

Soundbites

Getting what you pay for:

Payment-by-Results in
international development

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Getting what you pay for: Payment-by-Results in international development

This Soundbite explores the topic of Payment-by-Results (PbR) in international development, setting out its potential benefits before considering the main challenges to using such an approach. It concludes with a description of PbR in action and considers what might come next.

What is Payment-by-Results?

PbR is a payment mechanism where delivery organisations will only get all or part of their payment upon the delivery of some form of 'result' – which depending on the context could be based on forms of outputs or outcomes. This is in contrast to alternative payment mechanisms, for example where payments may be made upfront, or on the delivery of inputs rather than results. Such an approach is not unique to international development, and is found in many other sectors, such as healthcare and criminal justice.^{1,2}

For example, if a contractor were to undertake some renovation work on your home, you would discuss the specifications of the renovation, agree on a price, and then perhaps pay an upfront deposit for the work to start. You would then pay the contractor upon achievement of set milestones throughout the project, and then a large payment upon successful completion of the renovation. If you weren't happy with the result (in this case, the level of quality of the renovation, rather than just the work being finished),

you would enter into a negotiation to agree what aspects needed additional work in order to meet the quality in the original specifications. If agreement could not be reached between the two parties, it could escalate into a legal dispute.

From a public sector point of view, healthcare in the UK is based on a form of PbR, which only pays hospitals set amounts for agreed procedures (with adjustments applied for patient complications). If the patient outcomes were not satisfactory, and for example resulted in a patient being re-admitted soon after discharge, then in many cases the hospital would not be paid for the re-admission. The idea here is to create an incentive for the hospital to achieve the intended result upfront and not discharge the patient too early, as it could result in them losing money. At the same time however, there is no incentive to keep them in hospital any longer than required, as this would also result in costs which would not be reimbursed.³ This approach has been subject to controversy over the years, and has evolved significantly to try to address concerns. And all of this relates to a context where good data on results is available.

1 Policy Exchange Expanding Payment-by-Results: Strategic choices and recommendations <http://www.policyexchange.org.uk/images/publications/expanding%20payment%20by%20results.pdf>

2 Department of Health A simple guide to Payment by Results. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/213150/PbR-Simple-Guide-FINAL.pdf

3 Nuffield Trust The NHS payment system: evolving policy and emerging evidence. http://www.nuffieldtrust.org.uk/sites/files/nuffield/publication/140220_nhs_payment_research_report.pdf

The situation becomes a lot more complex when applied to international development, where comprehensive information on results can be challenging to collect. On the flipside however, it could be considered even more important, as there is greater scope for taxpayers' money to be misspent.⁴

What benefits could this approach deliver?

When implemented in the manner intended, PbR has the potential to align incentives between funder and implementer, when a funder may not be certain that a collection of inputs will actually deliver the results they are hoping for. In some areas such as construction, it's more likely that a collection of inputs (building materials and labour) will lead to the result (a building that meets pre-defined quality metrics) being achieved. But this can be more difficult when applied to health or education (particularly in international development contexts), where inputs (health workers, teachers trained, textbooks provided, public health messaging, etc) may not translate into the desired result (improved health states or educational outcomes). PbR

should generate the incentive for delivery organisations to invest additional time in interrogating their theory of change, or drive them to innovate more to achieve the desired outcome at a lower cost.

Implemented 'correctly', this would not only improve value-for-money in the aid sector, but also improve transparency and accountability of taxpayer funds. It would shift the focus from input-based aid to results-based aid, weed out poor practices and encourage more rigorous evaluation and lesson learning. In theory, it would lead us to smarter delivery of aid budgets.

What are the challenges and practical considerations?

