# Supplier Access to Pre-finance in Payment by Results Contracts

**RESEARCH STUDY REPORT**

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# Executive Summary

The use of Payment by Results (PbR)[1] by the UK Department for International Development (DFID), and the international development sector in general, has been increasing in recent years. PbR-based contracts are seen as useful tools to improve the effectiveness and efficiency of international aid while delivering a host of other benefits. However, PbR also presents challenges. Not least of these is the requirement for delivery partners to find funding to deliver services before they are paid for results (we call this 'pre-financing') and to take on greater financial risks (as payments are dependent on results).

The relative recency of PbR in international development means that the evidence around how to amplify its benefits and address its challenges is still limited. This paper seeks to contribute to the evidence base specifically around pre-financing for PbR by looking both at how DFID delivery partners are currently pre-financing their PbR contracts and what the opportunities and challenges are in today's PbR pre-financing market. This study was informed by a high-level literature review, a survey of 31 delivery partners, and 10 key informant interviews with suppliers, PbR experts, and finance providers. The survey approach provides a more holistic and reliable view of the issues than case-based analysis and the key informant interviews add perspective and more nuanced insights to ensure findings well represent the overall landscape.

**Pre-financing Landscape**

Pre-financing for PbR contracts is dominated by internal financing or "own funds". Nearly all delivery partners surveyed pulled from their own unrestricted cash reserves to cover the working capital needs of their PbR contracts to some extent. Commercial loans were a less common source of working capital and were generally used in conjunction with own funds. About one third of respondents used commercial loans and most were private sector organisations. The use of philanthropic grants, equity investments, and hybrid funding (philanthropic grant/commercial loan) to pre-finance PbR contracts was rare, and of these only hybrids are seen to have real scalable potential.

The need for pre-financing confers a clear advantage to certain organisations when bidding for PbR. First, organisations with large unrestricted reserves, whether private companies or charities, can often quickly mobilise these funds to cover the working capital needs of PbR contracts. They are also either able to absorb the financial risks of partial-payment linked to not attaining full results or they are not fully accounting for these risks. Second, organisations that can access commercial loans are also at an advantage in terms of their ability to pre-finance PbR. These organisations tend to be private companies with financial track records or significant assets against which they can secure loans. While having large unrestricted reserves or being able to secure a commercial loan is advantageous when bidding for PbR contracts, both funding sources have disadvantages that can deter organisations from bidding. Specifically, using own funds to pre-finance PbR-based projects comes with opportunity costs, such as the lost possibility for investing in organisational improvements, and using commercial loans, comes with financial carrying costs. These disadvantages are not necessarily entirely unique to PbR as payment milestones for traditional delivery contracts are often after delivery costs are incurred. However, they did emerge in the survey as disincentives to PbR.

[1] For the purpose of this report PbR is defined, per the UK Department for International Development, as a funding mechanism in which the commissioning agent makes payments to suppliers only after achieving pre-agreed results, rather than paying upfront to fund future activities

The organisations most disadvantaged in PbR due to pre-financing hurdles are generally small organisations and those from the charitable sector. These organisations appear to have few viable options for pre-financing. They tend not to have the level of unrestricted reserves needed and commercial loans are either inaccessible or unaffordable. In general, many of these organisations also struggle to access hybrid loans in part because they lack the performance culture and processes that social impact investors are looking for. Specifically, many lack the monitoring and evaluation required for agile results management that is not only characteristic of a strong organisation but is also a critical capability for delivery on a results basis. The gap between hybrid funders and delivery partners has not yet been bridged at scale.

Delivery partners identified a variety of market and process issues related to pre-financing. With regards to the pre-financing market, the affordability or terms of commercial loans was more commonly cited as an issue than the availability of other kinds of funders. In terms of process barriers, more organisations cited the cost of searching for and securing pre-finance as a challenge than the organisational skills to secure funding or access to funders in general. It is important to note that pre-financing is not the only challenge to delivering on a PbR basis. Delivery partners highlighted issues related to delivery context and donor requirements as the top barriers to taking on PbR contracts. So, while this study focuses on the pre-financing landscape and its associated challenges, other elements vital to making PbR work should also continue to be advanced.

# Contents

Executive Summary ... 3
Contents ... 5
1. Introduction ... 6
  1.1. Background ... 6
  1.2. About this study ... 7
2. Literature Review ... 8
  2.1. Benefits of PbR in international development ... 8
  2.2. Challenges of PbR ... 9
  2.3. Outstanding questions ... 10
3. Methodology ... 11
  3.1. Survey ... 11
  3.2. Survey respondent profile ... 11
  3.3. Interviews ... 13
  3.4. Literature review ... 14
  3.5. Study scope and limitations ... 14
4. PbR Perspectives ... 15
  4.1. Perceived Benefits of PbR ... 15
  4.2. Perceived Challenges of PbR ... 16
5. Pre-financing for PbR Contracts ... 18
  5.1. Pre-Financing: Overview ... 18
  5.2. Pre-Financing: Own Funds (& Equity) ... 20
    Advantages and disadvantages of own funds ... 20
  5.3. Pre-Financing – Commercial Loans ... 21
    Advantages and disadvantages of commercial loans ... 22
  5.4. Pre-Financing – Philanthropic & Hybrid Grants ... 23
    Advantages and disadvantages of philanthropic grants and hybrid loans ... 23
6. Summary ... 25
  6.1. Current Pre-Financing Landscape Overview ... 25
Annex 1 – Survey ... 27

# 1. Introduction

## 1.1. Background

Driving performance in the implementation of social programs is the key to achieving the vital gains such programs seek to deliver for the world's most vulnerable. One mechanism policy makers and public commissioners are increasingly using, with this vision in mind, is Payment by Results (PbR). PbR is a funding mechanism that releases payments to delivery partners only after the validated achievement of pre-agreed results. Much like private sector markets, this contracting model focuses on performance rather than activity.

The use of PbR has increased notably in international development in recent years.[2] The UK Department for International Development (DFID) has made a clear push to expand PbR and the most recent available data suggests that nearly 80% of its centrally-procured contracts contain some element of PbR.[3] DFID's drive toward greater use of PbR reflects broader, cross-government reform to improve value for money (VfM) in public sector commissioning and coincides with increased use of PbR for international development more broadly.[4]

PbR is considered an important step toward improved VfM because of its emphasis on outcomes. Traditional aid pays for inputs (e.g. teachers' salaries), whereas PbR pays for outcomes or outputs (e.g. literacy tests passed, percentage of pupils graduating from secondary schools, jobs acquired). This outcome orientation promises to improve cost-effectiveness, to drive greater innovation, and to raise the level of accountability among delivery partners. Yet, PbR is still a relatively new and evolving tool and does not (yet) reliably deliver on these purported benefits. Further, it comes with its own set of challenges[5] which, if resolved, could unleash the full potential of this tool.

Two of the main challenges to implementing on a PbR basis are (1) the need for delivery partners to finance delivery costs prior to receiving payment from the commissioning body, and (2) the risk of non/under-payment. These can present barriers for many otherwise qualified suppliers and, by extension, reduce the pool of potential delivery partners, which can have knock on effects related to reduced competition (lower quality/higher price). The UK's National Audit Office (NAO) reports that smaller organisations have withdrawn from PbR contracts because pre-financing presents too significant a barrier. The National Council for Voluntary Organisations (NCVO) reports that the working capital requirements of PbR contracts may exclude charitable organisations, despite their "ability to deliver the desired outcomes"[6]. But the extent to which these barriers, especially around pre-financing, impact small and charitable organisations is not yet well understood.

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[2] Sheil, F. and Breidenbach-Roe, R. (2014) *Payment by results and the voluntary sector.* Available from: http://www.ncvo.org.uk/images/documents/about_us/media-centre/payment-by-results-and-the-voluntary-sector-april-2014.pdf [Accessed October 2017]

[3] DFID (2015). *UK aid: tackling global challenges in the national interest.* Available from: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/478834/ODA_strategy_final_web_0905.pdf. [Accessed: September 2017]

[4] DFID (2014). *Sharpening incentives to perform: DFID's Strategy for Payment by Results.* Available from: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/323868/Sharpening_incentives_to_perform_DFIDs_Strategy_on_Payment_by_Results.pdf. [Accessed September 2017]

[5] National Audit Office (2015). *Outcome-based payment schemes: government's use of payment by results.* Available from: https://www.nao.org.uk/wp-content/uploads/2015/06/Outcome-based-payment-schemes-governments-use-of-payment-by-results.pdf. [Accessed September 2017]

[6] Sheil, F. and Breidenbach-Roe, R. (2014) *Payment by results and the voluntary sector.* Available from: http://www.ncvo.org.uk/images/documents/about_us/media-centre/payment-by-results-and-the-voluntary-sector-april-2014.pdf [Accessed October 2017]

## 1.2. About this study

The aim of this study was to examine the landscape of pre-financing for PbR contracts and to understand the opportunities and challenges across this landscape. Specifically, it sought to understand the pre-financing experience of organisations that had delivered or overseen DFID PbR contracts. It focused on the following two research questions:

*1* – How do delivery partners pre-finance programmes that are delivered on a PbR basis and what are their perspectives on the pre-financing landscape, based on their experience?

