



# Scoping and Understanding Results-Based Payments in Governance: A Summary of Itad's Study for OECD

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**Development co-operation providers are increasingly using mechanisms that directly link the payment of their aid to the delivery of pre-defined results. Though frequently found in service delivery contexts (largely to do with the more easily measurable immediate results), increasingly this approach is being used to pursue governance reforms.**

The OECD's governance network (GovNet) commissioned Itad to undertake a study to explore this area, looking at theories and practical application. The study based its findings on analysis from a literature review, inputs of global technical experts at a roundtable workshop, and six in-depth case studies of results-based payment (RBP) systems in Bangladesh, Ghana, and Mozambique.

## Key Findings

The study identified three different RBP instruments in the area of governance: performance based grants systems (PBGs); budget support with a variable tranche; and 'hybrid' mechanisms.

### Main RBP Modalities in Governance

**Performance-Based Grants System:** these '*...incentivise improvements in performance by linking LGs' performance in pre-determined areas with both access to and the amount of funding.*' (UNCDF, 2010: 4). Numerous examples, many of which have been operating for ten or more years. Strong output-focus. Now increasingly being absorbed or reflected in 'hybrid' mechanisms.

**Variable tranches:** the discretionary, performance-linked portion of budget support operations. Usually between 10-30% of overall funding. Tied into a highly political dialogue over performance.

**'Hybrid' mechanisms:** Exemplified by the World Bank's programme for results (PforR). Operationally new and innovative, and crosses definitions. Has begun to reflect or absorb other approaches such as PBGs, with leading experts increasingly working jointly with funders in design, implementation, and evaluation.

### Other key findings:

- **Funding is not the key incentive that** led to RBP's success, though it does help to 'buy a seat at the table'. Success is based more on consistent dialogue and intersection of political motivations, such as the joint process of identifying bottlenecks to be addressed by the variable tranche mechanism in Mozambique.
- **PBGs instruments have delivered effective reform.** However, the evidence on the effectiveness of the other types of RBP mechanisms was far more limited, due to attribution challenges and the relative newness of some of the instruments.
- **Cost-effectiveness of governance-focused RBPs has not been established,** though some positive evidence is available. RBPs are often more expensive than other mechanisms, and, in the area of governance, require more person-time, due to the necessity for ongoing discussion at all stages.

While many of the specific conditions for success will be tied to each mechanism's context, **there were three factors consistently found** in all examples that delivered successful reform:

1. Meaningful dialogue between funder and recipient
2. Targeted capacity support
3. Reliable measurement and verification systems

## RBP in Governance: Design and Focus

**Governance-focused RBPs focus almost exclusively at output level results, which themselves focus on areas such as public financial management, and avoid ‘political’ reforms.**

The study looked at examples that had a strong focus on the delivery of process and output results, but a very limited focus on outcomes. Public administration and public financial management were the most common target we identified, with indicators on recipient capacity also being common. The study found that RBPs were far less likely to be used for delivering more political governance reforms. None of the examples of RBP in the governance sector identified in the literature review for example, focused on human rights and very few focussed on addressing women’s inequality.

The study found limited evidence of RBPs evolving from output to more outcome level results. However, in some cases, this was only aspirational, and others had not yet managed to achieve this evolution despite several years of operation. For example, in Ghana, capacity constraints in local governments did not allow this graduation to occur.

The level at which governance RBPs were found to focus is supported by expert commentary that governance RBPs should only focus at output level, as beyond this the mechanism is not able to operate effectively. In Mozambique, for example, an explicitly agreed focus on outputs with the government, ensured results were kept within their control.

This evidences a tension that we also found between the theoretical basis for using RBP can be used to encourage a focus on outcomes, creates space for innovation and competition, and gives recipients autonomy to act) and the practical, political reality of implementing such mechanisms in the governance sector.

