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Concept Note on Results-based Lending

Note to Transition Framework Working Group members

Focal points:

Technical questions:

Lisandro Martin
Director
Operational Policy and Results Division, a.i
Tel.: +39 06 5459 2388
e-mail: lisandro.martin@ifad.org

Ruth Farrant
Director
Financial Management Services Division
Tel.: +39 06 5459 2281
e-mail: r.farrant@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Chief
Governing Bodies
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

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Contents

Abbreviations and acronyms	ii
Recommendation	1
Concept Note on Results-based Lending	2
I. Background and rationale for IFAD results-based lending	2
II. Results-based financing: Concepts and practice	3
A. The spectrum of mechanisms	3
B. IFIs: Project- and programme-focused results-based financing	4
C. Observations on agriculture-related results-based financing	5
III. Application to IFAD and potential pilots	6
A. IFAD's comparative advantage	6
B. Expressions of demand from borrowers	9
C. Process for selection of pilots	9
Appendix	
RBF: The spectrum of the mechanism, experiences of other IFIs, lessons learned and focus on agriculture	

Abbreviations and acronyms

AsDB	Asian Development Bank
AfDB	African Development Bank
ARRI	Annual Report on Results and Impact of IFAD Operations
DLI	disbursement-linked indicator
RB-COSOP	results-based country strategic opportunities programme
FIPS	Faster Implementation of Project Start-up
FLM	flexible lending mechanism
IDB	Inter-American Development Bank
IFI	international financial institution
LBR	loan based on results
M&E	monitoring and evaluation
PforR	Program-for-Results (World Bank)
RBF	results-based financing
RBL	results-based lending
SME	small and medium-sized enterprises
SWAp	sector-wide approach

Recommendation

As one of its commitments under the Eleventh Replenishment of IFAD's Resources, (IFAD11), IFAD will develop a proposal to pilot results-based lending (RBL) for consideration by the Executive Board. Various forms of results-based financing have been utilized for many years by diverse development institutions and actors. IFAD will draw upon this experience to explore options in the future. The Working Group on the Transition Framework is invited to review and endorse the rationale for introducing RBL operations in IFAD and the proposal for the pilot phase as described below. The pilots will be presented to the Executive Board for approval during IFAD11. This initial proposal includes the following:

Piloting a variety of RBL mechanisms: IFAD will benefit from experimenting with different types of RBL to learn what best fits its capabilities and comparative advantages. This concept note outlines two main types of RBL undertaken by other international financial institutions (IFIs): project RBL and programmatic RBL. The proposal is for IFAD to introduce at least one of each type of RBL during the pilot phase.

Piloting in specific areas: There has been somewhat limited experience to date in both project and programmatic RBL in the agriculture sector. Potential focus areas for IFAD's pilot of project RBL could include: (i) public services to farmers such as extension services (e.g. business planning assistance) and infrastructure services (e.g. irrigation); and (ii) incentive programmes for behavioural change of smallholder farmers (e.g. crop conversion linked to climate adaptation). IFAD will explore other areas for project RBL pilots. Potential focus areas for piloting IFAD programmatic RBL could include support at the central, provincial and local levels of government as part of a broader government-owned programme.

Partnering during the pilot phase: The proposal suggests that IFAD's initial pilot of programmatic RBL be undertaken in partnership with an IFI that has experience with this type of RBL, drawing on technical assessments for the use of country systems undertaken as part of programmatic RBL. IFAD can review these assessments in its role as cofinancier. This approach will allow IFAD to gradually build the required competencies – both at headquarters and in the field – in all the aspects of RBL, including with government discussions, design, supervision and monitoring.

Identification of pilot operations: IFAD will undertake a demand-driven selection process, with regional divisions promoting the concept of RBL among borrowing countries. It is proposed that IFAD undertake at least two or three pilots (representing a modest proportion of annual project approval) over a six-year period. This will allow for a thorough assessment of the RBL process at the end of the pilot period.

Financing of pilots: Pilot RBL operations will be financed through part or all of the performance-based allocation system allocation for each participating country as per the terms established for each country category. Additional administrative resources will be dedicated for the design, implementation and assessment of the pilots.

Duration of pilots: The pilot phase will be time bound and designed as a learning effort. Based on the experiences of other IFIs, it is proposed that the pilots be undertaken during at least a six-year period in order to have sufficient experience to undertake a self-assessment of the design, implementation and results, with a mid-term review of the pilots to assess lessons learned after three years.

Executive Board approval. The proposal suggests that IFAD's RBL will not be guided by a new policy; instead, interim guidance will be provided to design and implement the pilots. The proposal further suggests that the pilot launch be accompanied by an indication of any policy waivers that may need to be approved by the Executive Board. Each pilot project will also be brought for discussion and approval by the Executive Board.

Concept Note on Results-based Lending

I. Background and rationale for IFAD results-based lending

1. IFAD is currently constrained by its menu of lending products. In contrast to other international financial institutions (IFIs), which have a wider choice of options, IFAD currently has a single lending instrument. With IFAD's increased focus on policy dialogue and partnership-building, it has been raising its profile to engage at a higher level of policy and institutional reform. Developing a lending mechanism to target IFAD's financing to the delivery of concrete results and broadening the scope of IFAD's financing to include areas critical to the delivery of broader government agricultural programmes has the potential to bring IFAD to the next level.
2. IFAD's Transition Framework calls for better tailoring of IFAD products to its Members. IFAD has mapped out a path to transition borrower countries in a predictable and sustainable way. It also envisages an IFAD that can respond to borrowers' demand for more tools and provide more flexibility in its support. To this end, IFAD will need to tailor support for Members on a differentiated basis, as recognized in the enhanced business model for Eleventh Replenishment of IFAD's Resources (IFAD11).
3. As one of its commitments under IFAD11, IFAD will pilot results-based lending (RBL). The IFAD11 commitment states that IFAD will pilot diversified products tailored to different country circumstances, noting that it will "develop a proposal to pilot results-based lending for consideration by the Executive Board".¹ The Corporate-Level Evaluation on IFAD's Financial Architecture² also underscored that RBL is a priority to add to IFAD's product menu.
4. IFAD aims to increase the effectiveness of its lending and non-lending activities. IFAD's overall project lending performance is good, with an aggregate rating of "moderately satisfactory", but there is an ambition to enhance this performance. The 2016 and 2017 Annual Reports on Results and Impact of IFAD Operations (ARRIs) suggest that adopting more strategic approaches, increasing coordination with other partners and focusing more on institutional development are key to increasing IFAD's effectiveness. IFAD now engages in activities beyond project lending including policy dialogue, knowledge management and partnership-building. These activities have also been rated in recent years as "moderately satisfactory" and there is a similar desire to enhance performance. An effort is under way to: build stronger linkages that enable the flow of knowledge from project management units to governments and other stakeholders; scale up successful experiences and results at the project level; support broader policy dialogue and partnership-building; and better link lending and non-lending activities. Enhanced non-lending activities would also be critical to any programmatic engagement in RBL.
5. RBL has the potential to scale up and increase IFAD's impact. The introduction of an RBL approach has the potential to increase IFAD's focus on results and higher-level impact. In both project and programmatic RBL, such a mechanism has the potential to draw on IFAD's experience with smallholder farmers and indigenous peoples, and scale up development impact among these groups.

