

Results-Based Aid (RBA) and its Application to Promote Good Governance

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Acronyms

AoD	Aid on Delivery
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry for Economic Cooperation and Development)
CGD	Centre for Global Development
CoD	Cash on Delivery
CoP-MfDR	Community of Practice on Managing for Development Results
DFID	UK Department for International Development
EC	European Commission
EDF	European Development Fund
FY	Financial Year
GBS	General Budget Support
IFC	International Finance Corporation
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goals
OBA	Output Based Approaches
ODA	Official development assistance
PforR	Program-forResults
PPP	Public Private Partnership
P4P	(US) Pay for Performance
RB	Results-based
RBA	Results-based aid
RBF	Results-based financing
SBS	Sector Budget Support
WGI	Worldwide Governance Indicators

Summary

Results-Based Aid (RBA), or Aid on Delivery (AoD), as it is called by others, is a partnership between a development partner (donor) and a partner government (recipient). The key feature of RBA is the link between the aid intervention and strong incentives to encourage results. 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.

The international debate on RBA is dealing with a variety of different approaches in the field of development finance. Depending on the definition of RBA, some practical experiences already exist. This applies, for example, to performance tranches in the context of budget support. In other types of RBA (like for the Cash on Delivery concept introduced by the Centre for Global Development), practical experience is still missing.

The potential benefit of RBA depends very much on the specific approach and design. The discussion of potential advantages and disadvantages of RBA indicates a number of conceptual weaknesses for those RBA approaches aiming at specific results (“standalone RBA approaches”). There might be a significant risk of misincentives and non-systematic strategies if aid focuses on only one measurable and quantitative result. In addition, there is a “bias” of RBA approaches in favour of countries with a good performance. The likelihood of “good performance” (reaching results) is much more pronounced in those cases where countries have a good leadership structure, planning and implementation capacity and a functioning public financial management system.

Possibilities to identify measurable and quantifiable results are rather good in social sectors and several (basic) infrastructure related subjects. The governance sector is, in general terms, less favourable in this regard. It is quite difficult to identify appropriate objectives and independently verifiable measures in this area. “Political governance” issues seem to be not suitable for RBA approaches since it would be difficult to reach a consensus between contract partners on RBA core features (like specific results and measurable indicators). However, some other governance areas have some potential to be included. This applies especially to public financial management and (several aspects of) decentralisation.

1 Introduction

Results-Based Aid (RBA), or Aid on Delivery (AoD)¹, as it is called by others, is a partnership between a development partner (donor) and a partner government (recipient). The key feature of RBA is the link between the aid intervention and strong incentives to encourage results. RBA reduces the implementation role and responsibility on the donor side and strengthens the domestic accountability on the partner side for policies under the control of the recipient. 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; and if they are not, the aid disbursement will not take place.

RBA establishes a close link between aid disbursements and strong incentives to encourage development results. Approaches in this regard are intended to contribute to overcoming drawbacks of input-oriented Official Development Assistance (ODA) such as “no clear result evidence line”, heavy transaction costs of aid and the bypassing of national systems because of intensive use of donors’ implementing capacities. The aid effectiveness debate with its focal events in Paris, Accra and Busan has created a set of standards and principles in order to make aid more results-oriented. RBA is one major attempt to apply these aid effectiveness standards in a new model of aid relationship between development partners/donors and partner countries.

The present study provides an overview of the different types of results-based approaches with a strong focus on RBA and assesses the applicability of these approaches to the governance sector. However, the study does not aim to repeat existing definition efforts (see, for example, de Hennin / Rozema 2011 and Pearson 2011).

The author experienced two main challenges in the course of conducting the study:

First, the precise focus of the study depends very much on the terminology. RBA (or similar terms) is sometimes used to introduce a new way of thinking and doing development cooperation. In a rigorous sense (such as the proposal on Cash on Delivery of the Centre for Global Development), possibilities of using the concept might be rather limited because of several requirements and preconditions (such as the capacity to implement policies and a strong public financial management system). Sometimes the term is used rather to adjust existing approaches by a results orientation. In this case it might sometimes be more appropriate to stay with the original terminology instead of relabeling existing types of aid.

Second, the concept of Results-Based Aid was originally created in the context of social sectors and sometimes other areas of service delivery (access to tap water etc.). The task of the present study to apply the concept to the governance sector is, on the one hand, very

¹The term Aid on Delivery is used to some extent in the German debate with regard to results-based approaches. It is assumed here that both terms are identical to a large extent and therefore, the present study does not distinguish between RBA and AoD.

plausible and desirable. On the other hand, its application to the governance sector is much more complicated and, at least to some extent, not possible for a rigorous RBA approach.

The study focuses on RBA; this applies also to potential risks and weaknesses. Shortcomings, limitations and challenges which are relevant for other aid approaches are not discussed in the present paper.

The present paper is based on work for a study on RBA commissioned by the Policy Division Governance of KfW Development Bank on behalf of the German Ministry for Economic Co-operation and Development. The author has evaluated the international state of the art (research work, concepts notes etc.) and conducted a number of interviews with experts in Germany and abroad. The participation in events related to the subject (ODI workshop, 21 September 2011; OECD/DAC workshop in Berlin, 28/29 September 2011) has also contributed to the conceptual preparation of the paper. The Centre for Global Development (CGD) had kindly agreed to provide comments in the course of the study.² Even though the present study is limited to general considerations on RBA and governance, a number of interviews conducted for a case study on Malawi in September 2011 contributed to this general assessment on the use of RBA in the governance sector.

2 Conceptual basis

This section provides an overview of the conceptual basis of results-based approaches in general and of results-based aid in particular. It then presents different individual concepts and concludes with a critical assessment of results-based aid.

2.1 Results-Based Approaches

Definitions

Terminology is a challenge in the debate on results-based approaches. The key feature of these approaches is that payments are only made once a pre-defined result is achieved. In this regard results-based approaches differ from other aid approaches where funds are used to finance specific inputs for achieving results (e.g. schools to improve education, medical equipment to improve the health situation of the population, etc.). Results-based approaches should not be confused with results orientation because many approaches that finance inputs are also oriented towards results and indeed do achieve these results.

² The author wants to thank all interviewees and the CGD, especially William Savedoff for very profound comments.

Many terms and concepts are used in the context of the discussion of results-based approaches (output-based aid, performance-based aid etc.). Nevertheless, there is a growing international consensus on definitions (see, for example, Pearson 2011; de Hennin / Rozema (2011); Birdsall / Savedoff (2011)). Against this background the understanding of RBA in the present study is as follows:

Results-based approaches as a term cover a number of different concepts. Two main subgroups can be distinguished: (i) Results-Based Aid (RBA) and (ii) Results-Based Financing (RBF).

(i) Results-Based Aid (RBA)

In general terms, RBA is a partnership between a development partner (donor) and a partner government (recipient). 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. Aid disbursements or non-disbursements are directly linked to these independently verified measures of results. If these results are achieved, the aid disbursement will be released; and if they are not, the aid disbursement will not take place. It is necessary to agree upon a “unit price” in advance (e.g. how much aid is provided per student passing the final exam). Donors are not involved in the implementation process (“hands off”). The concept Cash on Delivery (CoD) is one specific form of RBA.

