Results-Based Financing Approaches

Observations for Pay for Success from International Experiences

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Globally, policymakers and the public are searching for solutions to help ensure money meant for public service delivery goes to fund effective programs. One such solution, results-based financing (RBF),[1] leverages existing or new financial resources to incentivize results by paying for desired outcomes or outputs.[2]

RBF approaches are diverse and have emerged in different contexts and with different partners. Generally, however, they share two characteristics (SIDA 2015):

1) Payment is based on results.

2) The relationship between payment and results is predefined.

These models improve service delivery and government performance (measured primarily through outputs but, increasingly, with an emphasis on outcomes) by incentivizing the achievement of desired results. Evidence suggests that clear performance-based incentives can yield improved outcomes.[3] This approach contrasts with traditional funding designs that focus on inputs (such as "fee-for-service" models) rather than achieved results. Several theories have been postulated for why linking payments to results will yield better outcomes, including by appealing to recipients' pecuniary interests, drawing the attention of politicians and bureaucrats, generating accountability to constituents, and creating opportunities for parties to adapt and learn (Perakis and Savedoff 2015, 8–14).

RBF approaches have emerged in both developing and developed countries[4] in many forms as a response to the universal challenge of funding effective public programs. Although some of these approaches have existed for years, one relatively new model, called pay for success (PFS), offers the most advanced iteration of results-based financing in developed countries.

PFS[5] is an innovative financing mechanism that shifts risk for a new but evidence-based social program from a traditional funder (usually a government) to a third-party investor (usually a private organization or nonprofit). At the heart of all PFS projects is determining whether or not a social program can improve outcomes for a specific group of people. If the program works—as measured by a rigorous evaluation—the project is a success. Investors get their money back (with a potential positive return), the government realizes potential future cost savings, families and society benefit from better outcomes, and social service providers strengthen the case for funding their model. Currently, the number of launched PFS projects is relatively small, but dozens of jurisdictions in the United States and the rest of the developed world are considering PFS financing.

This brief seeks to help PFS partners design and implement stronger projects by understanding and learning from existing experiences with other RBF approaches across the globe. It will first briefly introduce the diverse landscape of RBF approaches in developing countries before considering some of the manifestations of these approaches in developed countries. Then it will highlight a few observations from those experiences that are particularly relevant for PFS before offering some final thoughts.

RBF Approaches in Developing Countries

Many developing countries face large funding gaps to address public needs[6] and have limited capacity to self-finance. Consequently, many turned to external and creative financing solutions to close these gaps and fund delivery of social programs, infrastructure, and other public goods and services.[7]

The logic behind a basic RBF approach is straightforward. Consider a hypothetical output-based financing arrangement for bed nets. A group of stakeholders may note that despite up-front investments, service providers are still failing to deliver bed nets to the entire target population. The existing funder (e.g., the United Nations) shifts the financing incentives by proposing to pay the service providers only after an independent verification determines they have delivered the bed nets. By making final payment ex post and conditional, this model measures the achievement of results and increases transparency about those results.

The bilateral development agencies of developed country governments (e.g., US Agency for International Development), multilateral international organizations (e.g., the World Bank), and philanthropies (e.g., the Bill & Melinda Gates Foundation) have long played a prominent role in financing goods and services for general welfare in developing countries (United Nations 2003). In an effort to improve results, these funders, as well as other stakeholders (developing country governments, civil society members, etc.), have embraced the exploration of funding models that incentivize improved results. Several funding mechanisms have also been developed to promote take-up of RBF, including the Health Results Innovation Trust Fund (box 1).

BOX 1

Case Study: The Health Results Innovation Trust Fund

The World Bank–administered Health Results Innovation Trust Fund (HRITF) advances RBF approaches in the health sector and the diffusion of RBF-driven good practices, and it largely focuses on outputs in health systems. HRITF aims to create a broader culture of evidence-based policymaking within the sector.

