

RESULTS-BASED FINANCING TO IMPROVE EFFECTIVENESS OF (WASH) PROGRAMMING

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INTRODUCTION

- What is results-based financing?
- Transfer of money or material goods conditional on:
 - taking a measurable action or
 - achieving a predetermined performance target
- It differs from traditional expenditure-reimbursement financing

INTRODUCTION

Payment Date	Payment Amount	Milestone or Deliverable	Due by	Reporting Period	Payment Date	Payment Amount	Milestone or Deliverable	Due by	Reporting Period
August 2014	Up to \$1,623,215.00	Annual Narrative and Financial Report, evidence satisfactory to the Foundation that the Project is providing sustainable sanitation services to at least 60% of 270,000 residents and sustainable water services to at least 60% of 100,000 residents, each as set forth in the Proposal, including satisfaction of the performance indicators set out therein and financial report	June 15, 2014	May 15, 2013 through May 14, 2014	August 2013	\$2,693,921.00	Annual Narrative and Financial Report	July 30, 2013	May 15, 2012 through May 15, 2013

INTRODUCTION

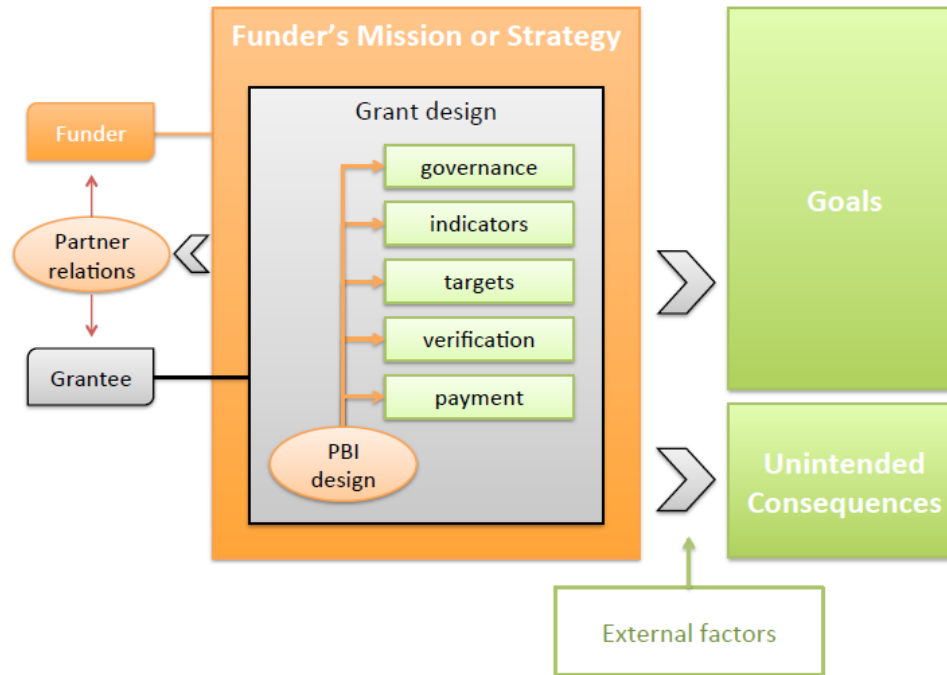
“Human ingenuity – when given proper incentives – is bound to be larger”

STEVEN D. LEVITT

- While RBF may not be suitable for every financing, considering its use is worthwhile
- The devil is in the details, i.e. in the implementation of RBF
- So here are some short lessons from good and bad practices

LESSONS OVERVIEW

Figure 1 – Conceptual framework



GOALS: WHAT DOES THE FINANCING WANT TO ACHIEVE?

