

January 2018

## Walk before you run: the challenges of results-based payments in aid to education

*This paper argues that donors need to be cautious when considering to disburse aid to education through results-based payments. There is not enough evidence yet that this approach works and the very purpose for which the approach has been introduced is also questionable.*

Aid to education is seen to have had a positive impact on increasing access to school in poor countries (Birchler and Michaelowa, 2016). However, aid overall has come under heavy criticism as being of questionable effectiveness in many other areas and because the incentives it offers recipient governments can have a negative impact. For example, governments may be less accountable to citizens when much of service delivery is funded externally (Deaton, 2013).

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The 2005 Paris Declaration aimed to enhance the accountability of donors and partner countries to citizens and legislatures

strategies and performance’ (OECD, 2008). ‘Managing for results’, defined as ‘managing and implementing aid in a way that focuses on the desired results and uses information to improve decision-making’, was one of five

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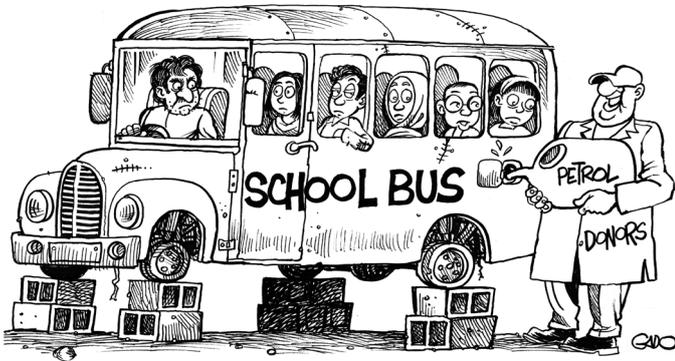
The aid effectiveness agenda, expressed in the 2005 Paris Declaration, was an attempt to respond to such criticism, including the need to enhance the accountability of donors and partner countries to citizens and legislatures for ‘their development policies,

declaration commitments. Partner countries committed to improve links between their strategies and budgets, introduce performance indicators and report on progress. Donors committed to link their programmes and resources to results identified in national development strategies and reporting frameworks.

Including results-based management in the declaration crowned a push for a stronger results orientation in aid that dates to the 1990s. ‘Payment by results’ describes any programme that rewards delivery of verified outputs, outcomes or impact with a financial or other incentive. The reward recipients may be governments (results-based aid), service providers (results-based financing) or beneficiaries (e.g. conditional cash transfers). Many such approaches have emerged, varying by level of result targeted and type of reward offered.

Rewriting the aid contract was expected to have the following advantages in motivating positive change in donor and recipient behaviour. First, by recognizing that aid recipients know better what works to achieve the desired results, the contract increases recipient autonomy and is less prescriptive. Second, the addition of incentives motivates recipients to achieve results and shifts most risk from donors. Third, by making contracts results

DONORS DON'T ALWAYS PRIORITISE LONGTERM PROJECTS



based and mobilizing improved result measurement, the approach orients partnerships towards achieving their ultimate purpose.

Results-based aid could also strengthen accountability. Donor countries could more clearly demonstrate to citizens what their taxes fund. Recipient governments could commit beyond building schools to ensuring that

children complete school and learn. This policy paper reviews the logic of results-based aid and its underlying assumptions. As the assumptions are often not borne out in practice, doubts arise about the sustainable impact of results-based approaches on aid relationships and education systems.

**Aid contingent on results comes in various forms and guises**

'Payment by results' is a recent buzzword, but it emerged from earlier attempts to attach conditions to aid disbursement. Making aid conditional on the promise of policy reforms was discredited in the 1990s. Governments resented the conditions, did not own the reforms and were reluctant to adopt them. Donors experimented with conditionality based on actual adoption of particular policies. Governments would choose the policy mix; donors would provide rewards when policies were adopted. However, not disbursing aid when targets were not met proved difficult (Adam and Gunning, 2002). Subsequent innovations in linking aid to results have seen changes to

**BOX 1**

**Responsibility and accountability in aid to education**

While responsibility for financing of development and humanitarian aid rests with individual governments, since the 1960s 30 donor members have organized under the OECD Development Assistance Committee (DAC) to exchange information and experience on aid. Their responsibility can be considered collective. In addition, while countries are represented on the boards of international organizations and development banks, these entities have distinct approaches to delivering assistance and are accountable to a wider range of actors than countries alone.

