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Deutsches Institut für Entwicklungspolitik

German Development Institute

Discussion Paper 25/2014

Linking Results-based Aid and Capacity Development Support

Conceptual and Practical Challenges

Niels Keijzer
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Bonn 2014

Discussion Paper / Deutsches Institut für Entwicklungspolitik
ISSN 1860-0441

Die deutsche Nationalbibliothek verzeichnet diese Publikation in der Deutschen Nationalbibliografie; detaillierte bibliografische Daten sind im Internet über http://dnb.d-nb.de abrufbar.

The Deutsche Nationalbibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data is available at http://dnb.d-nb.de.

ISBN 978-3-88985-648-7

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Abstract

The most recent addition to the development cooperation toolbox is results-based aid (RBA), a development cooperation modality that disburses grants or loans in response to the achievement of pre-defined results. There are ongoing experiments in the use of RBA, as well as ongoing research efforts to determine under what conditions and circumstances it can be effective. An underexplored question is how RBA interventions relate to capacity development support (CDS) on conceptual and practical levels. This question is important because "capacity gaps" are frequently put forward by donors as a justification for external CDS. Therefore, how does the introduction of RBA interact with CDS within the broader portfolio of aid modalities? And what are the potential challenges and implications? All aid modalities include capacity development considerations, yet RBA specifically assumes a "hands-off" approach on the side of the donor and leaves it to partner countries to determine capacity development needs and priorities. At the same time, there can be potential for promoting complementarities between RBA and CDS. Both aim to achieve sustainable development outcomes and improve broader institutional performance beyond the specific intervention. Emerging evidence suggests that there is potential for a conscious link between RBA and CDS interventions, for which different options are assessed in this paper. All options would benefit from strong investments in the design of interventions, as well as space for adapting interventions in response to ongoing changes in local contexts.

Key words: results-based aid, capacity development, development cooperation, aid effectiveness, technical cooperation

Contents

Abbreviations

CD	Capacity Development
CDS	Capacity Development Support
DFID	Department for International Development
DIE	German Development Institute / Deutsches Institut für Entwicklungspolitik
IDD	International Development Department
IOB	Policy and Operations Evaluation Department
OECD	Organisation for Economic Co-operation and Development
PforR	Program-for-Results
RBA	Results-based Aid
RBF	Results-based Finance
REDD+	Reducing Emissions from Deforestation and Forest Degradation
TA	Technical Assistance
TC	Technical Cooperation

1 Introduction

In response to ongoing debates on improving aid- and development effectiveness, promoting effective institutions, as well as continuing political pressure to prove "value for money" of public spending, donors and partner countries[1] are increasingly experimenting with results-based aid (RBA). RBA distinguishes itself from other forms of cooperation by linking disbursements to measurable and pre-agreed results between the donor and recipient governments. This idea appeals to donors who want to take a more outcome-oriented attitude to cooperation and move away from approaches that are preoccupied with inputs and processes (Klingebiel / Janus 2014). Developing countries seeking additional development funds that provide them with more "policy space" in pursuing development objectives may also consider RBA to be an attractive aid modality.

The use of RBA in development cooperation is still in an emerging phase and has mainly been used on a pilot basis by a limited number of bilateral donors and development banks (DIE 2012, 2013, 2014). A key issue in the international debate is how the conceptual design features of RBA interact with practical implementation challenges. For instance, donors often integrate RBA into their portfolio of existing aid modalities. However, it is still unclear how other donor interventions that are aimed at supporting capacity development in developing countries interact with RBA.[2] Capacity development support (CDS) is a key element of international development cooperation, with some studies estimating that it represents 25 per cent of global development cooperation (IOB 2014). In the context of RBA interventions, CDS is frequently used to address perceived "capacity gaps" to enable the implementation of RBA, thereby leading to combined RBA and CDS approaches.

Although donors combine aid modalities on a frequent basis, in compliance with international aid effectiveness principles,[3] the combination of RBA and CDS presents a specific dilemma. RBA seeks to "incentivise" governments to achieve agreed results while leaving them complete independence over choosing the specific strategy to do so. CDS, on the other hand, involves active cooperation with partners to support them in achieving results. But by helping to shoulder responsibility, CDS could defeat the purpose of the RBA modality. These are potentially conflicting rationales. Hence, under a combined RBA and CDS approach, who would assume responsibility for achieving results: the partner or the donor? Donors therefore face a fundamental dilemma. They could either implement an RBA programme without additional CDS and risk failure in achieving

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1 While recognising they are rather imperfect terms, this paper uses "donors" in reference to countries and agencies funding development cooperation and "partner countries" as those who stand to benefit through this cooperation. Both groups are addressed together as "development actors".

2 For instance, one study commissioned by the United Kingdom's Department for International Development (DFID) recognised that *"up front capacity-building efforts may be needed in some cases to help weaker countries take advantage of results-based schemes"* (Pearson / Johnson / Ellison 2010, 3). Recent guidelines issued by DFID call for being more explicit about capacity development in the design of interventions, which it sees as essential for a better understanding of how DFID's support can promote sustainable results and improve value for money (DFID 2013a).

3 For instance, in Paragraph 39 of the 2005 Paris Declaration on Aid Effectiveness, donors commit to *"use an appropriate mix of aid instruments, including support for recurrent financing, particularly for countries in promising but high-risk transitions"* (OECD 2005, 7).

results, or implement an RBA programme with CDS and risk failure in terms of limited sustainability, as further results cannot be achieved without additional external support. The main research question for this paper is therefore: How can development actors combine RBA on the conceptual and practical levels, and what are the challenges?