### Common Characteristics

While each instrument is adapted to its context, the report did find some common features running across all three different RBP instruments assessed:

- upfront payments are common and range between 15 and 25% of total value
- capacity support is almost universal (and is an additional cost borne by funders)
- minimum conditions are common but vary in number, and tend to be focused on systems to enable the programme to operate
- the number of disbursement-linked indicators (DLIs) varies, but is usually between six and twelve.

The commonality of these characteristics, supported by evidence from interviews conducted in this study, demonstrates their utility to enable governance-focused RBPs to function. Once again, this is contrary to much of the literature on when and how RBPs can be most effective. For instance, if upfront funding is required this may mean, all else being equal, that there is less financial incentive to do things that they wouldn’t do otherwise. Similarly, capacity support reduces the clarity of ownership of, and accountability for, the results achieved (or not achieved). Some of these tensions are discussed in more depth below when different hypotheses for RBP to work are explored.

## Are Results-Based Payments Effective at Delivering Public Sector Reform?

**Evidence is mixed with respect to the effectiveness of RBP in delivering public sector reform. The evidence is strongest in relation to PBGS approaches but much weaker in relation to budget support and hybrid mechanisms.**

The study found strong evidence that PBGSs have delivered effective reform. Achieved results range from improved public financial management to increased own-tax generation and more spending in social sectors.

There is also evidence that performance-linked local government grants performed better against non-performance-linked funds. For example, the District Development Fund (DDF) in Ghana – a PBGS – was found to have delivered over 5000 development projects, and operated much more efficiently than a ‘sister’ fund. The PBGS in Bangladesh increased tax revenue by 105% as opposed to just 18% in other cases, and with higher citizen satisfaction.

However, in the case of the budget support and hybrid mechanisms RBP instruments, there was far more limited evidence available in the literature, due to lack of centralised data gathering, difficulties in attributing change to a specific modality, the relative novelty of some of the approaches and the longer timeframes for results to be delivered.

**RBPs are not appropriate for pursuing all types of governance reform.** While RBPs may be effective in delivering some reforms in the sector, the study suggests that they are not appropriate for pursuing all types of governance reform. Our analysis supports the assumption that RBPs are an inappropriate tool for targeting ‘developmental’ results such as empowerment or human rights.

These are hard to accurately and consistently quantify and measure, and can take a long time to come to fruition. Addressing these types of results should be done by looking at an overall portfolio of funding and non-funding approaches, and using an appropriate mechanism, or combination of mechanisms, to achieve leverage and reform from across this portfolio. A good example of this is how, via budget support, certain reward indicators are selected via the variable tranche, supported by the more political or developmental outcomes, linked to the other portion of budget support not contingent on results achievement.

Two useful points are worth bearing in mind in this regard: firstly, that RBP targets and rewards specific results, which are not the same as reforms; and secondly, that ‘you can’t buy reform’.

**The study found no evidence that gaming or distortion had occurred in the cases examined.** The study examined the risks of using RBP approaches, focusing on ‘gaming’ and ‘distortion’ as these are paramount in the RBP literature, including in a set of 12 principles<sup>1</sup>. Gaming is where results are inaccurately reported in order to receive greater payment than results achieved would equal; distortion is where RBP causes an over-focus on achieving payment-linked targets, as opposed to other, potentially more important results.

However, in the cases the study looked at no evidence was found that either had occurred (though it’s arguable that distortion can be hard to perceive, in some circumstances). The significant role that dialogue plays at all stages of the RBP process, and the frequency of funder-recipient interaction, seems to have helped avoid these issues.

**Cost-effectiveness of RBP is unproven.** The study attempted to examine the cost-effectiveness of RBP. While existing evidence and available data does not provide enough detail for a cost-effectiveness assessment, the study did find some initial evidence that RBP mechanisms can, and have been, cost-effective, especially PBGSs. While the costs of RBPs tend to be at least equal to, if not higher than, traditional instruments (due to increased staff time, capacity support and other factors), RBPs have the potential to generate greater results for these high costs.