A useful framework to examine the challenges in making international actors accountable considers two dimensions: the needs of recipient countries and the interests of donors. Donors – primarily, though by no means only, bilateral aid agencies – face pressure to prove to citizens that external assistance is well spent. Regardless of whether voters believe well-spent aid is used to support poverty reduction or extend a country's influence, evidence of value for money is associated with an increasing focus on proof of results. In the case of education, this has been traditionally associated with more children in schools. The counterargument is that aid should primarily respond to the national priorities of recipient countries and should focus on institution building, which is a long-term process (Figure 1).

**FIGURE 1:**  
Donor organizations need to respond to recipient needs for institution building  
Accountability dilemmas in aid, by type of principal and result



Source: de Renzio (2016).

the results targeted, the recipients contracted and/or the incentives offered.

Results of development interventions are tiered. Developed capacity and delivered goods and services (outputs, e.g. school construction, teachers trained) have short- to medium-term effects (outcomes, e.g. improved completion or learning achievement), leading to long-term effects (impact, e.g. increased productivity or sustainable behaviours). The further along in this process the result is, the lower the control over its achievement. Increasingly, results-based aid targets these less predictable results. Education aid is a relative latecomer to this approach, already used in sectors such as health, water and forestry. This may be due to the less mechanistic chain from inputs to outcomes, which increases the risk of recipients not achieving the desired results.

Result-based approaches have prompted experiments in partnering with recipients other than governments, such as NGOs providing education services, despite often unfavourable contract terms for small organizations. Aid payments have also been made to individual and community beneficiaries.

Payment by results assumes that financial incentives are key to aligning donor and recipient goals, but how interventions link payment to achievement differs. Some donors disburse only if a result is achieved. Others split payment: one disbursement is made regardless of achievement (or is based on evidence of effort) and one is conditional on achievement. Some pay an amount proportional to the extent of achievement, based on a cost-per-unit measure of the result.

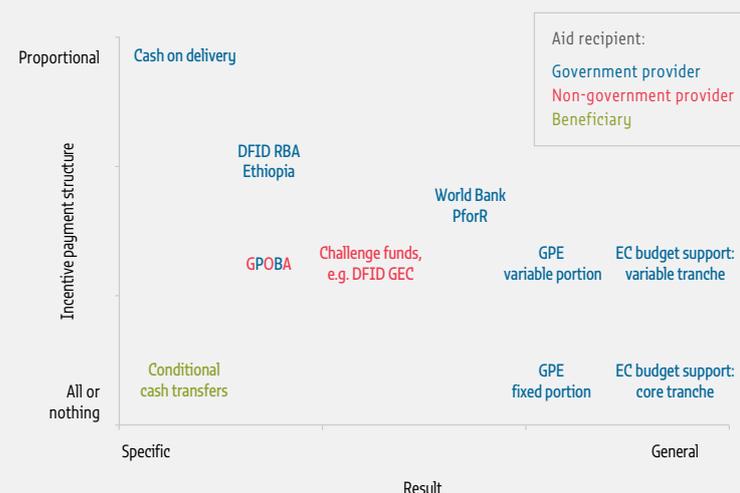
One typology places results-based aid contracts on a two dimensional scale, shown in **Figure 2**, which maps programmes discussed in this policy paper. The x-axis represents the type of expected result, which ranges from specific to general. The y-axis represents the incentive payment structure, which ranges from absolute to proportional payment for achievement. A third dimension is represented by a colour code

distinguishing government, non-government and individual recipients.

### SOME BUDGET SUPPORT PROGRAMMES HAVE BEEN ATTACHED TO RESULTS

Certain budget support programmes, which disburse aid directly into government treasury accounts, are examples of results-based aid focused on general results. For example, since 1999, the European Commission has operated a budget support programme promoting aid accountability, among other aims. Countries receive a fixed tranche when they meet general conditions, such as macroeconomic stability and sound public financial management, and variable tranches linked to progress in meeting development result targets. These have typically included education results, such as completion rates. Scores attached to indicators make amounts released proportional to performance measures. On average, programme design allots 40% of total payment to variable tranches. About 71% of variable tranches were released in earlier programmes (European Commission, 2005). New guidelines were issued in 2012 following a review (European Commission, 2012; European Court of Auditors, 2010).