*2* – What are the biggest challenges DFID delivery partners face in delivering on a Payment-by- Results basis and where does pre-financing sit in importance among the overall set of barriers?

Given the existing understanding and knowledge about the broader set of issues facing delivery partners, the relative emphasis of this study was on question 1 – pre-financing for PbR contracts. The full questionnaire is included in Annex 1 of this report (also see Chapter 3 – Methodology).

The paper unfolds as follows:

- Chapter 2 presents findings from the literature review;
- Chapter 3 describes the methodology;
- Chapter 4 provides an overview of supplier perspectives on PbR;
- Chapter 5 outlines how delivery partners pre-finance their PbR programmes; and
- Chapter 6 synthesises the results and presents final conclusions.

# 2. Literature Review

While the concept of PbR is not new, it has received a lot of attention in recent years due to the increasing use of PbR in international development.[7] This section presents a summary of the benefits and challenges of PbR according to the existing literature, and identifies outstanding questions around pre-financing for PbR.

## 2.1. Benefits of PbR in international development

PbR is thought to generate important benefits for both commissioning bodies and delivery partners as well as attracting a wider community into development financing. Ultimately, these benefits can translate to improvements for the beneficiaries of services commissioned.

**Commissioning body**

Proponents of PbR argue that it delivers improved cost effectiveness for commissioning bodies by raising the probability of achieving desired impacts for beneficiaries per pound spent. In theory, PbR-based contracts transfer the financial risk of programme failure to delivery partners, and therefore align partners' incentives to achieving the best possible results. Since commissioners only pay for "successful" programmes, they can direct more funds toward programmes that generate results and ultimately achieve greater overall impact for their investments.[8] In practice, programme risk tends to be shared across commissioners and delivery partners as PbR-based contracts do often tie payments a mix of outputs and outcomes.

**Delivery partners**

PbR promises to provide greater flexibility, more opportunity for innovation, and encourage a stronger monitoring and evaluation culture. By placing the focus on achieving results rather than specific inputs, PbR gives delivery partners more freedom to determine how they structure and adapt their programmes to achieve these results. It encourages organisations to adapt and innovate rather than tying them to pre-defined inputs established at the bidding stage. The emphasis on results also tends to incentivise better monitoring and evaluation (M&E) so that the delivery model can be refined in line with what works for a particular context, beneficiary, or group of beneficiaries. This also drives a stronger performance culture for the organisation as a whole.[9]

**Development financing**

PbR is also seen as a tool for mobilising a wider stakeholder community for development financing. This is especially evident through the emergence of Development Impact Bond (DIB) structures which draw commercial, philanthropic and hybrid financing into PbR contracts, and therefore have the potential to help delivery partners overcome pre-financing barriers. On the more commercial side, the providers of finance in such structures include banks, impact investors and private investors and on the more philanthropic/hybrid side, social impact investors,[10] philanthropists and foundations.

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[7]DFID (2014). *Sharpening incentives to perform: DFID's Strategy for Payment by Results.* Available from: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/323868/Sharpening_incentives_to_perform_DFIDs_Strategy_on_Payment_by_Results.pdf. [Accessed September 2017]

[8]Ibid

[9] Bond (2014): *Payment by results: what it means for UK NGOs.* Available from: https://www.bond.org.uk/data/files/publications/Payment-by-results.pdf. [Accessed September 2017]

[10] Center for Global Development (2013). *Investing in Social Outcomes: Development Impact Bonds the Report of the Development Impact Bond Working Group.* Available from: https://www.cgdev.org/sites/default/files/investing-in-social-outcomes-development-impact-bonds.pdf. [Accessed October 2017]

## 2.2. Challenges of PbR

The use of PbR-based contracts poses a range of challenges related to delivery context, performance expectations, and demands on delivery partners' skills, processes, and finances. Without addressing these challenges, one of the significant risks associated with PbR is that organisations may be excluded from bidding for these kinds of contracts despite their ability to deliver results.[11] A smaller pool of suppliers could result in less negotiating capacity for the commissioning body and, ultimately, less impact and/or cost-effectiveness.

**Delivery context**

The delivery context can have a dramatic impact on results beyond the control of delivery partners and commissioning bodies. While the literature does not detail the extent to which PbR contracts account for delivery context risks, there are multiple reports highlighting the need to address this. Otherwise, where delivery partners operate in fragile states or work on issues where external actors have a large impact on the outcomes, PbR may simply be punishing misfortune and rewarding good luck. [12] [13] [14]

**Performance expectations**

Setting appropriate performance expectations is a notably challenging aspect of PbR. Defining the right level and measure of impact for PbR-based contracts requires assumptions and estimates which are often difficult to make due to lack of baseline data in international development, the impact of unstable operating environments, and limited evidence on what works. [15]

The implications of setting inappropriate performance expectations are not inconsequential. If targets are too low, the commissioning body fails to achieve the impact or cost-effectiveness it could have by paying a lower cost per unit of impact. If they are set too high, organisations may be unnecessarily excluded because they are unwilling to take on the risk of non-delivery[16] or unfairly punished financially if they do take on this risk.

In setting performance expectations, commissioners must also consider the risk of perverse incentives. Output or outcome payments can incentivise the targeting of services towards beneficiaries or users that are 'easier to help' – those that require the least effort and expense to achieve results and receive payment. This could have the effect of further marginalising hard-to-reach groups. Identifying where there is a risk of perverse incentives and creating a payment scheme that "reflects the higher costs of reaching marginalised" groups is critical to setting appropriate expectations[17] and achieving the desired results.

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[11] ICAI (2015). DFID's approach to delivering impact. Available from: https://icai.independent.gov.uk/wp-content/uploads/ICAI-report-DFIDs-approach-to-Delivering-Impact.pdf. [Accessed October 2017]

[12] Clist, P. and Dercon, S. (2014). *12 principles for payment by results (PbR) in international development.* Available from: https://assets.publishing.service.gov.uk/media/57a089d2e5274a27b20002a5/clist-dercon-PbR.pdf. [Accessed October 2017]

[13] Bond (2014): *Payment by results: what it means for UK NGOs.* Available from: https://www.bond.org.uk/data/files/publications/Payment-by-results.pdf. [Accessed September 2017]

[14] Sheil, F. and Breidenbach-Roe, R. (2014) *Payment by results and the voluntary sector.* Available from: http://www.ncvo.org.uk/images/documents/about_us/media-centre/payment-by-results-and-the-voluntary-sector-april-2014.pdf [Accessed October 2017]

[15] National Audit Office (2015). *Outcome-based payment schemes: government's use of payment by results.* Available from: https://www.nao.org.uk/wp-content/uploads/2015/06/Outcome-based-payment-schemes-governments-use-of-payment-by-results.pdf. [Accessed September 2017]

[16] Ibid

[17] Ibid

**Supplier demands – skills and processes**

PbR-based contracts pose unique demands on the skills and organisational process of organisations that are set up to work with grants (or input-based contracts). PbR requires that organisations have the financial skills to price for the risk of non-payment or the financial resilience to ensure the financial security of the organisation in the case of non-payment. Since payments are based on results, it also requires that organisations have strong M&E capacity to track progress and adapt where required. Organisations that lack these skills may be deterred from bidding or struggle to deliver on a PbR basis despite their ability to generate results.[18]

**Supplier demands – pre-financing**

PbR-based contracts require delivery partners to fund the delivery of services before they are paid for results (we call this 'pre-financing') as well as taking on non-payment risks. Theoretically, organisations may pre-finance using their own funds or seek external financing in the form of commercial loans, equity financing, grants, or hybrid funds. Reports indicate that pre-financing may be especially difficult for charities that tend to have less working capital than private organisations and for smaller organisations which may struggle to access finance.[19] Commercial lenders often look for assets to secure loans against and assess the credit history and track records of borrowers. Without assets to secure against, smaller organisations may face more difficulty than larger organisations when it comes to securing a commercial loan. Charitable organisations, which are noted to have a culture of aversion to borrowing, may have more challenges securing a loan than private companies which tend to have stronger credit histories and track records of income generation[20]. The fact that smaller organisations and charities may face more challenges in securing funding is also often independent of PbR. In general, however, there is limited evidence on how delivery partners pre-finance PbR contracts and the associated challenges.

## 2.3. Outstanding questions

Given the nascent state of PbR as a contracting tool in international development, evidence is limited on how and when PbR works best.[21] When it comes to pre-financing, there is limited reporting on what types of financing delivery partners are accessing, what kinds of financing terms are being agreed, and how much of a barrier the pre-financing hurdle poses to organisations bidding for PbR contracts.[22] This short study aimed to start building an evidence base to address precisely these issues.