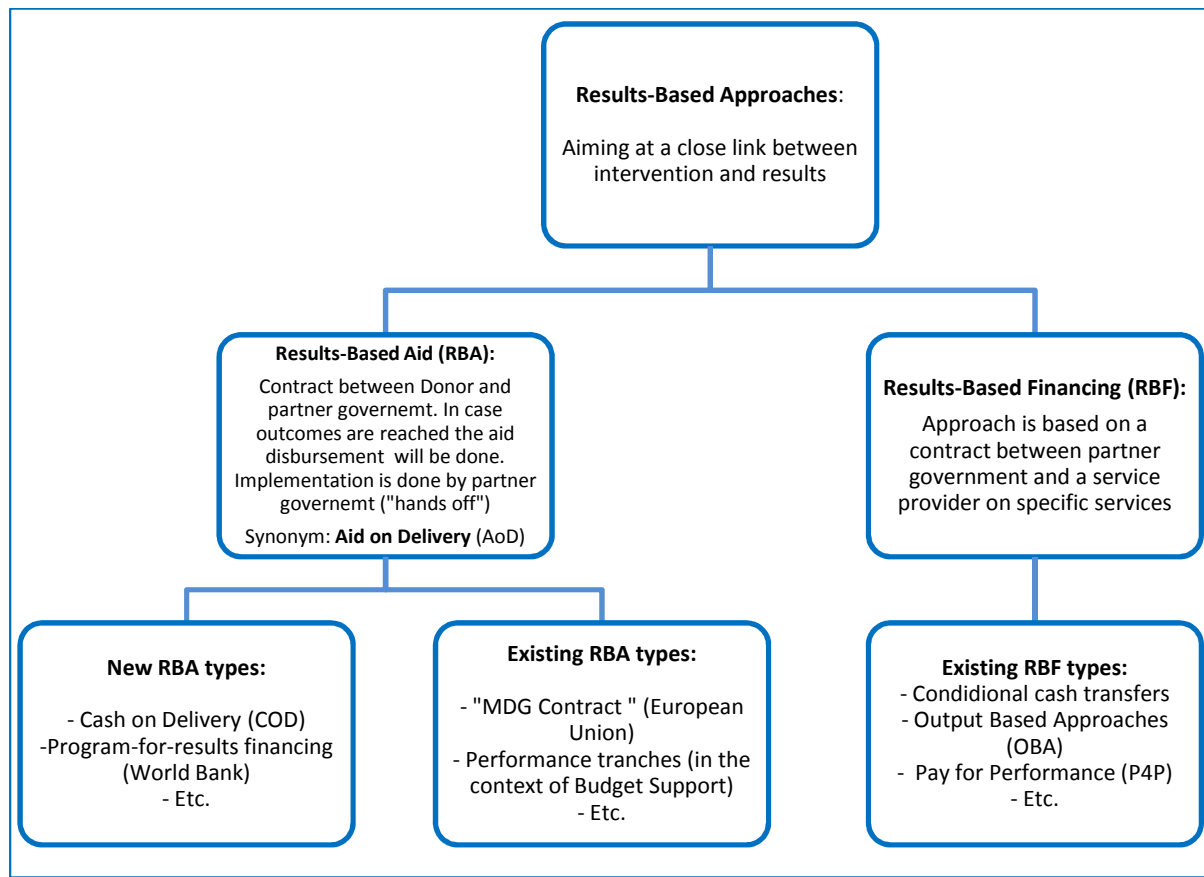
(ii) Results-Based Financing (RBF)

In general terms, Results-Based Financing (RBF) is based on a contract between an entity of the partner government and a service provider on specific services. RBF schemes include different types of services to beneficiaries like conditional cash transfers or voucher schemes. As in the case of RBA, a “unit price” is needed. RBF is not necessarily an aid relationship between a development partner/donor and a partner government /recipient. The funding for RBF schemes might come from aid or from domestic resources of the partner country.

In principle, a combination of RBA and RBF (RBA/RBF hybrid) is possible and – at least to some extent – applied in several cases (see annex).

The study focuses on RBA; in contrast, RBF approaches take quite a different angle in this debate and thus they are not dealt with in detail in the present paper.

Chart 1: Results-Based Approaches



2.2 Results-Based Aid

2.2.1 The RBA concept

Rationale for Results-Based Aid

The main rationale of RBA is based on the following three assumptions:

- (i) RBA can facilitate progress on key results because of strong incentives.
- (ii) RBA reduces transaction costs for aid. It requires fewer reporting processes; the national systems of the partner country concerned are used to a large extent.
- (iii) There is a strong country ownership of RBA programmes and the related policies to achieve results, since only the partner country is in charge of the whole implementation process to reach the agreed results. RBA clarifies the division of labour between recipients and donors and their responsibilities.

These assumptions might be plausible for a number of countries (especially good performers). However, practical experiences with new types of RBA like CoD are not yet available. Those approaches are still in their infancy. Available information mainly exists with

regard to performance-oriented Program-based Approaches (PBAs) (such as general and sector budget support, pool arrangements).

From inputs to results

The key characteristic of RBA is the link between aid intervention and strong incentives to encourage results. The main underlying assumption in this regard is as follows: In the past, ODA approaches focused mainly on inputs or processes, only in some cases on outputs. Examples of ODA interventions which are directly oriented towards results are rather rare.

To illustrate this kind of concept, the following example will be used to explain the main arguments:

Typical ODA interventions, for example, in the education sector focus on the provision of inputs necessary to achieve a desired result. Inputs in this regard might be to provide advice to the Ministry of Education in order to develop a new educational concept or a strategy for increasing school enrolment rates. On the investment side, an input-based intervention might be the funding of new primary schools or a specific target for a minimum share of the education budget in the total national budget (e.g. in the context of sector budget support). However, providing inputs does not always lead to the desired results, e.g. even with a lot of consultancies and investment in school buildings the school enrolment rates and the individual educational achievements of children might not increase. Reasons for this might be incentives on a household level to keep children at home or a ministry in charge of education which has had no real political will to implement an effective sector policy that ensures that schools are staffed with adequately trained teachers and equipped with teaching material. And even if the enrolment rate did improve after the donor intervention, it might not be possible to determine whether this success can be attributed to the donor intervention or whether it would have taken place as well without the donor support.

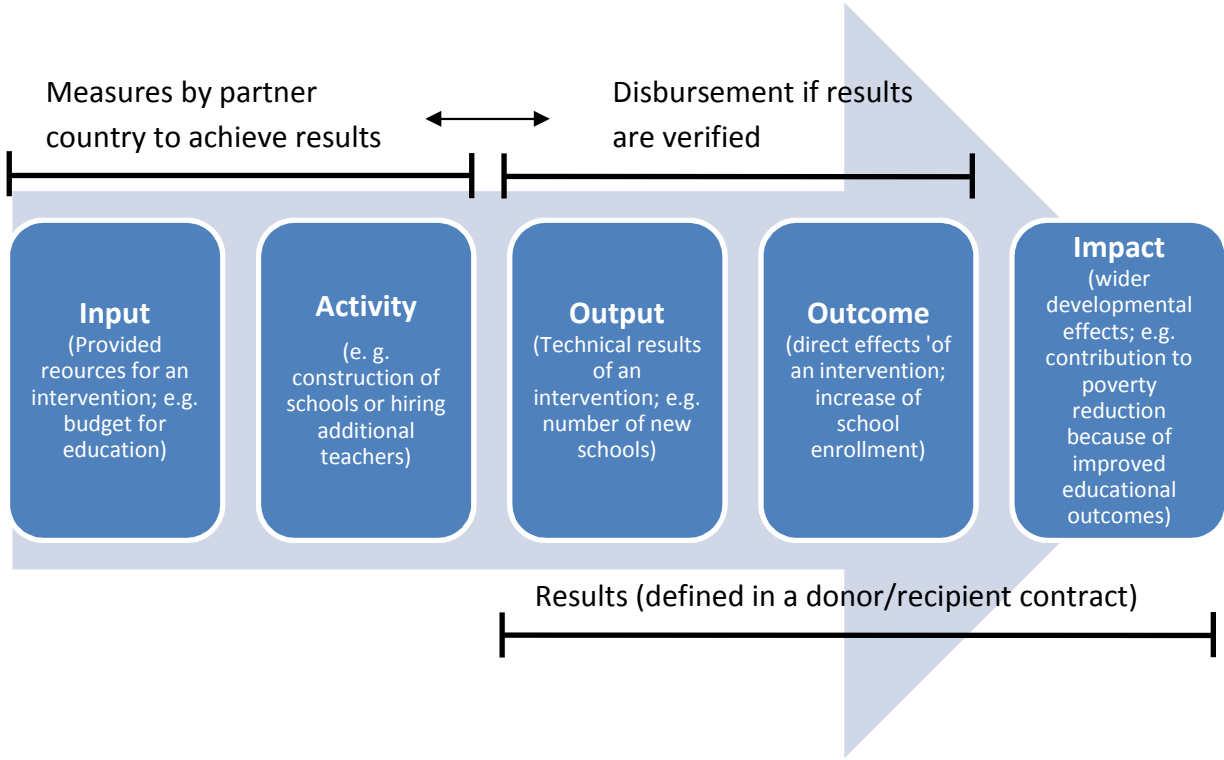
RBA tries to deal specifically with this challenge. At least on the level of the concept the link between the donor intervention and the aspired objective in terms of measurable results is close since the donor intervention might provide strong incentives for results.

