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Understanding Results-based Conditionality in Development Cooperation: A Comparative Case Analysis

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Growing concerns over aid effectiveness in recent years have changed views around the aid contract, in part the role of aid conditionality and its perceived limits. This research seeks answers to questions on how results-based conditionality has been applied by exploring the multiple results-based aid programs through a case study from a comparative perspective. By investigating theoretical background on conditionality and reviewing recent discussions on results-based conditionality, this paper proposes a conceptual framework to discover key elements of results-based conditionality and to analyze them to see how the new approach may affect the process and result of aid delivery in comparison with traditional conditionality. The case analysis shows that results-based approach shifts the focus of aid by altering and strengthening the nature of incentives from various aspects of non-financial incentives, selectivity, payment, performance management, and sustainability with varying degrees. The paper concludes with challenges and limitations of results-based approach.

Keywords: Foreign Aid, Conditionality, Results-Based Aid, Aid Effectiveness

1. INTRODUCTION

1.1. Background

The results language has been in the use for many decades. Most notably, there was the Logical Framework first developed by the US Department of Defense in the 1960s to promote management by objectives, and the initiative of the Swedish National Audit Office in 1970 which emphasized that each agency had to be results-oriented and results-conscious. The results agenda came to occupy a position at the core of discussion in international development arena beginning in 2000. In 2002 Monterrey Conference on Financing for Development, it was agreed that a focus on results is the key to improving development effectiveness, and the results language has become more general in the sector since then. The DAC Working Party on Aid Effectiveness was set up in 2003, and the importance of results in aid was heavily discussed in the Paris Declaration on Effective Aid in 2005. In 2008, the World Bank's Health Results Innovations Trust Fund (HRITF) was established, and USAID is rolling out payment by results approach in health and family planning programs.

Development programs are increasingly being designed, implemented, and assessed within an evidence-based framework. One of the driving forces behind the results agenda is the "value for money" discourse (Eyben, 2013). With a pressing need to demonstrate that aid budgets are making differences during a period of austerity, results became part of the politics of accountability. It is not only related to the concerns of taxpayers about the lack of transparency and misuse of funds but generally to the effectiveness of aid. Another major driver is the competition for budget resources between domestic and multilateral aid agencies and other government departments. This trend makes organizations increase their efforts to demonstrate they are delivering value for money by proposing projects that can be easily measured by adopting results and evidence framework.

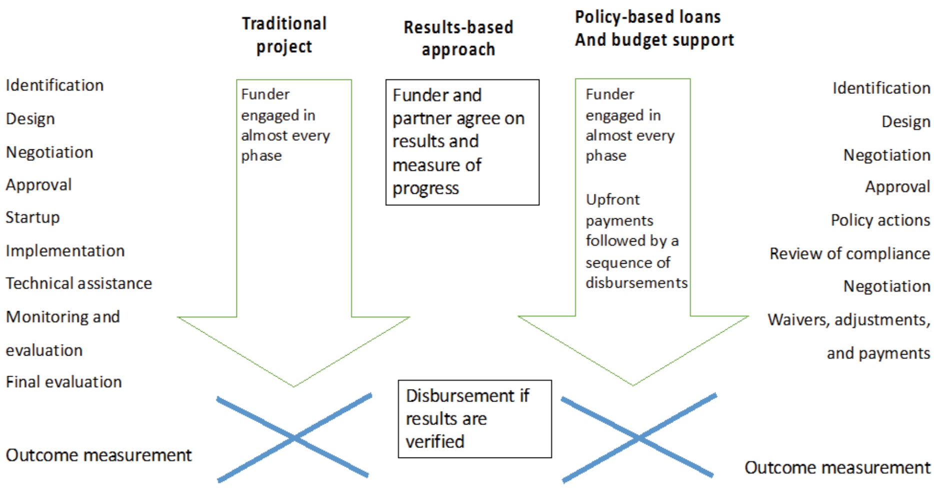
Despite the growing interest in results-based conditionality, it is still a new concept. Little theoretical or empirical study has been conducted. While the primary interest of researchers and practitioners stays concentrated on the tricky question whether results-based conditionality works or not, there are other questions that may affect decisions about adopting results-based conditionality. Few studies have analyzed how the theory on which results-based conditionality is based is different and how their characteristics may exist in the actual aid programs. This study is an effort to respond to this curiosity.

This paper is a qualitative inquiry that investigates the new approach in aid delivery practice and within its operational context through a case-study method, specifically from the perspective of its incentives and implementation schemes. The core elements of this study thus include understanding and interpretation and the policy implications of the new mechanism.

1.2. Literature Review

Results-based conditionality represents an attempt to extend results-based management (RBM) practices, which have become best practice within donor organizations, to their relationships with aid recipients (Dodsworth, 2012). RBM is currently defined in development cooperation as "a management strategy focusing on performance and achievement of outputs, outcomes and impact (OECD/DAC Glossary of Key Terms in Evaluation and Results Based Management 2002)." The basic idea behind RBM is that donors need performance information to understand and adapt to development contexts and make informed decisions. RBM covers various aspects of strategic planning, risk management, performance monitoring and evaluation, organizational learning, and reporting accountability. As there is an increased global and domestic pressure to prove results of aid, results requirements are increasingly being adopted as a conditionality for funding (Vähämäki et al., 2011).

Figure 1. Traditional versus Results-based Approach



Source: Modified based on Birdsall et al. (2011: 23).

There is no commonly agreed definition and the aid practice based on this approach. The names vary from 'payment by results' or 'performance-based aid' to 'output-based aid' to describe similar concepts (Pearson, 2011: 1). Despite the challenge related to the terminology, its key feature is that the provision of aid is only made once a pre-defined result is achieved according to the established method of payment. Another important feature is that the funder takes a hands-off approach. RBC thus may provide a possible approach that minimizes interference in the choice of policy actions and promises greater ownership (Koeberle et al., 2005) that emphasizes the power of incentives rather than guidance. In general terms, aid based on RBC is a new kind of partnership between a donor and a recipient government (Klingebiel, 2012). The main innovation of this type of aid is based on the establishment of a new contract that defines incentives to achieve measurable results and an appropriate set of indicators.

