**Briefing Note**

**Results Based Financing**

**Oslo Education Week**

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**Emeritus Professor Keith Lewin**

**University of Sussex**

**Panel on Results Based Finance**

**Panel Members**

Karen Mundy, Chief Technical Officer, Global Partnership for Education

Peter Holland , World Bank, Senior Education Specialist

Isaac Mbiti, Professor, Frank Batten School of Leadership and Public Policy

Petra Vergeer – Senior Health Specialist, World Bank

Piet Vroeg – Drector, Cordaid Director of Education ad Economic Opportunity

Keith M Lewin – Emeritus Professor of International Development , University of Sussex

**Briefing Note for Panel by Keith M Lewin**

Results Based Finance (RBF) has a long history which reaches back to 1862 in England when “Payment by Results” was introduced that linked attendance and examination performance to school funding. It lasted 35 years before its weaknesses overshadowed its strengths. It did succeed in (i) reducing teachers’ salaries and total expenditure, (ii) increasing attendance for those who attended (iii) improving examination performance of those entered for examinations. It was widely criticised for (i) delaying professionalization of teachers (ii) providing few incentives to teach children of low capability in difficult areas (iii) resulting in a narrow curriculum based on teaching to the test.

RBF has a range of definitions. Most forms of RBF apply conditions to release funds related to performance on indicators of access, attendance and achievement linked to goals and targets for educational development. It is probable that the targets listed under Sustainable Development Goal 4 and their associated indicators will be used as the basis for performance related payments linked to grants and concessionary financing by bi-lateral and multi-lateral agencies. This may or may not result in efficient resource allocation. The SDG 4 targets are global, as are the existing indicators. They may or may not suit the starting points and circumstances of specific country programmes.

It is clear that whatever the issues with RBF aid to education should continue to be used to address State and market failures to make rights to education a reality. Systematic, ethically and legally appropriate methods are needed to agree goals, contract educational development services, establish clear principal-agent relationships, manage disbursement and evaluate the effects of investment on development.

Countries are deemed eligible for GPE support if they satisfy related to poverty and educational participation rates, and most recently educational vulnerability and fragility. The GPE funding model provides 70% of its funds to a qualifying country after meeting more specific criteria. These criteria are:

i) Education Sector Plans have been accepted,

ii) Data collection and EMIS systems have been improved,

iii) Commitments are made to domestic financing (20% government budget to education) and more external financing.

Applying standards and making judgements to establish if these criteria are met in practice may not be simple, especially in relation to financing. The appropriateness of current levels of allocation depends on many factors including, the size and growth of the school age population, the cost per student of delivering services at different levels, current and projected participation rates, intra-sectoral patterns of investment in education, balnces between public and private funding of services, and goals for present and future participation and investments in quality.

Less than 20% of countries within the GPE currently spend more than 20% of their government budget on education; 40% spend less than 4% of GDP on education. Only 10% of GPE countries have more than 20% of their budget externally financed, and half receive less than 5% of GDP in aid receipts. There is therefore likely to be a problem of how much of which results should be attributed to external assistance.

The residual 30% of GPE funding is available after performance related goals are met on:

1. equity (girls, disability),
2. efficiency (more efficient, equitable and effective financing)
3. learning outcomes (unspecified)

There are no common standards for the performance criteria across countries and there will be “no one size fits all approach” (GPE Fact Sheet). Equity may or may not include poverty and income distribution, efficiency should include more than finance, and learning outcomes have to be specified against cognitive domains and baselines.

**Five points for further discussion of RBF.**

1. **Are incentives and sanctions that modify the behaviours of individuals applicable to Governments and Ministries of Education?** RBF typically links payments to indicators of achievement and withholds some funding unless performance targets are met. The assumption is that service providers will be motivated by the rewards to achieve the goals. But do people in organisations behave like this? Do political office bearers and public officials feel bound by promises made by predecessors? How are they motivated by targets set by others and rewards that make no difference to their income? Who is accountable to whom for what?
2. **What happens when targets defined by RBF are not met?** Difficult issues can arise if performance targets for tranche release are not met. How can the cause of under-performance be attributed? If the reasons given for under-performance include insufficient resources and/or slow release of funds what is the appropriate response? Does a target to allocate 20% of the government budget to education include or exclude GPE assistance? If targets are not met is the implication a reduced flow of funds in the future and thus greater likelihood of deteriorating development outcomes? Do failing schools and school systems need more or less resources?
3. **How is data on performance provided independently by organisations that have no stake in the financial outcomes.** If the organisation collecting the data for indicators receives funding or other benefits from the sponsor results may be biased to reflect favourable outcomes. All indicators can be “gamed” unless steps are taken to discourage manipulation of data. Results measured by indicators are difficult to measure over a short time period with uncertain baselines and real world constraints on design of fair tests and singular attribution of causality. Many indicators are composite and ambiguous to interpret.
4. **If governments need to receive financial incentives from external agencies to achieve development goals does this indicate a lack of commitment to goals and a lack of trust related to delivery?**  If incentive payments are necessary to achieve goals is there a prior problem about motivation? Are outcomes sustainable after the incentive payments have been made? If there is more than one condition for continued funding, which conditions are sufficient to delay or suspend payment? Are multiple conditionalities ever applied? If incentive payments are made after goals have been successfully achieved what are the activities they finance?
5. **How does RBF respond to the new aspirations of the SDGs to invest in Education for Sustainable Development (ESD) rather continue to focus on Sustainable Educational Development (SED)?**

ESD means investing in ways that value the future at least as much as the present. RBF generally values results in the near future over those in the longer term that reflect sustainable development. It links payment and reward to defined outcomes over the short life time of an (aid financed) project. It may use a high rather than low discount rate and thus value the present over the future. Should the discount rate applied to educational projects be low or high? How can RBF value sustainable (educational) development?

RBF is useful in focusing discussion around what is to be achieved and the purposes for which funds are allocated. It may be more problematic if used dynamically as a tool to increase the probability of goal achievement and client motivation. The questions raised above need answering if established practices of working consistently over longer time periods towards goals and targets that evolve is to be replaced with short term RBF for narrowly focused and static outcomes that may or may not be sustainable.

Any viable theory of change has to have a theory of motivation – for individuals and for individuals in organisations. Otherwise it is a plan with no people. Making this explicit might lessen gaps between expectations and achievements, and enhance levels of trust between development partners so that financing led to results rather than results leading to financing.