HRITF's stated objectives are to

- support design, implementation, monitoring, and evaluation of RBF mechanisms;
- develop and disseminate the evidence base for implementing successful RBF mechanisms;
- build country institutional capacity to scale up and sustain RBF mechanisms, with the national health strategy and system; and
- attract additional financing to the health sector.

HRITF makes grants to support the evaluation of RBF programs. This support includes capacity building among country teams for implementing impact evaluations to promote the sustainability of this evidence-based policymaking model.

Although HRITF is not an RBF approach, it shares the objective of creating financial incentives to yield certain improved results. HRITF, however, incentivizes the supply of certain health services.

Source: https://www.rbfhealth.org/

These efforts are bolstered by several realities:

- Political priorities in developed (donor) countries are paying greater attention to measurable results. In recent years, for example, the UK government has explicitly mandated that its foreign aid must demonstrate "value for money" (Department for International Development 2011). This directive is being implemented through various policy actions, including elevating the role of evidence and evaluations to measure outcomes of the United Kingdom's foreign aid.

- Donors commonly set up financing and delivery systems parallel to the systems of developing countries' governments. External funders might choose to use parallel systems for several reasons. For example, weak, opaque, or unaccountable public finance systems in a developing country could raise concerns that money will be misspent or misdirected. Although parallel systems can undermine the capacity building of developing countries' governments if maintained in perpetuity (Lopes and Theisohn 2003), they may in some cases be more receptive to innovative financing approaches because they are less encumbered by existing rules and policies.

- Driven in part by this funder focus on results, international organizations (including multilateral development banks) have played a significant role in exploring, developing, and encouraging RBF approaches. These organizations have brokered dialogue between governments and other

actors (including investors) on these financing opportunities and leveraged their own financial resources as direct investors, first-loss guarantors, or outcomes payers.[8] By participating actively in the development of financing tools, they have arguably lent credibility to the existing models (e.g., green bonds[9]) and helped them scale.

RBF implementation in developing countries also faces significant challenges. Challenges related to data are one example. Programs must contend with a dearth of reliable data systems and sources that makes it difficult to identify and understand target populations, track service delivery or project implementation in a timely manner, make midcourse corrections, monitor and manage financial resources, or measure outputs (much less outcomes) achieved. Finding data demonstrating with any certainty that a program itself *caused* the outcomes is rarer still. In other words, the data systems simply do not exist at the onset in many contexts to effectively track, manage, or evaluate programs.

This is not necessarily an insurmountable obstacle. In practice, collecting good-quality baseline data through household surveys is relatively straightforward. Even when household survey data is insufficient, it can be independently verified with programmatic and facility data. Certainly there are costs associated with data collection and verification, but the information gleaned can have utility beyond the project funded by an RBF approach.

These challenges are also not exclusive to the implementation and evaluation of projects in developing countries—US PFS partners have also identified challenges in collecting and sharing necessary quality data as part of project monitoring and evaluation (GAO 2015, 40–41).

Landscape of RBF Approaches in Developing Countries

A diverse range of results-based financing approaches have existed in developing countries for some time.[10] This diversity demonstrates the attractiveness of results-based approaches to address different issues across many local contexts. As with developed countries (which are addressed in a later section), RBF solutions have proliferated in the public health sector, where outcome measures can be relatively straightforward and data are often more readily available (Eichler, Levine, and the Performance-Based Incentives Working Group 2009).

Table 1 introduces some of the most common RBF approaches in developing countries, highlighting their characteristics in four areas:11

- **Investor type**. What type of investor primarily finances projects through this approach: private investors, philanthropies, or multilateral and bilateral institutions?
- **Type of results.** What type of results does the mechanism hope to facilitate: outputs (the activities taken or goods produced) or outcomes (the difference the outputs make on beneficiaries)?
- **Recipient**. Who is receiving the funding and is responsible for generating the outcomes?

- **Timing**. Is the results-based funding provided up front to the recipient with results verified at project completion, or is the implementer reimbursed after results are verified (either in tranches or all at the end)?

