KfW Development Bank

Materials on Development Finance

Results-Based Financing Peer Analysis

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Acknowledgements

The authors would like to thank the many people who kindly gave their time during interviews. Please refer to Annex 1 for a list of people interviewed.

About joyn-coop

joyn-coop is a process and strategy consultancy for sustainable development. We combine expertise in development cooperation with the methods and quality standards of management consulting and are guided in our approach by academic research. Our name "joyn-coop" reflects our philosophy: we join together different capabilities, cooperate with diverse partners and work with joy.

We advise our clients on strategy development, provide programme design and evaluation services and support the implementation of institutional change processes. We approach strategy and programme development in a holistic manner and support our clients throughout the entire process, from identifying specific needs to integrating results into everyday workflows. Our agile working culture creates a fertile ground for innovation: through interactive workshops and regular peer review, our project teams approach challenges from a variety of perspectives and develop customized solutions.

Our deep motivation lies in the wish to contribute to a truly meaningful cause and make a sustainable positive impact with our work. Our philosophy is inspired by Amartya Sen's vision of development as freedom – the opportunity for all humans to be, or do, something they value. We use participatory methods to incorporate the target groups' perspectives in strategies and programmes and anchor possibilities to participate in the programmes that we design.

This study was led by Christina Kükenshöner. The study team comprised Sarah Thoma, Prathima Nalabolu and Moise Kwizera.

Executive Summary

This study explores result-based approaches used by different bi- and multilateral development banks and agencies. The objective of the study is to provide an overview on funder-specific results-based designs, operational guidelines, appraisal mechanisms and lessons learned. Results-based approaches are defined as financing arrangements where payments by the donor to the incentivized agent are contingent upon the achievement of pre-defined and verified results, rather than paying for inputs or activities (Instiglio, 2018).

While a range of different approaches can be identified, many multilateral development banks use *programme-based* results-based approaches. The study identifies four main categories of donor-to-government results-based approaches: (i) results-based budget support, (ii) results-based programme-based approaches, (iii) investment-based approaches with results-based portion, und (iv) carbon finance. Especially multilateral development banks (MDBs) make use of programme-based results-based approaches, which typically complement development policy financing and investment project financing. Among the distinctive features of programme-based approaches are the provision of financing for a portion of an existing government expenditure programme, and the use and strengthening of country systems. Consequently, the comprehensive assessment of country systems is a key element within the appraisal procedure and capacity development is a standard element in programme-based results-based approaches. Carbon finance approaches link payments to reductions in carbon dioxide (CO2) emissions. The Norwegian Agency for Development Cooperation, Norad, was among the first donors who linked payments to reductions in emissions from deforestation and forest degradation. Nowadays, other funders use reductions in CO2-emissions as payment trigger as well.

There is some commonality regarding the key design decisions taken by funders. Regarding typical design features of results-based approaches, the study looks at *payment metrics*, i.e., results to be measured and verified as the basis of payment, the *pricing* of these metrics, the approach for the *verification* of payment metrics and *payment modalities*.

Most funders surveyed use a mix of payment metrics, typically ranging from activity/ processes to outputs and outcomes. While all funders indicate that it is desirable to formulate payment metrics at outcome level, only the Inter-American Development Bank (IDB) and Norad fully commit to it. In its REDD+ payments, Norad only uses reductions in CO2 emissions as trigger. IDB, too, only allows outcome-level payment triggers, except for capacity building measures, and typically limits these to five. In case of programme-based approaches used by the Asian Development Bank and the World Bank, payment triggers can come directly from the programme's results framework or the programme action plan. The latter defines measures that are essential for strengthening programme performance, such as actions to improve fiduciary risk management, social and environmental systems, and monitoring and evaluation. While there is no clear guidance, experience shows that most payment triggers come from the results framework.

The pricing of individual payment metrics is predominately not based on the true cost of achieving the respective payment trigger. Especially in case of programme-based approaches, the pricing of an individual payment trigger is often proportional to its contribution to the overall programme objective and commensurate with the incentive required to achieve it, rather than its cost. While the payment for an individual metric can be higher or lower than the actual cost of achieving it, most funders insist and ensure that total payments cannot exceed total programme expenditures.

Most funders require independent verification of results. The prevailing trend among funders surveyed is to conduct independent verification of results – mainly relying on observational approaches – before initiating payments. Most funders use scalable payment metrics and allow for partial disbursements.

Prefinancing is rather common among the funders studied. Multilateral development banks typically use two approaches: (i) *advance financing*, which can be up to 25% of the total bank financing, and (ii) financing of *prior results*, up to varying portions of total disbursements. Prior results are payment metrics achieved before loan effectiveness. The starting point for recognizing prior results varies among funders.

Most funders surveyed allow for a high degree of contract flexibility. Literature on results-based approaches emphasizes the significance of contract flexibility. Since recipients are accountable for achieving results autonomously and bearing associated risks, they need the freedom to adopt the most suitable strategies to achieve agreed results. Most funders surveyed enshrine only limited delivery prescriptions in their results-based contracts. Nonetheless, all multilateral development banks have established contractual remedies to address safeguard violations. However, there have been only very rare cases of their application.

Programme-based approaches used by MDBs are characterised by pro-active risk management. All four MDBs studied exclude high-risk activities and develop strategies to deal with the remaining risks. Activities with high environmental or social risks (Category A) are typically excluded, i.e., not eligible for financing. Since system improvements and institution building are at the core of these approaches, risk assessments serve to identify actions needed to enhance the systems during programme preparation and implementation. Identified actions are included into a programme action plan, which lists actions to develop capacity or mitigate risks identified during the due diligence assessments of technical or institutional issues, fiduciary and safeguard issues, gender and social inclusion, and monitoring and evaluation.

The study identifies several lessons learned, including the following:

- ✓ **Results-based approaches bring about a transformative shift in focus from inputs to results**. Results-based approaches have encouraged a change of perspective among many MDBs and their partners: from "*what do we want to finance*" to "*what do we want to achieve*". Rather than solely funding specific projects, these approaches prioritize setting clear targets and working backward to achieve outcome-level results. This encourages problem-solving and collaborative efforts among stakeholders to address underlying issues and achieve desired outcomes. Consequently, discussions about the theory of change underlying individual programmes have become far more comprehensive.
- ✓ **Results-based approaches foster a change in interactions between funders and implementers**. Unlike transactions-based approaches focusing on procurement and financial transactions, results-based approaches require more technical and sector-specific discussions with partners. One implication of stronger reliance on country systems and affording greater managerial discretion to development partners is that procurement processes no longer serve as "natural points of contact" between funding and executing agencies. Consequently, new mechanisms for maintaining touchpoints with implementing agencies must be found.
- ✓ **Results-based approaches lead to a better understanding and, consequently, more effective strengthening of partner systems**. Results-based approaches prompt a comprehensive examination of the operational issues in the middle, often referred to as the "black box of service delivery". This includes management practices, organisational culture, procedures, motivation, individual needs, and value. A comprehensive understanding enables systemic improvements.

Stronger partner systems have, in turn, significantly contributed to improving the preparation and implementation of subsequent projects and programmes, as well as to greater sustainability of results achieved. By working with existing government programmes and improving their rules and procedures, results-based programmes ensure sustainable progress even after project completion.

- ✓ **Results-based approaches lead to broader engagement across government entities**. Ministries of Finance tend to grasp the concept of results-based approaches quickly, appreciating the direct linkage between budget allocation and expected service delivery. This rapid understanding leads to enhanced ownership and support for the sectoral reforms. Hence, results-based initiatives stimulate the Ministry of Finance to think about sectoral reform issues more deeply, leading to broader engagement and ownership across government entities. However, since funding goes to the Ministry of Finance it can pose challenges for the other ministries to fully embrace results-based approaches. Capacity-building measures promote ownership and buy-in by sector ministries.
- ✓ **The effectiveness commonly associated with results-based financing is not primarily driven by financial rewards**. Many funders consider results-based approaches to be more effective than traditional investment project financing. According to the results-funders surveyed, the greater effectiveness relies less on financial incentives and more on greater results-orientation, as well as greater responsibility and managerial freedom afforded to development partners. It was found that the latter also foster a greater sense of ownership by development partners.
- ✓ **Many MDBs found that it takes considerable time to introduce results-based tools and approaches within their own organisations**. Apart from capacity-building, it requires strong champions to lead the change process and generate buy-in among staff. With the introduction of results-based approaches, sectoral and technical expertise becomes of much of greater importance.

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List of abbreviations

ADB	Asian Development Bank
ADF	Asian Development Fund
AFD	Agence Française de Développement
AfDB	African Development Bank
BFOR	Budget Focused on Results
BMGF	Bill and Melinda Gates Foundation
BS	Budget support
CO2	Carbon dioxide
COD	Cash on Delivery
DfID	Department for International Development
DG INTPA	Directorate-General for International Partnerships
DLI	Disbursement-Linked Indicator
DMC	Developing Member Country
DPF	Development Policy Financing
EU	European Union
EC	European Commission
FCDO	Foreign, Commonwealth & Development Office
FNLC	Financing not linked to costs
GBP	British pound sterling
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IPF	Investment Project Financing
IPF-DLI	Investment Project Finance with Disbursement Linked Indicators (IPF-DLI)
IPF-PBC	Investment Project Financing with Performance-Based Conditions
KfW	KfW Development Bank
LBR	Lon Based on Results
m	million
MDB	Multilateral Development Bank
M&E	Monitoring and Evaluation
NICFI	Norway's International Climate and Forest Initiative
Norad	Norwegian Agency for Development Cooperation
ODA	Official Development Assistance
PAP	Programme Action Plan
PBC	Performance-based Condition
PBBS	Programme-based Budget Support
PbR	Payments by Results
PDL	Performance-Driven Loan

PforR	Program-for-Results Financing
RBF	Results-Based Financing
RBL	Results-Based Loan
REDD	Reducing emissions from deforestation and forest degradation
SIB	Social Impact Bond (SIB)
SMI	Salud Mesoamérica Initiative
TA	Technical assistance
ToC	Theory of Change
UK Aid	United Kingdom Agency for International Development
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Emergency Fund
USD	United States dollar

1 Introduction into study and topic

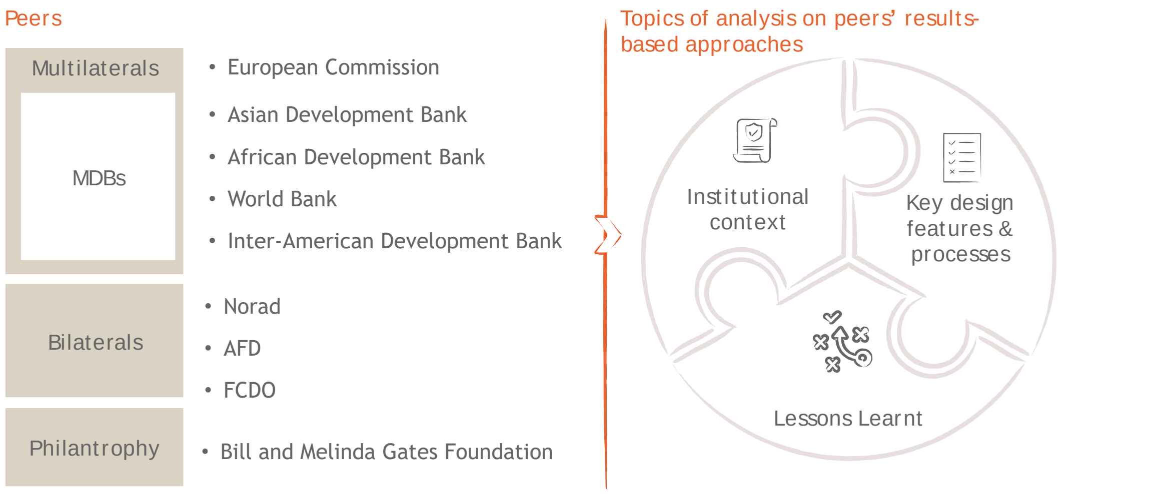
1.1 About the study

KfW Development Bank (KfW) wishes to learn from its peers to develop a formal policy for its results-based approaches. KfW increasingly employs results-based approaches and would like to strengthen the respective conceptual and regulatory basis accordingly. Globally, there is a wealth of documented knowledge and practical experiences with results-based approaches. However, much of the operational knowledge remains in the respective organisations, especially those related to donor-internal appraisal mechanisms that inform financing decisions and the design of individual results-based instruments in a specific context.

KfW has therefore commissioned joyn-coop to undertake a peer-review study that analyses the results-based-approaches of Bi- and Multilateral Development Banks and Agencies. The peer analysis provides an overview on funder-specific results-based designs, operational guidelines, appraisal mechanisms, and lessons learned (see Figure 1). It both serves as a point of reference for future results-based practice within KfW as well as for collaboration with other funders. Finally, the study aims to contribute to an exchange among interested and like-minded organisations about results-based approaches.

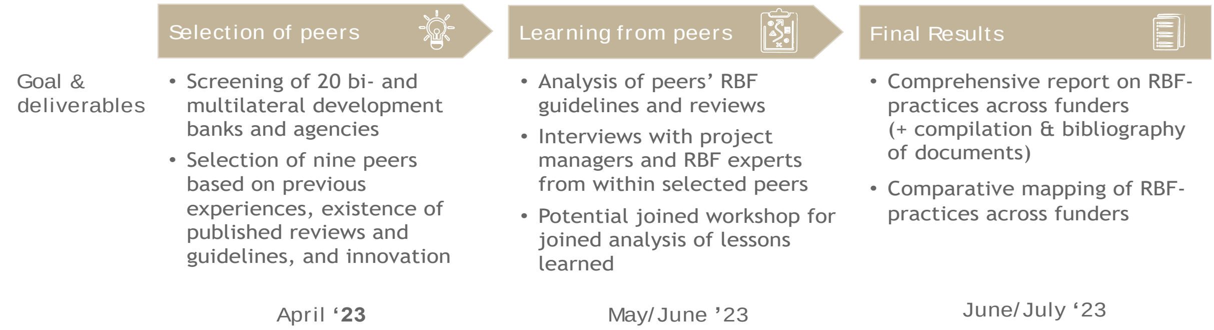
The study follows the well-known definition of results-based approaches by Instiglio and focuses on donor-to-government approaches. Results-based approaches are defined as financing arrangements where payments by the donor to the incentivized agent are contingent upon the achievement of pre-defined and verified results, rather than paying for inputs or activities (Instiglio, 2018). One way of differentiating results-based approaches is to ask which level is incentivised by the payments. The study focuses on incentives for national and sub-national governments (see Chapter 1.3).