¹ See GC 41/L.3/Rev.1, Report of the Consultation of the Eleventh Replenishment on IFAD's Resources, commitment 3.6, monitorable action 36.

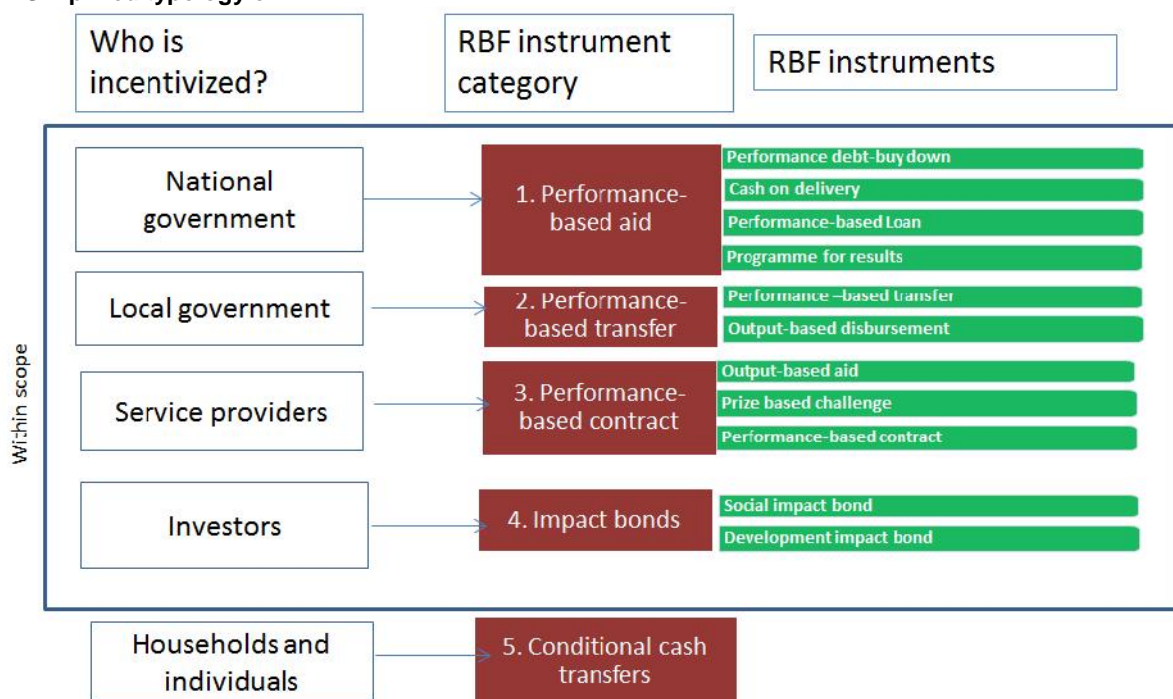
² See EC 2018/101/W.P.5.

II. Results-based financing: Concepts and practice

A. The spectrum of mechanisms

6. Over the past 20 to 30 years, there has been a large expansion of results-based financing (RBF).³ While there is no commonly agreed definition of RBF, most institutions share the World Bank's perspective that it is "an umbrella term referring to any programme or intervention that provides rewards upon the credible, independent verification of an achieved result". This is in contrast to more traditional project or investment lending in which funds are disbursed against specific eligible expenditures.
7. A range of RBF instruments and modalities have been developed to accommodate different financiers, incentivize a variety of agents and fund different types of results along the results chain. RBF instruments can be grouped into five broad categories according to the incentivized agent. They range from performance-based aid, in which the incentivized agent is a national government, to conditional cash transfers, in which the incentivized agents are households and individuals, and include different categories of instruments and agents in between (see figure 1).

Figure 1
Simplified typology of RBF



Source: Global Partnership on Output-Based Aid (June 2018).

8. IFIs have moved in the dual directions of more results-focused and more programmatic financing as part of their aid effectiveness efforts. IFIs and other development partners have increasingly experimented with a range of RBF instruments and other modalities to better reflect the principles of country ownership, alignment of donors around country strategies, use of country systems, donor coordination, and mutual accountability (see the appendix). IFIs have begun

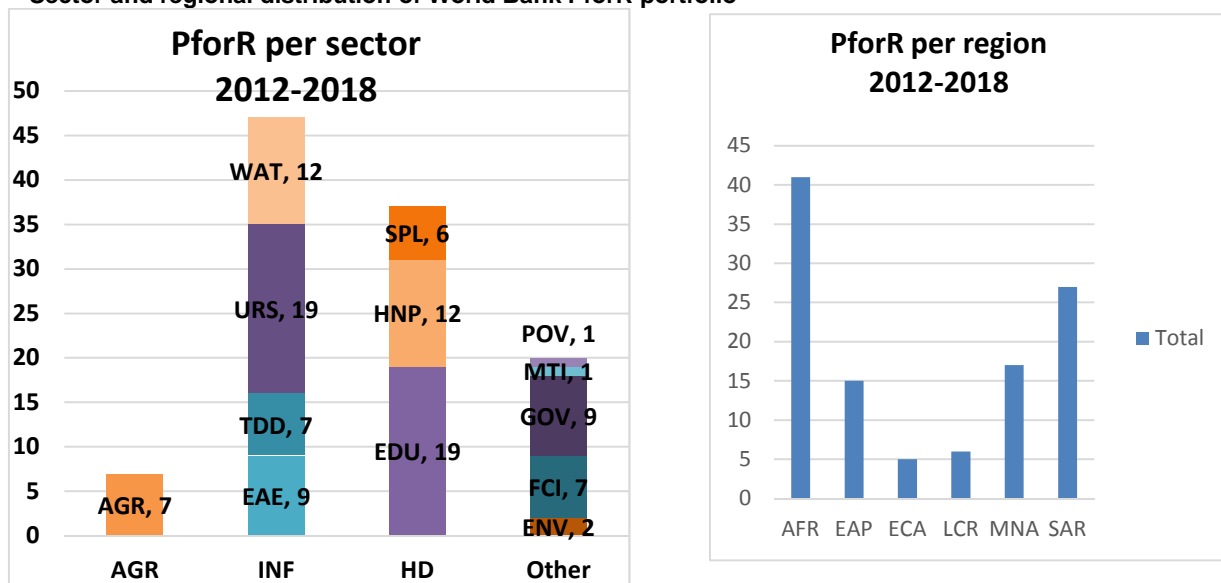
³ Results-based financing is the term used most frequently by development partners and encompasses both loans and grants.

experimenting with more project-focused modalities, within the instruments' constraint of tying disbursements to expenditures. Over time, IFIs have included more programmatic RBL modalities such as the World Bank's Program-for-Results (PforR) financing instrument and similar instruments of regional development banks that support government-owned programmes and the use and strengthening of country systems.

