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# Mainstreaming Results-Based Finance: Actionable Recommendations for USAID

## REPORT

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# ACRONYMS

<b>AMC</b>	Advanced Market Commitment
<b>CDCS</b>	Country Development Cooperation Strategies
<b>CTP</b>	Center for Transformational Partnerships
<b>DFATD</b>	Department of Foreign Affairs Trade and Development (Canada)
<b>DFID</b>	Department for International Development (UK)
<b>DIB</b>	Development Impact Bond
<b>DIV</b>	Development Innovation Ventures
<b>DLI</b>	Disbursement-Linked Indicator
<b>E3</b>	Bureau for Economic Growth, Education and Environment
<b>FARA</b>	Fixed Amount Reimbursement Agreement
<b>G2G</b>	Government-to-Government
<b>GFF</b>	Global Financing Facility
<b>GH</b>	Bureau for Global Health
<b>GLAAS</b>	Global Acquisition and Assistance System
<b>GPOBA</b>	Global Partnership on Output-Based Aid
<b>GPSURR</b>	Social, Urban, Rural and Resilience Global Practice (World Bank)
<b>HHS</b>	United States Department of Health and Human Services
<b>HRITF</b>	Health Results Innovation Trust Fund
<b>IDEA Lab</b>	Innovation, Design, Entrepreneurship and Action Lab (HHS)
<b>JPAL</b>	Abdul Latif Jameel Poverty Action Lab
<b>Lab</b>	Global Development Lab
<b>Lab / EC</b>	Office of Engagement and Communications
<b>Lab / GS</b>	Center for Global Solutions
<b>LER</b>	Office of Learning Evaluation and Research
<b>LPA / CLD</b>	Bureau for Legislative and Public Affairs' Congressional Liaison Division
<b>M&amp;E</b>	Monitoring and evaluation
<b>M / OAA</b>	Bureau for Management's Office of Acquisition and Assistance
<b>NASA</b>	National Aeronautics and Space Administration
<b>NGO</b>	Non-governmental organization
<b>Norad</b>	Norwegian Agency for Development Cooperation
<b>NSF</b>	National Science Foundation
<b>NuPITA</b>	New Partners Initiative Technical Assistance Project
<b>ODA</b>	Official Development Assistance
<b>OHCTM</b>	Office of Human Capital and Talent Management
<b>OMB</b>	Office of Management and Budget
<b>OSTP</b>	Office of Science and Technology Policy
<b>P4P</b>	Pay for Performance
<b>PACE</b>	Partnering to Accelerate Entrepreneurship Program

<b>PBI</b>	Performance-Based Incentive
<b>PBF</b>	Performance-Based Financing
<b>PbR</b>	Payment by Results
<b>PCV</b>	Pneumococcal conjugate vaccines
<b>PDTD</b>	Professional Development and Training Division
<b>PforR</b>	Program-for-Results Financing
<b>PPL</b>	Bureau for Policy, Planning and Learning
<b>RBF</b>	Results-Based Finance
<b>R&amp;D</b>	Research and development
<b>Sida</b>	Swedish International Development Cooperation Agency
<b>SPA</b>	Sector Program Assistance
<b>TRAction Project</b>	Translating Research Into Action Project
<b>U.S.</b>	United States
<b>USG</b>	United States Government
<b>WASH</b>	Water, Sanitation and Hygiene

# KEY DEFINITIONS

**Results-Based Financing (RBF):** Any explicit contract, grant, or other agreement that uses incentive-based payments to increase program performance and transfer risk. Includes:

- **Performance-Based Incentives (PBIs):** Contracts, grants, and/or other agreements structured to disburse payments based on meeting specific targets related to outputs or outcomes
  - **Pay for Outcomes:** Disburses payments based on pre-determined indicators measuring development outcomes, or highly correlated outcome-oriented outputs
  - **Pay for Outputs:** Disburses payments based on pre-determined indicators linked to outputs
- **Prizes:** Financial rewards for development innovations in a competitive selection process. USAID has three types of prizes:
  - **Ideation Prizes** reward organizations that develop new ideas and approaches. These prizes are not included in this study because of our focus on outcomes.
  - **Solutions Prizes** reward organizations that develop innovative solutions that achieve pre-determined outcomes, such as a 50% reduction in the cost of producing a health commodity.
  - **Adoption Prizes** reward organizations that are able to deliver a good or service at a certain threshold, such as 50% of the population.
- **Development Impact Bonds (DIBs):** Interventions funded by investors upfront, repaid by funders with interest based on results
- **Advanced Market Commitments (AMCs):** Commitment of funds to guarantee a price/market for a product once developed

# EXECUTIVE SUMMARY

**Results-Based Financing (RBF) is a promising tool to focus funders and implementers on development outcomes, encouraging innovation, efficiency, and local ownership.** Development practitioners are excited by its promise, yet it has not yet been implemented at scale.

- **RBF is a collection of financial instruments that use payments to align incentives** behind achieving specific outcomes (and occasionally outputs tightly linked to outcomes) and transfer risk from the funder to the implementer.
- **Approximately 50-60% of studies on RBF's effect on outcomes suggest positive impact, although the majority of those findings are inconclusive – i.e., they cannot definitively attribute the positive impacts observed to RBF.** Nevertheless, experts believe that RBF should accelerate innovation, reward effectiveness, encourage local ownership, enable agile management, and spread the use of evidence-based approaches to aid.
- **Yet, some skeptics argue that many forms of RBF represent poor value,** limit ambition, and undermine motivation. This skepticism among some experts and aid practitioners has caused some donors to take a slower, more cautious approach toward implementing RBF across their portfolios.

**Despite rapid growth, RBF is likely to remain an ancillary tool in the development aid toolkit through 2020.**

- **Projections suggest that RBF will grow at a rate of 15-20% annually for the next five years** and mobilize \$5-\$6Bn in aid by 2020, roughly 5% of total official development assistance (ODA).
- **RBF's use will continue to spread across sectors;** specifically, education/employment, energy, and water, sanitation and hygiene (WASH) will begin to supplant primary healthcare provision as the areas in which RBF innovation occurs.

**USAID has a stake in this future, has supported a significant proportion of global RBF funding to date, and has begun tentative steps toward doing more.**

- **USAID has helped to mobilize roughly 10-15% of RBF-linked funding.**
- **USAID has already undertaken one essential first step to mainstreaming RBF:** a candid assessment of how to improve acquisition and assistance grants to secure greater value for money.

**USAID has a large amount of latent potential to do more results-based finance (RBF): the prize to realizing this potential is more innovative, efficient, and impactful development.**

- Based on available indicators and performance history, as much as 25-40% of USAID's portfolio can be financed on the basis of results today.
- This potential has grown by 10-15 percentage points over the past ten years, and outpaces other bilateral donors by roughly 10-20 percentage points; USAID can take the lead.
- Government-to-Government (G2G) RBF will maximize sustainable impact, but near-term mainstreaming requires partnership with implementers, who receive 80-90% of USAID's funding.

**RBF-based programs show many differences from standard grant and contract processes, and many barriers that are embedded in the program lifecycle; these must be addressed in order to mainstream RBF.**

- Key differences include a need to price indicators on value, not costs; added due diligence to comply with legal regulations on pricing; need for increased collaboration with partners; need for recurring Congressional contact; and managing the expense and risk associated with verification.
- Key barriers include knowledge gaps, lack of implementer capacity (financial, technical), cultural disincentives, indicator design, pricing, verification burden, and policy constraints – all cited repeatedly by USAID staff.
- ADS 220 revisions were flagged for creating challenges to expanding G2G RBF activity, limiting creativity in program design, increasing risk assessment burdens.

**Four types of interventions are important to making RBF go mainstream, inside and outside of USAID. These are as follows (with specific recommended actions):**

**1. Accelerate and simplify internal knowledge sharing on RBF**

- *Go beyond training to mentor staff in RBF*
- *Clarify legal requirements and update compliance guidelines related to RBF*
- *Incorporate RBF-related criteria into performance assessments*
- *Clarify when, why, and how to apply USAID policies to RBF programs for all staff*

**2. Reduce time and expense associated with programming, implementing RBF**

- *Set up a helpline and course series on RBF in collaboration with other United States Government (USG) agencies*
- *Build the evidence base to support the case for RBF*

**3. Promote innovation in how RBF programs are monitored and verified**

- *Consolidate a bank of disbursement-linked indicators*
- *Collect and disseminate best practices in output/outcome measurement for RBF*

**4. This agenda will benefit from convening a cross-Agency team**, likely engaging the Bureau for Policy, Planning and Learning (PPL), Global Development Lab (Lab), Bureau for Global Health (GH), Bureau for Economic Growth, Education and Environment (E3), Bureau for Management's Office of Acquisition and Assistance (OAA), the Counselor's Office, and Bureau for Legislative and Public Affairs' Congressional Liaison Division (LPA/CLD).

# I. OVERVIEW OF RBF

**Results-based finance, also known as “pay for outcomes” or “pay for performance,” is a bridge from traditional input-based aid to aid structures that support sustainable, tangible, measurable outcomes for beneficiaries.** Results-based instruments align incentives between funders and implementers to drive efficiencies, encourage innovation, increase impact, engage new partners, and attract additional capital to foreign aid activities. These instruments transfer risk onto implementers, and favor partners that are able to offer value-for-money in their approaches to achieving development results. They have the potential to transform international development.

**RBF experts expect RBF to grow to a ~\$6-7 Billion market by 2020, reflecting a 15 to 20 percent annual growth rate.** Rising use of Performance-Based Incentives (PBIs) and Prizes will drive this growth, as will the expansion of RBF into more sectors. Major donors are committing increasing amounts of funding to RBF and developing program strategies to use results-based approaches across multiple activities. Yet there is still room to accelerate RBF’s rise, and “mainstream” RBF as a part of the development toolkit.

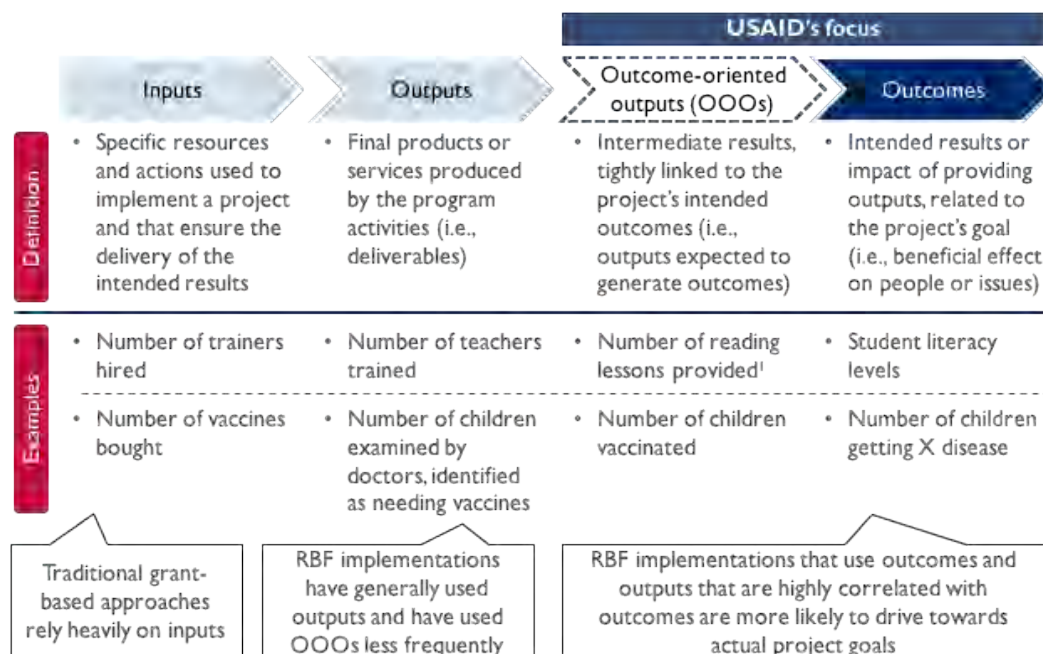
## I.1 What RBF is and why it matters

**RBF is a collection of financial instruments that use payments to align incentives behind achieving specific outcomes (or outputs tightly linked to outcomes) as opposed to inputs. This report focuses on four of the most well-known RBF instruments.** These instrument types include PBIs, Prizes, Development Impact Bonds (DIBs) and Advanced Market Commitments (AMCs). All of these instruments have themes in common. RBF instruments differ from traditional aid – such as grants and loans – by making payments contingent on the achievement of pre-determined results. In this way, RBF mechanisms increase risk-sharing with implementing partners. While the financial risk of program failure often falls solely on the funder under conventional approaches, RBF mechanisms transfer a portion – or all – of the risk from the funder of goods and services to the implementer (e.g., government, non-governmental organization (NGO), company) providing the goods and services. In the case of DIBs, risk is transferred onto investors.

**Results-based mechanisms focus on rewarding the achievement of outcomes and outcome-oriented outputs.** Traditional approaches to development aid focus on reimbursing for inputs and in some cases, outputs. Inputs are specific resources and actions used to implement a program and that support the delivery of the intended outcomes (e.g., a tractor). Outputs are final products or services produced by the program activities (e.g., a certain number of tilled fields). In recent years, the development aid community has been steadily shifting toward disbursing against outcomes, often the impact of a given set of outputs (e.g., increased agricultural income). Given the difficulty of measuring outcomes, RBF instruments often aim to measure outcome-oriented outputs, which are intermediate results tightly linked to the program’s intended outcomes (e.g., outputs expected to generate outcomes). Figure I, below, illustrates the relationship between inputs, outputs and outcomes with specific examples.



**Figure 1: Results chain, from inputs to outcomes**



## Historical context

**The roots of RBF run deep, dating back to when the United States first engaged with foreign aid at scale through the 1948 adoption of the Marshall Plan.** For over forty years, U.S. aid dwarfed other sources of finance available to developing countries, and was a potent lever to support the governments of client states. This aid often came with the expectation that the partner government would take particular actions (in other words, “generate outputs”) that were aligned with the U.S. Government’s strategic objectives. In this way, aid effectiveness in poverty alleviation was closely tied to Cold War policy priorities.

**Aid’s new era began after the end of the Cold War, when promoting development became the order of the day.** New donors, aid agencies, and supporting NGOs emerged. Funders and economists surveyed this new landscape and realized that the so-called “system” of development was in reality a patchwork of competing approaches, some ineffective, some harmful and many imposing huge costs on developing countries. To address this failure, donors and governments committed themselves to ensuring that aid money was well-spent.

**Despite these commitments, questions about development’s impact persist.** Programs have multiplied and their sizes have shrunk. Effectiveness data is still irregularly collected, often incomplete and hard to compare. There is increasing pressure to hold governments, aid agencies and NGOs accountable for achieving the results they promise, and to innovate fresh approaches when old ones are proven ineffective.

**Rising demands for data-driven decision-making, value-for-money, market-driven solutions, accountability and innovation have driven RBF to the foreground.** The idea is both old and new. USG agencies have conditioned disbursements on specific actions (an “input”) or something happening (an “output”) for decades. However, basing aid disbursements on whether an organization has been

effective at achieving impact (an “outcome”) is new, and realigns incentives in a fundamental way. This realignment makes RBF an innovation that may help development actors prove their continued relevance and potential for impact.

**Given the push to demonstrate value for money, RBF’s popularity has skyrocketed.** Since the early 2000s, innovative financing has grown at an average rate of 80 percent per year from US\$4 Million in 2003 to US\$1.3 Billion in 2012, with several multilaterals, governments and nonprofits launching new initiatives. Performance-based contracts, the best established results-based instrument, make up roughly half of RBF financing, closely followed by prizes, market commitments compose roughly 5 percent of RBF mechanisms, but this is largely driven by one instrument: the Pneumococcal AMC. The remaining instruments, DIBs, have emerged more recently and reflect a smaller portion of the market.

## Instrument types

**PBIs and Prizes are “mature” RBF instruments with longer performance histories, while DIBs and AMCs are more emergent mechanisms with fewer instances of successful practical application.** PBIs and Prizes constitute major portions of current RBF funding and are widely used by donor organizations. Comparatively, DIBs and AMCs have a limited performance history and donors are less likely to mainstream these in the near-term. These four instruments vary in structure, organizational implications and use within foreign aid activities.