It is too early to draw conclusions on the overall effectiveness of the RBA modality, let alone the effectiveness of combined RBA and CDS approaches. There are no detailed studies that present robust evidence on the impact of RBA. In addition, there is no international consensus on the definition of RBA, and common definitions of capacity development are highly abstract and of limited practical value. This paper will therefore mainly explore the conceptual side of the research question to clarify terminology and define analytical concepts for discussing the linkages between RBA and CDS. In addition, the paper will draw on emerging lessons from practical cases in which donors have combined RBA and CDS (see, for instance, Angelsen 2013; Janus 2014). These lessons remain tentative, given the large variety of different RBA models in practice and a lack of conscious decisions with regard to designing a combination of RBA and CDS. The paper’s main considerations and conclusions should therefore be regarded as a means to informing further research and practical application, as opposed to providing any ready-made answers. Both policy and academic discussions stand to gain from greater conceptual clarity, given the multitude of different interventions that relate to RBA.[4] Such clarity would also help to distinguish between actual innovations in development cooperation and development interventions that only carry a “results-label”.

The remainder of this paper is structured in four sections. Section 2 explores how RBA and CDS are defined in the literature to provide a starting point for further analysis. In section 3, the potential trade-offs between RBA and CDS are highlighted: (1) donors need to decide between being hands-off or hands-on when engaging with partner countries, and (2) partner countries need to decide between addressing capacity gaps or demonstrating results. In section 4, the paper discusses ways in which these trade-offs in designing CDS and RBA could be addressed. Depending on the specific design of CDS and RBA, potential trade-offs can be more or less significant. Section 5 subsequently translates this analysis to the implementation stage and identifies three options: adopting CDS separately, adopting RBA separately, or integrating CDS and RBA into one modality. Finally, section 6 draws conclusions.

4 At the moment, different terms are used by different actors. The OECD, for example, uses the term “results-based funding” as the umbrella term for mechanisms through which a funder pays an agent for achieving pre-defined results, covering a variety of applications by individual development organisations such as: payment by results (PbR), payment for results (PforR), results-based lending (RBL), performance-driven loans (PDL), performance-based aid for REDD+, performance tranches in budget support, cash on delivery (CoD), output-based aid, etc. Synonymous with “results-based funding”, the terms “results-based approaches” and sometimes “results-based financing” are used as umbrella terms in the literature.

2 Definitions, ongoing debates and experimentation

As noted in the introduction, the use of RBA in development cooperation is still emerging, and empirical research on its application in practice is limited (Perrin 2013; Janus 2014).[5] Research and policy papers capture the present understanding of RBA by the following criteria (Klingebiel 2012b; Janus 2014; DFID 2014; Birdsall / Mahgoub / Savedoff 2010):

- RBA is based on a transparent contract between funder and partner government, whereby the partner takes responsibility for achieving results.
- Results have to be agreed upon in advance.
- Results should be
  - quantifiable,
  - achievable in incremental steps,
  - verified regularly (e.g. annually) and independently.
- Payment upon achievement of results. No payment is made if results are not achieved.

Although there have been earlier efforts to directly link payments to results (e.g. debt-swap arrangements, whereby debts are cancelled upon achievement of results), RBA – as defined above – is still a young field of practice.[6] Many of the assumed benefits of RBA have yet to be confirmed by practice, especially whether the modality can lead to sustainable development effects and not just to short-term "quick wins" (Klingebiel / Janus 2014). Ongoing pilot programmes by bilateral donors and development banks help to deepen understanding on how RBA programmes are conceptualised and translated in practice in different contexts and settings (see also Janus 2014; O'Brien / Kanbur 2013; World Bank 2013). These findings will also inform ongoing academic debates on how institutions develop and to what extent their development is amenable through external support (see, for instance, Andrews 2013; Acemoglu / Robinson 2012; Andrews / Pritchett / Woolcock 2012). Analysing the RBA and CDS nexus in greater detail can also deepen insights into whether specific design and management aspects of external interventions promote or inhibit the development of effective institutions.

The extensive literature on capacity development is closely linked to the discussion on how development cooperation can lead to sustainable results, and thus features centrally in many development policy discussions.[7] The following definitions capture the international consensus on what capacity development is and how it can be supported through development cooperation (OECD 2006, 113):

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5 In addition to RBA, one other category of result-based approaches is grouped under results-based finance (RBF) (Pearson 2011; Klingebiel 2012b). RBF involves contracts to service providers, whereas RBA indicates a government-to-government relationship. Substantial experience has been gained with RBF, particularly in the health sector (see, for instance, Grittner 2013; Gorter / Por / Meessen 2013).

6 The idea of making aid disbursements conditional on development results has a longer history in the literature, particularly related to budget support (Koeberle et al. 2005) and aid conditionality in general (for an overview see Klingebiel / Janus 2014).

7 One example is a comprehensive study of the links between capacity, change and performance, which was supported by a large group of donors and concluded in 2008 (Baser / Morgan 2008).

- **Capacity** – The ability of people, organisations and society as a whole to manage their affairs successfully.
- **Capacity development (CD)** – The process whereby people, organisations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time.
- **Capacity development support (CDS)** – What outside partners can do to support, facilitate or catalyse capacity development and related change processes.

Despite a long research tradition and intensive policy discussion in past decades, development practitioners differ in their understanding of capacity development and the role of development cooperation in supporting this. The concept of capacity is often misunderstood as the ability of stakeholders in partner countries to engage actively in aid interventions, and is also often used when this is not the case (e.g. "the education project was unsuccessful because the education ministry lacks capacity"). Moreover, the possibility for external interventions to support CD is frequently overstated, which can translate into interventions with overambitious and unrealistic objectives. Such unrealistic interventions negate the understanding that external interventions can only facilitate concrete and endogenous change processes and cannot substitute for the lack thereof (Baser / Morgan 2008, 125). There is an uneasy match between the "interventionist" nature of development cooperation and the understanding of capacity development as an endogenous change process that easily outlives a development project's life cycle. More fundamentally, substantial and interconnected deficiencies on both the demand and supply sides of CDS have hampered the effectiveness of this important area of development cooperation (Keijzer 2013, 2014; Matheson 2011).