In the present paper, results are defined as the direct and indirect effects of inputs and activities. We can distinguish between different levels of results. Outputs are normally technical results (for example, a newly constructed school). This output might lead to the next level: outcomes (for example, increase in enrolment rates because new school facilities are available). The most ambitious level of results is impact. Impacts are defined as the wider developmental effect (for example, poverty reduction because of improved educational outcomes).

In reality it might be difficult to always make a clear distinction between different categories of an impact chain. For example, depending on the point of view, an increase of a sector

budget share might be defined as an input (e.g. to give more priority to a sector).³ At the same time the increase of a sector budget share might be also regarded as a result. This result might be seen as an input on the next higher level of a strategy.

Chart 2: RBA: Impact Chain



Results orientation and results management in the framework of aid might be feasible in many regards. On a technical level, aid agencies have developed a number of tools for focusing on results (see World Bank 2011: 35 and CoP-MfDR 2011, for example). Examples include results focus in strategies, results-oriented planning and operations tools and M&E systems focusing on results.

Structure of RBA approaches

Results-Based Aid is organised mainly in three steps:

The first step of RBA is the preparation and finalisation of a contract between a development partner and the partner government. This step is crucial in several respects. (i) Both contract partners have to identify an area/sector/subsector or a specific objective which is important for the development process of the country and suitable for RBA at the same time. The selection process is probably a challenge in several regards. For example, sectors like education and health quite often receive more donor support than other sectors. If

³ "Finally, results could be defined in terms of inputs (e.g. allocating a minimum share of the budget to health, as is often the case in budget support mechanisms)." (Pearson 2011: 4)

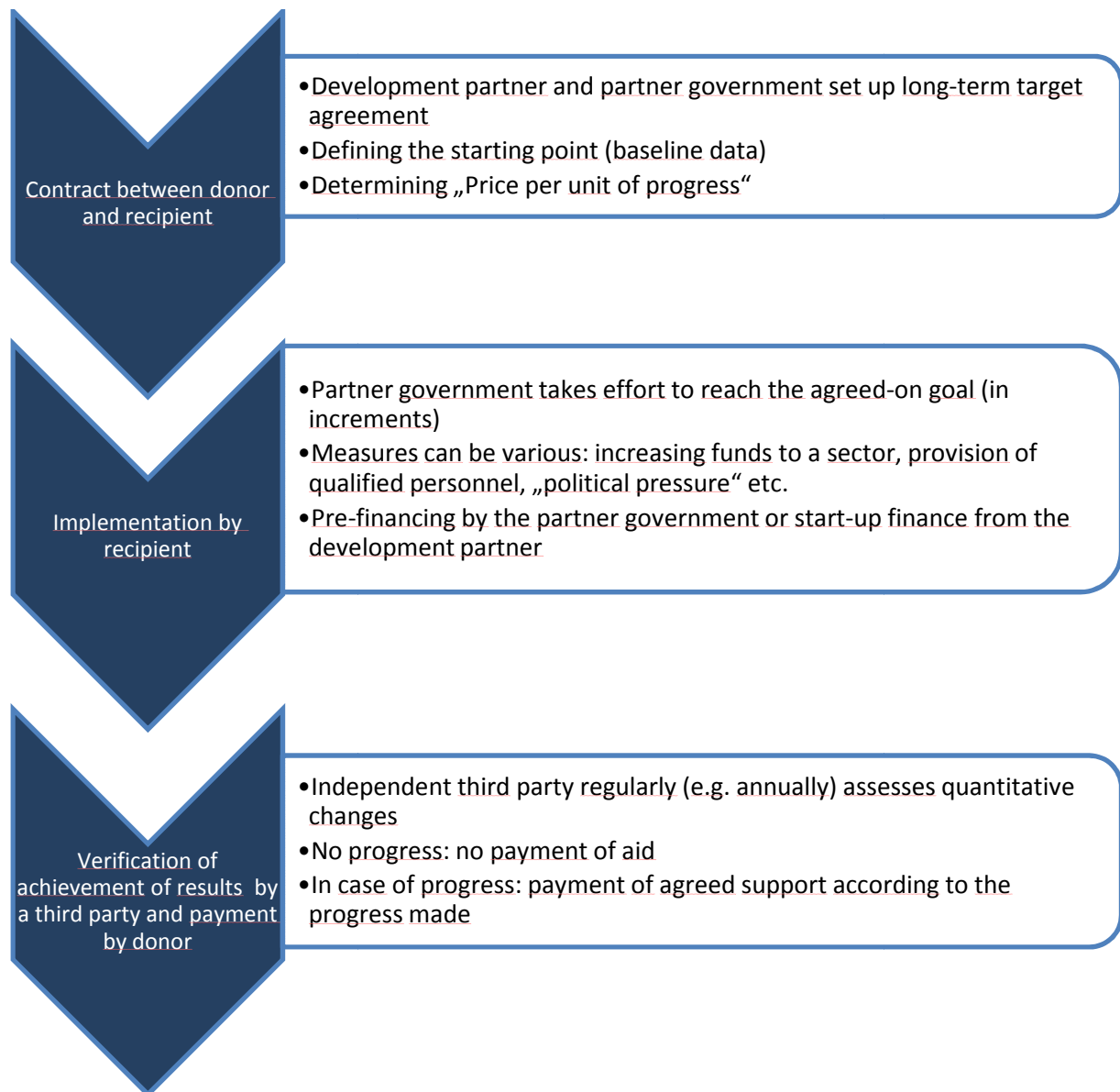
reasonable support in a given sector is available it might be difficult to identify a relevant “result” on the one hand and a situation where substitution of RBA supports by another development partner would not be a challenge on the other hand. For instance, if a donor is in principle ready to substitute non-disbursement by another donor in case of non-performance, the incentives of RBA will be diluted. Other important aspects are related to the duration of the contract and the sustainability prospects of the supported area (e.g. the question of how the partner country is going to deal with the situation after donor support might come to an end). (ii) The contract partners have to agree upon a measurable result and an appropriate indicator or set of indicators. Baseline data has to be available or collected. The data collection and data analysing process for the future have to be agreed upon. (iii) A “price per unit of progress” has to be identified. In addition, the contract partners have to discuss and agree upon a performance level for results that is appropriate (at what level do we reward, for example, “additional” students passing the final exam? Is the level achieved last year an appropriate starting point, or should we use an average of the last few years? etc.).⁴

The second step is characterised by the implementation of the activities that are necessary to achieve the results. The nature of activities might be different. One major bottleneck might be inadequate funding for a task, and the government might now be willing to provide more resources. Perhaps insufficient capacity is a major obstacle and the government would now agree to take specific remedial action (additional staff, training for staff, implementation of a retention strategy etc.). Other possible drawbacks might be related to an overall power game within the government. However, since aid disbursement now depends on results, it might have an impact on internal decision-making processes. All in all, the partner country is in charge of the whole implementation process.

The third step is an assessment of the progress made. This should be done by a third party in order to ensure high quality and incontestable data. The data will serve as the basis for the calculation (price per unit of progress) of the aid disbursement since incremental progress is to be rewarded. The progress assessment is to be done on a regular basis (e.g. annually).