**Figure 2: Four categories of RBF instruments**

Instrument		Definition	Selected relevant USAID instruments
Mature	PBIs	Grant contracts structured to disburse payments based on meeting specific performance targets related to outputs or outcomes	<ul style="list-style-type: none"> <li>• Sector Program Assistance</li> <li>• Fixed Amount Reimbursement Agreement</li> <li>• Cost-Reimbursement Incentive Contracts</li> </ul>
	Prizes	Financial rewards for development innovations in a competitive selection process, focused on developing an innovative solution or a level of adoption	<ul style="list-style-type: none"> <li>• Haiti Mobile Money Initiative</li> <li>• Desalination Prize</li> </ul>
Emerging	DIBs	Interventions funded by investors upfront, repaid by funders with interest based on results	<ul style="list-style-type: none"> <li>• Reports of Missions using DIBs in Uganda and India</li> </ul>
	AMCs	Commitment of funds to guarantee a price / market for a product once developed	<ul style="list-style-type: none"> <li>• Volume Guarantee for Contraceptives</li> <li>• AgResults</li> </ul>
	Social Credits	Theoretical instrument that disperses payment based on a specific outcome being achieved without necessarily having an organization-to-organization contractual structure in place	<ul style="list-style-type: none"> <li>• N/A</li> </ul>

In addition to the examples listed in the table, a subset of Development Innovation Ventures has been structured as PBIs. Likewise, a subset of grand challenges has been structured as PBIs or Prizes. Due to difficulties distinguishing between this subset and the whole, we excluded them for the analysis.

***Performance-based Incentives*** are the most common RBF instrument and constitute 45-50 percent of overall RBF funding annually. The structure of PBIs is similar to traditional grants and contracts. PBIs are grant contracts setup to disburse payments based on meeting specific performance targets related to outputs or outcomes. Parties to PBIs outline specific objectives when confirming financing agreements, and funds are partially or fully disbursed according to how closely grant recipients meet these objectives. Examples of PBIs at USAID include the FARAs that the Missions in Liberia and Mozambique helped to design and implement.

***Prizes*** are the second largest RBF instrument by funding size, constituting 40-45 percent of annual funding. Prizes are structured to provide financial rewards for good ideas, innovative solutions, or adoption of a solution (or solutions), and are typically conducted in the context of a competitive selection process. For this study, which focuses on outcomes, we excluded prizes that focused on ideas, but included prizes that focused on new solutions for delivery or increased adoption. Examples of Prizes include the Desalination Prize and the Haiti Mobile Money Initiative.

***Development Impact Bonds*** are a relatively new results-based instrument (as compared to PBIs and Prizes), and require the involvement of an investor and outcome payer. DIBs pool multiple performance-based contracts and turn social problems into investible opportunities. They differ from standard grant mechanisms as investor returns are based on the achievement of a pre-determined outcome. Despite their label, DIBs are not bonds. While they have capped returns like fixed-income investments, DIBs also share characteristics with equity investments since neither the principal nor coupon payments are guaranteed. There are reports of USAID Missions using DIBs in Uganda and India. Yet DIBs are a recent innovation, and to date, no DIB has been fully completed.

***Advanced Market Commitments*** constitute a small fraction of RBF funding, dominated by the **Pneumococcal AMC**. In an AMC, a buyer – typically a government or international organization – agrees to a pre-determined purchase price for a good or service with a provider – typically a private company. Originally, donors created AMCs to encourage companies to invest in research and development for new products; in practice, these buyers have also used AMCs to increase production for an existing product. Under the Pneumococcal AMC, for example, donors pledged US\$1.5 Billion to fund the subsidized purchase of 2 Billion doses of pneumococcal conjugate vaccine (PCV) beginning in 2009. In exchange for this subsidy, manufacturers agreed to sell PCVs to low-income countries at a price no greater than US\$3.50 for the next ten years, over 90 percent lower than prices in high-income markets.

Each RBF instrument is best suited to a different type of development challenge and involves different structuring considerations. Experienced practitioners of RBF recognize that a toolkit of grant and contract options is more useful than settling on one instrument or contracting structure. Figure 3, below, summarizes the primary uses and constraints associated with each type of RBF instrument.

**Figure 3: Uses and constraints of RBF instruments**

Instrument	Primary use	Primary constraints					
		Requires significant skill to structure	Entails significant time to structure	Requires more than two parties	Relies on existing market competition	Not suited in fragile states <sup>2</sup>	Reputational risk for high-profile Missions
<b>PBIs</b>	Addresses incentive gaps, is useful for activities where indicators are easily verified	Occasionally	Occasionally	Rarely	Occasionally	Occasionally	Occasionally
<b>Prizes</b>	Generates R&D, is useful for new problems or those unsolved with current methods	Occasionally	Frequently	Frequently	Frequently	Occasionally	Rarely
<b>WIBs</b>	Provides upfront working capital, is useful if actors have divergent views about the risk of an intervention	Frequently	Occasionally	Frequently	Rarely	Frequently	Occasionally
<b>AMC</b>	Creates a market and generates R&D, is useful where a social product is priced too high	Frequently	Frequently	Frequently	Frequently	Rarely	Occasionally

**This constraint applies...!**

Frequently
  Occasionally
  Rarely

Compared to all sectors, Health sees more RBF activity, particularly in the use of PBIs. Some sectors are better suited to RBF mechanisms, and Health is particularly favorable given that the sector has a range of easily identifiable and measurable indicators to which financial incentives can be linked.

**Figure 4: RBF occurrence by sector and instrument type<sup>1</sup>**

Instrument	Sector							
	Health	Energy <sup>2</sup>	Agriculture & Forestry	Education	WASH	Banking	Governance & Civil Society	Social Infrastr. & Services
PBIs	Dark Red	Red	Light Pink	Light Pink	Light Pink	Grey	Light Pink	Light Pink
Prizes	Light Pink	Light Pink	Light Pink	Light Pink	Light Pink	Light Pink	Light Pink	Grey
DIBs	Light Pink	Grey	Grey	Grey	Grey	Grey	Grey	Grey
AMCs	Light Pink	Light Pink	Grey	Grey	Grey	Grey	Grey	Grey

*Legend: RBF occurrence by sector (inside and outside USAID)*

Dark Red Frequently (>3 major programs/year)      Light Pink Rarely (<1 major program/year)

Red Occasionally (~1-3 major programs/year)      Grey Not Present (0 programs)

*“Health is a good example [of a sector that is] more likely to be measurable and do RBF well.”*

**– Senior Strategy Advisor, Lab**

*“More activity will occur...in health and education, with less growth in agriculture.”*

**– USAID Implementer**

*“Sectors have different considerations. The specific issue, objectives, and what is measurable must be considered.”*

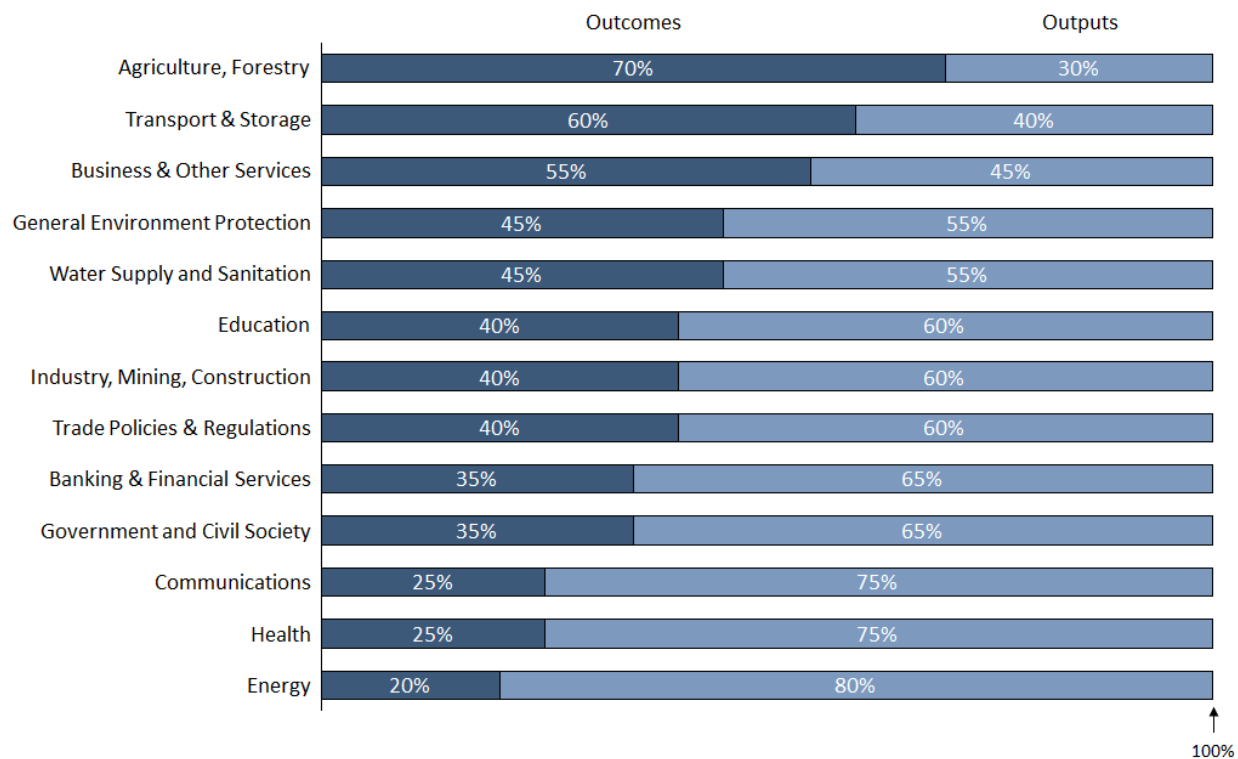
**– Operational Innovations, Lab**

**However, a range of other sectors show a more favorable mix of outcome-focused indicators, with Agriculture/Forestry in particular offering a wide range of outcome-based indicators to choose from.** RBF pilots in health are often conducted in spite of a relative shortage of outcome-focused indicators, relative to other sectors. Agriculture & Forestry, Transport & Storage, Business & other Services, Environment, and WaSH all contain a richer and more diverse range of outcome focused indicators (see figure 5 below). This finding suggests an important insight: a wide array of outcomes-focused indicators is not necessary to finance projects on a results basis. RBF pilots can start by focusing on outcome-oriented outputs, or by focusing on the specific activities in the sector where a

<sup>1</sup> The table below highlights the frequency of the occurrence of each type of instrument per sector. The methodology is based on the Dalberg RBF database, which tracks more than 149 publicly noted RBF transactions since 2001. RBF occurrence by sector is calculated as the total number of major programs by instrument and sector, normalized over the 15-year period of data collection.

range of outcomes indicators do exist. In short, the relative balance of outcome-focused indicators to output-focused indicators in a given sector should not be viewed as a barrier to piloting RBF activities.

**Figure 5: Ratio of Output-focused vs. Outcome-focused Indicators, by Sector**  
2016, as triangulated from USAID/State indicator Database and DLIs used in World Bank PbR activities



\*Note: ratios rounded to the nearest 5%

## Benefits and Risks

Each RBF instrument comes with inherent benefits and risks, which donors should consider when deciding which mechanism is most appropriate for the problem they aim to solve. PBIs address incentive gaps and are useful for activities using easily verifiable indicators (e.g., number of vaccines given). Prizes often generate research and development (R&D) and are useful for new problems or those current methods have not solved. DIBs provide upfront working capital and are useful if actors (e.g., donors and investors) have divergent views about the risk of an intervention. Lastly, AMCs create a market and generate R&D, and are useful where a social product is priced too high. All four RBF instruments award effectiveness and provide increased flexibility; however, the additional benefits and risks associated with each mechanism vary.

There are two types of benefits common to all RBF instruments: they all award effectiveness, and they all offer flexibility to implementers.

### Awarding effectiveness

- **PBIs** ensure implementers and funders have “skin in the game,” as both parties share program risk and seek to meet disbursement-dependent targets.

- **Prizes** reward promising ideas, approaches, and solutions that meet specific criteria, as well as adoption of a given solution by a certain portion of a given population.
- **DIBs** align multiple stakeholders' incentives to develop solutions that overcome a lack of resources and expertise.
- **AMCs** incentivize researchers, corporations and entrepreneurs to develop products that focus on regularly neglected low-income country issues.

### **Providing flexibility to implementers**

- **PBIs** allow implementers more flexibility to design programs that reach targets as they see fit, resulting in varied solutions and arrangements that are the most appropriate and affordable for the challenge.
- **Prizes** open up the possibility for bold innovation by explicitly encouraging a culture focused on breakthrough development solutions, rather than status quo approaches.
- **DIBs** transfer both risk and implementation authority to investors and service providers, encouraging implementers to modify service delivery as needed to reach targets.
- **AMCs** grant researchers the space to develop innovative products that often need only fulfill a main objective with minimal criteria.

There are also a range of benefits and risks that are unique to each type of instrument.

**Performance-based Incentives accelerate iteration and emphasize hard evidence, while supporting local ownership and decreasing aid costs.** PBIs allow funders to more easily adapt their grant-giving strategies by using PBI contract end-data to determine whether organizations should receive renewed support. For this reason, rigorous monitoring and evaluation (M&E) and enhanced reporting are necessary, internalized components of programming, rather than ancillary requirements. Lastly, these programs can reduce traditional reporting requirement costs, including budget management (provided donors drop or reduce cost-based reporting requirements when using these types of instruments), and often impose tighter financial controls than traditional models due to rigorous pre-financing requirements. While reducing / eliminating budget monitoring can save on costs, monitoring and verifying outcomes can incur additional expense; however, such costs are expected to decrease over time as M&E systems mature.

**Several widely-cited studies suggest that PBIs achieve their aim of awarding effectiveness, while also – in some cases – undermining implementer ambitions.** PBIs can distort implementer incentives, driving disregard for unrewarded activities, lax quality standards and neglect of hard-to-reach populations. Some implementers may target 'low-hanging fruit' and focus on delivering only the minimum requirements for payment. In addition, PBI targets are necessarily short-term and limited, thus posing a risk of distracting from nation, long-term sectoral strategies. All parties should acknowledge these risks in the activity design phase to ensure upfront alignment. Though skeptics list other risks, insufficient evidence exists to back these risks. Likewise, skeptics argue that PBIs tie implementers' hands because basing payments on pre-defined goals, particularly over longer time horizons, limits implementers' capacity to adapt to changing situations (e.g., natural disaster). Others argue that PBIs reduce implementer diversity, as many NGOs lack the administrative, technical and M&E capabilities to bid for and implement PBI programs.

**Prizes encourage the diversification of innovators, increase capital to the development sector, and lower costs. Their focus on innovation complements PBI's focus on high-value delivery.** Prizes allow innovators with weak links to donors the opportunity to participate, bringing in fresh perspectives and expertise. This instrument particularly targets private sector innovators with working capital and R&D expertise. Similarly, high-profile competitions stimulate entrepreneurial investment lower risk perception through validated innovations.

**However, skeptics argue that Prizes only support the “stars” in the field and can incentivize superfluous R&D.** While prizes award promising ideas, donors have noted that they do not expect more than 10 percent of these ideas to reach scale. Prizes can also induce superfluous research if a large pool of innovators compete to solve the same problem and replicate investments in innovation. In fact, Prizes that include non-monetary components like mentorship support may be expensive. For example, LAUNCH – a challenge USAID, NASA, the Department of State, and Nike organized – focuses on mentorship and networking, rather than financial incentives.

**Development Impact Bonds attract private investment and promote transparency. Donor interest in DIBs has grown in the past few years, with examples of increasing experimentation.** DIBs attract private investment, which they leverage to advance development outcomes at scale, thus supporting interventions that donors do not directly fund. Moreover, DIBs promote transparency, as investors and outcome funders negotiate terms that reflect the probability of the activity's success. As a result, the price of the DIB creates transparency around beliefs about risk.