B. IFIs: Project- and programme-focused results-based financing

9. Within project or investment financing, IFIs have been experimenting with a range of RBF modalities for some time. These modalities have included output-based aid, conditional cash transfers, sector-wide approaches (SWAps) and investment lending with disbursement-linked indicators (DLIs). RBF as project or investment financing has been used across a range of sectors and countries. The evidence on the effectiveness of project-focused RBF approaches is still emerging, but preliminary indications are encouraging.
10. Four IFIs have expanded their suite of lending instruments to include programmatic RBF. They have introduced totally new programme-focused RBF instruments, which fill a gap between project-support and policy-support operations. The World Bank introduced PforR in 2012; the Asian Development Bank (AsDB) introduced a new RBL instrument in 2013 with a six-year pilot phase; the Inter-American Development Bank (IDB) introduced a new loan based on results (LBR) instrument in 2016, also with a six-year pilot phase; and the African Development Bank (AfDB) introduced a new RBF instrument at the end of 2017. In all cases, Board approval of the new instruments' introduction and associated policies and procedures was required. As with project-based RBF, it is still too early to be certain about the effectiveness and efficiency of these new instruments, but early reviews (from both the World Bank and AsDB) are encouraging.
11. The features of these new lending instruments are very similar. RBF through programme-focused operations has already been used across a range of sectors and countries (see figure 2). Their features include:
 - Financing and helping to strengthen borrowers' development programmes with clearly defined results;
 - Disbursing upon achievement of results and performance indicators, not inputs;
 - Focusing on strengthening the institutions, governance, capacity and systems essential for ensuring that the programmes achieve their expected results and can be sustained;
 - Providing assurance that development partners' financing is being used appropriately and that the environmental and social impacts of programmes are adequately addressed; and
 - Enhancing development organizations' ability to pool resources and focus directly on capacity-building.

Figure 2
Sector and regional distribution of World Bank PforR portfolio



Source: World Bank database on PforR (2018).

Note for left figure: AGR = agriculture; INF= infrastructure; HD = human development; WAT = water; URS = urban rural and social development; TDD = transport and digital development ; EAE = energy and extra activities; SPL = social protection and labour; HNP = health, nutrition and population; EDU = education; POV = poverty; MTI = macroeconomics, trade and investment ; GOV = governance; FCI = finance competitiveness and innovation ; ENV = environment.

Note for right figure: AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America; MNA = Middle East and North Africa; SAR = South Asia.

12. Countries are making the shift to more results-based approaches and development partners are building on lessons learned. Many countries from different regions and with different income levels are seizing the opportunity to make their own projects and programmes more results focused. This requires the commitment of governments and other implementing agencies to work in a performance-based and results-focused manner, and to develop the new capacities needed for this shift. A number of lessons have been learned from experience gained to date with both project- and programme-focused RBF, including the following:

- Up-front assessments are needed of countries, sectors and project contexts to ascertain if there are clearly defined results to be achieved, what behavioural change is needed to achieve these results and what actors need to be involved and incentivized.
- Developing an RBF operation requires continuous discussions with government counterparts on activity-output-intermediate outcome-final outcome results chains, the selection of indicators and payment structures, which determine the flow of funds.
- Additional training and knowledge-sharing for both management and staff are needed to develop an understanding of the range of RBF dimensions. There is also a need for additional guidance and in some cases new policies and procedures.

C. Observations on agriculture-related results-based financing

13. To date, RBF has had a limited but growing application in the agricultural sector. Several factors specific to the agricultural sector pose challenges for RBF. Outcomes (such as production levels and smallholder income from agricultural production) may be highly variable over time and subject to external shocks, and there is considerable potential for measurement error. Relative to other sectors,

agricultural RBF requires a greater focus on financial incentives and disbursements as well as more output and intermediate outcome indicators (rather than final outcomes), including those that emphasize institutional and system strengthening, and reform.

14. Box 1 summarizes areas in the agricultural sector with potential for successful RBF support.

Box 1

Areas of focus for agricultural RBF

Programme-focused RBF (based on PforR experience) highlights institutional change, reform and investment: agriculture-specific PforR and other programme focused RBF address institutional and system strengthening across a range of agricultural services. These include: research and extension; irrigation development; land management; farmers' organizations; marketing; financial services; agricultural planning; management; regulation; and monitoring and evaluation (M&E). PforR focusing on broader issues of rural development and poverty reduction also includes a strong emphasis on infrastructure development, and in some cases the provision of social services. Programme-focused RBF has high potential to strengthen government expenditure planning and implementation of public expenditure programmes in the agricultural sector. This is consistent with IFAD's role in using public expenditures to track the level and quality of these expenditures on strategic programmes that are vital for smallholders.

Project-focused RBF, by contrast, often targets a specific beneficiary group. Examples include:

- Subsidies paid to groups of farmers that successfully implement investments in land management and irrigation;
- Performance-based grants to producer cooperatives and small and medium-sized enterprises (SMEs) with business plans for market development that have been approved and obtained financing;
- Performance-based agreements with financial institutions that have disbursements linked to jointly identified results (related to outreach with particular groups of farmers, quality of portfolio, etc.); and
- Economic incentives to competing private actors for the development and adoption of new agricultural technologies.

III. Application to IFAD and potential pilots

A. IFAD's comparative advantage

15. IFAD's focus on smallholder farmers can shift the paradigm of government service provision at the local level. Within the many areas of support to the agricultural sector, IFAD's comparative advantage lies in its focus on smallholder farmers and rural communities, and its ability to connect them through value-chain support to broader markets. IFAD is particularly recognized for targeting the poorest segments of the farming sector in geographically remote areas. It is also noted for spearheading innovation and testing solutions at the local level, which can be replicated and scaled up. IFAD's focus on smallholder farmers and its experience with innovation enable it to support a shift in the provision of government services to be more performance- or results-based, increasing the impacts on its targeted beneficiaries. There is significant potential to introduce more participatory approaches to the development of results in RBL; IFAD could draw on its experience in this area, its hands-on approach and its relationships with rural communities and farmers' organizations to deliver meaningful project results.
16. IFAD can also bring the perspectives of smallholders to larger government programmes. The Fund can leverage its vast experience of supporting smallholders by bringing their perspectives to policies and programmes at the provincial and national levels. IFAD can draw on experience in supporting institutional development at the local level to influence programme delivery, policies and institutional development at higher levels of government. This would provide a significant opportunity for IFAD to scale up its impact in line with its scaling-up agenda,⁴ while maintaining its focus on smallholder farmers.

⁴ Brookings, *Scaling up Programs for the Rural Poor: IFAD's experience, lessons and prospects (Phase 2)*, Brookings Global Economy and Development (January, 2013).

Governments' multi-year expenditure programmes for agriculture and rural development aim to improve agricultural productivity through a variety of means such as connecting rural production to markets and encouraging investments in needed rural infrastructure and climate-smart production. When IFIs and donors join governments to finance these programmes, they can jointly support a variety of reforms (e.g. shift subsidies) and improve the performance of government agencies. They can also bring a results focus that increases the impact of both development partners' financing and the government programmes they are supporting. But with this focus on central governments and national programmes, development partners can easily lose sight of the smallholder perspective; IFAD could fill this crucial gap. A current example of IFAD putting this into practice is in Indonesia, where it is providing parallel financing to a large-scale irrigation development programme supported by AsDB. IFAD will integrate the perspectives of smallholder farmers to improve infrastructure planning, and will provide farmer capacity-building, value-chain financing and on-farm and off-farm institution-building.

