



Results Based Aid: Limitations of New Approaches

Summary

In the current development debate, so called results based approaches play an important part. There are two aspects to this debate: On the one hand, further improving the effectiveness of development cooperation (aid) is important to the specialists, whereas on the other hand many donors (parliaments, the public etc.) continue to call for the justification of aid expenditures. This creates great pressure to give the most concrete evidence for the utility of aid budgets.

It is important to distinguish between (i) Results-Based Aid (RBA) and (ii) Results-Based Service Delivery (RBSD). Even if both approaches are based on the same rationale (incentives), they are fundamentally distinct. The current international debate is focused mainly on results based aid.

Results based aid aims to identify outputs or outcomes that can be measured and quantified, i.e. results that can be directly linked to development activities. A contract between the donor and partner country stipulates that for every incremental success a set amount ("reward") will be paid. So far, there is only limited experience with such approaches in practice. Sometimes they are a refinement of performance based budget supports, but in other cases

it has been suggested to incentivise single successes (i.e. pay per pupil finishing school). As attractive as this approach seems, its practical implementation might turn out to be difficult. There is a great risk of creating misincentives, because all the available resources might be focused on achieving just the one goal. The following conclusions can be drawn:

- Some of the current instruments already offer useful ways of incentivising performance. For instance, designing budget support with variable tranches.
- With respect to other RBA approaches (such as Cash on Delivery), practical experience is still lacking. It is possible that the disadvantages might outweigh the advantages.
- The hoped for benefit of RBA approaches, that of being able to produce clearly verifiable results may only "seem to be" achievable.
- RBA approaches assume a clear performance orientation in the partner countries, which applies to the reform dynamic countries, but those without good governance may be less easily encouraged by such a system of incentives, and thus other approaches might be more suitable there.

1. What are results based approaches?

All approaches in development cooperation aim to achieve “results”. The current international discussion on results based approaches differs from debates so far in as much as in practice, aid has frequently been inputs and process oriented. For instance, approaches tend to be geared towards the allocation of funds for investment (e.g. to build schools) or providing advisory services (e.g. to the education sector), with no way of accounting for the success of such aid measures based on verifiable “results” (in the sense of outputs or outcomes). In aid, success is often recorded based on input or process indicators instead, such as whether a country has raised its budget for education, or whether agreed upon reform documents (e.g. a strategy for the education sector) have been adopted. Such an approach can indicate how the development activities in a partner country can be evaluated, but for two reasons its information value is limited: Firstly, it is not always clear whether the intended results have actually been achieved. For instance, do a greater budget and the advice given really result in more pupils in schools? What about the quality of their education? Secondly, the question arises, what part the development aid has in the over-all situation. If results were achieved, is there a cause-and-effect relation to aid activities?

This is where the results based approaches come in. Their aim is to identify outputs or outcomes that can be measured and quantified, i.e. results that can be directly linked to development activities. Generally speaking, it is possible to distinguish two discourses on results (occasionally there is confusion on the terminology in the international debate):

- (i) **Results Based Aid:** The Results Based Aid (RBA) approaches involve a contractual relationship between the development partner (donor) and the development partner (partner government). RBA clearly defines a result, and a set reward in the shape of aid support will only be granted, if that result is achieved. The aid component needs to be relevant enough to create a large incentive to actually achieve the result. Each agreed on (partial) success will then be supported or rewarded ex post facto. That a result has been achieved is to be determined and evaluated by an independent third party.

Such an RBA contract can, for example, stipulate that a partner government is to be granted certain funds for every pupil that successfully finishes school (as based on internationally recognised general standards of quality). Upon achieving this goal, the amount per pupil would be paid out yearly, without

Box: Incentive Based Services

RBSD activities supported by aid are already being funded for years (World Bank, DFID, German aid etc.). They find application chiefly in the social sector and with basic infrastructure. These may include so called conditional payments to certain groups if they commit to using certain services (i.e. health care). Other ways may include incentives to a service provider to render specific services in a given quality (Output-Based Aid (OBA), Pay for Performance (P4P), Performance-Based Contracting etc.). These service providers might be paid a set amount per beneficiary or unit of service (i.e. the maintenance of a kilometre of road).