## Understanding why RBPs can be successful - theory and practice

### ‘Success’ in RBP

Clarifying and identifying what success is in RBP is important, firstly because payments are contingent on achieving results, and also to ensure the use of RBP is an effective approach relative to other options. However, in the area of governance this is, in some cases, still unclear and a challenge.

Whilst the results frameworks and performance indicators are overall clear and practicable, decisions on success and the release of funds often become political. Due to the significant discussion between funder and recipient, the political nature of governance reform, and the complexity of context, a binary ‘pass or fail’ is very rare in such cases.

There is also the consideration of success in the wider sense. Whilst the specific results the RBP mechanism targets are those that link to funding, the ultimate aim is that these will contribute to improved developmental results – reduced poverty, improved livelihoods etc. Whilst it is not incumbent upon RBP to assess this as part of the mechanism, the choice of RBP as an approach must be looked at in combination with all other approaches in a given context to assess if this is adding value to the developmental agenda being pursued.

Drawing on the six case studies and the wider literature review, the study tested a set of hypotheses for using RBP adapted from the [framework put forward by the Center for Global Development](#).

### **Hypothesis 1: RBPs incentivise recipient decision-makers to do things that they wouldn’t do otherwise.**

Across the cases that the study looked at, there was some evidence that RBP did have an effect on influencing behaviour. For example, in the case of the Mozambique variable tranche budget support instrument, there was some evidence that the Mozambican recipient government moved from improving on paper only to increased government action. In the case of the PforR Bangladesh, the focus on results empowered reformers within the Bangladeshi revenue authority to implement a tax reform that was widely unpopular within government.

<sup>1</sup> Clist & Dercon (2014) 12 Principles for Payment by Results.

## Hypothesis 2: RBP Incentivises via Improved Accountability

Accountability can come from 'above', which may be to higher levels of government, and/or to funder and donors; and from 'below' where citizens hold implementers to account. In terms of upward accountability, there was some evidence from the variable tranche budget support instruments. For instance, in Mozambique, different government units were directly linked to different targeted results, and directors held accountable by central government for performance against results within their responsibility. In terms of downward accountability, the PBGS instruments provided clear evidence that this hypothesis holds. In both Bangladesh and Ghana, citizens pressured local governments to improve against PBG results indicators. The same was the case in the Afghan Performance-Based Governor's Fund.

## Hypothesis 3: RBP provides recipient decision-makers with discretion to innovate

The study found no evidence that governance-focused RBPs provide recipient decision-makers with discretion to innovate solutions, one of the supposed key benefits of RBP as a mechanism.<sup>2</sup> The predominant focus on process and output-level results leaves less 'space' for finding innovative solutions despite the mechanisms themselves potentially representing new and innovative ways of working. Indeed, in particular the third category of 'hybrid' RBP mechanisms were found to be innovative from the perspective of funders and implementers, 'a game changer' as the World Bank's two-year review of Payment for Results (PforR) states. The change in the dynamic between funder and recipient was noted as a particular example and labelled "from 'client' to 'partner'". As an aide memoire from one PforR operation states, they require 'a fundamental change in thinking'.<sup>3</sup>

## Hypothesis 4: Results information creates competition between peers

In a number of cases, such as the well-known Afghanistan Governors' Performance Fund, as well as the PBGS examples from Bangladesh and Ghana, an additional factor that had a significant effect was the publicising of government performance data, especially in comparison with peers, and the desire of individuals to avoid a negative perception. One mechanism, in Vietnam, uses only this pressure to deliver marked governance improvements.

## Beyond the hypotheses, the study found three fundamental practical factors that were present in all the successful examples the study looked at.