17. IFAD has been endeavouring to expand its array of services to borrowers. Along with other IFIs, IFAD has experimented with flexible lending mechanisms (FLMs), sector-wide approaches and other forms of programmatic support. In 1998, the Executive Board approved a FLM, enabling IFAD to provide more continuous support through longer-range programmes including a series of loans and activities with evolving designs. The uptake of FLM after its introduction was vigorous: 20 FLM projects were approved between September 1998 and April 2002. However, a Board decision in 2002 limited FLM operations to those already approved or in the pipeline (until the mechanism had been thoroughly evaluated) and a management self-assessment in 2007 concluded that FLM had had only limited success. It was then agreed that no new FLM projects would be approved and the positive features of FLM would be integrated into other IFAD project designs. A subsequent effort involved the SWAp mechanism, spurred by the aid effectiveness agenda, with a focus on aligning donor support with country programmes and systems. IFAD introduced a policy for SWAps in 2005.⁵ The SWAp concept was intended to bring together external assistance and domestic funds within a single-sector strategy and expenditure framework, owned and led by governments with development partners progressively aligning and harmonizing their procedures with country systems. While SWAps were relatively prevalent in social sectors, there was a less uptake in the agricultural sector⁶ and IFAD did not engage in any new SWAps following the approval of the policy.
18. Lessons learned from these early initiatives can inform IFAD's development of RBL approaches going forward. While these two initiatives were not fully successful in achieving their goals, they introduced important elements that IFAD can build on in future RBL efforts. For instance, the triggers used for FLM tranches provided experiences that can be drawn on in the formulation and monitoring of DLIs. In addition, the programmatic nature of SWAps together with their focus on results built a foundation for programmatic RBF in other organizations.⁷ These initiatives also provided a number of lessons on the critical foundations of RBL, including strong government leadership and institutional capacity of both government and IFI staff in order to develop appropriate results chains and DLIs. They underscored the challenges of adapting new approaches to

⁵ See EB 2005/84/R.5/Rev.1, IFAD Policy on *Sector-Wide Approaches for Agriculture and Rural Development*.

⁶ The 2007 study of SWAps in agriculture noted only 15 operations worldwide (see *Formulating and Implementing SWAps in Agriculture and Rural Development*, Global Donor Platform for Rural Development).

⁷ IFAD's experience with SWAps was limited to two or three projects, which were not considered fully successful. However, some valuable lessons were learned by IFAD and there were some positive results for its clients (e.g. more participatory and results-based delivery of services in the United Republic of Tanzania).

the each organization's context and the effort needed to build ownership and institutional capacity within an organization.

19. More recently, there have been promising initiatives to improve the results focus of IFAD's investment projects. Performance-based financing has been a growing element in microfinance and experiences from it have been shared with a variety of financial service providers and clients with the aim of improving access to financing. IFAD has introduced performance-based agreements⁸ in a number of rural finance operations by employing outcome-based indicators that serve as triggers for fund disbursement and other project support.⁹ An example is the Zambia Rural Finance Expansion Programme, which linked disbursements to quarterly baseline and impact survey reports. Performance-based agreements can take many forms to incentivize different actors. In Rwanda, the climate-resilient Post-Harvest and Agribusiness Support Project focuses on financial incentives to smallholder organizations and SMEs for developing business plans that are credible and bankable and can receive commercial loans (and for fully repaying the loans). These kinds of incentive payments linked to IFAD's own disbursements represent important innovations, which embed the achievement of results into IFAD projects. Efforts will be made to identify further examples of innovation in past and ongoing projects, and build on this experience as IFAD pilots RBL approaches.
20. IFAD has made a concerted effort to move more broadly towards a greater results focus. IFAD has established a structure for results measurement and management and M&E at the project, country and corporate levels. This includes project results matrices, results-based country strategic opportunities programmes (RB-COSOPs), the annual Report on IFAD's Development Effectiveness built upon the Results and Impact Management System, and the ARRI – IFAD's annual independent evaluation report. However, this structure has not been fully successful in shifting the Fund's focus towards results and outcomes. A 2013 study of IFAD found that "IFAD's results measurement and M&E are elaborate in design, but weak in implementation".¹⁰ IFAD's internal annual reports have also noted that, while there has been progress on supervision and results management overall, M&E remains weak. This suggests that a more concerted effort to embed a results-based focus in projects and programmes (not only in results matrices attached to projects) could support an improved results orientation in IFAD. Close linkages and synergies with the results management framework in the COSOP and the results framework underpinning RBF instruments should be identified when selecting pilots.
21. IFAD is proposing dedicated resources to realize its ambition of moving beyond investment project lending and improve project preparation. Recognizing the contributions it could make in the policy arena, IFAD has expanded its knowledge services and is engaging more extensively in policy dialogue. While resources for expanding its non-lending services have been constrained, IFAD is now proposing Faster Implementation of Project Start-up (FIPS) instruments as a new source of funding to provide analytic and advisory services in support of policy

⁸ The accepted definition of a performance-based agreement in the provision of financing is that, "the agreement: (i) is clear and specific about the expected results and how they will be measured; and (ii) strengthens incentives for good performance by defining benefits (or sanctions) that are tied to the achievement (or non-achievement) of the expected results" (Consultative Group to Assist the Poor, *Performance-Based Agreements: Incorporating Performance-Based Elements into Standard Loan and Grant Agreements* (Washington, D.C., 2010).

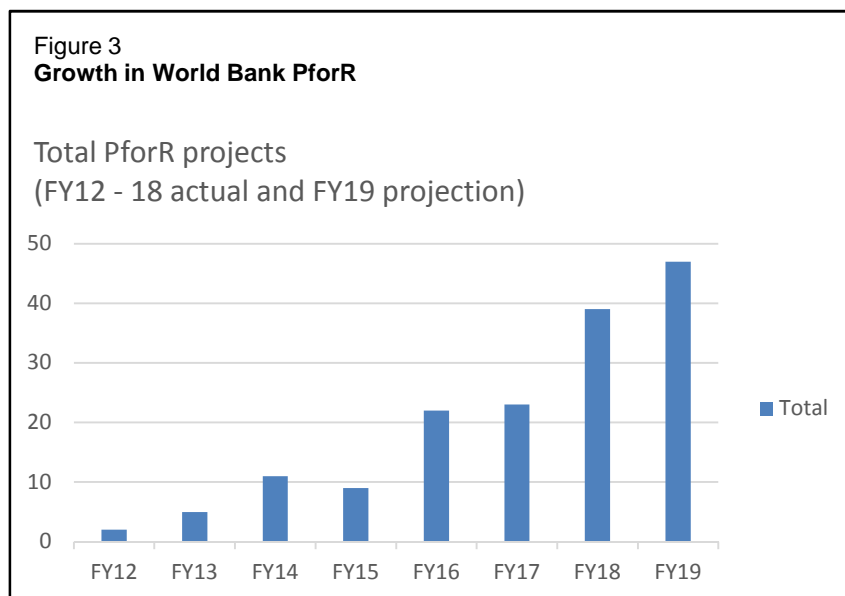
⁹ See the IFAD "how to do" note, *Key performance indicators and performance-based agreements in rural finance*, (October 2014). This document notes that: (i) outcome-based indicators are mostly used for non-lending arrangements; (ii) subsidiary loan agreements are used between projects and financial service providers; (iii) grant agreements are used when support originates from an IFAD grant facility; (iv) management agreements are used when the financial service provider is mandated to execute a large part of the activities in an IFAD-supported project; and (v) other types of special agreements (e.g. letters of agreement) may also be used. A performance-based agreement may be used following structured dialogue involving IFAD and a financial service provider on the context, indicators, drivers of performance and sanctions.