Figure 1: Peers and topics of analysis



The study team was able to draw on various sources of information and participatory formats. joyn-coop, a strategy consultancy for sustainable development based in Munich, carried out the study between April and July 2023 (see Figure 2). Relevant information was gathered via literature research and, partly, interviews with project managers and results-based financing experts from selected peers (see list of interview partners in Annex 1 and the questionnaire in Annex 2). The study would not have been possible without extensive external support. The team would therefore like to thank all participants of interviews for their constructive contributions.

Figure 2: Overview of study steps



The structure of the report follows the study's main research topics. Chapter 2 describes the institutional context of results-based instruments for each participating peer and summarises the various applied results-based approaches. Chapter 3 compares the peers' processes for appraising and implementing results-based approaches. Chapter 4 discusses differences and commonalities based on six major results-based design features. Chapter 5 summarises lessons learned, and Chapter 6 concludes with recommendations to KfW. Further important outputs of the peer analysis are an extensive literature compilation per peer (Annex 3).

The analysis shows that diverse results-based approaches have been present in the portfolios of all peers since quite some time. This is true especially for results-based approaches vis-à-vis households (e.g. Conditional Cash Transfers) or the service providers (e.g. Performance-based contracts). However, attempts to develop results-based approaches at the level of governments are more recent. Here, differences between groups of peers become apparent. To shed some light on the reasons underlying these discrepancies, the following chapter gives a short overview of motivations and purposes why donors get involved (1.2), the overall development of results-based approaches over time (1.3) resulting in the clustering of peers into groups with similar results-based approaches in Chapter 2.

1.2 Motivation for results-based approaches

There are two perspectives on the motivations for results-based approaches. One is focused on the question why it might lead to better results in the partner countries ("partner-centric" perspective) and one on the question what advantages this might have for the development partners ("donor-centric" perspective).

Partner-centric perspective

Four different motivations can be identified that are used to argue the case for results-based approaches (Perakis and Savedoff, 2015), see Figure 3. These motivations are not mutually exclusive but rather complementary and come into play in varying degrees.

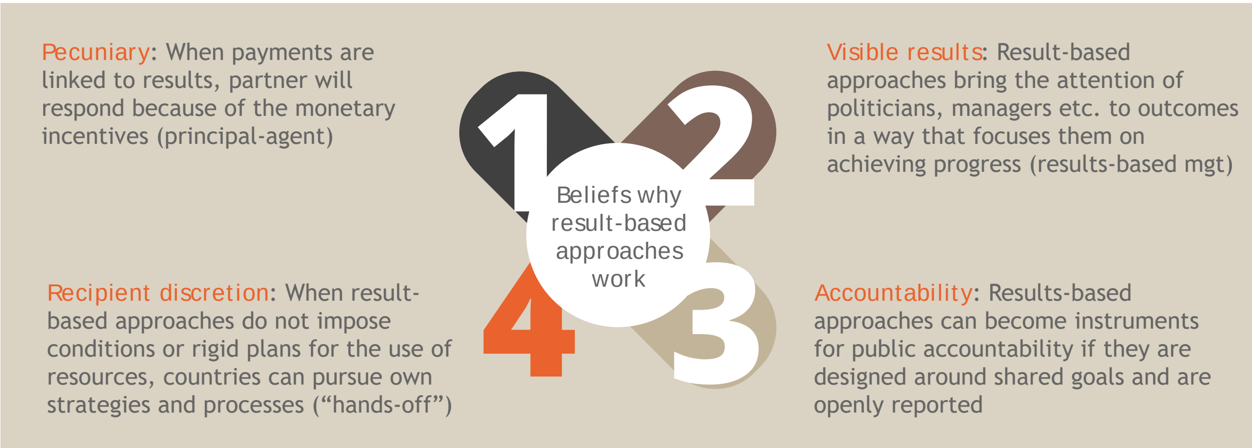
1) Pecuniary: The financial incentive is key as it is expected to make the partners move faster or shift priorities due to the need for funding. The review showed that for several peers, this element plays an important role in deciding how much to pay for which Disbursement Linked Indicator (DLI) (e.g., incentivising priority DLIs by putting a higher price tag on these).

2) Visible results: Shifting measurement from inputs to results increases focus on tangible results and results-based management. For the Bill and Melinda Gates Foundation (BMGF) this is an important aspect that is fostered with conceptual support and knowledge transfer on measuring and tracking results in several results-based programmes.

3) Accountability: Results become traceable and comparable and thereby induce change. Especially in our interviews with the Inter-American Development Bank (IDB) this aspect was often mentioned, particularly when accountability was further increased by regions or countries being able to compare their results.

4) Recipient discretion: Paying for results means in turn, acting more "hands-off" regarding the way partners achieve the results. Letting partners use their country systems, as many peers do in results-based approaches, is one example for this. Instead of having partners using the donors' processes, assistance is provided to improve the standards of the partners' systems. That way know-how is kept within the partner organisations.

Figure 3: Beliefs why results-based approaches work



Source: Perakis and Savedoff, 2015

Donor-centric perspective

Peers' involvement in results-based approaches is furthermore driven by different donor-intrinsic motivations. Based on the positive attributes associated with results-based approaches, donors promote them for several reasons. Again, these factors are not necessarily either-or but often, peers have multiple motivations.

Efficient and effective use of taxpayers' money: With the agenda to secure "value for money" e.g. the Foreign, Commonwealth & Development Office (FCDO) promotes results-based approaches to improve performance and efficiency. Likewise, shifting European Union (EU) budget aid to results-based budget support as done by the European Commission (EC) is a way of demonstrating its effective use to the taxpayers (now with visible results instead of "policies only").

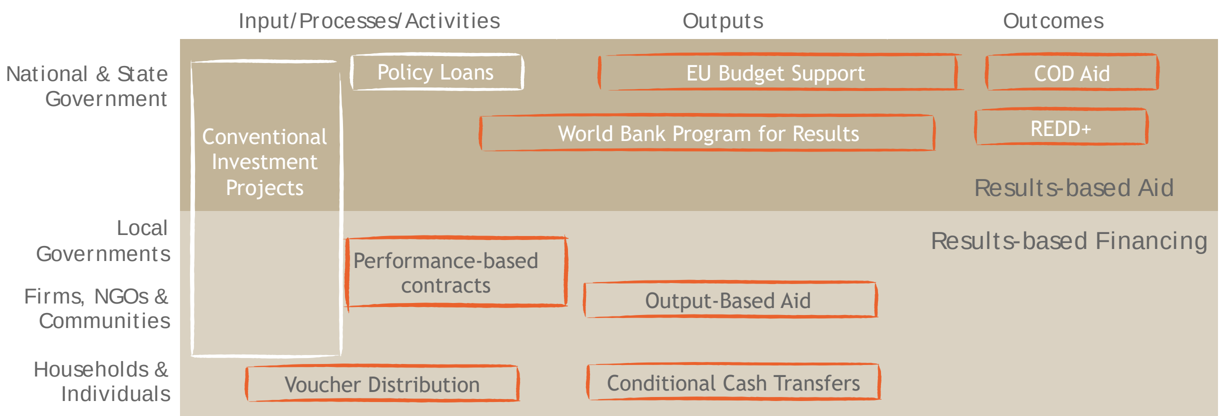
Development effectiveness: In line with the international political dialogue on aid effectiveness that has underscored the importance of results (Paris Declaration on Aid Effectiveness with "managing for development results" as one of the five main principles of effective aid), peers promote results-based approaches to achieve better and more sustainable outcomes (Janus, 2014).

Business development: Regarding recipient discretion, results-based financing instruments are a way for many peers to offer more attractive conditions to their clients (partners). E.g. the Program for Results (PforR) was driven by the World Bank's need for a standardized instrument that would better enable it to fund service delivery through national (sector) expenditure programmes. Other donors could use sector programme or sector budget support instead (Danida, 2016). Results-based instruments are therefore promoted to build an attractive business case for the donor agencies. The fact that multiple peers experienced an increasing demand for their result-based instruments shows the relevance of this motivation is indeed reflected in practical reality.

1.3 Evolution of results-based approaches over time

Initially, results-based approaches emerged as approaches within a partner country or project. Driven by innovations mostly from the health sector and by development partners such as the FCDO, the Norwegian Agency for Development Cooperation (Norad) as well as several global funds (GAVI, the vaccine alliance) and World Bank Trust Funds, e.g., Health Results Innovation Trust Fund, Energy Sector Management Assistance Program, results-based approaches developed during the 2000s in many different forms, i.e., conditional cash transfers, vouchers, performance-based contracts etc. (UK Aid, 2010). These instruments were used at all levels below the national government, i.e., at the level of local governments, service providers and individual households, teachers, pupils etc. These approaches were at that time summarised under "Results-based Financing"[1] (see Figure 4) (Norad, 2015a; Sida, 2015). To date, peers continue to finance many of those approaches which often vary per sector because work on these programmes has commonly been driven by sector groups within the organisations. Formalised policies typically do not exist, rather lessons learned, and practical tools provide general guidance.

Figure 4: Results-based approaches at two different levels



Source: Adapted illustration based on DANIDA, 2015

Results-based approaches with partner countries came into play about a decade later. They were defined as a donor-to-government aid relationships and were summarised as "Results-based Aid" (RBA). From the beginning, it was assumed that results-based approaches that target governments are likely to require different designs than subnational RBF because the nature of governments differs from other categories of recipients in terms of resources, behaviours, and dynamics (Perakis & Savedoff, 2015). Many studies in the period of 2013-2016 emphasize that at that time there was a lack

[1] Nowadays the term "Results-based Financing" is used differently, i.e., as an overarching term for results-based loans and grants - independent of the incentivized level. The authors realised that this can easily create confusion as some peers still stick to the original use of the term, e.g. World Bank and Norad.

of understanding of how RBA is conceptualised and put into practice in different settings. Also, examples to learn from were still lacking (Janus, 2014; Danida, 2016; Sida, 2015). The question was especially to what extent governments can cope with the risk of receiving funding only after results have been achieved.

In the process of lifting results-based mechanisms to the national level, some of the approaches from within countries were piloted with countries, e.g., by the FCDO with their Cash on Delivery (COD)-programmes in Rwanda and Ethiopia. The FCDO, back then DFID, paid a certain amount per graduated pupil to the government while applying a "hands-off approach" with regards to the country implemented the programme with their systems and strategies (Upper Quartile, 2014).

However, overall, there seems to have been no or very little uptake of results-based aid by bilateral donors. It seems FCDO ceased the Cash on Delivery-approaches. Except for the very successful REDD+ financing by Norad, we could not find any evidence that bilateral donors have a standardized "RBA"-instrument or practice.

Instead, bilateral donors have adopted different practices to employ results-based approaches in other formats. These non-RBA formats all include a decrease of risk and/or conceptual involvement of the donor, either via "passive" funding with a larger donor (e.g., BMGF), co-funding of multinational programmes and funds (e.g., Norad) or risk shifting to the private sector (e.g., FCDO & AFD). The underlying reasons for adopting the above-mentioned practices might be related to the lower risk capacity and physical limitations in available staff, time and employee presence and experience in the relevant regions, which bilateral donors are more prone to than multilateral development banks (MDBs) are. These, however, are conjectures by the authors and have not been formally confirmed by the agencies.

As one of these formats, some bilateral donors such as FCDO or Agence Française de Développement (AFD) got increasingly involved with Social Impact Bonds (SIB). Unlike other results-based approaches, SIBs also provide a source of capital for interventions to be implemented and offer access to upfront finance. This allows governments and service providers to shift risks to private investors (Danida, 2016).

In contrast to the dynamic with bilateral peers, four multilateral development banks introduced results-based programme-based approaches between 2012 and 2017. These were introduced in the form of a new lending instrument that promotes behavioural and institutional changes within governments. In line with the "hands off"-approach, it builds on country systems and pro-actively addresses potential institutional capacity gaps. This might be an important factor why results-based approaches become feasible even with weaker governments (about half of World Bank's PforR are implemented in International Development Association (IDA) countries).

Already starting in the early 2000s, the European Commission modified all EU budget support to "performance-based" programmes. This reform of conditionality from the implementation of policy measures to outcomes formed part of the international results-based debate. With this revision of one of its central Official Development Assistance (ODA) financing instruments, the EU demonstrated the universal applicability of "results-based" approaches also with governments.

2 Overview of approaches - institutional context among peers

This chapter gives an overview of donor-to-government results-based approaches of KfW's peers in their respective institutional context. See a summary of information in Table 1 at the end of this chapter. All peers have various results-based approaches at subnational level in their (investment) projects and programmes (categorised as Results-based Finance in the previous chapter). Regarding donor-to-government approaches, we grouped the peers in four categories. Some of the peers have instruments in more than one category.

1) Results-based budget support
2) Results-based programme-based approaches
3) Various investment-based approaches with results-based portions
4) Carbon Finance

2.1 Results-based budget support

Among the peers, there are two organisations engaged in results-based budget support – the European Commission (EC) and AFD. Certainly, one could say that a typical policy loan (e.g., the World Bank Development Policy Financing) is always results-based. This is because funds are disbursed once policy reforms have been adopted or agreed by the partner country. However, the difference to the approaches by the EC and AFD is, that in addition these organisations only accept output or outcome-level results instead of pure process-based results, such as "policy xy has been enacted". Therefore, similar mechanisms (e.g., definition of DLI, independent verification) come into play as in project- or programme-based RBF approaches (see Chapter 4).

In EU budget support, the EC has conditioned its support no longer on the implementation of policy measures, but on outcomes. The EU budget support replaces traditional ex ante conditionality with performance-based ex post conditionality. This process started with initial pilots in 1999 and already 2003, all financing proposals for budget support were results-based (Schmidt, 2006).

The EU strategy to make all EU budget support results-based must be seen in the context of discussions on EU budget aid versus project aid at the time. The EU had decided for a clear-cut increase in the use of budget support to boost ownership and effectiveness while giving less priority to project/programme-based approaches. The Commission was facing frequent criticism on providing budget support despite high risks in view of inadequate public financial management systems. Designing budget support in a way that it is linked to outcomes can be interpreted as way to respond to this criticism. Increasing the effectiveness, and efficiency of public financial management is thus not only the condition for but also the objective of budget support (Schmidt, 2006).

EU budget support can be granted through three types of contracts:

1) Sustainable Development Goals Contracts to support high-level strategic development objectives,
2) Sector Reform Performance Contracts to improve governance and service delivery in specific sectors, and
3) State and Resilience Building Contracts that are used in fragile contexts.

