

## Result-Oriented Funding with Rewards

### Discussion on the Ruraldev-Forum

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**Public funds in development cooperation are necessary and justified. However reforms in financing mechanisms are also necessary and justified in order to utilise the public funds effectively and improve the service delivery of private or public organizations. Here some experiences in result-oriented funding. For more informations contact the rural development platform<sup>1</sup>.**

Peter Arnold from SDC Dar es Salaam launched the discussion. He asked:

“Are there any examples and experiences in result-oriented funding with rewards for good achievements (“ex post”-funding) – as opposed to funding service delivery (“ex-ante”-funding), where service providers are more interested in maximizing their allowances than in efficiently achieving results”. Pradeep Itty from SDC Hanoi mentioned they were thinking in the same direction, but have no results yet. Peter Bieler of SDC Niamey says they face the same challenge, particularly with their “Etat de droit” program. Four concrete experiences were contributed from Kyrgyzstan (Peter Schmidt), India (Smita Premchander), Mocambique (Rolf Gsell) and Phillipines (Eduardo Canela).

#### **The following concrete experiences were ontributed:**

*Peter Schmidt: Kyrgyzstan*

“The Kyrgyz Swiss Agricultural Project, which supports the Kyrgyz Rural Advisory and Development Service, began testing an alternative funding mechanism in Issyk Kul oblast in January 2001. In the “Mandate System” the Oblast RADC is mandated by

the Kyrgyz Government and donors to implement a negotiated Yearly Plan of Operation. 50% of the Oblast RADC budget is paid as a management flat allowance; 30% is based on advisory services rendered (such as number of training courses, number of mass media articles, number of groups formed); and 20% is paid based on measurable results in the farmers’ fields and farmers’ demonstrations of knowledge gained from RAS training. It is expected that this system will increase efficiency, effectiveness and sustainability of RADS.”

*Smita Premchander: SAMPARK, India*

“Support agencies in India like Industrial Development Bank of India began to fund training in entrepreneurship in early 80s but found that most agencies were not able to achieve results in terms of high percentages of enterprise start-ups to the number trained. So in the 1990s, they began to give 50 percent of the money as advance before the training, 25 percent on completion of training, and another 25 percent only if at least 50 percent trainees had started businesses. This helped training organisations to focus on improving quality of training, and also follow up services. But of course many came up with good results because they began with selecting those who had already made headway, or already had started businesses! There is never an easy way out to reach those who need support services, is there?”

*Rolf Gsell: Helvetas, Mocambique*

“We tried to work with local organisations and individuals, which had limited skills in the beginning. With such organisations we had the following funding mechanisms:

We defined together the very basic prerequisites that the SDO (Service delivery organisation) needed to deliver the intended service. We were very reluctant to contribute to the fixed costs of the organisation and

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<sup>1</sup> Status of discussion end Nov 02.: <http://www.bellanet.org/sdc/ruraldev>

wanted to see that the proper SDO invested the bigger part of such basic investments. Regarding payments we did not follow a fixed scheme like the 50/25/25 that Sampark reports from India. In the beginning we only paid what the SDO really needed to start. Each further paid needed an external audit of the SDOs accounts and a joint monitoring exercise on the achieved results, which occasionally led to a revised planning. All this needs a lot of time, effort and money. Furthermore we often found ourselves more in the role of a trainer or coach than in the role of a business partner. But I still think that on the long run this effort pays back (well – at least, when you are relatively sure that there is no other donor in this region of sector that uses a “golden shower-approach”).”

*Ed Canela: Phillippines*

“...a performance bonus scheme in Manila under an AID’s maternal and repro health programme and we take not-for-profit institutions as SDO (in our context, simply referred to as NGOs). In dealing with them, we give them explicit service delivery specs and targets over a period. Then they bid for the service block. We pay them at cost after a thorough check on what have been delivered on the ground. And then, a performance bonus (profit in some cases) of up to six percent of the total costs is added if the success criteria have been overshoot. What we liked about it is that the participating SDOs do not necessarily increase their costs and salary levels with each contract with us because they also apportion the performance bonus at the end of a 12 month period. Hence even the interest on the funds remain with the SDOs. Eight months ago, we have successfully introduced a penalty clause for failure to meet contract obligations. I guess, there are some reasons for the initial success: one is that the services to be delivered is well defined; second, there is a long gestation period allowing trust to kick in; third; we operate a good cost-supplier database allowing us to monitor changes in costs and value creation in the delivery of the services we required. I hope this helps.... “

## **Common features and insights so far**

### **1. Public mandate (“Leistungsauftrag”)**

Three examples apparently run on the idea of a contract between the public and the SDO (service delivery organisation). The challenge therefore is to define and negotiate such a contract. This appears to be in line with the general tendency of “new public management”. The example of IDB India (Smita) is however special in this respect. On the one hand one could argue, that IDB has a commercial interest in achieving the result, ie. having as many new small businesses as possible, that they can then fund with credits, etc. On the other hand, such trainings may not be a profitable investment when compared to other things that IDB could do with it’s money. But the public has an interest in the emergence of many small enterprises. So the public may be investing via the IDB. In this case the “public mandate” would probably be between the public and the bank.