Conditionality has generated many contentious debates in the development community. The biggest question is whether conditionality from donors has led to better outcomes. A group of critics pointed to the potentially corrosive effect of conditionality with an increasing recognition of the limitations of the traditional approach (For example, Dollar and Svensson, 2000; Easterly, 2005; Koeberle et al., 2005; Wood and Lockwood, 1999).

Under current conditionality, recipient countries do not have strong incentives to achieve results. It is even possible that the recipient governments do not have any incentive to achieve results, as damaging policies create misery that is likely to draw more aid to alleviate the impoverished conditions (Williamson, 2010). Easterly (2007) argues that these governments explicitly want to keep down the productive capability of the poor due to the potential of political threat to the current regime. Additionally, special interest groups who benefit from a windfall of aid may resist any change that may reduce their financial gains.

In practice, aid conditionality is not effectively enforced. Its practicality is eroded by challenges in monitoring compliance and by incentives for donors to keep disbursing funds despite poor reform efforts due to the domestic pressure to spend aid budget (Mosley et al., 1995; Kanbur, 2006; Kanbur, 2000). The plausibility of threats of withdrawal of aid will be corroded if a donor has its own interest to provide funds, such as defensive lending (where donors grant new loans to help countries pay off old ones and to avoid default on past loans regardless of the reform results), donors' own interest to pursue other than policy reforms, or domestic pressure to disburse aid budgets (Killick, 1997: 488).

Killick (1997) showed evidence that non-compliance of conditionality is rarely penalized because donors are influenced by economic or political factors in their decision-making, or the pressure to disburse in aid agencies is obvious as the failure to do so would exacerbate macroeconomic crises and result in default on past loans and debt services. He also pointed out that inappropriate incentives within donor agencies, which tend to reward high funding levels, are also a major factor preventing effective sanctioning of non-implementation of conditionality.

There is also a time-consistency problem (Scholl, 2009; Svensson, 2000) that aggravates the commitment problems which lead to the lack of enforcement. This problem arises where the incentive to keep the commitment for recipient governments is significantly less than the incentive to make the commitment. The incentives of governments to implement reforms and policy changes tend to weaken once aid is received, even when they agreed to the aid conditions.

A consensus seems to exist that heavy donor involvement in the design and implementation of development assistance took away ownership from partner countries over the programs, while it is a necessary condition for a sustained development outcomes. Ranis (1995) pointed out that conditionality works only when local governments have decided, largely on their own, possibly with technical assistance from outside. He emphasized that the reform needs and policy changes have to be derived internally, and financial resources can be sought from the international community to achieve these goals.

Empirical studies suggest (Ostrom et al., 2001: 12) that without ownership, developing countries would undertake long-term policy reforms against what they consider to be their own interests, except for the receipt of aid. The policy change is thus regarded as the price which governments would have to pay for aid. Further, since donors saw their role as extracting maximum reform for a set amount of aid, the recipient government would always have an incentive to refuse to deliver the reform urged by donors.

Another critique questions the sustainability of externally induced reforms based on conditionality. Many analysts argue that once the financing for a donor-supported adjustment program ends, reforms are often reversed or abandoned (Morrissey, 2004: 169). The poorest countries receiving aid are often the ones who lack the policy capacity. Under traditional conditionality where donors dictate the policy choice, recipients' capacity to formulate its own strategy may be weakened while they are expected to design and implement highly sophisticated and often experimental policy programs.

2. METHODOLOGY

2.1. Case Selection and Brief

During recent years, several forms of results-based instruments such as results-based financing or "hybrid" type of approach combining results-based aid and financing were introduced by aid agencies and development policy think tanks. Results-based financing approach is to contracting a service provider or incentivizing a beneficiary of services within a country which involves a national or local government body. For example, the well-known case of conditional cash transfer program, Bolsa Familia of Brazil, or UK's Quality and Outcomes Framework could be a good example of the financing mechanism where payment is made to public services within a country for delivering a specific service output. Hybrid approach combines results-based aid and financing in which aid funds were used to contract directly with the NGOs or the private sector (e.g. World Bank Output-Based Aid).

While results-based approach can take many forms, this paper intends to look at results-based aid partnership between a donor and a partner country and thus excludes other results-based instruments mentioned above. It also excluded some programs (e.g. Global Fund) designed to assess compliance using process indicators rather than performance indicators. This paper thus focuses on a subset of aid programs for the case study in which the measured results are closely linked to development performance according to the principle of results-based conditionality.

The three cases in this study are selected because i) the aid is provided to developing country government and ii) the payment is based on the performance of the partner government. While it tried to include a rich combination of results-based aid programs with various donor orientations and sectors, the pool of possible candidates is very limited provided that the approach is a relatively new one. Accordingly, this paper will review Gavi immunization support program, Millennium Challenge Account, and Payment by Results by

DFID.

Gavi, as a global financing mechanism to improve access to vaccines in poor countries, provides a basic payment upfront and links only a part of funds to the outcome in incremental basis depending on the degree of performance. One of the first performance-based programs of its kind established in 2000, its ISS program has two main characteristics.[1] The first is its results-based payment model. After an initial two years of investment funding, countries receive funding based on the additional number of children immunized. The second is the flexible nature of funding which allows governments spend funding as they decide most appropriate.

MCC (Millennium Challenge Corporation) provides funding to eligible countries based on their performance on the selective indicators. MCC provides the committed and well-performing countries in three areas of good governance, economic freedom, and investment in their citizens grants to fund their development programs. MCC provides two different types of compacts and threshold program: compacts are large, five-year grants for countries that pass MCC's eligibility criteria while threshold programs are smaller-sized for those countries that come close to passing the benchmark and committed to improving their policy performance.

DFID (Department for International Development of the United Kingdom)'s payment by results similarly pays for results which are pre-set and verified upon completion and funds are used by recipients' full discretion. PbR has three defining features: i) disbursements linked to the attainment of clearly specified results rather than payment for inputs or processes; ii) recipient discretion where the recipient has space to decide how results are achieved, thereby increasing the scope for innovation in how results are achieved; and iii) robust verification of results as the trigger for disbursement (Department for International Development, 2013).