To complete this brief section on definitions and a cursory look at available research evidence, we define the idea of "combining" RBA and CDS as a conscious attempt to relate RBA with at least one separate CDS intervention. The act of "relating" can involve a wide range of possible activities, ranging from a basic association in terms of "cross-reference" between RBA and CDS in respective programme documents, to full integration in terms of both RBA and CDS being prepared and implemented as one unique intervention.

Whereas the next two sections examine potential trade-offs between RBA and CDS based on their main characteristics and design elements, sections 5 and 6 analyse in more detail what factors influence their implementation.

3 Balancing intervention and discretion in RBA and CDS

RBA and CDS share the goal of promoting sustainable development outcomes, but both modalities are characterised by important differences in terms of process and management, for example on how support is agreed, funded and implemented. In practice, these differences form a principal dilemma in development cooperation between direct intervention and sustainability: increased donor intervention and control might hamper partner ownership and partner-country discretion. At the same time – and especially so given the novelty of RBA – limited donor intervention on the other hand might entail the risk of falling short on achieving any results. This dilemma manifests itself in two trade-offs that have to be balanced by the donors and partner countries that engage in RBA respectively, which we call 1) "hands-off" or "hands-on", and 2) addressing capacity gaps or demonstrating results. Understanding these trade-offs provides a useful starting point for exploring practical lessons for the design and implementation of RBA and CDS.

"Hands-off" or "hands-on" approach

From a donor's perspective, a basic decision needs to be made about the character and scope of its engagement with a partner country. Under an RBA programme that is carried out on an independent, self-standing basis, the donor takes a hands-off approach and refrains from any direct involvement in achieving the agreed results. Here, the partner country has complete control over determining and implementing the specific measures and reforms needed and assumes (financial) responsibility over the achievement or non-achievement of independently verified results. This is not to say that RBA will then be purely oriented towards promoting direct results: a standalone RBA programme will often "imply" CD, in the sense that the partner country has to change or introduce certain functions to achieve the agreed results.

If, however, a donor were to take a more hands-on approach to supporting capacity development as part of an RBA "package" – for example, by delivering or funding accompanying training or advisory measures that are not performance-based – responsibilities towards achieving agreed results may become blurred. Who would take responsibility for the non-achievement of results if the donor also provided advice and suggestions on implementation strategies: the recipient or the donor?

The distinction between such a "hands-on" and "hands-off" engagement will not always be clear-cut in practice. RBA programmes are not implemented in isolation but coexist alongside multiple development projects managed by different donors as well as many other influences in a particular sector. Thus, there is a wider range of donor engagement. Yet, the basic trade-off remains. The more hands-on a donor is, the less results-based the modality might be in practice, and vice versa.

Addressing capacity gaps or demonstrating results

From a partner country's perspective, another related trade-off needs to be considered: a partner country, together with the donor, may need to decide between addressing capacity development objectives with donor support and demonstrating results. If a partner country decides to rely strongly on CDS, it can claim less responsibility for achieving results, thereby undermining the visibility of its own development successes and accountability towards domestic constituents. Transparency, public attention and communication of results are crucial for government effectiveness and might be hampered by extensive donor intervention. Without CDS, however, a partner country might fall short of achieving results and consequently fail to trigger disbursements.

This trade-off can manifest itself in at least two different ways during implementation. First, before an agreement can be reached on what results are to be used as a basis for RBA, a detailed and reliable baseline has to be constructed. This preparation process is also essential to detect whether reliable data is available to measure progress. Yet, the existing data system might not fulfil the requirements that partner countries and donors have for establishing a baseline. Therefore, they need to decide whether to invest in facilitating capacity development for measuring results or to start linking disbursements directly to results. Although ownership and visibility for achieving results are stronger when relying on existing measurement systems, there might be a risk of basing disbursements on potentially weak or insufficient data. On the other hand, the introduction of additional measurement systems might limit the ownership and accountability of the partner country towards domestic constituencies.

Another example is a situation in which adjustments of agreed results during RBA implementation may be required (e.g. due to political or economic shocks, certain service delivery sectors can be affected), or capacity gaps might (re-)emerge, although they might have been addressed initially. Here again, the partner country and the donor need to decide on either specifically addressing the emerging capacity gaps or continuing as planned and measuring results as a basis for disbursement.

Despite these examples, there can be more options beyond the binary choice between addressing gaps and demonstrating results. In reality, donors and partners often simultaneously address capacity gaps and base their disbursements on results indicators. Again, there is a basic trade-off: the more CDS is given, the less a partner can claim ownership and credit for achieving results, and vice versa.

Exploring how the practical trade-offs by donors and partner countries affect the design and implementation of RBA and CDS is the focus of sections 4 and 5.

4 Designing capacity development support and results-based aid

All development interventions have to find a balance between “doing things for partners” and “helping the partners do their own things”, or, in other words, a balance between capacity supplementation and capacity development support (Morton 2013).[8] There is no such thing as a “capacity-neutral” intervention, as any external intervention will inevitably have an impact on levels and developments of capacity of the partners they seek to cooperate with. Capacity supplementation is often necessary in fragile states where the state is not willing and able to provide essential services, yet it also often happens in countries where levels of capacity are, in principle, adequate for getting things done or otherwise provide a favourable basis. Capacity development comes with a lack of certainty and predictability that may lead donors to decide to do things largely by themselves. This can have negative effects, such as eroding available capacity, or extracting capacity from the public sector for project management purposes. One example was the practice of establishing parallel systems for distributing HIV/AIDS anti-retroviral drugs, which in some African countries led to extracting capacity from the public sector (for more analysis, see Goss 2011).

Development cooperation that uses country systems can have a positive effect on capacity development, which was, for instance, observed in a joint-donor evaluation of budget

8 It should be emphasised that in order to promote CD, a development cooperation programme does not need to have explicit CD objectives; rather, it is found in the absence – or limited presence – of specific supplementation measures and objectives.

support (IDD and Associates 2006). Further analysing the use of country systems in relation to RBA is difficult due to the lack of consistency in the existing research evidence: one group of studies narrows the definition of using country systems to the "use of country Public Financial Management systems", whereas others use a broader definition that also involves non-financial country system aspects such as planning, budget transparency, evaluation and audit. A third group of studies deviates from the definitions presented in the Paris Declaration (OECD 2005) and instead puts forward a broader definition for "localising aid" that includes working through local private and non-profit organisations (Glennie et al. 2013). Regardless of the definitions used, the main conclusion of existing research on developing-country systems is that development cooperation not only has CD implications through the objectives but also through the management processes chosen. Therefore, both the objectives and processes should be kept in mind in discussions on linking CDS and RBA.