Choosing between the different types of contracts allows the EC to adequately respond to country needs and system readiness. As a rule, the EU budget support is direct and untargeted. The funds are disbursed in several tranches, with a distinction made between fixed and variable tranches. Disbursement of both fixed and variable tranches are subject to four general conditions (see Chapter 3.1) and the variable tranches are in addition contingent on performance indicators pertaining to the development/ sector policy supported through the operation. (Schmidt, 2006; European Commission, 2017a; interviews).

With "programme-based budget support" (PBBS), AFD has introduced a financing instrument with similar features. It is one of AFD's three budgetary financing instruments (in addition, there is budget funding for public policy and for macro-economic consolidation). The programme-based budget support serves two purposes. The first is to safeguard specific expenditures in the budget (similar to earmarking). The second is to conduct a dialogue on the capacities needed to achieve the results. Like EU budget support, the funds consist of a fixed tranche and a variable ("performance") tranche that is disbursed according to the achievement of indicators.

2.2 Results-based programme-based approach

World Bank was the first to introduce this instrument that today plays the most important role among donor-to-government results-based financing approaches. World Bank introduced its Program for Results (PforR) in 2012 as a separate lending instrument to fill a perceived gap between Investment Project Financing and Development Policy Financing (budget support). With PforR it was now possible to complement policy reforms with systems improvements and institution building. Initially, PforR was introduced with a cap of 5% of aggregate (ordinarily plus concessional) commitments. The cap was raised in 2015 to 15% of the three-year average of total IBRD and IDA commitments and was removed entirely in 2019 as a result of PforR's success (World Bank, 2019).

Another manifestation of the instrument's success is that three more Multilateral Development Banks (MDBs) introduced very similar lending instruments. ADB followed with an analogous instrument in 2013, IDB in 2016 and AfDB in 2017. In addition, the International Fund for Agricultural Development (IFAD) was considering adopting a similar instrument (IFAD, 2018). World Bank was in active exchange with these organisations to inform about and promote the PforR approaches. As a result, all results-based programme-based approaches have many similarities in their guiding policies, compare Chapter 3 and 4 (interviews).

There are four major aspects that define a PforR and that are similar for the programme-based approaches of ADB, AfDB and IDB:

1) The approach provides financing for a portion of an existing government expenditure programme to increase government accountability.

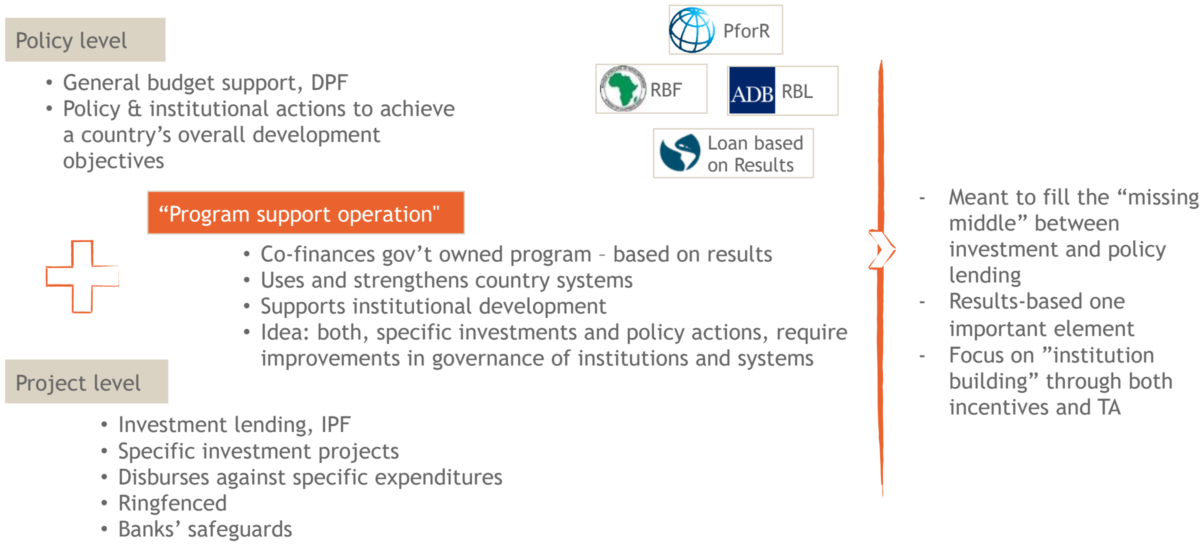
2) It uses and strengthens country systems with the idea of assisting countries in delivering priority results more efficiently.

3) It fosters partnerships and serves as a platform for coordinating external financing in a sector.

4) It disburses according to the achievement of programme results to provide incentives for delivering and sustaining results.

While PforR focuses on results more explicitly than other World Bank instruments, the results-based aspect is not the only defining feature.

Figure 5: Results-based programme-based approaches



Source: Adapted illustration based on IFAD, 2018

One of the main objectives of PforR is to promote behavioural and institutional changes within governments. PforR can focus on policy-related actions or investments or both. However, based on our interviews its perceived strength is primarily to incentivize policy operationalisation rather than physical results. PforR is focusing on the discrepancy between legal reforms and the tangible evidence of implementation, with the aim of preventing situations in which countries have laws that are only partially enforced. Accordingly, even PforRs that are heavier on physical investments (e.g., energy, water sectors) still have at least some policy, service delivery, or other institutional aspects (interview).

The Asian Development Bank (ADB) introduced Results-Based Loans (RBL), a similar results-based programme-based approach, in 2013. ADB set out "to offer a more flexible and results-focused instrument that would complement its existing modalities as well as support sector programmes and systems development". Like PforR it is an own lending instrument with dedicated policies, staff instructions and staff guidance. Like World Bank, ADB started with a six-year pilot phase. 2019, ADB decided to mainstream the RBL modality because of strong demand and the positive experience in the pilot period. Nevertheless, a ceiling of 10% of the combined total of the Ordinary Capital Resources and ADF resource allocation (on a three-year rolling average) is still in place (ADB, 2017, 2019). Like PforR, RBLs mostly do not focus on infrastructure (interview).

The African Development Bank (AfDB) introduced its Results-based Financing (RBF) instrument at the end of 2017. According to the publicly available RBF-policy, purpose and means of implementation are similar to PforR. A direct exchange with AfDB was not possible and hence we cannot provide more analysis on this instrument. Apparently, AfDB is currently reviewing its RBF-policies, as was mentioned by other MDBs.

The Inter-American Development Bank (IDB) introduced a new loan instrument based on results (LBR) in 2016. After a 6-year pilot period, LBR became a permanent instrument within the investment lending category in 2022. LBR fully fits into the description as outlined in Figure 5. As PforR it is based on country-systems, co-finances a government/sector programme and disburses against results. However, despite many similarities, IDB considers it different from PforR. Also, different from ADB (and potentially AfDB), the genesis of LBR was more strongly influenced by IDB-internal experience with other results-based instruments.

IDB's prior experience with a results-based loan instrument influenced the new LBR design. A first attempt to enact a results-based instrument was the Performance-Driven Loan (PDL), introduced in 2003. Although the PDL incorporated the main elements of LBR, it also required IDB to apply its procurement policies. This meant that the teams not only had to show proof of eligible expenses and their causal relationship to individual outputs, but also proof of the attainment of results. As a result of this double burden, the instrument was not very successful and was ultimately taken off the books in 2011, after several attempts to change failed. The new LBR was similar to the PDL but includes a waiver of the procurement policies (IDB, 2023).

LBR has two major differences to PforR. First, it is not a separate lending category but LBR forms part of the existing investment lending category. Nevertheless, there is a distinct – but not publicly available - LBR policy document as well as specific guidelines for the design and supervision of the LBR. IDB developed these guidance notes on the go while the instrument was being tested and developed. Second, and more important from the perspective of IDB is that LBR "really" disburses against results in the sense of outcomes and not against activities or outputs as PforR partially does. This is potentially due to the very positive legacy of the IDB results-based grant initiatives (see below), which showed great results with an exclusive outcome focus. Exceptions however exist for institutional capacity strengthening, were LBR can also disburse against outputs.

Results-based approaches play an important role in IDB's strategy. IDB just came out of the six-year test period for LBR. It still has a ceiling in place, allowing no more than 25% of IDB resources for investment lending operations in a given programming year to finance individual LBRs. Due to the high popularity of LBRs both within IDB and among the partner countries, IDB could easily surpass this threshold in the near future (IDB, 2023; interview).

2.3 Various investment-based approaches with results-based portions

Mechanisms from World Bank, IDB, EC, FCDO and BMGF can be placed in this category with specific results-based approaches. The results-based disbursement within an investment project is their defining aspect, even though typically only a portion of an otherwise expenditure-based project is subject to results-based disbursements.

World Bank – Investment Project Financing with Performance-Based Conditions (IPF-PBC)

World Bank introduced IPF-PBC 2020 as a form of project finance in which all or part of the disbursements are conditional on the achievement of performance-based conditions (PBCs). IPBF-PBC built on about 15 years of experience with the previous instrument Investment Project Finance with Disbursement Linked Indicators (IPF-DLI), which also informed PforR. Today, IPF-PBC make up 15-20% of the overall World Bank portfolio, almost as high as the 18-20% for PforR. The data to estimate the truly results-based portion of IPF-PBC is not available, but PBCs often make up a smaller part of the otherwise traditional investment lending project. PBC is typically used to emphasize institutional, policy or governance changes (i.e., reforms) that are associated with investment activities being financed by the project. PBCs do this by conditioning the financing for those project (investment) activities on the achievement of the targeted institutional changes. In contrast to PforR it is not based on country-systems but on World Bank guidelines (interviews).

IDB – Results-based grant initiatives across several countries

From 2010 onwards, IDB launched two regional and multi-donor results-based initiatives which have earned great reputation. The initiatives are the Salud Mesoamérica Initiative (SMI) for maternal and child health and the Regional Malaria Elimination Initiative. Both are regional Pan-American initiatives co-funded by several donors. Among them is the BMGF. These are entirely results-based programmes with backward planning from outcome-level and prioritizing those interventions that are more likely to contribute to those outcomes. However, only a small portion of funding was indeed results-based, so-called "awards", which countries received upon achievement of certain health system improvements at outcome-level. The measures of the initiatives themselves were fully funded by the participating donors as well as the countries themselves (50% own contribution). Both initiatives are famous for their results-based approach and are being reproduced in further IDB initiatives. By focusing on outcome-level results, the initiatives apparently fundamentally changed the conversation with the participating countries from what can be done with the funds to what is needed to achieve the results. Based on defined outcome and impact-level targets for the results-based funding "award", the (non-result-based) funding was used to target bottlenecks in health care systems whose resolutions would allow for the achievement of the "award". This programme design led to a systems-approach that looks at all elements of a functioning health system.

BMGF – Outcome Investing

Different from what "Outcome Investing" might suggest, BMGF is not pursuing one specific results-based approach. Nevertheless, its results-based support is mostly given in the context of investment-based approaches. It ranges from co-funding results-based initiatives such as the above mentioned two IDB-regional initiatives to serving as a technical advisor to help partners implement their projects in a more results-oriented way. For example, BMGF supports the Islamic Development Bank to mainstream results-based management in its Lives and Livelihoods Fund. However, the support is given without any results-based payments. Cross-cutting BMGF's results-based approaches is the belief in the importance and value of data. However, interview partners found it debatable to what extend financial incentives really drive performance (BMGF, 2015; interview).

Even though the concept of results-based finance has been formally developed within BMGF for at least a decade, there is no structured approach. One reason is the strictly sectioned structure within the foundation which leads to individual subject teams using approaches independently from each other. And without an overarching communication on instruments, practices, or results-based financing strategies. As a conclusion, the results-based projects that BMGF has supported or financed in the past should be considered individual results-based projects rather than examples of an overall results-based financing approach (BMGF, 2015; interview).

FCDO –Payments by results (PbR)

FCDO has been actively promoting investment-based results-based approaches throughout the last decade. For their activities, FCDO uses Payment by Results (PbR) as an umbrella term. The term designates "any programme where payments are made after the achievement of pre-agreed results, rather than up front to fund future activities." (DFID, 2014) There are no formal policies in place, but several (older) guidance notes are available that show that FCDO was considering Payment by Results as part of a cross government reform "to transform the delivery of public services". This is based on a strategy set out in the Cabinet Office's 2011 white paper (DFID, 2014; HM Government, 2011). Since interviews could not be conducted, we cannot provide a more current definition or strategy.

As mentioned in Chapter 1, FCDO (back then DFID) played a major role in spearheading donor-to-government approaches in their Cash on Delivery-Programmes. The Cash on Delivery pilot in Rwanda where FCDO paid a certain amount per graduated pupil to the government formed part of DFID's 74.98 million GBP Rwanda Education Sector Programme. Similarly, in a rural water supply programme in Tanzania completed in 2019, PbR funding was an important addition to support systems change via an annual payment of a fixed amount per functional water point. Even though the results-based components of both programmes were evaluated positively (Upper Quartile, 2014; Ecorys, 2020), there is no evidence that FCDO is still pursuing these approaches.

EU – Financing not linked to costs

Financing not linked to costs (FNLC) is the latest results-based approach pursued by the EU. Independently from the developments around EU budget support, EU was promoting results-based approaches prominently since the EU's "Budget Focused on Results" (BFOR) for the period 2014-2020 (European Commission, 2021b). BFOR promised performance improvements with a simplified delivery system. Previously, the EU had already employed two modalities (simplified cost options and global price service contracts) that offered results-based elements towards service providers. With FNLC, the EU introduced an approach that took these elements up to the level of recipients.

Within the EC's external partnerships, FNLC is still being piloted and internal guidelines are in the process of being developed. For the Directorate-General for International Partnerships (DG INTPA), the drive for the novel instrument largely comes from an interest in a changed partnership dynamic. Instead of an intermediate "grantee", DG INTPA intends to develop the relationship into a contractor relationship with shared responsibilities and risks. FNLC is currently being piloted with two UN organisations, the United Nations Development Programme (UNDP) and the United Nations International Children's Emergency Fund (UNICEF) as part of the EC's indirect implementation mode that is always implemented via pillar-assessed organisations. Only part of the overall project costs is subject to FNLC (in one case 10m EUR out of overall 30m EUR). In the future and in case of success of the current pilots, DG INTPA may contemplate to apply FNLC also within its direct implementation mode, i.e., directly towards the recipient governments, and at FNLC shares up to 100%.

2.4 Carbon finance

Reducing emissions from deforestation and forest degradation (REDD+) payments by Norad can be ascribed to the separate category of Carbon Finance. Norad, which is also co-financing results-based approaches via Trust Funds and other programmes in the health and in the energy sector, has most strongly influenced the results-based agenda by its REDD+ payments. At the 2007 United Nations Climate Change Conference in Bali, the Norwegian government launched its International Climate and Forest Initiative (NICFI) to support the REDD+ agenda and encourage action to reduce global greenhouse gas emissions. The initiative also aimed at performance-based bilateral agreements. Payments are based on a fixed price of USD 5 per ton of avoided carbon dioxide (CO2) emissions from deforestation (Perakis & Savedoff, 2015; interviews).