### **2. Operational money / reward money**

All examples somehow distinguish between operational costs for delivering a service, and the reward or “profit” from delivering the service successfully. This distinction seems to be important.

However, there appear to be many ways of doing this, depending on the situation and the level of competence of the SDOs:

- a. Both RADC and IDB India have a fixed key of disbursements, with 50% going to operational costs “ex ante”. Half of the rest goes to paying the delivery of the contracted service, and the other half is the actual “reward” or profit, based on the effects of the achieved results.
- b. Mocambique has explicitly avoided a fixed key, and tailor-makes this to fit each situation. This is due to the very poor capacity and competence among the available SDOs. And the public (in this case the donor) finds itself often in a trainer-role to make the SDOs competent to actually deliver on a contract.
- c. Phillippines seems to be farthest advanced. It has clearly defined blocks of services, for which the SDOs bid. Real costs are then reimbursed ex post, but only based on independent assessment

of the achieved results. Phillipines can do this, because they apparently have highly competent and competing SDOs. They are so competent, that they can even assess their chances for getting the reward and build this into their bidding. Furthermore donors have a good cost-data base with which they can assess efficient use of funds.

It is therefore obvious why Mocambique cannot follow the Phillipine model. But still, all examples have a strategy for differentiating between operational costs and the “reward”.

### Emerging issues and challenges

#### 1. Verifiable results

Paying for results of course means that one can clearly assess whether they have been achieved or not. This is by no means easy, as Smita and Peter Bieler both point out. Zacarias Sithole asks how longterm effects would be assessed, ie. after 5 years or more, and how payments would be released for achieving them so far in the future. Both Rolf and Eduardo tell of successful sanctions against cheating, but point out this is only possible, if and when solid criteria for achieving the results are defined.

Challenge: What is the best procedure for identifying and defining criteria for assessing achievements?

#### 2. Training SDOs

Rolf points out, that often there are no SDOs in the area that are competent enough to conduct programs that achieve the required results. In such a situation one has to train an SDO in order for them to be able to achieve a result.

Challenge: Is it possible to combine a training effort to an SDO with a reward to that SDO for good delivery of a service? How?

#### 3. Reverse funding – and training beneficiaries....

Actually, an SDO will ideally have to be paid for its services by the beneficiaries of those services, be they individuals, interest groups, or local public bodies (ie. communal or district councils). The beneficiaries are automatically interested in the results, and will not

simply pay for implementation. So this might mean a Donor interested in funding results-achievements should enhance the capacities of beneficiaries to demand and pay for services? But Rolf asks “do we dare” to put buying power into the hands of beneficiaries, particularly if they have no experience whatsoever in demanding services and being assertive about what they want as a result? So a training component will also be required for the beneficiaries?

Challenge: How to train beneficiaries of SDO services to demand, control and pay for the services they require? How to “reward” the learning of beneficiaries in this respect?

#### 4. Reorienting the controlling headache to monitoring result-achievement?

Actually one of the main operational concerns of Peter Arnold is, that in their office they are using much too much controlling capacity to check on travel bills, negotiate levels of allowances and control their disbursement, control material bills, etc. etc. – and end up with a lot of work that has little direct relevance to the sometimes dubious results of the programs.

Challenge: What can an SDC office do to reduce this ex-ante controlling workload and use the freed capacities to monitor result-achievements?

These are the results of a discussion on the ruraldev-forum (see <http://www.bellanet.org/sdc/ruraldev>). The forum is open for anybody to ask a question or launch a debate. If anybody wants to pick up one of the mentioned challenges and discuss it with interested people from around the world, go ahead and post it there. And if you are not on the mailing list of ruraldev, you can join quite easily. Being on the mailing list means, that you will get each contribution to the forum as an email. And in case you have any questions about the ruraldev-forum, just ask me at [uscheuermeier@dplanet.ch](mailto:uscheuermeier@dplanet.ch).