Although financial cooperation programmes can have important capacity development effects, they are often not seen as promoting CD as a main objective. This is why some of the literature makes a distinction between dedicated "capacity development support" that has such a primary purpose and a group of development cooperation interventions that has other objectives (but may stimulate CD results). As per this distinction, the bulk of CDS assistance is delivered in the form of technical cooperation (TC), which the Organisation for Economic Co-operation and Development (OECD) defines as *"provision of know-how in the form of personnel, training, research and associated costs whose primary purpose is to augment the level of knowledge, skills, technical know-how or productive aptitudes of the population"* (Land 2008, 12–13).[9] TC is provided in many different ways, both directly by specialised development agencies and indirectly by development partners who contract third parties through competitive tendering (Land 2008, 12–13):

1. **Packaged TC**: as part and parcel of programmes that include financial assistance.
2. **Project TC**: as a discrete project with a clear focus on capacity development combining a package of measures that might include technical assistance (TA) personnel, training and equipment.
3. **Stand-alone TC**: such as bursaries for overseas training, or the deployment of individual TA personnel without an accompanying budget or project.
    a. In TA a distinction is made between (1) long-term residential TA personnel, (2) short-term technical inputs provided by consultants, and (3) volunteers.

As recognised by the OECD, and contrary to its own definition, it should be emphasised that TC is often provided for objectives other than supporting capacity development, such as project appraisal, monitoring and evaluation of development interventions, for financial control functions, etc. (Keijzer 2013; Matheson 2011; OECD 2006, 23).

As per the aforementioned conflicting interpretations of CDS among donors, two different understandings of capacity development can be reflected in the design of development interventions, including RBA programmes. Under an "**instrumental**" understanding, one

9 In addition to the OECD's statistical definition, some of its reports go further and argue that TC *"...comprises activities designed to increase the capacity of developing countries"* (OECD 2006, 112).

would look at supporting "capacity development" for implementing just the RBA programme.[10] Such an approach cannot be seen as capacity development support according to the OECD's definition of CD, which defines CD as the partner's responsibility, with the donor in a supporting role. As opposed to this instrumental understanding, a "**genuine**" understanding of capacity development support implies efforts to ensure that RBA supports measures for improving overall institutional quality in partner countries. Table 1 presents a few generic examples to further clarify and illustrate this distinction. The distinction is not to imply that instrumental CDS is "wrong" and should not take place, but rather that it would be better to regard this area of support as part of the management and overhead costs of a development intervention, as opposed to a direct investment into capacity development.

Table 1: Contrasting instrumental and genuine capacity development support

Instrumental "CDS"	**Genuine CDS**
Training a ministry's financial department to report in standards used by development agencies (= lack of harmonisation)[11]	E-learning tool linking ministry financial officers to regional and international experts to provide hands-on advice for reforming reporting standards (= supporting country efforts)
External advisor posted in a ministry to facilitate and oversee construction of new office space and keep donor informed (= supervision)	Partner-controlled capacity development fund to procure advice on construction plans funded by donors (= partner in charge of CD)
Regional domestic accountability advisors posted in local governments to support a school-feeding programme (= fixing a failing development project)	Regional tax advisors posted in local governments (= supporting existing government structures)

Source: Own elaboration

It should be noted that judging whether CDS is of an instrumental or genuine nature cannot be made solely on the formally stated goals of such support; it is also partly determined by the degree of flexibility provided, as well as the accountability and reporting processes (e.g. in case advisors are managed by donors as opposed to partner countries) (Land 2007; Keijzer 2014). Ensuring genuine CDS is therefore a joint responsibility of donors and partners.

10 For example, a project to distribute anti-retroviral medication includes a CD component for training medical staff located in distribution centres that are established parallel to the government's health sector.

11 As one concrete example, the 2010 Evaluation of the Paris Declaration country report on Malawi observes the following: *"Implementation of the* [Public Procurement Act] *is severely hampered by insufficient human and technical capacity, particularly within the* [Office of the Director of Public Procurement] *and at District Assembly level. According to responses from the interviewees, this situation is exacerbated by donors training civil servants to use donor procurement systems, thereby fostering 'parallel' capacity"* (Jimat Development Consultants 2010, 43).

The potential risk of the instrumental approach is that it can distort or displace capacity and promote programme effectiveness at the expense of long-term institutional development. Moreover, doubts can be raised as to the sustainability of the “capacities” developed if this is mainly done to gain access to the funds and, as a result, may not represent the partner’s true interest or medium- to long-term development vision. Further, the instrumental approach is likely to perpetuate the aforementioned two trade-offs between rewarding results and addressing capacity gaps. It thus remains key to critically assess such interventions to make sure that efforts to enable the successful implementation of external interventions do not reduce or negatively affect sustainable results and capacity development in partner countries.

It can be argued that only genuine CDS can effectively mitigate the trade-offs, as it fosters improvement of the overall institutional quality while simultaneously supporting a results-oriented approach. If the donor provides flexible and partner-led CD, RBA programmes are more likely to support genuine capacity development. Such an approach can help to deal with the complexity of development challenges and offer a means for escaping “capability traps” of inefficient state administration (Andrews / Pritchett / Woolcock 2012; Andrews 2013). Facilitating this requires optimal flexibility on the side of the donor and places strong demands on its own capacity to listen and follow the partner’s visions and objectives.[12]

Designing results-based aid

The design of RBA differs from traditional aid projects in several ways. As per the definitions set out above, RBA programmes require that the funder and recipient agree on a measure for progress, and afterwards only focus on the verification of outcomes, while the donor takes a hands-off approach. This RBA approach is characterised by little need for pre-financing and strong incentives for achieving results (Klingebiel / Janus 2014).