⁴ At least in some cases, setting a balanced target might be a challenge in order to avoid a level of performance that is too ambitious or too easy to reach.

Chart 3: Results-Based Aid: main features



RBA Sector specific considerations

Typically, RBA approaches like Cash on Delivery are associated with interventions in social sectors (often education and health) and sometimes with interventions concerning other direct service delivery activities (like access to tap water). These intervention areas have some specific features:

- It is rather easy to identify development results. In many areas reference can be made to international and national objectives (e.g. Millennium Development Goals or national Poverty Reduction Strategies) and / or international standards.
- These results are measurable.

- Data and baseline information is available or rather easy to collect. High additional transaction costs can normally be avoided.
- Intense disputes between the different parties around the definition of results, the indicators, the applied methods and data are not expected.

The application of RBA in other areas seems to be more demanding. A more detailed discussion of the practicability regarding the area of governance is presented in chapter 2.3.

2.2.2 RBA: Individual concepts and instruments

During the last few years several forms of Results-Based Aid instruments were designed by development partners and development policy think tanks. The chapter outlines some different examples:

- The new World Bank instrument: Program-for-Results.
- The MDG Contract of the European Commission which includes a performance tranche.
- The Cash on Delivery (CoD) aid approach which was developed by the Centre for Global Development (CGD); practical experiences do not exist to date.
- DFID's efforts to pilot several RBA activities.
- The Millennium Challenge Corporation (MCC) approach which is based on a performance-based selection process.

The World Bank approach: Program-for-Results Financing⁵

The World Bank Management in July 2011 proposed a new lending instrument: Program-for-Results (PforR) which was approved by the Board of Executive Directors in January 2012. Under Program-for-Results, World Bank support will help member countries improve the design and implementation of their own development programmes in infrastructure, education, health, and other sectors, in local government and community development, and in cross-sectoral areas such as public sector management and private sector development. While results are at the centre of all World Bank activities, Program-for-Results will place more direct emphasis on development results by linking disbursements to results or performance indicators that are tangible, transparent, and verifiable. Program-for-Results will work directly with the programme's institutions and systems and, when appropriate, seek to strengthen those institutions' governance and their capacities and systems over time. Finally, Program-for-Results will be an instrument for strengthening partnerships with government as well as other development partners and other stakeholders by allowing the World Bank to effectively support larger programmes and cofinance pooled funding arrangements.

⁵ This chapter is taken from World Bank 2011a: iii-iv only with some minor changes

Key features of the new instrument are as follows:

- (i) Finances and helps strengthen development programmes with clearly defined results. Programmes to be supported by Program-for-Results can be sectoral or subsectoral programmes, national or subnational, community development programmes, and so on. They can also be ongoing or new programmes. With other development partners, where relevant, the World Bank will assess the quality of programmes, their supporting systems, their ability to deliver the desired results, and the scope for system-strengthening measures and other improvements.
- (ii) Disburses upon achievement of results and performance indicators, not inputs. Disbursements will finance the defined borrower programmes that are designed to achieve the programme's specific results. Disbursements will be pooled with funds from other sources (including government and development partners) and will not be attributable to individual transactions. Disbursements will be determined by reference to progress on monitorable and verifiable performance indicators, rather than by whether expenditure has been incurred.
- (iii) Focuses on strengthening the institutional governance, capacity, and systems that are essential to ensuring that the programmes achieve their expected results and can be sustained. A priority area for both preparation and implementation support will be to strengthen the institutional capacity of the programme's own systems, and thereby enhance development impact and sustainability. This will include focusing on transparency, accountability, participation, and other governance aspects of the programme.
- (iv) Provides assurance that World Bank financing is used appropriately and that the environmental and social impacts of the programme are adequately addressed. The World Bank will assess the programme's fiduciary and environmental and social management systems and, as necessary, will agree with the government on additional measures needed to provide reasonable assurance that the loan proceeds are used for programme expenditures, that these expenditures are incurred with economy and efficiency, and that affected people and the environment are protected.

Development policy lending will remain the primary World Bank instrument to support policy actions to achieve a country's overall development objectives, with rapidly disbursing general budget support to help address overall development financing needs. Investment Lending will remain the Bank's main instrument to support projects, with disbursement against specific expenditures and transactions. Program-for-Results will be the instrument of choice when the objective is to support the performance of a government programme using the government's own systems; when the results require expenditures; and when the risks to achieving the programme's objectives relate to the governance and capacity of the systems to achieve better results, including with respect to fiduciary, environmental and social issues

The MDG Contract of the European Commission⁶

The MDG Contract is a longer-term, more predictable form of general budget support that the European Commission (EC) has launched in a number of countries at the start of EDF (European Development Fund) 10. It is part of the Commissions' response to international commitments to provide more predictable assistance to developing countries.

The MDG Contract has the following key features:

- 6 year commitment of funds for the full 6 years of EDF 10;
- Base component of at least 70% of the total commitment, which will be disbursed subject to there being no breach in eligibility conditions for GBS, or in the essential and fundamental elements of cooperation;
- Variable performance component of up to 30%, which would comprise two elements:

MDG-based tranche: At least 15% of the total commitment would be used specifically to reward performance against MDG-related outcome indicators (results, notably in health, education and water) and PFM reforms following a mid-contract review of progress against those indicators. Performance would continue to be monitored annually, but any possible financial adjustment would be deferred to the second half of the programme.

Annual Performance Tranche: In case of specific and significant concerns about performance with respect to implementation of the PRSP, performance monitoring (notably data availability), progress with PFM improvements, and macroeconomic stabilisation, up to 15% of the annual allocation could be withheld.

Eligible countries are those with GBS programmed under the 10th EDF, that have a successful track record in implementing budget support, show a commitment to monitoring and achieving the MDGs and to improving domestic accountability for budgetary resources, and have active donor coordination mechanisms to support performance review and dialogue.

The Commission has signed MDG-Contracts in 7 countries (Burkina Faso, Ghana, Mali, Mozambique, Rwanda, Uganda, and Zambia) in the first half of 2009, and is about to finalise its agreement with Tanzania. Collectively these account for €1.8bn, or about 50% of all General Budget Support commitments in EDF 10 national programmes, and some 14% of all EDF 10 national programmes.

Coverage may be expanded to other countries as we learn from experience and countries' monitoring frameworks improve. But alternative approaches will still be needed for countries not yet eligible for budget support. The "MDG Contract" is thus only one important

⁶ This chapter is taken only with minor own adjustments from: http://ec.europa.eu/europeaid/what/millennium-development-goals/contract_mdg_en.htm, 02/09/2011.

part of the solution towards improving aid effectiveness and accelerating progress towards the MDGs.

Cash on Delivery

The Cash on Delivery (CoD) aid can be seen as a “pure” type of a Results-Based Aid approach. The concept is quite elaborated and promoted by the Washington based Centre for Global Development (CGD). According to the CDG (Birdsall/Savedoff 2011: 17) the concept is a funding mechanism based on a contract between donors and recipients to agree on a mutually desired outcome and a fixed payment for each unit of confirmed progress.

The five key features are as follows (taken from: Birdsall/Savedoff 2011: 17-20):

- (i) The donor makes payments for outcomes, not inputs. The outcome/s must be agreed between the donor and the recipient. It must also be measurable and continuous, making it possible to reward incremental progress. At no point does the donor specify or monitor inputs.
- (ii) The donor embraces a hands-off approach. A donor may make available or help obtain other resources for technical assistance, ideally in a pooled fund. But it is up to the recipient to choose whether to contract for technical help and advice from any party.
- (iii) The progress toward the agreed outcome is independently verified by a third party. Progress is the trigger for payments. So, both donor and recipient must have confidence in the way progress is measured.
- (iv) Transparency, achieved by publicity disseminating the content of the CoD contract itself, the amount of progress, and the payment for each increment of progress. The indicator or measure should be as simple as possible.
- (v) CoD complements other aid programmes. It should be introduced as additional to current aid flows without disrupting ongoing programmes.