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[18] Bond (2014): *Payment by results: what it means for UK NGOs.* Available from: https://www.bond.org.uk/data/files/publications/Payment-by-results.pdf. [Accessed September 2017]

[19] National Audit Office (2015). *Outcome-based payment schemes: government's use of payment by results.* Available from: https://www.nao.org.uk/wp-content/uploads/2015/06/Outcome-based-payment-schemes-governments-use-of-payment-by-results.pdf. [Accessed September 2017]

[20] NCVO Knowhow Nonprofit (2017). *Funding sources for charities and non-profit organisations.* Available from: https://knowhownonprofit.org/governance/board-responsibilities/raisingmoney. [Accessed October 2017]

[21] ICAI (2015). DFID's approach to delivering impact. Available from: https://icai.independent.gov.uk/wp-content/uploads/ICAI-report-DFIDs-approach-to-Delivering-Impact.pdf. [Accessed October 2017]

[22] Crocker-Burque, T. and Mounier-Jack, S. (2016). *Lessons in bond financing for stronger health systems.* Available from: https://www.devex.com/news/lessons-in-bond-financing-for-stronger-health-systems-88703. [Accessed September 2017]

# 3. Methodology

In order to address the aims laid out in the introduction of this report and within the constraints of a relatively focused scope, this study used a survey approach to capture a broad set of insights based on delivery partners' experience with pre-financing PbR contracts rather than relying on anecdotal perspectives which can lead to misinterpretation of the issues. The survey was supplemented with key informant interviews and built on the existing literature around pre-financing PbR. This section describes the methods used in the study.

## 3.1. Survey

The survey was independently designed by Dalberg Intelligence based on the literature review and in collaboration with social finance experts and DFID. Data collection occurred over a three-week period from September 14th to October 5th 2017 and was managed by Dalberg Intelligence.

A list of target respondent organisations, those that had experience with DFID PbR contracts, was generated by DFID. The list included:

- All organisations that delivered a DFID PbR contract tendered between March 2016 and July 2017 (dates determined by data availability) AND where at least 50% of payment was output-based.[23]
- Organisations that delivered DFID PbR programmes that DFID considered innovative but occurred prior to March 2016 (WASH results, MSI Preventing Maternal Deaths Programme, and Kenya Health results programme). [24]
- Subcontractors that delivered a project on PbR terms under a DFID partner programme, including delivery partners for the Girls' Education Challenge, AgResults, and the Results-Based Financing for low carbon energy access programme[25].

This represents a non-probability (convenience) sample which was used for cost-effectiveness and due to the exploratory nature of this study.[26] The list was of 59 organisations which were all invited to participate in the online survey. Of these, 49% partially or fully completed the online survey (29 respondents). An additional two organisations were later referred by respondents from the original list for a total of 31 survey respondents.

## 3.2. Survey respondent profile

The survey includes a fairly balanced representation of private and charitable organisations from a range of sectors, and organisations with varying levels of PbR experience, see **Figure 1** to **Figure 3**. The results can therefore be considered to reflect diverse experiences with pre-financing PbR contracts.

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[23] Note: DFID's management information system only started to record whether, and to what extent, contracts were on a PbR basis from April 2016. This presented the most comprehensive and consistent source of contract data. DFID's data management system categories contracts as: input-based; performance-based; hybrid – more than 50% but less than 100% output based; and output based.

[24] These PbR contracts pre-dated the main data set but were easy to identify as PbR and were therefore relevant for the purpose of the study.

[25] Subcontractor contact information was provided by DFID partners

[26] "Convenience sampling is a type of nonprobability or non-random sampling where members of the target population that meet certain practical criteria, such as easy accessibility…or the willingness to participate are included for the purpose of the study" https://pdfs.semanticscholar.org/79a2/c4a4111275b3efbfa0522284ccd0fecc556a.pdf

*Figure 1: Survey respondent profile – Organisation type*

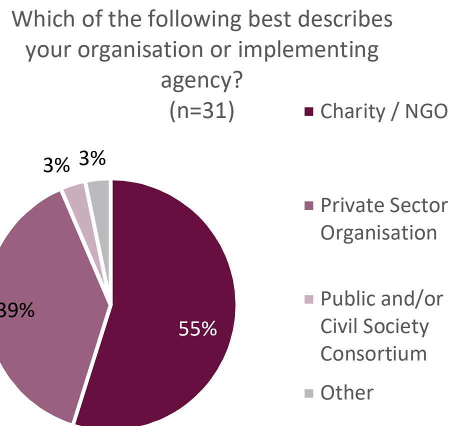



*Figure 2: Survey respondent profile - PbR contract experience*

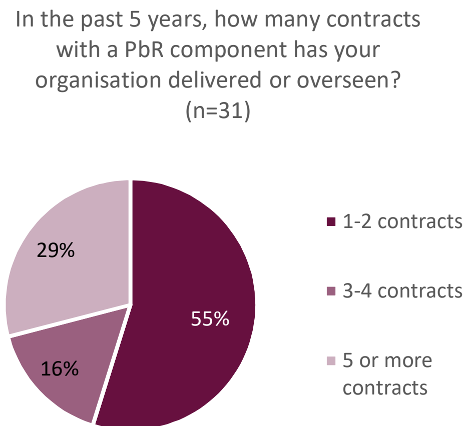
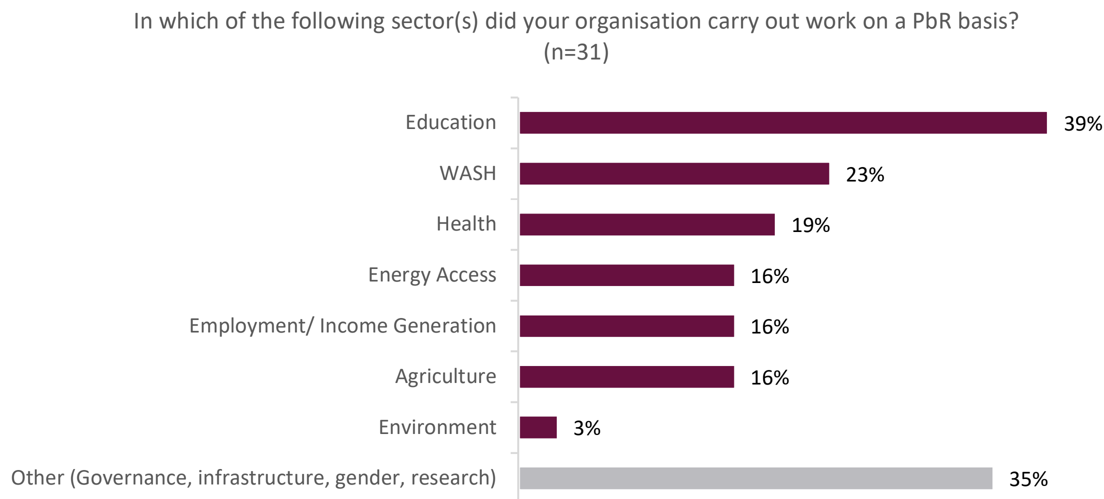



*Figure 3: Survey Respondent profile - PbR contract sector*




The survey provides a less balanced representation when it comes to organisation size. While the split between charities and private companies is well balanced across the sample, most respondents came from large organisations (more than 250 employees) with high annual turnovers – see **Figure 4** to **Figure 5**. This skew may reflect reality – larger organisations may be more likely to take on PbR contracts than small ones – but it means that the survey provides less insight into the experience of small organisations (10 to 49 employees). Further, the 16% of organisations that classify as small based on employee number have a range of annual turnover (from less than £1.8 million to more than £21 million) and as such many of them are still fairly significant small organisations. This paper will use number of employees, per the European Union definition, to define organisation size.

Supplemental statistics on the PbR experience of the participating organisations are shown in **Figure 6a and 6b.**

*Figure 4: Survey respondent profile – Number of employees in the organisation*

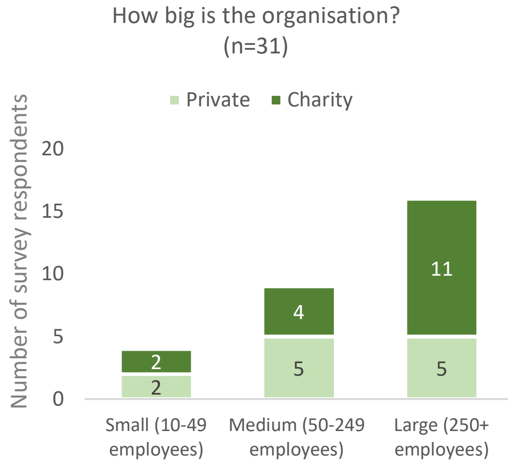



*Figure 5: Survey respondent profile – Organisation's annual turnover*

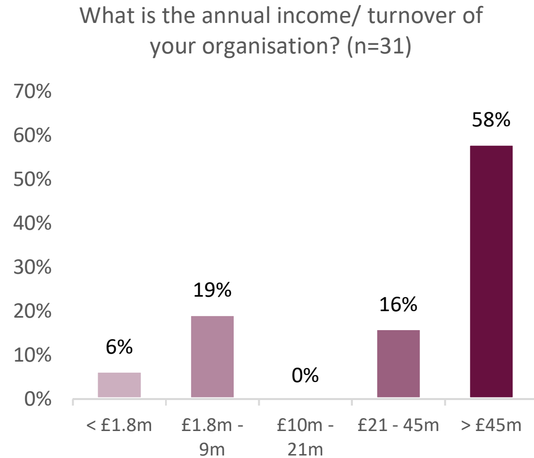



*Figure 6a - Survey respondent profile – Portion of contract delivered on a PbR basis*