Nowadays, other funders are more active in the field of carbon finance as well. The underlying idea of NICFI has in the meantime been taken up by other donors, most prominently the Green Climate Fund in 2017 as the world's first source of REDD+ results-based payments for jurisdictional REDD+. These REDD+ activities have also acted as a key enabler for carbon markets (GCF, 2022).

Across sectors, results-based approaches have a reduced importance for Norad today. Even though Norad was one of the frontrunners during the early times of RBF and it is still considered a highly relevant concept, nowadays the results-based financing approaches have no strategic importance for the organisation and play a small role within the overall portfolio (interview).

In this chapter we have summarised peers' results-based approaches at donor-to-government level. A few peers have indeed distinct instruments (see Figure 6) and policies. Table 1 summarises, to the extent possible, the information on the questions envisaged in the questionnaire regarding dedicated result-based instruments and their respective institutional context within the peers' organisations.

Figure 6: Summary view on all donor-to-government approaches by peers

Donor	Approach	Description
World Bank	PforR	RBF to promote behavioral and institutional changes within governments
World Bank	IPF-PBC	Instrument that adds "Performance-based Conditions" for specific results to traditional Investment Project Finance
AfDB & ADB	RBF / ADB RBL	Same as PforR
Inter-American Development Bank	Loan based on Results	Bilateral RBF-loans with results on outcome level
Inter-American Development Bank	Results-based grant initiative	Grant-funded results-based regional initiative co-funded by other donors with RBF "awards"
Norad	RB payments for REDD+	RBF where ton of mitigated CO_2 is rewarded up to a certain amount with payments to Financial intermediaries
European Commission	Budget support	All EU budget support is 100% results-base with fixed tranches for general conditions and variable tranches based on sectoral DLIs
European Commission	Financing not linked to Cost	Applied by EC in case of direct & indirect implementation. Currently being piloted for indirect implementation (UNDP, UNICEF), with the goal of shared responsibility
AFD	Programme-based budget support	Results-based budget support where funding is earmarked to certain programmes or sector budgets
BMGF	Outcome Investing	No own "grant instrument"; BMGF rather joins RBF-initiatives and brings in knowledge on results-based management
FCDO	Payment by Results	Umbrella term for any programme where payments are made after the achievement of pre-agreed results

Source: Own illustration based on peers' guidelines (see Annex 3)

Table 1: Peer overview institutional context

Category	World Bank	ADB	AfDB	IDB	EC	BMGF	FCDO	AFD	Norad
Dedicated results-based instrument in place?	Yes - Program for Results, (PforR) & Investment Project Finance - Performance Based Conditions (IPF-PBC)	Yes - Results-Based Loan (RBL)	Yes - Results-based Finance (RBF)	Yes - Loan Based on Results (LBR); not dedicated: Results-based Grant Initiatives (RBGI)	Yes - Budget Support (BS) & Financing Not Linked to Cost (FNLC)	No – Outcome Investing rather an approach	No - Payment by results only an umbrella term	No – but Programme-based Budget Support (PBBS) can be used to co-finance PforR	Yes - REDD+ payments
When introduced?	PforR: 2012 IPF-PBC: 2020 (after 15 years of IPF-DLI)	2013	2017	LBR: 2017 RBGI: 2012	BS: ‘99-03 FNLC: ODA pilots from 2020	Before 2012	2004	2020 (?)	2000
Financial scope in portfolio?	PforR: 18-20% IPF-PBC: 15-20%	RBL: 6-8%	RBF: ?	LBR: 5%; RBGI: 2 initiatives & 2 under preparation	BS: 17%	n/a	?	2022: 6 out of 30 budget support operations	28% of NICFI portfolio
Ceiling in place?	PforR: abolished 2019 IPF-PBC: no	RBL: 10% of combined resources	Yes	LBR: 25% of investment lending; RBGI: no	No	No	No	No	No
Policy/ guidelines exist?	PforR & IPF-PBC: Yes	Yes	Yes	No, but internal guidelines	BS: Yes FNLC: No	No	Yes, but rather vague guidelines	No	No
Sectoral focus	PforR – top 3: Health, Education, Governance; IPF-PBC ?	RBL – top 3: Energy, Education, Health	?	LBR - top 3: Governance, Economic dev., Health RBGI: Health	BS: about 50% is general BS, top 3 sectors: Governance, Health, Multisectoral FNLC: pilots yes	Health	Health, Education, WASH	?	Climate/deforestation (with co-financing also health & energy)
Geographical focus	PforR: 43% Asia, 36% SS Africa, 5% Latin America; 64% lower middle income;	40% South Asia; 20% South East Asia, 20% East Asia 89% lower middle-income countries	?	LBR: upper middle income (65%) and high-income countries (33%) in Latin America	50% in Subsahara Africa, otherwise no regional focus 30% low-income countries 41% lower middle-income countries	Unclear	No	No	No

	19% low-income countries IPF-PBC: ? Basis for percentages: Commitments	10% upper middle-income countries Basis for percentages: ADB Financing		RBGI: Central America Basis for percentages: Approved Amount	20% upper middle-income countries Basis for percentages: Disbursements				
Type of funding	PforR: Loans IPF-PBC: Loans	Loans	Grants & Loans	LBR: Loans RBGI: Grants	Grants	Grants	Grants Loans (?)	Grants & Loans	Grants
Typical duration in years	PforR: 4-5; IPF-PBC: ?	5	3-4 (in two examples)	LBR: 3-4 RBGI: 4.5-6	1-4	n/a	3-12	?	Often long-term

Source: Peers' guidelines (see Annex 3), mapping of peers (see Annex 4) and interviews

3 Typical measures along the project cycle

This chapter explores the experiences of peers in preparing and implementing results-based approaches. At the core of this lies the interest in comprehending whether supplementary actions are required for preparing and implementing results-based approaches – compared to “conventional” approaches. This is particularly crucial as results-based approaches most often demand increased responsibility on the partner side, for which partner capacities may not always be adequate. While Table 2 at the end of this chapter summarises the information on project-cycle related questions, in the following, we structure our findings according to the following aspects and highlight selected peer practices:

1) Do peers have different appraisal procedures for their results-based approaches? And what prerequisites need to be in place?
2) What are their requirements regarding risk management? How is higher risk dealt with?
3) What capacity-building measures do peers consider during implementation?

3.1 Appraisal procedures

A notable difference in the appraisal procedure, compared to investment-based projects, is evident only in the results-based programme-based approaches. Since these approaches co-finance government programmes and are based on using country systems, there are additional appraisal steps related to these aspects. ADB for example conducts a series of assessments (similar for World Bank, IDB and AfDB):

1) Technical assessment: a) programme soundness assessment; b) expenditure and financing assessment including the RBL programme’s expenditure framework; c) results framework of the RBL programme and selection of the DLIs;
2) Systems assessment: a) Monitoring and Evaluation (M&E) system assessment; b) fiduciary assessment including procurement, financial management, and fraud and corruption, c) environmental and social assessment; d) assessments of any other institutions and systems relevant and appropriate to the RBL programme (ADB, 2017);
3) Integrated risk assessment.

The analysis unveils varying perceptions about PforR preparation timelines. According to interview partners, preparations can take up to 1.5 years and typically take the form of a series of consultation missions, culminating in a fact-finding mission. Some mentioned that preparations are relatively time-intensive. One interview partner expressed the ambition: “We are trying to improve the entire (country) programme.” Consequently, a more in-depth analysis of the situation ensues. Normal project financing typically requires analysing the conditions around the ringfenced investment. However, for results-based programme-based approaches the country programme and the country-systems need to be analysed to define which aspects need improvement. The World Bank's operational data shows that while preparing the first PforR in a country is commonly more time and effort intensive, subsequent PforRs in the same country are on average quicker to prepare than IPF, and only slightly longer than Development Policy Operations.

The appraisal also leads to a different way of working with the various teams within the MDB. In the past, the various technical experts such as E&S, procurement experts, financial management would give targeted input, if the MDB's own guidelines are sufficiently adhered to. Today, with the results-based programme-based approaches, joint teams are formed and jointly enter the discussions with the government partner regarding their country systems.

Noteworthy is the case of AFD, that has entered a formal partnership with World Bank for co-financing PforR. AFD can co-finance PforR via its programme-based budget support. To facilitate this, it has established an agreement with the World Bank, wherein it pays a certain (undisclosed) percentage and can fully depend on the World Bank's appraisal and reporting processes. Consequently, AFD can refer to World Bank appraisal results to some extent when seeking approval from its own board for co-financing a PforR. However, AFD must still undergo internal appraisal steps for procurement and compliance purposes.

Related to the appraisal process is also the question of whether certain prerequisites must be met before a partner can enter into a results-based agreement. Formally, none of the peers have such prerequisites in place – other than of course a positive appraisal outcome. Only those partners/programmes can be subject of results-based approaches that have been appraised positively and where measures were identified to address potential weaknesses (see also next chapter). Moreover, there is also the question, to what extent a results-based approach is possible with new partners. De facto, when partners are new, MDBs prefer to start with investment lending prior to applying a results-based approach, even though that is not a formal policy. By IDB it was being stressed that it could also be of interest to the partner to start with conventional investment lending with regular no objections-procedures and close monitoring. "If it's so new, agencies feel a lot more comfortable with the IDB reviewing every procurement and saying yes, this is eligible. Rather than having the audit at the end with the result that it is not eligible as we didn't follow the right rules" (interview).

Also, for EU budget support, there is no strict prerequisite in place. Budget support appraisal includes the assessment of eligibility against general conditions, i.e., (1) relevant national or sector development policy, (2) stability-oriented macroeconomic policy, (3) credible public financial management reform programme, and (4) budget oversight and publicly available budget information. However, even though when those are not fulfilled, budget support can still be offered with appropriate capacity building measures and risk management frameworks. Therefore, the EC does not demand a flawless system of public financial management. Instead of serving as an exclusion criterion, weaknesses in public financial management are seen as a challenge to be addressed in connection with the budget support.

3.2 Risk management

Regarding risk management, peers can be roughly clustered into three groups.

1) "Reducing the risk",
2) "Not really a risk",
3) "Taking the risk".

Figure 7 shows how peers fit loosely into these four groups. At the core stands the question of how compliance with high standards can be ensured despite potential weaknesses on the partner side.

Figure 7: Peers clustered in risk management strategies

Source: Own illustration based on peers' guidelines (see Annex 3) and interviews

"Reducing the risk" seem to be true for all results-based programme-based approaches. All four MDBs exclude high-risk activities and develop strategies to deal with the remaining risks.

- **Exclude high risks activities:** All four MDBs exclude activities that are judged to have significant adverse impacts on the environment as well as high-volume contracts (see box in Figure 8). "We are picking certain sets of activities that do not have a high level of risk both in procurement and environmental and social" (interview World Bank).

Figure 8: Elements in results-based programme-based approaches to prevent violation of safeguards

Exclusions	Assessments & PAP	Follow-ups & TA
• No category A projects (environment) • No large volume contract ADB-thresholds • \$50m for works • \$30m for goods • \$20m for IT-systems & non-consulting services • \$15m for consulting services	• Technical assessment AND Systems assessment (E&S, fiduciary, corruption) + Integrated risk assessment • Essential risk mitigation measures and capacity development measures are included as actions in a Program Action Plan (PAP) that is integral part • PAPs list actions (30-40) typically in technical or institutional issues, fiduciary and safeguard issues, gender and social inclusion, and M&E	• Systems assessments revisited every 6 months • Dedicated TA activities - focused on capacity development, but also support to program implementation and achievement of results

Source: Own illustration based ADB and World Bank policies and staff guidance notes (see Annex 3)

- **Strategies to deal with remaining risks:** Since system improvements and institution building are at the core of these approaches, risk assessments rather serve to identify actions needed to enhance the systems during programme preparation and implementation. Identified necessary actions are then included into a Programme Action Plan (PAP). PAPs list actions to develop capacity or mitigate risks identified by the due diligence assessments of technical or institutional issues, fiduciary and safeguard issues, gender and social inclusion, and M&E. The idea of turning potential weaknesses (risks) into a closer follow-up was commented on by an IDB interview partner as follows: "It cannot mean that only top-level countries can have access. No, but I think then you have to have closer review processes in place. Probably you wouldn't go for annual disbursements, but biannual ones. You can have a clause that you're going to have reviews twice or three times a year just to not lose touch with the execution so much." Accordingly, MDBs closely follow-up on the systems-assessments during their regular supervision missions. Figure 8 summarises how MDBs ensure that safeguards are not violated by this strategy.

Also, the EU with FNLC and Norad fall into the category "reducing the risk". The EU pilots FNLC in its indirect implementation mode and therefore currently implements FNLC only with pillar-assessed organisations. This means that the organisation had already been subject to a comprehensive risk assessment even before the decision for a results-based approach was made. Norad on the other hand applies a three-phase approach to first build the readiness before results-based payments are disbursed. The approach starts with unconditional aid to build capacity, followed by conditional aid for policy reforms and the implementation of operational plans and programmes, including the construction of robust systems for measurement, reporting and verification. Only in the third phase, payments for emissions reductions are disbursed. This way, Norad can build readiness in weak partners within the first two phases or skip directly to the last phase with stronger partners (Norad, 2015b; interview).

In the category "Not really a risk" we would see approaches where results-based activities are only a portion or top-up. For example, in the IDB results-based grant initiatives across several countries, measures are actually fully financed based on progress and with the normal "handholding" by IDB (e.g., non-objection along procurement processes and environment and social risks being subject to Bank internal guidelines). Risks are more likely to be observed at the level of partner countries, as they may not receive the full awards if they fail to achieve the agreed-upon results. Similarly, in IPF-PBC, World Bank procurement, financial management and environmental and social requirements apply. And similar to investment lending, the Borrower under IPF-PBC has a financial management system in place capable of ensuring that funds are used for their intended purposes (World Bank guidelines).