The government of the partner country has full discretion on the use of the CoD contribution. Therefore, the donor contribution is not tied to specific activities, reforms or purchases.

From the perspective of CoD protagonists the approach has a number of significant advantages. First of all, it provides a strong incentive to perform. Secondly, domestic accountability is encouraged. The recipient government is accountable in the implementation; the performance of the government is transparent to the citizens. Thirdly, since a “hands-off approach” is essential, the approach directly supports the institutions and capacities of the partner country. Finally, CoD can work in most low-income countries, including fragile states. Since CoD provides a strong incentive especially in the poorer and more aid-dependent countries, the benefits are likely to be the greatest in this country group.

Just to illustrate how the concept should be applied to a specific situation, the following example normally used by the CGD might be useful (Birdsall/Savedoff 2011: 45-65):

A CoD contract includes four essential elements:

- (i) A shared and clearly defined goal. For example: Children complete primary education of good quality in country X.
- (ii) A unit for measuring progress. For example: “Assessed completer”: A student who is enrolled in the last year of primary school and who takes an approved standardised test.
- (iii) Payment per unit of progress. For example: The donor agrees to pay \$20 for each student who takes a standardised test in the last year of primary school up to the total enrolment in the base year and \$200 for each assessed completer in excess of that number.
- (iv) A system for measuring and verifying progress. For example: The recipient government commits to disseminating its information on student enrolments, assessed completers and disaggregated test scores. The donor commits to contracting a third party to verify the accuracy of the recipient’s reports.

DFID’s RBA pilots

The UK Department for International Development (DFID) is in the process of preparing four different RBA pilots⁷:

- (i) CoD in Ethiopia in education (results: additional girls / students passing exams)
- (ii) RBA in Rwanda in education (results: additional students completing primary school and passing a secondary (S3) exam)
- (iii) RB (Results-based)- Public Private Partnership (PPP) in health (results: pregnant women and children provided with health care)
- (iv) RB-PPP in India for climate change (results: number of poor households provided with clean energy)

Millennium Challenge Corporation (MCC)⁸

The MCC forms partnerships with some of the world’s poorest countries, but only those committed to:

- good governance,
- economic freedom and
- investments in their citizens.

⁷ Status: End of 2011.

⁸ Taken only with minor own adjustments from: <http://www.mcc.gov/pages/about/>; 29.08.2011.

MCC provides these well-performing countries with large-scale grants to fund country-led solutions for reducing poverty through sustainable economic growth. MCC grants complement other U.S. and international development programmes. There are two primary types of MCC grants: compacts and threshold programmes.

- Compacts are large, five-year grants for countries that pass MCC's eligibility criteria.
- Threshold programmes are smaller grants awarded to countries that come close to passing these criteria and are firmly committed to improving their policy performance.

MCC is managed by a chief executive officer, who is part of the nine-member Board of Directors. The Secretary of State, the Secretary of the Treasury, the U.S. Trade Representative, and the USAID Administrator serve on the board along with four private sector representatives.

2.3 Conclusions: Assessment and critical aspects of RBA

In general terms, the international debate is dealing with a number of different RBA cases on different levels. Some approaches are not a new way to organise aid but rather an advancement of existing instruments; this applies, for example, to the variable tranches as part of the EU's general and sector budget support. Other approaches are much more focused on a specific result. This applies, for example, to the Cash on Delivery concept which is still in its infancy when it comes to a reality check.

Against the background of ongoing aid debates some general considerations can be discussed concerning RBA, which might be relevant for a specific RBA type, but not for another one.⁹

Advantages of Results-Based Aid can be:

- *Action is directly aimed at providing incentives for results:* The behaviour of all actors (development partners as well as partner governments) is significantly influenced by the results. There are direct links between the aid interventions and incentives (which might lead to results); the benefits might be more immediate and quantifiable.
- *Incentives for Performance:* The input of aid creates incentives to perform for the partner country. This performance orientation can have a spillover effect into other sectors of the partner country.

⁹ The list of potential advantages and disadvantages should not be read as a list which always applies to all types of RBA. The identified advantages / disadvantages might, of course, also apply (in some cases even to a larger extent) to other aid approaches.

- *Strengthened ownership on the part of the partners / partner government is responsible for implementation:* The task of achieving the goals lies with the partner government. The donors have no responsibility for implementation. This strengthens the partners' political and administrative systems. At the same time, the approach might be supportive of more mutual accountability.
- *Better verification of the results of aid:* Closing the "attribution gap" (proving a direct causality of aid measures and incentives which lead to results) might be more successful in specific cases. This can help the donor countries to demonstrate the concrete benefits of aid (visibility of the development partner). However, there might be a risk of "short-sighted attributions" even in those cases where results were reached; RBA does not lead to an easy and automatic attribution of results to aid interventions.

Disadvantages and limitations of Results-Based Aid can be the following:

- *Responsiveness of the partner's political system to incentives:* The concept assumes that the partners are open to incentives to perform better. This applies to those partner countries that show a strong performance orientation (*good performers*), or at least where there are areas of access, such as in specific, viable institutions ("*pockets of effectiveness*").
- However, literature provides evidence especially regarding low-income and high aid-dependent countries where those favourable conditions are non-existent or only partly assured. Particularly, research on political systems in a number of Sub-Saharan African countries shows evidence for systemic non-performance in core areas of service delivery (see, for example, van de Walle 2005; Chabal/Daloz 1999).
- *Misincentives, unintended consequences and non-systemic strategies:* Generally speaking, there is a danger of misincentives; strong focus on a specific outcome might tend to result in non-systemic analysis and strategy. The pressure to achieve certain goals can thus cause the neglect of other priorities in the same sector. Indicators that might not be entirely suitable to this approach jeopardise the implementation of policies that are too heavily focused on quantitative goals.

Box 1: Distortion risks – Possible unintended effects

Whether incentives might do good or harm depends very much on the specific setting in a country. For example: Normally we assume that an increase of available resources at the local level can contribute significantly to development. Money can be spent in accordance with local needs and priorities. Decision-making processes close to the people might improve participation. However, if an increase in resource transfer to the local level is considered by local or national elites as available “rents” it might just create conflicts over “access to rents”. If local structures are not prepared for and experienced in managing an increase in resource transfer this approach might also fail because of limited capacities on the ground. If aid provides strong incentives for an increase in own resources (local taxes etc.), this might also contribute to serious problems (for example, for small businesses), e.g. because inexperienced staff on the local level push very much for local revenues and affect farmers, for example, who sell their products.

These possible distortion risks might not always be relevant, and quite often “more resources” for the local level can contribute in a positive way to the development. However, possible risks and side-effects should be given attention if an aid approach provides a lot of incentives for reforms and changes.

- *Capacity*: The approach implies that the partner countries have the capacity to achieve the results. If their capacities and their public financial management system are deficient, this does not seem realistic.
- *Sectors and data*: Results-Based Aid cannot be implemented equally well in all sectors. Social sectors, such as education or health, as well as sectors with infrastructure services that can more easily be measured (transportation, public water supply etc.) are quite well qualified. In other sectors it may be harder to measure these results or to come to an agreement on them with the partner countries (such as complicated agreements on good governance), and the direct effect cannot always be clearly shown as wider outcomes. This applies, for example, to various areas of public financial management. This approach may further create an incentive to manipulate data.
- *Losing entry points for policy dialogue / delinking (some) RBA approaches and the political context*: Where RBA approaches involve an automatic mechanism for payment following the achievement of certain goals, difficulties might arise if a development partner were forced to pay out, even if faced with an unfavourable political environment, including massive governance problems (such as serious human rights abuses). RBA is not an instrument to expand possibilities for policy dialogue.