**Nevertheless, expert evaluation of DIBs underscore limitations hindering near-term growth, including high design costs and increased project complexity.** Given the high costs associated with pilots, early DIB initiatives depended on socially-motivated investors. Because DIBs also do not generate significant financial savings for donors as they are often external governments or multilateral agencies, donors must also believe in the unique approach. Moreover, DIBs increase project complexity because structuring is done on a case-by-case basis with a significant number of actors and financial flows, requiring intermediary support and frequent renegotiation. The inherent reliance on robust outcome indicators further complicates this picture.

**Advanced Market Commitments speed up market evolution and increase the affordability of products for target populations.** AMCs speed up market evolution by closing the time gap for product entry between high- and low-income countries. AMCs increase product affordability through volume-price agreements and donor subsidies that ensure a certain number of products are priced at a level target beneficiaries can access.

**However, AMCs can constrain innovation and crowd out the market. Likewise, this mechanism does not guarantee access, and production volumes can be unsustainable.** AMCs can stifle unplanned innovation and / or inaccurately value consumer preferences. Selecting products further along the innovation chain can minimize this risk. AMCs can also crowd out and / or distort markets if manufacturers already planned to enter with affordable prices. Moreover, AMCs have a track record of overlooking access (e.g., how beneficiaries obtain the low-cost products). Some AMC-purchased products never reached their intended consumers due to weak delivery mechanisms. Lastly, AMCs can be unsustainable if implementers increase their prices post-subsidy.

**Summary:** A shortage of evidence combined with a mix of compelling pros and cons make it difficult to conclusively state whether RBF is a better way to deliver aid. No wonder, then that *an oft-cited meta-*



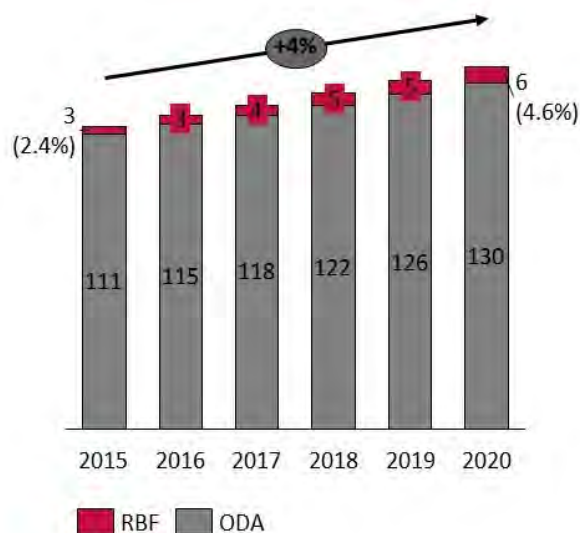
**analysis of RBF (Cochrane, 2012) finds also that it is too early to determine whether these instruments are effective, although some analysts dispute that a definitive “verdict” is necessary to justify continued investment.** While there are few unambiguously positive evaluations of PBI’s impact on outcomes, several impact evaluations comparing PBIs to traditional aid approaches show improved outcomes on several indicators in healthcare provision. Other instrument types have far fewer evaluation studies, if any. That being said, there has been a minor, but noticeable, drive towards rigorously evaluating RBF programs since 2007. One notable study is the Health Results Innovation Trust Fund, which has supported around 25 in-process impact evaluations and four completed studies. Building more evidence will boost confidence in these instruments and drive global growth in RBF. This growth is already happening, and future predictions – covered in depth in the next section – are positive.

## I.2 The future of RBF

### Predictions for RBF growth

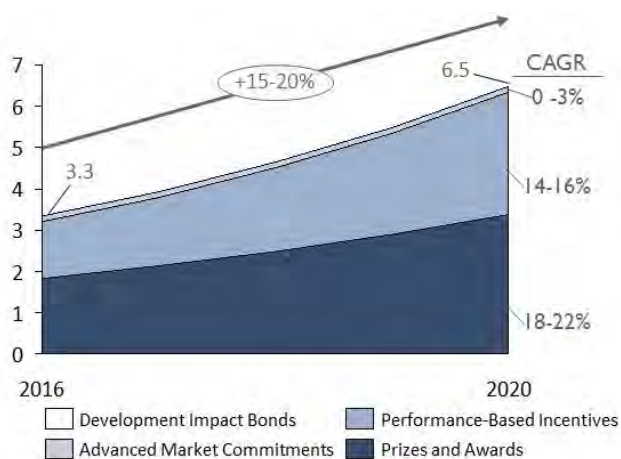
**RBF is estimated to grow six times as fast as ODA over the next five years, to a total of ~\$6 to 7 Billion.** This reflects 15 to 20 percent growth in RBF flows each year, from 2015 to 2020. Likewise, projections based on performance history to-date expect RBF to double as a proportion of ODA, from 2.4 to 4.6 percent. Historical momentum, continued funder commitments, and strategic shifts among funders and implementers support this expected growth.

**Figure 6: RBF relative to international aid flows (2015-2020, \$Bn)**



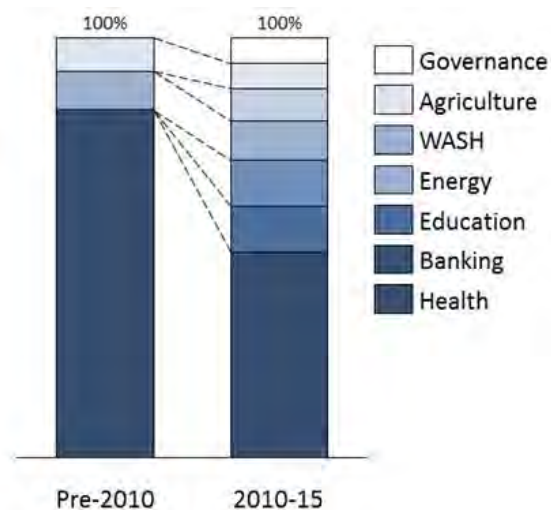
**PBIs and Prizes will drive this growth, in roughly equal amounts.** PBI and Prize disbursement volumes have grown rapidly since 2000, and implementers, funders and other experts predict this will continue on its current trajectory. Based on these funding patterns, experts expect PBIs to grow 14 to 16 percent per year, and estimate Prizes to increase by 18 to 22 percent each year. Experts increasingly believe DIBs and AMCs are unlikely to surge due to the complexity and expense of structuring these instruments.

**Figure 7: Projected RBF flows by instrument (2015-2020, \$Bn)**



**RBF experts expect this strong projected growth to continue well into the future, as funders increasingly experiment with RBF beyond the Health sector and build better outcome indicators.** Before 2010, donors concentrated RBF in three sectors: Health, Energy and Agriculture. Over the past five years, funders have expended these activities into other sectors, including Banking, Education, WASH and Governance.

**Figure 8: Number of RBF activities by sector (2000-2015, % of total RBF activity)**



## Donor commitments to RBF

The range, diversity and consistency of commitments from leading donors is a key reason to believe that growth will continue at such a rapid pace. Leading bilateral and multilateral donors have made high-profile announcements committing to fund RBF well into the future. The UK's Department for International Development's (DFID) Payment by Results (PbR), World Bank's Program for Results Financing (PforR), the Global Partnership on Output-Based Aid (GPOBA) and Canada's Department of Foreign Affairs Trade and Development's (DFATD) partnership in the Convergence initiative are examples of increasing prioritization and dedication of resources to RBF. In addition, other European bilateral donors continue to invest in RBF programs and rigorously explore the potential of results-based approaches.

*"As GPOBA moves into FY16, it remains **committed to developing and supporting results-based solutions** in both new and untested sectors..."*

**-Carmen Nonay, GPSURR & Catherine Commander O'Farrell, GPOBA (a donor partnership)**

***"I want Payment by Results to be a major part of the way DFID works in the future...If we can get this right then Payment by Results will help us to make our development budget go much further..."***

**-Justine Greening, DFID**

*"Agencies are encouraged to consider...**using innovative outcome-focused grant designs.**"*

**-U.S. Memorandum signed by Directors of OMB and OSTP**

*"There is consensus that official development assistance, or ODA, alone cannot sufficiently finance the post-2015 international development agenda...I am proud to say that **Canada is playing a leading role in addressing the challenge by advancing a new vision of 'blended finance'...**"*

**-Christian Paradis, DFATD**

*"Evidence shows that results-based financing has a significant impact...**The World Bank is pleased to partner with the Global Fund to help countries scale up these successful programs.**"*

**-Jim Yong Kim, World Bank**

Statements like these build on a long history of collective donor commitments to RBF and major international aid conferences - six, since 2005 (see Figure 9, below).

**Figure 9: International conferences addressing RBF**

Conference	Commitment
Paris (2015)	"[We recognize] the importance of adequate and predictable financial resources, <b>including for results-based payments</b> ...[to reduce] emissions from deforestation and forest degradation..."
Addis (2015)	"We will promote country ownership, <b>results orientation</b> , and strengthen country systems...and increase transparency and mutual accountability..."
Busan (2011)	" <b>Results frameworks and platforms will be adopted</b> ...to assess performance based on a manageable number of output and outcome indicators..."
Toronto (2010)	"Looking ahead, we commit to exploring innovative, <b>results-based mechanisms to harness the private sector for agricultural innovation</b> ."
Accra (2008)	"Developing countries and donors will work together...with a view to reinforcing country ownership...by increasing emphasis on <b>harmonized, results-based conditionality</b> ."
Paris (2005)	"Partner countries commit to...endeavor to <b>establish results-oriented reporting</b> . Donors commit to link[ing] country programming and resources to results..."

**We expect RBF activity to nearly double over the next five years, with committed donors and a favorable development ecosystem supporting this forecast.** The accelerated use of two mature RBF mechanisms – PBIs and Prizes – will drive this growth, including the expansion of these instruments to additional sectors. In addition, the commitments of major donors to develop and scale up these programs enhances the credibility of RBF and builds confidence in the use of these mechanisms well into the future. Lastly, the current trends in development are driving the sector toward increasing efforts to both prove the impact of aid and fund the most effective solutions.

## Potential implications for RBF stakeholders

**RBF instruments are significantly different from traditional aid delivery approaches, and their growth will reshape funders, implementers, facilitators and beneficiary groups, and how all of these actors work together.** Funders incur a number of structural and operational considerations when undertaking RBF activities. Likewise, implementers face increased risk and pre-financing requirements and must determine whether they have the resources to bid for and carry out these RBF activities. Facilitators are an emerging stakeholder group, borne out of donor and implementer demand for greater technical assistance on these awards. Finally, the beneficiaries of the goods and services RBF activities provide may experience the benefits of more efficient delivery; however, there are risks associated with perverse incentives that may negatively affect this group.

### Funders

**Funders are undertaking a range of changes to their traditional aid delivery process, in order to effectively manage the growing number of RBF programs. These changes include investing in collaborative RBF focus groups for programming and using phased impact evaluations to measure results.** The figure below illustrates a range of process changes to operational

structures and approaches, which funders are considering and testing to adapt to and successfully integrate RBF into their programs (see Figure 10, below).

**Figure 10: Funder adaptations across the RBF aid delivery process**

	Programming	Implementation	M&E
Testing	<ul style="list-style-type: none"> <li>• New processes defining ‘what success looks like’ during the design phase</li> <li>• Collaborative focus groups structuring programs for outcomes</li> <li>• Centralized databases of programs, including models and best practices</li> </ul>	<ul style="list-style-type: none"> <li>• Iteration on metrics and incentives throughout the program’s duration</li> <li>• Partnerships with third parties to coordinate programs</li> <li>• Networking and mentorship opportunities to incentivize and strengthen implementer performance</li> <li>• Capacity building for local partners</li> </ul>	<ul style="list-style-type: none"> <li>• Use of phased evaluations to assess progress toward outcomes over time</li> </ul>
Considering	<ul style="list-style-type: none"> <li>• Internal change management offices facilitating shifts in culture, policies, and staff</li> <li>• Incentive systems motivating staff to pursue value for money</li> <li>• Integrated IT system for centrally managing information</li> <li>• Movement away from cost-plus contracting structures</li> <li>• Tightening proposal requests’ scope</li> </ul>	<ul style="list-style-type: none"> <li>• Increased authority of Mission managers and local staff for accountability and continuity</li> <li>• Elimination of multiple input- and process-related reporting requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Increased M&amp;E training for all staff</li> <li>• Development of standardized guidelines for evaluating outcomes in the context of cost</li> <li>• Database of successful indicators to measure against</li> <li>• Investment in scalable indicators that sufficiently reliable for funding disbursement</li> </ul>

### **Implementers**

**The growth of RBF is shifting how funders engage with implementers, including increased collaboration on activity development and more rigorous financial risk management.** Because RBF rewards implementers based on the results they achieve, funders and implementers must come to agreement on tightly scoped goals. The negotiation process of these goals often involves closer coordination than do traditional awards. Additionally, funders and implementers continuously engage throughout the implementation phase to assess progress and pivot as needed. In some cases, donors have instated higher reporting requirements than traditional awards, asking implementers to produce both

outcome-based reporting and traditional reporting (i.e., how funds were spent). While the latter is a remnant of traditional awards and does not necessarily reflect the ‘spirit’ or intention of RBF, the former is required for verification of results to disburse payments against. Lastly, funders are working with implementers to manage increased risk. Many of these approaches require implementers to pre-finance their activities, reducing the amount of financial risk that is transferred to the implementer.

**The implementer landscape will most likely consolidate in favor of large organizations, given the large administrative overhead requirements and financial risks associated with RBF activities.** Smaller, local implementers with fewer resources – namely access to working capital – are unlikely to have the capacity to manage these contracts. Thus, large implementers with significant administrative capacity and retained capital will undertake the majority of RBF contracts, resulting in a bifurcation of the landscape between haves and have-nots. While it is possible that the implementer landscape could shift toward specialization instead, this is less probable. Although RBF maximizes rewards for implementers that excel at a specific activity (or innovation strategy), and is less tolerant of generalists, it is unlikely that these rewards will be substantial enough to overcome the massive economies of scale that large, diversified implementers can bring to bear. Nor can these rewards take the place of large pools of retained capital in pre-financing activities. Nevertheless, the implementer landscape might diversify and increasingly specialize in particular types of activities to reap the financial incentives awarded for outcomes in their area of expertise. In addition, but much less likely, implementers may collectively refuse to undertake RBF awards altogether. Although implementers cite challenges to RBF, interviews with a range of partners indicated that there is willingness to continue using these mechanisms.

### **Facilitators**

**Given that insufficient funding support and guidance on bidding for programs are preventing many implementers from engaging with RBF, third party facilitators are rising up to bridge the gap.** Three primary facilitation gaps persist. Potential solutions exist for each of these gaps, and improved facilitation through intermediaries can help to mainstream these instruments.

- 1. Financial support (Liquidity and de-risking):** While upfront and multi-stage funding exists to offset the initial costs transferred onto implementers, these resources are insufficient to meet existing and growing demand. Potential solutions include funders restructuring contracts to reduce risk sharing (e.g., bonuses) and increasing non-financial incentives (e.g., mentorship, network) available to participants regardless of whether they win the prize competitions.
- 2. Contract support (Proposals and performance):** Despite the emergence of third party organizations and funder support for technical assistance, the increased complexity of these agreements continues to strain and deter implementers. Potential solutions include donors developing in-house expertise/trainings for interested applicants and providing guidelines to assess suitability and sample proposals by type.
- 3. Evaluation support (Monitoring and verification):** Verification models vary across programs, but RBF’s increased evaluation requirements – which donors often require in addition to continued reporting – can necessitate new implementer capabilities and processes. Potential solutions include assessing capabilities upfront to arrange technical assistance as needed and investing in the advancement of M&E as a public good.

## Beneficiaries

**Beneficiaries are likely to enjoy increased provision of goods and services via RBF, provided outcomes and process risks are addressed.** Beneficiary benefits of RBF include more efficient provision of goods and services and broader ‘reach’ to and focus on un(der)served and vulnerable populations. The risks to beneficiaries of RBF programs include a decrease in the quality of goods and services, cherry-picking beneficiaries who are likely to generate the best results and a lack of focus on participatory development.