„Taking the risk" is a strategy that we primarily associate with EU budget support. Even though the EC has its own risk management framework it takes the liberty of making an informed decision ("at the end of the day, we want to take that risk because we think the risk is worth taking"). It also does not expect a certain minimum standard but is rather looking at the progress in terms of positive or negative trends. The risk assessment […] itself identifies five risk categories: political, developmental, macroeconomic, public financial management and corruption/fraud risks. Where possible, the EC makes use of existing analysis such as analysis by the International Monetary Fund. In contrast to the MDBs' practice, the budget support guidelines do not foresee mandatory E&S assessments beyond the five mentioned risk categories or any minimal E&S standards (European Commission, 2017a; interview). In practice, however, E&S risk assessment "screenings" seem to be conducted to evaluate if and where E&S risk assessments are necessary (European Commission, 2021b, 2017b). The screening results can then lead to the inclusion of mandatory E&S risk assessments for specific areas into the financing agreement (European Commission, 2021b).

3.3 Capacity building

For all peers, capacity building is a crucial element to enable results-based approaches. All analysed approaches incorporate capacity building to varying degrees.

Capacity building plays a very important part in the IDB results-based grant initiatives. The initiatives "employ a problem-driven iterative adaptation with rapid learning cycles" (IDB, 2021). More than 10% of programme funds can be used for Technical Assistance (TA). And it turns out that the approach worked best when individual local consultants were hired for specific thematic areas and worked closely with the Ministries of Health. This however also required significant management by IDB for which additional funds were made available (interviews).

Capacity building is also a standard element of the results-based programme-based approaches. PforR operations focus on the behavioural and institutional changes that are required to realize this targeted improvement. This in turn achieves results and manages associated risks. Hence it is expected that many organisations will require some level of capacity-building activities (World Bank, 2016). An important role plays the above-mentioned Programme Action Plans. These define the appropriate scope, measures, and intensity of capacity development and implementation support. The early assessment of the ADB's RBL pilot phase had the following findings: PAPs had an average of 33 actions each. 45% consisted of measures to strengthen capacity or mitigate fiduciary and anticorruption risks. 29% consisted of technical and institutional actions to support programme implementation. 14% of actions were dedicated to gender and social inclusion (ADB, 2017).

MDBs resort to different strategies for financial resources to finance capacity building. ADB and IDB have separate grant-based funding sources that can be processed at the same time as the loan. World Bank sometimes resorts to a solution where a PforR is combined with a smaller IPF component out of which programme management and technical assistance is provided. However, the IPF component cannot be more than 10-20% of the total funding. In practice, this PforR-IPF mix allowed projects to succeed that had previously failed as a pure PforR. However, combining the advantages of both instruments also comes with an increased workload in the appraisal as World Bank policies apply to the IPF-component (interview).

Table 2: Peer overview project cycle

Category	World Bank	ADB	AfDB	IDB	EC	BMGF	FCDO	AFD	Norad
Any prerequisites to be in place?	Not formally, but preferred to know clients from investment lending	Not formally, but risks & previous experience with partner considered	Government ownership, programme's relevance and systems readiness	LBR: High institutional capacity; Office of Institutional Integrity does risk analysis & can advise against LBR RBGI: Regular process for investment loans	BS: 4 eligibility criteria, but can be achieved via TA; central bank FNLC: Can be applied to any grant in direct, shared and indirect management modes. No eligibility criteria required by EU Financial Regulation	n/a	Not formally, in practice many considerations (risk taking ability, …)	No (handled by World Bank)	REDD+: national development bank or fund to reinvest REDD+ payments
Typical duration of preparation	1-1.5 years	Shorter than preparing investment loan	?	LBR: 0.5- 1.5 year RBGI: 9 months	BS: Depending on type, from 2 months for an urgent operation in a country already receiving budget support (with fast-track procedures) up to 2 years, in a country new to budget support, where meeting eligibility criteria takes time and these are subject to several factors, sometimes exogenous. FNLC: 1 year	n/a	?	Handled by World Bank (in case of PforR)	?

Which appraisal procedures?	Technical assessment, systems assessment and risk assessment	Technical assessment, systems assessment and risk assessment	Assessments of programme and its systems including technical, fiduciary and E&S	LBR: investment loan appraisal & systems, programme, ToC RBGI: no default procedure	BS: Assessment of public policies, macro-economy, PFM, oversight of budget FNCL: No specific appraisal. The partner is responsible for accurate reporting on and providing proof for results achieved	n/a	Normal appraisal procedures	In case of PforR relies on World Bank appraisal; plus procurement and compliance by AF)	Appraisal of country's financial institutions with respect to fiduciary, financial and E&S standards
At what stage are risk assessments carried out?	During project preparation	During fact-finding (=project preparation)	During project preparation	During project preparation	BS: Identification stage FNLC: Design stage	n/a	In early programme stage; updates within annual reviews	Handled by World Bank (in case of PforR)	Appraisal phase
How are identified risks addressed during implementation?	Actions identified in PAP, updates of risk assessments & of PAP every 6 months	Actions identified in PAP and regular updates of risk assessments & of PAP	PAP	LBR: Action Plan & annual supervision plans review risk to inform mitigation measures; RBGI: TA	BS: Risk mgt. framework (RMF), policy dialogue, TA; FNLC: Depends on type of risk, sector and country.	n/a	Capacity building measures for risk management	Handled by World Bank (in case of PforR)	General: Safe-guard clauses in financing agreement
What kind of TA?	Capacity building to address needs as defined in PAP	Capacity development & support to programme implementation	Capacity Building to strengthen gaps in systems (e.g., E&S, procurement)	LBR: Training as specified in Action Plan RBGI: tailored to requests of the country	BS: Based on needs, can be derived from Risk Mgt. Framework; FNLC: not required	Setting up M&E data collection systems, results-based mgt. routines	Capacity building for risk mitigation measures	Dedicated TA to support achievement of DLIs, or pure co-financing PforR	Building REDD+ readiness, incl. systems for measurement, reporting and verification
How close is implementation monitored?	Supervision mission every six months	Supervision mission every six months	Periodic supervision missions, fiduciary reviews, dialogue with Gov't	LBR: Continuous monitoring RBGI: Close monitoring	BS: Constant monitoring by implementing partners and EC; FNLC: distant as	n/a	Monitoring systems & regular reviews very important	Handled by World Bank (in case of PforR)	Relies on national monitoring systems; supervision in financial institutions

	UNs implement

Source: Peers' guidelines (see Annex 3) and interviews

4 Typical design features in comparison

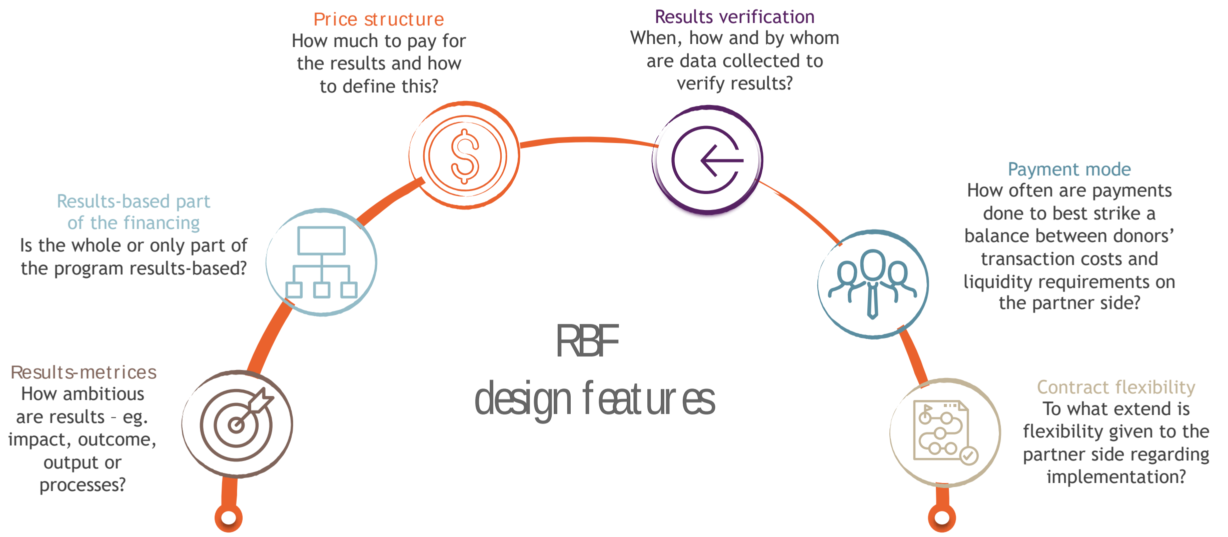
This chapter categorises the approaches of KfW's peers based on typical design features. For results-based financing instruments design possibilities primarily revolve around the six aspects as depicted in Figure 9. Accordingly, our roughly 20 analysis questions were organised around these six aspects. We have summarised the related findings in three parts:

1) Design features centred around how results are being defined, costed and verified (see Table 3)

2) Design features centred around payments (see Table 4)

3) Design features centred around contracts (see Table 5)

Figure 9: Six design features



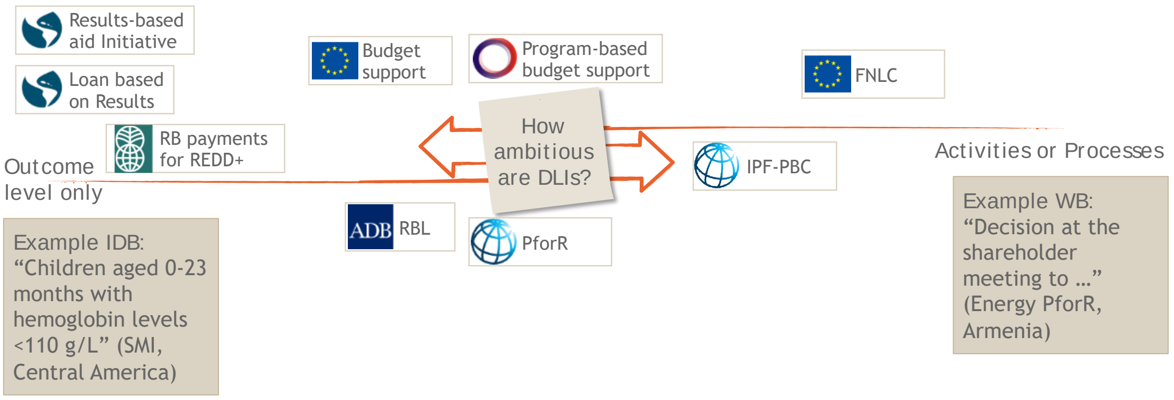
Source: Own illustration based on KfW, 2023

4.1 Results

Ambition level

While all peers stated that it is desirable to formulate DLIs at outcome level, only IDB and Norad fully commit to it. In its REDD+ payments Norad has only one DLI ('reduced number of tons of CO2 emissions'). IDB, too, only allows outcome-level indicators, except for capacity building measures, and typically limits these to five. The IDB board is quite strictly looking into the quality of indicators. An interview partner from IDB mentioned that she had to revise an indicator that was perceived as to be only "output plus". It also seems that due to the clear outcome orientation, IDB and its partner countries have profound Theory of Change (ToC) discussions. By contrast, in IDB's investment-based lending ToCs are rather formal requirements. Interestingly, despite their outcome DLIs the IDB LBRs are at the same time disbursing comparatively fast, i.e., in 3-4 years compared to 5-6 years for investment-based loans (interviews).

Figure 10: Ambition level of results metrics



Source: Illustration based on peers' guidelines and interviews

At the other end of the spectrum is the EU with Financing Not Linked to Costs. FNLC in its pilot phase is focusing on outputs even though outcome-level might come into play in the future. For the pilot, the EC, in collaboration with UNICEF and UNDP, chose results at the output-level, as only those DLI are considered to be within the control of the implementing partners (interview).

All other peers are using a mix of result metrics, typically ranging from activity/processes to outputs and outcomes. The negotiation process of selecting and evaluating DLIs (see below) was referred to by several interview partners as "an art not a science". It is possible that those actions, processes, outputs etc. are selected whose lack of achievement would put the implementation at risk. "If there is no financing attached, very often these conditions that we may have in our documents then somewhat become paper tigers when it comes to implementation" (interview).

- **ADB**: According to its RBL manual "DLIs include outcomes, outputs, processes, institutional indicators, or financing indicators that are key actions to address specific risks or constraints to achieving development results. They may also be actions or process results that are essential for strengthening RBL programme performance, such as actions to improve fiduciary risk management, social and environmental systems, and M&E" (ADB, 2021). ADB nowadays tries to include at least two outcome indicators even though this is not a strict policy.
- **World Bank**: Similarly for World Bank, there is no clear guidance regarding which of the indicators from the results framework and the PAP should become DLIs. Experience shows that around 90-95% of the DLIs targets come directly from the results framework. About 5-10 % of DLIs stem from the programme action plan when a specific aspect, such as fiduciary system strengthening, holds significant importance in attaining the broader development objective, warranting its inclusion as DLI. Among the DLIs from the results framework, there are usually three or four indicators to directly monitor if objectives of the project are being achieved. Then there are DLIs that measure more the intermediate steps towards those objectives. And teams are encouraged to have at least one DLI at outcome level (interview).

Pricing the DLIs

Regarding the funding that is allocated to the individual DLIs, most of the peers follow a similar logic. Mostly, pricing of a DLI is not based on the true cost associated with achieving that specific DLI ("We are disconnecting it from the cost", interview World Bank). Instead, funding per DLI is typically proportional to the DLI's contribution to the overall programme objective or its incentive need compared to other "lower hanging fruits". Under IPF-PBC the congruence is closer to the cost, i.e., each PBC is backed by expenditures from an activity required to achieve it or a closely related activity

(World Bank, 2020b). Nevertheless, there does not have to be a one-to-one relationship between real cost and PBC pricing, and one of the specific flexibilities of PBCs is that it can associate a larger amount of project expenditures to increase the incentive to achieve the targeted outcome, e.g., by tying a significant amount of investment expenditures to the achievement of a regulatory reform that will improve the sustainability of impact of those investments (interview). In EU budget support, the EC additionally brings in the aspect of associated risk. A DLI that is relevant, challenging, and likely achievable will have larger amounts of money associated to it than those that are relevant but risky (interview).

A somewhat different approach is pursued only by EC's FNLC and IDB's LBR. In FNLC-pilots the pricing of the DLIs was based on the implementing partners' previous experience with how much it had cost them in the past to achieve these results. The IDB, too, bases its LBR DLI pricing on the estimated cost of achieving the corresponding DLI. The cost estimates are then also presented as part of the loan proposal package.

Verification

The prevailing trend among peers is to conduct independent verification of results before initiating payments. However, achieving true independence is not always straight-forward, and in some instances, it has been a learning experience.