- *Insufficient pre-financing capacities / “financial hijacking”*: In the context of this approach, pre-financing by the partner country is intended or even necessary. Because of very tight budgets in a number of low income countries, this could be a major hurdle.¹⁰ There is the further risk that other aid resources in a country might be redirected to this end.
- *Fiduciary risks*: RBA risks might be similar to programme-based approaches (like budget support or pooled funding mechanisms) in terms of fiduciary challenges. Since aid disbursements are not tied to specific activities or procurement procedures, fiduciary risks might be a relevant challenge.
- *Time horizon*: RBA can create a shortened perspective, because it might cause only those results to be considered that can be achieved quickly. Results that can only be achieved in the medium or long term might clash with short-term political rationales (desire for re-election etc.).
- *Factors out of government control*: In those cases where results agreed upon are not reached because of factors not under control of the government, the effect of incentives for performance vanishes because disbursement of RBA funds does not take place regardless of how development-oriented the government acts. For example, if there is a strong need to cut a budget because of the overall economic situation (due to an international crisis situation or unfavourable terms of trade), there might also be the need to reduce the budget line which is important to reach the intended results.
- *Danger of non-ambitious results*: Whether results are realistic or unrealistic is probably quite often vague. Since partner countries and donor agencies have an interest in disbursing the rewards, there might be an implicit tendency to identify less ambitious results.

Some limitations and technical challenges mentioned above might be tackled. For example, in those cases where insufficient pre-funding capacity would not allow the use of RBA, an adjustment of the approach could be reasonable. In this case several options might be considered: (i) The donor could set up a system where (a partial) pre-funding would be provided, e.g. for the first expected cycle of results. However, this course of action might contribute to a significant reduction of the intended incentive and pose a challenge in case results are not achieved (How to organise reimbursement in case of non-performance? Is this procedure really enforceable?, etc.). (ii) Another option might be the reimbursement of the interest rate in those cases where the recipient would borrow from the capital market in order to be able to make the necessary investments. However, even if a reimbursement was

¹⁰ In this case, it could be possible to develop schemes for start-up financing.

agreed upon in advance there might be other effects on the recipient's budget (e.g. due to borrowing limits set by the IMF).

Further provisions might be included in order to specifically support the capacity aspects and the reliability of data; regulations in this regard are included, for example, in the new World Bank approach. An upfront investment earmarked for building the capacities of the concerned institutions could be integrated into RBA. This amount could be provided in advance and could be spent in line with an agreed approach (such as tendering of capacity building activities in the specific area). A similar approach might be used in order to improve the quality of data needed; e.g. requiring an agreed amount or share of aid to be used to ensure the regular provision of reliable data.

Regarding RBA there seems to be a rather high probability of a low disbursement level due to poor or non-performance (at least in those cases where ambitious targets were set). On the one hand, the possibility of partial or non-disbursement is an important feature of RBA. It is the intention of the approach to establish a strong link between performance and the provision of aid. If the aid amount is finally available to the partner country in some way even in case of non-performance there might be an adverse impact on the incentive structure from the beginning. On the other hand, partial or non-disbursement is a crucial challenge for the partner country in terms of predictability of aid.¹¹ In addition, such a situation might also lead to challenges for the donor (aid management) and the question of impact of the country strategy. For example, if the government of the partner country is not able to perform (i.e. to provide results in accordance with RBA agreement) solely against the background of exceptionally unfavourable international conditions (reduced budget because of adverse international market prices for relevant commodities), the donor might be under pressure not to add further burden to the situation of the country.

3 RBA in the area of good governance

The discussion on RBA does not provide many thoughts on the sectoral areas of intervention. Implicitly, preference is given to education, health and some other areas for direct service delivery on a household basis (like energy access, tap water access).

On the contrary, the international debate does not pay much attention to governance or good governance as a possible area for RBA interventions.

¹¹ However, one could argue that the predictability risks can mainly be managed by the recipient government since it is in charge of implementing necessary policies to reach the expected results.

3.1 The term “governance”

For the purpose of the present study, governance is defined according to the German Ministry of Development and Economic Cooperation strategy document “Promotion of Good Governance in German Development Policy” (BMZ 2009):

“The term ‘governance’ refers to the way decisions are taken and policies are framed and implemented in a state. (...) The focus is on norms, institutions and procedures that regulate the actions of governmental, non-governmental and private-sector players. On the one hand, it is about the values that underlie governance and, on the other, about the institutional frameworks in which governance takes place.” (BMZ 2009: 6)

In addition to this definition it is useful to mention that there is also an emerging consensus on the term “good governance”. Against this background the term indicates that the governance concept is based on universal human rights and the principles derived from it:

“We talk about good governance when state actors and institutions earnestly endeavour to frame policies in such a way that they are pro-poor, sustainable and in line with the MDGs. (...) A state acts in a development-oriented manner if it respects and protects all human rights and earnestly endeavours to fulfil them for all its citizens (...). Its action is guided by democratic and rule-of-law principles. (...) The state should be capable of managing conflicts constructively and non-violently. Key elements are the efficiency and transparency of state administration.” (BMZ 2009: 6)

According to the BMZ strategy (BMZ 2009: 11-18) there are five fields of action and approaches:

- (i) Respect for, protection and fulfilment of all human rights
- (ii) Democracy, rule of law and media
- (iii) Gender equality
- (iv) Administrative reform and decentralisation
- (v) Good financial governance, transparency in the extractive industries and anti-corruption

The list does include gender equality as one field of action. However, in the present study the subject cannot be dealt with in an adequate way; therefore it is not addressed explicitly in the following sections.

The use of the term “good financial governance” in international debates is rather limited. To a large extent, good financial governance includes the concept of good public financial management (PFM) which is more often used in the international context and therefore also in this study (see Klingebiel / Mahn 2011).

In general terms, the definition and the specific fields of action identified in the strategy are in line with the international debate on (good) governance (see, for example, Baland /

Moene / Robinson 2010). Against this background, the following paragraphs are also applicable to similar international debates on (good) governance.

RBA and governance-specific issues

There are a number of sector-specific issues for the application of RBA in the context of governance:

- (i) Defining agreeable results between donors and partner governments in the governance sector might be difficult at least in some areas because of the political sensitivity and the low likelihood of reaching a consensus between the contract parties. Against the background that RBA depends on non-disputable results and independently verifiable indicators, this might be a challenge. This issue might be relevant, for example, with regard to a result related to political governance dimensions like “respect for, protection and fulfilment of all human rights” or “democracy”.

In other areas of governance it might be easier to agree on aspired results. There might be rather promising entry points for RBA especially in two areas: (a) administrative reform and decentralisation (b) public financial management.

- (ii) Particularly in comparison with the social sectors such as education and health, the definition of a plausible development result might be more difficult in some areas of governance because of technical reasons. For example, we can define an increase in generating own revenues on the local level as a result of an intervention. However, this result might be more disputable than a result in a social sector (school enrolment) regarding its final developmental impact. For example, it might still be a basic question whether an increase of resources on the local level will really be used for developmental purposes or whether the central level is reducing its contributions to the local level because of new means of income. Especially the social sectors have the advantage of being able to provide a chain of evidence for direct benefits of individuals on the outcome (results) level. On the opposite side, governance deals with the question of how decisions are taken and policies are framed and implemented in a state. This is essential for any development effort but to a certain extent less tangible in terms of “final beneficiaries”.
- (iii) Several governance results are difficult to measure, at least in some areas (again, especially with regard to political governance issues) (see, for example, Garcia 2011 and Arndt / Oman 2006). There are a growing number of governance indicators, for example, the World Governance Indicators (WGI) compiled by the World Bank. Nevertheless, several difficulties remain: (a) hard-to-measure governance areas like “human rights”, (b) quite often disputed (for example,

indicators on “political freedom”), (c) frequently there is a time lag between available data and the present situation (or the present administration and government in charge of policies).

At least in part, these challenges are less relevant for some indicators with regard to decentralisation and PFM.