¹⁰ See footnote 4.

engagement for the rural sector. This proposed funding would support policy-related analysis and engagement in policy processes relevant to rural sectors, including national- and local-level assessments of the sectoral policy context, policy gaps and capability assessments for developing and implementing policies. FIPS funding is also envisaged to support partnerships, including consultations with key stakeholders. This funding will enable IFAD to prepare projects with a results-based focus (e.g. with better performance metrics for agricultural service delivery), and develop programmes that support broader government policy and institutional reform.

B. Expressions of demand from borrowers

22. Demand from clients for RBL has been growing rapidly. The array of experiments in RBL is a testament to the shift in country demand. RBL has focused governments (not just donors) on the articulation of outcomes and on the activities, outputs and intermediate outcomes best suited to achieve these outcomes. It also recognizes the power of financial incentives to maintain this focus. In addition, RBL helps governments to become



more accountable to their citizens through its focus on demonstrating the performance and utility of government services. The programmatic form of RBL being deployed by IFIs has grown rapidly, as evidenced by the World Bank PforR initiative (see figure 3), providing evidence of the increase in demand by borrower countries. RBL has been identified as a priority for addition to IFAD's product menu. In assessing IFAD's financial architecture, a corporate-level evaluation was undertaken,¹¹ including inputs from governments and IFAD staff on expanding IFAD's product offering. Respondents suggested that more products would increase choice and flexibility so that borrowing countries could select the product that best meets their needs. There was strong agreement that IFAD should develop an RBL approach,¹² with financing that is disbursed according to the achievement of specific programme results and performance indicators. Some borrower countries signalled their interest in IFAD providing support through more results-based approaches to incentivize performance. They reported a preference for IFAD support that contributes strategically to government programmes and helps to build government capacity for managing expenditures and investment programmes.

C. Process for selection of pilots

23. IFAD would benefit from experimenting with different types of RBL to learn what best fits its capabilities and comparative advantages. Management proposes that IFAD undertake a variety of pilot RBL activities. During

¹¹ See footnote 2.

¹² From the corporate-level evaluation: Of non-IFAD respondents, 70 per cent assigned high or highest priority to developing an RBL product along with 59 per cent of IFAD respondents.

the pilot phase, it is proposed that IFAD launch at least one RBL initiative supporting project-based lending and one supporting programmatic lending. The pilot phase will be time bound and designed as a learning effort. Based on experiences from other IFIs, it is proposed that the pilots be undertaken during at least a six-year period in order to gain sufficient experience to undertake a self-assessment of the design, implementation and results. A midterm review of the pilots would be conducted to assess lessons learned after three years.¹³ Both AsDB and IDB have introduced six-year pilot programmes to allow ample time for review and evaluation. Depending on the outcome of these pilots, Management will propose a modality for mainstreaming a more permanent form of RBL at IFAD.

24. IFAD's project lending can support governments and incentivize other actors to be more results focused and emphasize the smallholder perspective. There is considerable potential for shifting IFAD's project lending toward a stronger and disbursement-linked results model, and making results a more integral part of IFAD's investment portfolio. This mechanism could be applied to a number of areas that IFAD currently supports, building on the limited performance-based financing currently offered. Given its focus on individual farmer families, IFAD's RBL would be particularly relevant to the provision of public services such as extension services, rural infrastructure and crop-conversion support linked to climate adaptation. Project RBL could also be applied to small-scale infrastructure given IFAD's role in enhancing smallholder returns and increased income levels.
25. The area of climate-smart techniques and investments also has significant potential for using financial incentives to change farmers' behaviour. IFAD will be encouraged to explore other areas for RBL pilots and will review ongoing projects and the pipeline of additional financing to explore components or projects in which a results-based focus could be introduced. Performance metrics linked to the delivery and results of these services would benefit from the inputs of smallholder farmers, facilitated by IFAD. These projects could feature results-linked payments from central governments to lower-level intermediaries or service providers, providing a clear incentive for intermediaries to deliver services that achieve targeted results. It would draw on IFAD's ongoing experience with performance-based agreements in rural finance and other IFIs' experiences with investment lending using disbursement-based indicators.
26. Programmatic-results lending will require a steeper learning curve for IFAD than project-based lending. For programmatic RBL, IFAD could play a useful role by bringing the smallholder perspective to large government-owned programmes. During the initial stages of the pilot, Management proposes that IFAD engage with another IFI that has experience with programmatic RBLs, enabling IFAD to gain experience during its initial foray into supporting programmatic RBLs. Taking on the role of cofinancier, IFAD would work together with the lead IFI in designing and implementing programmatic RBF, bringing the smallholder perspective into the design and potentially supervising a specific portion of the project and related DLIs. A robust system would be needed to assess IFAD's contribution and indicate future roles for IFAD in supporting programmatic RBL. To date, these programmes have required considerable capacity to convene and carry out discussions with governments on key policy and institutional development issues; it would be difficult for IFAD to undertake these activities alone. RBF also

¹³ For example, the AsDB policy paper *Piloting a Results-Based Financing for Programs Modality* (August 2012) stressed that "to enable learning-by-doing, it is proposed that AsDB pilot the RBF for programs modality for 6 years. This is the minimum time frame required to yield sufficient information for a subsequent review of RBF for programs operations, including both their design and implementation aspects. During the pilot, AsDB will put in place measures for training, dissemination, consultation, and learning. AsDB will also learn from and exchange experiences with other development agencies. The experience derived from the pilot will inform the future policy direction of the RBF for programs modality." IDB's loan based on results pilot also has a six-year time frame.

requires the capacity to assess the government systems to be used when financing is provided directly for a government expenditure programme. IFAD would initially need to rely on the lead IFI to carry out these technical assessments. Over time, there may be scope for IFAD to assume a leading role in a programmatic RBF, especially in small economies where IFAD may provide a significant portion of development financing for agriculture. There may also be opportunities for IFAD to support government programmes at the provincial level, especially in countries where central governments have encouraged provincial reform and expenditure programmes are dedicated to supporting remote areas and rural poor people.

27. IFAD will undertake a demand-driven selection process. It is proposed that a small number of pilots will be identified in the second half of 2018 and that IFAD will undertake at least two or three pilots (representing a modest portion of annual project approval) over a six-year period. This will allow for an assessment of processes and impact at the end of the pilot period. Management will request proposals from regional divisions to identify appropriate pilots based on input from government counterparts. Government commitment to developing RBL approaches in the agriculture sector will be critical and IFAD's ability to conduct frequent discussions with its counterparts on project results and DLIs (for example through field offices) will be an important selection criterion. In the case of programmatic RBL, IFAD will also consult with IFIs on potential PforR, RBL, RBF and LBR instruments in the pipeline. Key criteria for each type of pilot will be articulated to guide the selection and identification process.¹⁴ The pilots will be submitted to the Executive Board for approval.
28. IFAD's pilots will need to be tailored to its scale and existing resources. RBL will require a shift in the way IFAD does business. In the short term, RBL in IFAD will need to be piloted using current resources. Borrowers will draw on existing IFAD11 performance-based allocation system resources to finance these new operations. The design and implementation of pilots will draw on existing budgets and staff. However, given the learning that will be required to carry out these new operations, Management suggests that additional resources be dedicated to the design and implementation of RBL pilots during IFAD11.
29. IFAD can draw on external expertise to support its efforts in RBL. Once candidates for pilots are identified, the design process will likely require additional support. Key design features include payment metrics, identifying the portion of funding attached to results, the pricing structure and the approach to verification. IFAD may need to engage consultants specialized in RBF to assist with this design. There are also considerable resources in the development community to support RBL design through donor-funded programmes and IFIs. Notably, the World Bank has developed training courses at different levels to build staff capacity on key aspects of programmatic RBL. The courses build staff capacity to make informed judgements about instrument design choices, including results frameworks and DLIs. The courses also assess areas of specific competence in broad fiduciary, environmental and social assessments for programme-focused RBL. Other institutions offer training that is more focused on project RBL. Once pilots are identified, IFAD will leverage these training courses for the necessary parties. The Capacity Scan programme (which supports governments in improving results and M&E capacity) is being piloted in the rural sector through the Advancing

