Translating Results-Based Financing from Theory to Operational Reality: Lessons from the Practical Application of RBF at the European Commission

Rachel Silverman

Abstract

Results-based financing (RBF) is one of several broad approaches to finance official development assistance (ODA) "that attempt[s] to connect at least a portion of payment to the verified achievement of results."[1] Despite some relatively high-profile programs and pilots—and broad interest and curiosity—RBF approaches have yet to penetrate the routine operations of large institutional grant- and contract-based funders, many of which are governed by complex bureaucracies, restrictive financial regulations, and deeply entrenched, risk-averse corporate cultures. The European Commission (EC) is one large and influential donor that has shown a long-standing interest in RBF approaches but is still in initial phases of implementation. Informed by a research partnership between the Center for Global Development (CGD) and EC Commission Directorate-General for International Partnerships (INTPA), this Policy Paper reflects on the experience and lessons learned in attempting to operationalize RBF at scale within a large funder of ODA, with important implications for the broader international development community. Starting at the macro level, it considers the institutional prerequisites for adoption of RBF within a donor agency—in this case, the European Commission/INTPA. It then zooms into the project-level design and negotiation process, including the choice of implementing partner (in this case a United Nations agency) and political and technical stumbling blocks. It concludes with a discussion of remaining challenges for broader use.

[1] Silverman R., Over M., Bauhoff S. (2015). Aligning Incentives, Accelerating Impact. Next Generation Financing Models for Global Health. Next Generation Grants", Center for Global Development. Available online at https://www.cgdev.org/sites/default/files/CGD-WG-report-aligning-incentives-accelerating-impact.pdf.

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Translating Results-Based Financing from Theory to Operational Reality: Lessons from the Practical Application of RBF at the European Commission

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This policy paper reflects lessons learned from a research partnership between the European Commission Directorate-General for International Partnerships (INTPA) and the Center for Global Development to develop operational guidelines for use of results-based financing and broadly communicate lessons learned from the process. A version of the guidelines for public use is attached to this policy paper as Annex A.

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Introduction and background

Results-based financing (RBF) is one of several broad approaches to finance official development assistance (ODA) "that attempt[s] to connect at least a portion of payment to the verified achievement of results."[2] An "RBF agreement", in turn, refers to a grant or contractual relationship between a funder and implementing partner under which some or all funding received by the partner is contingent upon achieving pre-specified results.

RBF is distinguished from the dominant ODA model of cost-based (cost reimbursement) financing, wherein the funding partner pays the implementing partner exclusively based on eligible incurred costs (expenses). Under this model, implementing partners prepare a detailed description of the program activities (and corresponding budget); receive money to cover eligible and incurred program costs; and must carefully track and document that funding is indeed spent for approved purposes. This model offers one strategy for ensuring accountability, as it helps assure funding partners that assistance is expended according to agreed budgets. However, this model also suffers from important limitations that have been extensively discussed in the aid effectiveness literature.[3]

RBF, in contrast, aims to address several of the documented shortcomings in traditional development financing:

- **Create greater accountability for results**: Cost-accounting helps ensure that aid is expended according to agreed budgets but does not, by itself, create sufficient accountability that aid money achieves its intended results. RBF payments, in contrast, only occur when the Implementing Partner achieves verified progress against mutually agreed results—creating direct and visible accountability for results.
- **Create incentives for efficiency**: If Implementing Partners receive resources based on costs incurred, they have less incentive to reduce costs or achieve efficiencies in programme implementation. Under an RBF program, Implementing Partners are paid for the results achieved, not for the costs incurred; if partners are able to retain savings, they may have incentives to achieve results as efficiently as possible, avoiding unnecessary expenses.
- **Restore focus on program results and design**: Traditional negotiations between funding and implementing partners disproportionately focus on budgets and cost drivers, including whether specific proposed or incurred costs or budget

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[2] Silverman R., Over M., Bauhoff S. (2015). Aligning Incentives, Accelerating Impact. Next Generation Financing Models for Global Health. Next Generation Grants", Center for Global Development. Available online at https://www.cgdev.org/sites/default/files/CGD-WG-report-aligning-incentives-accelerating-impact.pdf.

[3] See, for example: Birdsall N., Savedoff W.D. (2011). Cash on Delivery: A new approach to foreign aid. Center for Global Development. Available online at https://www.cgdev.org/sites/default/files/1423949_file_CODAid_SECOND_web.pdf; Silverman R., Over M., Bauhoff S. (2015). Aligning Incentives, Accelerating Impact. Next Generation Financing Models for Global Health. Next Generation Grants", Center for Global Development. Available online at https://www.cgdev.org/sites/default/files/CGD-WG-report-aligning-incentives-accelerating-impact.pdf; Kenny C. Results Not Receipts: Counting the Right Things in Aid and Corruption. Center for Global Development, 2017.

items are appropriate or necessary, detracting from focus on program design and accountability for results. In contrast, RBF negotiations focus on achievable results and program design rather than budget lines or cost drivers.

- **Share risk between funders and the Implementing Partner**: Under a traditional cost-based model, funders must pay even if a programme does not achieve results—meaning that the funder effectively assumes all risk for programme underperformance. Under an RBF approach, implementing partners assume at least partial risk for program success.
- **Reduce transaction costs, bureaucracy, and administrative burden**: Significant effort and expense is required to negotiate, document, and audit budgets and expenses for cost-based projects, including compliance with all requirements. In the long run, RBF may reduce this overall administrative burden for both funding and Implementing Partners—most notably by reducing the need to track, report, and negotiate budget/costs.
- **Increase flexibility and adaptability**: Requirements for budgets and eligible expenses to be approved in advance can limit opportunities for adaptation and innovation. Under an RBF program, in contrast, implementing partners are more able to implement programs according to local circumstances and using their best judgement, with less micromanagement or red tape.

Forms of RBF have seen relatively widespread adoption within multilateral development bank (MDB) lending; for example, the World Bank's Program-for-Results (PforR) instrument has been used for over $10 billion of IDA/IBRD commitments, accounting for 22.5 percent of the total.[4] Nevertheless, use among the largest bilateral and multilateral funders of ODA remains limited. Despite some relatively high-profile programs and pilots—and despite broad interest and curiosity—RBF approaches have yet to penetrate the routine operations of large institutional grant- and contract-based funders, many of which are governed by complex bureaucracies, restrictive financial regulations, and deeply entrenched, risk-averse corporate cultures.

The European Union (EU) is one such donor that has shown a renewed interest in RBF approaches. In 2015, the European Commission (EC) launched the Budget Focused on Results (BFOR) initiative, aiming to "increase accountability for the EU budget by means of a renewed focus on results" across the entire lifespan of budget formulation and implementation.[5] The initiative emphasizes that the EU Budget should focus on results as much as on expenditure and absorption, rebalancing budget compliance with performance. The European Parliament has strongly supported and urged expansion of these measures, explicitly recognizing "the need to strengthen the focus of future spending on performance

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[4] World Bank (2019). Program-for-Results: Proposal to Remove the Cap on Commitment Authority. Available online at http://documents1.worldbank.org/curated/en/188011557406617235/pdf/Program-for-Results-Proposal-to-Remove-the-Cap-on-Commitment-Authority.pdf.

[5] See European Commission. EU Budget Focused on Results. Summary of the 1st Annual Conference Held on 22 September, 2015. Available online at https://op.europa.eu/en/publication-detail/-/publication/368788bd-45ad-11e7-aea8-01aa75ed71a1.

and results, based on ambitious and relevant performance targets" within the Multiannual Financial Framework (MFF) for 2021-2027.[6] The 2018 European Union Financial Regulation follows from this imperative, urging an increased focus on results and explicitly permitting deployment of RBF financing models.[7]

Notably, the EU ranks among the largest donors for official development assistance (ODA). The bloc of EU member states accounts for almost half of all ODA from DAC members, totaling $72.6 billion (USD) in 2020.[8] The aggregate EU contribution represents 0.5 percent of the bloc's overall gross national income (GNI); the EU has committed to reach a 0.7 percent target by 2030.[9] A majority of contributions are made via member states' bilateral aid agencies, but about a quarter--$19.4 billion (USD) in 2020—is channeled via EU institutions.[10] This implies that scaled adoption of RBF by the EU could directly impact 12 percent of all ODA; indirectly, the example set by EU institutions could also influence bilateral ODA from EU member states, comprising another 33 percent of the global total.

In late 2019, the Center for Global Development (CGD) entered a research partnership with the European Commission Directorate-General for International Partnerships (INTPA). Building on the EU's existing interest in results-based approaches—and in the context of INTPA's pre-existing decision to pilot RBF in its country-level grants to UN agencies—the research partnership had two objectives. First, it aimed to help INTPA define an evidence-based operational approach for routine deployment of RBF within EU External Actions (e.g. ODA). Second, and drawing directly from the experience above, it aimed to offer knowledge-based global public goods to the public, including lessons learned and general operational guidance on implementing RBF that would be broadly relevant to other funders of ODA.

Importantly, this RBF effort focuses on the portion of EU ODA that is distributed as bilateral or multilateral grants—not loans or budget support directly to national governments. In a typical year, the EU already provides 1.6 billion Euros per year in results-based budget

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[6] European Parliament (2018). European Parliament resolution of 14 November 2018 on the Multiannual Financial Framework 2021–2027—Parliament's position with a view to an agreement. Available online at https://www.europarl.europa.eu/doceo/document/TA-8-2018-0449_EN.html.

[7] European Union (2018). Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012. Available online at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018R1046.

[8] OECD (2021). COVID-19 spending helped to lift foreign aid to an all-time high in 2020. Detailed Note. Available online at https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2020-detailed-summary.pdf.

[9] European Commission (2021). Team Europe increased ODA to €66.8 billion. Press Release. 13 April 2021. Available online at https://ec.europa.eu/commission/presscorner/detail/en/ip_21_1701.

[10] OECD (2021). COVID-19 spending helped to lift foreign aid to an all-time high in 2020. Detailed Note. Available online at https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2020-detailed-summary.pdf.

support to partner country governments, accounting for about 10 percent of its ODA.[11] (This figure exceptionally rose to 3 billion Euros in 2020 in response to the COVID-19 crisis.[12]) A portion of grants is also channelled directly to national governments in recipient countries, but a majority is distributed by other entities including member state development agencies, non-governmental organizations, private sector entities, and multilaterals (particularly UN agencies).[13]

As part of this research partnership, the author consulted at length with relevant internal and external stakeholders; reviewed INTPA and EC documents and regulations (both internal and publicly available); observed negotiations and proposal development processes between INTPA and Implementing Partners; and reviewed relevant public-domain literature. In collaboration with INTPA staff, the author produced a publicly available set of guidelines and principles for use of RBF by international donor agencies. These guidelines are framed in the INTPA context, informed by the INTPA experience, and responsive to INTPA's institutional needs. Nevertheless, the guidelines are broadly relevant to all funders of ODA; intended for public consumption and use; and made available here as a global public good (Annex A). Some sections of the guidance, reflecting general principles and background on RBF and the European Commission, are also reflected in the text of this policy paper.

The general effort to operationalize RBF within EU External-funded Actions has advanced considerably, but nevertheless remains a work in progress, encountering important challenges and complications. In this Policy Paper, I reflect on lessons learned from progress thus far, with important implications for the broader international development community. Starting at the macro level, I consider the institutional prerequisites for adoption of RBF within a donor agency—in this case, the European Commission/Directorate General for International Partnerships (INTPA)—and other factors that can help create a hospitable, enabling environment. Zooming into the project-level, I then discuss learnings from its pilot projects, including choice of implementing partner (in this case a UN agency), project development, and negotiation process, including observed political and technical stumbling blocks. I conclude with a discussion of remaining challenges for broader use.

Setting up for success: Institutional prerequisites and the enabling environment

A transition to RBF from a traditional cost-based model represents a major operational step change, impacting every phase of project design, implementation, and oversight. These departures from established practices can at times conflict with agency regulations,

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[11] European Commission (2021). Budget support—Trends and results 2020. Available online at https://ec.europa.eu/international-partnerships/system/files/budget-support-trends-and-results_en.pdf.
[12] European Commission (n.d.). International Partnerships; Budget support. Last accessed 23 October 2021 at https://ec.europa.eu/international-partnerships/budget-support_en.
[13] European Commission (n.d.). EU Aid Explorer. Available online at https://euaidexplorer.ec.europa.eu/.

culture, and performance management practices. In some cases, these conflicts merely slow or complicate a transition to a results-based financing model; in others, they can prove prohibitive.

