

# Payment by Results

## What is payment by results?

Payment by results (PBR) is a new form of financing that makes payments contingent on the independent verification of results. PBR is a cross government reform priority and several other government departments are piloting this approach. PBR is strongly referenced in the UK Government Cabinet Office's [Open Public Services White Paper](#), which sets out the Government agenda for public sector reform. PBR approaches are also starting to gain momentum internationally, with DFID amongst leaders.

Payment by results has three key elements for DFID:

- i. **disbursements tied to the achievement of clearly specified results:** payment for outcomes such as completion of education, rather than payment for inputs such as provision of textbooks;
- ii. **recipient discretion** – the recipient has space to decide *how* results are achieved<sup>1</sup>; and
- iii. **robust verification**<sup>2</sup> of results as the trigger for disbursement.

By focusing on outcomes and not specifying inputs, the model frees recipients to **innovate** to achieve the targeted result in the way they judge most fit. DFID's Results Based Approaches Primer<sup>3</sup> sets out our emerging policy approach to PBR in full.

## Why payment by results

The evidence base on the efficacy of PBR is as yet weak, but theory suggests that *if designed and delivered well, potential benefits* of PBR centre on improving results delivery by transferring risk from funder (principal) to recipient (agent) and aligning incentives around outcomes; stimulating recipient discretion and innovation for *how* results are achieved; and improving efficiency and value for money through ultimately only paying for what is achieved.

However, experience in the UK and abroad illustrates that PBR carries some extra risks for securing value for money. PBR is largely an unproven tool<sup>4</sup>. Poorly designed PBR could increase costs if risk and other payment considerations are designed or managed poorly; or risk perverse incentives if results are poorly chosen (as what gets measured gets done, risking unintended effects such as “cherry picking” or “short-termism”). Due to these risks PBR requires high technical, financial and procurement capacities for design, management and negotiation, in both funders and recipients/ implementers.

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<sup>1</sup> As with all UK aid, our partnership commitments will still apply.

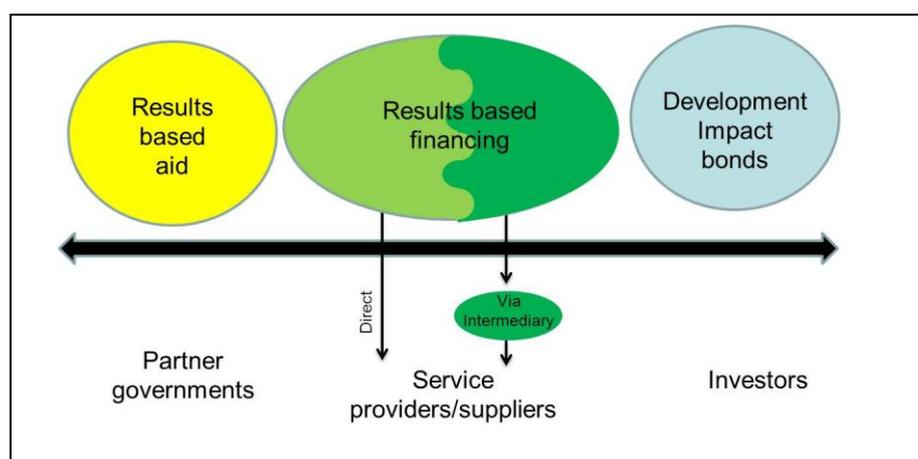
<sup>2</sup> Checking accuracy of results through quality audit processes to ensure results are fair, accurate and standards are consistent over time.

<sup>3</sup> DFID (2010) *Primer on results based aid/ financing*. Note that the Primer is currently being updated.

<sup>4</sup> DFID (2013) “Payment by Results: Current approaches, Future Needs”

## Different types of PBR

Internationally, definitions vary - **DFID distinguishes types of PBR by who the risk for the delivery of results is transferred to.** Payments from funders to partner governments are categorised as results-based aid (RBA). Payments from a funder or government to service providers/ suppliers are classed as results-based financing (RBF - can be contracted either directly or indirectly through an intermediary). A newly emerging form of PBR is development impact bonds (DIBs), where investors bear some (or all) risk for delivery of results.



## Example of Cash on Delivery Aid Ethiopia Education Sector

In this pilot, DFID will make payments to the Government of Ethiopia for education results. A maximum amount of £30 million can be awarded, depending on the results achieved. Payments will be earmarked to the Education sector.

**Agreement:** MoU with the Ministry of Education

**Result:** Increased numbers of children complete lower secondary education

**Unit of progress:** “Assessed completer” – a student who sits and passes lower secondary education.

**No upfront investment** – the programme is complementary to existing systems of support

**Payment for unit of progress:** The tariff structure has been arranged so that students from lagging groups - girls and emerging regions – receive additional rewards. The payment structure is outlined below.

	Passer		Sitter	
	Emrg	Non-emrg	Emrg	Non-emrg
Boys	£75	£50	£75	£50
Girls	£100	£85	£100	£85

**Measurement and evaluation:** A separate business case was developed for the verification and evaluation of the pilot. Independent agents were contracted in to carry out the verification and evaluation. The evaluation will seek to understand both whether and how the RBA worked. Using a mix of sector and audit skills, the verification team will verify the results and suggest to DFID an amount to pay.

The full business case can be found on [DFID's project database](#):