¹⁴ Criteria for pilot selection will be derived from the lessons learned in other IFIs. These include the consideration of countries that have demonstrated: good policy and implementation performance for at least the past two years (at both the macro and sectoral levels); and sound governance arrangements, including a functional M&E system and periodic accountability assessments by the central government (often led by the President's Office or the Ministry of Finance). Other key criteria for successful pilots will be for countries to have a well-defined agriculture programme as part of national expenditure and for there to be a clear understanding between the government and IFAD of the types of results to be achieved, the results chain to get there, the actors to be incentivized and the type of data available for monitoring results.

Knowledge for Agricultural Impact initiative to assess in-country results-based management systems and capacities, and identify shortfalls. These could potentially be deployed for IFAD's pilot RBLs. As IFAD moves into more programmatic RBL, it may draw on country assessments (for example of public financial management) undertaken by IFIs and other donor-funded groups, or may outsource these assessments with financing from the proposed Technical Cooperation Facility for FIPS for environmental and climate assessment.

30. Some new competencies will be needed and some systems will need to be adjusted. To achieve more results-oriented financing either at the project or programmatic level, IFAD will need to place results at the forefront of project design and implementation. It will need to develop familiarity with the types of disbursement-linked indicators used in different agricultural operations, and focus discussions with governments on overall project objectives and the types of results that will be linked to disbursements. This will require an expanded in-house capacity to define results and measurable indicators, assess data sources for this measurement and determine the verification methods suitable for disbursement. These projects will also require extensive discussions with governments on changes to IFAD's current payment arrangements. In addition, IFAD will need to invest in relationships with in-country actors that can provide third-party verification of the achievement of results. In the case of programme-focused RBL, IFAD will need to strengthen its own competencies in the: technical assessment of broader agricultural development programmes; analysis of public expenditures on agriculture; and assessment of the systems underpinning these programmes (in addition to utilizing external expertise). Finally, IFAD will need to assess internal processing and payment systems in order to be able to process the new payment modality.
31. The inherent risks of developing the new approach will be recognized and mitigated. One of the major risks related to RBL is the possibility that a project will not disburse funds. This can be mitigated in a number of ways. For instance, with programmatic RBL, careful attention should be paid to the respective weight of each DLI. The agreement between the IFI and government should be explicit about what portion of the loan can be disbursed if there is only partial achievement of DLIs. Expectations may need to be adjusted since the timing of disbursements may be less predictable than for investment lending. For programmatic RBL, the use of country systems requires extensive ex-ante assessment and agreement between the government and IFI on programme action plans. IFAD will mitigate the lack of capacity for undertaking these assessments by relying on technical assessments undertaken by the lead IFI (to be reviewed and approved by IFAD). The risk of the government not fulfilling its obligations to the programme action plans can be mitigated by financing capacity-building efforts as part of the operation. In line with other IFIs' practices for programmatic RBL, advanced disbursements in the range of 15 per cent to 25 per cent at signing could be proposed for the borrower to begin the necessary enhancements of country systems if required as a project objective.¹⁵
32. The pilot phase will be time bound and designed as a learning effort, with full engagement of the Executive Board. The proposal suggests that IFAD's RBL will not be guided by a new policy; instead, interim guidance will be provided to design and implement the pilots. The proposal further suggests that the pilot launch be accompanied by an indication of any specific policy waivers that may need to be approved by the Executive Board. Each pilot project will be brought for

¹⁵ The World Bank directive for PforR states that, "To provide a Borrower with resources to allow the Program to start or to facilitate the achievement of DLIs, the Bank may agree to make an advance payment (following the effectiveness of the legal agreement for the Financing) of up to 25 per cent of the Financing (unless a higher percentage is approved by Management) for one or more DLIs that have not yet been met ('advance'). When the DLI(s) for which an advance has been disbursed are achieved, the amount of the advance is deducted (recovered) from the amount due to be disbursed under such DLI(s)."

discussion and approval by the Executive Board. The pilots will be structured to determine the best way forward for IFAD after they have been assessed. At that time, Management, in consultation with the Executive Board, will review the need for any legal or policy changes to mainstream this effort.

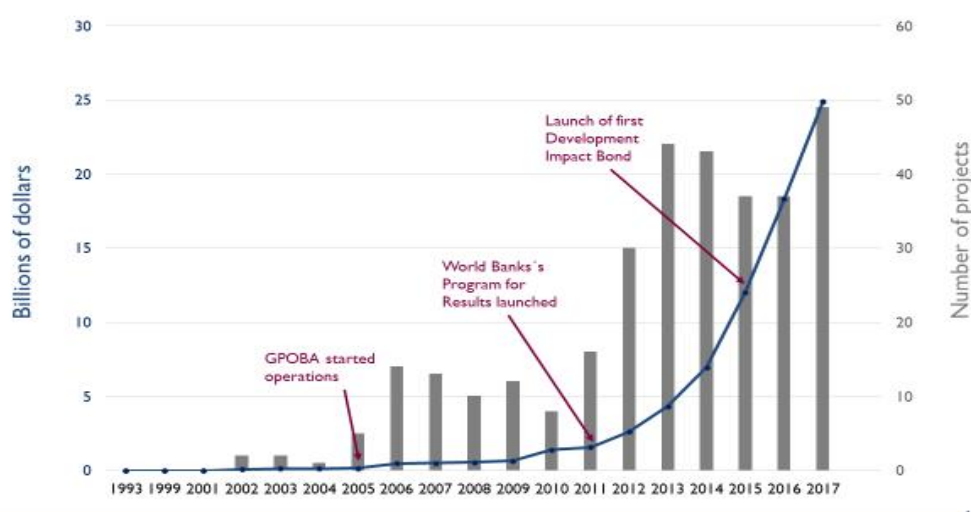
RBF: The spectrum of the mechanism, experiences of other IFIs, lessons learned and focus on agriculture

I. The Spectrum of Mechanisms

- Over the past twenty to thirty years there is been a large expansion in results-based financing (RBF).¹⁶ From very small beginnings in the early 1990s,¹⁷ the level of RBF financing topped \$25 billion in 2017 (see figure 1). There is no commonly agreed definition of RBF but most institutions would share the World Bank's (WB) perspective that it is "an umbrella term referring to any program or intervention that provides rewards upon the credible, independent verification of an achieved result".¹⁸ This is in contrast to more traditional project or investment lending under which funds are disbursed against specific eligible expenditures. Most would also agree with the WB definition of results as "those elements within a results chain that lie beyond the input stage. They can be outputs, intermediate outcomes, final outcomes or – more likely – a mix." RBF agreements involve two central agents: a results funder and an incentivized agent. They also involve three important building blocks: selecting measurable results; setting up verification and payment mechanisms; and providing support to incentivized agents.

