This document is submitted for INFORMATION under Item V. of the ACTT Agenda [DCD/DAC/GOVNET/A(2014)1]. This paper provides a summary of a publication GOVNET will produce in 2015. It outlines a study on Results Based Payment in development cooperation. The objective of the study is to provide better knowledge on the use of results-based payment approaches in the governance sector, with special emphasis on public sector reform programmes such as civil service reform, decentralisation and other efforts to strengthen public administrative effectiveness.

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Contact: Alessandra Fontana - Tel: +33(1) 45 24 90 21 - E-mail: alessandra.fontana@oecd.org

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Study of Results-based Payment Approaches in the Governance Sector
Room Document 6 - For information

Anti-Corruption Task Team meeting
3 November 2014, Paris
Study of Results-based Payment Approaches in the Governance Sector

Study Objective

1. The objective of this study is to provide better knowledge on the use of results-based payment approaches in the governance sector, with special emphasis on public sector reform programmes such as civil service reform, decentralisation and other efforts to strengthen public administrative effectiveness. In particular, the work is expected to:

   - Identify the different modalities of results-based payment approaches used in this area, particularly those that are more innovative;
   - Analyse the potential and risks of different modalities of results-based payment approaches;
   - Analyse the kinds of governance reforms for which different modalities of results-based payment approaches are more suitable; and
   - Propose conclusions and recommendations to be considered by the development community, particularly by GovNet and EIP.

2. The study seeks to answer four main questions:

   i. Which kinds of governance reforms are more amenable to being targeted by result-based payment approaches and which modalities are more adapted (if any)?
   ii. To what extent are results obtained by using these approaches (i.e. helping to foster development outcomes or impact)? What are the mechanisms and sets of circumstances under which results-based payment approaches can most likely result in behavioural change leading to long term impact?
   iii. Have there been unintended consequences of using such approaches and financing modalities that are intrinsic to their design?
   iv. Does the evidence enable a cost effectiveness assessment of results-based approaches as compared to traditional instruments (considering both donor and recipient perspectives)? Is there evidence that any of these results could have been achieved by using non-results based methods?

Focus for the 19th DAC Network on Governance Meeting

Introduction to the study and update for participants on progress to date;

Facilitated discussion focusing on three key questions drawing on participant knowledge and experience:

- What types of governance reform tend to lend themselves to which type of results based payment approach, and why?
- What are the key risks associated with RBP and how can these be mitigated?
- What opportunities exist for RBP in the governance sector that have not yet been explored?

Key Concepts and Definitions

3. The terms of reference for the study set out that key definitions would need to be reviewed, and re-presented, including for the governance sector, public sector reform, and results based payment approaches. The clarity of these definitions is extremely important as they will set the framing and
boundaries for the following phases of work in the study, and therefore the final reports, study and recommendations.

4. As expected, it has been very challenging to alight on a single definition for these concepts which is entirely satisfactory. The first draft of the inception report for the study was circulated to GovNet members, and received a substantial level of feedback, much relating to definitions. The definitions proposed below cover the most common elements found in the various different definitions identified from different sources, as well as giving us a framework which is specific enough to focus our enquiry and wide enough that we are able to include a sufficient level and number of examples at in the early phases of the assignment.

5. We are proposing the following definitions:

   **Results-based payment approaches** are mechanisms in which a funder (the principal) makes payment to an agent on the basis of them achieving pre-defined results (based on Pearson, 2011).

   **Governance** is defined as the traditions and institutions by which authority in a country is exercised. This includes (a) the process by which governments are selected, monitored and replaced; (b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for the institutions that govern social interactions among them (Kaufmann et al., 2010).

   **Results** are the output, outcome or impact (intended or unintended, positive or negative) of a development intervention.

6. A key issue, both in the wider governance literature, and reflected in the comments on the first draft of our inception report, is around whether governance is a process towards results such as service delivery or wellbeing, or is a result in itself. This is relevant both to the definition that is used for this study, and for consideration of typology and objectives of specific results-based payment approaches. The study will look to identify and assess how this challenge is addressed by the funders of specific results-based payment approaches, and what this implies for the opportunities and limitations of the modality.