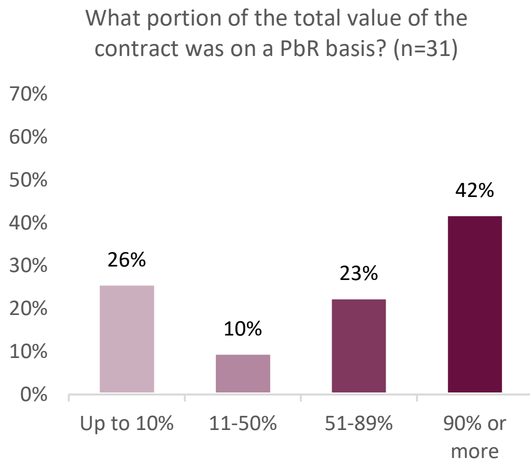
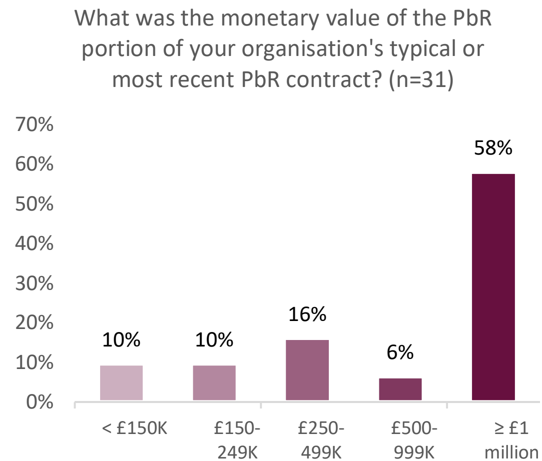



*Figure 6b: Survey respondent profile – Monetary value of PbR component*




## 3.3. Interviews

Key informant interviews were used to round out and provide additional nuance on PbR challenges, opportunities, risk appetite, funder relations and innovation. Interviews were conducted with 5 delivery partners and 5 PbR and impact investing experts and finance providers. The inclusion criteria for identifying and including experts for interview included practical considerations such as availability, and methodological considerations such as ensuring a balance of perspectives from delivery and finance providers.

## 3.4. Literature review

The scope of the present study allowed for a brief review of the literature to understand the existing evidence around the broad benefits and challenges of PbR with a focus on understanding the state of knowledge on the landscape of pre-financing. Findings from the literature review were also used to inform the design of the data collection tools.

## 3.5. Study scope and limitations

While the scope of this study was relatively narrow, a range of broader insights on attitudes to PbR more generally, both its advantages and its challenges was also captured.

A limitation of the survey's inclusion criteria (organisations that had experience delivering DFID PbR contracts) is that it excludes delivery partners who may have bid for PbR contracts but not won or self-selected out of bidding for PbR. On the one hand, this limitation is not hugely significant since the priority is to develop a fact base on pre-financing experience which these other organisations will not have. On the other hand, this means insights around broader perspectives of delivery partners (e.g. smaller delivery partners or suppliers to other donors) would not have been captured by the survey. To counter this limitation, key informant interviews were conducted to gather expert perspectives on how pre-financing differs across organisation type and size.

The results of this study are a very good indicator of the state pre-financing, particularly among DFID delivery partners. Nonetheless limitations including small sample sizes, particularly for certain funding sources, and the use of a non-probability (convenience) sample mean that results cannot be generalised to PbR more broadly. Also note that Development Impact Bonds (DIBs) are not a primary focus of this study. DIBs fulfil but also go beyond the role of pre-financing.

# 4. PbR Perspectives

This section outlines the findings around the broader research question exploring the challenges delivery partners face in delivering on a PbR basis and identifying where pre-financing sits in importance among the overall set of PbR barriers. This section also goes further to present supplier attitudes around the benefits of PbR with a view to providing insight on how DFID can best connect with its delivery partners by better understanding their own priorities and interests around PbR.

## 4.1. Perceived Benefits of PbR

There is not an overwhelming consensus that PbR delivers its purported benefits, but most delivery partners acknowledge that there are attractive features to PbR-based contracts. When asked to select the top three advantages of PbR, delivery partners typically chose just one or two options. Further, the views on what is most attractive about PbR were dispersed across the range of options offered with an average of just one in three supporting each one, see **Figure 7**.

The most commonly cited advantage of PbR, however, among more than half of respondents is that it helps delivery partners to validate that their work is having an impact. One NGO noted that this validation played an important role in building the organisation's credibility and unlocking additional funding opportunities. This strongly supports a wider finding of this study around the vital importance of performance culture and the processes and systems to support it to unleash investment. This will be addressed more deeply in the following chapters.

More than 80% of respondents said they would like to see more PbR contracts, further supporting the view that delivery partners do see the potential for achieving a range of benefits from PbR. However, only 15% gave an unqualified yes when asked if they would like to see more PbR. The other 67% who want to see more gave a range of views on the conditions they would need to see to support more PbR. The most common of these was ensuring the right impact model and context and reforming the contracting approach, as illustrated in **Figure 8**, but overall views were dispersed across the various conditions offered.

*Figure 7: Benefits of PbR*

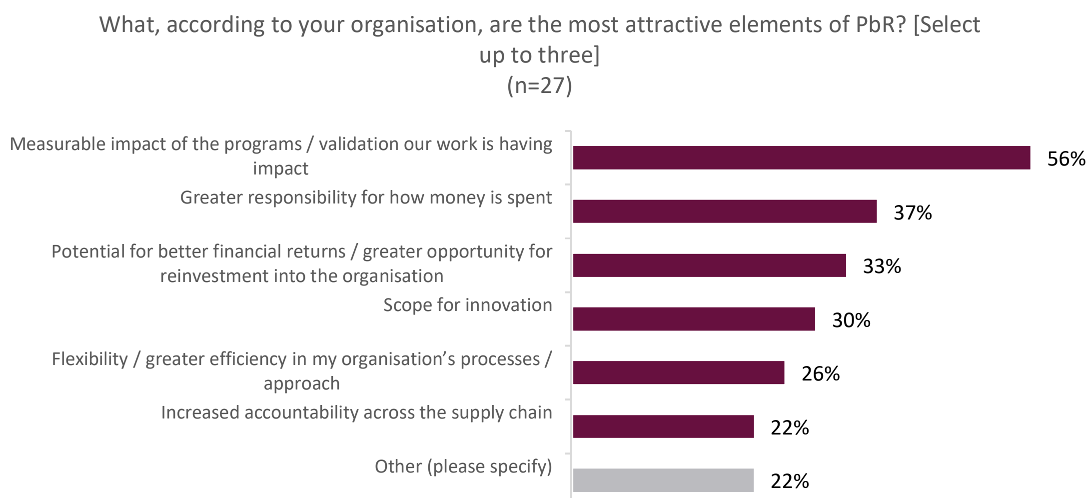
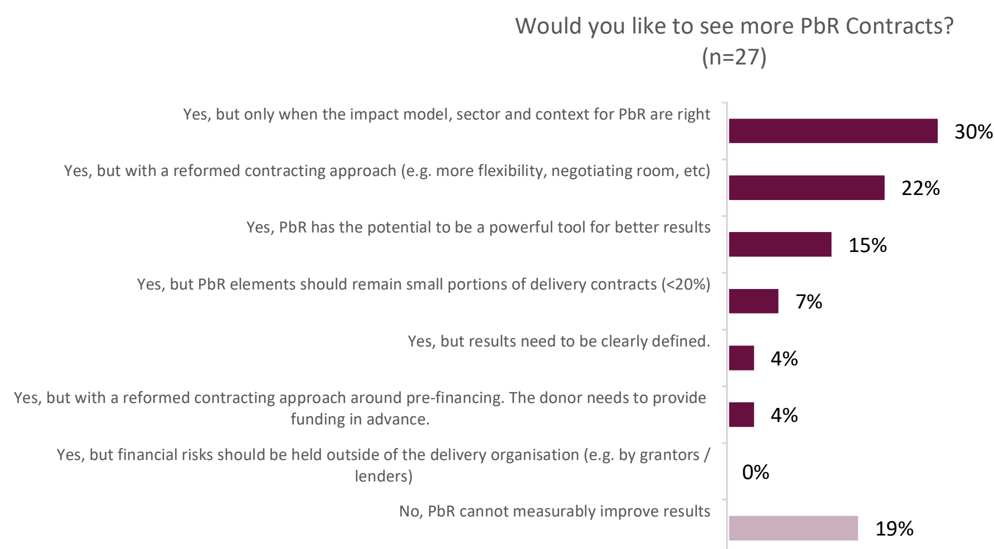


*Figure 8: Supplier views on increasing the number of PbR contracts in the future*




## 4.2. Perceived Challenges of PbR

There was a high degree of variation in delivery partners' perception of the challenges associated with PbR-based contracts that is perhaps not too surprising. Given the variability of service delivery realities we would expect that there are a wide range of views on the challenges associated with PbR: Respondents operate across diverse sectors where the ease of results measurement varies; in different regions with varying degrees of external risks; and come from the private and charitable sectors each with a different set of opportunities and constraints.

But this variation also reflects the fact that the challenges with pre-financing a PbR contract are likely to vary according to the different structures of the PbR scheme. Many variables within a PbR contract can influence the levels of uncertainty and attractiveness of PbR including, for example, the proportion of payment tied to outcomes, the time lags between investment and payment, and the relative ease of measuring attribution. An organisation that has a small portion of payment tied to outcomes that can be clearly attributed to the intervention and has short gaps between delivering a programme and payments is likely to have a very different experience compared to one that has a contract with a large PbR element, outcomes that are difficult to attribute to the intervention, and long gaps between delivery and payment.