**Figure 11: Beneficiary benefits and risks**

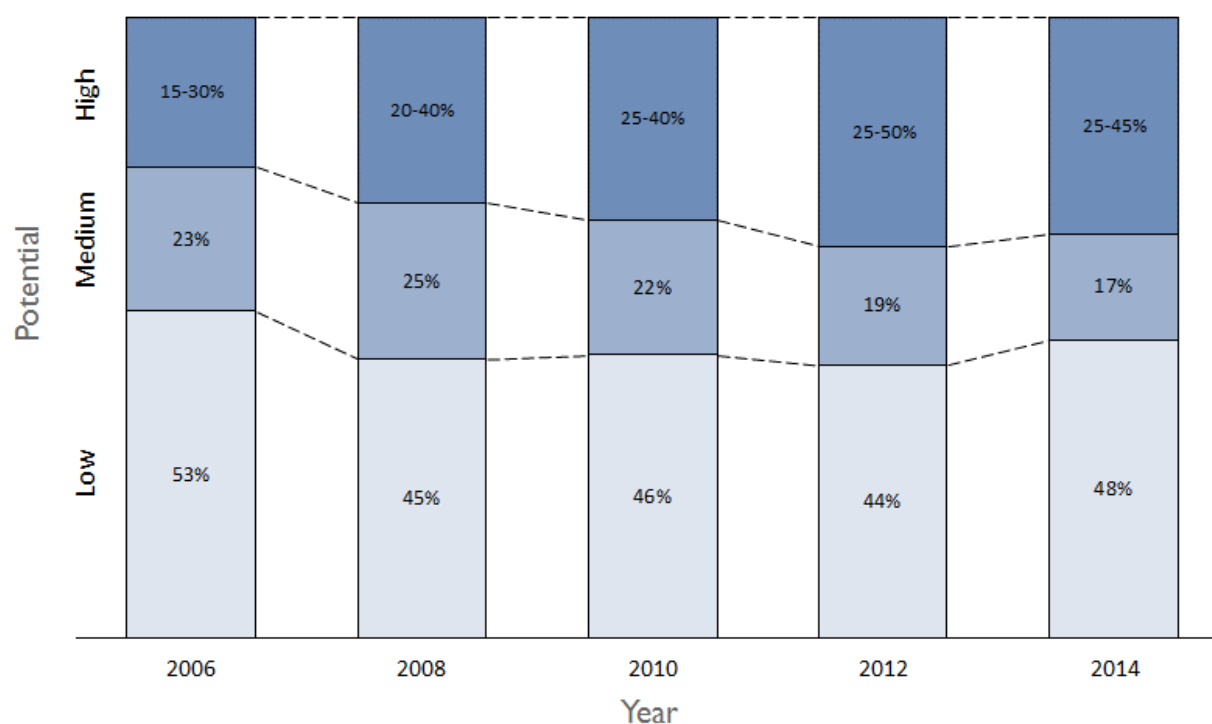
RBF’s effect on beneficiary experience of...	Benefits	Risks
<p><b>Outcomes</b></p>	<ul style="list-style-type: none"> <li>• Properly designed RBF <b>can drive the provision of more goods and services</b> than would standard grant-based products</li> <li>• Proactive outreach to achieve volume targets may bring in <b>new individuals</b> that aid programs have not served before</li> <li>• Donors and implementers can design targets to focus on <b>vulnerable populations</b> who may need the most support</li> </ul>	<ul style="list-style-type: none"> <li>• Implementers could coerce beneficiaries to receive <b>services they do not want</b> or fewer overall services in exchange for the services that are measured</li> <li>• When quantity is measured, <b>quality</b> experienced may decline</li> <li>• Implementers may <b>“cherry-pick”</b> beneficiaries who are more likely to experience positive outcomes</li> </ul>
<p><b>Process</b></p>	<ul style="list-style-type: none"> <li>• Implementers have incentives to distribute needed goods and services <b>more quickly and efficiently</b> than under traditional grant-based models</li> <li>• Outcome targets focus attention on beneficiary needs, putting them closer to the <b>center of attention</b> for donors and implementers</li> </ul>	<ul style="list-style-type: none"> <li>• Beneficiaries may spend more time <b>being questioned for evaluations</b>, either to determine eligibility or verify output/outcomes</li> <li>• Implementers may put aside <b>participatory development</b> approaches in favor of more “efficient” implementer-driven programs</li> </ul>

## 2. RBF AT USAID

### 2.1 RBF Potential of USAID's Portfolio

**USAID has a significant amount of latent potential to do more RBF activity. As much as 25-45 percent of the Agency's portfolio can be financed on a results basis** (as of 2014; see Figure 13 below and detailed methodology in the Appendix). This report measures potential by the percentage of a donor's funding portfolio dedicated to sectors with a significant number of outcome indicators and RBF performance history (e.g., number of RBF programs). The existence of outcome indicators in a given sector provides confidence that teams can either tailor or design additional, measurable indicators for further results-based programs in that sector. In addition, performance history signals viability. USAID's RBF potential has grown by 10-15 percentage points over the past ten years. The Agency's increased funding toward sectors that have high potential to be financed on the basis of results, such as Health, has driven this growth. For example, USAID's funding to Reproductive Health more than doubled between 2006 and 2014.

**Figure 13: RBF potential of the USAID portfolio (2006-2014)<sup>3</sup>**



**USAID's RBF potential outpaces other bilateral donors by roughly 10-20 percentage points. The Agency can take a leading role in developing this space, and numerous stakeholders – including other bilateral donors – expressed interest in learning more about USAID's approach to RBF.** The analysis in Figure 14 uses the same methodology as Figure 13 to evaluate Canada,

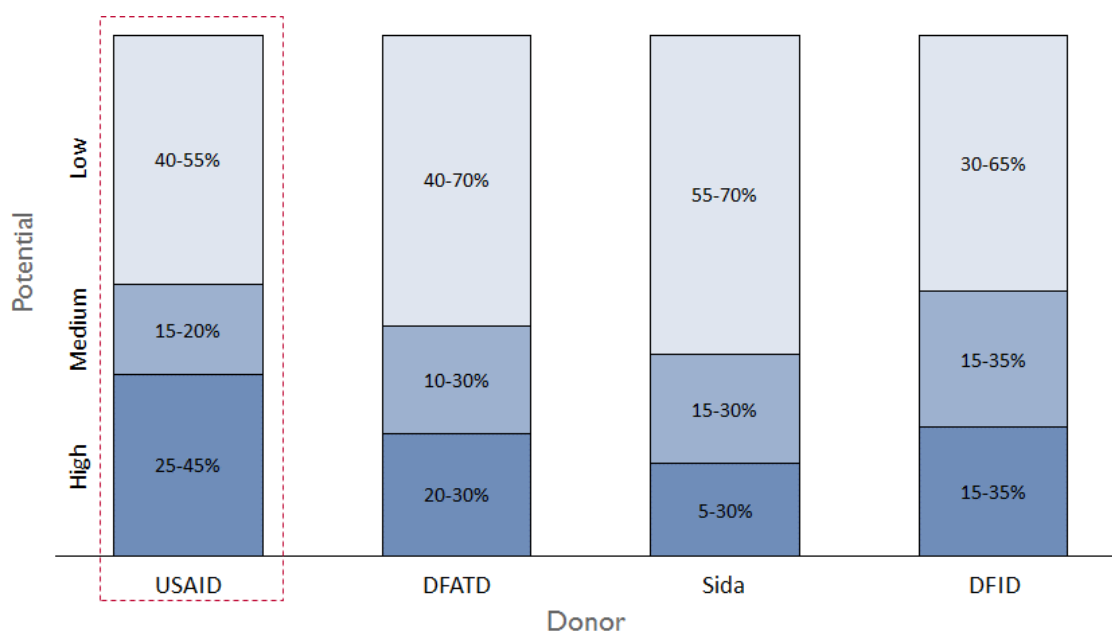
<sup>3</sup> The ranges take into account "RBF potential" based on triangulation between World Bank Disbursement-Linked Indicators (DLIs) and USAID outcome indicators, as explained in Annex C.



Sweden and the United Kingdom’s ODA disbursements by sector. DFATD, the Swedish International Development Cooperation Agency (Sida) and DFID vary in their level of RBF involvement:

- **DFID:** Experts and USAID staff repeatedly referenced DFID’s PbR as a pioneering example of efforts to mainstream RBF at major donor institutions. However, given what implementers see as overly ambitious goals and a decentralized, sometimes “ad hoc,” programming model, some implementers cited frustrations with – and lack of preparation for – this transition toward RBF.
- **DFATD:** Canada recently invested in Convergence, a major innovative finance initiative. Convergence is a nonprofit that serves as a platform for blended finance investments between public, philanthropic and private investors in emerging and frontier markets. Despite this advance, DFATD is working to bridge a wide cultural gap between staff committed to far-reaching innovation in development finance and mainstream practitioners.
- **Sida:** Sweden’s development agency remains in a several-year RBF exploratory phase. The organization is in the process of investigating of RBF’s potential, and is conducting research into the efficacy of this approach and whether it makes sense for Sida to integrate these mechanisms into its work.

**Figure 14: RBF potential of other bilateral donor portfolios (2014)**



“Sida sees RBF as one instrument in the toolbox, with the recognition that different mechanisms are more appropriate for many contexts.”

**– Sida**

“DFID negotiates on each contract and grant, and has an intention to consider PBR, but unlike other donors that make something a rule, DFID has taken an 'ad-hoc' way of applying RBF.”

**– Bond UK**

“DFID has been talking about pay-by-results a long time. The Education Challenge Fund didn't go so well; they are doing some more reflection and strategizing.”

**– Instiglio**

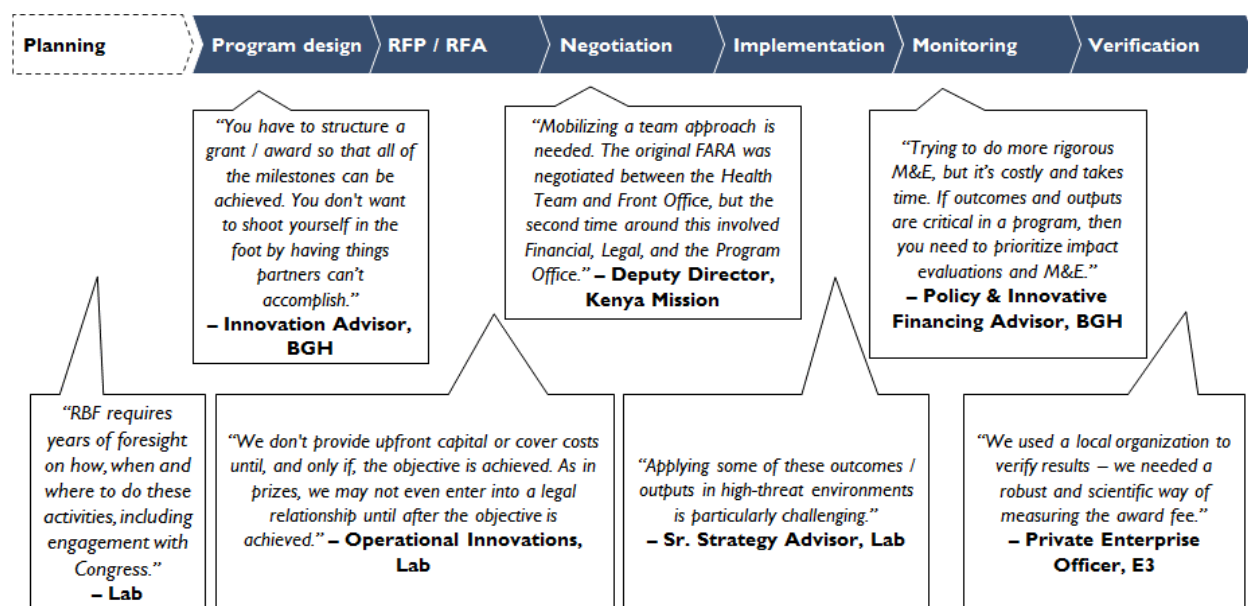
As a final caveat, it is essential to note that the analyses of USAID’s portfolio in Figures 13 and 14 reflect a best case scenario, estimating what is possible if the Agency addresses the range of organizational barriers holding back its latent potential to conduct RBF. Financing 25-40% of USAID’s programs on a results-basis is not possible immediately, but it could be achievable in the near term if and when the organization addresses several barriers.

## 2.2 Barriers to implementing RBF at USAID

USAID staff mentioned multiple ways in which the process of planning, designing, and implementing an RBF award differed from a more traditional program, and in the process spoke to seven key barriers that constrain the Agency’s ability to mainstream these instruments. In addition, policy and legal experts at the Agency highlighted several additional barriers that apply specifically to G2G partnerships.

The RBF program lifecycle is similar to that of USAID’s traditional awards, but there are unique differences within each stage of the process, particularly for PBIs and Prizes. USAID staff called out some of these RBF-specific considerations (see Figure 15, below). The variations staff mentioned highlight operational changes USAID must make in order to shift from traditional aid activities to RBF. Figure 15, below, notes the differences that USAID staff cited most frequently for both PBIs and Prizes.

Figure 15: RBF Program Lifecycle



**Figure 16: PBI and Prize considerations across the program lifecycle**

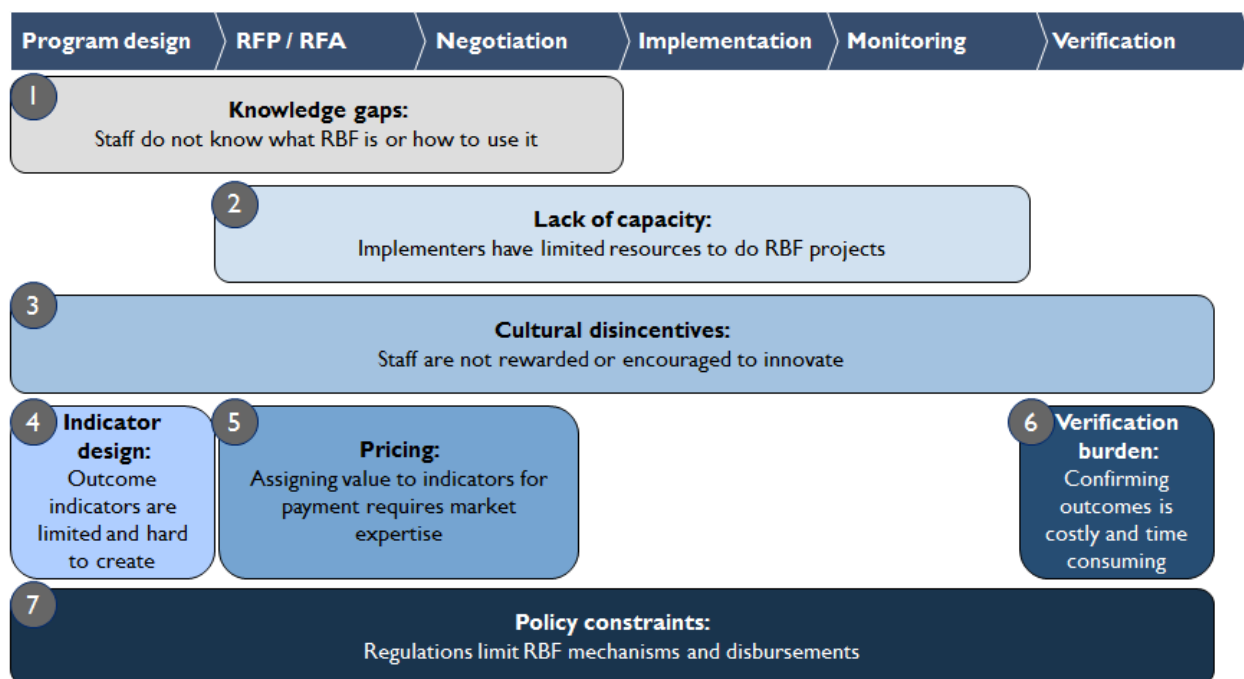
	PBIs	Prizes
Program design	<ul style="list-style-type: none"> <li>• Use Statements of Objectives (instead of Statements of Work), which contract and technical officers repeatedly mentioned not knowing how to use effectively in the context of a results-based contract</li> <li>• Design indicators to measure outcomes or outputs, rather than inputs</li> <li>• Price indicators based on value, rather than costs</li> </ul>	<ul style="list-style-type: none"> <li>• Define problem and solution-sets more tightly</li> <li>• Involve bilateral and private development partners (e.g., Grand Challenges)</li> </ul>
RFP / RFA	<ul style="list-style-type: none"> <li>• Conduct due diligence to ensure compliance with RBF-specific regulations on flexible pricing (e.g., ADS policies prohibit non-cost-based pricing for FARs)</li> <li>• Reflect pre-financing requirements to implementers</li> </ul>	<ul style="list-style-type: none"> <li>• Target private sector engagement</li> <li>• Start prizes in Bureaus, typically, rather than Missions</li> <li>• Advertise programs as Broad Agency Announcements when administered by USAID, or on partner websites</li> </ul>
Negotiation	<ul style="list-style-type: none"> <li>• Focus on milestone requirements and payments based on results, rather than cost</li> <li>• Provide occasional technical assistance to assist partners with the complexity of RBF mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>• The Prize lifecycle is complex, particularly across the later stages, and USAID interviews noted variation across projects in three important areas: extent of collaboration with donors and other partners, process and standards for evaluating new solutions, and accountability after winning or in exchange for the award. The tailored and bespoke process of individual Prizes present a challenge to mainstreaming this instrument.</li> </ul>
Implementation	<ul style="list-style-type: none"> <li>• Facilitate substantial two-way dialogue with partners throughout the process to assess performance and tailor interventions</li> <li>• Track the external environment more closely to monitor any effects on program goals (e.g., natural disaster, Ebola)</li> </ul>	
Monitoring	<ul style="list-style-type: none"> <li>• Assess results achieved based on pre-determined indicators, rather than budgets</li> <li>• Consider the complex questions related to attribution with implementers on an ongoing basis</li> </ul>	
Verification	<ul style="list-style-type: none"> <li>• Base disbursements on confirmed results</li> <li>• Prepare for a more subjective, lengthy confirmation process</li> <li>• Focus on mitigating gaming risks</li> </ul>	