- Increase utilization
- Sustainability
- Scale
- Policy Change
- Innovation
- Strengthen Local Institutions
- **Understand for which category(ies) of goals, will payment based on results induce additional effort**
- **Understand for which category(ies) of goals, will payment based on results will not induce additional effort**
 - Outcomes hard to measure/verify
 - Risk is too high (i.e. upstream research)
 - Influence of external factors is too high

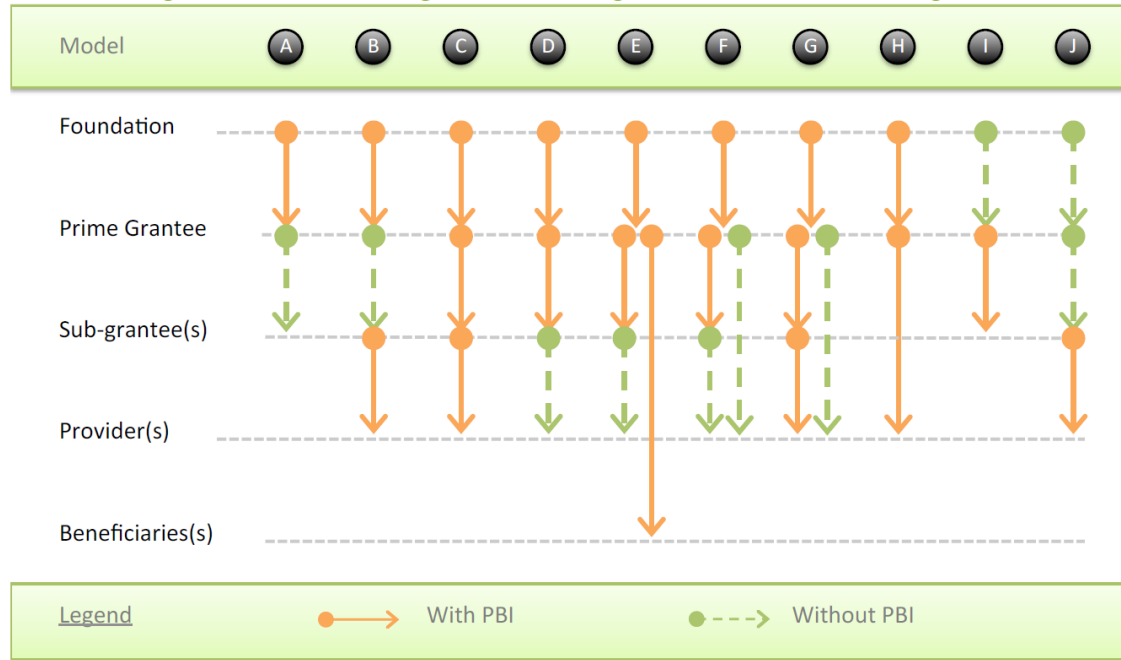
GRANTEE: WHO IS BEST SUITED FOR RBF FINANCING?

- Capacity of a grantee to work within RBF structure:
 - Ability to take risk
 - Ability to pre-finance
- What are the long term implications for selecting such grantees?

GOVERNANCE: WHO IS RESPONSIBLE FOR WHAT?

- It is important to structure the RBF such that all the entities whose effort is directly connected to outcomes is incentivized: RBF trickle down

Figure 2 – Institutional arrangements and funding flow models found in 15 BMGF grants



GOVERNANCE: WHO REPORTS TO WHOM?

- Avoid conflicts of interest generated by RBF
 - When the prime grantee competes with sub-grantees for the same RBF, while also controlling levers that all partners rely on to succeed such as procurement, maintenance, budget approval, disbursement of funds
 - When a grantee is responsible for reporting results while also being incentivized to achieve the same results

INDICATORS: SELECTING INDICATORS TO LINK TO PAYMENT

- Precisely define indicators – avoid any ambiguity
- Reward a small number of high impact indicators
- Select indicators that the grantee can influence, within the period of the grant
- Select indicators that are independent of each other
- Avoid the possibility of gaming
- Avoid indicators that impose a certain path for the grantee
- Consider ease of verification

