

You Pay for What You Get. From Budget-Financing to Result-Based Payments

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Helvetas is about to publish another document in its series “Experience and Learning in International Co-operation”. Four case studies show how development projects can be financed through payments for the results instead of through funding of inputs. The experiences reveal striking findings, with extraordinary efficiency increases and remarkable changes in local partners’ attitude, ownership and commitment. Here we present the executive summary of the publication, with the intention to encourage you to read the whole document.¹

The interface between agencies for international co-operation and local partners, i.e. the providers of development services to beneficiaries, is the subject of this publication. It describes Result Based Payments. “Make contracting for development services as easy as getting fruit and vegetables from the market!” This is the claim made by protagonists of the principles of New Public Management, which is also referred to as “mandate system” or “shift from input to output/ outcome financing”.

International development agencies have members, taxpayers or donors in the background, that want to see funds turned into results and impacts. Traditionally, they would cover the cost of a desirable project based on a budget, submitted accounts and receipts: the replenishment system. With the increasingly used Result Based

Payments, the production or the service is paid and measured according to previously agreed indicators: the mandate system. With that shift of approach, the nature of the products/services, their quality, their quantity and their price really matter, and the partner has autonomy over internal management. The service providers’ incentive for efficiency is the potential profit, but they also bear all eventual risks. The system is controlled by competition in the market, and initial negotiations ensure that the conditions are interesting for both the international agency and the service provider.

Four case studies from ex-Soviet Union, Asia and Africa illustrate how development projects put their claim into practice:

- the Rural Advisory Services, RAS, in Kyrgyzstan, introduced its mandate system after an institutional crisis in 2001, and has applied it continuously since. Seven regional extension services, each with an annual budget of about US \$ 150’000, identify about 35 output or outcome indicators (e.g. x farmers introduced innovation y) and get paid according to their performance (for each farmer, price z);
- the Mozambique Community Education Program (PEC) builds, uses and maintains water and sanitation infrastructure through mandates from the government, which are funded by Helvetas;
- a new company in Nepal, F-SKILL Ltd., sells its vocational training to donors according to a price list that includes a guarantee of subsequent employment for young, jobless and disadvantaged Nepali;
- Helvetas Cameroon “purchases” locally owned new small infrastructure for water and sanitation from the local governments.

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¹ The publication can be obtained from Helvetas, P.O. Box 198, St. Moritzstrasse 15, 8042 Zurich, Switzerland, helvetas@helvetas.org from approx. September onwards, and will later be available on Helvetas’ website.

partners' attitude, ownership and commitment. But they also identify critical issues such as a need for increased management capacities of partners, monitoring requirements and/ or marketing of services. Potentials such as profit, sustainable long term institution building and/ or freedom to provide efficiency increasing incentives, are highlighted against risks caused by factors such as mismanagement and corruption.

The publication advocates for a paradigm change from budget support to Result Based Payments. It concludes with preconditions for entering the process for similar changes in other contexts.