## Seven key barriers to RBF

Staff cited seven barriers across the RBF program lifecycle that are constraining the Agency’s use of RBF – and the global RBF ecosystem more broadly. These barriers are most

prevalent at the front half of the lifecycle and reflect the complexity of designing and convening RBF programs.

**Figure 17: RBF Barriers Across Program Lifecycle**



**I. Knowledge gaps:** Most USAID staff are unfamiliar with RBF and / or do not know how to incorporate results-based instruments into their programs. Although RBF has a long history, the Agency – and donors in general – have engaged in relatively few results-based programs compared to traditional mechanisms. Furthermore, staff do not use a formalized language to communicate ideas and activities that use RBF. As a result of these factors, staff do not closely identify with these mechanisms and are uncertain as to what constitutes RBF. Even staff who demonstrated familiarity with RBF during interviews expressed uncertainty with how to use these mechanisms due to a lack of formal written guidance and training.

*“Pay for Performance (P4P) involves more risk and contractors may not want to bid, which is why they do less of this.”*

**– Private Enterprise Officer, E3**

*“If working on a contract basis...first payment will be in June, so there is a six-month delay. If they don’t have any funding, what are they expected to achieve? They get a low score.”*

**– USAID Implementer**

*“Increasing insecurity everywhere is affecting the ability to perform against specific requirements; need to build the capacity of local partners.”*

**– USAID Implementer**

- 2. Lack of capacity:** RBF programs increase risk-sharing between donors and implementers, and typically require the latter to pre-finance activities (with the exception of DIBs, where an investor provides upfront working capital). Given the limited resources of many implementers – namely tight restrictions on financial liquidity and human capital – they struggle to successfully bid for and implement RBF programs. This is, in part, due to uncontrollable environmental factors (e.g., shifting political conditions in fragile states, changes in the economy, unexpected disease outbreaks), which affect implementers’ ability to meet pre-determined performance requirements and receive payments.

*“It takes about 5 years to get fully invested in the procurement system and get certified, so new contracting officers won't lean into risk.”*

**– Local Solutions  
Coordinator**

*“It's habits. As an agency there's not a culture of valuing a technical person's time with regards to the procurement process.”*

**– Operational  
Innovations, Lab**

*“Taking it on the first time - with more intellectual effort - could be time prohibitive. The tone makes it difficult to operate outside of the norm.”*

**– Operational  
Innovations, Lab**

- 3. Cultural disincentives:** The increased risk and additional time commitment required to try new approaches prevent many staff from engaging in RBF activities. Existing Agency incentives encourage staff to undertake traditional programs. Staff feel pressure to get programs ‘right’ and disburse funds on an annual basis. They conveyed that experimenting outside of traditional program structures can be difficult and more laden with career risks than rewards.

*“There's a lack of understanding of the tools and spectrum. The knowledge gap is becoming more prominent as Innovative Finance becomes more important in development.”*

**– Policy and  
Innovative Finance  
Advisor, GH**

*“COs have received little knowledge on Statements of Objectives....trying to educate technical & contracting officers has been a challenge.”*

**– Contracting and  
Agreement Officer,  
Bureau for  
Management**

*“We need people who aren't committed to the 'old system.' Most people don't even know Cash-on-Delivery (COD) aid.”*

**– Mission Economist,  
Ethiopia Mission**

**4. Indicator design:** USAID staff are generally uncomfortable developing disbursement-linked indicators, and reaching consensus on indicators in collaboration with implementers is time-consuming. Designing outcome indicators upfront is particularly challenging because it sometimes requires collecting baselines, selecting development targets which may manifest years into the future and creating milestones that are context-specific, measurable and attributable to implementers. While there are several publically available indicator databases concentrated on a handful of sectors (e.g., Health, WASH and Governance & Civil Society), this design process represents a significant shift from the traditional input-oriented approach to development. The approval process for activities disbursing payments on indicators is also lengthy and prohibitive, in part due to the combination of these factors.

<p><i>“Development professionals can’t always see five years into the future on what can and should be done.”</i></p> <p><b>– Operational Innovations, Lab</b></p>	<p><i>“Staff seem to fear putting binding indicators in contracts, most likely because they do not know what a good indicator would be and what targets should be.”</i></p> <p><b>– Contracting and Agreement Officer, Georgia Mission</b></p>	<p><i>“Could take 6 months for USAID bureaucracy to agree...everyone wanted to be comfortable with indicator process.”</i></p> <p><b>– Sr. Supply Chain Advisor, BGH</b></p>
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**5. Pricing:** Pricing outcome indicators is subjective and relies on different skills sets than those USAID teams use for traditional cost-reimbursement programs. For example, teams require market knowledge and the expertise of an economist to determine how much funding to disburse when an implementer achieves an outcome indicator. While most awards base disbursements on actual costs (e.g., paying for actual inputs), results-based payments are typically linked to expected costs (e.g., fixed amount award) or a subjective valuation of outcomes that are not linked to specific costs (e.g., Sector Program Assistance). The transition to pricing outcomes incurs the risk of over or under-valuing the intended results.

<p><i>“The process of knowing results had indeed been achieved was incredibly time consuming, more subjective than one might think.”</i></p> <p><b>– Senior Strategy Advisor, Lab</b></p>	<p><i>“There’s a reputational issue with non-payment, and USAID needs to be careful and make sure expectations are set at the beginning.”</i></p> <p><b>– Policy and Innovative Financing Officer, BGH</b></p>	<p><i>“Timeliness in verification is key for rewarding implementers quickly. If reimbursement takes months, you lose the spirit or power of the intervention.”</i></p> <p><b>– Health Systems Research Advisor</b></p>
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**6. Verification burden:** Verification of performance is unique to results-based activities and is a subjective, time consuming and highly political process. Donors typically fund program inputs upfront or reimburse costs based on objective budget figures. Funders’ shift to disbursing based on performance requires them to verify whether or not implementers achieved the contracted results.

This process can be subjective, particularly in cases where uncontrollable external factors affect an implementer’s ability to perform and attribution is unclear. In addition, verification requires additional time and resources. Verification can also become a ‘political’ exercise, insofar as donors feel pressure to disburse funds even when implementers do not meet milestones, in order to hit budget targets and avoid potential controversy and reputational repercussions.

<p><i>“How do you know that you’re not dramatically overpaying?”</i></p> <p><b>– Sr. Strategy Advisor, Lab</b></p>	<p><i>“When a project is outcome-based, you need an economist in the room and technical experts – roles change.”</i></p> <p><b>– Local Solutions Coordinator</b></p>	<p><i>“It’s difficult to demonstrate how much achieving an outcome costs. Moving from inputs to outputs has been challenging.”</i></p> <p><b>– Health Systems Research Advisor</b></p>
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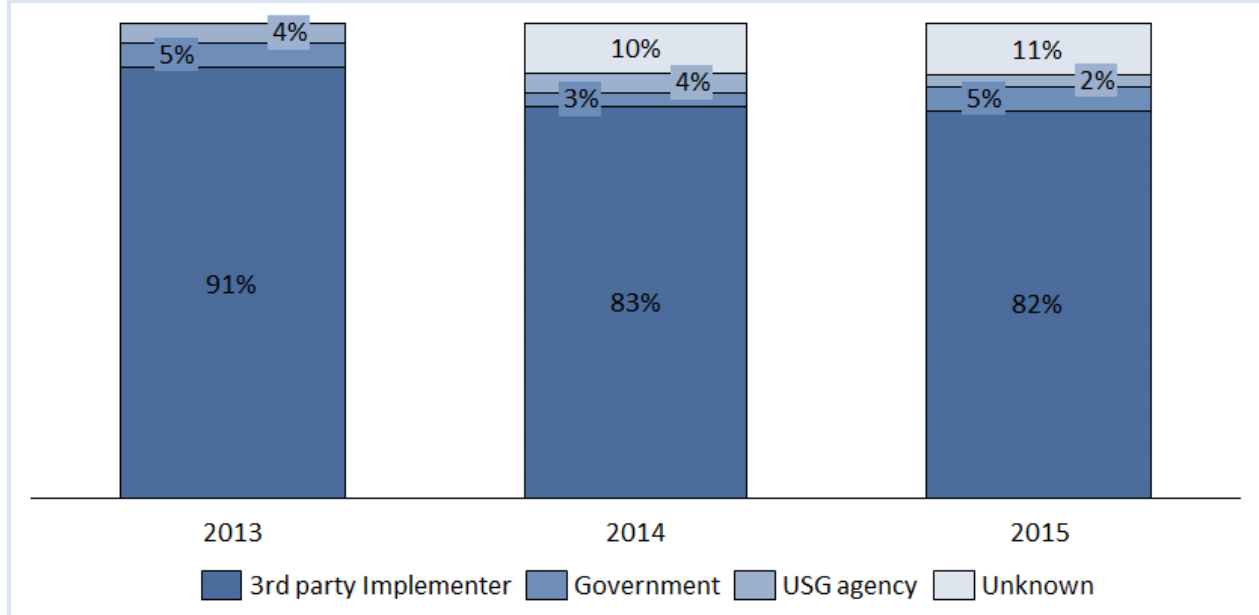
**7. Policy constraints:** Congress has a preference for cost-based (e.g., fixed amount reimbursements), rather than value-based (e.g., Sector Program Assistance), activities. The former rely on program teams estimating costs – instead of working with economists to more subjectively price outcomes – and the relationship between funding and impact is more direct. While USAID’s operational policy (ADS) intentionally allows for the use of value-based mechanisms, these programs can be subject to lengthy approval processes.

<p><i>“[There is a] lack of understanding of RBF by policymakers.”</i></p> <p><b>– Survey of USAID Mission Support for PBI (2012)</b></p>	<p><i>“There is [Congressional] preference for what is tangible.”</i></p> <p><b>– Senior Advisor for Project Design</b></p>	<p><i>“One challenge for the Lab’s involvement is their high churn of staff, preventing them from effectively advocating for policies in the mid-term.”</i></p> <p><b>– Contracting and Agreement Officer, Georgia Mission</b></p>
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## Barriers specific to Government-to-Government RBF

**USAID directs over 80 percent of its funding to third party implementers. Agency teams will likely need to work primarily with these partners in the near-term, in order to mainstream RBF at USAID; however, G2G partnerships can facilitate greater local ownership, which the new ADS 201 supports as a pathway to sustainable development.** In fact, both partner types have unique advantages and drawbacks. Third party implementers are often more incentivized to innovate than governments, due to the high levels of competition for awards. Moreover, many implementers have deep technical and sector expertise that can positively impact the implementation of RBF. Alternatively, government partners often better understand local needs and can leverage national systems and infrastructure (e.g., statistics bureaus) to implement RBF activities at a country-wide level. New operational policy (ADS 201) articulates the importance of local ownership, and G2G RBF partnerships appear well-suited to support this objective.

**Figure 18: USAID portfolio by implementer type**



**The Agency’s operational policy – particularly ADS 220 – constrains USAID’s ability to do RBF with other governments.** In addition to the seven barriers staff mentioned, legal and policy experts cited unique barriers across the program lifecycle that arise when USAID works with government implementers. These barriers include a series of additional policy, systems and legal checkpoints across the program approval process (see Figure 19, below).



**Figure 19: G2G considerations across the program lifecycle**

<b>G2G</b>	
<b>Approval process (Program design, RFP / RFA, Negotiation)</b>	<ul style="list-style-type: none"> <li>• <b>Policy considerations:</b> Working with governments “perceived as restricting political freedoms and human rights” and which may use USAID funds to do so, creates risk for USAID; therefore, the Agency must vet these partnerships more stringently (ADS 220). Relatedly, using RBF in prominent Missions may not be viable given a wide range of competing foreign policy priorities.</li> <li>• <b>Systems requirements:</b> Finding government partners that meet minimum host-country resource requirements –such as a robust public financial management system - can be quite challenging, dramatically limiting the pool of government implementing partners for RBF mechanisms</li> <li>• <b>Legal regulations:</b> Using G2G instruments that are not cost-based (e.g., Sector Program Assistance) requires Congressional approval processes, which can significantly increase planning, design, and implementation timelines.</li> </ul>
<b>Implementation</b>	<ul style="list-style-type: none"> <li>• Relying on pre-existing host-country resources for RBF implementation can result in capacity challenges, necessitating time and investment for these government systems to adapt.</li> </ul>
<b>Monitoring</b>	<ul style="list-style-type: none"> <li>• Working within the constructs of a host-country’s national reporting system provides greater ownership, but not all national reporting systems are sufficiently robust and/or objective for USAID to rely upon for RBF implementation</li> </ul>
<b>Verification</b>	<ul style="list-style-type: none"> <li>• Confirming that results have been achieved will require greater scrutiny than programs with non-governmental organizations, and results not achieved could risk damage to the U.S.-host country relationship and broader foreign policy objectives.</li> </ul>

**Staff point to ADS 220 revisions as a barrier to G2G RBF.** Interviews highlighted the specific limitations instituted by this operational policy, which include cost-based requirements and fiduciary risk assessments (see Figure 20, below). While USAID’s policies do not prohibit RBF mechanisms, they preference cost-reimbursement, and the Agency intentionally limits value-based funding to Sector Program Assistance.