Perhaps surprisingly given its size and reputation for bureaucracy, the European Commission began the process to operationalize RBF in EU External-funded Actions with several institutional prerequisites already in place, plus a broadly enabling environment to support a transition. In this section I consider several factors that helped enable RBF piloting within the INTPA and broader EC context.

Enabling financial regulations and a hospitable financing department

The institutional architecture of most international development donors has evolved around the traditional, cost-based model of financing. Within this model, sound financial management and strict financial oversight are considered paramount levers to ensure responsible stewardship of taxpayer money. As a result, donor agencies generally have extensive and complex financial regulations that govern acceptable uses of public funds; they are also financially risk averse, fearing problematic audit findings and resultant media and political scrutiny. In turn, most finance and accounting departments are large and powerful, generating broad deference from elsewhere in donor agencies. As is appropriate given their role and responsibilities, most finance and accounting departments have earned a reputation for "by the books" rigidity, with strict adherence to all relevant rules and regulations to provide assurance for the public funds disbursed.

By its very nature, RBF is incompatible with many traditional approaches to financial regulation and oversight. Under RBF, payment is made based on verified results achieved—not eligible costs incurred. The implications of this change for financial management are extensive.

First, implementing partners for an RBF agreement typically are not required to submit cost-based budgets for approval; they also, in most cases, do not need to document and report on incurred expenses. More broadly, donor agencies need not conduct direct oversight over implementing partners' financial management. They may be unable to demand financial audits and recoup ineligible costs, except in some extreme examples (e.g. spending on weapons or bribery); they also may find that "their" money is being used to support expenses that they would not otherwise accept, for example business class travel, high consultant fees, or team retreats. Legal provisions of the RBF agreement can still prohibit recipients of donor funds from engaging in some of the most egregious abuses—for example bribes or political contributions—but the reasonableness and eligibility of "routine" expenditures become outside the scope of donor control.

Second, the rate paid per result may not perfectly reflect the underlying costs (average or marginal) of achieving said result. Donor agencies must understand and accept that they are likely to "overpay" or "underpay" for any given result relative to the cost of its achievement.

The payment per result is itself subject to negotiation and can take different forms. First, it could be used as a full *substitute* for cost-based financing; in this case, the payment rate may be derived from a perceived "reasonable" cost of achieving the result, though implementing partners may also demand a "risk premium" in exchange for absorbing the risk of non-achievement. Second, it could be used to *subsidize*, or partially cover, the underlying costs of achieving a result; in this case, it would be expected that the implementing partner would receive co-financing from another funder to cover the remaining costs. Finally, the payment could be considered a *supplement* on top of other sources of financing that fully cover the underlying costs; in this case, it would be considered an additional incentive for extra effort on behalf of the implementing partner.[14]

At best, the new financial management paradigm for RBF can appear foreign to finance and accounting departments; at worst, it is incompatible with existing regulations and unacceptable to auditors. From a political economy perspective, the use of RBF may also relatively disempower finance and accounting departments within the donor agency by limiting the scope of their oversight and making some of their traditional activities redundant. Many agencies will therefore find that acceptance by finance and accounting departments becomes a chokepoint preventing adoption of RBF.

In this respect, the European Commission's effort to adopt RBF for External Actions enjoyed a highly advantageous regulatory and institutional superstructure. The 2018 revision of the European Union Financial Regulation[15]—itself following from high-level political support and endorsed by the European Parliament—contains several provisions that explicitly encourage and permit deployment of RBF financing models (Table 1). The Regulation also directly addresses several of the common stumbling blocks for RBF among finance and accounting departments. Specifically, the Regulation specifies the permissibility of "financing not linked to costs" but instead to "the achievement of results measured by reference to previously set milestones or through performance indicators." It also exempts such financing from the "no-profit principle" that would otherwise apply, meaning that it is permitted for Implementing Partners to earn a "surplus" wherein EU payments exceed incurred expenses.

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[14] For further discussion on the distinction between these forms, see Silverman R., Over M., Bauhoff S. "Aligning Incentives, Accelerating Impact. Next Generation Financing Models for Global Health. Next Generation Grants", Center for Global Development, 2015. https://www.cgdev.org/sites/default/files/CGD-WG-report-aligning-incentives-accelerating-impact.pdf.

[15] European Commission (2018). Financial Regulation applicable to the general budget of the Union, July 2018. Available online at https://op.europa.eu/en/publication-detail/-/publication/e9488da5-d66f-11e8-9424-01aa75ed71a1/language-en.

Table 1. Relevant articles of the 2018 European Union Financial Regulation

Preface	"The Financial Regulation presented in this publication has addressed the main concerns expressed in the public consultation and has brought about important changes, including: […] a focus on results and EU added value."
1.2 Recital (1)	"Following three years of implementation, further amendments should be made to the financial rules applicable to the general budget of the Union (the 'budget') in order to remove bottlenecks in implementation by increasing flexibility, to simplify delivery for the stakeholders and the services, to focus more on results, and to improve accessibility, transparency and accountability."
1.2 Recital (56)	"More emphasis should be put on performance and results of projects financed from the budget. It is thus appropriate to define an additional form of financing […] based on the fulfilment of certain conditions *ex ante* or on the achievement of results measured by reference to previously set milestones or through performance indicators."[16]
TITLE V—COMMON RULES Article 125—Forms of Union contribution	"1. Union contributions under direct, shared and indirect management shall help achieve a Union policy objective and the results specified and may take one of the following forms: (a) financing not linked to the costs of the relevant operations based on: […] (ii) the achievement of results measured by reference to previously set milestones or through performance indicators; […] (f) a combination of the forms referred to in points (a) to (e) [flat-rate financing]."[17] "Union contributions under point (a) of the first subparagraph of this paragraph shall, in direct and indirect management, be established in accordance with Article 181, sector-specific rules or a Commission decision and, in shared management, in accordance with sector-specific rules."
TITLE V—GRANTS Article 192—No-profit principle	Grants that take the form of contribution "financing not linked to the costs" are explicitly exempted from the "no-profit principle," meaning that it is permitted for Implementing Partners to earn a "surplus" wherein EU payments exceed incurred expenses.

The inclusion of these provisions within the governing Financial Regulation provided a legal entry point for RBF, that was in turn widely accepted by the relevant "rule-following" civil servants within finance and accounting. Our process to develop the guidelines in Annex A also included early and frequent consultation with these departments, helping understand their perspectives and pre-empt their concerns at an early stage. Despite some small remaining issues, finance and accounting have been broadly supportive of the effort and bought in to the development process.

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[16] European Commission (2018). Financial Regulation applicable to the general budget of the Union, July 2018. Page 29. Available online at https://op.europa.eu/en/publication-detail/-/publication/e9488da5-d66f-11e8-9424-01aa75ed71a1/language-en.

[17] European Commission (2018). Financial Regulation applicable to the general budget of the Union, July 2018. Page 158. Available online at https://op.europa.eu/en/publication-detail/-/publication/e9488da5-d66f-11e8-9424-01aa75ed71a1/language-en.

High-level political buy-in

The transition from traditional cost-based financing to RBF is complex and requires cooperation and collaboration across the entirety of a donor agency. Even the most enthusiastic and capable task manager would struggle to drive an RBF agenda on their own given the immense challenge in aligning and marshalling agency-wide support. In contrast, efforts to adopt RBF can move far more quickly and confidently if supported by high-level leadership and widely recognized as a strategic imperative.

As detailed in the introductory section, INTPA's efforts to operationalize RBF were motivated by a high-level political imperative to focus on results that had been articulated by the European Parliament, European Council, and the highest levels of the European Commission and reflected in legislation. This political imperative helped elevate RBF as a strategic priority within INTPA, enabling the agency to secure budget, leadership time, external expertise, and other necessary resources in support of the initiative. The high-level support was also critical in elevating RBF (and related negotiations) as central to the broader financial and operational relationship between the EC and United Nations (UN)—one of the largest and most influential partners of the EU in implementing EU-funded External Actions (described in further detail in subsequent sections).

Nevertheless, careful socialization was required to secure buy-in from relevant stakeholders across the commission. INTPA staff held early consultations with staff across the EC; it also hosted internal seminars and widely circulated draft documents for stakeholder feedback. The iterative process remains ongoing two years later, demonstrating the organizational complexity of implementation across a large agency.

Pre-existing RBF experience

As described above, RBF represents a step-change vis-à-vis most donor agencies' traditional operating model. Agency staff may feel more comfortable with the transition if they can find at least partially analogous existing practices within their own institution—for example, existing contract and grant modalities that include some RBF elements, such as financing not linked to costs or independent performance verification. Pre-existing RBF practices also provide a well of experience and capacity that can be deployed in service of new RBF projects, limiting start-up transaction costs.

Once again, the European Commission enjoyed a relatively favourable institutional context in this respect, as several pre-existing modalities (understood and endorsed by finance and accounting) already included RBF elements (Table 2).

Table 2. Existing European Commission financing modalities with RBF elements

<table>
<tr><th colspan="2">Budget Support</th></tr>
<tr><td>Definition</td><td>Direct payments to the treasury of a recipient country.</td></tr>
<tr><td>How does it work?</td><td>The Commission may provide budget support to the treasury of a partner country. Fixed tranches are linked to the general conditions; in addition, variable tranches are linked to progress against agreed performance indicators.

The Commission reports that roughly half of total budget support is distributed through variable tranches linked to progress against agreed performance indicators, though the split between fixed and variable tranches varies widely by region and programme.[18] Guidance suggests that there should be between three and 10 performance-linked indicators for the variable tranche, with a preference for output or outcome indicators.[19] Disbursement rates for the variable tranche range from 50 to 80 percent of total ceiling value, with some potential funding withheld if agreed results are not achieved. Most but not all disbursement requests for the variable tranche are paid after data verification by EU Delegation officials or external experts; on average, expert verification missions cost about EUR 110,000.</td></tr>
<tr><td>Relationship to RBF</td><td>Per the definition proffered in section 1, RBF refers to “financing instruments that attempt to connect at least a portion of payment to the verified achievement of results.” Some Budget Support Variable Tranches may fall within this definition, so long as the payment is indeed tied to the verified achievement of results. Specifically, for the Budget Support Variable Tranche to be considered RBF, the disbursement-linked indicators must be explicit and objectively measurable, with clear baselines and external verification by an independent third party. In practice, these conditions are not always met. A recent report by the European Court of Auditors found that “one third of indicators [used for the Variable Tranche] do not allow results to be measured objectively,” including several indicators with no quantified target; and there were “no baselines or incorrect ones on 41% of progress indicators.”[20] In such cases, Budget Support would not be considered RBF.</td></tr>
<tr><th colspan="2">Output-Based Simplified Cost Options (SCOs)</th></tr>
<tr><td>Definition</td><td>Article 181 of the 2018 EU Financial Regulation regulates grants that grant takes the form of lump sums, unit costs or flat-rate financing as referred to in point (c), (d) or (e) of the first subparagraph of Article 125.1, namely:
Unit costs: these cover all or specific categories of eligible costs which can be clearly identified (as indicated in the budget at proposal stage) and are expressed in amounts per unit.
Lump sums: these cover in global terms all or certain specific categories of eligible costs which can be clearly identified (as indicated in the budget at proposal stage).
Flat-rate financing: this covers specific categories of eligible costs which can be clearly identified (as indicated in the budget at proposal stage) and are expressed as a percentage of other eligible costs.
Article 181.2 also specifies that “Where possible and appropriate, lump sums, unit costs or flat rates shall be determined in such a way as to allow their payment upon achievement of concrete outputs and/or results.”</td></tr>
</table>

[18] European Commission (2019). Budget Support. Trends and Results 2019, p. 60. Available online at https://ec.europa.eu/international-partnerships/system/files/budget-support-trends-and-results_en.pdf.
[19] European Commission (2017). Budget Support Guidelines, September 2017, pp. 49–50. Available online at https://ec.europa.eu/international-partnerships/system/files/budget-support-guidelines-2017_en.pdf.
[20] European Court of Auditors (2019). No 25. Special Report. Data quality in budget support: weaknesses in some indicators and in the verification of the payment for variable tranches. Page 26. Available online at https://www.eca.europa.eu/lists/ecadocuments/sr19_25/sr_budget_support_data_en.pdf.