- (iv) RBA is not a tool to compensate precisely for the costs which are needed in order to achieve the intended results. *"Thus, the COD Aid payment is not really aimed at covering the cost of schooling. It is aimed at relaxing constraints that hold back progress."* (Birdsall/Savedoff 2011: 53) A basic consideration of the CoD approach is to provide a sufficient incentive but at the same time to provide enough resources, for example, to expand existing programmes (such as teacher training, school construction). Therefore, the “payment per unit of progress” is not an exact measure for the investments needed.

In principle, this assumption is also useful for the governance sector. In some governance areas we can also expect a clear need for resources; for example, in the area of decentralisation (e.g. provision of funding for local infrastructure). At the same time some governance results are not strongly or only to a small degree related to the need of resources (for example, more effective procurement regulations in order to strengthen the PFM system). In this case the “payment per unit of progress” would be primarily a reward or incentive to perform. Therefore, a payment per unit of progress can provide an essential incentive to implement related policies even in a case where funding might be not an essential bottleneck to achieve the intended results.

3.2 RBA governance results and indicators

In principle, the identification of results and related indicators for RBA should be deducted from a specific country situation. However, with regard to areas of governance it might be useful to consider the following general options :

Public Financial Management

Result: Improved PFM system

Indicator: PEFA scoring

The Public Expenditure and Financial Accountability (PEFA) assessment framework has established itself as an internationally renowned analytical tool. Being a standardised approach, PEFA enables an overview of trends to be obtained at comparable intervals on the basis of 28 indicators. The PEFA assessment could be used in two regards: (a) An improved

assessment could be defined as a result. (b) The assessment of the 28 indicators or a subset thereof can serve at the same time to measure the performance on an incremental basis.

For example, the outcome of the latest PEFA assessment (excluding the three indicators for “donor practices”) could serve as the baseline. A reward system for changes of future PEFA assessments could be created in the following way:

Each PEFA score is equal to a “translated score”:

A:	3 points
B/B+	2 points
C/C+	1 point
D/D+	0 points
No score	0 points

The sums of “translated scores” for the baseline PEFA assessment and the new PEFA assessment would be calculated. A positive change from the baseline to the actual situation would be rewarded. An agreement on RBA for improved PEFA scores could provide for a reward of the amount of X EUR for any additional point for the next one (or two or three) PEFA assessment(s). To make sure that at least in theory a very significant improvement could be rewarded, a rather ambitious maximum should be calculated (e.g. up to 20 points can be rewarded).

A strong advantage is the high reputation of the PEFA assessment for the overall PFM situation in a country.¹² In addition, it would be possible to focus on a smaller number of specific PEFA indicators if attention is to be given to a specific issue. Disadvantages are mainly related to the intervals. Only in some cases PEFA are assessments done every second year. More frequently, an interval of once every three years (or even less frequently) is chosen. However, a reward system could provide an incentive to have a two-year interval on a regular basis.

Procurement

Result: Improved procurement system (completion, value for money and controls in procurement)

Indicator: PEFA Indicator 19 measures three dimensions: (i) use of open completion for award of contracts that exceed the nationally established monetary threshold for small purchases, (ii) justification for the use of less competitive procurement methods, (iii) existence and operation of a procurement complaints mechanism.

¹² See, for example, the debate of the role of PEFA: De Renzio 2009; Klingebiel / Mahn 2011.

Advantage: Procurement is a crucial and sensitive dimension of a PFM system. In several countries it might be an advantage to select this specific PFM issue. PEFA measures the status in a comprehensive way (three different aspects). Disadvantage: Information is only available in accordance with regular PEFA intervals. However, it might be feasible to collect information in accordance to the PEFA methodology on a regular basis (e.g. annually) by an independent certified PEFA consultant.

External auditing

Result: Improved external auditing (Scope, nature and follow-up of external audit)

Indicator: PEFA indicator 26 measures scope, nature and follow-up of external audits

Advantage: A functioning external auditing mechanism is a key pillar for PFM systems. The related PEFA indicator covers several relevant aspects in this regard, including the coverage, timeliness and follow-up on audit recommendations. Disadvantage: Information is only available in accordance with the regular PEFA interval. However, it should be feasible to have information collected in accordance with the PEFA methodology on a regular basis (e.g. annually) by an independent certified PEFA consultant.

Domestic Revenues

Result: Increase of domestic resources

Indicator: Option 1: Tax revenue as a percentage of gross domestic products (GDP)
 Option 2: Increase in domestic revenues (percent change)

Advantage (depending on the level of domestic resources resp. the tax/GDP ratio): Efforts to increase domestic resources are important for development processes in two ways: (i) The size of the national budget can be extended. Additional resources are available for development investments. (ii) The use of domestic resources contributes to an improved domestic accountability system in a country and a stronger role of citizens and parliaments (and their budget functions). Normally data is available; this information is provided by national revenue authorities and confirmed by IMF missions. Disadvantages: Qualitative aspects (impact of revenue efforts on the poor population / vulnerable groups; effects on the private sector etc.) are important, but mainly not reflected by the indicator; it might be possible to partly address some distributional issues, for example, through periodic independent reports on tax incidence by income group. The ratio might be affected significantly by factors (partly) outside the control of a government. At least in some cases, reliability of data (for example, data for GDP) might be a critical issue.

Decentralisation:

Result: Increase of resources available on the subnational level¹³

Indicator: Option 1: Average transfer payment to subnational level per inhabitant
 Option 2: Indicator: Local expenditure as share of total government expenditure

Advantages: Many subnational governments are lacking sufficient resources since central governments are frequently reluctant to furnish the local level in particular with unconditional resources. Disadvantages: Low resources are often accompanied with little capacity to manage a budget cycle in many regards. An increase in resources might have negative side-effects (like distorting and negative effects on local incentive structures); it is difficult to assess the outcome of more available resources for the local level.

Economic Governance

Result: Improved economic governance

Indicator: Calculations on the basis of Doing Business data (IFC)

RBA might be applicable in order to provide incentives to improve economic governance. The Doing Business Reports prepared by the IFC can be used in two ways¹⁴: (a) An assessment indicating progress of a country by the data of the report could be defined as a result (not the ranking, but the changing performance of a country over time). (b) The data of the report can serve at the same time to measure the performance (indicator).

One advantage is the availability of data and the annual reassessment. The report measures core dimensions of economic governance and has a high international reputation. Disadvantages are methodological challenges related to the indicator. Like many other indicators, the indicator has methodological weaknesses because a fictitious enterprise (with specific features) serves as an example. In addition, the assessments are conducted on the basis of expert opinions. This fictitious case only reflects part of the reality of a country.

¹³ The rationale to support decentralisation processes (depending on a specific country setting) is mainly as follows: In terms of political participation and service delivery (access to administrative services, health services etc.) the local level is crucial in many countries. If aid can provide incentives to strengthen the legitimacy and the effectiveness of the local level, people outside urban centres and vulnerable groups would benefit in particular.