Under an RBA programme design, there is no explicit role for donor-funded CDS, since this would conflict with the separate responsibilities of funder and recipient. This does not mean that the financial inputs provided cannot have a strong effect in terms of supporting capacity development processes. First, measures taken by the partner to meet the results could lead to **implied CD** (e.g. through strengthening the use of the partner country’s own systems). Second, some of the RBA-linked results might be **explicitly CD-related** (a form of “payment for CD results”). Third, the partner may decide to use part of the envisaged RBA funding to source capacity development support by means of competitive tendering. The partner may in fact choose to partially or completely outsource activities it relates to RBA to the private sector or non-governmental organisations – a decision that would have clear CD implications. But in all cases, there is no direct engagement of the donor, and the partner government is in charge of the capacity development process.

12 An example of a potentially problematic attitude is that a donor is unsatisfied with the ministry of health’s performance in relation to a Millennium Development Goal target (e.g. on HIV/AIDS) and decides to use a development project in order to reorient the ministry’s attention and efforts.

The RBA approach therefore differs from "hands-on" **aid projects**,[13] in which donors are engaged in almost every phase of the project, including design, negotiation, implementation, monitoring, evaluation, etc. A traditional aid project relies on input financing and requires intensive preparation, pre-financing and involvement throughout, such as monitoring missions, mid-term evaluations, etc. The donor engages extensively in every phase over the entire life cycle of the project. Here, assumptions and objectives in relation to capacity development can be strong and explicitly articulated if they feature among its objectives. Compared to an RBA programme, it can be assumed that incentives for achieving results are less pronounced.

In practice, this ideal-type distinction of RBA programmes and traditional aid projects often does not hold, and the differences between them tend to be more subtle. Donors often have large portfolios of pilot interventions, some of which are more RBA-like and others that are only loosely based on the RBA idea. Key among the reasons explaining this divergence are the conditions under which development cooperation is carried out, as well as the political economy of development cooperation that is created and reinforced by the interests of all parties involved. Three aspects can be highlighted here:

- First, by design, RBA puts the focus on the recipient's own accountability process, but also strongly reflects accountability needs on the donor's side. The donor country's parliament, non-governmental organisations or other stakeholders may at any point in the project cycle demand further information. This explains the rather hands-on focus of many donors in managing "their" projects. Once a question from parliament arrives, a rapid response is needed. Also, donors may apply economic and social safeguards to their funding or require due diligence (see also Box 1).

- Second, the donor is not involved in monitoring or information-gathering in the RBA context, but the independent verification often has to rely on information that may not be available in the recipient's systems. Therefore, donors may plan accompanying capacity development, or otherwise data-gathering activities, which may be managed by the same donor officials who are normally responsible for implementing RBA programmes.

- Third, development cooperation might be influenced by path dependencies that influence the implementation of aid modalities. Although the design of an RBA programme might signal a departure from traditional donor practices, implementation can often revert back to the established "business models" of donors.

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13 The paper defines project-based approaches as isolated and non-harmonised aid approaches that stand in contrast to programme-based approaches, defined by the OECD as *"a way of engaging in development co-operation based on the principles of coordinated support for a locally owned programme of development, such as a national development strategy, a sector programme, a thematic programme or a programme of a specific organization"* (OECD 2008). See also Leiderer (2012).

Box 1: The World Bank's Program-for-Results
The World Bank's Program-for-Results (PforR) explicitly aims to strengthen institutional capacity, which it considers essential to ensuring that the programme results are achieved and sustained (World Bank 2011). To achieve this, each PforR programme requires integrated risk assessments (including technical, fiduciary, and environmental and social systems assessments) to identify measures to build capacity and mitigate key risks. Although this demands more investments up front, it could allow for more ownership and partner-country discretion once implementation starts. Yet, turning this idea into practice presents significant challenges in terms of identifying adequate measures as preparations for a PforR review show: *"Clients and task teams are still figuring out how to use the PforR instrument appropriately to support institution building, using a combination of Bank implementation support, DLIs* [disbursement-linked indicators]*, actions under the Program action plan, and, as necessary, legal covenants"* (World Bank 2013).

As per this understanding, an intermediary type that involves **integrating RBA and traditional aid projects** needs to be included in the analysis, as this type of modality is currently being applied in some partner countries. Although it is still a simplification of reality, comparing three ideal types of aid modalities – RBA, traditional aid projects and integrated approaches – can help in analysing opportunities and challenges for improving the effectiveness of the larger portfolio of aid modalities. Table 2 compares the basic characteristics of the three types based on the theoretical literature on RBA.

Table 2: Comparing ideal-type projects, integrated approaches and RBA

	1) Traditional aid project	**2) Integration of RBA and traditional aid project**	**3) RBA**
Need for donor pre-financing	Strong	Medium	Little
Donor engagement throughout project cycle	Strong	Medium (more intensive for project-components)	Little
Incentives for results	Little (mostly non-monetary and renewal-related)	Medium	Strong (monetary and non-monetary performance incentives)
Results assessment	Contracted through project resources under donor management	Mix of project-dependent and project-independent assessment	Results verified by third party independent from donor and partner
Capacity development	Potential for explicit CD objectives and process engagement	CD component with standard project characteristics	Potential for explicit CD objectives, but no process engage-ment

Source: own elaboration

The United Kingdom's Department for International Development (DFID) and the World Bank are among the donors who have made strong investments in designing and implementing RBA interventions. Box 2 describes some of their overall policy considerations and concrete interventions, which show that both donors do not apply a one-size-fits-all approach but instead seek to tailor each intervention to the sector and context. Both donors have the options of combining RBA and CDS, or providing RBA and CDS separately.