**FIGURE 2:**  
There is a large variety of payment by results models in education aid  
Examples of payment by results, by specificity of result, incentive payment structure and aid recipient



Notes: DFID = UK Department for International Development; EC = European Commission; GEC = Girls' Education Challenge; GPE = Global Partnership for Education; GPOBA = World Bank Global Partnership for Output Based Aid (which targets both government and non-government providers); PforR = World Bank Program-for-Results; RBA = results-based aid.

Source: Based on Figure 9 in Pearson et al. (2010).

The Global Partnership for Education (GPE) adopted a similar approach in 2014 as part of its new funding model,

“ To receive funding from GPE, Malawi must increase the female to male teacher ratio in grades 6 to 8 in the eight most disadvantaged districts by 10% ”

allocating a fixed 70% to requirements and a variable 30% to results. As of January 2017, Education Sector Program Implementation Grants including a variable part had been awarded to five countries. Variable disbursement is contingent upon achieving targets in country Education

Sector Plans and verified results in equity, learning and system efficiency (GPE, 2015). For example, Malawi must increase the female to male teacher ratio in grades 6 to 8 in the eight most disadvantaged districts by 10%. The Democratic Republic of Congo must reduce out of pocket education fees by 20% for the poorest fifth of households (Martinez, 2016).

### DEVELOPMENT BANKS INTRODUCE RESULTS-FOCUSED MODALITIES

About half of World Bank lending is considered results focused, but the share varies among its three lending instruments. Development Policy Financing, the budget support modality, is contingent upon policy adoption and has the weakest result focus. Investment Project Financing, the traditional modality, has a stronger result focus, which increasingly includes disbursement-linked indicators (DLIs) on education outputs. For example, as part of the sector-wide approach in the Third Primary Education Development Program in Bangladesh, half the disbursement was subject to an annual review of output-level DLIs ranging from percentage of primary schools providing pre-primary education to percentage of sub-districts with education plans. As of November 2016, 43 of the 54 DLI targets scheduled for the first five years had been met (World Bank, 2016a).

The third instrument, Program-for-Results (PforR), is newer (adopted in 2012) and most reflects this focus, linking disbursement to defined results. It is slated to expand to 15% of the World Bank's total lending portfolio. Education

appears in programmes supporting local government capacity to deliver basic services, e.g. Morocco National Initiative for Human Development and Ethiopia Protection of Basic Services Project, though few cases focus explicitly on education.

The United Republic of Tanzania's Big Results Now in Education programme, begun in 2014, is one that does. The loan includes DLIs on processes, outputs and outcomes. For example, reaching acceptable pupil/ teacher ratios will release 17% of the funds. Meeting a reading speed target, according to a national sample-based assessment, will release 13%, proportional to rate of improvement. The baseline was 18 words per minute and the target is 22, or an annual average improvement of one word per minute (World Bank, 2014).

Other PforR projects are being developed. India's Enhancing Teacher Effectiveness in Bihar Operation aims to develop training institutions and management systems. Third parties will verify results including DLIs on teacher

“ About half of World Bank lending is considered results focused ”

attendance rates (expected to increase by five percentage points in five years to 86%) and teacher performance scores in reading and mathematics (World Bank, 2015). In Lebanon, Reaching All Children with Education is a multi-donor project targeting Syrian refugees.

The World Bank component attaches US\$95 million, or 42% of the total, to a DLI related to pre-primary through upper secondary enrolment and retention (World Bank, 2016d).

The World Bank committed at the World Education Forum in 2015 to doubling results-based education lending to US\$5 billion between 2015 and 2020. Other multilateral banks having introduced similar DLI-based programmes include the Asian Development Bank. In 2013, it introduced a Results-Based Lending modality in which 46% of funding is dedicated to education projects (ADB, 2016). However, these mainly target institutional results. For example, alongside examination pass rates, DLIs for Sri Lanka's Education Sector Development Program are linked to introducing particular secondary school streams and strengthening institutional capacity, which may be difficult to verify independently (ADB, 2013).