2.2. Analytic Strategies

Extracting Indicators

The method to obtain factors and indicators for case analysis was to apply the list of published literature which present empirical evidence on experiences from multilateral and bilateral donors as well as developing countries. The English language literature since 1995 was reviewed for identifying the factors for this analysis. The literature was found with an online search using Journal Storage (JSTOR), Google Scholar, World Bank, IMF, and Center for Global Development. The key words used to locate relevant articles were "aid conditionality," "failure (or success) of conditionality," "performance of conditionality," "assessing conditionality," "conditionality effects," and "conditionality evaluation."

An initial list of 40 articles or reports was identified for further review. Both their abstracts and summaries were reviewed to discern whether the article was specifically related to aid conditionality and its performance. Each study was reviewed to identify the performance of aid conditionality and its determining factors through evidence-based analyses using various methods such as econometric analyses or case studies for a small or large number of country samples. Studies were excluded if they did not provide sound information on the performance

[1] ISS program has now been phased out and been replaced with a new performance-based funding scheme under the health systems strengthening (HSS) program. Under the new scheme, countries will receive an initial investment for the first year, and a portion of payments during subsequent years will depend on improvements in immunization coverage.

Table 1. Factors Description

Category	Factors	Contents
Non-financial incentives	Alignment	The objectives of partner governments and those of donors are consistent
	Ownership/ Discretion	- Partners are engaged in formulating and designing their own reform programs - Partners are given greater responsibility during implementation - Donors take a hands-off approach
Selectivity	Selectivity	- A process to ensure that aid goes to favorable policy environment where aid will most enhance growth and reduce poverty
Payment	Results-based payment	- Payments are closely linked to ex-post performance - How payment is designed and disbursed (disbursement scheme)
Performance management	Performance indicators	- The objective set of indicators agreed on measure performance
	Results verification	- Methods to verify results
	M&E	- Monitoring and evaluation strategies and policy framework
Sustainability	Financial sustainability	- Partner countries are financially ready or encouraged to contribute to secure resources for future development efforts
	Operational sustainability	- Partner countries have the long-term ability to implement the reforms on their own

Source: author’s elaboration based on literature

of conditionality, the contributing factors, or if they were not related to “aid” conditionality, but other types of conditionality not relevant to aid or development assistance.

As a result, 23 literature were retained for extracting contributing factors (see Annex 1). Table 1 is the list of key factors for success of conditionality cited in the literature. The advantage of this approach is that it provides already verified evidence on the performance of conditionality. The disadvantage is that some of the measures are subjective, and thus there is not necessarily a consensus among scholars. Despite this issue, this approach can benefit from the rigorous analysis with various methods such as econometric analyses or case studies for a large number of country samples.

Case Analysis

This paper is a qualitative inquiry that investigates results-based approach and a case study method was applied for its exploratory nature to illuminate results-based conditionality. This research tries to answer “how” and “why” results-based approach was adopted and implemented, which facilitate the process to describe and understand the nature of the research topic. Accordingly, a case study method is relevant to “illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what results (Schramm, 1971). This study will also be benefited from the prior foundation and development of conceptual and theoretical propositions to guide data collection and analysis.

In the *within-case* analysis, this research will conduct an in-depth exploration of a single case as a standalone entity. Within-case analysis will be thoroughly focusing on the data within each case to find out its unique attributes and patterns. The purpose is to discern how operational strategies and implementation patterns that are found in the particular case support, refute, or expand the theoretical proposition on results-based conditionality.

Cases will then be analyzed with a *cross-case* method that facilitates the comparison of commonalities and differences among cases. Through cross-case analysis, this study intends to delineate the combination of factors that constructed unique operational aspects of each case and then seek an explanation as to where the differences among cases are derived. At the end of the case analysis also presents some insights from the field evaluation studies how the actual RBA projects have been implemented.

Based on the analysis conducted, the study will construct an explanation by comparing the findings of cases against the initial theoretical foundation about the results-based conditionality in the earlier chapter. In addition, cases will also be compared to find out differences among them and to seek explanations why the gap appears. This way makes it possible to build an understanding of policy implications of this approach by identifying the appropriate combination of incentives, design features, and enabling/inhibiting factors to enhance the performance of aid depending on the nature and mandate of aid programs.

3. CASE ASSESSMENT

3.1. Within-Case Analysis

Gavi

(1) Non-financial incentives

Gavi takes country ownership seriously and does not impose specific requirements how programs are to be implemented or how funds are to be used. According to the evaluation of the ISS program conducted in 2007, recipients noted the benefits of the flexibility of ISS funds-ISS funding flexibility allowed governments to address acute funding shortfalls and to adopt internationally-recognized strategies for improving immunization coverage (Chee et al., 2007).

Gavi fosters country ownership through its business model. Under the Alliance's funding mechanism, countries take the lead in proposing programs for Gavi funding, deciding what support to apply for and when. Gavi's support is committed for the duration of national health and immunization plans to ensure that Gavi support satisfies countries' health priorities. Another example of country-led partnership is that countries propose their own solutions for improving their health systems to deliver vaccines and promote immunizations where and to the extent they are needed ('About Gavi, the Vaccine Alliance,' 2015).

One of the unique and most valued characteristics of ISS funding is the complete flexibility and discretion given to national immunization programs (NIPs) regarding how and when to fund the program. Most countries have dedicated Gavi accounts so that funds were not mixed with other funding. It allows NIPs to operationalize locally-appropriate strategies for improving performance to respond the pressing health problems in the country. The decision making on the planning, budgeting, and allocation of the ISS funds can be done either at central authority level and local district level based on district micro-plans ('Gavi Immunization Service Support' n.d.). The central or local level set the priority activities or strategies and district flexibility in programming cash funding varies by country and by activity. For example, countries exercise flexibility in various ways: providing an incentive program to motivate staff given the low government salaries and support from central government; filling a gap in outreach funding; covering an unexpected shortage of costs; or supporting other health programs where no donor funding was provided (Chee et al., 2007).

Selectivity

Gavi's application process is facilitative as its goal is to make it easy for countries to obtain funding (Chinedu and Beswick, 2009: 42). Countries must present evidence that the proposed activities are fully integrated with the national planning and budget process. Countries must also have a well-functioning intra-agency coordination committee or national health sector coordinator, and a comprehensive multi-year plan synchronized with the strategic plan of the health sector that analyzes the state of the immunization program and current and future costing and financing, and a plan to minimize waste, maximize retention and improve safety.