How does it work?	Simplified cost options can apply to specific budget lines (direct costs) or to the entirety of the work programme. Multiple forms of simplified cost options can also be in combination within a single work programme, e.g. an action can be financed in part by unit costs for some eligible costs, and lump sums for other eligible cost.
Relationship to RBF	The major difference between output-based SCOs and RBF is that for output-based SCOs, in case of financial audit expenditures incurred are still subject to eligibility criteria, which are not required in an RBF approach. Also output-based SCOs are subject to the "no-profit principle", meaning that payment is expected to closely reflect the actual cost of delivering the service, even if the Implementing Partner is not required to fully document all associated costs. RBF grants, in contrast do not require the "no-profit" principle as specified in Article 192.3 of the 2018 EU Financial Regulation.
Service Contracts—Global Price[21]	
Definition	"Global price is a lump sum contract where specified output(s) is/are set out, in the form of clearly defined deliverables like a report or drawings. Global price always specify the output(s), i.e. the contractor must provide given output(s)."
How does it work?	Global price service contracts offer a lump sum payment upon achievement of pre-specified output(s); these are usually clearly defined deliverables, for example a report, evaluation, audit, or conference/ training session. Payment may be totally or partially withheld if the contractor does not fully achieve the pre-specified result per the specifications detailed in the terms of reference.
Relationship to RBF	Such contracts represent a form of RBF, though they are more limited in scope (i.e. funding specific activities/deliverables) than most EU external actions.

Though these existing practices differed somewhat from a "pure" form of RBF, they served as a useful reference point for EC staff, helping ground a sometimes-theoretical conversation in concrete practice and experience.

Ability to pre-finance even for results-based payments

In a traditional RBF paradigm, payment is only received *after* the result has been achieved and verified. Yet most implementing partners do not have sufficient cash reserves to pre-finance activities at risk in anticipation of receiving results-based payments after the fact. Others may have the financial capacity to pre-finance but still refuse to do so in practice due to organizational regulations or low risk-tolerance. As a result, funding agencies may struggle to attract willing implementers for RBF programs; in practice, this would highly constrain the scale at which RBF could be deployed.

One workaround here is pre-financing—that is, advancing payment to implementing partners that *must be returned* if the pre-specified result is not achieved. In principle/theory, pre-financing *per se* should not affect the incentives or accountability structure for RBF. In practice, however, some donors may worry that it would be politically or technically challenging to claw back funds if the associated results are not achieved in full.

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[21] European Union (2020). Procurement and Grants for European Union external actions—A Practical Guide. Article 3.2.1. Available online at https://wikis.ec.europa.eu/display/ExactExternalWiki/ePRAG.

Within the European Commission, the finance department determined that RBF programs would be eligible for pre-financing under the same guidelines and conditions that applied to cost-based programmes. INTPA already has broad experience clawing back funds for ineligible expenses and was therefore comfortable with its ability to recover pre-financed funds not associated with a verified result. The broad ability to pre-finance in general creates an enabling environment to engage a wider range of implementing partners and, eventually, scale the use of RBF in routine operations.

A needle in the haystack? Finding willing implementing partners and appropriate projects

As described in the previous section, the EC enjoyed a broadly positive enabling environment that facilitated institutional deployment of RBF. Yet the translation from "macro" institutional suitability to "micro" project fit is itself fraught. When trying to implement RBF, donor agencies are likely to encounter challenges in identifying both suitable projects and willing implementing partners. If these issues are not proactively managed, they may find that the remaining scope for RBF is highly limited, confounding efforts to integrate RBF as a prominent element in routine operations.

In this section I discuss both elements—identifying willing implementing partners and appropriate projects for RBF—while drawing on the INTPA experience to inform broader lessons. I also consider the negotiation sticking points that proved most challenging in practice and suggest proactive strategies to manage these risks.

Finding a willing implementer

RBF is necessarily a two-way contract; definitionally, a funder cannot enter an RBF agreement without the consent of the implementing partner. From the implementing partner's perspective, an RBF arrangement offers some important benefits, but also carries substantial financial and operational risks:

- **Risk of not achieving the designated results**: Under an RBF agreement, non-achievement of results implies non-receipt of results-based payments. Implementing Partners must understand and agree that they will not be paid unless they achieve the designated results.
- **Risk of higher-than-expected input costs**: Under an RBF agreement, Implementing Partners are paid a pre-designated sum per result (as measured by pre-agreed indicators); they are not reimbursed for actual costs incurred. This means that recipients absorb risk related to higher than anticipated input costs to achieve the results—for example, variations in fuel costs, travel, medicines, other equipment, or exchange rate variation.
- **Risk of failing to secure pre-financing**: As described in the previous section, some Implementing Partners may have limited cash reserves/cash-on-hand to

pre-finance implementation of a results-based programme while awaiting results-based payment.

- **Risk of payment delay**: In some RBF programmes, payment will only be made after payment-linked results are reported and independently verified by a third party. This process could substantially delay receipt of results-based payments.

Concessions from the funder can defray these risks. Indicator selection can and should be done with regard for implementing partners' perspective; implementing partners should believe that achievement or non-achievement of the payment-linked indicators is within their control. Contractual contingencies can adjust payment per result based on extreme variation in exchange rates or pre-specified input costs, for example fuel or medicines/vaccines; payment rates per result can also account for recipients' absorption of input cost risk. Pre-specified *force majeure* clauses can also account for unforeseeable changes in circumstances beyond the implementer's control, for example civil war, terrorism, natural disasters, or disease outbreaks. Finally, as described in the previous section, funders can offer pre-financing even for RBF programs, thereby defraying cash-flow and payment delay risk.

Nevertheless, from the implementing partner's perspective, risks of RBF can only be mitigated—not eliminated. The core premise of RBF is that payment will only be made if results are achieved, implying that the implementing partner absorbs at least most risk for non-achievement. Compared to traditional cost-based financing—in which implementing partners are reimbursed for costs incurred *even if the program is entirely ineffective*—this entails a dramatic transfer of risk from the funder to the implementing partner. Not all implementing partners will be either willing or able to absorb these risks. And again, given that RBF is necessarily a two-way contract, implementing partners are empowered to say "no" and walk away, creating enormous leverage in negotiations.

How, then, can funders find willing implementing partners for an RBF program? One possibility is competitive procurement—that is, issuing an open call for proposals which specifies an RBF approach from the outset and inviting prospective implementing partners to apply. For example, the call for proposals could specify pre-selected payment-linked indicators and invite applicants to compete on the payment rate per result. This approach would select for willing implementers, as organizations would only apply if they were willing to accept RBF payment terms. But a potential downside to this approach is that it would exclude, from the outset, organizations that are wary of RBF approaches or even slightly risk-intolerant—which could, in some instances, include the most capable or qualified potential implementing partners. The competitive procurement approach will be included in INTPA RBF guidelines as one possible entry-point; however, it has not yet been trialled or applied in practice.

Instead, INTPA made a strategic decision to begin RBF piloting with sole-source grant awards—that is, with pre-selected implementing partners. More specifically, INTPA made a strategic decision to trial RBF with United Nations (UN) agencies via country level external actions, contingent upon their agreement and following regular consultations at the operational level. The choice of the UN was notable for several reasons.

First, the UN is highly unusual in its size, importance, and overall standing. Perhaps unsurprisingly, the UN is the largest channel for ODA from the EC, receiving a reported $2.5 billion (USD) in 2019.[22] The EC is frequently reliant on the UN as the only qualified or acceptable implementing partner for specific external actions, particularly in fragile, conflict-affected, or other politically sensitive contexts where the UN's reach and legitimacy offer unique and non-substitutable benefits. The partnership between the EC and UN is shaped by this broader context of co-dependence,[23] offering the UN far greater leverage within the funding relationship than would typically be enjoyed by an implementing partner.

Second, UN agencies rarely provide direct service delivery to end-beneficiaries, at least outside of humanitarian contexts. Most UN programs focus on commodity procurement or technical/advisory services to governments or other actors. These types of activities are somewhat more difficult to finance via RBF than service delivery, as outputs are often comprised of trainings, modules, reports, or consultations.

Third, in EU parlance, the UN is a "pillar-assessed" organization. This means that the UN has passed a rigorous ex-ante assessment against nine "pillars" of financial, operational, and policy controls and is therefore entrusted to implement European Union funds via "indirect management."[24] The UN is thus accustomed to a status as "trusted partner" to the EC, with broad deference to its internal controls and management capacity. Though this had no direct implications for RBF, it did raise questions about the extent to which the UN would be subject to independent third-party verification of results—an essential component of any RBF project. The requirement for independent verification was ultimately clarified and solidified, though only after substantial internal discussions.

Fourth, the broader relationship between the EC and UN is governed by an umbrella Financial and Administrative Framework Agreement (FAFA), last revised in 2018, which also applies to all individual grant awards between the EC and UN.[25] At a high level, the FAFA includes language which appears hospitable to RBF; for example, the preface acknowledges a "shift to a results orientation…accompanied by a corresponding shift away from the exclusive examination of inputs and activities." However, the document is short on further detail, leaving significant scope for further discussion and negotiation. A FAFA Working Group, comprised of relevant staff from across the EC and UN agencies, typically

[22] Donor Tracker (2021). European Union. Available online at https://donortracker.org/country/eu.
[23] Saez P., Sida L., Silverman R., Worden R. (2021). Improving Performance in the Multilateral Humanitarian System: New Models of Donorship. Policy Paper. Center for Global Development. Available online at https://www.cgdev.org/sites/default/files/PP214-Saez-et-al-Improving-Humanitarian-Multilat-System.pdf.
[24] European Commission (2019). COMMISSION DECISION of 17 April 2019 on establishing new terms of reference for the pillar assessment methodology to be used under Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council. Available online at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019D0606(01)&rid=3.
[25] European Commission (2018). Financial and administrative framework agreement between the European Union represented by the European Commission and the United Nations. Available online at https://www.dgecho-partners-helpdesk.eu/io/framework-partnership-agreement/the-fafa.

meets once per year[26] to discuss operational issues and set broad direction for the EC/UN partnership. This forum offered a platform to approach the UN at scale and secure their potential buy-in at a macro level.

Efforts to engage the UN as a potential partner in RBF were extensive and sensitive, reflecting the UN's importance as an implementing partner and substantial leverage within the funding relationship. An October 2019 FAFA Working Group meeting offered an early opportunity to socialize the RBF initiative with a large community of relevant UN staff.[27] The EC stressed that RBF would be "voluntary", not imposed, within the relationship; they also stressed the desire for a collaborative process with UN agencies to help define a mutually acceptable approach. Subsequent discussions and negotiations have attempted to iron out other sticking points—some as part of high-level bilateral negotiations, but most within the context of specific, individual external actions (as described in the next section). As of the time of writing, negotiations vis-à-vis RBF remain ongoing between the EC and UN agencies.

UN agencies appear to accept the rationale for and inevitability of an RBF approach, at least for certain specific projects; they also understood the potential benefits for their own organizations, including less haggling over eligible costs—a major ongoing source of contention in cost-based programs. Nevertheless, UN agencies remain somewhat hesitant to adopt RBF modalities. In part this is due to specific practical concerns; in part it is also attributable to a general sense that, whatever their complaints with the status quo, it is better to stick with the predictable "devil they know" (e.g. standard EC bureaucracy) versus dive into the unknown (e.g. RBF). Some of their practical concerns were quickly addressed; for example, the EC confirmed that they would continue pre-financing the UN per standard practice, addressing cash flow concerns. Others issues remained live deep into individual project negotiations; these are discussed further in the next section related to individual projects. The UN has also, at times, requested adjustments and "flexibilities" that would, if granted, contradict the risk-sharing foundation of RBF—for example, regular review and potential revision of payment rates and/or payment-linked indicators.