## CONTRACTING SERVICES THROUGH OUTPUT-BASED AID IS A RECENT INNOVATION IN EDUCATION

Output-based aid involves contracts with mostly non-government education service providers. Donors aim to cover per-student service delivery costs but may also provide a variable incentive payment. Payments may release the full amount upon achievement of results, be proportional on units of improvement, or combine the two (R4D, 2015).

The Global Partnership on Output-Based Aid was established in 2003 to develop such approaches across sectors. In education, the Viet Nam Upper Secondary Education Enhancement Project aimed to increase poor students' access to upper secondary education (grades 10 to 12) in private and professional secondary schools in 11 provinces. It provided output-based subsidies to schools, reimbursing tuition for 7,500 students in 2010–2013. Upper secondary schools received US\$90 per student per year, which covered 55% of their school-related costs (mainly tuition); professional upper secondary schools received US\$160 per student per year, which covered 84% of their costs. The school and a foundation, which doubled as the grant recipient and implementing partner, covered the rest (GPOBA, 2016).

Challenge funds make organizations compete for aid (Pompa, 2013). The largest in recent years is the UK DFID Girls' Education Challenge, launched in 2012. It has funded 37 projects, 15 of which have a payment by results component based on achieving outcomes, which represents on average 10% of total disbursement. The key outcome for most projects relates to learning. The rationale for introducing incentives was to strengthen accountability among NGO and private providers (Coffey, 2016; ICAI, 2016).

DFID carried out results-based pilot programmes in Ethiopia and Rwanda. In Ethiopia, the target was to increase the number of students sitting and passing the grade 10 General Secondary Education Certificate Examination, especially in the four poorest regions. For every additional boy sitting the examination over the

previous year in those regions, the government received £75; the incentive per girl was £100. The same sums followed every additional pass. Slightly less was offered in the other regions. The total reward was up to £10 million per year for three years (Cambridge Education, 2015). The design in Rwanda was similar.

These two projects come the closest to Cash on Delivery aid, championed by the Center for Global Development, a think tank. The approach links cash payment to a single development outcome. Recipients have discretion over the means of achievement (Birdsall and Savedoff, 2010). An offshoot idea is the Outcome Fund, which envisions distributing US\$1 billion among countries committed to introducing or maintaining a valid learning assessment (Savedoff, 2016).

## Evaluations are few and difficult to design

Because payment by results in education aid is a recent phenomenon and the number of completed interventions is small, it is not surprising there are few evaluations.

Process evaluations of new results-based lending tools are beginning to emerge. The World Bank Independent Evaluation Group assessed PforR and noted that, contrary to expectations, most targeted results were achieved at the institution, not outcome, level (IEG, 2016). Similarly, a mid-term review of the Asian Development Bank instrument recommended more DLIs linked to institutional rather than outcome results (ADB, 2016).

An evaluation of the Girls' Education Challenge process appreciated the results orientation of a diverse set of projects but found that most providers faced monitoring and evaluation capacity challenges and that a push towards reaching more girls sooner diluted the aim of reaching the most marginalized (Coffey, 2016). The Independent Commission for Aid Impact's evaluation praised the fund's innovative features but questioned whether interventions could be sustainably linked to public systems (ICAI, 2016).

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Impact evaluations have design issues they need to address to be informative. First, many evaluations, which have taken place mainly in the health sector, could not attribute observed changes to the payment by results contract. Evaluations need to focus more on identifying the 'mechanisms and sets of circumstances under which' payment by results approaches 'can most likely result in behavioural change leading to long-term impact' (Perrin, 2013).

Most interventions target a broad set of results, making it complicated to draw evaluation conclusions. Indonesia's National Community Empowerment Programme, *Generasi*, offered communities block grants to improve health and education outcomes, such as school attendance. Communities used the funds to hire teachers, open branch schools or subsidize transport, among other options. A competition component allocated part of the grant to the communities with the best performance. Enrolment rates increased but there was no evidence that this was due to the incentive (Olken et al., 2014).

Second, payment by results is rarely used in isolation, so the incentive's additional effect is hard to discern. This is especially so when a payment by results contract is a small addition to a larger aid programme with the same targets. The DFID pilot project in Rwanda offered up to £9 million as part of the UK government's overall £75 million contribution, which itself was part of a sector-wide approach by multiple donors. Evaluation showed no consistent results attributable to the pilot. Observed above-trend increases were linked to earlier government decisions to extend basic education to 9 and 12 years (Upper Quartile, 2015).