The greatest perceived risk among delivery partners is related to delivery context uncertainties, see **Figure 9**. 'Securing and negotiating pre-financing' fell third on the list of risks behind delivery context risks and donor requirements.

Overall, delivery partners did not rank their own organisation's capacity as a major barrier to taking on PbR contracts. There was, however, a distinction in the way organisations with less PbR experience perceived their capacity compared to those with more experience. Among delivery partners with a track record of fewer than five PbR projects, 20% ranked their organisation's capacity or skills as the biggest barrier to taking on PbR contracts compared to 0% of organisations with a track record of more than five PbR projects, see **Figure 10**. While small sample sizes mean the results are purely directional, this finding supports the perspective of some funders that performance and financial management capabilities are considerable barriers to PbR delivery especially for organisations just starting to work

on a PbR basis. This is not an insignificant point. Organisations that are delivering more PbR contracts have overcome capacity or capability barriers within their own organisations. They have probably had to improve their performance management in order to continue to take on more PbR contracts, and as such this barrier is far lower on their list of challenges than it is for organisations with less PbR experience.

Finally, while securing and negotiating was the third most significant issue for delivery partners overall, "Accessing the market of lenders" was of less concern (ranking between 4th and 5th of 6 barrier options in the survey). This indicates that the costs, terms and conditions of financing are of greater concern than access. The next chapter explores pre-financing much more deeply and will shed light on these nuances.

*Figure 9: Barriers to taking on PbR contracts*

*Figure 10: Barriers to taking on PbR contracts by experience level*

# 5. Pre-financing for PbR Contracts

This section provides an overview of the pre-financing landscape and presents an overview of each of the pre-financing options in terms of finance providers, barriers and advantages. It provides a summary of what current delivery organisations are using, and organisational and expert perspectives on why given options are easy or hard to access and to align with the particular needs of PbR. It is worth keeping in mind that while the survey was sent to all DFID PbR providers, this group does not represent organisations that have not been able to win a PbR contract and is skewed towards large organisations (see Chapter 1).

## 5.1. Pre-Financing: Overview

The overall pre-financing landscape for PbR contracts is highly skewed towards own financing, as illustrated in **Figure 11**, indicating disincentive around or barriers to unleashing other kinds of financing. Further, other sources of funding are mostly used to top up internal funds as indicated by the fact that all of these other sources are used to cover a minority of pre-financing needs.

There was also a clear difference between how charities and private companies pre-finance PbR. Private companies are building portfolios of funding sources, with the majority of these survey respondents indicating that they deployed two or more funding sources, whereas almost 9 in 10 charities mobilised only one source of funding to cover their PbR pre-financing requirements, **Figure 12**. This report will look at other distinctions between these two groups as it goes through the individual financing options, where major differences occur.

*Figure 11: Breakdown of pre-financing*

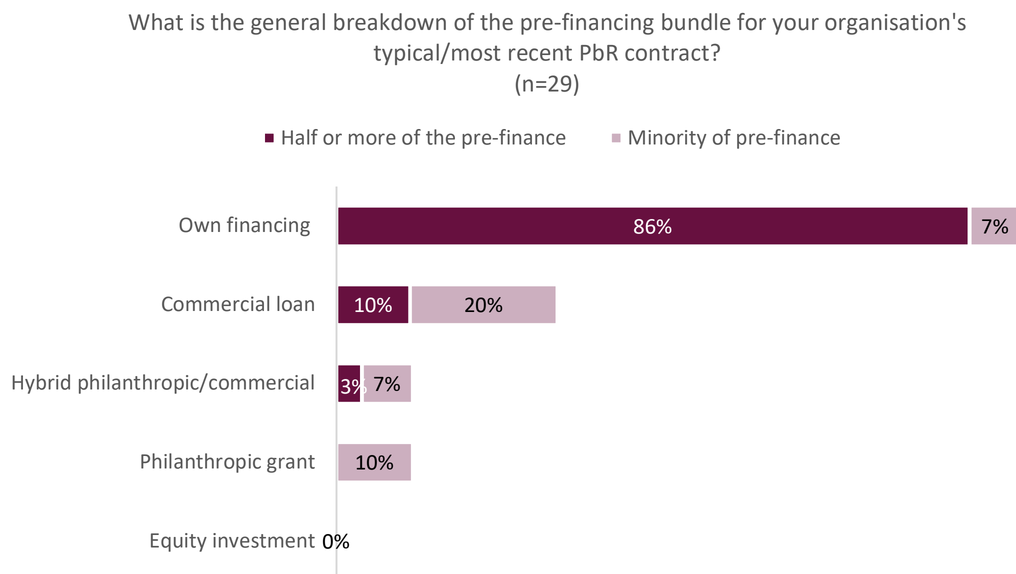
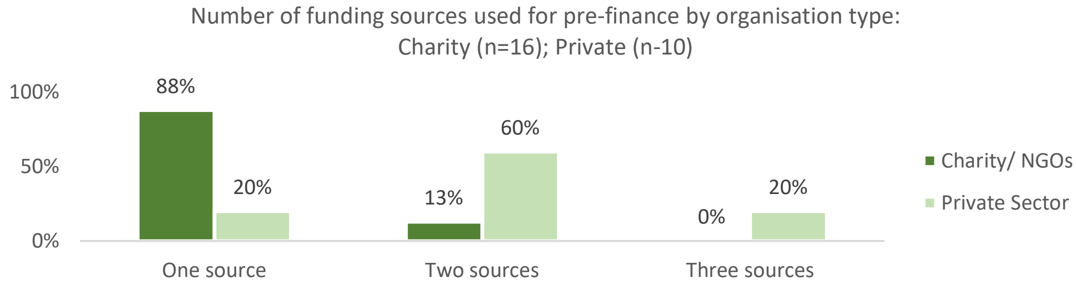


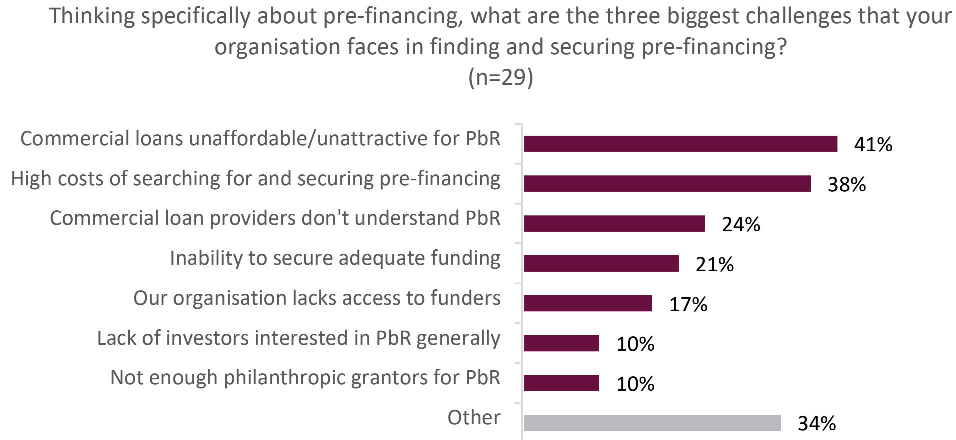
*Figure 12: Number of funding sources in pre-finance bundle by organisation type*




When asked what the biggest challenges are in finding and securing pre-financing overall, delivery organisations identified a mix of market issues and process issues, as shown in **Figure 13**. The largest market issue is seen to be affordability or terms of commercial loans, much more so than availability of and interest from other kinds of funders. The largest process barrier is the cost associated with searching for and securing pre-finance, much more than around the organisational skills to secure funding or access to funders in general. This seems to indicate that commercial loans are seen as the next best option after own financing, but that this route still presents significant cost and resource barriers. Other pre-financing challenges that delivery partners highlighted include the high risk of financing using unrestricted reserves, inability to pass on the cost of capital, and insufficient time within the procurement process to source external finance.

It is important to note that the need for working capital is not exclusive to delivering PbR contracts. Organisations may receive payments in arrears when delivering non-PbR projects and will be required to cover upfront costs of these contracts. One large charity noted that receiving any payment in arrears, including for their grant-based contracts, places a strain on the organisation's cashflow.

*Figure 13: Pre-financing challenges in PbR contracts*

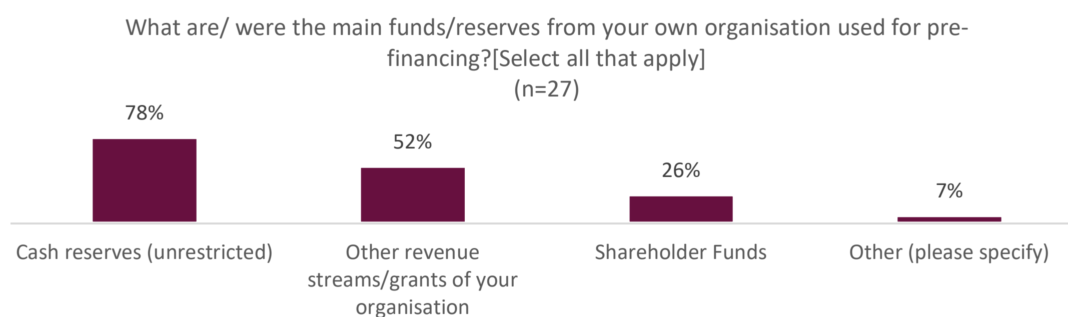


## 5.2. Pre-Financing: Own Funds (& Equity)

Nearly all organisations, 93% (27 organisations), regardless of size or type, use their own funds to pre-finance their PbR contracts, **Figure 11**. This group was not skewed towards large organisations. Every organisation responding to the survey and classified as small (less than 50 employees) used own funds for financing PbR.

