

## »» Results-based approaches in international development cooperation

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Donors traditionally contribute to the financing of a development project's investment costs. The funds are gradually disbursed according to the progress in project implementation. With this type of project, the developmental impact does not materialise until the infrastructure is complete, in operation and the available funds have been spent. This approach has been the subject of some criticisms in the past:

- This cost reimbursement logic offers partners little incentive to use funds in an efficient and sustainable way. Improvements in efficiency would mainly reduce the donors' obligation while the local partners would only benefit indirectly.
- As donors feel responsible for the proper use of funds, they strongly engage in project implementation and therefore tend to supplant the partner's own initiative (low ownership). Some partner countries would even welcome the involvement of donors (creation of aid-dependency).

### **Results-based approaches: donors do not pay until impacts materialise**

This criticism has been hotly debated and conventional project financing certainly provides opportunities to avoid such negative effects. However, since the turn of the millennium the international discussion on improving results and impacts in development cooperation has increasingly led to new approaches that follow a fundamentally different principle of disbursement. These approaches are referred to as "results-based approaches" (RBAs). These approaches have in common that they reward results rather than reimbursing costs. The donors agree with the partners in advance on the funds disbursed for each "result unit" achieved. The partners bear the sole responsibility for the achievement of the results (owner-

ship), and they have a clear incentive to do so as cost-effectively as possible as this is to their economic advantage. The clear benefit of this arrangement from the donors' perspective is that the success of the project is guaranteed. Donors only pay for results.

### **Different kinds of RBAs**

Different kinds of results-based approaches have been developed. They mainly differ in the level of the results chain the instrument aims at. At the lower end there are the "output-based aid" approaches. These include reimbursement and coupon systems for vaccinations performed or births assisted. At the other end there are the development or social impact bonds, where only the actual impacts achieved are rewarded (such as the reduced prevalence of diseases or lower infant and maternal mortality rates). Between these two extremes is a broad spectrum of approaches and instruments that follow a similar principle and have a wide range of names, such as results/performance-based financing, cash/aid-on-delivery, policy-based lending (which rewards political reforms) or the World Bank's "program-for-results" financing. The REDD (Reducing Emissions from Deforestation and forest Degradation) programmes qualify as a RBA because their financing is linked to the avoidance of CO<sub>2</sub> emissions.

### **"Lessons learned" from RBA practice**

Although there are not many reliable evaluations available at present, there is a wealth of practical experience from negotiations and pilot projects that can be summarised as follows:

- In many cases it is difficult to come up with clear, objective indicators for the achievement of targets that can be measured within a short period of time. But this is what the entire instrument depends on.

- Defining a "fair" reward for performance offering a sufficient incentive for the partner's efforts on the one hand and ensuring the efficient use of resources on the other, is a complex task.
- Poor developing countries find it particularly difficult to fund the project costs in advance, given the (uncertain) expectation of receiving reward payments, and to implement the projects without any external support.
- Another criticism is that, unlike conventional financing instruments, RBAs place the entire project implementation risk on the partner governments.
- Donors are unwilling to assign full responsibility for project implementation to the partners as they are not only interested in the results, but also the circumstances of how these results are achieved (e.g. environmental/social standards).
- Uncertainty of date and amount of payment represents a significant challenge for the budget planning systems of the donors and recipients alike.

### **Conclusion: No panacea but scope for more widespread use in international development cooperation**

RBAs are an interesting addition to the range of instruments used in development cooperation. Experience shows that the planning and implementation of RBAs can very quickly become highly complex, which substantially impairs the anticipated gains in terms of efficiency. RBAs aimed at the lower levels of the results chain are generally easier to implement than approaches aimed at the impact level. To conclude: the potential for RBAs in development cooperation (as well as results-based elements as part of conventional project financing) is far from exhausted. ■