In DFID's Ethiopia pilot, the financial rewards were not competitive enough against other donor-funded projects. None of the estimated impact on the change in numbers of boys or girls sitting the examination was statistically significant or reasonably attributable to the pilot. Regional education bureaus and schools found the financial rewards of the pilot to be comparatively small, and thus inadequate for substantial change (Cambridge Education, 2015).

Third, the duration of intervention, the speed with which data can be made available and the lag before results materialize complicate the evaluation process.

Investments are being made to address some of these concerns and improve the evidence base. The Girls' Education Challenge has introduced solid monitoring

and evaluation frameworks, its fund manager has set consistent evaluation standards, and providers are obliged to dedicate more than average resources to commission an external evaluation (around 15% of their budgets and exceeding 20% for some smaller projects). However, an evaluation of its payment by results component highlighted weaknesses in design and communication. It also suggested that financial incentives were not necessary to maintain focus on results (Holden and Patch, 2017).

Results in Education for All Children, a World Bank-managed multidonor trust fund supported by Germany, Norway and the United States, aims to help prepare systems to roll out results-based approaches and to strengthen the evidence base. Some of the 19 projects that received its Knowledge, Learning and Innovation grants in 2015 explored governments' capacity to administer results-based contracts. A grant helped the National Institute of Open Schooling in India, which manages second-chance education opportunities, to introduce performance-based contracts for service providers (World Bank, 2016c). In Jakarta, Indonesia, a project supported school grants linked to performance indicators related to national education standards. While such projects are expected to enrich the evidence base, they are mostly small and conclusions about whether they can be scaled up should be drawn with caution.

## Many assumptions behind payment by results may not hold

While evaluation evidence remains thin, some recent contributions draw attention to gaps in the assumptions underpinning results-based approaches to aid contracting.

### SHIFTING RISK TO PROVIDERS REDUCES VALUE FOR MONEY

It is reasonable to assume that actors in education are primarily motivated by the intrinsic incentive of providing good education. Superimposing external incentives may undermine intrinsic motivation (Gneezy et al., 2011). If minimum performance is set low, actors with high intrinsic motivation may reduce their efforts, perceiving such controls as questioning their commitment. Moreover, being deprived of resources for not achieving the result despite appropriate effort may be demoralizing (Clist and Dercon, 2014).

Even if a results-based aid contract does provide incentive for improved progress towards an outcome, its design influences the kind of providers it attracts. The uncertainty of contingent disbursement may deter those more averse

“ Shifting risk to education providers can cancel out the promise of innovation that payment by results approaches hold ”

to risk and loss. The Girls' Education Challenge found that smaller NGOs were less likely to bid for contracts (Bond, 2014; Holden and Patch, 2017).

Providers that do bid are more likely to overestimate their chance of achieving the results and/or underestimate costs. The financial reward would have to increase

to overcome risk aversion (Clist, 2016). Bidders may also have better information about how to deliver the outcome with less effort and cost than the results-based allotment assumed. In both cases, value for money, a key rationale of paying for results, is reduced.

Ultimately, shifting much of the risk to providers can cancel out the promise of innovation that payment by results approaches hold. Development aid's effectiveness is likely to increase when providers innovate to achieve education results. However, they may be reluctant to risk innovation in delivery if payment depends on certain success.

### IDENTIFYING GOOD INDICATORS OF RESULTS IS CHALLENGING

Estimating and achieving results in education are not straightforward, not only because effort may not be a good predictor of outcomes but also because the measurement may be uncertain. There are diverse ways to look at the latter challenge, as learning outcome indicators illustrate.

First, indicators must be measurable. There must be, for example, an accepted definition of the desired learning outcome and corresponding tools to measure it. Donors may be able to use national statistics, but parallel monitoring and evaluation systems are generally put in place. This increases costs substantially, often without building a country's monitoring capacity. This runs contrary to the goals of institutionalizing measurement systems, a key objective of payment by results proponents (World Bank, 2017).