For most of these delivery partners, 78% (21 organisations), own funds were drawn from unrestricted cash reserves and roughly half (52%) also tapped into cash from other revenue streams, **Figure 14**. One INGO, for example, used revenue from paid services to cover the working capital needs of their PbR contract.

*Figure 14: Types of own funds used for pre-financing*




No organisations used equity investments specifically to secure pre-financing for PbR. A few organisations surveyed did leverage equity investments more broadly for organisational growth or development. In some cases, respondents linked using own funds to equity. In one case, shareholders included staff, founders and directors. In terms of how this study is defining pre-financing of PbR, however, there were no equity offers for capital raising for PbR specifically.

### Advantages and disadvantages of own funds

There are clear advantages to using internal funds that explain why this it is the most common source of pre-financing. Not least, own funds that are sufficient to cover working capital investments are readily available. Further, own funds do not come with the financial costs of commercial loans and nor with additional reporting or coordination commitments that may come with philanthropic grants. For organisations that have relatively large unrestricted cash reserves, for example large organisations that are financed through fundraising or sponsorship activity, these advantages make own funds a viable and attractive option for pre-financing PbR contracts.

However, using internal financing is not an option for many organisations, particularly those in the charitable sector and those with limited reserves.[27] This does not single out just the smaller organisations as even large NGOs with cash reserves often tend to be quite restricted in how these can be deployed. For example, a large NGO explained that the organisation has cash reserves from donors who pay in advance, but these funds are earmarked for delivery of specific projects and are not available for general working capital needs.

Further, using internal funds presents a number of limitations and opportunity costs. As a representative from a large NGO explained, being dependent on internal financing can be a significant

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[27] Sheil, F. and Breidenbach-Roe, R. (2014) *Payment by results and the voluntary sector.* Available from: http://www.ncvo.org.uk/images/documents/about_us/media-centre/payment-by-results-and-the-voluntary-sector-april-2014.pdf [Accessed October 2017]

barrier to bidding for DFID PbR contracts; *"…using our own cash reserves limits the size and volume of contracts we can pursue."* Both charities and private sector organisations also cited the important trade-offs that they are forced to make when they allocate internal funds to pre-finance PbR contracts that limit what they could otherwise do, such as invest elsewhere in the organisation or its programmes, see **Box 1**.

*Box 1: Opportunity costs associated with using internal funds for pre-financing*

"Using our limited unrestricted funds to pre-finance DFID contracts also comes with an opportunity cost, of not investing elsewhere. For example, we could be investing unrestricted funds in systems to help our efficiency, effectiveness, or quality improvements. Or we could invest in country programmes to further our mission, in places or for [beneficiaries] who are not high on donor priority lists."

– Large NGO

"The low expected return on international development work does not justify tying up working capital (opportunity cost)"

– Large Private Sector Organisation

## 5.3. Pre-Financing – Commercial Loans

Commercial loans were used by 30% of respondents (9 organisations), **Figure 11**. Seven of these were private sector organisations, one was a charity and one a consortium. While drawing on a sample of only 9 respondents means that the survey results, in this section, are purely directional, a few observations from the data and interviews can nonetheless be drawn out to help inform a better understanding of the barriers to taking out loans for PbR.

Commercial loans were most commonly used by private sector delivery partners. Among all private companies surveyed, 58% (7 of 12 total) said that their pre-financing bundle included a commercial loan compared to only 6% (1 of 17 total) of charities surveyed. This finding is consistent with previous reports and expert interviews indicating that loans are not only less common in the charitable sector[28] but that charities, in general, shy away from commercial loans for a combination of reasons. A small NGO interviewed for this report said; "I doubt a commercial lender would give us a loan, and even if they would, we wouldn't be willing to take the risk." The only charity that used a commercial loan from our survey was a large INGO with an annual turnover of more than £45 million.

There were two different ways that loans were used by survey respondents to fund PbR. One was a 'top-up' loan defined as a loan that represented a minority of the funding to support PbR. In all cases, this was a 'top-up' to organisations that funded the majority of their PbR with own funds. In two cases organisations also had top-up funds from either a philanthropic source or hybrid source. The other way loans were used was as half or more of the funding bundle to support PbR ('Majority Loans'), in all these cases the other half was again own funds.

While all the loans used for PbR were general commercial loans and not specifically designed for pre-financing, there were some small differences between the two groups. For 'Majority Loans' these were all working capital loans at market rates[29]. Top-up loans on the other hand represent a wider range of different kinds of financing as illustrated in **Figure 15**. In all cases there was a mix of secured and

[28] NCVO Knowhow Nonprofit (2017). *Funding sources for charities and non-profit organisations.* Available from: https://knowhownonprofit.org/governance/board-responsibilities/raisingmoney. [Accessed October 2017]

[29] Organisations who said their loans were at market rates reported a variety of interest rates, likely reflecting the difference in date and geographic context (two organisations had interest rates between 3-5%, two had >5%; and one had a 20% rate).

unsecured loans mostly from commercial banks but also from other institutions. Listed as loan providers were M&T Bank, Barclays and HSBC.

*Figure 15: Terms of commercial loans by type of Loan*

| | Top-Up Loans | Majority Loans |
|---|---|---|
| Which of the following best classifies the (main) loan? | # of respondents | # of respondents |
| Working capital loan | 2 | 3 |
| Overdraft facility | 2 | 0 |
| Bridge financing | 1 | 0 |
| Combination loan | 1 | 0 |
| Who was the main lender? | | |
| Commercial bank | 4 | 2 |
| Private sector organisation | 1 | 1 |
| Other specialised bank | 1 | 0 |
| How did the interest rate/cost of borrowing compare to market rates? | | |
| Below market rate | 0 | 0 |
| At market rate | 3 | 3 |
| Above market rate | 1 | 0 |
| Don't know | 2 | 0 |
| What, if anything, was the loan secured against? (Select all that apply) | | |
| Unsecured | 3 | 1 |
| Fixed Assets | 1 | 2 |
| Third-party guarantees/ letters of credit | 2 | 0 |

## Advantages and disadvantages of commercial loans

In theory, commercial loans may be a viable option for organisations that would have otherwise been excluded from bidding for PbR contracts. However, in practice, many such organisations still face barriers to accessing commercial loans. Many smaller organisations do not have the assets against which to secure a loan, and organisations that lack strong performance management or M&E processes struggle to provide proof of their performance record required.

While some argue that securing a loan for PbR is further hindered by the fact that payments in PbR contracts are not guaranteed, all commercial loans take on some level of risk analogous to PbR risks. The key for commercial lenders is therefore more about being able to conduct an appropriate risk assessment of the loan, which relies on both good business context information as well as a clear set of performance criteria in the PbR agreement that can be readily evaluated.

Commercial loans are also sometimes seen as unattractive in light of how they may impact an organisation's ability to win a delivery contract as well as the potential commercial implications even where payment is received in full. However, these deterrents would be lessened if commercial loans were more of a norm. For now, the cost of any commercial borrowing means delivery partners would either include the costs in their bid and appear less competitively priced, or would have to absorb these costs themselves.

Charitable organisations face a number of structural and cultural barriers to commercial borrowing, as mentioned above. Some charities' governing documents prohibit the use of assets as security for loans or prohibit commercial borrowing all together.[30] Previous reports and expert interviews also

[30] NCVO Knowhow Nonprofit (2017). *Funding sources for charities and non-profit organisations.* Available from: https://knowhownonprofit.org/governance/board-responsibilities/raisingmoney. [Accessed October 2017]

suggest that a culture of risk aversion among trustees and, in some cases, lack of financial expertise means charities are hesitant to exploring commercial loans.[31] These demand side barriers ultimately mean charitable organisations are less likely to have a credit history, further hindering their ability to secure a loan.

Unlocking commercial loans to PbR delivery partners is definitely attractive. Commercial institutional providers are looking for ways to make such loans easier to access, and are very aware of the barriers outlined here. While no specific loan products tailored to this market have been launched at scale, efforts to provide such products are underway. These efforts are unlikely to be sufficient for unleashing the market as a whole and donor agencies and other commissioning bodies may have a role to play whether in helping to accelerate such initiatives or supporting hybrid funds until delivery partners can access commercial loans independently. What is clear is that in the absence of lower barriers to commercial loans, pre-financing for PbR contracts will remain partially blocked.

## 5.4. Pre-Financing – Philanthropic & Hybrid Grants

Philanthropic and hybrid grants were used to cover only a minority of the PbR pre-financing bundle for a few organisations each. They are grouped together in this section since they are related by the fact that if results are not achieved, the hybrid grants are not typically repayable, which means these instruments have a lot more in common with philanthropic grants than loans. Delivery organisations, therefore, do not own the financial risk for either philanthropic or hybrid grants.

