



DEVELOPMENT CO-OPERATION TIPS TOOLS INSIGHTS PRACTICES

In practice

STRATEGIC SOCIAL PURCHASING

Key messages

Cordaid is seeking to expand the scope of strategic purchasing from health care to food systems and education. Strategic purchasing mechanisms such as performance-based financing (PBF) as a system strengthening approach generate a flow of verified health and education data from service providers by involving communities and local governance. This enables more efficient resource allocation and enhances social accountability. By involving communities and local governance, it makes human capital investments more inclusive.

Keywords

[Civil society](#) | [Crises, fragility and humanitarian assistance](#) | [Managing for Sustainable Development Results](#) | [Official development assistance allocations](#)

Key partner

[Civil society organisation](#)

Challenge

Fragile and conflict-affected settings are home to some of the largest socio-economic challenges, while scarce resources hinder human capital development. Strategic purchasing of services has gained the attention of conflict-affected, fragile states that lack credible, routinely collected data to inform resource allocation by governments and development partners. But strategic purchasing is not yet in wide use outside the domain of global health. [Cordaid](#) argues that strategic purchasing mechanisms can be explored in other social domains, including education and food systems. It is seeking to broaden the scope of existing strategic social purchasing efforts by reinforcing existing systems instead of supporting parallel and/or fragmented interventions.

Approach

In order to reduce the existing gaps in human capital in fragile and conflict-affected settings, Cordaid is expanding strategic purchasing through Performance Based Financing (PBF), which aligns purchased services with indicators of human capital development, e.g. child survival, school enrolment, quality of learning, healthy growth and adult survival. This is done by paying primarily for services known to be the

best predictors of future health, well-being and development, such as child immunisation, monitoring of nutritional status and school enrolment of the most vulnerable children, girls in particular.

Cordaid first implemented PBF in 2002 in a public health project in Rwanda. It expanded the scope of PBF to primary and secondary education, directly linking payments to health facilities and schools to their quarterly performance.

PBF allows for an evidence-based allocation of scarce resources. It contributes to the generation of continuous, verified health and education data from service providers, from the most local level upwards. Subsequently, the data will feed into a more reliable measurement of the composite indicators of the Human Capital Index at the national level. By consistently involving communities and local governance, and by giving them a central role both in the supervision of service providers and in the verification of the quality of services, these human capital investments will also make public systems more equitable and inclusive.

Results

Cordaid observed that relatively small but well-targeted investments led to substantial improvements in the services provided. Health and education services became more accessible, and the quality of these services improved. Three factors contribute to this improvement:

- The direct link between financing and verified performance creates a strong incentive to improve.
- Service providers are granted a high level of autonomy in deciding how to use the additional funds, boosting motivation and stimulating entrepreneurship.
- The resulting improvement in staff attitudes leads to increased investments into the quality of services, as health facilities use their PBF earnings for maintenance, purchasing additional medicines, equipment, etc.

In Ethiopia, where PBF was introduced in a rural health-care setting, hospitals saw substantial improvement in staff motivation, access to care, quality of care and reliability of data. With payments dependent on the outcome of patient satisfaction surveys, social accountability increased and local communities felt more engaged in how health care was provided to them. These positive effects were noticed by Ethiopia's Federal Ministry of Health, which intends to scale up PBF as a health financing strategy under the next Health Sector Transformation Plan (2020-25).

Lessons learnt

PBF has proved to be an effective and efficient financing modality that can be programmed in different social sectors to support human capital development. Critical conditions include the following:

- **National engagement is essential.** A “whole of government” approach is imperative for effectively tackling barriers related to co-ordination between line ministries.
- **The full chain of public service providers must be involved.** Well-aligned incentives are required for all stakeholders, including all decentralised actors. Each entity should be incentivised for elements of service provision and quality improvement that it can influence directly.
- **Strategic purchasing requires flexible design and constant adaptation.** As priorities in public health and education evolve, adjustments are necessary to ensure the best value for money.

- **Operating costs should be significantly less than the costs for incentives.** Once a data collection routine has been developed, it can be supported through electronic data applications. In Cordaid's experience this has meant savings of up to 75%, without critical loss of data integrity.

Further information

World Bank, *Human Capital Project*, <https://www.worldbank.org/en/publication/human-capital>.

World Health Organisation, *Promoting strategic purchasing*, <https://www.who.int/activities/making-purchasing-more-strategic>.

The Abidjan Principles, *Abidjan Principles on the Right to Education*, <https://www.abidjanprinciples.org>.

Cordaid, "Ensuring health rights and access to health services in fragile settings," *Achieving Health and Wellbeing for All*, <https://www.cordaid.org/en/topic/health-care>.

OECD resources

OECD, *Results in development co-operation*, <https://www.oecd.org/dac/results-development>.

OECD, *Managing for Sustainable Development Results: Guiding Principles*, https://www.oecd-ilibrary.org/development/managing-for-sustainable-development-results_44a288bc-en.

OECD, *Conflict, fragility and resilience*, <https://www.oecd.org/dac/conflict-fragility-resilience>.

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