RESULTS-BASED FUNDING
Key take-aways from a technical workshop

What is results-based funding?

Results-based funding involves a mechanism through which a funder is willing to make payments to an agent who assumes responsibility for achieving pre-defined results. Results are defined in advance and funding is only released upon the achievement of these results that are verified independently.

The rationale behind this approach is to link financing more directly with outputs and outcomes, rather than inputs and processes. The objective is to increase accountability and create incentives to improve programme effectiveness.

A considerable amount of programmes and pilots is currently being tested out or implemented. Results-based funding covers a variety of applications such as: Payment by Results (PbR), Payment for Results (PforR), Results-Based Lending (RBL), Performance-driven loans (PDL), performance-based aid for REDD+, performance tranches in budget support, Cash on Delivery (CoD), Output-Based Aid (OBA), etc. Synonymous with “results-based funding”, the terms “results-based approaches” and sometimes “results-based financing” are also used as umbrella terms in the literature.

Even though such programmes follow a common approach that links payment to results, their design can be differentiated by their funding target, the level of pre-financing and the targeted link in the results chain. Results-based funding encompasses contracts signed with partner governments or directly with implementers. The share of funding disbursed upfront and on delivery depends on the level of risk appropriate to transfer to the funding target. Partial disbursement for partially achieved results can also be agreed. Finally, results that can trigger disbursements can cover a large part of the results chain.

Results-based funding programmes have mainly been implemented in social sectors such as health and education. However, pilots are ongoing in the environment, energy and governance sectors too.

The following paragraphs will present key take-aways from experiences that were discussed during a technical workshop organised by the OECD Development Co-operation Directorate and the German Development Institute / Deutsches Institut für Entwicklungspolitik in May 2014.
SOME KEY TAKE-AWAYS

Setting up a corporate instrument: a cultural paradigm shift

Setting up a results-based funding instrument calls for a cultural paradigm shift. The management structure of a donor institution has to agree to put more weight on results and performance, possibly at the expense of reporting on processes and expenditures. Indeed, early experiences with the instrument illustrate that for results-based funding to be attractive, the “burden” of verification must be focused on the results and not double-up with detailed requests on expenditures. This means measurement and independent verification are crucial but also that an organisation will probably need to accept to have a more hands-off approach when looking at expenditure details. Focusing more on the outcomes than on the processes should allow for more flexibility and ownership from the partner to implement its programme.

Extensive internal and external consultations at strategic and technical levels can facilitate this “paradigm” shift. Indeed, consultations will support a better understanding and ownership of the instrument by the corporate management.

Designing an individual programme: a technical dialogue with the partner

Designing an individual programme involves identifying a government programme, negotiating key results, identifying needs for capacity support, designing indicators and assessing technical systems and risk aspects. The choice of funding mechanisms and possible capacity-building activities will result from the analysis and the discussions. Designing a programme is no longer a dialogue on process details but a dialogue on results. Good communication with all stakeholders during the design and implementation processes is also necessary to trigger creativity when implementing a programme.

Implementing results-based funding: spill-over effects on governance

Experiences in the health and environment sectors illustrate how results-based funding mechanisms do not only pay for measurable performance but also support innovation, creativity and a culture of problem solving. In that sense, they can be interesting in contexts where the road to outcomes is not clear yet. They will give the necessary flexibility for trial and error approaches. Access to results funding can also trigger transformative change processes such as participatory reforms with an increased recognition of the role of a specific stakeholder. Funds can also help consolidate and maintain the political will behind policy reforms. Finally results-based funding can have spill-over effects outside the programme intervention in terms of enforcing a results culture or at least a dialogue on results. Stopping doing business as usual for this instrument can affect the way stakeholders do business in traditional aid programmes.

Finding the proper incentives: more than just targets and indicators

Practitioners and experts agree that selecting targets closer to outcomes than to outputs reduce the risk of disincentives and of neglecting key dimensions of a programme – such as targeting the number of students at the expense of the quality of education for example. The fact that more results-based funding programmes are developed in the health sector is not a coincidence. In this sector, results can be easier to measure and to verify; donors know what to buy because outputs can be good proxies for outcomes.

The price or reward associated with these targets should stem from an extensive negotiation process between the donor and the agent. Indeed, the implementation risks shift from the donor side to the agent side with a results-based funding mechanism. Therefore, the reward can be designed as a financial incentive for the recipient to assume those risks. As baselines can affect the amount of payment, they should also be part of the discussion.
For these financial incentives to work, the recipient must trust that payment will be disbursed according to the agreed payment schedules. Measurement and verification mechanisms must be trusted, and targets should be specific, realistic and measurable. The recipient must also face the possibility of not receiving payment in case of insufficient performance. As donors usually face a strong pressure to disburse, it might be necessary to develop mechanisms that decrease the pressure for a programme manager to disburse funds for an unsuccessful project. Creating competition for funds or multi-year funds are possible solutions implemented by donors.

However, on the one hand, financial incentives are not the only incentives affecting performance. Additional accountability requirements, delays in disbursements, non-synchronisation of payments with country budget cycles, and turnover within the administration or the government can be disincentives. On the other hand, local or regional competitions for additional funds, peer pressure, public awareness, and synchronisation with the policy agenda can provide positive incentives. However, how non-financial incentives affect the behaviours of partner countries and donor institutions is a topic that deserves to be analysed further.

**Results-based funding: one of the tools in the tool box**

Results-based funding is one tool in the toolbox that helps to shift the focus towards outcomes but is not a silver bullet. Ideally, results-based funding should strengthen ownership and provide incentives to perform. However, the lack of incentives is not the only factor that weakens performance. For instance, if the agent does not have the necessary capacity to implement a programme, a results-based funded programme will not automatically provide the necessary solution on its own. In practice, results-based funded programmes are not implemented in a vacuum but usually serve to accelerate the pace of existing programmes. They are often add-ons to other programmes and can include or be implemented in complementarity to additional capacity building activities or technical assistance.

**Understanding how it works: the need for pilots and evaluations**

Even though many pilots are being implemented and some donors are scaling up the share of their budget allocated to this funding instrument, there is still a lack of evidence on whether and how this mechanism works compared to more traditional aid forms. Experiences from the health and environment sector underscore the importance of experimenting on small programmes to understand how each programme works before scaling up. Understanding how and why a programme works also implies launching more evaluations that include specific questions on the incentives schemes at partner and donor level and on the theory of change behind the instrument.
Further Reading

DIE/OECD (2014), Technical Workshop on Results-based funding, OECD

**Presentation of results-based financing mechanisms**

Asian Development Bank (2013), *Piloting Results-Based Lending for Programs*, ADB

DFID (2014), *Payment by Results Strategy: Sharpening incentives to perform*, DfID


OECD (2014), *Technical workshop on results-based funding, workshop report*

Pearson M., Johnson M. and Ellison R (2010), *Review of Major Results Based Aid (RBA) and Results Based Financing (RBF) Schemes*, Final report, DFID Human Development Resource Centre

Perakis R. and Savedoff W. D. (2014), *An Introduction to Cash on Delivery Aid for Funders*, CGD Note, Center for Global Development


**Sector specific readings**