**Figure 20: G2G Policy Constraints**

	<b>Policy text</b>	<b>Implications for RBF</b>
<p><b>ADS 220</b> G2G Project Assistance</p>	<p><i>“[For FARs] outputs or associated milestones must...be paid for in amounts based on reasonably accurate, documented cost estimates. Outputs or associated milestones may not be flexibly priced to provide liquidity.”</i></p>	<ul style="list-style-type: none"> <li>• New version of ADS 220 clarified the policy’s original intent and explicitly prevents value-based funding</li> <li>• SPAs are now the best way to set value for achievements that are not necessarily tied to costs</li> </ul>
<p><b>ADS 220</b> Public Financial Management Risk Assessment Framework</p>	<p><i>“[With exception] Missions must complete the PFMRAF process as part of an overall project design and authorization process before obligating or sub-obligating funds to a partner government for implementation of G2G project activities [including]...an institutional-level examination to...mitigate transactional-level fiduciary risks.”</i></p>	<ul style="list-style-type: none"> <li>• Onerous fiduciary risk assessment creates a high barrier to use of RBF within a G2G context</li> <li>• Shorter risk assessment process for FARs of less than \$10M before FY18</li> </ul>

*“ADS 220 created a high barrier to entry in G2G, and requires a substantial commitment of resources.”*

**– Senior Advisor for Project Design, PPL**

*“Non-cost-based assistance in G2G is legally permissible, but might require socializing to Congress.”*

**– Resident Legal Officer, DRC Mission**

## Unsupported barriers

**We hypothesized three other barriers that may have been holding back RBF at USAID. Agency staff confirmed that these barriers were not present, or possible to overcome.**

1. **We hypothesized that legal barriers would prohibit many forms of RBF activity. Yet, RBF is possible – albeit challenging – under existing regulations.** Although intentionally limited, it is possible to use RBF mechanisms at USAID. While the Agency’s ADS 220 revisions clarified that the policy’s original intent – although loosely interpreted in practice – was for Fixed Amount Reimbursements to be cost-based, operational policy explicitly allows for value-based Sector Program Assistance. In order to mainstream RBF, the Agency will need to clarify these legal regulations through more accessible guidance.

*“It’s not that you can’t use it [FAR], it’s just not as carefree as once assumed. Apparently no lawyer had previously analyzed it, and technical folks had just assumed it was okay.”*

**– Resident Legal Officer,  
DRC Mission**

2. **We hypothesized that committing to multi-year programs was not possible given USAID’s annual budget cycle, but staff shared that there are avenues for navigating around this barrier.** RBF activities often require several years to implement and verify, due in large part to the focus on achieving outcomes. Staff shared that these multi-year programs are common, and it is not difficult to secure funding for such activities. They mentioned various channels, including forward funding memos and Development Objective Agreements (DOAGs).

*“It is not difficult to get approval for multi-year funding through the forward funding memo. Mission Directors or Bureau heads can approve this.”*

**– Agricultural Development  
Officer, BFS**

3. **We hypothesized that the Agency disbursed funding to all RBF activities regardless of partners meeting milestones; however, staff cited many examples of teams enforcing contracts.** Political sensitivities and reputational concerns may make it more difficult for the Agency to hold back funding when implementers fail to achieve pre-agree results. Nevertheless, in the examples staff cited, no negative repercussions were mentioned.

*“About 10% of milestones don’t get paid. [Partner] hadn’t done enough market analysis...and sold one grain silo, instead of 40. That partnership just fizzled out: No harm, no foul.”*

**– Agricultural Development  
Officer, BFS**

Although these barriers turned out to be non-issues, there are still seven unique barriers that profoundly constrain the growth and mainstreaming of RBF instruments at USAID. The next section focuses on four potential interventions USAID can implement to address these barriers.

## 3. PATHWAYS TO MAINSTREAMING RBF AT USAID

### 3.1 Overview

**Mainstreaming RBF will require modest changes to USAID policies, practices, and systems.**

In discussions and interviews with stakeholders throughout the agency, there was recognition of the potential for RBF to enable USAID to achieve its mission more efficiently and effectively, but also concern that the barriers that impede the use of RBF were not limited to a specific approach to financing. For example, the perceived lack of capacity among senior contracting officers is not only a barrier to RBF, but an issue that impacts all aspects of USAID's operations. Likewise, barriers such as indicator design and the high costs of monitoring and evaluation will make RBF more difficult to implement, but also have implications for traditional approaches. As such, addressing the barriers to RBF will require detailed evaluations of the strategic planning, procurement, personnel management and monitoring evaluation.

**The evidence base to support the widespread change that mainstreaming RBF would require is weak.** As described above, most arguments in support of RBF remain theoretical. There have been too few examples and it is too early to demonstrate that RBF is a superior alternative to traditional financing. Therefore, USAID should focus on activities that will accelerate progress to increasing the use of RBF and build consensus around its effectiveness. The U.S. Global Development Lab has a privileged position to support this type of cross-cutting innovation and should identify ways to integrate RBF into its existing activities.

**While a top-down approach to mainstreaming RBF may not be appropriate at this stage, there are useful activities that USAID can pursue to generate bottom-up support.** In particular, in conversations with stakeholders across the agency, we identified three broad areas that can accelerate the growth of RBF.

- **Support innovators with training, guidance and tools.** We frequently heard request for improved knowledge sharing about RBF and how it could be incorporated into programs. These requests came from across the agency. In particular, we had multiple conversations with contracting and programing officers that are interested in RBF, but had technical questions about program / contract design and were worried about the appropriate process to verify outcome-oriented-outputs and outcomes. Many implied that using RBF created risks to their careers that outweighed the potential benefits. By promoting knowledge sharing activities such as the creation of communities of interest that support informal sharing, preparing case studies that highlight success stories, and documenting best-practices on measuring results and creating sector-specific guides can make it easier to incorporate RBF into programing decisions.
- **Build the evidence base for RBF by doing more and promoting monitoring and evaluation innovation.** This will require the creation of pilots in high-potential sectors to Test ideas with concrete examples and develop a sector specific perspective. The U.S. Global Development Lab should partner with a functional bureau to support the creation of RBF instruments that have the dual purpose of more effectively and efficiently producing development outcomes and also test the theories about how RBF can be most effective. These

instruments would start with a specific development challenge and have an explicit hypothesis why RBF is better suited to address that challenge compared to traditional solutions. In addition to creating pilot programs, there is a need to conduct rigorous evaluations that assess if widespread RBF would be more efficient, and effective, within Bureaus and Missions and collectively at a Federal level. In particular, these evaluations should assess if RBF is a better alternative to traditional approaches to funding development. In addition, better approaches to measuring outcomes and outcome-oriented outputs is critical for RBF, but will have benefits for many aspects of development. There is a need for increased investment in the design, selection, and monitoring of indicators. In particular, the reduction in cost of mobile and satellite technology offers new approaches for monitoring and evaluation that might make it more cost effective to measure the results of programs that rely on RBF.

- Encourage the creation of teams that can support innovation.** Finally, there was widespread excitement about RBF, but concern that the challenge of coordinating with multiple parts of the organization, would make it difficult to get approval. USAID should create a cross-Agency teams of innovative adopters that enable representatives from likely engaging the Bureau for Policy, Planning and Learning (PPL), Global Development Lab (Lab), Bureau for Global Health (GH), Bureau for Economic Growth, Education and Environment (E3), Bureau for Management’s Office of Acquisition and Assistance (OAA), the Counselor’s Office, and Bureau for Legislative and Public Affairs’ Congressional Liaison Division (LPA/CLD). These cross-cutting teams can accelerate the implementation of RBF instruments and other innovative ideas.

**This section outlines the full scope of detailed actions in these two categories that could help to mainstream RBF across USAID. The table below provides a short-list of actions to prioritize – a summary of the “greatest hits” drawn from each of the four categories of interventions.** These actions rose to the top based on three criteria. Actions receiving preference for the short list (1) have a high impact-to-investment ratio, based on Dalberg benchmarks from organizational strategy work at other donor agencies, (2) were cited frequently across interviews with USAID staff (n=22) and (3) are feasible within a 1-2 year time horizon.

**Figure 21: Actions and key steps to prioritize when mainstreaming RBF at USAID**

Actions	Proposed Lead Bureaus/Offices	Key steps	
		0-12 months	12+ months
<b>Support innovators with training, guidance and tools</b>			
<b>Helpline and hands-on courses for Program Officers:</b> Develop support line and short courses on RBF design and procedures	U.S. Global Development Lab and Office of Acquisition and Assistance (OAA)	Set up RBF “helpline” supported by sector advisors, COs, legal staff	Recruit / train cross-USG RBF experts to lead workshops on how to design RBF programs
<b>Training and mentorship for Procurement Officers:</b> Facilitate in-person / online information sharing and	OAA	Establish or build out an existing RBF online working group	Provide peer-to-peer RBF procurement support to officers

mentoring for procurement officers			
<b>Performance assessments:</b> Modify skills matrices to include outcomes achievement	Office of Human Capital and Talent Management (OHCTM) and PPL	Add skills on paying for outputs/ outcomes to evaluation matrices	Get cross-agency leadership speaking on the importance of RBF skills
<b>Legal guidance:</b> Clarify legal requirements and update compliance guidelines for staff	PPL	Evaluate existing RBF legal requirements, by instrument	Create user-friendly, step-by-step RBF legal guidelines
<b>Policy clarifications and updates:</b> Clarify when, why, and how to apply USAID policies to RBF programs	PPL	Draft RBF-specific procurement tenets	Draft accessible, layman-friendly RBF-specific policy guidance on programming and implementation
<b>Promote monitoring and evaluation innovation</b>			
<b>Measurement Methods:</b> Bring together measurement best practices to inform future design	Bureau for Policy Planning and Learning - Office for Learning, Evaluation and Research	Collect measurement best practices of existing USAID indicators	Convene multi-stakeholder meetings to agree adoption of methodologies
<b>Performance History:</b> Accumulate data to support a strong case for RBF	Bureau for Management and Bureau for Policy Planning and Learning - Office for Learning, Evaluation and Research	Include RBF as a Topic of Interest within the Development Experience Clearinghouse	Expand funding for ex-post RBF evaluations
<b>Indicator consolidation:</b> Compile indicators from USAID's databases and external repositories	PPL	Consolidate DLIs from USAID RBF programs and house as a central resource	Collaborate with other funders and researchers to develop a broad repository
<b>Measurement System Innovation</b>	U.S. Global Development Lab and Functional Bureaus	Conduct a review of how new technology can reduce measurement costs	Pilot programs that use new technology to measure development outcomes

## 3.2 Detailed Actions to Mainstream RBF

The content below presents a range of proposed actions to mainstream RBF, presented in two categories of interventions. Actions within each category are designed to be mutually reinforcing, and as a group, to address several specific barriers to mainstreaming RBF. Interviews with USAID staff, other donor organizations, and results-based finance experts directly informed all of these proposed interventions and supporting actions.

### Support innovators with training, guidance and tools

**Supporting innovators with training, guidance and tools would accelerate the adoption of RBF, and will require developing materials and advocating for changes that make RBF more widespread, efficient and effective within Bureaus and Missions.** This category of activities involves identifying a team of RBF champions that convene at regular intervals with the express objective of encouraging/facilitating knowledge sharing. This team would conduct activities that both help staff do more RBF and also create incentives and remove barriers to doing so. The ultimate goal for this team is to help facilitate cultural change across the Agency and empower staff to promote and spread the use of RBF.

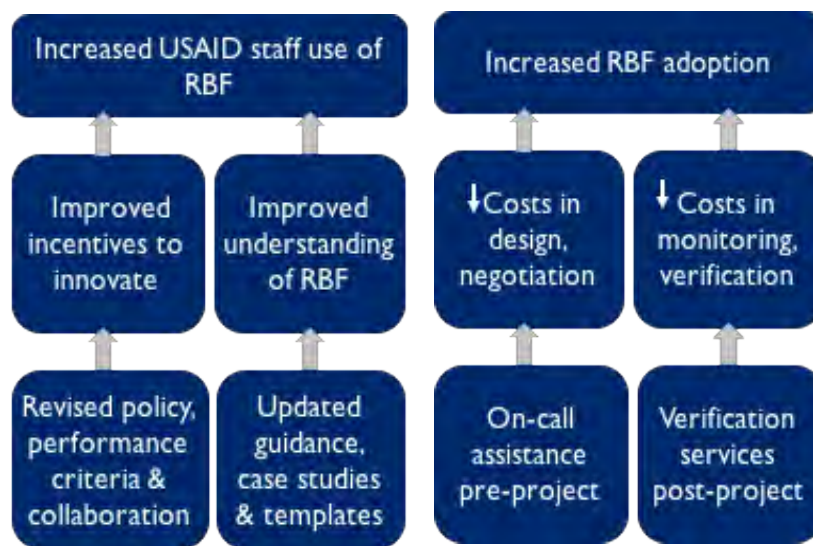


Figure 22: Supporting Innovators

**PPL is well-positioned to support a convening platform for RBF innovators.** Establishing a RBF team of champions will require three primary steps: establishing convening power, selecting RBF champions, and organizing regular meetings. First, an influential, cross-Agency unit within USAID should be selected to host the solutions group – such as PPL. It is important that this unit has a relevant mandate and expertise area. Next, the core working group supporting the mainstreaming of RBF can identify ~15-20 cross-Agency staff with RBF experience and an interest in facilitating and promoting these approaches. This team can divide themselves into ~3-person sub-committees, delineated by operational activities, to establish decentralized ownership over group priorities. This team would ideally meet quarterly as a collective group to assess sub-committee progress, problem solve as a team, align on priorities and clarify future work plans. Sub-committees would communicate internally as needed to advance assigned activities, and liaise monthly with the group facilitator on progress updates.

**Housing the RBF advocates team in a prominent Bureau can infuse more organizational authority into the group, but a more informal cross-Bureau working group might be more nimble.** There are two primary operating considerations to address before launching this intervention: which organizational unit to locate the team in and membership size. There are tradeoffs between a large cohort with breadth of knowledge and context-specific input, versus a smaller base with specific expertise that can convene more regularly and efficiently. Regularity and efficiency is important to getting these kinds of initiatives off the ground, and is often more essential than breadth of knowledge and organizational clout. Driving this initiative with a small, committed group of change-makers may be the most productive and effective path forward.

The core actions for this intervention fall into four categories:

- Helping staff do more
- Creating incentives and removing barriers
- Providing support to innovators
- Operationalizing excellence

#### ***Core actions: Helping staff do more***

**USAID staff repeatedly cited RBF training as a pressing need; the tiger team can focus on creating materials that offer this training.** USAID staff consistently communicated that user-friendly templates and training materials would be useful. Many staff are currently cobbling together ad hoc resources every time they would like to build an activity that rewards outcomes, some even simply “Googling” until they find useful resources. We propose the working group supporting this intervention develop a set of standard RBF training materials, to both empower staff and reduce the risk associated with poorly designed RBF activities. This working group can work with stakeholders like the Professional Development and Training Division (PDTD) to develop courses on RBF (see ADS 458). PDTD is an advantageous partner to consider engaging on this activity, in addition to Office of Human Capital and Talent Management (OHCTM), as they provide updated procurement training, including just-in-time courses. In addition, they can continue to update and streamline the Acquisitions and Assistance templates with guidance on using RBF instruments.

**The working group can tap into the Acquisition and Assistance Pilot Mentoring Program to provide peer-to-peer RBF procurement support to officers.** Creating mentorship and internal support platforms are essential ingredients for the success of RBF. This can be informal or formal, from



working with other staff engaged in RBF work on a one-to-one basis to translate knowledge or having more senior organizational leaders pair staff and run this program. M/OAA offers situational mentoring opportunities for staff, which can be infused with RBF elements. Existing RBF online working groups might also be built out to facilitate greater cross-Agency collaboration on RBF. The Learning Lab and ProgramNet both host collaborative online platforms for staff to collaborate on.

***Core actions: Creating incentives and removing barriers***

**Modifying performance incentives to include the achievement of outcomes and reward staff for taking on these activities – like development organizations such as DFID have done – would help align incentives and remove barriers.** The RBF champion team can design and incorporate RBF competency models into staff performance assessments, ensuring these align with criteria for promotions and reward. OHCTM may be a beneficial stakeholder to engage for this, as they are involved in policy development, promotion, career development and programs for Foreign and Civil service employees. Likewise, the team can advocate for cross-Agency senior leadership to speak more regularly about the value and importance of an outcomes-focus in program work, helping to build a halo effect around staff that drive results-based finance activities. Building this into the messaging agenda for the Administrator’s Leadership Council can be a promising place to start.

