Workshop on "Results-based Approaches to Development"

Summary Report

Tunis, 16 April 2013

The African Development Bank (AfDB) and the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) convened a workshop at Tunis, Tunisia, with approximately 20 representatives of various organizations, including Asian Development Bank (AsDB), Inter-American Development Bank (IDB), World Bank (WB), development agencies and think tanks, to discuss their experiences with results-based approaches. The workshop covered concept and design issues, implementation challenges and practical experiences with results-based approaches.

Overview of Results Based Approaches

The first presentation by Stephan Klingebiel and Heiner Janus, DIE, provided a proposal to define results-based approaches (RBApp) to consist of results-based aid (RBA), a contract between funder and partner government, and results-based finance (RBF), a contract between funder and service provider. They highlighted common features of RBAapp in terms of contractual relationships between recipients and donors, implementation, and verification. Within the "results agenda" one of the main challenges is that the emphasis on results leads to more standalone projects that are not be aligned with the principles of aid and development effectiveness. Other key issues for consideration include the level of requirements, unintended consequences, a focus on quantifiable sectors, partner country views and financial as well as non-financial incentives. Regarding political economy issues participants highlighted the implications of elections and changes of leadership in partner countries for the contractual relationships between funders and partner countries. Also, it was debated at which level - from Minister- to middle management-level - RBApps can generate leverage.

The second presentation by Rita Perakis, Centre for Global Development (CGD), also presented different typologies for RBApp, including RBA, RBF and Development Impact Bonds (DIBs). DIBs would provide upfront funding for development programmes by private investors, who would be remunerated by donors or host-country governments - and earn a return - if evidence shows that programmes achieve pre-agreed outcomes. RBApps are needed because they can demonstrate what aid programmes achieve, improve of the quality of information about development outcomes, increase greater local accountability, provide space for learning and transformation and put into practice principles that make aid more effective. The discussion stressed that the right incentive structure would have to be in place for DIBs to work. A question that was repeatedly discussed during the workshop was whether funders are actually paying for results in terms of output-based pricing or rather paying to generate incentives for achieving results.

Lessons from RBA design: Asian Development Bank and Inter-American Development Bank

The first presentation by Emma Fan, AsDB, described the experiences of AsDB in introducing a results-based lending (RBL) modality for programmes (approved in March 2013). The new RBL modality will support government-owned sector programmes and link disbursements directly to the achievements of programme results measured by disbursement-linked indicators (DLIs). AsDB engaged in extensive internal and external consultation processes. Some the lessons learnt include the importance of learning and working together within the organization, finding high-level champions, cooperating closely with development partners needs and remaining ready to engage with external partners. The discussions on the RBL modality emphasized that changing processes and procedures is relatively easy compared to instilling a "results-culture" and changing the mind-set of an organization and its' partners. In addition, the role of environmental, social and fiduciary safeguards in managing risks was raised, and participants debated trade-offs between conditionality and results. Participants further argued that funders could either control input activities or results but that the tendency is to control both, yet "something would have to give".

The second presentation by Patricia Meduna, IDB, underscored lessons learnt from introducing performance-driven loans in 2003. The IDB was the first MDB to pilot this type of instrument, where disbursements are based on outcomes. The timelag between activities and achieving outcomes is addressed by an initial disbursement of 20 percent. From 2004 to 2011 only 17 projects were approved. Demand was limited for several reasons, including that clients were responsible for achieving outcomes and verifying expenditures at the same time. Instead of bearing this "double burden" clients therefore often just opted for investment lending instead. The IDB is in the process of improving this initiative by making the performance-drive loans more like budget support and focus on outcomes. A reformed approach will be presented at the end of 2013. The discussions emphasized the need for institutions to have lending instruments, which are useful for client countries. Moreover, clients are often not seeking the loan itself, but expertise, knowledge and best practices from multilateral institutions, which countries can subsequently incorporate into their own domestic planning framework. Participants further elaborated that there is a need to develop a convincing evidence-based narrative on results that balances complexity and simplification as well as incentives for results and perverse incentives.

Early lessons from practical experience: World Bank and Department for International Development

The first presentation by Fadia Saadah, WB, detailed experiences with the Program for Results (PforR) that has been approved in January 2012. PforR is the first new instrument approved by the World Bank in more than 30 years. The instrument is designed to finances and supports borrowers' programmes, disburses upon achievement of results, focuses on strengthening institutional capacity, and provides assurance that financing is used appropriately and that the environmental and social impacts of the programme are adequately addressed. Currently seven programmes have been approved by the Board and seven more programmes are proposed for approval by the end of the calendar year. A key characteristic of PforR is flexibility. The definition of programmes for instance can include whole sector, cross-sector, or sub-sector approaches at the national or sub-national level. Similarly the choice of either output or outcome indicators can vary across specific programmes and can also be adjusted depending on the stage of development and implementation of the programme (e.g. graduation from output to outcome indicators). In the discussion participants further debated DLIs and how they are selected and targets set. While experience is still in the early days, it was noted by some that partner countries tend to choose a longer list of DLIs to diversify risk. Also, it was emphasized that programme money should not be seen as additional but rather as needed according to expenditure analysis, though more efforts are needed to build knowledge in this regard. Leveraging is another important concept as well as a more enabling environment for partnerships through this instrument.