There are two principles of selectivity with Gavi's program. First, in terms of eligibility threshold, Gavi's eligibility criteria focus Gavi support on the poorest countries. Countries with GNI per capita below or equal to $1,580 as of 2015 according to the World Bank data are eligible to apply for vaccines and other relevant grants and the GNI threshold is adjusted annually for inflation. Second, "program filters" for accessing new vaccine support are designed to ensure minimum performance standards and encourage high vaccine coverage. In terms of program filter, countries with 70% or more coverage of DTP3 (Diphtheria-tetanus-pertussis) area allowed to apply for new vaccine support. For Japanese encephalitis, Meningitis A and Yellow Fever vaccines, all Gavi -eligible countries can apply for grants regardless of DTP coverage ('Gavi Alliance Country Eligibility Policy,' 2009).

(2) Results-based payment

Gavi utilizes performance-based incentives with a purpose to ensure health financing is effective, accountable, and transparent. Incentives focus on outcomes, reward solutions and managing results of health programs ('Gavi Immunization Service Support,' 2015).

Under ISS, Gavi offers support in a reward phase, which begins from the third year after grant approval (in the first two years of grant, disbursement is based on the estimates in the proposal). Payments are calculated based on the country's achievements in immunization targets surpassing the previous year (year 2). The indicator is the number of additional children aged less than one year who have vaccinated compared to the baseline. Countries receive rewards only if they have provided additional immunization for children, and verify the number of children immunized through passing a Data Quality Audit (DQA) of 80 percent verification factor (Chee et al., 2007).

The performance payments are calculated from immunization data provided by governments' administrative reporting systems. Countries receive a fixed payment of $20 per additional child immunized to reach up to an 80 percent coverage level and $25 when countries achieve beyond the 80 percent threshold. Failure to immunize additional children, or to achieve an 80 percent verification factor in DQA results in no rewards (Perakis and Savedoff, 2015: 17-18; Chee et al., 2007: 1).

(3) Performance management

Gavi requires that countries applying for all types of support have a certain mechanism to independently collect, assess, and report the quality data and countries must indicate whether they have the system in place as part of application process ("Gavi IRC Review Criteria for 2016," 2016).

Specifically, the data system requirements are in two folds: i) routine mechanisms to independently assess the quality of administrative data and track changes in data quality, with relevant reports, summary measures, and data quality improvement plans; and ii) high quality and nationally representative household surveys conducted at appropriate intervals to assess immunization coverage and equity.

Countries applying to Gavi submit Annual Progress Reports to provide information on performance and targets to the monitoring team of the Gavi Independent Review Committee (IRC) and the IRC makes recommendations about the continuation of program support. Parallel to this, Gavi has set up a monitoring and evaluation framework and strategy to ensure that valid and reliable measures of performance are available and support organization learning, management of strategy, improvement of programs, and reporting of performance.

(4) Sustainability

Gavi takes a co-financing approach to encourage countries to plan sustainable immunization program in the financial aspect. It aims to assist countries with their long-term planning towards financial sustainability to prepare them to exit from the Gavi support beyond the first five years. The co-financing policy is effective since 2007 and all countries that apply for Gavi support should contribute to new vaccines depending on the level of national income.

Country co-financing groups and the co-financing requirement are: low-income[2] countries contribute a flat amount of $0.20 per dose with no annual increase independent of the price of the vaccine used; intermediate countries[3] start at $0.20 per dose and increases 15% annually; and graduating countries[4] start at an additional 20 percent of the difference between the forecasted price on the vaccine Gavi support ends and the co-financing amount per dose paid in the coming year, and increases linearly over four years to reach the projected price ('About Gavi, the Vaccine Alliance,' 2015).[5]

Millennium Challenge Corporation (MCC)

(1) Non-financial incentives

MCC's understanding on country ownership is a "partnership" approach based on mutual accountability. It means that country discretion and ownership are encouraged, but they are only meaningful within MCC mandates and standards for accountability, transparency, and impact, rather than in open-ended structure (Lucas, 2011: 1). There is no sector earmarks or directives and governments decide to work in the sector according to reflect their own priorities. However, this process is done in an effort to keep the balance between MCC's principles and operational principles (Lucas, 2011: 13-15).

Under the MCC's ownership model, country counterparts are responsible for implementing MCC-funded programs. Partner governments establish MCAs[6] as local implementing

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[2] GNI per capita at or below the World Bank low-income threshold, currently $1,035.

[3] GNI per capita above the World Bank low-income threshold but below the Gavi eligibility threshold currently >$1,035 to <$1,570.

[4] GNI per capita above the Gavi eligibility threshold currently $1,570.

[5] http://www.gavialliance.org/about/governance/programme-policies/co-financing/

[6] MCA (Millennium Challenge Account) is a local, country-owned entity set up to manage and oversee

agencies while MCC has few field missions, and they are accountable to their domestic stakeholders as well as boards of directors or similar entities such as government officials and representatives of civil society organizations and the private sector. These partnerships can give existing government entities a critical role in program implementation as well as opportunities for capacity building.

(2) Selectivity

MCC exemplifies donors' increasing selectivity in favor of good performers (Herrling and Radelet, 2006: 3). To be eligible for MCC compact funding, MCC assesses the extent to which the political, social, and economic conditions in a country advocate broad-based sustainable growth. In this decision-making process, three factors are considered by the Board: performance on the defined policy criteria, the opportunity to reduce poverty and generate economic growth in the country, and funds available to MCC. The country's previous performance with MCC is also taken into consideration.

Candidate countries are first identified based on their GNI per capita: as for the fiscal year 2016, a candidate country must be either low-income category (LIC) (countries with a per capita income between \$0 and \$1,985) or low middle income (LMIC) category (countries with a per capita income between \$1,986 and \$4,125). MCC ranks potential recipients on their commitment to rule justly, invest in the people, and promote economic growth using various indicators such as civil liberties, public expenditure on health, or business start-up (Millennium Challenge Corporation, 2015). The MCC sets the selection criteria on the basis of data, which comes from independent and transparent third-party sources including Freedom House, the World Bank, WHO, UNESCO, IFC, and the Heritage Foundation (Millennium Challenge Corporation, 2013).