- **The 2017 evaluation of the ADB pilot phase showed that initially independency wasn't always adhered to.** Often, TA consultants were simultaneously engaged in building client capacity and in verification. Also, ADB relied on having results validated by the implementing agencies themselves. Both procedures created conflicts of interest and were consequently corrected (ADB, 2017; interview). Now, verification is to be undertaken by a government or by a third-party verification agent that is independent of the implementing agency. A similar rule is used in IDB's LBR.
- **World Bank has similar rules but also makes exemptions in terms of verification for IPF-PBC.** World Bank states that verification mechanisms are usually independent of the implementing agency and may use private sector or nongovernmental entities as well as government bodies. However, when PBC targets are ready to be examined (e.g., content of laws, strategy documents), verification by the implementing agency may be acceptable, subject to the usual validation by the World Bank of all verified results presented by the Borrower (World Bank guidelines).
- **Regarding EU budget support**, results for variable tranche indicators are derived from the overall policy review process. However, the results are subject to the Delegation's evaluation of the information's accuracy. Consequently, the EC's decision can lead to changes in the disbursement amount based on the review's findings.

When it comes to verification methods, most peers opt for straightforward observational approaches. However, we also came across more innovative observational methods, such as the following:

- Regarding the IDB grant-based initiatives, verification was based on household surveys, medical record reviews and provider surveys. Additionally, the results achievement was even compared to "no-SMI" control groups to be able to quantitively prove improvements compared to business-as-usual scenarios (IDB, 2021).
- FCDO experimented with decentralized results verification, e.g., via tracking tools where beneficiaries had a role in rating the ministries via a scorecard on the web portal. The rating then determined the levels of payment to those ministries (DFID, 2014).

Table 3: Peer overview design features — results

Category	World Bank	ADB	AfDB	IDB	EC	BMGF	FCDO	AFD	Norad
Which results targeted: goods, infrastructure, reforms?	PforR & IPF-PBC: all possible but in practice rather reforms	Initially rather infrastructure but now tendency to policy	Infrastructure (& reforms?)	LBR: mostly not infrastructure RBGI: health systems & health services, no policies	BS: Policies and investments FNLC: No policies	Quantifiable data, so no policies or reforms	Rather investments, little/no policies or reforms	Infrastructure & reforms (depending on PforR)	Reduced CO2 emission in REDD+
Results typically at which level?	PforR & IPF-PBC: All levels, but often output	All, but at least 2 outcomes	Output and at least 50% at outcome level	LBR & RBGI: Only outcome, except for inst. capacity	Output to outcome	n/a	Process to impact, often output & outcome	?	REDD+: Outcome
How many DLIs?	PforR: 10-12 IPF-PBC: 3-5	10-12	5-8 (in two examples)	LBR: 4-5 RBGI: 8-11	BS: 3-10 FNLC: 3-6 (in the initial pilots)	n/a	5	10-12 (as PforR)	1 (REDD+)
Portion of funding tied to results?	PforR: 100% IPF-PBC: 0-100%	100%	100%	LBR: 100% RBGI: 25% of programme costs	BS: 100% FNLC: 1/3 (in the 2 pilots)	n/a	-100%	100% (as in PforR)	100%
How 'price tag' of DLI decided?	PforR: depending on incentive need and importance for overall objective; IPF-PBC: closer to associated cost of DLI	Depending on incentive need and importance for overall objective	?	LBR: estimated cost of achieving the corresponding target RBGI: 50% of own contribution	BS: no rule, considerations on relevance, difficulty, risk FNLC: based on associated cost	n/a	Costs & incentive need & more (general pricing procedure)	Depending on incentive need and importance for overall objective (as in PforR)	REDD+: value of avoided ton CO2 with a higher reward for countries fulfilling specific standards
How results verified?	Independently (consultants, NGO, non-implementing gov't institution); IPB-PBC: not necessarily independent	Mostly independently (consultants, NGO, non-implementing gov't institution)	Independent verification though independent government agencies, third-party entities	LBR: independent verification within the government or by an external entity RBGI: external verification	BS: usually country-internal; sometimes independent FNLC: usually independent verification	n/a	Often independent verification	Handled by World Bank (in case of PforR)	REDD+: Satellite measurements

Source: Peers' guidelines (see Annex 3) and interviews

4.2 Payments

Prefinancing

Prefinancing is the norm rather than the exception among peers. All peers either have regulations that allow for prefinancing, or the results-based approach is designed in a way that prefinancing is not necessary.

The four MDBs have very similar prefinancing arrangements. There are primarily two approaches.

1) Advance financing which can be up to 25% (only IDB: 20%) of the total amount.
2) Prior results can be financed with up to 25% (WB, AfDB), 20% (ADB), 15% (IDB) of total disbursements. Prior results are the DLIs met by the Borrower between the date of the concept review and the date of the legal agreement for the financing (World Bank, 2020a), for IDB between the approval of the Project Profile and loan eligibility, i.e., when prior conditions in the contract have been met. Sometimes these are very transaction oriented DLIs e.g., “Bidding documents for consultancy firm completed”, “Feasibility study completed” (ADB example).
3) The combined amount of financing referred to above may not exceed 30% of the Loan amount.

We have found that the MDBs frequently make use of the prefinancing option. According to the World Bank, a significant number of its clients encounter fiscal and liquidity constraints, leading to a need for financing. Based on an educated guess, approximately 50% of PforR programmes utilize the advance payment option, with the range possibly extending from 50% to 60%. Consequently, prefinancing is a common practice but not universally applicable in every case. Once disbursed prefinancing has been equated by the appropriately achieved DLIs, another tranche of prefinancing can be given out to allow for continuous liquidity with a rolling advance around 30% (interview).

The EC employs two distinct strategies to address the issue. In the EU budget support, both fixed and variable tranches are disbursed ex-post and upon evidenced results. There is thus no classical form of prefinancing available, though the deliberately predictable design of the fixed tranche does offer some planning security to the partner country and the EC. If progress is evidenced overall and assessed as satisfactory holistically, the fixed tranche can be paid. Avoiding major slippage in policy/reform implementation gives comfort to the country that it will receive the fixed tranche (and the amount won’t vary). In the current FNLC pilots, on the other hand, the EC provides full prefinancing of results, covering 100% of the amount estimated to be achieved in the respective year.

Expenditure tracking & paying a ‘premium’

The expenditure framework serves as the primary tool for results-based programme-based approaches, enabling expenditure tracking. “The expenditure framework defines the cost of the results-based programme and serves as the basis for the financial audit.” (IDB, 2023) During preparation of the loan, it is being assessed “whether expenditure levels devoted to the Programme are adequate for the achievement of intended results” (World Bank, 2012). And ADB mentioned in this regard: “We still have the expenditure framework, we still need to know how much the whole programme will cost. But within that programme, we have allocations that can incentivize reforms disconnected from their individual cost”.

Expenditure tracking and payment for results function as a dual system within the results-based programme-based approaches. MDBs operate in two ways: 1) Once DLIs have been met, they provide a check to the treasury without specifying its use. 2) The MDBs require partners to document the incurred expenditures for the defined programme (PforR, RBL, LBR, etc.). Partners must demonstrate that they have spent the planned amount, e.g., USD 300 million, on agreed activities, regardless of whether the amount is funded by the MDB or from their own resources. While the MDBs do not track the dollars to specific expenditures, they do expect partners to fulfil their financial commitments to achieve the programme outcomes. This two-pronged approach ensures transparency and accountability while enabling flexibility in the use of funds. Furthermore, expenditure tracking is much broader than within investment financing since the dissociation of DLI pricing from costs is maintained during the expenditure tracking. The total sum of expenditures for the programme must be at least as high as the total disbursement but allocation to individual DLIs is not necessary, i.e., achieving a USD 10 million DLI could have really only cost USD 1 million, and vice versa (interview).

In all results-based programme-based approaches and IPF-PBC, premiums are explicitly not possible. A premium is an otherwise common incentive for results-based approaches to allow partners to achieve results with lower actual expenditure than the payment they receive. Within the results-based programme-based approaches this is not possible. This is because the total payment for the programme cannot exceed its costs (note that this refers to the programme costs associated with the MDB programme share, e.g., the costs for the PforR-programme within the overall government programme), (World Bank, 2022b). This is a formal constraint applied by the MDBs to avoid financing unrealized outputs (interview IDB). Both PforR and IPF-PBC follow the principle that the World Bank does not provide financing beyond the expenditure required to achieve the full set of supported results. Hence, a country would need to repay the amount by which the expenditures remained below the total donor disbursements. Based on our interviews, repayment occurs very rarely, mainly linked to currency rate fluctuations. In most cases, DLIs would be adjusted ex-post to accommodate additional costs and align with expenditures.

Paying a premium is technically feasible for both EC results-based approaches; however, it does not seem to be actively pursued as a deliberate strategy. The European Commission does not mandate expenditure tracking in budget support or FNLC, which means that partners may be able to obtain these premiums. "What they [the partners] do is, ex ante, we check the results, and we pay ex-post. So, there is no point tracking the money" (interview). However, it is worth noting that this approach of allowing profit was briefly mentioned but not explicitly described as a strategy in the relevant guidelines or in the interviews conducted with EC representatives.

Additionality

In results-based programme-based approaches, the underlying government programme also plays a crucial role. The MDB's programme expenditure (e.g., PforR) typically covers only a portion of the government programme, usually ranging from 20% to 40% for the World Bank. This approach ensures government ownership and financial contribution. Striking a balance, World Bank aims for meaningful influence by enhancing results without fully financing the programme (interview).

The level of additionality in results-based programmes varies by underlying government programme, depending on specific situations and circumstances. For instance, the World Bank may step in and provide financial incentives when it can enhance results beyond what the government can achieve independently. Despite money being fungible and allowing governments to allocate freed-up funds to other areas without necessarily increasing spending on the programme, the World Bank's intervention often creates additional value, such as improved country systems, justifying the lack of immediate additionality. This scenario is less common in lower-income countries, where additionality is typically automatically fulfilled due to their reliance on donor contributions to meet their budget aspirations. In conclusion, the level of additionality is contingent on the fiscal circumstances of the partner country and the added value of the MDB in enhancing the achieved results (interview).

Partial disbursements

Most of the peers use scalable DLIs and allow for partial disbursements. Typically, targets of results indicators for DLIs are dispersed over the life of the programme, with disbursements earmarked against the targets for each indicator. However, recognising that the pace of implementation may vary from the planned schedule, DLIs can also be designed with a provision for partial disbursements. This allows adjustment on a pro-rata basis for over- or underachievement of targets. For example, disbursement could occur after (i) a certain number of DLIs have been met, (ii) a set of particularly important DLIs have been met, or (iii) a certain percentage has been met (interviews; ADB, 2019, World Bank 2020a). IDB that originally applied pass/fail DLIs in the results-based grant initiatives mentioned that partial disbursements are essential to keep motivation high when recipients slightly miss the target. Consequently, IDB integrated partial disbursement in the LBR design. Within EU budget support both partial and non-partial disbursements exist: The fixed tranche is called this way because the amount is 'fixed' (it's disbursed fully or not at all) while the variable tranche allows partial disbursement depending on achievement of indicators.

Table 4: Peer overview design features – payments

Category	World Bank	ADB	AfDB	IDB	EC	BMGF	FCDO	AFD	Norad
More or less paid than overall cost?	PforR: less IPF-PBC: less	less	less	LBR: less RBGI: more: all RBF payments are an "award" on top of financed activities	BS: No rule, profit allowed FNLC: No rule, profit allowed	n/a	?	Less (as PforR)	REDD+: independent from costs (benefit possible)
Overall expenditures tracked?	PforR & IPC-PBC: yes	Yes	Yes	LBR: Yes RBGI: Yes	BS: No FNLC: No	n/a	No	Yes	Yes (use by Financial Institution)
Frequency of payments	PforR & IPF-PBC: when DLIs are met	Likely annual	Likely annual	LBR: Not defined, but in practice (bi-) annual RBGI: at the end of each phase, every 18-24 months	BS: Country's budget cycle (usually annually) FNLC: Annually	n/a	Annual	Annual	Annual
Partial disbursement?	PforR & IPF-PBC: Yes	Yes	Yes	LBR: yes RBGI: limited (either 100% or 50%)	BS: Yes FNLC: Yes. ("[…] *the authorising officer responsible may reduce the contribution proportionally if the results have been achieved poorly, partially or late […].*") Source: EU Financial Regulations	n/a	Yes	Yes (as PforR)	Partial payment &: maximum payment possible
Prefinancing financing possible?	PforR: 25% advance financing & 25% financing prior-results up to a total sum of 30% prefinancing; IPF-PBC: advance financing & for expenditures that occurred prior to signing the agreement	25% advance financing & 20% financing prior-results up to a total sum of 30% prefinancing	25% advance financing plus 25% financing of prior results up to a total sum of 30% prefinancing	LBR: yes, 20% advance financing & 15% financing of prior results up to a total sum of 30% prefinancing; RBGI: not necessary since activities fully	BS: not formally, but fixed tranche disbursement can be increased (0-100%, on average 50%) FNLC: Yes, even 100%	n/a	Yes (prior results not required and no limit of prefinancing share)	Revolving budget advances possible	REDD+: No formal prefinancing, but phases 1 and 2 build readiness for REDD+ payments

	financed progress-based	

Source: Peers' guidelines (see Annex 3) and interviews

4.3 Contracts

Literature on results-based approaches emphasizes the significance of contract flexibility. Since the recipients (the "agent") is accountable for achieving results autonomously and bearing associated risks, they need the freedom to adopt strategies that lead to the best outcomes. However, some results-based contracts restrict this flexibility by prescribing specific activities, which can hinder the achievement of better results. These rigidities may stem from the funder's institutional, legal, and political conditions, making flexible contracts and relinquishing control challenging (Instiglio, 2018).

Among KfW's peers there is a high degree of contract flexibility regarding the agreed results. Especially the four MDBs, but also the EC in EU budget support, can adjust the quantification of DLIs or even change their contents. For instance, when project goals are achieved earlier than expected, i.e., were achieved at lower cost than the total allocated disbursement amounts, DLI targets can be increased to avoid the reimbursement of unused funds (see previous chapter). In addition, DLIs can be redesigned or changed during implementation. However, this requires mutual agreement between the government and the funder. Policy changes or shifts in priorities may lead to adjustments, and additional DLIs can be added, if necessary. "You don't want to completely unpack it, that would be unfortunate. But say if a new government says, this is more important to us than that, we can also add things" (interview).

There is also a high degree of contract flexibility in the sense of not "conditioning" the use of disbursed funds. In case of EU budget support and results-based programme-based approaches of MDBs, the only "condition" is that funds are used in line with the general conditions (EU) or the assessed country systems (MDBs). In addition, funds from EU budget support have to be budgeted and accounted for as government revenue (grant) to promote domestic accountability. Required evidence includes the conversion into the national currency and crediting of the central treasury account at Central Bank. In case of the MDBs, audits at the end of the fiscal year evaluate whether funds have been used as agreed for the country programme and in line with country systems. Beyond that there is no specification on how to achieve the results.