The second presentation by Rita Perakis, CGD, reported on some of the design features of the United Kingdom Department for International Development (DfID) RBA pilot in Ethiopia in the education sector[1]. The DFID pilot is based on the ideas behind the Cash on Delivery Aid approach, which was proposed by CGD. DfID's RBA pilot aims to improve lower secondary completion in Ethiopia, with £30 million in funding over three years. The results indicators are "number of students sitting an exam" and "number of students passing an exam", with higher payouts for girls and students from emerging regions within the country. DfID has taken the hands-off idea seriously and provides technical assistance only when asked. Yet, improvements could be made in transparency and raising awareness among the domestic public in Ethiopia. Participants contemplated on how to assess "additional" completers and how baselines were set, and whether RBA can ease donor's urge to attribute. Further, the question of non-disbursement was discussed and whether funders of RBA programmes are able to reallocate or reprogram resources.

Exploring variations of RBApps: European Commission and African Development Bank

The first presentation by Franco Conzato, European Commission (EC), focused on the European Union's experiences with results-based management. The EC has linked budget support operations to results through MDG contracts, which are now to be replaced by three new instruments: i) Good governance and Development contracts for providing general budget support where the partner country can demonstrate a commitment to fundamental values; ii) Sector reform contracts, a tool for when the conditions do not exist to permit the use of a Good Governance and Development Contract; iii) State building contracts for fragile countries on a case by case basis to ensure vital state functions. These contracts will feature fixed and variable tranches based on evidence that over time budget support is pushing incentives towards the achievement of outcomes. Another upcoming innovation is the EC's work on developing a results framework, also based on consultations with MDBs. In the discussion, moderated by Hans Lundgren, OECD, participants concentrated on the question whether the new contracts would be successful in preserving strengths of MDG. On the one hand funds will be discretionary and spending will not be controlled, on the other hand verification of results will be political.

[1] DfID had to cancel participation in the workshop on short notice.

The second presentation by Simon Mizrahi, AfDB, proposed an innovative lending approach, “results buy-down”, where a loan is fully or partially converted into a grant depending on the results achieved. In this approach, donors can notionally “buy” development results from clients, clients can “sell” their results to donors, AfDB acts as “honest broker” (financial intermediary), the risks are shared by all parties (clients, donors and Bank), existing instruments and safeguards are used, and financing can be provided upfront. The main innovation would be a new contractual arrangement between partners that defines incentives to produce results. Together with the client AfDB develops a project, provides a loan, and implements it to deliver results. If the project delivers the expected outcome, the loan would be “paid down” by a donor. In the discussion participants debated whether the same procurement standards and safeguards used for loans could be adopted. Another issue raised was whether the new approach would have more impact on the relationship between the clients and the Bank or rather on the relationship between the donors and the Bank. Also, participants wondered whether resource mobilization requirements were additional or not, and how “non-performers” would be affected by this approach. Overall, participants were very much in favour of piloting this innovative approach and are keen to continue learning from AfDB on this.

Perspectives and concluding remarks

Christoph Kohlmeyer, Executive Director at the AfDB, provided concluding remarks. He observed that discussions throughout the day were extremely relevant, but warned that results approaches may not be applicable to all country types due to capacity requirements. Yet, he emphasized the need for a change of culture from input orientation towards more focus on outcomes and impact across all countries. In being more results-oriented, however, old mistakes should not be repeated and more emphasis should be placed on negotiation, dialogue with partner countries and mutual accountability. A lot of knowledge on required steps towards better results is available already and development actors need to step up in terms of implementation. Therefore, new approaches need to make careful assessments of existing risks and political implications, but above should be grounded in convincing arguments.

Stefan Leiderer, DIE, added several thoughts from a research perspective, in particular on the role of incentives and disbursement conditionality. Most research indicates that conditionality usually cannot buy reforms. Therefore it has to be questioned whether results can be bought, especially when there is no commitment by partner governments to undertake reforms. Government action can be heterogeneously affected at multiple levels through incentives, and there is need to get these incentives right. Particularly in times where the relative importance of development assistance is decreasing the question of setting the right incentives becomes more important, not at least when thinking about how to make aid more catalytic. In addition, the instruments aid agencies are using only represent one part of the overall picture. The larger aid system remains fragmented and the there is an additional level of incentives that matter on the system level. Looking forward, assessing what works what does not work through more empirical research remains central, but more research is also needed on the political economy on the overall aid system, in order to contribute to a better understanding of development effectiveness.