The three organisations topping up their pre-financing with philanthropic grants were similar in a number of ways. All three were delivering against contracts that were 90% or more on a PbR basis, and were funding the contract with half or more of their own funds. Further, all three were not required to make repayments even if the terms of the PbR were met which is more understandable given the fact that these were more top-up support, and in at least one case we know that the funds were for general organisational capacity building support as opposed to only being provided to help pre-finance the PbR contract.

The two organisations that used hybrid financing are not, on the other hand, at all similar. One used a hybrid loan/grant provided by a foundation to cover a minority of the PbR financing bundle, where the majority was covered by own funds. The other was a DIB supported by UBS Optimus Foundation, and where the terms of the deal and the financing were structured with the help of an intermediary organisation.

### Advantages and disadvantages of philanthropic grants and hybrid loans

Philanthropic grants, alone, are not well suited to the PbR mechanism. Grants undermine the purpose of the PbR structure which incentivises performance, and simply transfer risk to a third-party actor not integral to achievement of results. Further, granting organisations' procedures may not be set up to manage repayment of grants as might be appropriate in a PbR scenario. Grants in this context would mean that delivery organisations are being set up to receive a double payment, first from the grantor and second from the commissioning agency once results are achieved.

Philanthropic grants do have a key role to play as components of hybrid financing in conjunction with commercial components. Such grants can help in risk reduction, while not completely eliminating the

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[31] Sheil, F. and Breidenbach-Roe, R. (2014) *Payment by results and the voluntary sector.* Available from: http://www.ncvo.org.uk/images/documents/about_us/media-centre/payment-by-results-and-the-voluntary-sector-april-2014.pdf [Accessed October 2017]

performance requirement, they can risk share with delivery partners not yet commercially able to manage the full risk themselves. Further, the grant component of the financing can be directed such that it is allocated to specific objectives should the payment for PbR be received in full. Grants can also play a role in unleashing commercial loans, such as paying for strengthening performance capabilities and systems or covering the costs of borrowing. In this way, the grant element of a hybrid loan could represent a pathway for these organisations between grants and fully commercial loans.

# 6. Summary

This study has built an evidence base that demonstrates that the pre-financing landscape is not where it could be and that, as a result, the requirement for pre-financing is a barrier that excludes otherwise capable suppliers from bidding for or winning PbR contracts. This chapter presents a synthesis of the results of this study. It outlines an overview of the current state of pre-financing for PbR contracts including the associated challenges reported by delivery partners and key informants.

## 6.1. Current Pre-Financing Landscape Overview

There is broad general support for PbR contracts among delivery partners. Whether this sentiment is simply reflecting donor stated commitment to PbR or because they truly see real benefits, most delivery partners want to see more PbR contracts in the future. The key, of course, is getting PbR right.

The current pre-financing landscape, summarised in **Figure 16**, shows that without readily available and affordable external financing options, most suppliers draw from their internal funds to pre-finance PbR contracts which confers an advantage to those organisations. In short:

- Organisations that have large unrestricted funds are covering the working capital costs of PbR with their **own funds**, and are either taking on the risk of non-payment or under-payment in the case of results not being achieved or are not fully considering the implications of such risks. Even for these organisations, financing with own funds presents unattractive opportunity costs especially if the financing required is a substantive portion of cash reserves.
- Affordable, attractive **commercial loans** are being used by private sector organisations and some large charities, but are less accessible and less attractive to small organisations, those in the charitable sector, and those with limited track records (such as emerging entrepreneurial organisations). While commercial loans seem to be of great interest for PbR pre-financing, significant barriers still make this difficult in practice.
- Purely **philanthropic grants** are not set up to work as a pre-financing source. Grants undermine the core intent of a performance based contract, and most philanthropic funders are not set up to manage repayment if the delivery partner achieves its objectives and is paid by the commissioning agency. However, purely philanthropic grants have been used to help organisations top-up other sources of financing for PbR and have been used for organisational strengthening more broadly, and such grants have an important on-going role in these ways.
- **Hybrid financing** tools range from commercial styled loans that default to philanthropic grants if results based payments are not achieved to more highly structured development impact bonds that engage the commissioning body, delivery partner and financing partner in the terms of the agreement. Hybrid funding has the potential to address many of the issues presented by other funding sources. However, these are not widely used partly due to the generally weak M&E capacity or performance-based management processes.
- Note that weak M&E is a general barrier to all kinds of financing both commercial and philanthropic and even more so for PbR financing that critically relies on M&E.

*Figure 16: Summary of current PbR pre-financing landscape*

# Annex 1 – Survey

### INTRODUCTION

### ABOUT THIS SURVEY

Your organisation is being asked to participate in this survey because you have experience delivering contracts on a Payments by Results (PbR) basis with DFID or others, whether directly (e.g. delivering the PbR components) or indirectly (e.g. as a prime contractor overseeing PbR delivery conducted by partners/sub-contractors).

DFID's Definition of PbR: A programming approach where payments are linked to the achievement of pre-agreed results, rather than paying up front to fund future activities.

THANK YOU IN ADVANCE FOR YOUR PARTICIPATION.

*** If you have the information required at your fingertips this survey should take 15-20 minutes.**

- If you need to seek inputs from others in your organisation you can pause or save the survey and come back to it.
- Most questions are multiple choice to make it easy and quick to complete, but there are also opportunities to provide comments if you wish.
- The survey focuses on. your organisation's PbR pre-financing experience, but also asks some introductory questions about your organisation and some closing questions around perceptions of PbR.

*** Your answers will be confidential, only aggregate and anonymized data will be shared.**

- This study is being run by an independent research firm, Dalberg Intelligence, on behalf of DFID.
- Your responses are confidential. No individual or organisation names will be provided to DFID or any other third party, but we ask for your organisation's name to help monitor survey coverage and response.

*** Answer on behalf of your organisation, about your typical OR most recent relevant PbR contract.**

- We are looking for organisational level inputs that reflect your organisation's experience and perspectives.
- IMPORTANTLY Your answers should refer to either the **'typical'** PbR contract you work on if you are able to generalize or (b) the **current or most recent** PbR contract that is / was of reasonable size (not so small that you cannot comment on the unique requirements of PbR).

*** Questions? Need Help?**

- Please reach out to Sherene Chin Fatt (sherene.chin.fatt@dalberg.com) for questions about the survey
- Please reach out to Radana Crhova (r-crhova@dfid.gov.uk) or Jessica Cartwright (j-cartwright@dfid.gov.uk) at DFID for questions about how DFID will use the results.

## Section 1: About your organisation

1. **What is the name of your organisation?**
   *[open]*

2. **What is the annual income (turnover) of your organisation?**
   *[Select one]*
   a. ≤ GBP 1.8m
   b. GBP 1.8m – GBP 9m
   c. GBP 10m – GBP 20 m
   d. GBP 21 m – GBP 45m
   e. ≥ GBP 45m

3. **How big is the organisation?**
   *[Select one]*
   a. <10 employees
   b. 10 to 49 employees
   c. 50 to 249 employees
   d. 250+ employees

4. **Which of the following best describes your organisation or implementing agency?**
   *[Select one]*
   a. Charity / NGO
   b. Private Sector Company / Organisation
   c. Quasi-Governmental Organisation
   d. Public and/or Civil Society Consortium
   e. Public-Private Partnership
   f. Other, please specify

5. **What is the budget of the average project/contract your organisation delivers?**
   *[Select one]*
   a. <150 thousand GBP
   d. 150 – 499 thousand GBP
   e. 500 – 999 thousand GBP
   f. 1 – 2.5 million GBP
   g. >2.5 million GBP

6. **In which of the following regions does your organisation primarily operate?**
   *[Select all that apply]*
   a. Africa
   b. East Asia and Pacific
   c. South Asia
   d. Europe and Central Asia
   e. Middle East and North Africa
   f. Latin America and the Caribbean
   g. Other

7. **How often, if ever, do your organisation operate in fragile settings?**
   *[Select one]*
   a. Often
   b. Sometimes
   c. Rarely
   d. Never

8. **Which types of agencies/organisations are the main funders of your organisation's programme delivery contracts?**
   *[Select as many as apply]*
   a. Donor Agencies (e.g. DFID, Norad, USAID, others)
   b. Multilateral Agencies (e.g. WHO, other UN agencies)

c. Development Banks (e.g. World Bank/ IFC, others)
d. National Governments
e. Local Governments
f. Private Sector
g. Civil Society / NGO
h. If others, please specify:

**9. In the past 5 years, how many contracts with a PbR component has your organisation delivered or overseen?**

*[Select one]*

a. None
b. 1-2
c. 3-4
d. 5 or more

**10. Thinking about your organisation's typical or most recent PbR contract, what portion of the total value of the contract was on a PbR basis?**

*[Select one]*

a. Up to 10%
b. 111-50%
c. 51-89%
d. 90% or more

**11. And what was the monetary value of the PbR portion of your organisation's typical or most recent PbR contract?**

*[Select one]*

e. <150 thousand GBP
f. 150-249 thousand GBP
g. 250-499 thousand GBP
h. 500 – 999 thousand GBP
i. ≥ 1 million GBP

12. **In which of the following sector(s) did your organisation carry out work on a PbR basis?**