Second, indicators must be verifiable at reasonable cost. Precise, independent third-party verification is important, as measurements trigger contract payments that cannot be legally contested. In practice, many outcome indicators are measured by sample survey, introducing error. This is especially an issue because learning outcome results tend to change incrementally, making it even more difficult to assess progress with any certainty.

Third, indicators play simultaneous, but not necessarily compatible, roles as criteria for disbursement decisions and as measures of long-term development outcomes that donors desire and support (Holzapfel and Janus, 2015). For example, learning outcome measures that are too narrow relative to overall system objectives may lead to distortions in service provision, e.g. when indicators that ignore equity lead providers to focus on the easiest to reach students. Such unintended consequences detract from the potential positive incentive effects of payment by results.

### MOVING TOWARDS ONE PRINCIPLE OF AID EFFECTIVENESS MAY UNDERMINE OTHERS

The approaches under discussion aim to fulfil the Paris Declaration principle of managing for results. A closer look suggests this may be inconsistent with other declaration objectives.

Results-based aid may not fulfil the principle of country ownership. Donors say countries are increasingly enthusiastic about adopting results-based approaches, but the concept originates with donors. Recipient countries are not using results-based approaches to manage domestic resource allocation, aside from block grants to local governments, which themselves result from donor programmes (UNCDF, 2010). Non-aid budget allocation in recipient countries rarely displays such flexibility and willingness to introduce risk (Paul, 2015).

“ Results-based aid may not fulfil the principle of country ownership ”

This apparent lack of ownership also explains difficulties in communicating how payment by results works. A review of the PforR project on teacher education in Viet Nam showed that the national team struggled to understand the mechanism, as well as the fact that 'although country systems are used, the Bank will impose certain diligence requirements regardless' (World Bank, 2016b). The DFID

Rwanda project benefited from a strong relationship between central and local authorities, but the project was not known or understood at the local level (Holzapfel and Janus, 2015).

The principle of alignment with country systems is inconsistently applied. Donors often favour channelling resources through non-government providers, supporting private management of public schools, voucher programmes and school construction (R4D, 2015). Yet investment to strengthen public institutions' capacity must not be neglected. In addition, there is evidence, e.g. from the Girls' Education Challenge, that most projects have no plan for scaling up or making their approach integral and sustainable within the public education system (ICAI, 2016).

Basing disbursements on uncertain outcomes also fails to resolve the unpredictability of aid flows, a long-standing criticism of current donor practices. The approach seems to dismiss outright the idea of upfront and predictable funding to alleviate financing gaps in development.

## Conclusion

Payment by results has been praised for helping increase awareness of the need to pay closer attention to the results ultimately sought. It can also help accelerate a move towards a culture of monitoring and evaluating results. To the extent that these results are part of the national strategy, the approach can propel a virtuous cycle of alignment.

But care must be taken in addressing the resulting dilemmas. Are results-based contracts necessary to instil an overall result orientation in government, or can that be better achieved by building the capacity of national statistical systems? Do defined but narrow outcomes risk diverting energy to short-term results that are potentially incompatible with, or come at the expense of, long-term development? Payment by results may supplant traditional aid models only when it meets fairly restrictive conditions. The approach may work best where it is needed least, i.e. in education systems with a clear sense of purpose and objectives aligned with donors that can afford to take risks.

Payment by results may be just another attempt to impose conditionality on aid, and one that does not completely address issues that have obstructed aid conditionality in the past. A key conclusion of a high-profile review of aid conditionality in the early 2000s thus remains relevant: '[Donors] should approach the design of conditionality with a degree of humility, recognizing that the problems faced by developing countries are complex in nature and often do not lend themselves to a single solution' (Koeberle et al., 2005).

With respect to strengthening accountability, payment by results seems to pressure non-government providers to perform. However, there is little indication the dynamics of accountability are changing for governments whose need for aid to build robust institutions remains as strong as ever, and there is a question of the accountability of donors keen to shift risk onto the aid recipients least prepared to bear it.

References for this paper can be found online at the following link: [https://en.unesco.org/gem-report/sites/gem-report/files/Results-based-financing\\_References.pdf](https://en.unesco.org/gem-report/sites/gem-report/files/Results-based-financing_References.pdf)

Global Education Monitoring Report  
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