Another question related to the treatment of UN agencies' overhead expenses—referred to, in EU parlance, as "indirect" costs. The FAFA specifies that "a fixed percentage of direct eligible costs, not exceeding 7%, shall be eligible as indirect costs."[28] Importantly, the language is explicit that indirect can only be applied to *direct eligible costs*, thereby excluding the possibility for the seven percent overhead rate to be applied to RBF payments. The EC's finance department determined that the indirect could and should be bundled *within* the

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[26] The 2020 meeting was postponed until October 2021 due to COVID-19-related disruptions.
[27] European Commission and United Nations (2019). Operational conclusions of the 15th annual meeting of the EU-UN FAFA Working Group. Geneva. 11 October 2019. Available online at https://ec.europa.eu/international-partnerships/system/files/operational-conclusions-2019-co-signed_en.pdf.
[28] European Commission (2018). Financial and administrative framework agreement between the European Union represented by the European Commission and the United Nations. Available online at https://www.dgecho-partners-helpdesk.eu/io/framework-partnership-agreement/the-fafa.

per-result payment rate versus *on top* of it; the implementing partner (in this case a UN agency) would therefore by entitled to the same amount of indirect compensation in either case. Even so, the proposed arrangement raised objections from UN agencies given complications in internal financial management. Ultimately, INTPA's view was accepted since backed by EU-wide regulations; overhead was therefore incorporated within the per-result payment rate.

Identifying appropriate projects for RBF

As detailed in the literature and reiterated in the guidelines (Annex A), RBF is not a suitable modality for all international development financing, even when broad institutional prerequisites are in place as discussed earlier in this paper. Most importantly, RBF can only be applied to projects that involve delivery of a service or intervention and which contain one or more *contractable indicators*, defined as having the following characteristics:[29]

- Indicators should be mostly or entirely under the control of the Implementing Partner; therefore, the Implementing Partner can be held reasonably accountable for whether the results are achieved. For example, an Implementing Partner (e.g. a UN agency) could not be reasonably held accountable for whether a national government does or does not take a given policy action, so such indicators would not be appropriate for RBF. This typically means that contractable indicators are at the output or outcome level.
- Indicators should be a direct proxy for a meaningful and important development outcome—and not just deliverables at the activity or output level. For example, this means that number of people trained, or production of a report, are poor RBF indicators as they do not *necessarily* lead to meaningful development outcomes despite being on a causal chain.
- Indicators should be measurable through direct and objective observation—not modelling, for example.
- Indicators should be independently validated based on direct and objective observation.
- The source of data for reporting on the indicators must be clearly identified and readily available.
- Where applicable, the indicator should be supported by clear quality standards that determine whether a result has been achieved.
- Ideally, indicators should be measurable and payable on an *incremental* basis (e.g. payment per unit of improvement) versus for hitting or exceeding a threshold/target.

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[29] Criteria adapted from Silverman R., Over M., Bauhoff S. "Aligning Incentives, Accelerating Impact. Next Generation Financing Models for Global Health. Next Generation Grants", Center for Global Development, 2015. https://www.cgdev.org/sites/default/files/CGD-WG-report-aligning-incentives-accelerating-impact.pdf.

In theory, this requirement should pose only a relatively minor constraint, as most (though not all) development interventions could be captured by a contractable indicator somewhere along the results chain. (Exceptions include intervention areas that are necessarily qualitative, for example human rights or governance/democracy.) Nevertheless, INTPA encountered significant challenges in identifying suitable projects ('Actions') for RBF, substantially slowing the pilot process.

The challenge in identifying suitable projects followed directly from INTPA's approach to project development and identification. Essentially, INTPA attempted to layer RBF on top of the organization's long and complex pre-existing project development cycle. In practice, this meant selecting from a fixed subset of country-level Actions which (1) had already been approved at an initial stage by a managerial committee (the Strategic Steering Committee); and (2) featured a UN agency as the specified or presumptive Implementing Partner. This approach was intended to expedite the pilot process by "slotting in" at a relatively advanced stage of project development. But because such actions had been conceptualized and developed based on the implicit expectation of traditional cost-based financing—versus designed, from the outset, as an RBF project—many of the constituent activities and indicators were not well suited for an RBF modality. Other planned activities were theoretically compatible with RBF, but the indicators required adjustment and refinement to be contractible. The pre-selection of the UN as implementing partner exacerbated the challenge, as UN agencies often provide advisory services and technical assistance to governments—interventions not always suitable for RBF—versus direct service delivery.

In the two Actions ultimately selected for RBF piloting—a health and education program, both in Tajikistan—a review of the draft logframes suggested that relatively few of the initially proposed indicators/activities would be suitable for RBF as they represented inputs into the production of results, rather than results themselves. Excluded activities/indicators included those for trainings, meetings, conferences, reports, modules, workshops, and technical assistance to host country governments or other bodies. What remained after this review—that is, the portions of the two Actions that would be suitable for RBF—was quite limited. For the education program, the RBF-appropriate portion of the Action was so small (in relative terms) that the transaction costs could not be justified; INTPA and the UN thus jointly decided to abandon the RBF effort and revert to a traditional cost-based approach.

The health program, in contrast, primarily targeted facility and sanitation upgrades, which could in theory be financed and delivered via an RBF approach. Yet even here, the fact that the program had not initially been conceptualized/designed as an RBF approach posed challenges. Some components of the Action were not suitable for RBF, meaning that the entire Action would need to be "hybrid" financed—part by RBF, part by cost-based financing. Most problematically, neither the UN agency nor INTPA had solid baseline data on the existing state of Tajik health facilities; nor did either party understand the likely unit costs (and thereby an appropriate RBF payment rate) for executing the upgrades/achieving the higher sanitation standard. Initially proposed quality standards were vague and undefined, meaning there would likely be disputes about whether the results had in fact been achieved. The UN agency wanted to clarify these points during an initial "inception phase" within the Action. Yet there would be no way to pay for results during the inception phase, and the very existence of the inception phase would defer the most difficult negotiation/decision points on RBF (and its actual implementation) until a later date. However, the arrangement would allow both parties to better understand the cost and risks of achieving the desired results, thus mitigating and sharing their financial and operational risk.

INTPA's initial approach to project selection from within the existing project development cycle—a decision initially intended to expedite RBF piloting—probably resulted in significant delays in the process. The INTPA experience here underlines the importance of RBF-focused project development from the earliest phases, wherein both parties (funder and implementing partner) understand and accept that the project will by RBF-financed and design the project ('Action') accordingly by focusing on desired, achievable, and contractable results versus a detailed accounting of activities and interventions. Full integration of RBF as a financing modality will thus require significant adaptations to project development cycles—not just a layering of RBF "on top" of existing project design approaches.

Sticking points and remaining challenges

The negotiations between the UN and INTPA also underline some remaining challenges that require further resolution before RBF can be deployed at scale—and within any individual Action. Here I focus on two major concerns that will likely apply across funders and implementers: (1) agreement on an incremental, per-result payment rate; and (2) agreement on the usage, form, and application of an independent verification exercise.

Setting the per-result payment rate

An RBF agreement establishes that the implementing partner will be paid not based on costs, but instead based on pre-specified results. This leads to a natural and often confounding question: how much should the implementing partner be paid? How much is that result worth—and to whom? How much should the funder be willing to pay for its verified achievement?

The question of "willingness to pay" has no simple answer. One relatively practical approach would say that, as a starting point, funders should be willing to pay whatever it would cost to achieve said result under a traditional, cost-based program, such that RBF and non-RBF programs become economically substitutable from the funder's perspective. This would imply a payment rate of [input costs required to achieve the result]*[risk adjustment], where the risk adjustment would reflect the portion of results that are *not* achieved, on average, under a similar cost-based program.

The EU Financial Regulation allow some flexibility here as they permit financing not linked to costs—a core tenet of RBF. That means that the payment rate paid to the Implementing Partner per result does not *necessarily* mirror the cost (either average or marginal) of achieving said result. Implementing Partners of RBF programs are allowed, under EU rules, to earn and keep a "surplus" or "profit". Under RBF theory, the ability to earn a profit offers (1) an incentive for efficiency (e.g. to keep costs low during implementation); (2) an incentive for extra effort (e.g. to work harder to achieve payment-linked results); and (3) risk compensation to the implementing partner (e.g. the potential profit helps offset implementing partners' risk of non-achievement of results and therefore non-payment).

In practice, however, conceptualizing and determining an appropriate payment—one which can stand up to scrutiny from auditors and other Controlling Institutions—remains a key challenge in RBF design. Deferring the final decisions on the pre-result rate until after the "inception period" (discussed in the previous section)—implies that this remains a live and unresolved issue within the pilot RBF programs.

Organizing and applying independent verification

As with the payment rate, the use and application of independent verification often poses a sticking point for RBF programs. Many implementing partners challenge the need for independent verification at all, insisting that their internal data systems are high-quality and trustworthy. Funding agencies, likewise, often struggle to conceptualize independent verification as the RBF analogue of external audit—a necessarily check to prevent and control data fraud and falsification.

Perhaps because of previous experience with results-based Budget Support—which itself includes an independent verification function—INTPA was relatively quick to understand the function and necessity of independent verification within an RBF program. Nevertheless, this understanding in theory led to many practical questions about how and when to apply independent verification within the RBF project life cycle, many of which could not be easily or quickly resolved:

- ***Method of verification***: Both the funder and implementing partner must determine *at the outset* a jointly acceptable method of verification and agree to accept its results for contractual/payment purposes. Depending on the specific program type, this could involve, for example, surveys or other population-wide data collection within a catchment area; direct observation of facilities; or beneficiary/participant interviews.
- ***Choice of verification agent***: Both the funder and implementing partner must determine *at the outset* a jointly acceptable verification agent and/or selection process for a verification agent. They must jointly agree to accept its results for contractual/payment purposes.
- ***Budget for verification exercise***: The budget for independent verification must be secured at the program outset, and the source of the verification budget should be clearly specified in the contract/grant agreement. The budget should be held/managed by the funding partner to mitigate conflicts of interest and may be deducted from the total budget for a project ('Action'). INTPA agreed to make a specific pot of funding available to support independent verification for the pilot projects; however, the budget source for routine independent verification in future projects has not yet been determined.

- ***Timing of verification***: A purist form of RBF would withhold payment until *after* reported results are verified by an independent third party. However, doing so can create substantial payment delays, which may create problems for the implementing partner's cash flow and continued operations. In the INTPA/UN case, RBF programs were fully pre-financed, so the timing of verification had limited practical impact on UN agencies' cash flow. INTPA and the UN agreed that UN self-reports would be sufficient to consider the results as "achieved" for accounting purposes—but would be subject to independent verification (and, potentially, claw-back) after the fact.
- ***Application of verification results to payment***: Funders and implementing partners must jointly agree *at the outset* how verification results will impact total payment. The relatively simple scenario occurs if independent verification confirms the implementing partner's self-reports—meaning that the implementing partner will be paid in full for the verified results achieved. Things become more complicated if the verification exercise identifies discrepancies with the implementing partner's own reporting. In such a scenario, how should the two data sources (implementer self-reports and the independent verification results) be reconciled in a way that all parties will accept? Will the funder extrapolate and apply the sample-based verification results project-wide? Will misreporting itself be penalized, beyond just reduced payments from lower results? None of these questions have easy answers, and any ambiguity at the outset is likely to lead to disputes during project implementation.

These questions must be clearly understood and agreed at the outset of an RBF program to set clear expectations and avoid disputes down the road. For the INTPA/UN pilots specifically, several of these questions remain unresolved at the time of writing and will not be specifically addressed until after the inception phase.

Conclusion

The INTPA experience illustrates how challenging a transition to RBF can be, even within a highly conducive enabling environment. The author was pleasantly surprised by the starting point within INTPA, where several institutional prerequisites and enabling factors for RBF were already in place. The EU's new financial framework explicitly permitted and even encouraged results-based payments; recognized that such payments would not be linked to costs; permitted implementing partners to earn a surplus/profit in such cases; and allowed full pre-financing to implementing partners even under a results-based methodology. RBF enjoyed high-level support from INTPA leadership and enthusiasm from among the agency rank-and file, who in turn were responsive to a high-level, EU-wide imperative to adopt a "results orientation." The EC even had extensive experience with RBF-adjacent financing modalities, including results-based budget support to national governments; these analogues helped stakeholders to understand some of the relevant RBF concepts and requirements.