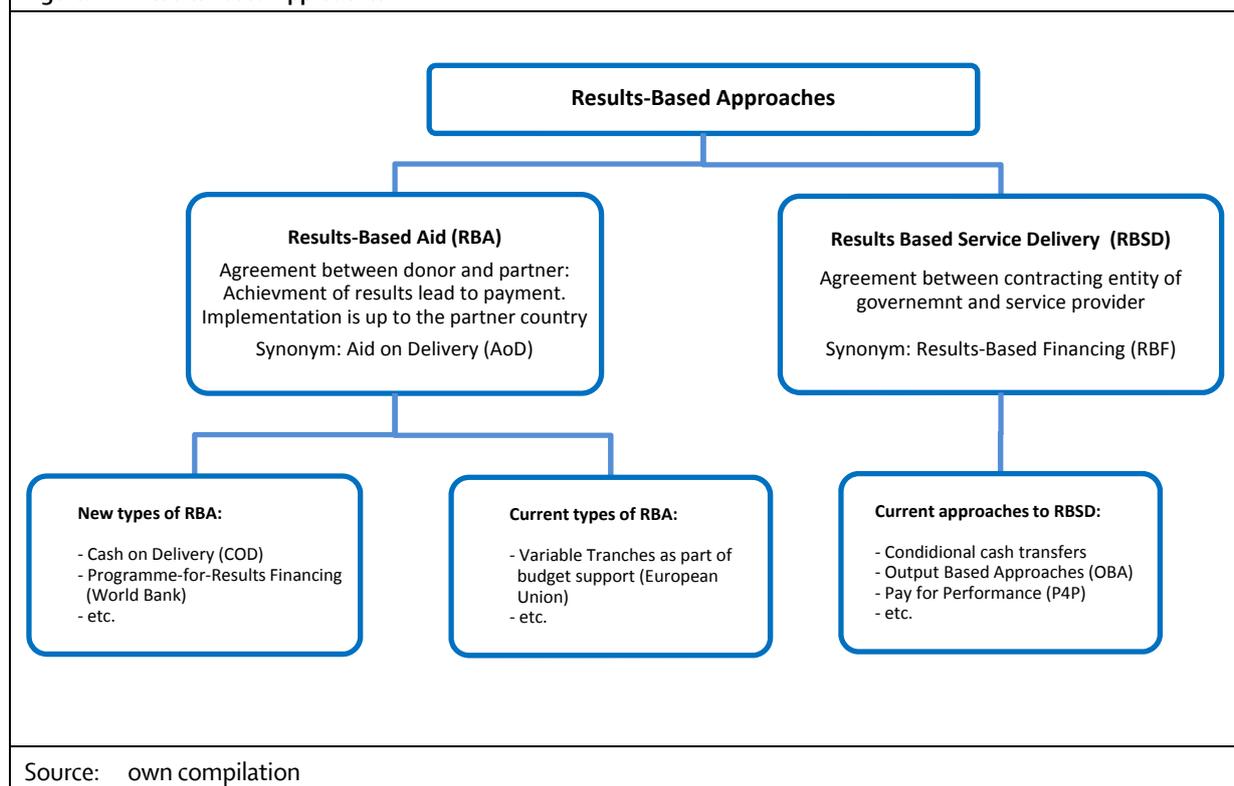
any further requirements. This form of aid is less intent on actually reflecting the expected costs of achieving the goals, but rather to give the partner country an incentive to eliminate particular obstacles to development, which might involve a lack of resources and/or inappropriate policies. In this example, this could mean agreeing to pay 50 Euros per pupil; as an added incentive for educating girls, it could be possible to agree on a premium for girl pupils.

In order for RBA approaches to work, it is important to not only have clearly defined results, but also very reliable indicators and the necessary data. As the success of RBA is clearly determined by properly quantifiable indicators, it applies especially to such areas that involve providing services, particularly the social sectors, but also public water and energy supply.

The RBA proposals that are currently discussed cover a wide spectrum of different approaches, ranging from results oriented restructuring of budget support instruments (such as the variable tranches of the EU budget support), all the way to approaches geared at a specific result in a particular sector (such as the number of pupils graduating).

- (ii) **Results Based Service Delivery:** Results Based Service Delivery (RBSD) refers to a concept that applies to within a partner country. The debate originated in some OECD countries under the heading “New Public Management”. It involves a contractual relationship between a contracting entity (e.g. government department) and a service provider (e.g. a healthcare centre) in order to provide certain services. Such a contract could have as its goal to increase the number of births under medical supervision. And if, for example, transport to medical facilities constitutes a major problem, travel vouchers could remove a crucial hurdle for pregnant women.

Figure: Results Based Approaches



Even though both approaches are based on the same rationale (the effect of incentives), there is a fundamental difference when it comes to their level of intervention: While RBA is concerned with the relations between donor and partner (the system of incentives should motivate the partner towards policies that achieve results), the latter approach is a contractual relationship between the contracting entity (e.g. a department in the partner government) and the actual service provider. As the case may be, both approaches can be combined, but it is not automatically necessary.