*[Select all that apply]*

a. Health
b. WASH
c. Education
d. Employment / Income Generation
e. Agriculture
f. Environment
g. Energy Access
h. Other, please specify:

## SECTION 2: Your Organisation's PbR Pre-Financing Experience

*To cover the costs of PbR programme delivery up-front, organisations need 'pre-financing', before receiving payments for the results after the end of the programme cycle(s). This section seeks to understand your organisation's experience with pre-financing for a typical or current/ recent PbR contract.*

**13. What is the general breakdown of the pre-financing bundle for your organisation's typical/most recent PbR contract?**

*[Select one answer for each option]*

*Answers:* [Not applicable/ A minority of the financing (<40%)/ About half of the financing (40-60%)/ A majority of the financing (>60%)]

*Options:*

a. Own financing/ resources
b. Commercial loan
c. Equity investments
d. Philanthropic grants
e. Hybrid loans with mix of philanthropic and commercial terms
f. Other, please specify

**14. In question 13 when you provided an overview of your organisation's pre-financing bundle, did this include funds or reserves from your own organisation? (This question ensures you are routed to the appropriate questions).**

*[Select one]:*

a. Yes – Go to question 15
b. No – Skip to question 16

**15. What kinds of own funds/reserves did you use for pre-financing?**

*[Select all that apply]*

a. Cash reserves (unrestricted)
b. Other revenue streams/grants of your organisation / business
c. Endowment Fund
d. Shareholder Funds
e. If other, please specify
f. Not applicable

**16. In question 13 when you provided an overview of your organisation's pre-financing bundle, did this include commercial loan? (This question ensures you are routed to the appropriate questions).**

*[Select one]:*

a. Yes – Go to question 17
b. No – Skip to question 25

**17. How did the interest rate/ cost of borrowing for the (main) loan compare to market loans?**

*[Select the best possible response to each]*

a. Lower than market rates
b. At market rate
c. Above market rate
d. Don't know
e. Other (please specify

**18. What was the approximate interest rate for the (main) loan?**

*[Optional – please select one that best applies]*

a. <1%
b. 1-2.9%
c. 3-5%
d. >5%
e. Flexible
f. Other (please specify

**19. How long was the initial duration of the loan?**

*[Please select one that best applies]*

a. Shorter than PbR milestones/ contract terms
b. In line with PbR payment milestones
c. Longer than PbR payment milestones/ contract terms
d. Flexible
e. Other (please specify)

**20. Who was the main lender?**

*[Please select one that best applies]*

a. Commercial bank
b. Development bank
c. Other specialized bank or lending organisation
d. Private individual investor
e. Private sector organisation
f. Other (please specify)

**21. Which of the following best classifies the (main) loan?**

*[Please select one that best applies]*

a. Overdraft facility
b. Working capital loan
c. Bridge financing
d. Other business loan
e. Specific loan for PbR financing
f. Combination loan
g. Other (please specify)

**22. What, if anything, was the loan secured against?**

*[Select all that apply]*

a. Unsecured loan
b. Fixed assets
c. Third-party Guarantees/ Letters of credit
d. Other (please specify)

**23. Which of the following best describes renegotiation terms for the loan?**

*[Please select one that best applies]*

a. Possible with reasonable conditions
b. Possible but very costly/ difficult
c. Not possible
d. Not applicable
e. Other (please specify)

**24. What was the name of the bank / main lender**

*[Optional - open]*

**25. In question 13 when you provided an overview of your organisation's pre-financing bundle, did this include equity investments? (This question ensures you are routed to the appropriate questions).**

*[Select one]:*

c. Yes – Go to question 26
d. No – Skip to question 29

**26. What portion of your organisation was transferred for equity/ share-holding?**

*[Select one]*

a. <10%
b. 10-49%
c. >50%
d. Not applicable
e. Other (please specify)

**27. In general, how engage were/ are the equity investor(s) with your organisation?**

*[Select one]*

a. Not actively engaged
b. Engaged with senior management level decision making/ influence
c. Engaged at board level
d. Not applicable
e. Other (please specify)

**28. Which of the following best describes the equity investor?**

*[Select one]*

f. Individual private investor
g. Private investment fund
h. Other type of investment organisation
i. Foundation
j. Other philanthropic/ social organisation
k. Not applicable
l. Other (please specify)

**29. In question 13 when you provided an overview of your organisation's pre-financing bundle, did this include philanthropic grants? (This question ensures you are routed to the appropriate questions).**

*[Select one]:*

a. Yes – Go to question 30
b. No – Skip to question 33

**30. Were there repayment conditions associated with the grant?**

*[Select one]*

a. No, repayment of the grant was not required.
b. Yes, repayment of the grant in part or full was required contingent on results payments received from commissioning agency.
c. Yes, repayment of the grant in part or full was required irrespective of result payment received from commissioning agency.
d. Other (please specify)

**31. Which of the following best describes the grantor?**

*[Select one]*

a. Foundation
b. Individual philanthropist
c. Philanthropist/ Social Impact Investor Organisation
d. Other (please specify)

**32. What was the name of the grantor? (optional)**

*[Optional - open]*

**33. In question 13 when you provided an overview of your organisation's pre-financing bundle, did this include a hybrid philanthropic grant/ commercial loan? (This question ensures you are routed to the appropriate questions).**

*[Select one]:*

a. Yes – Go to question 34
b. No – Skip to question 37

**34. Which of the following best describes the hybrid financing?**

*[Select one]*

a. Highly structured deal integrating PbR terms
b. Mostly like a grant but with commercial returns if results achieved
c. Half grant/ half commercial loan
d. More like a commercial loan but with possibility of default without penalty if results not achieved
e. Other (please specify)

**35. Who were the main funders?**

*[Select all that apply]*

a. Commercial bank
b. Development bank
c. Individual private investor
d. Private investment fund
e. Other type of investment organisation
f. Foundation
g. Other philanthropic/ social organisation
h. Other (please specify)

**36. Who were the main parties who structured the terms of the hybrid financing?**

*[Select all that apply]*

a. The lender(s)
b. Our own organisation

c. An intermediary organisation
d. The PbR commissioning agency
e. Other (please specify)

37. **Please comment on any other important details of your pre-financing bundle that was not covered in this section.**
*[Optional - open]*

## SECTION 3: PbR Risk Management

*Working on PbR contracts can entail a number of risks and challenges for suppliers. In this section we seek to understand your organisations views on the challenges and risks associated with PbR.*

38. **Rank in order, the areas that represent the greatest barriers/challenges for your organisation in taking on PbR contracts (bidding, delivering and/or overseeing).**
*[Rank from 1 to 6 where 1 is the most challenging and 6 is the least challenging]*
a. Our own organisation's skill set
b. Our own organisation's capacity / resources
c. Accessing the market of lenders and/ or support for pre-financing
d. Securing and negotiating pre-financing
e. Donor requirements
f. Delivery context risks and uncertainties

39. **Thinking specifically about pre-financing, what are the three biggest challenges that your organisation faces in finding and securing pre-financing?**
*[Select up to three]*
a. Our organisation lacks access to funders
b. Market of PbR funders doesn't have enough philanthropic grants
c. Commercial loan providers don't understand PbR
d. Terms of standard commercial loans are unaffordable or unattractive for PbR
e. Lack of investors interested in PbR generally
f. High costs of searching for and securing pre-financing
g. Insufficient expertise internally or available for us around pre-financing
h. Inability to secure adequate funding
i. Other (please specify)

## SECTION 4: Perspectives on the PbR Pre-Financing Landscape

40. **Please rank the following sources in order of your organisation's preference for pre-financing to deliver on PbR contracts.**
*[Rank from 1 to 5 where 1 is the most preferred source of pre-financing and 5 is the least preferred source]*
a. Own financing/ resources
b. Commercial loans
c. Philanthropic grants
d. Equity investments
e. Hybrid philanthropic/ commercial

41. **Please comment on the reason(s) for your ranking of PbR pre-financing sources.**
*[Open - optional]*

## SECTION 5: Perspectives on the Value and Future of PbR

*In this section, we seek to understand your perspectives on PbR as a tool overall and how it might be made more effective as a mechanism for achieving development results.*

42. **What according to your organisation, what are the most attractive elements of PbR?**
*[Select up to three]*
a. Greater responsibility for how money is spent
b. Flexibility / greater efficiency in my organisation's processes / approach
c. Scope for innovation
d. Potential for better financial returns / greater opportunity for reinvestment into the organisation
e. Measurable impact of the programs / Validation our work is having impact
f. Increased accountability across the supply chain
g. If others, please specify:

43. **If it was up to you, would you like to see more PbR based contracts?**
*[Select one that applies best]*
a. Yes, PbR has the potential to be a powerful tool for better results
b. No, PbR cannot measurably improve results
c. Yes, but only when the impact model, sector and context for PbR are right
d. Yes, but with a reformed contracting approach (e.g. more flexibility, negotiating room, etc)
e. Yes, but PbR elements should remain small portions of delivery contracts (<20%)
f. Yes, but financial risks should be held outside of the delivery organisation (e.g. by grantors / lenders)
g. Other (please specify)

44. **Do you have any comments or additional perspectives on PbR you would like to share?**
*[Open Box]*

Thank you for your time. Your inputs are incredibly valuable to us, and we will be sending you the final report emerging from this survey in due course.