Corrective remedies are however specified in legal documents to address potential issues. The ADB RBL policy states for example that "depending on the nature, scale, and frequency of performance problems and the DMC's [partner's] response to problems, ADB will adopt appropriate measures to address them". Reasonable assurances in using country systems are based on the recognition that even robust systems have varying quality of transactions. Thus, ADB's response distinguishes between systematic issues and ad hoc variations. Also, a distinction is being made between a partner's action and inaction in addressing performance problems (ADB, 2019).

All MDBs have established remedies to address safeguard violations, yet there have been only very rare cases of their application. As for ADB, standard remedies under the loan regulations and loan agreements include suspension of loans, cancellation of loans, or acceleration of maturity for funds already provided (ADB, 2019). In practice, no safeguard violation has been reported in connection with RBL so far which may be due to the exclusion of high-risk activities from RBL beforehand (interview ADB). Similarly, World Bank and IDB can reduce or fully withhold the performance incentive if safeguards are violated. IDB interview partners were also not aware of any instances where these remedies were used. Only World Bank mentioned very rare cases of suspension of disbursements, which seems reasonable considering the total much higher number of PforR operations compared to RBL and LBR.

A particular case concerns the REDD+ payments from Norad, which are somewhat less flexible. Norad disburses the payments only to financial intermediaries, and further discussions with the government determine the utilisation of these funds. In the case of Brazil, the payments are made via the Brazilian Development Bank as Fund manager for the Amazon Fund. This is a conventional development funding mechanism that targets forest-related projects. These include the reduction of deforestation, biodiversity preservation, ecosystem services, and sustainable development for forest dwellers. In its role as a donor, Norad is informed about the utilisation of REDD+ payments within the projects of the Amazon Fund on an annual basis, which forms a closer connection to the use of funds than observed with the other peers (interview).

Table 5: Peer overview design features – contract flexibility

Category	World Bank	ADB	AfDB	IDB	EC	BMGF	FCDO	AFD	Norad
Is there flexibility regarding agreed results?	PforR & IPF-PBC: Yes	Yes	Yes	LBR & RBGI: Yes	BS: Only limited FNLC: No	n/a	Little? (DLI changes do not seem possible)	?	REDD+: no
Conditioning of use of funds?	PforR & IPF-PBC: yes (for overall programme)	Yes (for overall programme)	Yes (for overall programme)	LBR: yes (for overall programme) RBGI: earmarked to the health sector	BS: No, sometimes additionality requirement FNLC: No	n/a	Sometimes	Yes, funds have to be earmarked and tracked	REDD+: earmarking to a use determined by the country, often going to related topics
Pre-agreed expenditure framework?	PforR: Yes IPF-PBC: yes	Yes	Yes	LBR: yes RBGI: not for the results-based part	BS: No FNLC: No	n/a	?	Yes	REDD+: no
Requirements for re-investment of funds?	n/a	n/a	n/a	LBR & RBGI: negative list of excluded activities, e.g., weapons	BS: No FNLC: No	n/a	No	n/a	REDD+: payments to be spent in line with the objectives & regulations of the Financial Intermediary
Typical delivery prescriptions, e.g. regarding E&S?	In line with assessed country systems, otherwise corrective remedies	In line with assessed country systems, otherwise corrective remedies	In line with assessed country systems, otherwise corrective remedies	LBR & RGBI: In line with assessed country systems, otherwise corrective remedies	BS: No FNLC: No	n/a	?	Not beyond compliance & procurement rules (otherwise follow World Bank requirements)	REDD+: when E&S safeguards violated countries are encouraged to use their own grievance mechanisms

Source: Peers' guidelines (see Annex 3) and interviews

5 Lessons learned

During our interviews, KfW's peers generously shared their valuable insights and lessons learned. We asked about success factors for results-based approaches and inquired about recommendations for KfW's results-based activities. The responses are categorised into the following overarching questions.

1) What factors contributed to the remarkable effectiveness of the results-based approaches?
2) In what ways did the implementation of results-based strategies impact ownership among partners in the process?
3) How was the necessary buy-in for results-based initiatives be achieved in their own institution?
4) Were there any unintended effects or instances where the pursuit of results-based approaches led to lower quality?

5.1 Effectiveness

Among the numerous interviews, conversations with IDB particularly stood out due to the overwhelming enthusiasm displayed by the interview partners (a total of six interviews). The success and experience garnered from the two regional grant-based initiatives played a pivotal role in fostering extensive learning and cultivating a highly positive perception of results-based approaches in IDB. IDB has been incorporating these positive lessons into their loans based on results and even into the "normal" investment lending. Consequently, this learning process resulted in a particularly comprehensive reflection on the reasons underlying the effectiveness of results-based approaches. The following interlinked points appeared however in similar ways in the interviews with other peers.

Shift in mindset and conversation: Results-based approaches bring about a transformative shift in focus from processes to results. Rather than solely funding specific projects, these approaches prioritize setting clear targets and working backward to achieve outcome-level results. This encourages problem-solving and collaborative efforts among stakeholders to address underlying issues and achieve desired outcomes. For instance, rather than funding a school or a bridge, the emphasis is on identifying and addressing core issues, such as improving student learning outcomes or healthcare coverage and quality. This "cultural shift" requires altering the conversation to concentrate on problem-solving rather than merely funding activities. IDB mentioned that due to this experience "even in traditional investment loans where inputs are funded, the conversation changes to focus on the journey from point A to point B and what's required to achieve the desired outcomes." And ADB expressed it in a very similar way: "RBL programs compel everyone to focus more squarely on defining and achieving results, which is a prerequisite for successful RBL implementation" and "…it points to important contributions from the "mindset change" of RBL stakeholders as they shift from thinking about inputs and transactions to thinking about results and systems" (ADB, 2017; interviews).

Financial incentives are not the sole driver: Several peers made the case that the effectiveness associated with results-based financing is not primarily driven by financial rewards. Instead, factors such as enhanced accountability, discretion in decision-making, and heightened attention to results are identified as key contributors to the success of results-based approaches. As an example, reference was made to DLIs that weigh just 180,000 USD each. "As such, the money per se doesn't represent the incentive; but the increased attention to the results sought, and the forced coordination of a unifying results framework, makes us all focus on what actually matters" (Holland & Wright, 2016; interviews).

Understanding the "Black Box": Results-based approaches also prompt a comprehensive examination of the operational issues in the middle, often referred to as the "black box of service delivery". This includes management practices, organisational culture, procedures, motivation, individual needs, and values. This means that while the focus shifts to outcomes, it also comes more into focus what is required to achieve the desired outcomes. As an example, IDB observed impressive outcomes when individuals at each of the 1000+ health facilities in Northern Colombia worked together, incorporating local data, and planning jointly with healthcare professionals and community health personnel to achieve the defined outcomes. This active involvement resulted in continuous improvements, extending beyond mere reporting. IDB is committed to include this lesson in its investment-based projects. "We now incorporate concrete targets early on to ensure a seamless chain of effects, placing emphasis on strategic management practices, coaching, mentoring, quality improvement, and data utilisation from the outset" (interviews).

Enhancing effectiveness through transparency and accountability: Transparency and accountability are crucial elements to enhance verification and improve the quality of results in projects. Public reporting can be a powerful tool to incentivize better performance and has been proven to strengthen incentives. However, the use of vague DLIs can lead to challenges in interpreting achievement targets, making disbursement requests more complex and less objective (European Court of Auditors, 2019; DFID, n.d.).

Enabling systems improvement: One interview partner captured the essence, stating, "if you want to support vertical issues, you can have results in two years. But that is not going to be sustainable." Results-based approaches, on the other hand, foster systemic improvements and consider the "big picture". These approaches prioritize elements such as system integration, readiness, and service delivery implementation, leading to lasting and transformative effects. Also, results-based approaches make improved systems applicable across various sectors. This is especially true in governance, health, and education where success stories are plentiful. It may be less true in "hard" infrastructure sectors like transport and energy. Nevertheless, the potential for systemic improvement underscores the relevance and value of results-based approaches in all sectors (interviews).

Enhancing sustainability: Enhanced country systems lead to more sustainability. For World Bank results-based approaches make a substantial difference for the government institutions which manage the financing. Notably, the initiatives offer the advantage of capacity building by elevating internal systems closer to international standards. Moreover, their sustainability is enhanced when further programmes phases are financed with the country's own financing based on the same (improved) systems (interviews.)

Time horizon for results: Results-based approaches promise faster and more impactful results compared to traditional approaches. However, it is crucial to recognize that achieving meaningful and sustainable outcomes still necessitates an appropriate timeframe. Setting targets for an extended period, such as eight years, allows for a comprehensive understanding of the journey towards the ultimate goal. This approach acknowledges that significant change may take time and requires consistent effort over the years (interviews).

In conclusion, results-based approaches have proven effective in driving positive change and achieving desired outcomes. Their focus on results, process improvement, and systems enhancement ensures sustained impact and sets the stage for transformative development in various sectors. While the journey to success may require time and effort, the potential for lasting change makes results-based approaches a valuable tool in driving progress and development.

5.2 Ownership

Growing demand for programme-based approaches reflects strong country ownership. All three interviewed MDBs reported a high demand for PforR, RBL, LBR from partner countries. And there is a noticeable and robust growth of this instrument across all MDBs. The popularity of PforR among partner countries primarily stems from its unique feature of allowing the utilisation of their own country systems. This indicates a strong sense of ownership and commitment from the countries towards the programme. Overall, interview partners mentioned numerous advantages that enhance a country's ownership and commitment to achieving targeted outcomes.

Focus on results leads to ownership: Results-based approaches helped focus the attention of policy makers and practitioners on the need to achieve results. While this is not the primary objectives, it is encouraging a spirit of enquiry, a willingness to learn, openness to trying new approaches and, ultimately, a greater sense of ownership of the progress achieved (ADB, 2017).

Incorporation of results-based approaches in national and subnational processes: By tying national funding to results, there is a higher probability of disseminating results-based practices to lower governmental or service provider levels. Even in cases where donor agencies did not demand the propagation of results-based incentives, it was commonly observed that national targets were translated to local levels. This results-oriented approach in national budgets, accountability mechanisms, and monitoring and evaluation (M&E) systems could potentially enhance country ownership in the long run (interviews).

Valued external evaluation: The external evaluation of DLIs provides countries with a realistic assessment of their progress and enables them to identify areas for improvement. This in turn empowers the countries to adapt their measurement mechanisms and align them with the results-based framework, fostering a stronger sense of ownership over the outcomes (interviews).

Reputational incentive and uniform targets: Regional discussions among countries with similar targets and indicators foster a sense of unity and competition, encouraging them to strive for better outcomes and take ownership of their actions to achieve the shared goals. This was observed in the IDB regional initiatives, but also by the authors in a country-based PforR where 50 local governments had uniform targets and entered a friendly competition (interviews).

Few non-negotiable rules: Results-based approaches emphasize limited non-negotiable rules, granting countries more flexibility in designing and implementing programmes. This aligns with country-specific needs and preferences, promoting ownership by central departments, the Ministry of Finance, and the Prime Minister's Office (interviews).

Fewer “unsustainable islands” (i.e., projects): World Bank views results-based approaches as a solution to the issue of investment projects becoming “isolated” entities with Programme Management Units within the government. By working with existing government programmes and improving their rules and procedures, results-based programmes ensure sustainable progress even after project completion, promoting increased ownership.

Faster buy-in from finance ministries: World Bank mentioned that finance ministries often grasp the concept of results-based approaches quickly, appreciating the direct linkage between budget allocation and expected service delivery. This rapid understanding leads to enhanced ownership and support for the sectoral reforms (see next point). The ADB made similar findings for their RBLs, namely that "the focus on DLIs enables the Ministry of Finance to hold implementing agencies accountable for delivering results - injecting intergovernmental accountability. In Nepal and the Philippines, Ministry of Finance representatives said their RBL programs had provided them with an instrument with which to monitor the effectiveness of the entire program. Moreover, results monitoring covers the entire RBL program, providing much greater oversight than in traditional investment projects. All the evaluation missions found that staff at ministries of finance were very familiar with the progress of the RBL programs" (ADB, 2017).

Encouraging sectoral reforms: Results-based initiatives stimulate the Ministry of Finance to think about sectoral reform issues more deeply, leading to broader engagement and ownership across government entities. However, since funding goes to the Ministry of Finance it can pose challenges for the other ministries to fully embrace results-based approaches. Therefore, the World Bank likes to attach small IPF-components for programme management support and TA which can then directly channel funding to other ministries (interviews).

5.3 Buy-in of own institution

Building internal buy-in for results-based approaches demands a combination of leadership support, knowledge sharing, capacity building, and effective communication. The interview partners pointed to various factors that facilitated obtaining the necessary organisational support to promote results-based approaches.

Leadership belief and endurance: "You do need someone who believes in this idea in an organisation" (interview). The buy-in process begins with having someone in a management position who strongly believes in the idea of results-based approaches. This person's persistence and commitment are vital in navigating the challenges that may arise in gaining internal support (interviews).

Knowledge sharing and learning curve: Implementing results-based approaches can involve a steep learning curve, especially when the instrument is relatively new in the organisation. IDB mentioned that it took them about nine years to internalize the knowledge. However, over time it "became an easier mechanism", leading to increased adoption (interviews).

Centralized support: Initially, a central person or team may support the implementation of results-based approaches across projects. However, as the number of projects increases, it becomes essential to find scalable and sustainable solutions (interviews).

Communication and collaboration: Ensuring buy-in from various departments in the organisation, such as procurement, environmental and financial management, requires effective communication and collaboration. Engaging in structured training programmes with other development partners can be beneficial in building consensus (interviews).

Co-financing and external collaboration: Co-financing with other organisations that have experience with results-based approaches can build confidence and serve as a supportive starting point. External collaboration offers valuable insights and paves the way for gradual expansion and adaptation to different sectors (interviews).

5.4 Workload

Regarding institutional buy-in, it is important to note that results-based approaches usually do create an additional workload. There is a hypothesis that disbursing funds based on achieved results and adopting a more hands-off approach in terms of procurement can lead to reduced transaction costs. In reality, as emphasized by all interview partners, there is at least equal if not a higher workload associated with results-based operations due to several reasons. However, despite the significant workload, the energy invested in results-based approaches is considered worthwhile as better outcomes, transparency, and alignment with the organisation's objectives are promoted. “Many […] have said it's more work, but it's work that they like, because they're getting into the technical topics and they're fixing systems, and they see the impact” (interview).