2. Benefits and drawbacks of RBA approaches

So far, there has only been limited practical experience with RBA approaches. In the area of budget support, the EU with its variable tranches based on agreements on performance, has already been using an instrument along the lines of RBA for a number of years. The result indicators used here refer particularly to the sectors of healthcare, education and water. Experience with results based tranches within larger approaches to budget support are encouraging, as an incremental scheme of payment can make aid more predictable and may create incentives to perform. The US Millennium Challenge Corporation (MCC)-Programme uses a results based approach, as countries have to qualify based on a list of indicators. In a small group of African countries, the UK Department for International Development (DFID) is currently preparing results based schemes. With its Programme-for-Results Financing,

the World Bank has added a results based instrument to its tool box.

With respect to approaches where there has not yet been any practical experience, potential benefits and drawbacks can be identified. This is true for example for the Cash on Delivery (CoD) approach that was developed by the Centre for Global Development (payment on verification of concrete results). Advantages can be:

- *Action is directly aimed at results:* The actions of all actors (donors as well as partners) are significantly influenced by the results. The link between the aid's intentions and its results (based on incentives) seems to be closer.
- *Relevance of incentives:* The aid input creates strong incentives for the partner country to perform.
- *Stronger responsibility for implementation with the partners:* The partner government is in charge of achieving these goals. The donors have no responsibility for implementation. This strengthens the partners' political systems
- *Better verification of the results of aid:* Closing the "attribution gap" (proving a direct causality of aid measures and their results) can be more successful in specific cases. This can help the donor countries to demonstrate the concrete benefits of aid; although an "automatic attribution" is also not possible in this case.

Disadvantages or limitations can be:

- *Responsiveness to incentives*: The concept assumes that the partners are open to incentives to perform better. This applies to those partner countries that show a strong performance orientation (good performers), or at least where there are areas of access, such as in specific, viable institutions (“pockets of effectiveness”). In countries with a difficult political environment, other approaches would probably be much more suitable.
- *Misincentives, unintended consequences and non-systemic strategies*: Generally speaking, there is a danger of misincentives; strong focus on a specific outcome might tend to result in non-systemic analysis and strategy. The pressure to achieve certain goals can thus cause the neglect of other priorities in a given sector. Indicators that might not be entirely suitable to this approach, risk the implementation of policies that are too much focussed on quantitative goals. For instance, if just the number of graduating pupils was recorded as the result, that might endanger the quality of education (raising the number of pupils per class etc.). The question also arises, whether processes in the partner country might not be undermined (such as budget priorities by the parliament).
- *Capacity*: The approach implies that the partner countries have the capacity to achieve the results. If their capacities and their public financial management system are deficient, this does not seem realistic; other approaches might be more promising in such cases.
- *Sectors and data*: Results based approaches cannot be implemented equally well in all sectors. Social sectors as well as sectors with infrastructure services that can easily be measured are well qualified. In other sectors it may be harder to measure these results or to come to an agreement on them with the partner countries (such as in the area of good governance). Further, this approach can contribute to creating a strong incentive for the manipulation of data.

- *Delinking of (some) RBA approaches and the political context / Abandoning political dialogue*: Where RBA approaches involve an automatic mechanism for payment following the achievement of certain goals, difficulties might arise if a development partner were forced to make payment, even if faced with an unfavourable political environment, including massive governance problems (such as serious human rights abuses).
- *Insufficient pre-financing capacities*: In the context of this approach, pre-financing by the partner country is important. Because of very tight budgets in a number of low income countries, this could be a major hurdle, although models of start-up financing could be conceived.
- *Time horizon*: RBA can create a shortened perspective, because it might cause only those results to be considered that can be achieved quickly. Results that can only be achieved in the medium or long term might clash with short-term political rationales (election cycles etc.).

3 Conclusions

In light of the international debate, the following conclusions are important:

First, the current instruments already are very useful for creating incentives to perform, for instance, in the design of budget support with variable tranches.

Second, with respect to other RBA approaches (such as Cash on Delivery), practical experience is still lacking. It is unclear whether the disadvantages (such as misincentives above all) might not outweigh the benefits in this case.

Third, the hoped for benefit of RBA approaches, that of being able to produce clearly verifiable results may sometimes only “seem to be” partly achievable. The relationship of cause and effect is usually complex and also has to account for unintended outcomes.

Finally, RBA approaches assume a clear performance orientation in the partner countries. This might apply to the reform dynamic countries (good performers), but countries without good governance may be less susceptible to such systems of incentives, and thus other approaches might be more suitable in cases like this.



Dr. Stephan Klingebiel

Head of Department I: „Bi- and Multilateral Development Policy“,
German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)