TABLE 1

Results-Based Financing Approaches and Key Characteristics

	Example	Investor type	Type of results	Recipient	Timing
Development impact bond	India rural education development impact bond	Private, philanthropic, and multi- or bilateral organizations	Outcomes	Service provider	Up-front
Outcome-based aid/financing	Amazon Fund	Multi- or bilateral organizations	Outcomes	Service provider or government	Reimbursed
Output-based aid/financing	Global Partnership on Output-Based Aid	Multi- or bilateral organizations	Outputs	Service provider or government	Reimbursed
Performance-linked payments	World Bank Program for Results	Multi or bilateral organizations	Outcomes or outputs	Government	Reimbursed
Conditional cash transfers	Bolsa Familia	Multi or bilateral organizations	Outputs	Individuals	Reimbursed
Pay for success	Massachusetts Juvenile Justice project	Private and philanthropic	Outcomes	Service provider	Up-front

DEVELOPMENT IMPACT BONDS

The development impact bond concept was introduced in 2013 by Social Finance UK and the Center for Global Development (Development Impact Bond Working Group 2013). Structured similarly to PFS projects in the United States and social impact bonds in the United Kingdom, development impact bonds provide up-front funding from third parties (including private investors) to a social service provider, with the investor only repaid upon successful achievement of specific outcomes as measured by an independent evaluation. Whereas a government pays for outcomes in a PFS project, in a development impact bond, the outcome payer is a foreign government, multilateral organization, or nongovernmental organization. This is a critical difference and might lead to less ownership and buy-in from local and national government partners, but it is far too early to assess this. In the past few years, development impact bonds have launched in India,[12] Peru,[13] and Palestine.[14] The year-one results from the project in India, released in July 2016, indicate that "the DIB is on track to meet its 2018 targets for both enrollment and learning gains… [and] has produced a step change in how the service provider… achieves impact."[15]

OUTCOME-BASED AID OR FINANCING

Outcome-based aid focuses on aid payments, conditional upon achievement of specific outcomes, from donors to governments of developing countries. Such agreements are rare so far (Perakis and Savedoff 2015). Unlike PFS arrangements, outcome-based aid is an agreement between donors and recipient governments, and it does not involve private investors or yield a return. In practice, outcomes have often been relatively straightforward and focused on big-picture results (e.g., immunization rates or reduction in deforestation).[16] This focus on larger outcomes suggests this financing tool might be used to support a portfolio of complementary projects and activities rather than a specific program.

OUTPUT-BASED AID OR FINANCING

Unlike the preceding approach, output-based aid focuses on what is directly delivered, linking aid payments with the delivery of basic service outputs, such as certain health services or a connection to clean drinking water (Global Partnership on Output-Based Aid 2009). Typically, service delivery is contracted to a third-party service provider who is responsible for all (or most) of the up-front cost. As services are targeted to the poor, user fees are replaced or supported by a "subsidy" provided by the donor. However, the subsidy is only provided after delivery and only after independent verification. This approach differs from PFS by emphasizing outputs rather than outcomes therefore paying little or no direct attention to impact evaluation); focusing on delivery of basic services rather than preventative social programs; not requiring private sector financing; typically requiring less behavioral change as a part of service delivery; and providing most (sometimes all) financing only after the delivery of outputs rather than off-setting up-front costs.

PERFORMANCE-LINKED PAYMENTS

In 2012, the World Bank introduced Program for Results to advance the concept of performance-linked payments by leveraging the mechanism to achieve broader impact. Program for Results, like outcome- and output-based aid, links payments with the recipient's achievement of key indicators, which can be outcomes, outputs, or actions. Program for Results takes this one step further, however, by emphasizing performance measurement, evaluation, and "behavioral and institutional changes required to achieve results and manage associated risks." This last aspect includes support for recipient capacity building, including direct technical assistance, provided in parallel to Program for Results. In other words, the funding model is used not just as a vehicle to achieve desired results but also as a platform to enhance government capacity and drive longer-term impact. Unlike PFS, Program for Results leverages bi- and multilateral donor financing (rather than private financing) and does not include an investment return (World Bank 2015).