Box 2: Capacity development support in current results-based approaches

DFID is in the process of experimenting with various types of development interventions under the heading of payment by results pilots (DFID 2014). In these interventions, DFID does not give technical assistance and stresses recipient discretion, as for example in the results-based finance pilot in the health sector in Rwanda.[14] Another example is a RBA pilot in the education sector in Ethiopia, where DFID similarly emphasises recipient discretion. But here DFID, in addition to the RBA modality, also provides traditional input-based aid (including technical assistance) that amounts to multiple times the volume of the RBA pilot. A similar approach can be seen in the results-based finance pilot in Uganda. Here, DFID gives technical assistance to business planning, financial management, supply of drugs, and district health teams for independent monitoring of services.

The Program for Results (PforR) instrument of the World Bank also adopts different options. On a general level, capacity building is one of the formal goals of PforR and the World Bank assumes that using country systems will contribute to building capacity (implied CDS): *"By directly supporting government programs, Program-for-Results will help countries strengthen institutions, build capacity, and enhance partnerships with stakeholders to achieve lasting impact"* (World Bank 2011, iii). Across the current PforR pilots there are also examples for more explicit CDS as the World Bank expects *"that many Program-for-Results operations will require some level of capacity-building activities, which will be informed by the technical, fiduciary, and environmental and social systems assessments"* (World Bank 2011, v). This notably places a lot of importance on up-front assessments that describe identify capacity gaps and propose strategies for addressing these gaps. Further, different forms of technical assistance are envisioned in the individual pilots: *"Technical assistance, where needed, can be provided as an integral part of a Program-for-Results operation; as a separate stand-alone IL* [investment lending] *or an IL component within a Program-for-Results operation (i.e., as a hybrid operation); or through parallel efforts financed by development partners"* (World Bank 2011, 15).

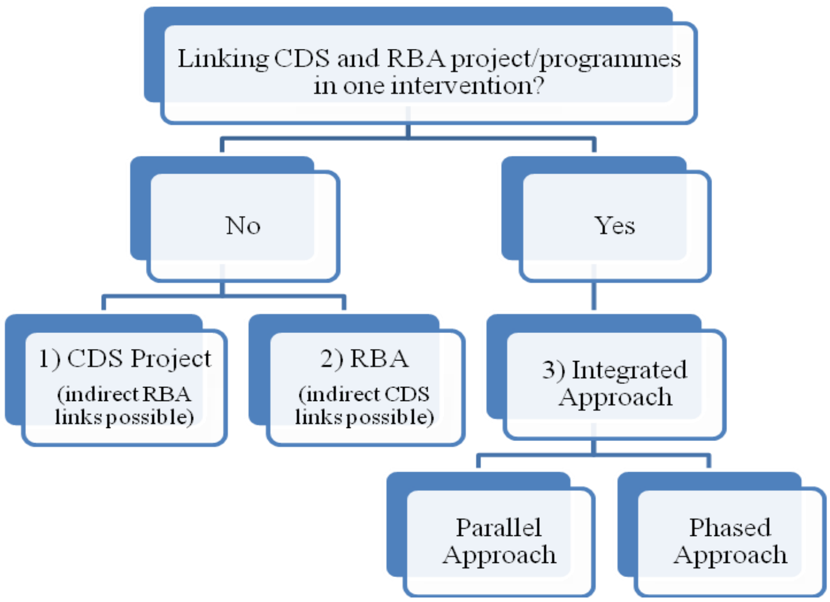
From the table it follows that there is strong potential to support endogenous capacity development processes under all three "types", yet with distinct design possibilities and limitations. Each type addresses the trade-off between hands-on and hands-off donor engagement in different ways. The traditional aid project follows a hands-on approach, whereas RBA remains firmly hands-off. The trade-off between addressing capacity gaps or demonstrating results is addressed in a similar way: traditional aid projects tend to focus on addressing capacity gaps, whereas RBA rewards results. Under an integrated approach combining RBA and traditional aid projects, however, effects of the two trade-offs are more difficult to dissect. There is thus a need to further analyse potential linkages with capacity development under an integrated approach of RBA and traditional aid projects, which is the focus of section 5.

14 Earlier experiments with performance-based financing in Rwanda by the Netherlands and Belgium are described in Grittner (2013).

5 Implementing capacity development support and results-based aid

This section looks into three main options that partner countries and donors can explore when deciding on how to link RBA and CDS. The starting point is an agreement between the donor and the partner country to achieve development objectives through the effective, efficient and sustainable use of resources. In other words, the intervention should be agreed through a dialogue between the donor and the partner country, as opposed to being largely “prescribed” by the supply-side. In doing so, development actors should strive to promote both results and sustainable capacity development, as opposed to prioritising “quick wins”. If the donor and the partner country together decide on which modalities to adopt, CDS projects and RBA programmes can follow three basic relationships (see Figure 1).

Figure 1: Three options for linking capacity development support and results-based aid



Source: Own compilation

First, CDS can be implemented through a **project approach**, and no RBA programme is introduced. This option equals the traditional aid project with hands-on donor engagement. Here, capacity development support in the context of traditional aid projects can be strongly targeted and geared towards supporting partner-country governments in strengthening institutions, organisations and key competencies. The donor is engaged in almost every phase of the project, including design, negotiation, implementation, monitoring, evaluation, etc. Also, the traditional aid project relies on input financing and requires intensive preparation, pre-financing and involvement throughout, such as monitoring missions and mid-term evaluations. CDS projects can be provided as packaged, project or stand-alone technical cooperation and can either use or bypass certain aspects of country systems. Regardless of the approach chosen, standalone CDS interventions can usefully complement RBA programmes, as in the case of the DFID-funded education pilot in Ethiopia (see Box 2).[15] CDS is likely to be most effective when it is guided by clear and unambiguous objectives in relation to a baseline capacity assessment. CDS objectives may be revised further down the road, but they need to be clear *ex-ante* to serve as a basis for accountability and strategic direction (Keijzer 2013).