Programme development and intensive internal and external discussions: Implementing results-based approaches requires additional effort from the organisation. Preparing programmes and engaging in internal discussions on how to integrate results-based operations into existing processes (e.g., procurement, financial management) demand significant time and resources. Also, there is additional need for analysis and discussion within the cooperation with partner organisations. For example, a more detailed estimate of the broader programme costs is required. Also, understanding the theory of change during the preparation phase and discussing it with all stakeholders is key. “And then thinking through how things can be verified, that was something we also had a lot of discussions on, and then designing a whole verification protocol, agreeing it, going through the detail…”. This all requires specialized technical expertise, contributing to the intensity of the initial stages (interviews).

Maintaining touchpoints with implementing agencies during implementation: Results-based loans often necessitate finding new mechanisms for maintaining touchpoints with implementing agencies. Compared to traditional investment loans, where daily interactions are more common, results-based approaches may require additional efforts to stay connected and review progress (interviews).

Sector-specific knowledge is required both during preparation and implementation: Implementing results-based approaches requires individuals with in-depth knowledge of the sectors involved. Technical expertise in the funders project team is essential for successfully managing results-based projects. “From the technical perspective as a specialist, it is much more fun...you're not going to spend your time giving non-objections to the construction of this and that. You're actually looking at where are the bottlenecks, what is actually leading to the achievement of the results” (interview).

Continuous monitoring is important: Especially in the results-based programme-based approaches which build on country systems, there is a need for continuous monitoring and performance evaluation to ensure adherence to standards and mitigate potential deviations (see below). The attention to implementation aims to increase the partners’ ability to adopt a learning process which addresses constraints. However, this requires more intensive supervision. Unlike a transactions-based approach focusing on procurement and financial transactions, programme review teams spend more time on technical discussions with the client on implementation issues to help them achieve and monitor results.

5.5 Unintended effects

While the interviews were overwhelmingly positive about results-based approaches, a few aspects were mentioned that can potentially lead to unintended effects and compromises on quality.

Risk aversion: Results-based approaches may lead to risk aversion on the government side, as risks are taken when applying its own policies and programmes. This can hinder innovation and the willingness to try new approaches.

Addressing national context and trust: It is crucial to unpack the national context and build trust with the government when implementing results-based approaches. National agendas, favouring of elites, or misuse of aid can impact the effectiveness of these approaches.

Compromise on safeguards: While the compliance of results-based approaches with procurement, fiduciary, environmental, and social safeguards is generally acceptable, occasional challenges arise, necessitating continuous efforts to improve the system. In the past, data had shown that the time input for preparation of PforR dropped, but efforts were made to allocate more time and resources to address the larger scope of implementation and supervision. And the preliminary evaluation of the ADB pilot phase showed that assessments of fiduciary risks focussed heavily on rules and structures and not enough on actual practice. This was later corrected (ADB, 2017). Most important is, however, that MDBs are in fact avoiding high environmental and social risks by excluding certain risk categories and high-volume contracts. Here, according to ADB the preconceptual stage is crucial where staff discusses "off-record" about potential risks early on to avoid any conflicts or issues later-on (interview).

6 Conclusion and recommendations

The analysis of the results-based approaches of KfW's peers has shown that results-based approaches are highly effective. The positive effects which are generally expected (financial incentives, accountability, comparability, recipient discretion) were confirmed by our interview partners and held true in the results-based approaches of the peers. It was also confirmed that results-based approaches are a successful business case and can significantly enhance the effectiveness of development cooperation. In summary, all peers emphasized the great value of results-based approaches and expressed interest in exchanging information about lessons learned and how approaches can be made even more effective.

KfW commissioned this study because it intends to develop its own policy for results-based approaches. To do this effectively, KfW first wanted to understand how other donors design their policies in this area and build on their experiences.

The study revealed that there are differences in policies depending on whether results-based approaches are implemented in partner countries (Results-based Financing) or with partner countries (Results-based Aid – Donor-to-government approaches). Formal guidelines primarily exist when dealing with dedicated results-based instruments from donors to governments, which necessitate clarification on contractual and procedural terms. Moreover, besides donor-to-government instruments, all peers pursue various results-based approaches in projects, such as towards beneficiaries and service providers. However, guidelines are only available in isolated cases, for instance for the European Commission's Simplified Cost Option (European Commission, 2021c). Instead of relying on formal policies, KfW's peers advance results-based approaches in projects mainly via sectoral exchange formats, such as the World Bank's "Results-Based Financing and Results in Education for All Children". Formal policies are not required for two main reasons: First, unlike donor-to-government approaches, there is no need to regulate formal aspects, and second, formal policies are not the most suitable tool to capture the many developments and innovations happening in this context.

Before developing a results-based policy, some strategic decisions are crucial for KfW. Moving forward, it is essential for KfW to clarify the objectives for promoting results-based approaches and define the specific purpose that these approaches should serve. Once decisions are made on these fundamental questions, the results-based policy can be developed (or not). The policy is then likely to take a distinct form depending on the decision.

If the KfW indeed wants to develop a dedicated results-based instrument, the under-lying purpose must be clearly defined. The objective may be to develop a new instrument that complements the existing toolbox of KfW and enhances impact. This would be similar to the introduction of programme-based approaches by the four MDBs in addition to policy loans and investment lending. However, the study has shown that this can be a complex and time-consuming process, as all MDBs went through a multi-year pilot phase. Even each individual programme-based approach requires significant energy and time in preparation and implementation.

Alternatively, KfW may want to standardize its participation in co-financing such results-based approaches. This strategy may enable KfW to efficiently implement larger volume projects with fewer internal resources. In this case a different approach is needed. KfW may consider following AFD's example and develop an approach that facilitates standardized cooperation with one or more of the four MDBs.

Independent of the choice taken a comprehensive understanding of results-based approaches by all departments of KfW will be important. A key learning from the peers was, that it is important that all service departments such as disbursement, procurement, and contracting share the same understanding. Accordingly, active engagement with relevant stakeholders within the organisation will be key to promoting a successful implementation and effectiveness of the chosen approach.

Lastly - as a more practical recommendation - the terminology of "Results-based Financing" as an overarching term, should be reconsidered. "RBF" was originally used to describe results-based approaches of projects and is still used this way by many stakeholders, including the World Bank. Hence, using "RBF" as an overarching term for results-based loans and grants may create misunderstandings in the exchange with other donors.

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Annexes

Annex 1 Interview partner list

Name	Position	Date
African Development Bank		
none		
Agence Française de Développement		
Lerat, Pierre	Task Team Leader - Transport and Mobility	26 June 2023
Lingaya, Adrian	Chargé de Mission - Filière d'appui aux financements budgétaires, Division Citoyens et Institutions	30 May 2023
Asian Development Bank		
Thuy, Trang Dang	Senior Planning and Policy Specialist in the Strategy, Policy and Business Process Division	23 June 2023
Bill and Melinda Gates Foundation		
Minahil, Niazi	Advisor - Global Health Agencies & Funds	30 May 2023
Ethan Wong	Senior Programme Officer	26 June 2023
European Commission		
Le Mounier, Xavier	Head of Sector - Budget Support	06 June 2023
Conzato, Franco	Senior Expert at the Office of the Director for Sustainable Development Policy and Coordination (DG INTPA)	15 June 2023
Bocci, Chiara	Quality Management Officer (DG INTPA)	15 June 2023
Foreign, Commonwealth and Development Office		
none		
Inter-American Bank for Development		
Gottsch, Marieke	Competitiveness, Technology, and Innovation Specialist	12 June 2023
Iriarte Carcamo, Emma Margarita	Executive Secretary of the Salud Mesoamerica and the Regional Malaria Elimination Initiatives	05 June 2023 14 June 2023
Merino Juarez, María Fernanda	Operations Principal Specialist	30 May 2023
Perez Calvo, Mauricio	Operations & Financial Officer	24 May 2023
Rios-Zertuche, Diego	Senior Monitoring and evaluation officer	22 May 2023
Norwegian Agency for Development Cooperation		
Olsen, Ingvar Theodor Evjen	Policy Director, Department for Human Development, Section for Global Health	23 June 2023
Ragnhildstveit, Hege	Policy Director, Norway's International Climate and Forest Initiative (NICFI)	23 May 2023
World Bank		
Anderson, John	Senior Economist Operational Country and Policy Services	18 July 2023
Fritz, Verena	Senior Public Sector Specialist, Governance Global Practice	22 May 2023
Hünteler, Jörn	Energy Specialist	24 May 2023
Saleh, Imad	Development Effectiveness Manager, Europe, and Central Asia Region	19 May 2023

Annex 2 Questionnaire

1 RBF institutional context

Definitions

- How does your organisation define and delimit RBF from other financing instruments?
- What kind of RBF instruments/ mechanisms are used by your organisation, and in combination with which other instruments/ modalities, if any, are they used?

Policies and Strategy

- What policies does your organisation have in place that guide/ regulate the preparation, appraisal, and implementation of results-based financing projects/ programs? What strategic purposes form the basis of these policies?
- What role do RBF approaches play in the corporate strategy of your organisation? Do strategies, e.g., set targets or ceilings for RBF?

Experience & basic patterns

- Since when are RBF approaches used by your organisation?
- What is the financial scope and share of RBF within the development cooperation portfolio of your organisation?
- In which sectors/ focus areas and geographic regions are RBF instruments (primarily) used by your organisation?
- What type of funding is mostly used for RBF projects/ programs (grants, concessional loan, commercial loans, other)?
- Which partner structures are being considered suitable executing agencies for RBFs by your organisation? Does your organisation exclude certain partner structures? Is it mandatory that previous investment projects have been jointly implemented before entering an RBF with an executing agency? Is a track-record of cooperation deemed essential?
- Do the commitments made by your organisation cover the entire RBF programme period or are there cases where commitments are limited to specific periods (e.g., a fiscal year) and further funding is subject to parliamentary approval?

2 RBF design features

Overarching

- Are RBFs typically designed as mono-sectoral or multi-sectoral interventions by your organisation?
- What is the typical duration of an RBF project/programme? Are there differences between RBFs primarily financing a specific type of results (infrastructure, policies, goods)?
- What specific arrangements/ design features are used in case the RBF is implemented through a financial intermediary, who is (re-) financed by your organisation to provide results-based funding to beneficiaries?

Results metrics

- What kind of payment metrics (results to be measured and verified as basis for payment) are commonly used by your organisation? What informs the decision on payment metrics? To what extent do theories of change guide decisions to reward specific results?
- Which outputs or outcomes (e.g., infrastructure, policies, goods, vouchers) are primarily targeted by your organisation with RBF interventions? Does your organisation prefer/exclude certain output/outcome classes?

Results-based part of the financing

- What portion of project funding is commonly tied to results by your organisation?
- What informs the decision on the portion of funding tied to results?

Price structure

- How does your organisation determine how much to pay for the achievement of the defined results? What kinds of pricing methods are used?

Result verification

- What kind of mechanisms are commonly used by your organisation to verify whether agreed results have been achieved?
- If the verification mechanism involves a third party/ independent verification agent, what are the key aspects of the respective terms of references?

Contract flexibility

- How much flexibility is commonly given by your organisation to the incentivized agent to deliver the agreed results?
- To what extent is the use of disbursed funds conditioned or agreed upon between funder and incentivized agent? Is there a reinvestment mechanism? Do partners, for example, agree upon an expenditure framework that sets boundaries for how the funds received from the funder can be used/invested? If so, what are the requirements for the financial management and reinvestment of these funds?
- What kind of delivery prescriptions do RBF agreements commonly contain? Are, for example, any prescriptions made regarding safeguards to mitigate social, environmental or other risks? What happens if specific safeguards have been violated, even though the payment-related results were achieved?

Payment mode

- How frequent are RBF payments commonly made by your organisation during individual projects/programs? What informs the decision of the frequency of payments?
- Does your organisation offer prefinancing arrangements to facilitate the start-up of RBF-operations for partners which find it difficult to prefinance operations from their own resources?
- What flexibility in disbursement modalities does your organisation have: upfront payment, partial payment (in case of low performance), sliding scale, minimum maximum payment in a given period? What guides the respective decisions?

3 RBF in the project cycle

Preparing and appraising an RBF

- What appraisal procedures are used by your organisation when preparing an RBF project/ programme?
- How long, on average, does the preparation of an RBF project usually take?
- What prerequisites need to be in place, if any, before an RBF instrument can be used by your organisation?
- At what stage and by whom are fiduciary, procurement, environmental and social risk assessments carried out?
- What are the minimum requirements regarding environmental and social risk management? To what extent do environmental and social standards and instruments used for RBF differ from those used for other financing instruments?
- How exactly are fiduciary, procurement, environmental and social risks assessed during the appraisal phase and addressed during the implementation phase? In case risk assessments are done by external experts,
    - What are the typical costs of such assessments?
    - What are key aspects of the terms of reference for such assessments?
    - Does your organisation have/ use experts pools for these assessments?
- How is the overall environmental and social risk category established for RBF?

Implementing an RBF

- How are environmental and social risks identified during the appraisal phase addressed (e.g., inclusion of mitigation measures in the results-matrix, agreement on and monitoring of environmental and social action plan, specific stipulations/ covenants in the contract)?
- What kind of supporting/ capacity-building measures, if any, are commonly implemented in the context of an RBF project?
- How closely is the implementation of RBF projects monitored by your organisation?

4 RBF lessons learned

- What are overarching experiences and lessons learned related to RBF by your organisation? What factors of success have been identified by your organisation?
- What context-specific issues should be considered when choosing an RBF instrument, i.e., which instruments are particularly useful or should be avoided in a specific context?
- To what extent have RBF instruments contributed to the achievement of tangible, measurable and independently verifiable project/ programme results?
- To what extent has RBF enabled your organisation to enhance the efficiency and effectiveness of its project/ programs?
- To what extent have RBF programs increased or decreased the operational workload for the financing agent compared to more conventional approaches? How does that vary along the project cycle?

- To what extent is your organisation satisfied with the overall compliance of RBF with procurement, fiduciary, environmental and social safeguards? Did you notice a compromise of your own standards when using RBF in comparison to trad. infrastructure financing?
- To what extent has RBF enabled government ownership and institutional capacity building in partner/ target countries?
- What experience have you made in getting buy-in for RBF in your own organisation and within partner institutions?
- What adverse or unintended effects have been observed when using RBF instruments, if any?
- What experiences have been made in implementing RBFs with financial intermediaries

Annex 3 Compilation of relevant documents and guidelines per peer

African Development Bank

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Agence Française de Développement

Guidelines

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Bill and Melinda Gates Foundation

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European Commission

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Financing not linked to costs

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FCDO

Guidelines

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Assessments

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