To "pass" the indicators on the scorecard, the country must perform above the median among its income group, except in the cases of inflation, political rights, civil liberties, and immunization rates (LMICs only), where threshold scores have been set up. Specifically, the Board considers whether the country: i) passed at least 10 of the 20 indicators, with at least one in each category; passed the "Control of Corruption" indicator, and iii) passed either the "Political Rights" or "Civil Liberties" indicator (Millennium Challenge Corporation, 2015).

(3) Results-based payment

MCC provides the well-performing countries that meet the criteria for large-scale grants to fund country-led programs. There are two primary types of grants: compacts and threshold programs. Compacts are large, five-year grants for countries to pass MCC's eligibility criteria and threshold programs are smaller grants awarded to countries that come close to passing these criteria and are committed to improving their policy environments.

The five-year grants are committed upfront to increase aid predictability while disbursements are made based on quarterly Disbursement Request (DR) and other reporting packages submitted by the recipients. The information required for funding is program execution, financial management, procurement actions, as well as progress towards compact goals as defined in M&E indicators. Consistent with the results-based approach to managing the Compact, disbursement of funds is linked to performance and it is defined by a set of

all aspects of implementation, including overseeing the MCC (Millennium Challenge Corporation) program and its components, allocating resources, overseeing and implementing a financial plan, approving expenditures and procurements, and being accountable for MCC program results.

indicator targets in the Compact M&E Plan.

(4) Performance Management

MCC monitors progress towards compact results on a regular basis using performance indicators detailed in the M&E plan based on the MCC "Policy for Monitoring and Evaluation of Compacts and Threshold Programs" (Millennium Challenge Corporation, 2012). Every country adopts the Compact M&E Plan as a central framework for monitoring and evaluating the compact's activities to assess progress towards results. Establishment of the M&E plan begins during compact development and it is completed around the outset of compact implementation. After a Compact is signed, the partner country's accountable party (also called as MCA) and MCC finalize the M&E plan. The data used for monitoring and reporting performance comes from baseline and follow-up surveys, project implementers and other local resources. All the collected data is subject to a regular quality control managed by the MCAs and monitored by MCC to ensure its integrity and accuracy.

(5) Sustainability

MCC purposely invests in systems to build inclusive country capacity and the key way of doing this is strengthening monitoring and evaluation (M&E) capacity in the partner countries. MCC provides assistance to help countries to set up a better M&E system in particular. As M&E practice is new to many of recipient governments, the standard M&E budget template for all compacts includes M&E training. This is primarily to ensure that project implementers learn about and can apply best practices in M&E during and after the compact using tools such as economic analysis, impact evaluation, and M&E information systems. It also serves as an indispensable tool to track the progress of grant programs.

DFID Payment by Results (PbR)

(1) Non-financial incentives

DFID does not put any restrictions on the use of funds provided to the partner governments and the funds can be used at the full discretion by the principles of results-based aid to further improve the results being tracked. Partner government makes decisions on the use of funds while DFID retains the right to access audited financial statements prepared by recipients to verify that the funds received have been declared and used to support the country program.

The design of the PbR program is based on bottom-up approach led by the country office in consultation with the PbR guidelines as per the interview with DFID official managing PbR program. The evaluation on the RBA pilot program in Rwanda also provides evidence that a high degree of ownership is evident at senior level and the agreement was aligned with the priorities and policies of GoR. Many respondents agreed that money is not the only motivator as it is not a huge amount, but it is the "prestige" and results orientation and commitment to achieving targets through the pilot project (Upper Quartile, 2014).

(2) Selectivity

The selection criteria for PbR is set under broader guidelines on the UK's partnership principles with developing country governments as well as budget support policy. The shared commitment to three objectives expected for an effective partnership is: reducing poverty and achieving MDGs; respecting human rights and other international obligations; and enhancing financial management and accountability, reducing the risk of funds being misused through weak administration or corruption (DFID, 2005: 8).

The UK will consider reducing or interrupting aid under the circumstances in which: countries deteriorate significantly away from agreed development objectives; countries are in significant violation of human rights or other international obligations; or there is a significant breakdown in partner country's financial management and accountability that increase the risk of funds being misappropriated through weak administration or corruption (often called as fiduciary conditionality) (DFID, 2005: 3).[7]

(3) Results-based payment

According to the interview with DFID informants, while there is no concrete "formula" to decide the size of a price or reward for PbR programs, the bottom line is balancing between the total price paid and other associated costs and the benefits expected to be created. The process to agree on the size of funding is more based on informed negotiation between DFID and partner countries, which emphasizes the key feature of DFID as a transformative approach to the new partnership. Principles to consider during the negotiation include the level of risk, existing incentives, expected return, as well as the level of existing finance from other donors.

Payment triggers can vary in PbR contracts, but typical models include: first, where payment is "all or nothing" based on the degree of achievement; and frequency where payment is made for each beneficiary or service user who achieves a specified result such as an individual child passing an exam. The extent of a PbR component thus can also vary per contract: 100 percent PbR means all payment is dependent on the achievement of the specified results. The level of PbR can also be lowered as in the case of DFID Girls Education Challenge projects, which has 10 percent of PbR meaning that only payment of the final 10 percent of the contract value is dependent on the achievement of results.

In practice, two pilot projects have been conducted in the education sector in Ethiopia and Rwanda. The payments are calculated at the district level and by gender, and that negatives (decreases in a number of examination sitters) are omitted from the calculation. For each additional child sitting the P6 (year 6 primary) exam above the previous year's results, DFID pays the Government of Rwanda £50. In addition to this payment, in years 2014 and 2015, DFID also paid the Government of Rwanda £10 for each additional child sitting the P6 examination above 2011 levels (Upper Quartile, 2014). Payment structure was also determined in a way that the varied amount of reward ("unit price") upon the grade (ranging between £30 and £100) was to be multiplied by the number of students sitting exam.

(4) Performance Management

The Rwanda pilot program's payments are subject to the independent verification of the results. The first verification was undertaken in 2013 and produced data related to completion based on examinations data (Upper Quartile, 2014: 14). The arrangement under which the funds are disbursed is set out in the MoU with a developing country as well as DFID's Partnership Commitments. For example, a pilot project performed as a results-based aid in Rwanda for education sector requires accurate and reliable data as a trigger for payments.