Under the **second** option, the donor and the partner country decide to implement an **RBA programme** without an additional CDS project. Here, the RBA programme can set strong incentives for achieving results; in this application, RBA can be considered a fundamental shift away from traditional aid projects. This choice does not mean that the RBA programme cannot have a strong effect in terms of supporting capacity development processes. This could be a result of the measures taken by the partner to meet the results ("implied CD"), but also when some of the RBA-linked results are explicitly CD-related without prescribing the actions required to develop that capacity (a form of "payment for CD results"). Yet, no additional project or programme component would be required to achieve implied or explicit CD goals. Despite making this point, it should, however, be acknowledged that RBA programmes coexist with other development interventions, among many other factors informing stakeholder behaviour in developing countries.

The **third** option involves **integrating CDS and RBA** into one distinct intervention. This option would reflect an integrated approach that combines features of traditional aid projects and features of RBA programmes. Such a "package" could be an outcome of the preparations between the donor and the partner, if both agree that these would be important to its success, or for non-benevolent reasons stemming from the political economy of donors described above. Another – not legitimate but possible – reason for integration could be that partners find it difficult to precisely estimate levels of capacity needed for implementing RBA programmes and decide to include CDS in a "default manner", assuming it will be of use.

Integrated approaches: parallel and phased approaches to combining CDS and RBA

Some of the current RBA programmes already reflect aspects of an integrated approach (see Box 2). However, these interventions are at a relatively early stage of design or implementation, and there is currently insufficient evidence available to assess the impact of these integrated approaches, in comparison to options 1 or 2, that is, traditional input-based modalities or more outcome-focused RBA programmes. As a consequence, analysing the benefits and challenges of such integrated approach has to be explorative in nature, pending further empirical research.

Several potential risks of combining CDS and RBA in one intervention can be identified and should be taken into account in further discussions and when designing future (pilot) interventions:

- First, integrated approaches may risk subordinating CDS in order to help the partner achieve the results defined under RBA – capacity development support would then solely be used to facilitate the disbursement of funds. This carries a high risk of

15 One other interesting example is the use of CDS in support of an overall results-strategy for public administration, such as the "Big Results Now" initiative in Tanzania (DFID 2013b).

promoting an instrumental CDS, which may not "stick" in terms of sustainable capacity development.

- A second risk is that integrated approaches may in fact exacerbate the challenge of finding the right balance between hands-on and hands-off donor engagement. If the donor predetermines results and simultaneously provides support for implementation, recipient discretion and ownership can become distorted or even undermined.

- Third, it needs to be considered whether integrated programmes can still be considered results-based, given the definition of RBA as a transparent contract between funder and partner government, in which the partner takes responsibility for achieving results. A key element for a mitigation strategy would be for the donor to fully devolve decision-making to the partner as to whether it prefers the donor to manage the procurement or recruitment of CDS, or if it instead prefers to source such support independently using its own planning and procurement systems. This would then be a key element of the partner country's effort to achieve the agreed results and follow the general philosophy of RBA.

- A fourth risk is that integrated approaches would exacerbate the second trade-off between demonstrating results and responding to capacity gaps over time. Under an integrated approach, it would be possible that CDS is used to substitute for results-orientation, for example when baselines are set, when results are verified or when indicators are adjusted. At each of these points in the programme cycles, additional CDS measures can be introduced, with the consequence that overall ownership on the partner side may be eroded. Pressure to do so may increase when there are delays in the programme schedule.

Figure 1 theorises that CDS and results-based components can be combined in two ways, namely by means of a **parallel** or a **phased** approach. These are not purely binary options but instead reflect the range of management and design choices at hand.

Under a **parallel approach**, CDS is integrated in a fixed manner and constitutes an ongoing component of the results-based modality. The potential benefit of this approach lies in establishing a stronger focus on results while developing synergies between capacity development and results-orientation, all while remaining clear as to how CDS would benefit the partner beyond the RBA's duration. Challenges, however, lie in setting up a clear division of tasks and responsibilities between the donor and the partner country, tailoring capacity development to the envisioned results, and attributing results achieved to the specific intervention.

One example of this parallel approach would be an RBA programme that seeks to improve the regional transport corridor between two African states, and which includes a separate CDS grant to support the ministry on how to revise its tendering guidelines or overall policy for road safety. During the implementation of the RBA programme, the partner would decide what type of support it could benefit from, for example using projectised or packaged advisory support or other forms of support such as twinning or e-learning. Here, donors need to refrain from predetermining what type of CDS can be supported and how. A key risk of a parallel approach is that the support could become less relevant over time as results-orientation increases and capacity-support needs decrease, as the timing of the RBA and CDS do not fully coincide,[16] or as events evolve otherwise. For these reasons, a phased approach may be a more effective option for partners, providing that adequate monitoring and adaptation provisions are built in that will allow for making informed adjustments over time.

Under a **phased approach**, the intervention would be designed so as to allow for maximal flexibility in the use and timing of CDS, as opposed to being managed parallel to the RBA intervention. CDS could, for instance, be more extensive during early stages of implementation and then diminish over time. As part of a phased approach, CDS could, for instance, be used early on to establish a baseline for results-measurement when the current level of capacity in this regard is insufficient for setting up reliable and robust results-measurement systems. Similar to the parallel approach, effectiveness would require donors to provide full flexibility to the partner, which should be leading the management of support made available. Donor insistence on providing a particular type of CDS in a fixed way would risk that this leads to "tolerated" yet ineffective CDS that the partner country sees as an eligibility condition for RBA.

A phased approach could allow for gradually increasing the results-orientation of the programme by shifting the emphasis from disbursing against input and activity indicators towards output, outcome or impact indicators over time. The World Bank includes this option of "graduation" in the PforR instrument: *"a program in the initial stages of implementation may have DLIs* [Disbursement-linked Indicators] *that are more focused on basic institutional capacity-building actions and intermediate output indicators, while programs that are well advanced or 'mature' in terms of their development may have a larger number of DLIs that are outcome indicators"* (World Bank 2011). This approach also addresses the difficulty of designing and implementing aid modalities that directly reward development outcomes. A key challenge is how to determine these precise moments for phasing out support, given the difficulty of measuring the state of capacity and how it evolves. Box 3 below illustrates this based on the case of forest protection in Indonesia.