Yet the process has nevertheless been complicated, with significant growing pains and constraints. INTPA's attempt to "layer" RBF on top of its existing funding relationships (e.g. with UN agencies) and project development cycles has constrained the scope and ambition for RBF. A "blank slate" approach—where project development takes place within an RBF framework from the earliest stages—would likely address some of the observed challenges but would require a more dramatic and revolutionary transformation of INTPA culture and processes. Before undertaking an RBF transformation effort, other funders should assess (1) the extent to which their existing organizational approach is hospitable to RBF; and (2) the extent of their appetite for broader organizational transformation in support of RBF.

The INTPA experience also illustrates the potential difficulties of securing buy-in and participation from willing implementing partners, who must be willing to take on additional risk and transform their own ways of working. The UN—itself a complex and conservative organization, which mostly offers commodity procurement and advisory services versus direct service delivery—may not be a natural counterparty for an RBF approach. Other funders might consider beginning an RBF piloting process with a smaller and more agile implementing partner—perhaps one selected through a competitive, request-for-proposals approach. Alternatively, RBF may be more naturally applied when a national or regional government is the direct recipient of funds, as already occurs through EU budget support to partner governments.

Finally, it is our hope that this paper and accompanying guidelines—made available in the public domain—will offer a helpful reference point for other funders considering an RBF approach. Though RBF is discussed extensively in the literature, the "nuts and bolts" of its operational application remains poorly documented. The challenge of implementing RBF within funders of ODA should not be underestimated—but better sharing of information and experience within the public domain should help facilitate a learning agenda, allowing funders and implementing partners to better anticipate and address common stumbling blocks in the process.

Appendix 1. Adapted guidelines for public use

These guidelines are the result of a partnership between the European Commission Directorate-General for International Partnerships (INTPA) and the Center for Global Development (CGD). This general guidance document—reflecting key principles and best practice for the operationalisation of results-based financing (RBF) in international assistance projects—was developed to inform INTPA's internal policy approach to RBF for use in foreign assistance grants and contracts. The document is informed by the close working partnership between INTPA and CGD; however, the principles and guidance provided should be broadly relevant to all funders of official development assistance (ODA). An adapted version of the guidance document is made available here as a global public good that can be adopted and adapted by other funders.

We are grateful to the European Commission for its financial support of this research, and to Chiara Bocci and Franco Conzato for their technical input. **This document reflects the input of INTPA but does not constitute institutional policy or any funding or policy commitment**. All views, errors, and omissions are those of the author alone.

The document is organised in two parts and proceeds as follows:

- Chapter 1 lays out the **background and principles** for use of RBF as a funding modality. It discusses the potential benefits of RBF; considers the enabling environment that may motivate and facilitate use of RBF; and lays out the preconditions for designing an RBF programme.
- Chapter 2 offers a high-level roadmap for **designing an RBF programme.** It first discusses the internal process to assess feasibility and receive approval for use of an RBF modality. It then lays out technical guidance for design of an RBF agreement, including choice of indicators; payment schedule; reporting requirements; budgeting; pre-financing; independent performance verification; and monitoring and evaluation.

1. Background and principles

1.1. What is results-based financing?

Results-based financing (RBF) is one of several broad approaches by which a Funding Partner can structure its compensation (via grants or contracts) to an implementing partner. Specifically, RBF is "an umbrella term for a broad range of financing [modalities] that **attempt to connect at least a portion of payment to the verified achievement of results**."[30] This means that some or all of the funding received by the partner is contingent upon achieving pre-specified results.

For example, all of the following contractual/grant arrangements (for a vaccination programme) would fall under the RBF umbrella:

- A Funding Partner pays an implementing partner $100 dollars for each fully vaccinated child.
- A Funding Partner reimburses an implementing partner for the direct costs of vaccine procurement and administration; in addition, the Funding Partner pays the implementing partner $10 for each fully vaccinated child.
- A Funding Partner reimburses an implementing partner for the direct costs of vaccine procurement and administration; in addition, the Funding Partner pays the implementing partner $10,000 for every additional percentage point of population-wide vaccination coverage, as measured by an independent third-party survey.

For the avoidance of doubt, we use the OECD definition of results in this context, "defined as the outputs, outcomes, or impacts of development intervention."[31] Funding Partners use several tools to crystallise the hierarchy of results (impacts, outcomes, outputs). Among those, the Logical Framework Matrix (logframe) is used by the European Commission Relex family to guide design, monitoring, and evaluation of the co-funded interventions.[32]

RBF does not follow a cost reimbursement approach, wherein the Funding Partner pays the implementing partner based on expenses incurred.

Many different financing modalities fall under the RBF umbrella. These include: cash on delivery (COD), payment by results (PBR), output-based aid (OBA), performance-based financing (PBF), performance-based incentives (PBI), results-based aid (RBA), payment for results (P4R), and financing not linked to costs (FNLC); among others.

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[30] Silverman R., Over M., Bauhoff S. (2015). Aligning Incentives, Accelerating Impact. Next Generation Financing Models for Global Health. Next Generation Grants", Center for Global Development. Available online at https://www.cgdev.org/sites/default/files/CGD-WG-report-aligning-incentives-accelerating-impact.pdf.
[31] Outputs are the products, capital goods and services which result from development interventions. Outcomes are the likely or achieved short-term and medium-term change and effects of intervention outputs. Impacts are the positive and negative, primary and secondary, long-term effects produced by development interventions.
[32] Managing a project for the Relex family is described in the Project Cycle Management Guidelines available at https://ec.europa.eu/international-partnerships/funding/managing-project_en.

For practical purposes, it is not necessary to define or distinguish between these terms of art. All such terms fall within the broader RBF family, where payment is tied to the achievement of objectively verifiable results.

1.2. Why tie funding to results?

1.2.1. Results-based financing: A different way to fund international cooperation and development

Most international development assistance is distributed based on rigorous input/cost-based accounting. Under this model, Implementing Partners prepare a detailed description of the programme activities (and corresponding budget); receive money to cover eligible and incurred programme costs; and must carefully track and document that funding is indeed spent for approved purposes. This model offers one strategy for ensuring accountability, as it helps assure Funding Partners that assistance is being used for its intended purpose. However, this model also suffers from important limitations that have been extensively discussed in the aid effectiveness literature.[33] These include:

- **Inadequate accountability for results**: Cost-accounting helps ensure that aid is being used for the intended purpose but does not, by itself, create sufficient accountability that aid money achieves its intended results.[34]
- **Inadequate incentives for efficiency**: If Implementing Partners receive resources based on costs incurred, they have less incentive to reduce costs or achieve efficiencies in programme implementation.
- **Disproportionate focus on budgets and cost drivers:** Funding Partner negotiations with Implementing Partners disproportionately focus on budgets and cost drivers, including whether specific proposed or incurred costs or budget items are appropriate or necessary, detracting from focus on programme design and accountability for results.
- **Uneven distribution of risk**: since payments are primarily based on eligible expenses and not on results, Funding Partners effectively assume more risk for programme underperformance.

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[33] See, for example: Birdsall N., Savedoff W.D. (2011). Cash on Delivery: A new approach to foreign aid. Center for Global Development. Available online at https://www.cgdev.org/sites/default/files/1423949_file_CODAid_SECOND_web.pdf; Silverman R., Over M., Bauhoff S. (2015). Aligning Incentives, Accelerating Impact. Next Generation Financing Models for Global Health. Next Generation Grants", Center for Global Development. Available online at https://www.cgdev.org/sites/default/files/CGD-WG-report-aligning-incentives-accelerating-impact.pdf; Kenny C. Results Not Receipts: Counting the Right Things in Aid and Corruption. Center for Global Development, 2017.

[34] *Ex post* evaluation and results-oriented monitoring (ROM) can provide alternative mechanisms of accountability for results. A 2014 report by the European Court of Auditors assessed, at the time, that "reporting does not provide much evidence on results achieved," motivating reform in Results Reporting systems. See European Court of Auditors. No. 18: EuropeAid's Evaluation and Results-Oriented Monitoring Systems, 2014. Page 20. https://www.eca.europa.eu/Lists/ECADocuments/SR14_18/SR14_18_EN.pdf.

- **Transaction costs**: Significant effort—by both Funding Partners and Implementing Partners—is spent negotiating, documenting, and auditing budgets and expenses, including compliance with all requirements. Accounting and reporting requirements vary across Funding Partner agencies, potentially requiring Implementing Partners to maintain multiple/duplicative accounting and reporting systems. The focus on cost-accounting may detract from programme design and effective implementation.
- **Rigidity**: Requirements for budgets and eligible expenses to be approved in advance limit opportunities for adaptation and innovation.

1.2.1.1. How RBF can benefit funding partners, implementing partners, and final beneficiaries

RBF offers an alternative financing model that may, in some situations, help address the challenges described in the previous section and offer benefits to all stakeholders—specifically Funding Partners, Implementing Partners, and final beneficiaries. Under an RBF programme, some or all financing is contingent on the verified achievement of results—not based on how much money was spent by the Implementing Partner.

Based on experience and provided that pre-conditions are in place, RBF models can offer benefits to all stakeholders– thus addressing the limitations listed in the previous section:

- **Create greater accountability for results**: RBF payments only occur when the Implementing Partner achieves verified progress against mutually agreed results—creating direct and visible accountability for results.
- **Create incentives for efficiency**: Under an RBF programme, Implementing Partners are paid for the results achieved, not for the costs incurred; they would therefore have greater incentives to achieve results as efficiently as possible, avoiding unnecessary expenses.
- **Restore focus on programme results and design**: For an RBF project, negotiations between the Contracting Authority and the Implementing Partner would focus on achievable results and programme design—rather than budget lines or cost drivers.
- **Share risk between funders and the Implementing Partner**: Implementing partners assume more risk in case of programme underperformance.
- **Reduce transaction costs, bureaucracy and administrative burden:** In the long run, RBF can reduce the overall administrative burden for both funding and Implementing Partners—most notably by reducing the need to track, report, and negotiate budget/costs.[35]
- **Increase flexibility and adaptability:** Implementing Partners would be able to implement programmes according to local circumstances and using their best judgement, with less micromanagement or red tape.

[35] Initial implementation of RBF is likely to *increase* transaction costs in the short-term, as both funding and implementing partners must change their normal operating procedures to accommodate the new modality. Transaction cost savings are likely in the long run, as both funding and implementing partners adjust to the new approach and cut out unnecessary administration.

Variants of the RBF model are already widely used by many peer development organisations, including but not limited to the World Bank, the United Kingdom's Foreign, Commonwealth and Development Office (FCDO), and the Inter-American Development Bank (see Table A.1).

Some existing European Commission financing instruments can also be considered variants of RBF (discussed in later sections).

Table A.1. Examples of RBF at peer agencies

	Programme/ Instrument	Description	Scope/Usage
World Bank	Programme-for-Results (PfR) Financing	On-budget lending to borrowers where disbursements are linked to achievement of verified results[36]	Introduced in 2012. As of end-2018, used for over $10 billion of IDA/ IBRD commitments, accounting for 22.5% of total[37]
	Global Partnership for Results-Based Approaches	Offers results-based subsidies to support basic service delivery in water, sanitation, energy, health, and education	Introduced in 2003 as the Global Partnership on Output-Based Aid. As of June-2020, had supported 55 grant agreements totalling $273.9 million.[38]
Inter-American Development Bank	Loan Based on Results	Lending that "link[s] disbursement of funds directly to the achievement of predefined, sustainable results".[39]	Introduced in 2016. As of 2020, had been used to support eight loans in five countries, totalling $1.1 billion.[40]
United Kingdom's Foreign, Commonwealth and Development Office	Pilot Project of Results-Based Aid in the Education Sector in Ethiopia	Cash-on-Delivery programme that paid a fixed amount for every additional secondary school student (1) sitting for; and (2) passing a standardised national examination.	Up to £10 million per year over three years (2012–2014), later extended by an additional year (with no increase in ceiling payment), of which £26.6 was ultimately paid out.[41]

[36] World Bank (n.d.). Program-for-Results: A New Approach to World Bank Financing. Available online at http://pubdocs.worldbank.org/en/904551435264587829/PforR-brochure.pdf.
[37] World Bank (2019). Program-for-Results: Proposal to Remove the Cap on Commitment Authority. Available online at http://documents1.worldbank.org/curated/en/188011557406617235/pdf/Program-for-Results-Proposal-to-Remove-the-Cap-on-Commitment-Authority.pdf.
[38] The Global Partnership for Results-Based Approaches (2020). Annual Report 2020. Available online at https://www.gprba.org/sites/gpoba/files/publication/downloads/2020-10/GPRBA_AnnualReport_2020.pdf.
[39] Inter-American Development Bank (n.d.). Investment Lending Category. Accessed 16 December 2020 at https://www.iadb.org/en/about-us/public-sector-financing/investment-lending-category.
[40] Inter-American Development Bank (2020). Corporate Evaluation: Lending Instruments Report. Available online at https://publications.iadb.org/publications/english/document/Lending-Instruments-Report.pdf.
[41] UK Department for International Development (2016). Project Completion Review. Pilot Project of Results Based Aid in the Education Sector in Ethiopia. Available online at http://iati.dfid.gov.uk/iati_documents/5419380.odt.