**Drafting and disseminating procurement tenets outlining principles for doing business in a context that rewards outcomes would help to re-define how USAID contracts for work, and what program officers focus on in their jobs.** Ideally, these RBF procurement tenets would clearly and simply articulate a set of 3-5 RBF-related strategic goals that USAID seeks when partnering with an implementer and/or government. For example, the headline for one of the goals can be as simple as “Build partnerships that rewards the achievement of specific, observable, and measurable outcomes.” Procurement tenets from other federal agencies – National Aeronautics and Space Administration (NASA), for example - can be useful models to guide the development of these tenets. As a complement to these procurement tenets, the team can draft accessible, layman-friendly RBF-specific policy guidance on programming and implementation, written for staff who are not contracting officers. Useful stakeholders to engage in this process include PPL, M/OAA, and the Regional Bureaus, which formulate and provide guidance on policies and procedures related to the Program Cycle. Likewise, LPA’s Congressional Liaison Division would be an essential source of input, helping to ensure Congressional mandates and priorities are being integrated into this guidance.

**Developing user-friendly legal guidance regarding the use of RBF instruments is a fraught, challenging process, yet a worthy longer-term goal.** As touched upon in Section 2, legal uncertainties are a key systemic barrier holding USAID staff back from undertaking RBF activities. Although some legal regulations are binding, staff mentioned that there is flexibility in the system. However, it is challenging to unlock this flexibility without significant legal expertise in the federal government and USAID-specific contexts. Working with Resident Legal Officers – who offer legal counsel and advice pertaining to activity planning and implementation – the team can formally evaluate existing legal requirements related to the use of RBF instruments. This work can build on existing, older legal analysis of RBF instruments. Building on this, the team can create user-friendly step-by-step guideline for officers on how to align the use of RBF with USAID regulations.

**Helping staff with RBF program design, and finding efficiencies in verifying outputs / outcomes would reduce the time and expense required to do RBF well. Reducing resource requirements would encourage experimentation, uptake, and ultimately, mainstreaming.**

The activities in this section aim to lower the risk and resources associated with programming and implementing RBF contracts for USAID staff. They would achieve this by providing a mix of support to staff and operationalizing excellence through credentialing and standardization.

**Core actions: Providing support**

**On-call assistance would empower USAID staff, who highlighted the value of and need for better coaching on programming with a focus on paying for results.** This coaching can include assistance on instrument and indicator selection and advice on complying with policy and legal requirements. In addition, this action can include bi-annual Minute-clinic orientations for those unfamiliar with RBF, as well as “refreshers” for experienced users. RBF champions at other federal agencies (e.g., United States Department of Health and Human Services (HHS)) expressed interest in staging these Minute Clinics in partnership with USAID as a cross-agency activity. PPL and the Office of Learning and Research (LER) already provides consulting and support on how to incorporate log frames into activities, and this platform can be built upon to include RBF-specific information.

**A working group can also encourage staff learning about RBF through a series of in-depth, hands-on courses, taking inspiration from other federal agencies.** HHS offers a particularly strong model of this type of work – their Competes Bootcamp provides guidance on how crowdsourcing and inducement prizes can benefit federal agencies and their missions. They design the courses to be hands-on, provide space for participants to develop and experiment with their concept, engage experts, and get feedback. These hands-on courses are a mechanism for crowdsourcing pilots, with the added benefit that a variety of staff are heavily involved in the co-creation process. In building a similar course series, the working group can put out an internal request for activity ideas, while also seeking out RBF experts across USAID and other federal agencies to lead workshops on RBF activity design. Within USAID, the Lab can play an essential role in convening stakeholders, while Development Innovation Ventures (DIV) and CTP (for example, the Partnering to Accelerate Entrepreneurship (PACE) program) can contribute lessons learned on activities in their portfolio that include RBF instruments. Outside of USAID, HHS, NASA and the Office of Science and Technology Policy (OSTP) can all be fruitful sources for collaborators.

**Promoting RBF’s potential for impact across the Agency through targeted publicity is also an essential action.** These internal publicity materials would ideally help to build awareness of the skill-building resources outlined above, while also building the credibility of RBF as a new approach to development aid. Marketing tactics can include Agency-wide announcements, distributing memos and RBF success stories through listservs, and ensuring there is consistently a section devoted to ongoing RBF work in cross-Mission, cross-Bureau, and cross-office emails.

**Core actions: Operationalizing excellence**

**Many staff highlighted that building an evidence base is one of the most important activities to focus on in the near-term, and investing in ex-post evaluations of RBF activities and disseminating findings are key to achieving this.** Ideally, these evaluations would take place across multiple sectors and geographies. Aggregating a database of RBF work that has or is currently taking place across the Agency would help to build a proof of concept, while also serving as an essential first step to broader investment in ex-post evaluations.

**The time and costs required to verify that an implementer and/or government achieved a given set of outcomes is a key barrier to RBF, and collecting and developing a set of best practices on verifying outcomes would ease this burden.** This compilation of best practices would

establish agreed upon verification standards, which staff can then use to help reduce costs and risks, including the reputational / political risks of non-disbursement. These best practices would highlight “rule of thumb” guidelines for commonly asked questions. For example, one section of these best practices can provide staff with easy-to-use algorithms to determine appropriate sub-sample sizes when surveying/observing beneficiaries to verify results. In developing these best practices, the Counselor’s Office and Local Solutions can provide vital insights into how to verify outputs and outcomes at scale. In addition, the Lab’s Data & Analytics Office can assist with formulating and disseminating more efficient verification processes.

## **Promote monitoring and evaluation innovation**

**Building better approaches to outcome and output indicator development, selection, and monitoring would promote innovation in disbursement linked indicators, which would promote broader usage of RBF.** This intervention involves developing, piloting and evaluating bespoke indicators to generate an evidence base for USAID and the wider donor community. Improving indicator design and generating a more robust performance history would help to expand USAID and other donors’ use of RBF.

The core actions for this intervention fall into two categories: “designing methods,” and “facilitating and sharing ideas.”



Figure 23: Promoting M&E Innovation

**Core actions: Designing methods**

**Consolidating disbursement-linked indicators from USAID’s RBF activities in the last five years is a good place to start, and perhaps best housed in USAID’s Learning Lab.** Currently, the indicators that staff use for disbursement in RBF activities are not tracked or aggregated. Hence, it is challenging for program teams to reference outcome indicators relevant to their sector / context. After aggregating indicators internally, the working group can collaborate with other funders and researchers to develop a central repository of all proven disbursement-linked outcome indicators as a public good.

**The working group can convene cross-Bureau and/or cross-Mission meetings to build consensus on which criteria are appropriate to assess the usefulness of indicators for RBF.** The PBI Interest Group convenes cross-Mission shared learning, including pilot programs, and can help facilitate these meetings. The Office of U.S. Foreign Assistance Resources, which manages the Standard Foreign Assistance Indicators, are also essential stakeholders to engage.

**The working group can also engage external RBF experts to share knowledge in these meetings.** These stakeholders can include other USG agencies and foreign donors. Potential points of contact include HHS Innovation, Design, Entrepreneurship and Action (IDEA) Lab and DFID’s PbR team, which are leveraging internal and external expertise for innovation.

**In addition, credentialing M&E specialists for RBF-based activities would reduce the time and expense associated with ad hoc vetting processes, and establish a qualification standard.** The limited and inconclusive evidence base for RBF is – in part – due to suboptimal program evaluations. Many program evaluations are suboptimal for two reasons: lack of funding, and poor design. Setting a standard for evaluators would help overcome this issue. USAID’s service center can hold open calls for M&E specialists, and – after assessing them – draft a list of pre-qualified service providers, broken down by those who would be available to work with each Mission in a given year. The center can also connect teams to pre-qualified verifiers. E3 / OTR, New Partners Initiative Technical Assistance Project (NuPITA) have developed M&E toolkits and curriculum worth leveraging and building upon in developing pre-qualification standards.

### ***Core actions: Piloting and sharing ideas***

**The working group can use this database of RBF-relevant indicators and associated criteria to develop “fit for purpose,” context-specific indicators to test in pilot programs.** In order to realize these pilots, the working group can put out internal requests for RBF activity ideas. Successful USAID teams would work with RBF experts to pilot newly generated indicators and methodologies in a supportive, experimental environment.

**After USAID conducts these pilots, it will be critical to conduct robust process and impact evaluations.** Leaders of the pilots can share the results in semi-annual reports to support learning across the Agency and wider RBF ecosystem. These semi-annual reports can also include data from systematic reviews conducted on RBF designs, including, for example, the review of health facility incentives conducted for the Malawi Performance-Based Finance (PBF) program. PPL / LER is an important stakeholder to engage in this activity, as the organization responsible for monitoring, evaluation and learning at USAID. Similarly, the USAID Translating Research Into Action (TRAction) Project financed impact evaluations for health pilots, and may be interested in doing the same for RBF-specific programs. Additional research partners can include the Abdul Latif Jameel Poverty Action Lab (JPAL), National Science Foundation (NSF) and the HRITF, which is developing an RBF evidence base.

**Once these results are collected, the working group would be well-positioned to deploy a tool for mapping proven RBF indicators to various sub-sectors, regional contexts, and Country Development Cooperation Strategies (CDCS) development objectives.** This tool would help to improve uptake by easing the burden of indicator creation burden for teams. User-friendly software that guides Missions in creating log frames with RBF indicator selections that are based on development objectives would ideally complement this tool.

## **3.3 Risks to consider**

**Staff highlighted that one of the greatest risks to successfully mainstreaming RBF at USAID is pursuing these activities in isolation from the wide range of other relevant initiatives underway. The Agency has infrastructure, funding, and staff time locked in for these pre-existing initiatives, and it is important to work within the existing systems to encourage maximum uptake and impact.** This section highlights additional intervention-specific risks to be mindful of when considering and implementing these solutions. While not exhaustive, these points include the primary concerns staff noted during interviews.

- Staff already have difficulty finding the range of useful information that is available to them, and creating more RBF-specific knowledge products can add to the stockpile of un-curated, underused resources.
- RBF-focused adjustments to performance criteria may not be adopted in practice. Skill matrices are long, complex, and not consistently used as a practical evaluation tool.
- Legal analysis is inherently an exploratory process in which the outcomes cannot be predetermined, meaning that legal analysis of programming guidelines that is intended to create opportunities to do more RBF may end up creating new, unanticipated barriers.
- Over-publicizing RBF activities can invite increased scrutiny and oversight, creating more risks for staff who are experimenting with these nascent approaches to development aid

- Investing in too many activities at once to mainstream RBF can also limit the depth and helpfulness of each activity. For example, running a helpline, minute clinics, direct design / contracting support and M&E credentialing can both strain and overcomplicate resources
- Linking disbursements to outcomes is an uncertain, experimental process and developing “better” outcomes-focused indicators may be a slow process with unclear returns
- Building any new funding facility is a massive investment of time, money, and political capital, and with that naturally comes significant Congressional scrutiny, setting the bar for success for an RBF-focused funding facility quite high

Interviews with USAID staff suggests that all of these risks are surmountable, provided (a) sustained support from USAID organizational leaders, (b) the working group combines skills in operations, contracting, program design, and implementation, and (c) the working group prioritizes partnership with other federal agencies. The effort and risks required to mainstream results-based finance across USAID’s portfolio should not be underestimated. This would be a massive undertaking. Yet, the potential payoff - greater impact, more innovation, more efficiency – is great enough to justify taking initial steps toward this future.

## 4. CONCLUSION

**Development aid’s track record of effectiveness is positive yet mixed.** Consistently increasing ODA has driven more development activities covering more sectors in more geographies, yet most of these activities see modest results, with the exception of a few spectacular successes and notable failures. Aid can – and should – be producing better outcomes, more consistently. Indeed, the international community has committed and recommitted itself to this goal, with the Paris Declaration (2005), the Accra Agenda for Action (2008), and the Busan Partnership Agreement (2011).

**In order to achieve these ambitions for greater and more consistent impact, aid funders have to move from reimbursing receipts to paying for impact.** RBF provides a potent toolkit to help USAID achieve this massive shift in approach, serving as a bridge from traditional input-based aid to aid structures that support sustainable, tangible, measurable outcomes for beneficiaries. RBF creates incentives to help save more lives, protect more of our climate, and build better markets (among other worthy goals), all for less money. In short: RBF promises excellent value for money, if its potential is fully realized.

**There is an opportunity and a need to accelerate the mainstreaming of RBF, both inside and outside of USAID.** Despite a wide range of RBF pilots and increasing global momentum behind exploring these approaches to development aid, their use remains limited. To fully capitalize on the opportunity RBF offers, the status quo needs to change: knowledge about implementing RBF needs to be shared more expansively, research on RBF’s impact needs to be funded, funding vehicles need to be established, better approaches to measurement and verification need to be developed, and many large donors’ internal policies on aid disbursement need to change.

**Mainstreaming RBF is going to require robust leadership, collaboration, investment, and above all, a sustained willingness to experiment.** These themes are the threads that bind together all of the recommendations in this report. Mainstreaming RBF demands that a group of donors take the lead in weaving RBF into their development aid toolkit, and continually share lessons on what they learn.

This would build a performance history, show evidence of success, justify the case for further investment in RBF, and continue the virtuous circle. Yet there will almost certainly be missteps and failures along the way – as there is with any bold new venture. Maintaining a collective commitment to experimentation and innovation – ensuring we learn as much from our failures as we do from our successes - is essential to continuing the process of mainstreaming RBF, in spite of inevitable misfires.

**With an impending period of transition, USAID should lay the groundwork for mainstreaming RBF in the near future.** Building staff awareness of RBF and knowledge on how to apply its tools in practice is an excellent first step toward mainstreaming RBF. Initiatives in this vein can conceivably make significant progress before the impending transition. Some of the other actions suggested in this document require longer time horizons – from a year, to two years, to even more. With the oncoming transition, it may be tempting to push these activities to the side for now. However, the USG has long been committed to seeing results in practice, not just in principle. It is likely that this commitment to outcomes will be just as strong in two years' time, if not stronger. The question for the Agency today is: how can we build the momentum to help the Agency's current staff, and the staff that follow, to mainstream RBF in five years? How can the Agency begin to build a legacy of awarding outcomes, not inputs? And how can the Agency plant seeds now for collaboration with other donors on RBF, which will continually bear fruit in the years to come?