CONDITIONAL CASH TRANSFERS

Conditional cash transfers are typically part of a social welfare scheme that ties welfare payments to individuals or families to achievement of certain actions (e.g., immunization of children), which may ultimately yield improved outcomes for them, their communities, and society. Brazil's Bolsa Familia program[17] is the most well-recognized conditional cash transfer program and is generally regarded as successful at helping achieve improved social outcomes for some of the country's poorest citizens.[18] Unlike PFS, conditional cash transfers do not leverage private capital, actively seek to measure

"cashable" savings, or directly finance social programs. Instead, they are an example of an RBF approach that is also a behavioral economic policy.

RBF Approaches in Developed Countries

Although the term "results-based financing" is more often used to refer to projects in developing countries, RBF approaches have also been used in developed countries under several other names. RBF exploration has a particularly long history of exploration in the United States, where it "has been part of general government procurement practices for over 30 years" (O'Sullivan et al. 2013, 2). Such approaches can be described in many ways (e.g., performance-based funding and outcomes-based funding), but they all share the same goal as RBF in general: use money to incentivize improved results.

A particularly important form of RBF in developed countries has been performance-based contracting. The Institute for Public Procurement defines performance-based contracting as "a results-oriented contracting method that focuses on the outputs, quality, or outcomes that may tie at least a portion of a contractor's payment, contract extensions, or contract renewals to the achievement of specific, measurable performance standards and requirements" (NIGP: The Institute for Public Procurement 2012) PFS is similar to performance-based contracting in this emphasis on incentivizing preidentified results. However, the two methods have some notable differences, including their financing structures, PFS projects' elevation of evidence-based decision-making, and PFS projects' greater emphasis on rigorously evaluated outcomes.

Approaches by Sector

The health sector has yielded the widest number of applications for RBF approaches in developed countries thus far (Grittner 2013). Perhaps no country has experimented with these approaches more than the United Kingdom. For example, Payment by Results, proposed in 2002 (National Health Service 2002) and implemented into the United Kingdom's National Health Service in 2003–04, was designed to reward higher-quality health services and better-performing doctors and hospitals. As described by Boyle (2007), under this approach, secondary care could be purchased "from the most appropriate provider whether in the public, private or voluntary sectors. The driving force behind these changes, at least explicitly, was to give providers incentives that would reward better performance. This in turn required incentives for those making choices about where patients would be treated … to send patients to hospitals that performed better." Reflecting on implementation of this approach, a 2012 evaluation observed that, "payment systems are not just a means to an end; they are one of many measures used to promote health policy objectives. They may not be as effective as other means of promoting desirable change so they need to be evaluated in relation to what other policy instruments can achieve, or for their incremental impact over and above the effects produced by other measures" (Appleby et al. 2012).

In the broader human services realm, several US states have used performance-based contracts for years. One example comes from Maine's Department of Health and Human Services, which has been using this approach since 1997. Although it doesn't tie contractor payments to performance, it does link

contract renewals and extensions to the accomplishment of certain agreed-upon performance standards (Clary, Ebersten, and Harlor 2000). An early evaluation of Maine's experience found that tying contract renewals to performance led to improved outcomes and that this effect was strongest among contractors whose budgets relied the most on performance-based contracts (Commons, McGuire, and Riordan 1997). A review of performance-based contracting in this sector that looked at experiences from Maine and several other states found that "performance-based contracting does not require that all contractor compensation be tied to performance" (Martin 2002).