7. The position the study will take is that we accept governance as being both and means and an end, and therefore that we will include examples that cover both types. We will be focused within this on how the funders and implementers of the results-based payment approach have defined results for their purposes, and to compare these across different examples.

**Analytical Considerations**

8. In attempting to progress from the overall definitions proposed, combining these in a way which meets what the TOR have set out, we have compiled a list of governance sub-categories from a number of sources, which relate to the public financial management aspect of governance. These ‘filters’ once finalised, will then be reflected in our following phases of work i.e. to shape our literature review and analysis, the survey, the case study methodology, and the final reports and recommendations. The sub-categories are:

   - Decentralisation;
   - Transparency and information;
   - Short route of accountability¹;

¹ The World Bank’s (2004) short route of accountability focusses on engagement between service providers and service users, for instance through citizens monitoring health service delivery.
● Long route of accountability\(^2\);
● Public Financial Management (PFM);
● Procurement;
● Revenue administration;
● Public administration and civil service;
● Anti-corruption organisations and institutions;
● Legal and judicial development;
● Human rights; and
● Women’s equality organisations and institutions.

9. There is another set of considerations, relating to the literature on results-based payments, that we will use to shape our data gathering and analysis. At first instance they will be directly reflected in the survey questions:

i. The nature of actors/types of organisations that receive payments (e.g. national governments, subnational governments, service-providers, investors);
ii. The level of result that is rewarded (e.g. inputs, activities, outputs, outcomes, impacts);
iii. The extent to which any up-front payments are made and by whom;
iv. The number of results or indicators that are rewarded;
v. The extent to which indicators remain constant or change over time;
vi. The extent to which targets evolve; and
vii. The extent to which the payments made are directly proportional to the results delivered, or based on some assessment of achievement of targets.

10. The categories and typology presented above also received considerable comments from members of the reference panel which we are still in the process of refining. This has presented a significant level of conceptual and practical complexity, as not only are the definitions themselves very hard to agree on in a way which adequately covers the different elements of this area, but the definitions and the sub-criteria above have different interactions and formulations depending on the context, and are mutually-dependent i.e. a change in one can imply a change in the other.

11. The issues around context also featured strongly in the comments that we received, and add another dimension to the definitions and sub-categories. In particular, comments suggested that context has to be considered both in terms of its effect in consideration, selection and design of particular results based payment approaches, and also at each stage of the implementation of the modality, meaning that there are likely to be comparative differences between broadly similar modalities in different contexts. This will be a key issue of consideration for the study, which we will look to analyse as far as possible.

Methodology, Timing & Progress

12. Two broad phases of study implementation are proposed, after inception has been completed. The first phase will consist of a literature review, interviews and a survey. This phase will focus on breadth of enquiry seeking to identify all relevant examples of use of results-based payment approaches in the governance sector. In this phase, patterns will be sought concerning what modality works in which areas of governance in which contexts. We will translate these patterns into testable hypotheses.

13. The main focus of the second phase will be on conducting three case studies, with a focus on in-depth study and analysis of these cases seeking to learn lessons that could be of relevance to the use of results-based payment approaches in the governance sector more broadly. It is our intention to test the

\(^2\) The World Bank’s (2004) long route of accountability focusses on engagement between government and citizens, for instance through citizen advocacy or elections.
hypotheses developed in the previous phase through the selection of relevant and potentially challenging cases. We will be developing the methodology for case study selection in early 2015 based on the results of our literature review and survey, and the objectives for the study. The case studies will be modality, rather than country-focused i.e. they may involve approaches that cover multiple countries, though we are unlikely to be able to travel to more than one country per case study.

14. A final peer-reviewed paper will be presented at the end of the study, with our Project Director Dr. Chris Barnett – Itad’s Technical Director, and Director of the Centre for Development Impact (www.ids.ac.uk/cdi) - overseeing the preparation of the paper.

Itad Team:

**Project Director:** Dr. Chris Barnett, Itad  
**Team Leader:** Jake Allen, Itad  
**Lead Strategic & Technical Adviser:** Angela Christie, Associate Itad Consultant  
**Technical Adviser, Results-Based Payments:** Sophie Tremolet, Tremolet Consulting  
**Governance Expert:** Florian Schatz, Itad.