Figure 1
Financing Tied to Results in Low and Middle-Income Countries

Over \$25 billion of development spending has been tied to results



Source: "A Practitioners Guide to Results-Based Financing"; Instiglio (2017), and the Instiglio RBF Database.

- A range of RBF instruments and modalities have been developed to accommodate different financiers, incentivize a variety of agents and fund different types of results along the results chain. RBF instruments can be grouped into five broad categories according to who is the incentivized agent, ranging from performance-based aid where the incentivized agent is a national government to conditional cash transfers where the incentivized agents are households and individuals, and different categories of instruments and agents in

¹⁶ Results based financing is the term used most frequently by development partners (DPs) and encompasses all forms of finance (both loans and grants).

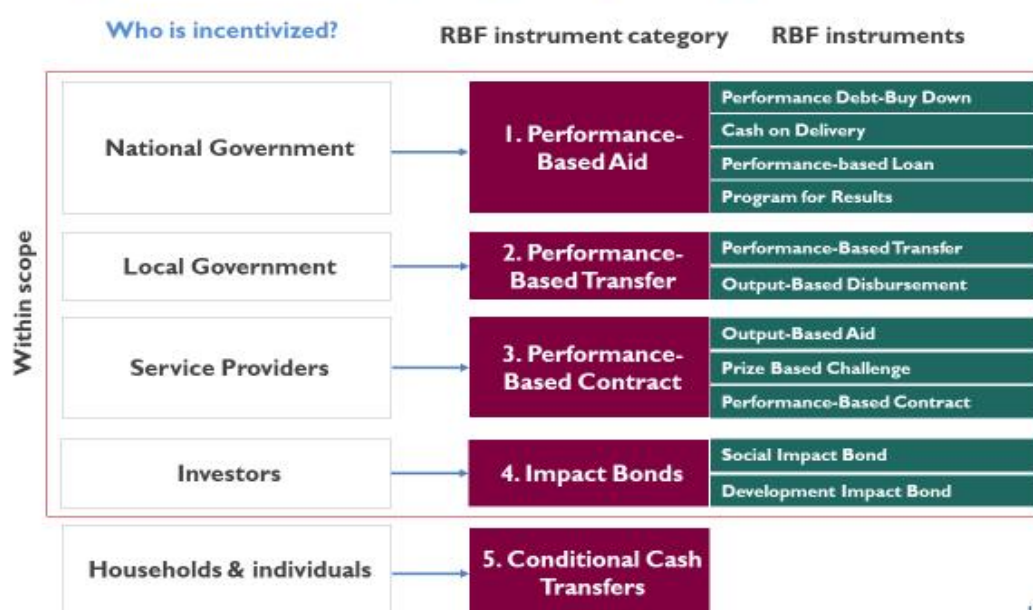
¹⁷ In fact, RBF approaches were under implementation much before the 1990s with one of the earliest output-based aid schemes (broadly defined as seeking to tie disbursements to the achievement of specific outputs) focused on provision of reproductive health care services in South Korea in the 1960s (see Output-based Aid; A Compilation of Lessons Learned and Best Practice Guidance, GPOBA/IDA-IFC Secretariat, June 2009).

¹⁸ World Bank, Results Based Financing in Education: Financing Results to Strengthen Systems, 2017.

between (see figure 2). Moreover, within each of these categories distinct instruments have been developed. In addition to which agent is being incentivized, they highlight what kinds of results are being financed (outputs, intermediate outcomes, final outcomes) and how involved the donor is in supporting the achievement of these results. As a form of performance-based aid, for example, cash on delivery is an instrument that focuses on “the power of incentives rather than guidance or interference”,¹⁹ with donors being hands off on program activities and disbursing against final or near final outcomes. Program for Results (PforR)²⁰ by contrast is an instrument that is much more hands-on, with an emphasis on donor technical support to governments to improve institutions and systems and deliver results along the results chain, not just at the final outcomes stage. In the case of performance-based contracts where the incentivized agent is one or more service providers, instruments include output-based aid (OBA) where disbursements are tied to specific outputs as well as performance-based contracts where disbursements are explicitly linked to service providers successfully meeting or exceeding certain clearly defined minimum performance indicators. Choosing among these instruments requires determining which actors need to be involved and what kinds of results should be incentivized as well as what specific design features can maximize the value added of RBF to address a specific development challenge.

Figure 2
Simplified Typology for RBF

Distinguishes instruments by the type of agent being incentivized



Source: Global Program on Output Based Aid (GPOBA), June 2018.

- For most international financial institutions (IFIs) and other development partners (DPs) the focus on results has been one critical element in a broader effort to enhance the overall effectiveness of development assistance. The Aid Effectiveness agenda has focused heavily on results, together with other key principles including country ownership, alignment of donors around country strategies, use of country systems, donor coordination, and mutual

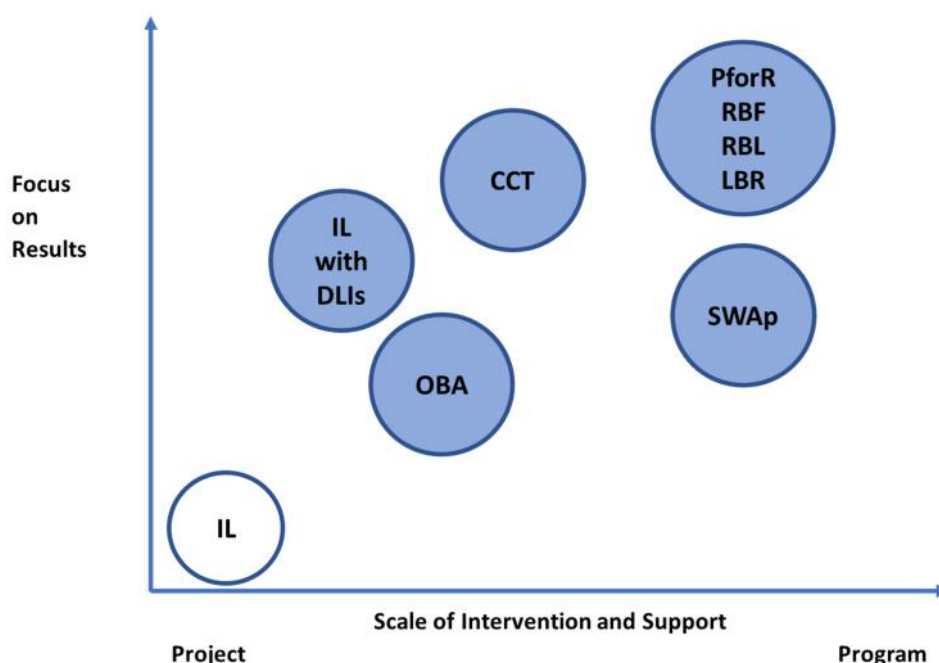
¹⁹ Birdsall, N. and Savedoff, W. Cash on Delivery: A New Approach to Foreign Aid, Center for Global Development 2010.