In education, explicitly tying funding to educational outcomes is embodied by the No Child Left Behind Act of 2001, which provided a framework for tying school funding to test scores.[19] Although the act received significant criticism (Schul 2011),[20] it further advanced the concept of performance-based funding within education policy.[21] For example, the Every Student Succeeds Act of 2016[22] includes two provisions (Title I, Part D; and Title IV) that enable over $300 million to be used for PFS solutions. Another example is the 2014 Workforce Innovation and Opportunity Act, which allowed local boards to, at their discretion, allocate up to 10 percent of their federally funded budget for "pay-for-performance contract strategy" to obtain youth and adult workforce development services.[23] The Workforce Innovation and Opportunity Act, as well as the final rules for the act[24] that were released in 2016, present several differences from some other performance-based contracting experiences, including providing room for longer-term outcomes and the requirement of a contracting strategy, including a feasibility study.

RBF approaches are not limited to these sectors, however. In defense contracting, for example, the US government has used an outcome-based approach called performance-based logistics, which rewards vendors that meet certain standards (e.g., maintainability of a product)[25] instead of just rewarding the lowest-cost bids. Given the challenge of incentivizing larger-picture outcomes through individual and collective action, policymakers have also used RBF approaches to tackle environmental issues. For example, countries can allow investors to pay for outcomes such as forest restoration and conservation and then reward such verified results through "emission allowances." Switzerland and South Africa both use results–based approaches to achieve emission reductions and other positive environmental outcomes as part of their carbon strategies (Jensen 2015).

Observations from RBF Experiences

Creative solutions are born from great need. Indeed, "resilience theory" suggests that the need to overcome challenges enhances our ability to innovate.[26] The history of results-based financing approaches in developing countries is an example of this: in the face of significant public financing needs, a great number of innovative solutions have been proposed and implemented. RBF approaches also enable testing new solutions that, if effective, can be scaled to deliver real impact. Here, we share observations and lessons from experiences with RBF in developing and developed countries that are relevant for the application of PFS in the United States.

It has become a truism that context matters. Yet it bears repeating with RBF approaches because the focus is often on the innovative model or approach itself rather than on its implementation and context. Context is particularly important for RBF approaches because of its implications for project design and gaining local buy-in (SIDA 2015, 17). In terms of design, even if a program has previously performed well in an evaluation, if that program is applied to a new context, differences in the population or environment could have significant implications on the program's success. Strong projects account for both the expected effectiveness of the program based on existing evidence and considerations specific to the current context.[27]

With RBF, where an important goal is typically to increase accountability,[28] leadership adherence to project norms is a critical element of a successful project. The transaction costs and substantial management requirements (especially with PFS) require the investment of substantial leadership time.

However, buy-in extends beyond leaders to midlevel and frontline government officials as well as beneficiaries. In developing countries, where the mechanism may be proposed and managed by a third party (e.g., a donor), local buy-in is even more of a concern. Challenges in ensuring a program's long-term viability and sustainability often include limited "ownership" by host-country government officials when a project is transitioned from the original third-party manager to the long-term local government administrator.[29] A similar lack of ownership can occur within developed countries when an administration change occurs, bringing new political priorities to the forefront. The risk of effective projects not being sustained beyond the life of the RBF contract can be mitigated by, during project planning, identifying who will own the project at the end of the term and how management of services will be transferred if necessary. Sustainability plans have long been employed for a range of government projects (US Department of Housing and Urban Development 2012), but with RBF projects the need is heightened because the contracts are time bound.

Successfully achieving the objectives of innovatively financed projects typically requires behavioral change on the part of stakeholders, including government officials and beneficiaries. For service providers and governments, adopting a focus on results is a critical long-term objective and a key (if not *the* key) factor determining sustainability (AIDSTAR-Two Project 2011, 38–39). For beneficiaries, behavioral change in response to the intervention (e.g., the funded service provision) is a critical determinant of success.

Results-based financing sharpens the focus of development financing on critical elements: measuring and demonstrating results and improving service delivery. Although still a small portion of total development financing flows, the growth and implementation of RBF approaches has helped fuel a conversation on funding verifiable results (Morgan 2010). In developed countries, diverting public resources to evidence-based practice proves to be a large public administration challenge.

More lasting than any individual funding agreement are attitude changes within government that stem from conversations about performance targets. A new emphasis on results can promote the strategic deployment of capital for the public good, project risk assessment and management, and outcome measurement.