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7 Also refer to a news story "Rwanda: UK freezes budget support to government" < https://www.gov.uk/government/news/rwanda-uk-freezes-budget-support-to-government> and "Malawi aid freeze could hut health and education sectors" < http://www.theguardian.com/global-development/2014/jan/14/malawi-aid-freeze-health-education>

Payments will only be made upon independently verified results, and DFID hires an external contractor to perform this work in consultation with the government. The external contractor collaborates with GoR to check the systems for collecting and reporting exam participation rates and verify the GoR baseline and end assessment of teacher competence in the English language. GoR will provide DFID and designated verification and evaluation teams with full access to any data required to verify results achieved.

3.2. Cross-Case Analysis

Non-financial incentives

Discretion and ownership is a key feature of results-based conditionality and they were universally visible in all cases. The authority is given to recipients in various aspects of design, proposal, implementation, and allocation of aid while the degree varies across programs. Its spectrum is also wide from full-control on partner country's side to with-in donor's guidelines and boundaries on where and how the aid will be spent.

For example, Gavi does not restrict on the allocation of aid in partner countries or on how to run the vaccination program in the field except it restricts the use of aid in health sector. Similarly, DFID places only minimal guidelines for PbR programs through Partnership Commitments and recipients own the authority to decide how the money can be used. In the case of MCC, governments have a choice to choose sectors deemed most appropriate for them but its discretion on the use of aid is not completely open-ended and remains within the boundaries of MCC's standards and mandates.

Selectivity

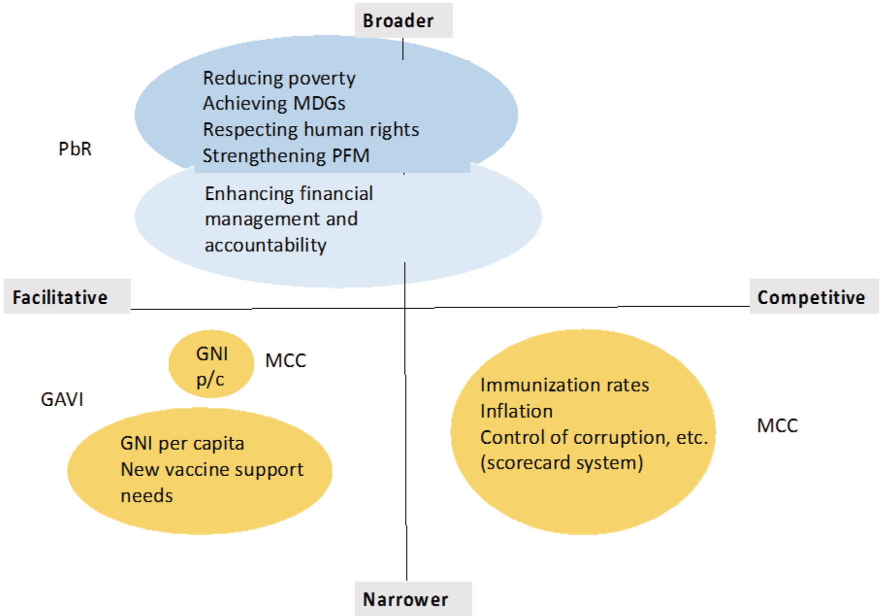
One of the common features of selectivity shown in some cases is their clear focus on the countries that are expected and prepared to implement and show results. MCC is the example of donors' strong selectivity in favor of good performers by reviewing governments' performance on various policy indicators to decide whether a recipient is eligible for grants.

Another commonality is the focus on the poorest countries with a higher requirement for support and lack of resources. In combination with other selectivity criteria, country income status or other program indicators related to the program is used to determine the neediest ones. In case of Gavi, the focus is on the poorest countries with stronger needs for new vaccine support. Gavi also explains that one of its business challenges include getting vaccines on the agenda and rapidly accelerating vaccines in developing countries. To meet this business goal, selectivity is accordingly designed to provide minimum performance standards and encourage high program coverage.

Meanwhile, the spectrum of selectivity varies across cases. Sometimes the eligibility criteria are set at the broader level of partnership or budget support guidelines (for example, DFID PbR) while other cases have narrower and specific set of factors to be eligible for aid (e.g. Gavi and MCC). Some selectivity measures are more competitive, and others are rather facilitative with a minimum level of performance standards.

Figure 2 shows how various selectivity adopted by each case can be positioned within this range of broader-narrower and facilitative-competitive spectrums. Broader selectivity includes some conditions or status of a system such as macroeconomic policies or procurement system while narrower selectivity uses more detailed and specific indicators that can often be translated into numbers or scores. Facilitative selectivity implies that the process of screening eligible countries is rather open to those countries in need while the competitive

Figure 2. Selectivity Spectrum



Note: MDGs (Millennium Development Goals); PFM (Public Financial Management)
Source: author's own elaboration.

process has rather a high threshold to pass to get funding.

Results-based payments

The single most outstanding feature of RBC payment is that it always depends on the level of achievement, and it works as performance-based incentives. With a stronger focus on results, funds are not tied either to particular inputs (e.g. teacher training, textbooks) or intermediate outputs (e.g. number of schools built).

However, there is variance in terms of the way aid is provided. First, the amount of total payment varies: some programs reimburse the costs of the program and provide the additional rewards depending on the level of achievement while others only provide rewards or subsidize some of the program costs. The amounts paid can be larger or smaller relative to domestic budgets or other foreign aid resources. When payment amounts are small, relative to unit costs or other funding sources, they still signal changes in outcomes that may be useful for management or accountability but their impact via pecuniary interests will be attenuated (Perakis and Savedoff, 2015).

Second, the proportion of fixed and variable portion of aid: some may give all aid in performance-based aid type only while others combine with existing aid such as general or sectoral budget support. Some donors may take the "all or nothing" approach where whole payment is depending on the achievement level. When targets are not met, there is no payment. In other cases, partial payment is made to partial achievement and only a certain portion of the contract value is dependent on achievement.

Third, when it comes to payment formula, it can generally be categorized either as "threshold" or "incremental": threshold is when countries get paid as long as they pass the

Table 2. Cross-case Analysis for Results-based Payment

	Gavi	MCC	PbR
Composition of payment	Upfront payment + rewards	Large scale grants (compacts and threshold program)	Various range of funding depending on the contracts
Calculation of payment	$20 x number of additional immunized	Passing eligibility criteria	Set price (varies) unit of achievement
Means of verification	Country annual progress reports	Quarterly Disbursement Request package	Independent verification by external contractors in consultation with government (Results Compact)

Source: author's own elaboration.

pre-agreed targets while incremental approach pays for any marginal improvements partner countries make.