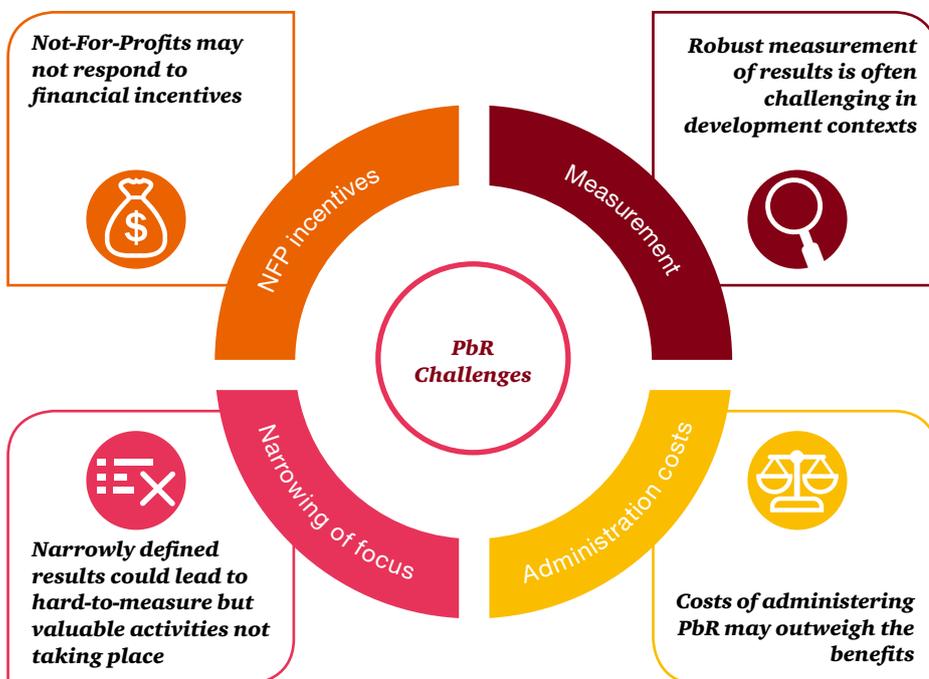
Of course, in reality it's not so simple. It has been noted that PbR "could be misunderstood as a silver bullet to provide the right incentives for higher impact in development"⁵, and if implemented incorrectly, could actually lead to worse outcomes. There are many factors that warrant consideration when setting up a PbR mechanism in international

development, and the volume of literature and blogs dedicated to this is growing rapidly. There is no 'one size fits all' approach to PbR, and there is wide agreement that it needs to be applied in a flexible manner that takes into account the context of the programme being delivered.

Four of the potential challenges are shown in the diagram opposite:

4 Department for International Development . Sharpening incentives to perform: DFID's Strategy for Payment by Results https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/323868/Sharpening_incentives_to_perform_DFIDs_Strategy_on_Payment_by_Results.pdf

5 Clist, P., & Dercon, S. 12 Principles for Payment By Results (PbR) In International Development. http://r4d.dfid.gov.uk/pdf/outputs/Misc_Infocomm/clist-dercon-PbR.pdf



Not-For-Profit incentives: A key challenge that is often not considered is that in international development, delivery is in many cases done by not-for-profit (NFP) organisations. The underlying assumption behind PbR is that delivery organisations will respond to the financial incentive being placed on them. It is not clear that these types of organisations – or the staff and volunteers that work for them - will respond to such financial incentives. In a PbR-based welfare system in the UK, it has been quoted that NFP staff felt “morally torn between meeting the targets that allowed the charity to be paid and serving the often intensive needs of the young people”⁶. Some argue that this will drive increased ‘professionalisation’ of the sector over time if they were to continually lose money. But at what cost?

In addition, it may be that small NFPs are best-placed to achieve results in certain contexts (eg highly marginalised or very remote), but may not have the capacity or be able to absorb cash flow risks that PbR would present to the organisation.