In developing countries, results-focused mechanisms have helped elevate certain issues (e.g., climate finance) among many stakeholders.[30] These projects have increased the accountability of service delivery providers to beneficiaries and funders through the establishment of monitoring and evaluation procedures,[31] and they align with reforms aimed at public performance and delivery improvements (Meessen, Soucat, and Sekabaraga 2011). With PFS, similar potential positive spillover effects have also been recognized,[32] but the mechanism could be further linked to broader discussions on improving public service delivery through outcome- and evidence-based governance. For example, a jurisdiction undertaking a PFS project may wish to apply some of the lessons learned from the project's strategic planning and outcomes discussion phase to other public programs that are not funded by PFS.

Strong monitoring and rigorous evaluation enable transparent and objective assessments. An Asian Development Bank request for proposals (Asian Development Bank 2012) for RBF pilot projects specifically highlights the importance of monitoring and evaluation for project selection. In their work, establishing strong monitoring and evaluation practices forms the basis not only for payment but also for understanding project effectiveness. This is of importance because in both developing and developed countries, programs often have little or no existing proof of efficacy. RBF approaches offer the opportunity to build evidence bases and help answer the question of whether a program works and is worth funding.

Rigorous evaluation designs help us understand whether the program actually works or not. In other words, the evaluation must have something to compare the program's outcomes against. This comparison can be created in several ways. Although randomized controlled trials are the strongest evaluation design option (and the most common in PFS projects to date) because they create the best counterfactual to the treatment group (Milner and Walsh 2016), many other options are available. Without a comparison, attributing the achieved outcomes to the program is difficult. This is particularly true for PFS projects where the target population could have been influenced by several other public and private services.

Additionally, project partners should be careful when selecting outcomes to ensure the approach is incentivizing results that are both beneficial and meaningful for the target beneficiaries. If a project selects the "wrong" outcome—an outcome that has perverse unintended consequences—the project might be unintentionally harmful, poisoning the well for future RBF proposals. For example, many of the most vocal critics of the No Child Left Behind Act of 2001 argued that its explicit emphasis on tying financial incentives to improved test scores undermined actual learning in favor of a strategy that "taught to the test."[33] This is an embodiment of Campbell's law: "The more any quantitative social indicator is used for social decision-making, the more subject it will be to corruption pressures and the more apt it will be to distort and corrupt the social processes it is intended to monitor" (Campbell 1979). To help avoid this pitfall, PFS stakeholders should take advantage of the process's strategic planning stage to think carefully about what results they actually want to see and how this can best be measured.

The power of third-party investor demand for a double bottom line can change government service delivery. Social impact investors are increasingly interested in financing evidence-backed solutions that can yield real results. Examples include the corporate social responsibility arm of a major

corporation working to bring science and technology education to girls in India[34] and a private impact fund and philanthropic investors in the United States investing in evaluating the impact of a high-quality preschool intervention on kindergarten readiness, reading outcomes, and special education avoidance for third-grade students.[35] The philosophies and business models of many private investors, and their need to show tangible, measurable results to senior management and shareholders, can have significant implications. This pool of evidence- and outcomes-oriented investors is a natural fit for RBF approaches, which elevate both those priorities.

The desire to attract this results-oriented capital is embodied in practice by Bridge International Academies, a network of private nursery and primary schools in Africa that focuses on delivering evidence-based educational services and measuring and publishing outcomes of those services.[36] Bridge International Academies is privately run and has received funding from investors including international organizations, donor agencies, and venture capital firms. The organization has attracted private funders—including Mark Zuckerberg and Bill Gates—through its promise to yield a double bottom line: financial returns and improved educational results.[37] To demonstrate achievement of those results, Bridge International Academies has emphasized the role of strong evaluation and has published the outcomes of participants compared with a nonrandomized comparison group. The organization concluded in a 2014 report that students learning through their model achieve significant gains in core reading and math skills compared with nonparticipating peers (Bridge International Academies 2013).