1.2.1.2. Results-based financing in the European Union

Both the European Parliament and the Council, as part of a broader focal shift from ensuring compliance to emphasising performance, have endorsed a revision to the European Union (EU) Financial Regulation in 2018. The latter creates a policy imperative and opportunity to deploy RBF in EU programmes.

A focus on results within the EU institutions has accelerated in recent years. In 2015, the European Commission launched the Budget Focused on Results (BFOR) initiative,[42] aiming to integrate performance at every stage of budget formulation and implementation processes. The initiative emphasises that the EU Budget should focus on results as much as on absorption, rebalancing spending compliance with performance.

The European Parliament has strongly supported and urged expansion of these measures, explicitly recognising "the need to strengthen the focus of future spending on performance and results, based on ambitious and relevant performance targets" within the Multiannual Financial Framework (MFF) for 2021–2027.[43]

The 2018 European Union Financial Regulation follows from this imperative, urging an increased focus on results. In its preface, the EU Financial Regulation explicitly permits deployment of RBF financing models; later articles further specify allowable forms (Table A.2).

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[42] See European Commission (2015). EU Budget Focused on Results. Summary of the 1st Annual Conference Held on 22 September 2015. Available online at https://op.europa.eu/en/publication-detail/-/publication/368788bd-45ad-11e7-aea8-01aa75ed71a1.

[43] European Parliament (2018). P8_TA(2018)0449. Interim report on the Multiannual Financial Framework 2021-2027—Parliament's position with a view to an agreement. European Parliament resolution of 14 November 2018 with a view to an agreement (COM(2018)0322 – C8-0000/2018 – 2018/0166R(APP)). Page 4/55, Section 7. Available online at https://www.europarl.europa.eu/doceo/document/TA-8-2018-0449_EN.pdf.

Table A.2. Relevant articles of the 2018 European Union Financial Regulation

Preface	"The Financial Regulation presented in this publication has addressed the main concerns expressed in the public consultation and has brought about important changes, including: […] a focus on results and EU added value."
1.2 Recital (1)	"Following three years of implementation, further amendments should be made to the financial rules applicable to the general budget of the Union (the 'budget') in order to remove bottlenecks in implementation by increasing flexibility, to simplify delivery for the stakeholders and the services, to focus more on results, and to improve accessibility, transparency and accountability."
1.2 Recital (56) (emphasis added)	"More emphasis should be put on performance and results of projects financed from the budget. It is thus appropriate to define an additional form of financing […] based on the fulfilment of certain conditions *ex ante* or on the achievement of results measured by reference to previously set milestones or through performance indicators."[44]
TITLE V—COMMON RULES Article 125—Forms of Union contribution (emphasis added)	"1. Union contributions under direct, shared and indirect management shall help achieve a Union policy objective and the results specified and may take one of the following forms: (a) financing not linked to the costs of the relevant operations based on: […] (ii) the achievement of results measured by reference to previously set milestones or through performance indicators; […] (f) a combination of the forms referred to in points (a) to (e) [flat-rate financing]."[45] "Union contributions under point (a) of the first subparagraph of this paragraph shall, in direct and indirect management, be established in accordance with Article 181, sector-specific rules or a Commission decision and, in shared management, in accordance with sector-specific rules."
TITLE V—GRANTS Article 192—No-profit principle	Grants that take the form of contribution "financing not linked to the costs" are explicitly exempted from the "no-profit principle," meaning that it is permitted for Implementing Partners to earn a "surplus" wherein EU payments exceed incurred expenses.

In combination, these measures provide an enabling legal framework and positive policy context for the deployment of RBF models within the European Commission.

1.2.1.3. Results-based financing for EU External Action

The traditional operating and financing model for EU External Actions follows typical practice by peer development agencies as described in section 1.2.1; that is, it follows a primarily cost-based approach. Under its standard financing model, the Implementing Partner of an EU

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[44] European Commission (2018). Financial Regulation applicable to the general budget of the Union, July 2018. Page 29. Available online at https://op.europa.eu/en/publication-detail/-/publication/e9488da5-d66f-11e8-9424-01aa75ed71a1/language-en.
[45] European Commission (2018). Financial Regulation applicable to the general budget of the Union, July 2018. Page 158. Available online at https://op.europa.eu/en/publication-detail/-/publication/e9488da5-d66f-11e8-9424-01aa75ed71a1/language-en.

External Action must submit a detailed budget prior to approval of the agreement. During implementation, the Implementing Partner must carefully document expenses and ensure that all accounting practices are aligned with EC requirements; the EC will only permit disbursements for approved and appropriately documented expenses. The Implementing Partners must submit regular financial and narrative reports, including on project results as specified in the project Logical Framework Matrix (if any). However, mainly eligible costs incurred—not results achieved—directly affect disbursements from the EC to the Implementing Partner.

At the same time, several existing European Commission external action implementation modalities already contain RBF elements. RBF, therefore, is not a completely new form of implementation for European Commission delivery of external aid, but instead builds upon existing institutional experience and capacity.

Some examples are described in Table A.3.

Table A.3. Existing European Commission financing modalities with RBF elements

Budget Support	
Definition	Direct payments to the treasury of a recipient country.
How does it work?	The Commission may provide budget support to the treasury of a partner country. Fixed tranches are linked to the general conditions; in addition, variable tranches are linked to progress against agreed performance indicators. The Commission reports that roughly half of total budget support is distributed through variable tranches linked to progress against agreed performance indicators, though the split between fixed and variable tranches varies widely by region and programme.[46] Guidance suggests that there should be between three and 10 performance-linked indicators for the variable tranche, with a preference for output or outcome indicators.[47] Disbursement rates for the variable tranche range from 50 to 80 percent of total ceiling value, with some potential funding withheld if agreed results are not achieved. Most but not all disbursement requests for the variable tranche are paid after data verification by EU Delegation officials or external experts; on average, expert verification missions cost about EUR 110,000.
Relationship to RBF	Per the definition proffered in section 1, RBF refers to "financing instruments that attempt to connect at least a portion of payment to the verified achievement of results." Some Budget Support Variable Tranches may fall within this definition, so long as the payment is indeed tied to the *verified achievement of results*. Specifically, for the Budget Support Variable Tranche to be considered RBF, the disbursement-linked indicators must be explicit and objectively measurable, with clear baselines and external verification by an independent third party. In practice, these conditions are not always met. A recent report by the European Court of Auditors found that "one third of indicators [used for the Variable Tranche] do not allow results to be measured objectively," including several indicators with no quantified target; and there were "no baselines or incorrect ones on 41% of progress indicators."[48] In such cases, Budget Support would not be considered RBF.

[46] European Commission (2019). Budget Support. Trends and Results 2019, p. 60. Available online at https://ec.europa.eu/international-partnerships/system/files/budget-support-trends-and-results_en.pdf.
[47] European Commission (2017). Budget Support Guidelines, September 2017, pp. 49–50. Available online at https://ec.europa.eu/international-partnerships/system/files/budget-support-guidelines-2017_en.pdf.
[48] European Court of Auditors (2019). No 25. Special Report. Data quality in budget support: weaknesses in some indicators and in the verification of the payment for variable tranches. 2019, p. 26. Available online at https://www.eca.europa.eu/lists/ecadocuments/sr19_25/sr_budget_support_data_en.pdf.

Output-Based Simplified Cost Options (SCOs)	
Definition	Article 181 of the 2018 EU Financial Regulation regulates grants that grant takes the form of lump sums, unit costs or flat-rate financing as referred to in point (c), (d) or (e) of the first subparagraph of Article 125.1, namely: • Unit costs: these cover all or specific categories of eligible costs which can be clearly identified (as indicated in the budget at proposal stage) and are expressed in amounts per unit. • Lump sums: these cover in global terms all or certain specific categories of eligible costs which can be clearly identified (as indicated in the budget at proposal stage). • Flat-rate financing: this covers specific categories of eligible costs which can be clearly identified (as indicated in the budget at proposal stage) and are expressed as a percentage of other eligible costs. Article 181.2 also specifies that "*Where possible and appropriate, lump sums, unit costs or flat rates shall be determined in such a way as to allow their payment upon achievement of concrete outputs and/or results.*"
How does it work?	Output-based SCOs can apply to specific budget lines (direct costs) or to the entirety of the work programme. Multiple forms of simplified cost options can also be in combination within a single work programme, e.g. an action can be financed in part by unit costs for some eligible costs, and lump sums for other eligible cost.
Relationship to RBF	The major difference between output-based SCOs and RBF is that for output-based SCOs, in case of financial audit expenditures incurred are still subject to eligibility criteria, which are not required in an RBF approach. Also output-based SCOs are subject to the "no-profit principle", meaning that payment is expected to closely reflect the actual cost of delivering the service, even if the Implementing Partner is not required to fully document all associated costs. RBF grants, in contrast do not require the "no-profit" principle as specified in Article 192.3 of the 2018 EU Financial Regulation.
Service Contracts—Global Price[49]	
Definition	"Global price is a lump sum contract where specified output(s) is/are set out, in the form of clearly defined deliverables like a report or drawings. Global price always specify the output(s), i.e. the contractor must provide given output(s)."
How does it work?	Global price service contracts offer a lump sum payment upon achievement of pre-specified output(s); these are usually clearly defined deliverables, for example a report, evaluation, audit, or conference/training session. Payment may be totally or partially withheld if the contractor does not fully achieve the pre-specified result per the specifications detailed in the terms of reference.
Relationship to RBF	Such contracts represent a form of RBF, though they are more limited in scope (i.e. funding specific activities/deliverables) than most EU external actions.

1.3. When should the funding partner adopt a results-based financing modality? Key considerations

RBF can be a powerful tool, but it is not appropriate for all situations. To deploy RBF, several prerequisites must be met related to programme objectives, results verification capacity, and appetite for certain types of risk and risk-sharing.

[49] European Union (2020). Procurement and Grants for European Union external actions—A Practical Guide. Article 3.2.1. Available online at https://wikis.ec.europa.eu/display/ExactExternalWiki/ePRAG.1.

This section describes several key issues to consider before deploying an RBF model.[50]

1.3.1. Can the results of the agreement be summed up by one or more "contractable" indicators?

An RBF agreement explicitly ties payment to progress against one or more agreed performance indicators. For this to work in practice, the Funding Partner and the Implementing Partner must agree that the results of the agreement can be summed up by one or more "contractable" performance indicators which serve as the basis for triggering/authorising the payment. Prior to embarking on design of an RBF programme, the interested parties should consider whether it is likely that project results can be captured by contractable indicators.

Programmes that are likely to have contractable indicators suitable for RBF are those with objective, observable, numeric results at the output or outcome level–for example, the number of children fully vaccinated; number of schools with sanitation facilities installed; or number of homes served with electrical grid connections. Programmes that are unlikely to have contractable indicators suitable for RBF are those with subjective outputs and outcomes; programmes designed to influence government policy or other third-party behaviour; or programmes where outputs can be "gamed" by delivering high numbers but with questionable quality (e.g. number of meetings held).

The process and criteria for selecting "contractable" indicators, including examples, are described in further detail in the next chapter.