Continued overleaf

⁶ How will welfare-to-work get results if the system treats people like ‘stock’? The Guardian <http://www.theguardian.com/society/2013/apr/16/welfare-work-system-results-people>

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Measurement: With the renovation example given earlier, one could easily point out the flaws in the work if it was not completed to an appropriate level of quality. This is not so easy in a development context – and becomes a particular challenge when considering some of the high-risk countries that in many cases have the strongest need for aid. Measuring improved learning outcomes in remote parts of Afghanistan, or measuring improved sanitation practices in Federally-Administered Tribal Areas of Pakistan, is much more challenging. Whilst not impossible, this would call for significantly more money to be spent on evaluating the ‘results’ tied to PbR than elsewhere. Would the benefits of this outweigh the cost? As with all good questions, there is no clear-cut answer. Just like the renovation example – if the result (and its associated measurement) is disputed, it could end up with legal action being taken by either side. And this would be a long, drawn-out process without ever being able to achieve 100% certainty over the results. The costs of such action would by far outweigh the benefits PbR set out to achieve.

Narrowing of focus: It’s not feasible to tie every single project output to a financial incentive – particularly for complex, multi-faceted, community-wide programmes. Therefore only tying financial incentives to selected results that can be measured, could lead projects to stop focusing on aspects of their programmes that are hard to measure (so not subject to PbR), but still highly valuable. Potential examples include activities that aim to introduce merit-based recruitment into government roles, or break down caste-based barriers in applicable societies. This has been observed in the health sector, where PbR applied to inpatient settings has eroded the incentive to focus on preventative care – so shifting the focus away from preventing illness in the first place, and potentially incentivising increased inpatient activity.

Narrowing of focus can also lead to gaming or ‘cherry-picking’, where providers may only focus on those individuals for whom it is easiest to achieve the defined outcome. In many cases, it is harder to achieve outcomes for the most marginalised in a community, and so a narrowly-defined result could lead to the most marginalised being left out or deemed too challenging to achieve results for. This has been observed in PbR programmes in the justice sector.⁷

Administration costs: PbR has greater administration costs than many other payment mechanisms, and this is particularly driven by its requirement for robust monitoring and evaluation. In some settings where results can be clearly defined and measured, the benefits may outweigh the administrative costs. However for projects that have complex, less tangible outcomes or are small scale, the costs may well outweigh the benefits. This needs careful consideration when deciding on an appropriate payment mechanism.

⁷ Department for Communities and Local Government. Supporting People Payment by Results pilots: Final Evaluation. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/362270/Supporting_People_-_Payment_by_Results_-_Final_Evaluation.pdf

PbR in action: Girls' Education Challenge

The Girls' Education Challenge (GEC) is a £300m fund aiming to educate up to a million girls in the most marginalised contexts across the world. It funds 38 projects across 18 countries. Many projects on GEC are subject to PbR, with around 10% of their budget linked to the achievement of set targets around learning – particularly improvements in literacy and numeracy over-and-above an appropriate control district. The 10% is withheld upfront. If projects achieve their targets, they get the 10% back. If they exceed the targets, they can get a bonus payment up to a set cap. If they fail to meet their targets, the 10% payment is scaled down accordingly.

The PbR approach tied to learning outcomes is shifting the focus away from simply having more girls enrolled in schools by creating the incentive to improve the *quality* of the education they receive. Projects can however be flexible in how they aim to achieve this outcome.

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What next?

Around the world there are many projects in international development trialling aspects of PbR. These are being watched very closely to understand how emerging lessons and the experience of PbR could shape future policy on how to apply it. Organisations subject to PbR will definitely have strong views on the topic. BOND, a UK membership body for not-for-profit organisations working in international

development, notes that when an inflexible approach is taken to PbR it actually undermines the ability of this payment mechanism to improve aid effectiveness.⁸

It's clear that we're still in the learning phase when it comes to applying PbR to international development. It is also clear that PbR is not going away any time soon. As a sector, we've catapulted ourselves high in our ambitions regarding PbR and value-for-money. Only time will tell where we land.

⁸ BOND (2014). Payment By Results: What It Means For UK NGO <http://www.bond.org.uk/news.php/419/payment-by-results-what-it-means-for-uk-ngos>

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