Table 2 below summarizes all the variables related to payment/disbursement in RBA programs.

Performance Management

Performance management of results-based aid programs can be seen from the aspects of indicators, results verification, and M&E system. One common feature across all cases is that RBA programs require partner countries to be prepared with a certain level of the system to collect, analyze, and report performance data as a prerequisite to enter into aid contracts. In the preparation of a contract, the donor and partner government identify an area or a specific objective which is important for the country's development process. Then they should agree upon a measurable and continuous results and an appropriate indicator or set of indicators. Baseline data should be available or collected. The data collection and analysis process for the verification of results should also be agreed with a "price per unit of progress" which will service as a basis of reward payment upon achieving the results.

M&E framework and strategy plays a key role in most RBA programs to ensure that valid measures of performance are available and to support organization learning, management of strategy, improvement of program, and reporting of performance. M&E contract is a binding document and includes relevant performance indicators, targets, measurement plan, and reporting schedule.

The other common feature is how indicators are set up in each case. Performance indicators are all set up before the aid contract begins. Furthermore, in most of the cases, results-based aid programs use numeric or quantifiable targets such as number of additional children immunized, coverage ratio, number of children completing key stages basic education, or number of farmers trained in commercial agriculture. The focus on quantitative performance indicators over qualitative ones are understandable for which it is possible to provide readily available data and relatively easy to track down records. Once data is collected and submitted by the partner country, donor country is responsible to verify the validity and reliability of data either on its own through an internal audit committee or the independent third party in partnership with a partner government.

Sustainability

Sustainability can be first seen from a financial aspect and predictability of aid. Provided that the nature of results-based conditionality closely linked to performance payment, its potential to increase aid predictability is significantly weak. Most of the cases keep their emphasis on rewarding results by providing a stronger incentive for governments to commit and implement and stay true to the principle of RBC.

However, there is a possibility to some extent to keep the balance between the two seemingly conflicting aims. For example, Gavi takes a co-financing approach to encourage countries to plan sustainable immunization program in the financial aspect. Its co-financing policy aims to assist countries with their long-term planning towards financial sustainability in order to prepare them to exit from Gavi support beyond the first five years. The co-financing should represent new and additional financing and thus countries should not use funds allocated for financing other vaccines. DFID to a lesser degree have a potential to achieve better financial sustainability through the formula that allows a higher portion of guaranteed payment while lowering the volatile performance pay.

3.3. From the Field

This sub-chapter first presents an evaluation study (Upper Quartile, 2014) related to the impact of DFID RBA pilot project in Rwanda (2012-2014) to promote school completion and teachers' proficiency in English. The findings are structured around two key parts in terms of impact and process-related questions. The study found that there has been strong annual growth in completion at three key stages of school, although it is hard to link the precise attribution with RBA. The study clearly demonstrates the complexity of many "intervening" factors that contributed to the results and thus contextual understanding is critical. Awareness of and government ownership of RBA was high at the national level and the new approach has been received positively.

Gavi's ISS program results were also evaluated (CEPA LLP & Applied Strategies, 2010): its selectivity benefited the poorest countries while fragile countries were disadvantaged from attaining coverage targets to be eligible for funding. The study also found some mixed evidence of a positive impact of ISS disbursements on DTP3 coverage depending on the initial coverage ratio, which makes attribution of RBA to the results puzzling. It also suggested that Gavi's Data Quality Audit system has positively influenced the improvement of national data management system and capacity.

4. CONCLUSION

Results-based conditionality emerged from results agenda as a way to improve development effectiveness which drove key international development arena such as UN and OECD since 2000. Domestic pressure to prove "value for money" of aid budget amid growing competition over funding also accelerated the discourse over the role of conditionality. This trend was in conjunction with the pessimism over the performance of traditional conditionality and an attempt to reverse the old approach.

Findings from the case analysis suggest some commonalities and differences. In terms of non-financial incentives and performance management, programs share similar characteristics while meaningful gaps were found mainly from selectivity and payment aspects. RBC did not seem to have the strong incentives in the aspect of sustainability.

In regards to selectivity, some donors use rather facilitative measures with less strict selectivity while others impose a higher level of selectivity. We found that this is much related to the background as well as the operational objectives of each program: Gavi's ISS program was initiated at a time when financial incentives were rare among health care programs and its target countries are developing countries with greater needs to rapidly accelerate vaccines. MCC emerged as one of the major post-9/11 foreign aid initiatives in the US as a tool for counteracting global poverty and terrorism. There is a strong association between poverty and terrorism, and higher selectivity intends to focus on the fundamental change how the country invests and delivers economic assistance.

There is a variance related to the nature of payment scheme of each program. While it is common to have a stronger linkage between performance and aid, some programs (PbR) rather aim to change the nature in their partnership with stronger alignment and motivation through results focus. In this case, aid is not purely performance-driven as it has a higher proportion of fixed or guaranteed payment than other RBA programs in addition to performance-based tranche, and they also adopt partial payment scheme. The logic can be explained from the fact that PbR emerged not as an entirely new product but evolved from reflections of policy-based conditionality in combination with existing support with a stronger focus on results. This approach helps to avoid damaging "stop-go" in aid disbursement and enhance the credibility of disbursement conditions (GBS Guidelines 2007, developed from earlier 2003 guidance note) while enables soft-transition to results-based conditionality. Others (Gavi) put more emphasis on the actual performance level and it is more conditional in that sense. There is a higher risk as under-performance is not paid and the payment scheme is more "pass-fail". MCC is rather a unique case in between where give-year grans are guaranteed for better aid stability, but actual disbursement is subject to quarterly reporting requirements.

Overall, results-based aid seems to have stronger incentives than other aid modalities: its hands-off approach encourages governments to be more involved and "own" the reforms; stronger focus on results-focused framework to achieve key milestones may encourage better performance management; selectivity may work to reinforce recipients put more effort to meet the eligibility which would qualify them for aid; stronger enforcement potential with results-based payment provides incentives to commit and implement; and internalized M&E system may contribute to sustainability.

Despite the potentials and benefits which make this new approach attractive, this research find several tensions on how the conceptual design feature of results-based aid intersects with practical implementation challenges.