1.3.2. Understanding the risks related to the implementation of RBF

Before proceeding with an RBF agreement, the Funding Partners must be prepared to assume macro risks associated with its implementation, in addition to specific risks attached to any individual programme:

- **Risk of non-disbursement**: Under an RBF agreement, non-achievement of results implies that results-based payments will not be disbursed (if the programme is pre-financed, the implementing partner would need to return pre-financed funds not associated with the specified result(s); Partial achievement of results, in turn, would lead to partial disbursement or recovery). Though this is aligned with aid effectiveness principles—it is better to conserve resources versus spend them on ineffective programmes—it can present a challenge for organisations that have traditionally considered higher disbursement/absorption rates as a metric of success. Within Funding Partners, the officials that manage RBF programmes

[50] See Chapter 3, Silverman R., Over M., Bauhoff S. (2015). "Aligning Incentives, Accelerating Impact. Next Generation Financing Models for Global Health. Next Generation Grants", Center for Global Development, https://www.cgdev.org/sites/default/files/CGD-WG-report-aligning-incentives-accelerating-impact.pdf, for discussion of these issues as related to the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

(e.g. programme officers/managers) must not be penalised for low disbursement rates but rather evaluated on whether disbursement decisions are appropriate given results achieved. Programme officers/managers for RBF programmes must also be supported in their decisions—assuming they are aligned with contract or grant requirements—even if implementing partners protest non-disbursement decisions.

- **Risk of cash-flow uncertainty**: Related to the risk of non-disbursement, use of an RBF modality may increase the level of uncertainty in the Funding Partner's cashflow/cash position. The Funding Partner will need to put aside or prefinance sufficient resources to cover the maximum/ceiling payments for all RBF programmes, with the expectation that a portion of those funds will not be disbursed (or, in the case of pre-financing, will be recovered). Annual budgeting processes and rules around roll-over of undisbursed funds to the next fiscal year can further complicate RBF cash flow needs. If undisbursed funds cannot be rolled over to the next fiscal year, RBF may lead to the return of unused Funding Partner resources to a central treasury.
- **Risk of dispute with Implementing Partner**: RBF agreements should be as explicit and detailed as possible, limiting ambiguity and minimising room for dispute about appropriate disbursements. Nonetheless, the Funding Partner must be prepared for the eventuality that Implementing Partners will dispute non-disbursement decisions or pressure the Funding Partner to disburse even when not indicated by the RBF contract. This risk is considerable in an RBF programme because (1) the implementing partner will have incurred costs and thus lost money; (2) there may be some disagreement between data sources, with high stakes for the implementing partner's remuneration; and (3) the implementing partner may also argue that non-achievement of results is not its fault (despite the contractual agreement to only pay if results are achieved.) It is essential that the Funding Partner is prepared to enforce appropriate disbursement decisions as specified by contractual provisions.
- **Risk of overpayment**: RBF agreements pay the Implementing Partner based on results achieved, not the *cost required* to achieve those results. Therefore, it is possible (and indeed, likely) that the Funding Partner will sometimes *overpay* for a result—that is, the Funding Partner will pay more than the actual cost of achieving the result, therefore allowing the Implementing Partner to earn a surplus ("profit"). In the specific case of the EU, this situation is permitted under the EU Financial Regulation, which exempts certain financing modalities from the no-profit principle (see Table A.2).

1.3.3. Is the implementing partner prepared to absorb risks related to the implementation of RBF?

An RBF agreement represents a two-way contract between a Funding and an Implementing Partner, and therefore needs to be acceptable to both parties. For an RBF agreement to move forward, the Implementing Partner must be willing to accept some specific risks related to the implementation of RBF:

- **Risk of not achieving the designated results**: Under an RBF agreement, non-achievement of results implies non-receipt of results-based payments. Implementing Partners must understand and agree that they will not be paid unless they achieve the designated results. Therefore, it is very important that Implementing Partners believe that achievement of the indicators is fully within their control. It is inappropriate to use indicators that the recipient does not have direct power to influence. All RBF agreements should include pre-specified *force majeure* clauses to account for unforeseeable changes in circumstances beyond the implementer's control, for example civil war, terrorism, natural disasters, or disease outbreaks.
- **Risk of higher than expected input costs**: Under an RBF agreement, Implementing Partners are paid a pre-designated sum per result (as measured by pre-agreed indicators); they are not reimbursed for actual costs incurred. This means that recipients absorb risk related to higher than anticipated input costs to achieve the results; for example, variations in fuel costs, travel, medicines, other equipment, or exchange rate variation. It is possible to include contractual contingencies that adjust payment per result based on extreme variation in exchange rates or pre-specified input costs, for example fuel or medicines/vaccines; however, implementing partners must have the capacity and willingness to absorb any such risk not explicitly included as a contingency. Payment rates per result should account for the recipients' absorption of input cost risk.
- **Risk of failing to secure pre-financing**: Some Implementing Partners may have limited cash reserves/cash-on-hand to pre-finance implementation of a results-based programme while awaiting results-based payment. The Funding Partners could consider allowing pre-financing of RBF programmes; in this case recipients must be prepared to return the pre-financed contributions if results are not achieved. In the case of EC-funded RBF programmes, pre-financing is possible in the context of performance-based financing.
- **Risk of payment delay**: In some RBF programmes, payment will only be made after payment-linked results are reported and independently verified by a third party. This process could substantially delay receipt of results-based payments. Implementing Partners must be able to wait for payment to be made; alternatively, Funding Partners could offer pre-financing (see above) or payment upon receipt of self-reports (described in section 2.3.7).

2. Process for designing an RBF programme

2.1. Political, institutional, and legal review

2.1.1. Compliance with internal regulations

Prior to use of RBF as a financing modality, the Funding Partner must ensure that it operates within a legal and regulatory framework that can support RBF agreements. Funding Partners should liaise with relevant departments to ensure RBF financing would be internally compliant; here, relevant departments include legal, accounting, finance, and audit/investigation departments, as well as external/independent Inspectors General or similar. Individual Funding Partner staff members should also ensure the high-level buy-in and endorsement from leadership. Finally, engagement of Human Resource departments is recommended to ensure that staff performance evaluation criteria are aligned with the requirements of RBF; for example, staff members should not be penalised for low disbursement or absorption rates if non-disbursement is due to non-achievement of results, nor for "overpaying" an implementing partner above costs incurred.

Specifically, review of Funding Partner legal and regulatory requirements should include consideration of the following issues:

- Ability to disburse funds that are not subject to financial audit or financial regulations;
- Ability to pay Implementing Partners a "profit"—that is, the ability to pay Implementing Partners a rate that exceeds their input and overhead costs;
- Ability to "withhold" funds based on non-achievement of results on the part of the Implementing Partner; and
- Ability to absorb significant cash flow uncertainty.

2.1.2. Alignment with umbrella agreements

Prior to use of RBF as a financing modality, the Funding Partner must also ensure the intended programme is aligned with any and all umbrella agreements (where relevant) that govern the overarching relationship between the Funding Partner and implementing partner. These could include framework agreements; memoranda of understanding; treaties; or bylaws, in the case of membership organisations.

As an example, the EU's overarching financial relationship with the United Nations system is formalised and governed by an umbrella Financial and Administrative Framework Agreement (FAFA). Any programme implemented by a UN organisation that is party to the FAFA must therefore comply with the FAFA, which supports and facilitates the RBF modality (see Table A.4).

Table A.4. Relevant articles of the FAFA between the European Commission and the United Nations

Preamble	The **shift to a results orientation** should be accompanied by a corresponding **shift away from the exclusive examination of inputs and activities**: it should simplify the administration of, and information generated by, UN Actions.
Article 1—Focus on results	1.1. UN submissions of proposals pertaining to Actions for which EU contributions are provided, will include **objectives and indicators of achievement to be agreed in contribution-specific agreements**. These will be reflected in subsequent work plans and reports. Performance measures will be based on objectives that are specific, measurable, attainable, realistic and time-based.
Article 2—Reporting	2.1 […]The **narrative reports** shall commensurate with the "Description of the action" and **focus on results** attained during the reporting period […]

2.1.3. Authorisation process

Funding Partners should develop and abide by clear internal processes to authorise use of RBF for any given programme. The process should clearly specify required documentation; the timeline for authorisation decisions; and authorisation requirements/authorities at different stages in the process.

2.2. Engaging the implementing partner

RBF is necessarily a two-way contract, requiring the agreement of both the Funding Partner and the Implementing Partner. The approach to engagement of the implementing partner in an RBF programme depends on the mode of procurement/Implementing Partner selection, e.g. competitive versus sole-sourced grant or contract awards.

2.2.1. Competitive procedures

In some cases, the Funding Partner will identify a suitable work programme that could be funded via RBF and which could be implemented by many different potential Implementing Partners. If so, the Funding Partner should incorporate RBF elements into a Call for Proposals (CfP) to help identify and select a suitable Implementing Partner.

The CfP should further specify either (a) a ceiling budget for the programme (or results-based portion thereof); or (b) a maximum value of results to be achieved under the programme (or the results-based portion thereof).

2.2.2. Sole source grant or contract award

In other cases, the Funding Partner may award a grant/contract to an Implementing Partner without a 'competitive award procedure' (e.g. UN/multilateral agency, Member State organisation, NGO, etc.).

In such cases, financing via RBF can only happen upon mutual agreement between the Funding Partner and the preselected Implementing Partner. Following identification of a programme that can be financed in whole or in part by RBF, the Funding Partner's operational team should initiate an early discussion with the selected Implementing Partner to assess the partner's openness to financing via RBF.

Negotiations about specific design features should move forward only after an agreement is reached between the Funding Partner and the Implementing Partner that the Action, or a portion thereof, can and should *in principle* be financed via RBF. This agreement is not binding on either party but indicates an intent to move forward collaboratively with further negotiations and discussion.

2.3. Designing an RBF programme

2.3.1. Defining and selecting contractable indicators

An RBF approach requires the Funding Partner and the Implementing Partner to identify and select one or more contractable indicators.

Contractable indicators must have the following characteristics:

- Indicators should be mostly or entirely under the control of the Implementing Partner; therefore, the Implementing Partner can be held reasonably accountable for whether the results are achieved. For example, an Implementing Partner (e.g. a UN agency) could not be reasonably held accountable for whether a national government does or does not take a given policy action, so such indicators would not be appropriate for RBF. This typically means that contractable indicators are at the output or outcome level.
- Indicators should be a direct proxy for a meaningful and important development outcome—and not just deliverables at the activity or output level. For example, this means that number of people trained, or production of a report, are poor RBF indicators as they do not *necessarily* lead to meaningful development outcomes despite being on a causal chain. "Number of people trained" does not necessarily imply a behavioural change (outcome) induced by the action but the provision of a service (training) to a group of people. A better outcome indicator would be the "number of people that correctly apply the procedures" as learned in the training attended—so long as the correct application of those procedures is considered a meaningful and important development outcome.
- Indicators should be measurable through direct and objective observation—not modelling, for example.
- Indicators should be independently validated based on direct and objective observation.
- The source of data for reporting on the indicators must be clearly identified and readily available.
- Where applicable, the indicator should be supported by clear quality standards that determine whether a result has been achieved.

See Table A.5 for examples of contractable indicators.

Table A.5. Examples of contractable indicators for use in RBF

Result	Indicator(s)	Payment Schedule (Indicative)
Slowed tropical deforestation	Tons reduced carbon emission from deforestation (tCO_2)	\$5 per tCO_2 of averted emissions[51]
Increased access to reliable electricity supply by rural population	Number of households newly connected to the electrical grid	\$100 per additional household connected to electrical grid
	Number of households with off-grid solar energy sources	\$200 per additional household with off-grid solar energy source
Improved water and sanitation standards in educational facilities	Number of additional primary schools with improved water source	\$1,000 per additional school with improved water source
	Percent of children in catchment area reporting regular handwashing with soap after lavatory/latrine use	\$10,000 for each percentage point increase over baseline, according to third-party survey data
Effective treatment of HIV+ patients	Number of HIV+ individuals newly enrolled in treatment	\$50 per new enrolment
	Number of HIV+ individuals (total) virally suppressed through effective treatment	\$200 per patient per year enrolled on treatment and virally suppressed

Indicator choice is core to RBF programme design and should be reflected throughout all proposal and grant/contractual documents between the funding and implementing partners. Logframes and/or other results hierarchy frameworks (where used) should clearly identify which (if any) indicators will be used as the basis for payment.