TARGETS: DECIDING WHAT IS GOOD PERFORMANCE

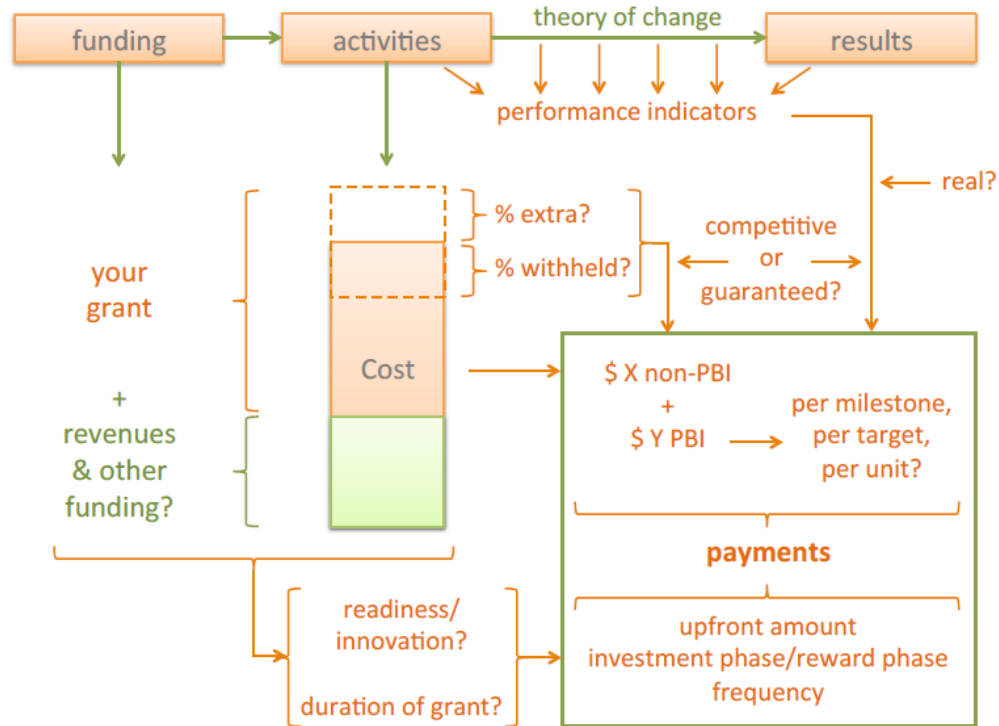
- Reward the achievement of pre-defined performance targets whenever possible
 - What if not enough information is available?
 - Consider target setting rules rather than actual targets
 - Combine minimum targets with per unit payments
- Performance targets should be challenging yet feasible
- Consider building flexibility into agreements if external factors play an important role
- Provide room for early failure in grants that aim to promote innovation

■ VERIFICATION: MAKING SURE REPORTED PERFORMANCE IS REAL

- Verification should build upon the grantee's own monitoring data
- Consider using technology to document evidence of achieved results
- Understand incentives of verifier (and counter-verify)
- The rigor of verification should take into account the non-monetary incentives for accurate data reporting
- Impose penalties on grantees for misrepresentation (and have a dispute mechanism)
- Compare the cost of verification to the expected impact of the grant rather than to the grant ceiling

PAYMENT

Figure 3 – Underlying characteristics of a PBI mechanism



PAYMENT

- Consider moving away from paying based on inputs where possible
 - This does not eliminate the possibility of upfront payments
- Consider what will motivate the desired change in behavior
 - Withholding payment or bonus payments?
- Annual payment of incentives is better than only at the end of the grant
- Clearly specify the payment rules in the grant agreement
- Understand grantee preparedness and ability to prefinance

ANTICIPATE UNINTENDED CONSEQUENCES

- Negative
 - Multiple donors
 - Multiple outcomes
 - Achieving results vs. strengthening local institutions
 - Gaming
 - Supplier-induced demand
 - Thwarting innovation
- Positive
 - Improved outcome monitoring systems
 - Reduced grant management effort