¹⁴ See the KfW memo on "Aid on Delivery, Ansätze im Bereich ökonomische Governance zur Verbesserung des Investitionsklimas in Sub-Sahara Afrika" (05.05.2011)

Statistics / M&E systems

Result: Functioning and reliable national statistic system / M&E system

Indicator: / (Country-specific)

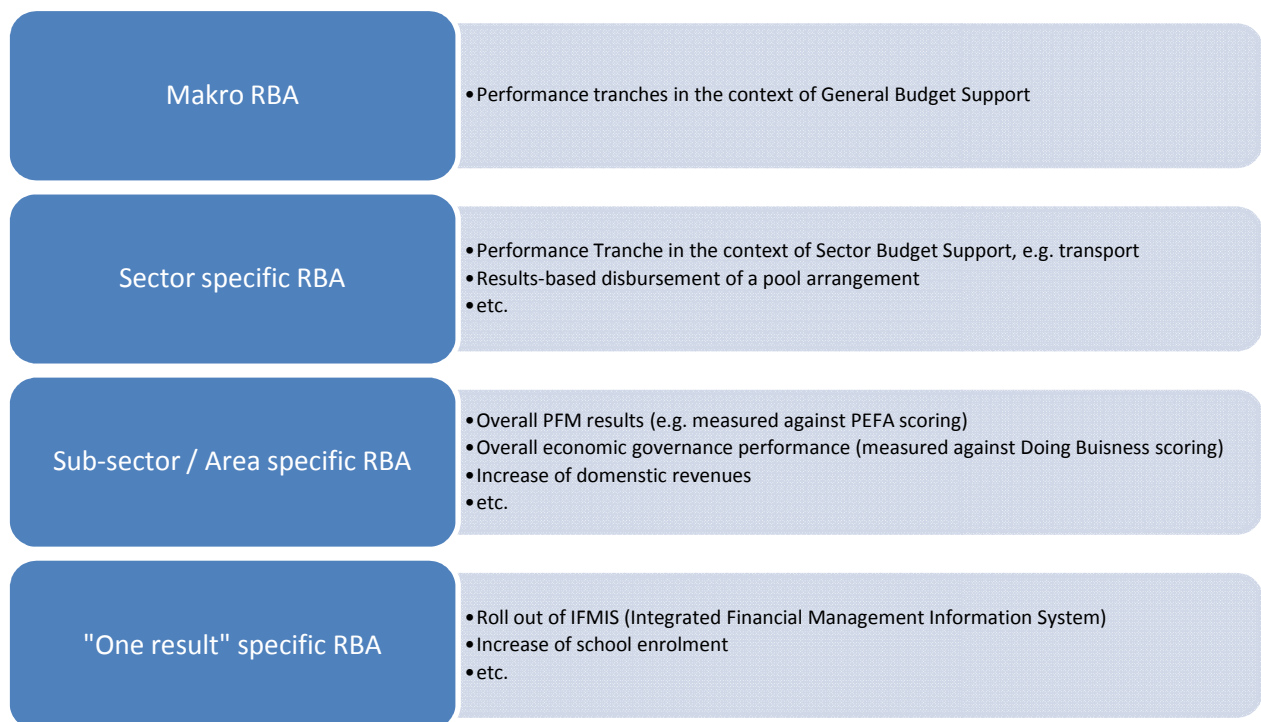
Advantages: In principle, important precondition for reliable planning and decision-making processes. Disadvantages: No appropriate general indicator available. National statistic offices, ministries of planning etc. are heavily dependent on a number of data providers. It might be difficult to provide specific incentives for improved results.

4 Overall Conclusions

General Conclusions on RBA

The international debate on RBA is dealing with a variety of different approaches in the field of development finance. The spectrum ranges from a more results-oriented approach in the area of budget support (macro and sector level) to new types of projects which are intended to push one specific result (sub sector level or “one result” specific RBA). All approaches have one common feature: they try to create incentives in order to make results happen.

Chart 4: RBA levels of intervention



From the perspective of the author of the present study, the potential benefit of RBA depends very much on the specific approach and design. For example, experiences with performance tranches in the context of budget support indicate a reasonable approach. There is only little experience with regard to “one result specific projects”.

The discussion of potential advantages and disadvantages of RBA indicates a number of conceptual weaknesses at least for some RBA approaches. There might be a significant risk for misincentives and non-systematic strategies if aid focuses very much on one measurable and quantitative result.

In addition, there is a clear bias of RBA approaches in favor of performing countries. The likelihood of “good performance” (reaching results) is much more pronounced in those cases where countries have a good leadership structure, planning and implementation capacity and a functioning public financial management system.

Conclusions on RBA and the governance sector

Possibilities of identifying measurable and quantifiable results are rather good in social sectors and several (basic) infrastructure related topics. The governance sector is, in general terms, less favourable in this regard. “Political governance” issues such as political freedom or human rights seem to be not suitable for RBA approaches. However, some other governance areas have the potential to be included; this applies especially to public financial management and fiscal decentralisation. There might also be some potential for economic governance topics and the area of statistics / M&E systems.

RBA might be regarded as a potential approach to dealing with countries not suitable for budget support or other pooling arrangements. In those settings where a country has a comparably “mixed” or even “insufficient” record (e.g. because of the political governance performance or high fiduciary risks), the following aspects might apply:

- RBA standalone approaches of one donor might be inappropriate, especially in challenging settings. Frequently, close collaboration with other development partners might be essential. There is a strong need to respond closely together with other donors in order to have an influential and constructive dialogue with government. Any attempt to focus just on few specific issues might be difficult in a complex situation; harmonised and sector-oriented strategies are important also in the context of RBA approaches.
- Countries might show a low level of “incentive receptivity” and limited opportunities for “pockets of effectiveness”. RBA relies on “driving forces” for reforms in the government structure, including at the top level. If government structures are not receptive to performance orientation, the likelihood of a failure (non-performance) is high. In principle, one could think about some niches of government where this

approach might work and could have spillover effects at best. However, since the governance situation dominates all public structures the scope is very limited.

- A challenging country situation might tend to have high fiduciary risks in all important areas. This is a major limitation since RBA approaches rely on the use of national systems.
- At present, there are only few possible entry points for RBA; this applies to some activities in the area of PFM. Most important are harmonised and sector-oriented strategies. A “German standalone RBA” approach (e.g. outside the sector discussions) is not recommended. Any concept for RBA should be prepared closely / jointly with other major development partners in the sector.

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Annex

Examples of results-based funding schemes

Scheme	Category	Short description
Global Fund (GFATM)	RBA/RBF hybrid	Funding for years 3 to 5 dependent on overall performance achieved during first two years of grant implementation.
GAVI Alliance – Immunisation Services Support (GAVI ISS¹)	RBA	Initial investment based on (self reported) number of children expected to be vaccinated in year 1. Subsequent reward payments of \$20 per child vaccinated above this baseline.
UK Quality and Outcomes Framework (QOF)	RBF	Payment made against performance by general practitioners in the UK against over a hundred quality based indicators.
UK Payment by Results (PbR)	RBF	Fixed payment (based on national average unit costs) paid to hospitals in the UK for delivering a specific health output (e.g. hernia operation).
US P4P (Pay for Performance)	RBF	Payment made to providers with level based on performance against a range of quality based output indicators.

Vouchers	RBF	Reimbursement made to accredited providers on the basis of services delivered to voucher recipients.
Conditional Cash Transfers	RBF	Payment made to targeted beneficiary in return for using specified services. Heavily focused in middle income countries using domestic funds.
Health Results Innovation Trust Fund (HRITF) *	RBA/RBF hybrid	Vehicle for supporting results based financing approaches. HRITF also focuses on raising resources and knowledge generation.
Global Programme for Output Based Aid (GPOBA) *	RBA/RBF hybrid	Multi-donor partnership and trust fund established to: i) fund and facilitate the preparation of OBA projects in which payment is made to an implementing agent (usually private sector but potentially NGOs, and usually in the utilities sector) for each unit of output supplied; and ii) document and disseminate lessons learned.
Poverty Reduction Budget Support (PRBS)	RBA	Payment made to government in return for commitment to good governance and satisfactory progress in poverty reduction. Variable or performance related tranche payments are a form of results based aid.
European Commission MDG Contracts	RBA	Payment made to government in return for commitment to good governance and satisfactory progress in poverty reduction. Variable tranche is a form of RBA. Schemes have been established but are new.
Cash On Delivery Aid (CODA)	RBA	A concept for making payments to government in return for achievement of specific results (e.g. increase in primary school enrolment). Yet to be established.
Millennium Challenge Account (MCA)	RBA	Payment made to government in return for demonstrable commitment to democracy, good governance, 'economic freedom' and pro-poor public services.

* Some of the mechanisms (marked *) are actually vehicles for RBA or RBF schemes and could incorporate a range of mechanisms (e.g. HRITF).