A well-placed third-party to seed and support the field is important. Within developing countries, international organizations and coalitions (e.g., the Global Partnership on Output-Based Aid) have proven invaluable in advancing RBF and attracting private sector capital to investments. They have done this by offering technical expertise, providing their own capital (particularly at early stages), using their convening power, and lending reputational weight to these tools.

With PFS, the US government and other partners can play similar roles. The budget for fiscal year 2016, as well as previous budgets, included a $300 million appropriation for a PFS implementation assistance fund (White House n.d.). The White House Office of Social Innovation and Civic Participation[38] has played a critical role in promoting federal discussion of PFS publishing fact sheets, convening conversations, and advocating for the budget appropriation.[39] Several federal agencies and initiatives—the Department of Justice, the Department of Housing and Urban Development, and the Corporation for National and Community Service, among others—have played a critical role in seeding the field through grants for feasibility studies and technical assistance. Additionally, nonprofit actors, such as the Rockefeller Foundation and Bloomberg Philanthropies, have helped catalyze early projects through the provision of loan guarantees, junior loans (first-loss capital), development grants, and funding for intermediaries.[40]

Results-based financing approaches are not guarantees of improved results. PFS, like RBF approaches, has significant potential to encourage better and more cost-effective public service delivery. However, the mixed experiences of different approaches and projects caution restrained expectations and serve as a reminder that how the instrument is structured and implemented is often as important (if not more important) than the concept itself.

One issue is that little rigorous evaluation has been done on the effect and impact of RBF approaches. That is likely a result of the field's youth and small scale to date, but the dearth of evaluation presents an opportunity for further research as the field continues to evolve. Existing studies provide mixed results of RBF's effectiveness and, in all cases, context (of the issue, the program, the partners, etc.) and a clear strategic vision are critical.

As noted in a broad review of RBF approaches in health sectors in both developed and developing countries (Oxman and Fretheim 2008), "there is almost no evidence of the cost-effectiveness of RBF," and "RBF can only be cost-effective if the intervention or behavior it is intended to motivate is cost-effective and worth encouraging and there is low compliance with the desired behavior." One reason for this is that RBF approaches are often more complex than traditional financing for services and they typically offer performance incentives, incurring additional costs. In other words, RBF approaches may be more expensive than traditional approaches, so the question becomes, "Is there enough benefit (in terms of improved results) in exchange?" In addition, the report notes that "RBF can have unintended effects, including motivating unintended behaviors, distortions, gaming, corruption, cherry-picking, widening the resource gap between rich and poor, dependency on financial incentives, demoralization, and bureaucratization." Although PFS is structured differently than the approaches profiled in that report and thus PFS projects are unlikely to see the same unintended negative externalities, these findings still suggest awareness of potential risks. Partners considering PFS should understand the costs and complexities of the model, what they want to achieve by pursuing it, and its potential risks.

Another analysis of RBF found that the number of projects funded through such an approach is relatively low, hampering the ability to draw detailed conclusions. Nonetheless, the paper found that when RBF was effective, it was because "payments for outcomes seemed to increase the salience of results to people implementing programs—among staff in the funding and recipient agencies—making increased attention to outcomes the key mechanism for change" (Perakis and Savedoff 2015).

Final Thoughts

The development community, facing circumstances that demand innovation, has long been fertile ground for new ideas and approaches. Development impact bonds grew directly from a desire to apply social impact bond ideas in the United Kingdom to challenges in developing countries, yet knowledge exchange goes both ways. Although the scope and nature of issues faced by social service providers and governments is often vastly different in developed versus developing countries, many lessons can be shared across these experiences.

Yet service providers and governments may be unaware of efforts similar to their own that other countries are implementing. This is a missed opportunity. Governments may have latent demand for mutual learning and knowledge exchange with the goal of identifying challenges and discovering effective solutions while considering and implementing a project funded through RBF. Recognizing how much contextual factors limit or qualify comparisons will remain a challenge. This is a conversation

worth continuing because the fundamental objective of these approaches is the same: improving public performance by paying only for results.