- The first factor – which many of those that we interviewed identified as the key element that RBP enables - is meaningful dialogue between funder and recipient. This is how context and political economy are factored into the RBP process, and is also why there is no simple 'pass or fail' process (which can be argued to have moved away from how RBP can best deliver). Governance-focused RBPs need to be recognised as highly political instruments.
- The second factor is the need for capacity support to help partners deliver, and in our Ghana and Bangladesh case studies, significant consultancy support was procured centrally, and to assist local government recipients. This again goes against the 'purist' RBP theory of focusing only on outcomes, and allowing recipients to deliver as they choose; it muddies responsibility for delivery.
- The third factor is the presence of reliable measurement and verification systems which all parties have faith in, to enable the fair assessment and reward of payments. Typically, Government-owned systems are used for data collection, though verification is usually contracted out to external suppliers.

**Whilst some initial conceptual tensions between RBP and Adaptive Programming exist, there are a number of strong potential linkages between the two.** Given the ongoing debates in the development sector about how to deliver effective institutional reform, the study also examined the degree to which RBPs are compatible with approaches to adaptive programming, in this case exemplified by Problem-Driven Iterative Adaptation (PDIA) .

Despite there being a seeming incompatibility between RBP – which is a *solution*, focused on pre-determined results – and the principles of adaptive programming – which suggest a need for problems to be the driving focus of interventions, and that results should emerge through iterative practice – there are some areas where the two may align and complement one another:

- PDIA's ability to identify problems where solutions like RBP can be best directed
- RBP's way of promoting dialogue
- RBP's ability to provide good data which can enable learning adaptation

<sup>2</sup> E.g. in Output-based aid (OBA), though this is service deliver focused, and similarly in social impact bonds (SIBs) there is little attention paid to how outcome-level result are achieved, and only these are rewarded.

<sup>3</sup> This change is reflected in popularity too. The initial 5% funding cap placed by the Bank (IBRD) on PforR, even if somewhat arbitrary, is projected to change to nearly 30% by 2019-20, much of this demand-led.

## Looking Ahead

Some of the key areas that warrant further exploration and closer analysis include to:

- Identify and draw out experience and learning from RBP examples where governance and public sector reform is achieved by initiatives that are primarily focused on other areas such as climate change, health, or education. This study only touched briefly on this, identifying one example of a health initiative that has shown promising results, and it is likely there are many more such examples across different sectors.<sup>4</sup>
- Conduct a large comparative case study testing the RBP hypotheses and practical success factors identified, as well as different context factors against a large sample of relevant initiatives. This will be crucial to better understand how RBPs can and can't work, depending on the context.
- Identify examples where RBP and PDIA (and similar approaches) link to one another, and demonstrate the practical ways in which this does happen, so that future programmes can benefit.
- Conduct a more comprehensive quantification and calculation of the actual costs of implementing an RBP programme or mechanism, as against the relative benefits, i.e. a detailed cost-effectiveness assessment.
- Investigate whether the more innovative forms of RBPs could be used to achieve outcome level results in public sector reform. PforR is already partially doing this but is still in early stages, so it may be a question of following some of the leading programmes and drawing learning from them. Development impact bonds (DIBs), which are currently only focused on service delivery programmes, are among other mechanisms to consider.

## Conclusion

There is a strong potential role for RBP in the area of governance and public sector reform. For this to be realised, a better understanding of how RBP works within different systems, contexts, and programmes needs to be developed.

RBPs are a solution that policy-makers must consider alongside the range of other tools and approaches available to them. In many cases, there will be possible alternatives that may incentivise reform without the use of funding as an incentive.

RBP can be highly effective at delivering certain results, but these tend to be administrative, and at output level. Therefore, there is a need to identify other mechanisms (including those from the area of adaptive programming) and address more complex, political, and higher-level outcome and impact-level results. RBPs work well for clear, easily measurable results, which is where the focus should arguably be.

It should also be recognised that, in the area of governance, the use of RBP is an inherently political process, and because of this, there needs to be strong engagement – practical and conceptual – on the part of funders. RBPs are not cheap, but if well designed and managed they can be a worthwhile investment.

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<sup>4</sup> <https://www.cordaid.org/en/topics/healthcare/result-based-financing/><https://www.cordaid.org/en/topics/healthcare/result-based-financing/>



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