2.3.2. Budgeting

RBF programmes do not require a cost-based budget. Instead, budgets should be presented per incremental result up to a pre-agreed maximum, e.g. [Maximum Number of Results Eligible for Payment] x [Payment per Result Achieved].

Budgets that include both RBF and cost-based components must clearly differentiate between the two to avoid double financing.

Depending on Funding Partner regulations, overhead/indirect costs can be covered through either of two different approaches. In the case of the EU, only the second approach would be possible.

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[51] This is a real example from the agreement between NORAD and Brazil to slow tropical deforestation; see here: http://www.amazonfund.gov.br/export/sites/default/en/.galleries/documentos/amazon_fund/Amazon-Fund-Project_Document_MMA.pdf.

1. As in a traditional cost-based budget, overhead/indirect costs can be calculated as a percentage of the total programme value. In this case, budgeted overhead/indirect would be calculated as [Overhead/Indirect %] x [Maximum Number of Results Eligible for Payment] x [Payment per Result Achieved]. Actual overhead/indirect would be calculated as [Overhead/Indirect %] x [Number of Results Achieved] x [Payment per Result Achieved].
2. Alternatively, reasonable overhead/indirect costs can be directly incorporated into the payment rate per result achieved. In this case, the base Payment Per Result Achieved would be multiplied by (1+ [Overhead/Indirect %]) to equal the [Effective Payment per Result Achieved]. The total budgeted amount would be [Maximum Number of Results Eligible for Payment] x [Effective Payment per Result Achieved].

Box 1. Retroactivity

RBF is intended to serve as a risk-sharing instrument between a Funding Partner and Implementing Partner; it is also intended to incentivise performance. Both points are moot if an Action has already been implemented, as there is no ex post incentive effect, nor any risk to share. RBF therefore should **not be used for retroactive financing**. If appropriate, Actions with RBF components may include retroactive payments through cost-based financing.

2.3.3. Defining the payment schedule and amounts

Under an RBF approach, payment is based on achievement of results, not expenditure; results, in turn, are measured by indicators. Therefore, the agreement/contract between the funding and the Implementing Partner must clearly and explicitly define payment amounts and conditions.

RBF payments—and therefore indicators—should ideally be based on incremental progress. Payment should be made per incremental result achieved up to a maximum payable level (ceiling), not based on whether a target or milestone is achieved. See an example in Table A.6.

Table A.6. Example on transforming targets/milestone approach to incremental progress

Results	Outcome: National capacity to respond effectively to COVID-19 pandemic enhanced Output: Selected primary and secondary health (surgical, maternity, paediatric and infection diseases departments) care facilities meet minimum national infection prevention and control infrastructure standards including essential life-saving equipment	
Output Indicators	Number of primary health care (PHC) facilities equipped with handwashing stands.	Number of primary and secondary health (surgical, maternity, paediatric and infection diseases departments) care that meet minimum national WASH infection and control standards.
Traditional Targets/ Milestones	Baseline: TBC End of year 1: 300 PHC facilities End of year 2: 750 PHC facilities	Baseline: TBC End of year 1: 10 End of year 2: 25 End of year 3: 45 End of year 4: 50
Milestone-Based Payment Approach	100,000 Euro to be paid at project inception. 100,000 Euro to be paid after meeting year 1 milestone (300 facilities) 110,000 Euro to be paid after meeting year 2 milestone (750 facilities)	100,000 Euro to be paid at project inception. 100,000 Euro to be paid after meeting year 1 milestone (300 facilities) 110,000 Euro to be paid after meeting year 2 milestone (750 facilities)
RBF Approach: Incremental Payments	413.33 Euro per additional facility (over baseline) equipped with handwashing stands, up to a ceiling of 750 facilities (maximum 310,000 Euro). Progress reported/ assessed and paid against at the ends of Years 1 and 2.	120,000 Euro per additional facility meeting WASH standards, up to a ceiling of 50 facilities (maximum 6,00,000 Euro). Progress reported/ assessed and paid against at the ends of Years 1, 2, 3, and 4.

In general and unless otherwise justified, a "flat" payment should be made per unitary result. That "flat" payment may not perfectly reflect the cost (average or otherwise) of delivering the result.

For output indicators, payment per incremental result should be reasonably estimated and agreed upon based on the underlying activities and adjusted for risk. RBF to achieve outputs should be considered a *replacement* or *substitute* for cost-based financing of constituent inputs/ activities—that is, RBF should be used to cover the entirety of input costs required to achieve an output.

A Funding Partner may also use RBF to *co-finance* or *subsidise* a result that is partially financed from one or more other sources—for example, a result that is co-financed by another Funding Partner or a national or subnational government. In this case, the Funding Partner would pay an agreed rate per result that represents some portion of the overall expected cost to achieve the result.

RBF payments can also be linked to outcome-level results to incentivise the achievement of an outcome by the implementing partner. As per definition, the achievement of outcomes does not require additional costs (assuming the costs of constituent inputs/outputs are covered through either cost-based or results-based financing) but may require additional effort and behaviour change on behalf of the Implementing Partner. Payment for outcome-level results can therefore be considered an *incentive/bonus* for exceptional performance; that is, it is a *supplemental* payment on top of other direct cost-based or results-based financing for constituent inputs/activities/outputs.

The funding agreement must also specify the quality standards that determine whether a result has been achieved.

2.3.4. Pre-financing, disbursement, and clearing

Pre-financing is consistent with RBF principles, so long as both the Funding Partner and Implementing Partner agree that pre-financing will be recovered if disbursement-linked results are not achieved. Where pre-financing is available according to Funding Partner rules and regulations, programmes financed in whole or in part by RBF should be eligible for pre-financing under the same guidelines and conditions as apply to cost-based programmes. Pre-financing arrangements should be clearly specified in the funding agreement between the Funding Partner and the Implementing Partner.

Pre-financed funds convert to "cleared" funds (e.g. equivalent to expenditure in a cost-based funding agreement) after they have been associated with results achieved, per the terms of the RBF agreement.

Following the end of the programme—e.g., submission of the final report following the programme end-date—an RBF agreement requires the Implementing Partner to return any uncleared funds, e.g. pre-financed funds that have not been associated with actual achieved results per the terms of the funding agreement. Funds may also be clawed back following the independent verification exercise (2.3.6) if it surfaces inaccuracies in the Implementing Partner's self-reports.

2.3.5. Reporting requirements

The RBF agreement should also specify reporting requirements. Implementing Partners should report actual results achieved against RBF indicators at regular intervals, which must in turn be subject to third-party verification (see next section).

Implementing partners of "hybrid" programmes—those with both cost-based and RBF components—can submit a single joint report for the entirety of any given programme. The report need not report costs/expenditures for the RBF portion thereof.

Under an RBF agreement, Implementing Partners should not be required to report on costs incurred. However, the Implementing Partner will need to submit any necessary supporting documents, including accounting documents where relevant, to prove that the payment-linked results have been achieved.

Reporting requirements are to be aligned in the grant/contracts monitoring requirements, as mentioned also in section 2.4.1.

2.3.6. Independent performance verification

Any RBF agreement, without prejudice to the regulatory framework of the funder concerned, should include provisions for independent, third-party performance verification for all indicators/results linked to payment.

Third-party performance verification should prioritise direct observation of results. Performance verification need not cover all self-reported results, but at least a sample of the Implementing Partner's data should be validated by direct observation or reliable third-party info. (At the very least, Funding Partners should insist on their right/authority to conduct independent performance verification for RBF programmes). Performance verification processes must be uncontroversial. RBF verification should privilege physical evidence, and RBF indicators should be selected based on whether it is possible to obtain physical evidence, as described in section 2.3.1.

Conditions for performance verification, including timing and modality, should be detailed in the RBF agreement. The agreement must also establish the verification procedure, including a non-contested data source or, preferably and where possible, direct observation of the result(s). The RBF agreement must also enumerate the physical evidence and documentation of the result(s) that the Implementing Partner must provide to the Funding Partner and/or the verification contractor on request.

Before signing an RBF agreement, the Funding Partner must identify and earmark the source of funds to finance the independent performance verification exercise.

2.3.7. Disbursements, clearing of pre-financing, and recovery

Where possible, third-party performance verification should take place before release of results-based payments. However, there may be situations where delays in payment would compromise the Implementing Partner's ability to effectively implement the RBF programme. Therefore, in exceptional circumstances, results-based payments could be made based on the Implementing Partner's self-report and before completion of third-party performance verification. In this case, both the Implementing Partner and Funding Partner must accept that payment would be clawed back *after the fact* if validation confirms that actual results were not aligned with the Implementing Partner's self-report.[52]

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[52] To be noted that in the specific case of the EU, different mechanisms are in place because pre-financing is often used. In the case of an RBF Programme the clearing of pre-financing payments and the payment of the balance shall be made by the authorising officer responsible on the basis of information on results achieved.

If the third-party performance verification confirms that results have not been achieved—or been achieved poorly, partially, or late—the Funding Partner should reduce the contribution proportionally. The Funding Partner could also consider additional financial deductions to penalise and disincentivise false reporting; any such procedures must be specified and detailed in the funding agreement.

2.3.8. Verification or audit of incurred expenditure

Generally speaking, RBF programmes should not be subject to verification or audit of expenditure incurred by the Implementing Partner. Some funders may nonetheless require such verifications or audits (or at least reserve the right to do so) even for an RBF programme. However, even in these cases, funders cannot use their results to claw back or reclaim funds if the results *per se* are achieved in compliance with the contractual provisions.

Results of the third-party verification exercise can and should be used to reclaim funds if the results linked to payment have not been achieved. RBF agreements should explicitly specify how independent results verification will inform payment and/or reclamation of funds.

2.4. Monitoring and evaluation

2.4.1. Monitoring

Monitoring is at the core of RBF—payment-linked results (indicators) are selected for their relevance and development importance, and clearance of payments is subject to rigorous measurement and verification. Implementing Partners are required to monitor payment-linked results (indicators) and regularly report achieved results to the Funding Partner, as described in section 2.3.5.

Given this central integration of monitoring into RBF—and given RBF's ambition to minimise bureaucratic paperwork—Funding Partners should streamline reporting requirements to focus narrowly on the indicators explicitly linked to payment. Funding Partners should minimise other monitoring requirements (e.g. narrative reports or detailed process monitoring and evaluation - M&E) focused on activities, inputs, and other indicators not linked to payment. In some institutional settings, submission of a more extensive monitoring and evaluation (M&E) framework may be needed to give assurance to internal stakeholders that the project was well-executed. Depending on the institution, this could take various forms (logframes, financial or substantive mileposts, etc.). Nevertheless, Funding Partners should understand and accept that the essential piece of M&E for RBF is rigorous reporting on the desired result; any such additional reporting should be considered ancillary to satisfy the donor's internal regulatory framework.

Here, it is important to distinguish *Funding Partner monitoring requirements* from *Implementing Partner best practice*. Routine internal monitoring is of course essential for effective programme management; Implementing Partners should undertake such monitoring in all programmes, regardless of donor requirements. Under an RBF programme, however, Implementing

Partners may no longer need to provide such extensive reporting *to the Funding Partner*, helping limit paperwork and focus the relationship between the Funding Partner and Implementing Partner on one or more of the most important agreed results—those explicitly tied to payment.

2.4.2. Evaluation

Despite increased use from a range of Funding Partners, RBF remains a relative new funding modality. To support a learning agenda on the use and practical application of RBF—both for internal use and the broader donor community—funders should seriously consider subjecting RBF programmes to pilot evaluations.

Such evaluations should assess the appropriateness and functionality in practice of key design features, including choice of RBF indicators; contractual design and payment schedule; and independent verification arrangements. Pilot evaluations should also include qualitative investigation of the incentives and practical effects created by the RBF agreements, both within the Funding Partner agency and for the Implementing Partner.

To the extent possible, evaluations should be shared in the public domain to support sector-wide learning and practice. Funders should also use the results of pilot evaluations to support evidence-based iteration on RBF-relevant policies and guidelines.