At their core, most results-based projects involve partnerships between governments and nongovernment entities through blended financing and require both sides to understand the incentives, objectives, strengths, and limitations of the other. The years of experience navigating public-private partnerships through RBF projects provide a roadmap for how governments wrestling with PFS can proceed.[41]

Most of results-based projects share the goal of transforming the way government uses evidence in policymaking. Both PFS and RBF attempt to make governments more accountable for the performance of the services they fund.[42] And some results-based projects suggest that governments should transition effective impact bond models to more long-term contracts, potentially with a RBF component (Gustafsson-Wright and Gardiner 2016, 60).

However, RBF in general and PFS in particular have significant outstanding research agendas; there is limited and inconclusive evidence on whether these approaches "change anything" (Eichler, Levine, and the Performance-Based Incentives Working Group 2009). Concerns about the effectiveness and impact of these approaches boil down to a few overarching questions: Do these mechanisms really yield improved results? Can and should these mechanisms be used to finance broad service delivery, or should they be restricted in their use? Is this model sustainable, and can it lead to broader systemic changes in government service delivery and performance management? Although these questions lie outside the scope of this paper, they are important to understand the potential and limitations of these approaches.

Future papers could consider what lessons PFS can draw from other comparators, such as developing countries' experiences with output-oriented debt financing, variants of PFS in other developed countries, and the diverse forms of private impact investing globally.

Acknowledging the similarities between RBF in developing countries and developed ones, as this and other papers[43] have attempted, provides a platform for learning and advances a mutually beneficial research agenda and knowledge exchange.

Notes

1. Some observers distinguish between results-based aid and results-based financing and might consider "results-based" distinct from "outcomes-based." This paper, for simplification, places many mechanisms under the broad term "results-based financing."
2. "Outputs are products and services delivered by the program. Outcomes are events, actions, or behaviors that occur outside the program and in ways that the program is attempting to affect" (Hatry 2007, 304).
3. See, for example, Eichler, Levine, and the Performance-Based Incentives Working Group (2009) and Khan, Khwaja, and Olken (2016).
4. To simplify the terminology in this paper, "developing country" will correspond with the World Bank's classification of low- and middle-income countries, and "developed country" will correspond to the

classification for high-income countries. See "World Bank Country and Lending Groups," World Bank, accessed November 2, 2016, http://data.worldbank.org/about/country-and-lending-groups.

5. PFS (and the concept underpinning it) has been called other terms, including social impact bonds, payment by results, and, in Australia, social benefit bonds. For clarity, and because this brief focuses primarily on the method's application in the United States, we use only "PFS."

6. A 2014 UN Report estimated that developing countries are facing a $2.5 trillion yearly funding gap if they hope to meet the Sustainable Development Goals, a set of global development targets (Zhan et al. 2014).

7. While RBF models in developing countries have generated lively debate in the development community, a discussion of the ethics (e.g., Chowdhury et al. 2013), sustainability (e.g., Toonen et al. 2009), and implementation challenges (e.g., Klingebiel and Janus 2014) of these models is outside the scope of this paper. Nevertheless, they should not go unacknowledged.

8. For instance, see Fritsche, Soeters, and Meessen (2014).

9. Heike Reichelt and Alexandra Klöpfer, "Green Bonds Market Tops $20 Billion, Expands to New Issuers, Currencies & Structures," *Development in a Changing Climate: Making Our Future Sustainable* (blog), July 23, 2014, http://blogs.worldbank.org/climatechange/green-bonds-market-tops-20-billion-expands-new-issuers-currencies-structures.

10. An early effort to co-finance primary health care occurred in Zambia in the late 1980s and early 1990s (Soeters and Nzala 1994).

11. These four areas have been chosen by the authors because they highlight some of the most interesting characteristics of these mechanisms compared with traditional public financing and because they help highlight the main distinctions among the mechanisms.

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