First, RBC leaves a question if it provides enough incentives for governments to join and remain in the contract despite the uncertain nature of the financial rewards. To be able to do so, it would need to be sufficiently predictable for developing countries to enter into the results-based aid contracts by expected financial flows.

Second, another challenge arises with the payment strategy depending on the level of outcome or lack of it. When missing one of many targets would jeopardize the entire possibility of receiving aid, this would make the aid contract improbable. RBC holds a strong assumption that a change in behavior is required to pay. If, however, there exist barriers affecting the performance, then paying for performance alone will not be effective without addressing the challenges.

Third, results-based approaches do not remove the risk involved in aid delivery mechanism itself but just change its nature. Unlike traditional conditionality that focuses on fiduciary concerns related to aid, results-based approach shift the nature of the risks towards the integrity of reporting systems whether the results presented to donors are real (Pearson, 2011).

Fourth, the unpredictability of results-based conditionality creates stress on recipients' side. While some results-based programs such as MCC are designed to increase the level of aid predictability, RBC poses an inherent conflict between strong performance-based payment mechanism and the assurance that certain amount of aid will be provided.

Fifth, disincentive related to selectivity might discriminate those countries that need aid the most and less prepared to bring results. When rigorous selectivity criteria and high eligibility standards are applied, it is unclear if those countries would be incentivized to pursue their efforts to meet the bars to get aid. There is a question otherwise if they should rather be disregarded and another type of aid flows should compensate the possible loss of aid opportunity. This double-track approach may undermine the case for results-based aid given that governments know that they will receive aid regardless of their performance (De Renzio and Woods, 2008).

Some issues were reported where recipient countries inflate the number of children immunized or manipulate vaccine coverage data to boost the amount of money in Gavi program (Sternberg, 2008; Lim et al., 2008). Some argue that the inherent cause of over-reporting is not due to the incentive system itself, but the absence of effective reporting and monitoring system to improve data collection and verify a significant data variance (Sternberg, 2008).

Considering these challenges, it is important to identify the sets of circumstances, enabling and inhibiting factors under which RBC most likely brings about behavioral changes. To determine the level and nature of incentives required to generate such change, detailed design features and its relationship to performance should be carefully looked at. It involves a discussion on the level and type reward, payment, selection criteria, as well as results verification methods and the interaction among them. Furthermore, possible interactions with other existing and future aid programs should be considered. RBC is not applicable to any situation but only those occasions where clear attribution outcomes are available and baseline date and appropriate counterfactual can be constructed.

Results-based conditionality in foreign aid is a relatively new approach and little theoretical or empirical study has been performed on this topic. This research advances the growing interest on results-based conditionality by providing important insights on the nature of the new concept. It provides a useful conceptual and practical insight by suggesting a new analytical design to demonstrate the core factors of RBC and its incentive system, particularly from comparative perspectives between traditional and new conditionality. This research will also enhance understanding of potentials and challenges of implementing results-based aid programs.

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Annex 1. Factors for Success as Presented in the Conditionality Literature

Literature	Evidences from	Factors
Killick, 1997	World Bank policy conditionality (21 developing countries) with principal-agent framework	Ownership, country-specific conditionality (alignment), enforcement, M&E, results-focus
Collier, 1999	World Bank loan conditionalities	Ownership, enforcement, motivation
Leandro et al., 1999	Poor growth performance associated with adjustment programs in sub-Saharan Africa (37 sub-Saharan African countries)	Ownership, country-specific conditionality, aid predictability
IMF, 2001	Overly pervasive conditionality on IMF programs	Ownership, country-specific conditionality
Khan and Sharma, 2003	IMF Structural conditionality and fiscal development (112 countries)	Ownership, country-specific conditionality
Bird and Willet, 2004	IMF conditionality, implementation and ownership	Ownership, country-specific conditionality
World Bank, 2007	Review of 57 World Bank Development Policy Operations during FY2007	Ownership, country-specific conditionality, aid predictability, M&E, results-focus
Dreher, 2002	Compliance with World Bank conditionality and interruptions of IMF programs for 23 countries during 1980-88	Country-specific conditionality, M&E, results-focus
Toonen et al., 2009	Case studies (Burundi, DRC, Tanzania, Zambia, Rwanda)	Country-specific conditionality
Mosley et al., 1995	World Bank structural adjustment loans in 1980s (conditional on macroeconomic policy reforms)	Enforcement/credibility, Favorable policy environment in recipient countries
Collier et al., 1997	GDP growth data for structural differences in 39 African countries	Enforcement/credibility
Dollar & Svensson, 2000	Determinants of success or failure of the 200 World Bank structural adjustment programs	Favorable policy environment in recipient countries
Svensson, 2003	Study on a simple reform that introduces ex-post incentives based on World Bank cases	Favorable policy environment in recipient countries, M&E, results-focus
Wood & Lockwood, 1999	Studies on new donor approach to conditionality	Ownership, inclusive partnership, selectivity
Adam & Gunning, 2002	Assessing the role of performance indicators and their impact on the aid contract between donors and the government of Uganda	Performance indicators
Selbervik, 1999	Case studies on the role of conditionality based on Norwegian-Tanzanian aid relationship	M&E, results-focus

Literature	Evidences from	Factors
Birdsall et al., 2002	Effects of the application of selection criteria for determining eligibility for the Millennium Challenge Account (MCA)	Selectivity, sustainability/capacity
Radelet, 2002	Examination on the MCA's potentials and pitfalls through a rigorous analysis the issues related to the determinants of its success or failure	Selectivity, sustainability/capacity, ownership,
Hansen & Tarp, 2000	A survey of empirical analyses on the policy conditionality and growth based on 131 cross-country regressions for 30 years	Favorable policy environment in recipient countries
Ivanova et al., 2003	Econometric investigation on the IMF program implementation and conditionality	Favorable policy environment in recipient countries
Grabbe, 2001		Selectivity, recipient competition
Johnson and Zajonc, 2006	An estimation of MCC conditionality's incentive effects	Selectivity, recipient competition, Favorable policy environment in recipient countries, performance indicators
Marchesi and Sabani, 2007	Estimating a dynamic panel of 53 middle-income countries, for the period 1982–2001	M&E, enforcement/credibility

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