

Results-based approaches in German Financial Cooperation

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What are results-based approaches?

Results-based approaches link payments to the achievement of predetermined results, such as the number of school pupils passing standardised performance tests, the number of medically assisted births, or transparency and participatory decision-making in municipal governance.

In this, results-based approaches differ from other development cooperation approaches in which payments are generally linked to inputs like the provision of goods and advisory services, e.g. in financing the construction of schools or roads.

Results-based approaches in German Financial Co-operation

On behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) and within the framework of German Financial Cooperation, KfW is currently implementing a number of projects with results-based payment mechanism. In some projects, payments are directly coupled to services provided, such as the provision of a certain medical treatment or an operational electricity connection. The basis for payment is a contract entered into with one or more service providers from the private or the public sector or a non-governmental organisation. Measures of this sort are often termed *output-based aid* (OBA). Other projects pursue different approaches that tie the disbursement of funding to special incentives or to the achievement of jointly stipulated objectives.

The following sections provide a selected overview of results-based approaches from the KfW Development Bank portfolio:

§ Health vouchers in Kenya

In Kenya vouchers for medical treatment are issued at subsidised prices, which has enabled poor women to enjoy medically assisted births. The vouchers system ensures that accredited private and public service providers in the health sector are paid only once a treatment has been successfully completed. This gives providers a strong incentive to offer pertinent treatment. It is also a way of ensuring that funds are efficiently allo-

cated and, for example, not spent on complex medical appliances, where no qualified staff is available to use the equipment. Competition is encouraged, with all providers vying to provide quality services, since the providers of the best services will attract the most patients and hence benefit most from the voucher-based payments. An independent accreditation scheme ensures compliance with minimum standards. The measure in Kenya financed by German Financial Co-operation on behalf of BMZ has already allowed 60,000 women to bear their children safely.

§ Output-based aid in Uganda's energy sector

Along with the World Bank and other partners, KfW is involved in a programme on behalf of BMZ, in which payments are made when a poor household is connected to the national grid and has been using electricity for a certain period of time. This overcomes the problem otherwise faced by poor households who cannot afford the connection costs, and thus have no access to electricity.

§ Protection of tropical forest in Brazil

To reduce deforestation in Brazil's tropical forests, German development cooperation is involved in the Brazilian Government's rainforest fund. The German contribution is paid into the fund only if the annual deforestation in Amazonia remains below a predefined level. Deforestation rates are gauged using satellite images. Similar projects for other countries are at the planning stage.

§ Decentralisation fund in Ghana

The *District Development Facility* which German Financial Co-operation is co-financing, awards funds to local authorities to enable them to invest in infrastructure such as health stations, local roads or markets. The funding allocation depends on a number of performance criteria: municipalities that stand out by virtue of sound public financial management and their participatory development strategy, for instance, are accorded more funds. This gives municipalities an incentive to adopt a pro-development approach in their actions.

§ Performance-oriented budget support in Zambia

German budget support is based on strict performance criteria. Only countries that comply with clear minimum conditions in terms of poverty reduction, human rights and public financial management are eligible to receive budget support. As in other countries receiving budget support, in Zambia a performance matrix that lays out objectives such as raising tax revenue, is the basis for cooperation. On an annual basis it is ascertained how and to what extent the predetermined objectives have been achieved. The annual disbursement is then determined on the degree to which objectives have been achieved.

Conclusion

Results-based approaches offer an opportunity to strengthen results orientation in development co-operation by specifically tying disbursements to results and strengthening ownership on the partner side.

A number of factors do, however, preclude results-based approaches in certain contexts. Some project executing agencies, for instance, do not have the financial and technical capacities they would need to pay for services up front before assistance is forthcoming. Neither are they in a position to bear the full implementation risk. Many results-based approaches also involve a significant data-gathering workload before the degree of achievement of the objective can be quantified, thus meeting the preconditions for disbursement of funds. Finally, there is a risk that incentives are set for fragmented individual parts of the measure but that sight is lost of the system-building overall context, and that as a result unintentional side-effects emerge.

Overall, results-based approaches can, in the appropriate context, supplement the spectrum of instruments used by Financial Cooperation. KfW will harness its own experience and that of other development institutions with results-based approaches so as to consistently enhance the quality and innovative force of Financial Co-operation. •