investments.

A number of forums and actors are relevant in regard to DIBs. A “Development Impact Bond Working Group” has been established, and has provided recommendations on how to expand the use of the instrument, directed at each of the actors involved. Donors are for instance recommended to “make room for new partnerships to develop DIBs”, establish a DIB outcome fund as consortium of donors, and to convene and participate in DIB community of practice. Other recommendations target trusts and foundations, investors, and government in developing countries, intermediary organizations, and service providers. The Working Group has participation from actors such as CGD, Social Finance, UK Government, DFID, Swedish MFA, WB, and a number of large cooperation, financial institutions, and foundations (Rockefeller Foundation, Bill and Melinda Gates, etc.). It therefore represents a platform for discussion of new aid approaches with an alternative, but significant, constellation of actors.

Another initiative is the “Development Impact Bond Conference in London, 2014, to discuss the current status of the DIB market, organized by GRM International And http://www.grminternational.com/newsroom/news/development_impact_bond_conference_london_2014.)

In sum, DIBs represent an innovative new approach to mobilize funding for development and bring an alternative set of actors together around funding and implementing development interventions, which earlier have operated in separation. The concept is promising in theory, but so far is only beginning to be applied in practice, so there are no direct opportunities for Danish use of these, and very little concrete experiences to look at. Meanwhile, DIBs may expand, and the forums around DIBs provide a promising platform for Denmark to join, and to be part of the discussions and shaping of this new approach.

Annex E: Terms of reference

13 August 2015

Terms of Reference

Minor study on lessons learned from results-based aid approaches

1. Introduction

Results-based aid (RBA) is a form of foreign assistance in which one government disburses funds to another for achieving an outcome. Other terms, such as “Cash on delivery”, “Payment for results” and “performance contracts” are used to cover this type of aid characterised by a close link between the aid and incentives to produce results and document them. The main innovation of RBA is based on the introduction of a new conditionality concept: a contract between both partners that defines incentives to produce measurable results. If these results are achieved, the aid disbursement will be released. Another key feature of results-based approaches is the discretion of the recipient government to manage the inputs and the process towards results.

A part from applying results-based approaches in government-to-government cooperation, these can also be used by a government to fund outsourced services, for instance in social sectors. This may also apply to donor-funded programmes. Results-based approaches can in this way be used to engage the private sector and leverage additional funding through tools like development impact bonds (DIBs). DIBs provide upfront funding for development programs by private investors, who are remunerated by donors or host-country governments - and earn a return - if evidence shows that programs achieve pre-agreed outcomes.

In the Danish aid cooperation results-based approaches are being used in connection with budget support, where a variable tranche of the budget support is dependent on the progress in certain development indicators agreed with the recipient government. A few other examples of Danish contribution to results-based aid approaches have been identified (cf. Note in Annex 1).

Experience from other donors in recent years include most prominently the World Bank Programme Payment-for-results, but also Norway and DFID have some experience with this form of aid.

Documented experience on the achievements of results-based aid is scarce. The World Bank is undertaking a real-time evaluation of their payment-for-results

programme and Center for Global Development as well as some donor agencies have compiled some of the experience. A list of documents compiled in the preparation of the attached note and these ToR can be found below.

Furthermore, results-based approaches in Budget Support Operations have received some evaluative attention in a number of budget support evaluations and in MFAs compilation on lessons learned published in 2014.

2. Objective

This study should enable the Ministry of Foreign Affairs to take informed decisions on future involvement in results-based aid approaches based on the available evidence of this approach.

3. Output

A report of approximately 15-20 pages plus a 3-4 pages summary in Danish.

The report should include, but not necessarily be limited to, the following issues:

- Definitions and distinctions of results-based approaches
- Overview of the international experience with various types of results-based approaches
- Danish experience with results-based approaches
- Existing evidence on the added value and possible risks with results-based approaches
- Conclusions regarding the international experience
- Recommendations on possible increased Danish use of results-based approaches

The issues to be covered in the report will be decided in consultation with the MFA at a start-up meeting in the week beginning 24th August.

4. Inputs and method of work

A consultant will have 15 work days for the assignment. EVAL is contract holder and will together with TAS and UGS be engaged in the dialogue with the consultant. The draft report will be presented and discussed in a broader meeting in the MFA.

A part from the available documentation, a more systematic search for documentation with various donor agencies and development research institutions should be undertaken by the consultant.

MFA will assist in identifying possible Danish engagement in results-based approaches both in the bilateral and the multilateral programme.

5. Documentation (TBC)

Evaluation of Payment-by-Results: Current approaches, future needs. DFID Working Paper 39, January 2013.

Results-Based Aid (RBA), New aid approaches, limitations and the application to promote good governance, German development Institute, Discussion paper 14/2012

Does Results-Based Aid Change Anything? Pecuniary Interests, Attention, Accountability and Discretion in Four Case Studies, The Center for Global Development, Policy Paper 052, February 2015

Investing in Social Outcomes: Development Impact Bonds, The Center for Global Development and Social Finance Ltd. 2013

Payment by results: what it means for UK NGOs. Bond, 2014.

Sharpening incentives to perform: DFID's strategy for payment by results. DFID, 2014.

Basis for Decisions to use Results-Based Payments in Norwegian Development Aid. Norad Evaluation Department, May 2015.

Experiences with Results-Based Payments in Norwegian Development Aid. Norad Evaluation Department, May 2015.

Results-based financing has potential but is not a silver bullet – *Theory-based evaluations and research can improve the evidence base for decision making*. Discussion paper, Norad Evaluation Department, 2015.

A study on results-based payment approaches in the governance sector. ITAD for OECD-GOVNET, May 2015.

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Other Evaluation Studies

- 2010/1: Evaluating Aid Effectiveness in the Aggregate:
A critical assessment of the evidence
- 2010/2: Gender and Value Chain Development
- 2011/1: CCPA's Open Fun Football Schools Programme
- 2011/2: Agricultural input subsidies in Sub-Saharan Africa
- 2012/1: The macroeconomic impact of HIV/AIDS and HIV/AIDS
interventions
- 2012/2: Economic development and service delivery in fragile states
- 2012/3: Effective statebuilding? A review of evaluations
of international statebuilding support in fragile contexts
- 2012/4: Danish support to statebuilding and improved
livelihoods in Afghanistan
- 2013/1: Systematic Reviews Questions, Methods and Usage
- 2013/2: Lessons Learned on Gender Equality
- 2014/1: Review of Budget Support Evaluations
- 2014/2: Danish Exports and Danish Bilateral Aid
- 2015/1: Synergies between Danish Development Cooperation
and Commercial Activities in Vietnam
- 2015/2: Fairtrade Mark Denmark
- 2015/3: Lessons learned from Danish and other international efforts on
Countering Violent Extremism (CVE) in development contexts