16 E.g. it may be that the procurement or recruitment of CDS encounters delay, as a result of which it may not be available at the start of the RBA at times when the partner was planning to make use of it.

Box 3: Combining RBA and CDS: Lessons from REDD+
The Norwegian International Climate and Forest Initiative is experimenting with the use of Payment for Ecosystem Services as part of REDD+ implementation approaches. Initial efforts have explored a three-stage approach: a first phase focused on readiness and capacity-building; a second phase focused on introducing policy reforms and national REDD+ strategies; and a third phase focused on payments based on verified / certified emission reductions. Under each of these phases, key activities and indicators were formulated to monitor progress made as well as to ascertain when the time was appropriate to advance to the next phase. Experience gained in using this phased approach in Indonesia showed that all capacity development targets had been achieved by the Indonesian government (e.g. creating a REDD+ agency, adopting a strategy), albeit two years later than envisaged. Initially planned for 2011, phase two started in October 2013 as phase one activities continued; phase three is planned to start in 2014. Although Indonesia proved to be a difficult partner for Norway, Indonesia's position as the number one emitter of greenhouse gases through deforestation and forest degradation made cooperation important to both countries. At a general level, lessons learnt from this approach point to the need to make funding structures on the donor side more flexible (e.g. through multi-annual budgets or aid tournaments between different countries/regions); the realisation that not all types of support are suitable for performance-based payments; and that there are trade-offs to the predictability of funding that co-determines effectiveness.
Source: Angelsen (2013)

The REDD+ experience indicates that the relative flexibility offered by a phased approach can allow partners and donors to improve cost estimates and cost efficiency of CDS funding (Caruso / Ellis 2013). This potential is illustrated by a recent evaluation of REDD+ in Indonesia, which found that the United Nations Development Programme achieved 40–50 per cent of the deliverables of the first stage of preparing an RBA programme at 10 per cent of the projected costs (Caldecott et al. 2011).

The above discussion represents some initial ideas for how integrated approaches for combining CDS and RBA could be given further shape in practice, and hints at some assumed good practice principles based on present policy discussions and emerging experiences. It shows that there are no ready-made answers or approaches, and the differences between pilot activities funded by the same donor, as described in Box 2, illustrate well that different approaches will be needed in different partner countries. CDS needs and challenges are highly location-, sector- and country-specific,[17] which implies that it is not possible to determine *ex-ante* which approach would be most suitable in a given country. Emerging evidence instead emphasises the need for donors to move away from relatively standardised implementation approaches.

17 E.g. some partner country governments have negative perceptions of international advisors and would prefer to use local or regional human resources, whereas other countries tend to be more pragmatic and would have different preferences, depending on the work at hand. Many country governments would moreover have different ways of exercising leadership over external support that translate to a focus on different aspects of country systems, which, among others, is influenced by the relative dependence on ODA.

It should also be highlighted that the above discussion reflects a perspective of the relationship between just two countries, namely a donor and a partner country. In practice, there are multiple donors who engage in a number of sectors in any given country. In such settings, partner countries also have the option of substituting their development cooperation with different donors. For the combination of RBA and CDS, this can mean that different RBA or CDS activities in specific sectors also need to be coordinated among multiple donors and the partner country. This indicates that one single donor should not expect one single instrument to radically change incentives and results-orientation, but that – similar to earlier policy discussions on budget support – the success will depend on harmonised approaches. Dedicated experimentation and committed evaluations by partner countries and their international donors will therefore be needed to better understand the respective advantages and disadvantages of the three options outlined above for managing the trade-offs between RBA and CDS.

6 Conclusions

Emerging evidence suggests that there is a need for a conscious linking of RBA and CDS interventions, for which three options are assessed in this paper. Two of these options are alternatives for providing RBA and CDS in a stand-alone manner, whereas the third option involves integrating these. All three options provide different responses to the challenge of balancing the trade-off between hands-off or hands-on engagement by the donor. A typical development project is characterised by a hands-on engagement by the donor, whereas RBA programmes stress partner-country discretion. Under an integrated approach of RBA and CDS, development actors face a greater challenge in assigning responsibilities for achieving results.

From a partner country’s perspective, the analysis reveals several pointers for managing the trade-off between addressing capacity gaps and demonstrating results. RBA stand-alone programmes may be more suited to demonstrating results, whereas CDS stand-alone projects may be better for promoting capacity development. Under an RBA programme, an existing baseline for measurement of results is required and allows for linking funding to reliable results immediately. There still would be a range of implications for capacity development, but no direct donor engagement in CDS would be required. Similarly, a CDS stand-alone project can be better targeted towards facilitating institutional development (i.e. genuine CDS) rather than being applied to facilitate an RBA programme (i.e. instrumental CDS). Such stand-alone CDS projects could still be results-oriented and promote results-orientation on the partner side, but they would be different from an RBA programme. In principle, applying RBA and CDS towards their respective strengths is the most straightforward way for achieving results and supporting capacity development.

Under the integrated approach, the requirements for donors and partner countries for managing the approach become more challenging. A phased approach would, in principle, seem more promising than an approach in which RBA and CDS are managed in parallel, and in which a donor would provide CDS in the design phase to establish a reliable baseline to guide the selection of results, for instance. Ideally, such CDS would only play a role in the design phase, whereas a separate dialogue would lead towards identifying CDS for the implementation phase. The aim should then be to gradually shift towards a stronger results-orientation over time, where, in the end, disbursements are directly linked to genuine development outcomes. As current experiences show, this is a difficult process that requires a lot of flexibility and room for adjustments and strong engagement from both the donor and the partner country. The bottom line is that results achieved through development cooperation reflect the strength of the relationship between the partners concerned, which critically depends on partner countries taking charge of external inputs provided by the donor.

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