# ANNEX A: LIST OF INTERVIEWEES

Name	Organization	Position	Category
Steven Chapman	CIFF	Director	Funder
Donald Menzies	DFID	Innovative Aid Instruments Advisor, leads Payment by Results	Funder
Veronica Perzanowska & Sofia Ericsson	Sida	Part of a team investigating potential for results-based finance approaches	Funder
Sandeep Patel	HHS	Open Innovation Manager, leads IDEA Lab HHS Competes pathway	Funder
Fadia Saadah, Melissa Fossberg	World Bank	Manager of Program-for-Results	Funder
Jacqueline Bass, Robert Mwadime, and Caroline Averch	FHI 360	Technical Director; Chief of Party; Technical Advisor	Implementer
Jean Kagubare	Management Sciences for Health (MSH)	Developed national performance-based finance systems	Implementer
Nathaniel Mason	Overseas Development Institute (ODI)	Research Fellow	Implementer
Yusef Salehi	Oxfam	Contracting and Compliance Manager, Program Funding Department	Implementer
Rachel Stevens	Tearfund	Program Funding Manager	Implementer
Rose Longhurst	Bond UK	Funding Policy Manager	Expert
Bill Savedoff, Rachel Silverman	Center for Global Development	Senior Fellow; Senior Policy Analyst	Expert
Barbara Kong	D. Capital	Senior Investment Principal	Expert
Jitinder Kohli	Deloitte	Government Performance Leader	Expert
Avnish Gungadurdoss	Instiglio	Co-Founder, Managing Partner	Expert
Jaykumar Menon	McGill University	Professor of Practice	Expert
Beth Gaddis	USAID	Health Officer, Liberia Mission	Geographic Bureau
Bill Butterfield	USAID	Mission Economist, Ethiopia Mission	Geographic Bureau
Mike Rossman	USAID	Office Director and Supervisory Contracting and Agreement Officer, Georgia Mission	Geographic Bureau
Randolph Augustin	USAID	Deputy Director, Bureau for Global Health, Kenya Mission	Geographic Bureau
Ron Wietecha	USAID	Resident Legal Officer, DRC Mission	Geographic Bureau
Amy McQuade	USAID	Senior Advisor, Contracting and Agreement Officer, Office of Foreign Operations, OAA, Bureau for Management	Headquarters / Other Bureau
Doug Webster	USAID	Director, Government to Government Risk	Headquarters / Other Bureau
Liz Warfield	USAID	Local Solutions Coordinator	Headquarters / Other Bureau
Terrence Brown	USAID	Senior Advisor for Project Design, PPL	Headquarters / Other Bureau
Aviva Kutnick	USAID	Agricultural Development Officer, Bureau for Food Security	Functional Bureau
Bruce McFarland	USAID	Operational Innovations, Global Development Lab	Functional Bureau
Caroline Ly	USAID	Health Economist, Office of Health Systems, Bureau for Global Health	Functional Bureau
Ethan Takahashi	USAID	Operational Innovations, Global Development Lab	Functional Bureau
Gayle Girod	USAID	Chief Innovation Counsel and Assistant General Counsel for the Lab and E3	Functional Bureau
Jenn Fluder	USAID	Innovation Advisor, Center for Accelerating Innovation and Impact, Bureau for Global Health	Functional Bureau
Jodi Charles	USAID	Senior Health Systems Advisor, Office of Health Systems, Bureau for Global Health	Functional Bureau
Joseph Naimoli	USAID	Health Systems Research Advisor, Office of Health Systems, Bureau for Global Health	Functional Bureau
Kevin Pilz	USAID	Senior Supply Chain Advisor, Office of Population and Reproductive Health, Bureau for Global Health	Functional Bureau
Lawrence Camp	USAID	Seniro Advisor, Private Capital and Microenterprise Office, E3	Functional Bureau
Nathaniel Scott	USAID	Private Enterprise Officer, Water Office, E3	Functional Bureau
Priya Sharma	USAID	Policy and Innovative Financing Advisor, Bureau for Global Health	Functional Bureau
Roberta Cavitt	USAID	Senior Strategy Advisor, Global Development Lab	Functional Bureau



# ANNEX B: METHODOLOGY FOR RBF FORECASTS

## **Guiding principles:**

- Historical RBF growth rates are a reasonable starting point for future forecasts
  - Growth in RBF volumes has seen a steady trajectory
  - Order of magnitude changes in aggregate RBF activity are uncommon on a year-over year basis
- Funders, implementers, and economists have some level of foresight regarding future RBF trends
  - They are aware of the barriers and opportunities facing RBF
  - They have economic and reputational incentives to make accurate forecasts
  - In some cases, they have access to future activity planning documents
- The forecasts of multiple funders, implementers, and economists are more robust than any one forecast, and more experienced experts' forecasts should be weighted more heavily

## **Data collection:**

- Compiled a database of publically noted RBF transactions 2001-2015, comprising 149 mechanisms. Instruments were included based on their fit with RBF instrument definitions, maturities, and intended development outcomes
- Every effort was made for this database to be complete, yet it is likely that not all RBF instruments were included – making aggregate volume estimates based on this dataset conservative

## **Baselining:**

- Growth rates in each RBF instrument were calculated from 2005 (the first year with reliable cross-instrument data) to 2015, using three-year volume averages as the basis due to year-over-year volatility in the use of each instrument
- Sector volumes were estimated by identifying the sector associated with each RBF instrument, and then counting the total programs that fell into each sector category. Where programs encompassed multiple sectors, the program was tagged as the sector which received the largest proportion of committed funds

## **Projecting:**

- Growth rates were tested with eleven executives, managers, and strategists within funding organizations, implementers, and development think tanks. Each was asked if they believed historical growth rates would continue for instruments in their area of expertise, and if not, how the believed growth would change

**Triangulating:**

- Growth rates were compared against growth estimates conducted for other studies (e.g., the GPOBA, Innovative Financing Initiative, other Dalberg client work); varying estimates were weighted and combined, and sense-checked against total ODA and other official aid flows

# ANNEX C: METHODOLOGY FOR ASSESSING RBF POTENTIAL

## **Summary:**

For this study, Dalberg estimated RBF viability based on the “RBF potential” of each OECD-defined development “sector” (e.g., agriculture), determined based on each sector’s outcome indicators available and performance history in the RBF space. Dalberg pulled indicators from the World Bank’s Program-for-Results Financing (PforR) initiative and the USAID and State Department’s “Standard Foreign Assistance Indicators” database. Performance history was calculated based on publically available information on implemented RBF programs in each sector (e.g., via public announcements, funder websites, multilateral forum proceedings), compiled into Dalberg’s Innovative Finance Instrument database. Sectors with high RBF potential are those that have both a large number of indicators and implemented RBF programs, while sectors with low RBF potential are those with few or no indicators, and implemented RBF programs. Sectors were scored for their RBF potential. These scores were then applied to USAID’s portfolio by sector over time, other bilateral donors’ (i.e., DFATD, SIDA and DfID) portfolios, and USAID country Mission portfolios. This data was pulled from OECD databases. In addition, the USAID disbursements database was used to analyze USAID’s portfolio by implementer type (e.g., government vs. third party).

Disclaimer: This is intended to be a preliminary analysis of RBF viability at a sector level, recognizing that every sub-sector and program has unique objectives and faces unique constraints. As such, this preliminary analysis serves as a directional estimate of RBF potential based on existing availability of outcome indicators and RBF activities. Further analysis can build on this initial view by polling USAID Mission staff to determine which sub-sectors are more likely to be “RBF-able,” in which contexts and under which conditions.

## **Analyses performed:**

1. Defining RBF potential
2. Analyzing the RBF potential of the USAID portfolio (High, Medium or Low) over time (2006-2014)
3. Analyzing the RBF potential of other major bilateral donor portfolios for 2014
4. Analyzing the RBF potential of USAID country Missions around the world for 2014
5. Analyzing the USAID portfolio by implementer type over time (2013-2015)

## **Data used:**

- **Dalberg RBF database:** Database that Dalberg has compiled over time to track publically noted innovative finance transactions since 2001, comprising over 149 RBF mechanisms.
- **World Bank RBF projects:** 35 country government projects from the World Bank’s Program-for-Results Financing (PforR) initiative that have paid for outcomes
- **World Bank indicators:** Disbursement-linked indicators and program development objectives from the World Bank’s Program-for-Results Financing (PforR) initiative

- **USAID outcome indicators:** Outcome indicators extracted from the Department of State and USAID’s “Standard Foreign Assistance Indicators” database, found online at [www.state.gov/f/indicators/](http://www.state.gov/f/indicators/)
- **OECD database:** Online database found at [stats.oecd.org](http://stats.oecd.org), used to extract Official Development Assistance (ODA) gross disbursements per sector for the US over time (2006-2014), and for other countries for 2014
- **USAID database:** Database found online at [www.foreignassistance.gov](http://www.foreignassistance.gov) and used to extract USAID disbursements over time, per implementer type

### **Analyses performed:**

#### **I. Defining “RBF potential”**

- The “RBF potential” of each sector was determined by evaluating each sector’s (i) indicators, (ii) performance history, and (iii) verification, in the following manner:
  - i. USAID outcome indicators and World Bank disbursement-linked indicators<sup>1</sup> were used as a proxy for the indicators potentially available to RBF programs. High,” “Medium” and “Low” potential ranges were determined based on the tertile breakdown of the data set (e.g., number of indicators per sector)
  - ii. The number of activities implemented in a given sector in the World Bank P-for-R portfolio and Dalberg’s RBF database that paid for outcomes was used as a proxy for the sector’s performance history in the RBF space. “High,” “Medium” and “Low” potential ranges were determined based on the tertile breakdown of the data set (i.e., number of implemented activities per sector)
  - iii. It was assumed that appropriate verification processes were in place to assess outputs / outcomes and disburse based on the aforementioned indicators
  - iv. RBF potential was synthesized by looking at both the number of indicators per sector and the sector’s performance history. If the RBF potential differed, based on these two metrics, the “average” was taken. For example, a “High” and a “Low” gave a “Medium.” If the categorization were different by one-step, then the lowest categorization was trumped

#### **2. Analyzing the RBF potential of the USAID portfolio (High, Medium or Low) over time (2006-2014)**

- To analyze the RBF potential of the USAID portfolio over time, the OECD database was used to extract the US ODA gross disbursements, which were used as a proxy for USAID’s disbursements
- The data was organized by sector, then the RBF potential of the USAID portfolio was evaluated based on the percentage of disbursements that went to “High RBF potential” sectors vs. “Medium” and “Low” ones<sup>1</sup>

#### **3. Analyzing the RBF potential of other major bilateral donor portfolios for 2014**

- To analyze the RBF potential of the portfolios of other bilateral donors (DFATD, SIDA and DfID), the OECD database was used to extract the ODA gross disbursements for

Canada, Sweden and the UK, which were used as proxies for the disbursements of their respective bilateral agencies

- The data was organized by sector, then the RBF potential of each bilateral's portfolio was evaluated based on the percentage of disbursements that went to "High RBF potential" sectors vs. "Medium" and "Low" ones<sup>1</sup>

#### 4. Analyzing the RBF potential of USAID country Missions around the world for 2014

- The OECD database was used to extract the US ODA gross disbursements for 2014, by sector and by recipient country
- The RBF potential of every Mission was then determined by evaluating the percentage of every Mission's portfolio that was dedicated to programs in sectors with "High RBF potential" (i.e., Health, Water Supply and Sanitation, and Government/Civil Society)
- "High," "Medium" and "Low" ranges of the Mission analysis were determined based on the tertile breakdown of the data set (i.e., the different ratios of "High RBF potential" programs per sector of every Mission)
- As such, sectors with high RBF potential are those that have both a large number of indicators and implemented RBF programs, while sectors with low RBF potential are those with few or no indicators, and implemented RBF programs

#### 5. Analyzing the USAID portfolio by implementer type over time (2013-2015)

- To analyze the USAID portfolio by implementer type, the programs in the USAID disbursements database – found online at [www.foreignassistance.gov](http://www.foreignassistance.gov) – were organized by implementer type, by looking at their recipients and disbursement channels, to determine which programs were directed to governments vs. a US Government agency vs. a third party implementer
- The database had gaps for certain programs that had no indication of the implementer type and were hence tagged as "Unknown"

# ANNEX D: SELECTED SOURCE MATERIAL

## RBF overview reports and strategy documents

- Bond, 2014, *Payment by Results: What It Means For NGOs*
- Brookings, 2015, *The Potential and Limitations of Impact Bonds*
- CGD & Social Finance, 2013, *Investing in Social Outcomes: Development Impact Bonds*;
- CGD & Social Finance, 2014, *Development Impact Bonds Briefing Note*
- Dalberg, 2014. *Innovative Financing for Development: Scalable Business Models That Produce Economic, Social, and Environmental Outcomes*
- Dalberg interviews
- Deloitte, 2014, *The Craft of Incentive Prize Design*
- DFID, *Designing and Delivering Payment by Results Programmes*
- DFID, 2014, *Sharpening incentives to perform: DFID's Strategy for Payment by Results*
- Digitalgov, *Challenges and Prizes Community*
- Global Affairs Canada, 2015, *Blended Finance*
- Global Innovation Fund, *Stages of Financing*
- GPOBA, 2008, *Targeting Subsidies Through Output-Based Aid*
- GPOBA, 2009, *A Review of the Use of Output-Based Aid Approaches*
- GPOBA, 2015, *Annual Report*
- Instiglio, *Services*
- Kopinak, 2013, *Humanitarian Aid: Are Effectiveness and Sustainability Impossible Dreams?*
- Kremer, 2010, *Incentivizing Innovation: Adding to the Tool Kit*
- Monitor Deloitte, *The Many Ways to Pay for Results*
- OECD, 2014, *Technical workshop on results-based funding*
- OECD, *Results-Based Funding*
- Resources for the Future, 2004, *Advantages and Disadvantages of Prizes in a Portfolio of Financial Incentives for Space Activities*
- RBFHEALTH, 2014, *Website and various publications*
- Social Enterprise Associates, *Social Impact Bonds – Useful to Achieve Social Change?*
- SDIP, *Related Initiatives*
- USAID, 2014, *A New Model for Development: USAID Management & Process Reform*
- WEF, *Redesigning Development Finance*

- World Bank, *Collaboration for Development*
- World Bank, 2013, *World Bank, Global Fund, Partner to Expand Results-Based Financing for Maternal and Child Health*
- World Bank, 2015, *Questions and Answers About the World Bank's Program-for-Results*
- World Bank, 2015, *World Development Indicators*

### **Reviews and evaluations**

- AHF, 2013, *Results-Based Financing for Health*
- BMZ, 2013, *Results-Based Financing of Maternal and Newborn Health Care in Low- and Lower-Middle-Income Countries*
- Bonfer, 2013, *The effect of performance-based financing on the use and quality of health care in Burundi: an impact evaluation*
- CGD, 2015, *Does Results-Based Aid Change Anything? Four Case Studies*
- Dalberg, 2013, *The Advance Market Commitment for Pneumococcal Vaccines: Process and Design Evaluation*
- DIE, 2013, *Evidence from performance-based financing in the health sector*
- DFID, 2010, *Review of RBA and RBF schemes*
- DFID, 2013, *Evaluation of PBR: Current Approaches, Future Needs*
- DFID, 2015, *Pilot Project of Results Based Aid in the Education Sector in Ethiopia Annual Review*
- Duflo, 2012, *Incentives Work: Getting Teachers to Come to School*
- Eldridge, 2008, *Performance-based payment: some reflections on the discourse, evidence and unanswered questions*
- Eurodad, 2012, *Hitting the target? Evaluating the effectiveness of results-based approaches to aid*
- Gartner, 2015, *Innovative Financing and Sustainable Development: Lessons from Global Health*
- Gertler, 2011, *The Effect of Performance-based Pay for Healthcare Providers on Health Outcomes in Rwanda*
- Grand Challenges Canada, 2015, *International Expert Panel review of Grand Challenges Canada*
- KIT, 2008, *Performance Based Financing: An international review of the literature*
- Oxman, 2009, *Can paying for results help to achieve the Millennium Development Goals?*
- Stanford Social Innovation Review, 2013, *From Theory to Practice: Advanced Market Commitments*
- USAID, 2014, *Use of Incentives in Health Supply Chains*
- WHO, 2011, *Can performance-based financing be used to reform health systems in developing countries?*
- Witter, 2012, *Paying for performance to improve the delivery of health interventions in low- and middle-income countries*
- World Bank, 2009, *Taking Stock: World Bank Experience with Results-based Financing for Health*
- World Bank, 2010, *Output-based Aid: Lessons Learned and Best Practices*

- World Bank, 2015, *Argentina: Can Short Term Incentives Change Long Term Behavior?*
- World Bank, 2015, *Linking Results to Performance: Evidence from a Results Based Financing Pre-Pilot Project in Zambia*
- World Bank, 2015, *Program-for-Results: Two-Year Review*

#### **International statements on P4P**

- *The Accra Agenda for Action, 2008*
- *Addis Ababa Action Agenda of the Third International Conference on Financing for Development, 2015*
- *Busan Partnership for Effective Development Cooperation, 2011*
- *COP 21 Adoption of the Paris Agreement, 2015*
- *G-20 Toronto Summit Declaration, 2010*
- OMB, 2013, *Memorandum to the Heads of Departments and Agencies*
- *The Paris Declaration on Aid Effectiveness, 2005*

#### **RBF databases**

- OECD ODA data
- USAID / State indicator database
- World Bank Program-for-Results indicator database

#### **USAID internal documents and operational policy**

- *ADS Chapter 200 [Draft]*
- *ADS Chapter 220*
- *ADS Chapter 308*
- Oliver Wyman, 2013, *USAID Award Cost Efficiency Study: Recommendations and Transformation Pathway*
- USAID, 2014, *A New Model for Development: USAID Management & Process Reform*
- USAID, 2013, *The Malawi Performance-Based Financing (PBF) Pilot Project Design: A Review (Joseph Naimoli and Jodi Charles)*
- USAID, 2012, *USAID Mission Support for Performance-Based Incentives in Health: Briefing on Key Survey Results*