²⁰ PforR is the RBF instrument introduced by the World Bank in 2012.

accountability. As part of this agenda, IFIs and other DPs have increasingly experimented with a range of RBF instruments and other modalities to better reflect these multiple principles to improve the delivery of development finance.

4. IFIs have moved in the dual directions of more results-focused and more programmatic financing as part of their aid effectiveness efforts. IFIs, in particular, were initially constrained by the limitations of their project financing instrument, where disbursements were tied to expenditures; as such they began their experimentation with more project focused modalities, such as OBA, conditional cash transfers (CCTs), sector wide approaches (SWAp) and investment lending with disbursement linked indicators (DLIs). Over time, IFIs have also focused on more programmatic RBL modalities such as the PforR instrument of the World Bank and similar instruments of the Regional Development Banks that are support government-owned programs and the use and strengthening of country systems (see figure 3).²¹

Figure 3
Examples of RBF Modalities Supported by IFIs



II. IFIs and Project Focused RBF

5. Within project or investment financing, IFIs have been experimenting with a range of RBF modalities for some time. For example, the concept of OBA was formally introduced into the WB in 2000 under the Global Program on Output-based Aid (GPOBA) that supports delivery of public services through targeted performance related subsidies. Some IFIs have also been supporting CCTs for many years and this modality has increased significantly in importance since the mid-1990s. In contrast to OBA which usually involves a “supply side” subsidy paid to the provider to incentivize it to deliver services, CCTs focus on the “demand

²¹ This figure is intended only to be illustrative of the range of efforts underway to move from more traditional investment lending to more results-based and programmatic lending. Traditional investment lending itself focuses on how the expenditures financed can over time help achieve both outputs and outcomes and, in many cases, finances a range of activities that may be more akin to a program than a specific project. New approaches also vary in the extent to which they are results and programmatic focused and in some cases have been combined, e.g. SWAp with DLIs. The innovations within IL as well as the new modalities have provided important building blocks for the introduction of totally new programmatic and results-based instruments by four of the IFIs.

side” subsidies paid to final beneficiaries to incentivize them to seek particular services. In the period beginning in the mid-1990s an increasing number of IFI operations have also supported SWAs). In addition to helping advance donor alignment to country strategies and focus on institutional change and reform, SWAs have helped countries and DPs to align to a common results framework and apply coherent monitoring procedures.²² Within its investment lending instrument, the World Bank has also made explicit provision for an option of investment project financing (IPF) with DLIs under which disbursements are dependent on both expenditures having been made and indicator targets having been met. In 2003 the Inter-American Development Bank (IDB) introduced the performance driven loan (PDL) as a 6-year pilot program. The PDL was similar to the World Bank IPF with DLIs, designed as an investment loan that disbursed once the project or program’s actual development results were achieved and the Bank verified the expenditures incurred by the Borrower to reach the results. Except for IDB’s PDL, which required Board approval of a new instrument, these examples of RBF have been introduced with additional guidance to staff but no changes in Board approved policies.

6. RBF under project or investment financing has been used across a range of sectors and countries. RBF under project financing has tended to concentrate on the social and infrastructure sectors and less on agriculture. OBA, for example, has been focused largely on the infrastructure and social sectors and GPOBA only recently approved its first operation in the agriculture sector. CCTs have been heavily focused on helping the poor have better access to the health and education sectors. SWAs were also first used largely in the social sectors but expanded to include water, transport and agriculture as well as other sectors. RBF under project financing has also been used in many different regions and countries. OBA has been particularly prominent in Africa and Latin America. The heaviest concentration of CCTs has been in Latin America but they have also been used in other regions and countries and in both middle and low-income countries. SWAs started in donor-intensive low-income countries in Africa and South Asia but later grew strongly in middle-income countries.
7. The evidence base on the effectiveness of project focused RBF approaches is still emerging. Unfortunately, many approaches to RBF have not been set up with rigorous evaluation components. Indeed, in many cases when RBL has been a component of a larger project, information systems make it difficult to track the implementation of those components separate from the overall. As a result, a consensus around the overall strengths, weaknesses and impact of project focused RBF has yet to emerge.²³ Nonetheless, preliminary indications are encouraging. For example, CCT operations financed by the WB compare well to the total WB portfolio and there is considerable evidence that CCTs have improved the lives of poor people.²⁴ An analysis of SWAp project performance by the World Bank also showed indicators that compared favorably with the overall lending portfolio, with the share of commitments at risk and problem projects significantly lower. There is also some, if limited, evidence that OBA projects have been more effective and less costly than traditional projects in achieving immediate objectives, although OBA has not always addressed issues of scalability and sustainability. On the downside, however, there have been concerns about the effectiveness of IDB’s PDL instrument due mainly to the double burden of verifying eligible expenditures and verifying development results and the fact that the results took too long to achieve; as a result, no new PDL operations have been approved since 2009.²⁵

²² FAO, Investment Lending Platform, Sector Wide Approaches, 2018

²³ GPOBA and Results for Development (RforD): Situating OBA in the context of RBF in education, February 2016

²⁴ WBG A New Instrument to Advance Development Effectiveness: Program-for-Results Financing, December 2011

²⁵ See IDB Proposal to Establish the Bank’s Sovereign Guaranteed Loan Based on Results – Revised Version, November 2016 for further discussion on the effectiveness of the PDL instrument.

III. IFIs and Program Focused RBF

8. Four IFIs have expanded their suite of lending instruments to respond to a broad set of demands from clients. Many client countries are implementing their own programs for development and poverty reduction rooted within the country's legal, policy, regulatory and institutional environments. They are asking DPs for finance and expertise to improve their programs' effectiveness and efficiency in achieving results. In considering how best to respond to these demands, all four IFIs felt that their existing project-based and policy-based lending instruments were inadequate and that a new instrument (building on and taking account of some of the innovations and experimentation with existing instruments) would enable them to better focus on institutional and system strengthening in addition to investment and policy support (see Box 1).²⁶
9. These IFIs have introduced a totally new program focused RBF

Box 1

The Missing Middle of IFI Instruments

Policy support operations: operations that support policy and institutional actions to achieve a country's overall development objectives and provide rapidly disbursing general budget support to help address development financing needs

Program support operations: operations that support government programs and institutional and system strengthening and that disburse against results

Project support operations: operations that support specific investment projects and disburse against specific expenditures and transactions

instrument. The WBG introduced the PforR instrument in 2012; the Asian Development Bank (AsDB) introduced a new RBL instrument in 2013 with a six-year pilot phase; the Inter-American Development Bank (IDB) introduced a new loan based on results (LBR) instrument in 2016 also with a six-year pilot phase; and the African Development Bank (AfDB) introduced a new RBF instrument at the end of 2017. In all cases, Board approval of the introduction of the new instrument and associated policies and procedures was required. In the case of the World Bank, the PforR instrument has already emerged as a significant new lending instrument with new PforR operations approved in the current fiscal year expected to total around \$11 billion in commitments. Meanwhile in the AsDB, expected future demand for the instrument has resulted in the Board raising the original 5 per cent ceiling on RBL commitments to 10 per cent even as the pilot phase is still on-going.

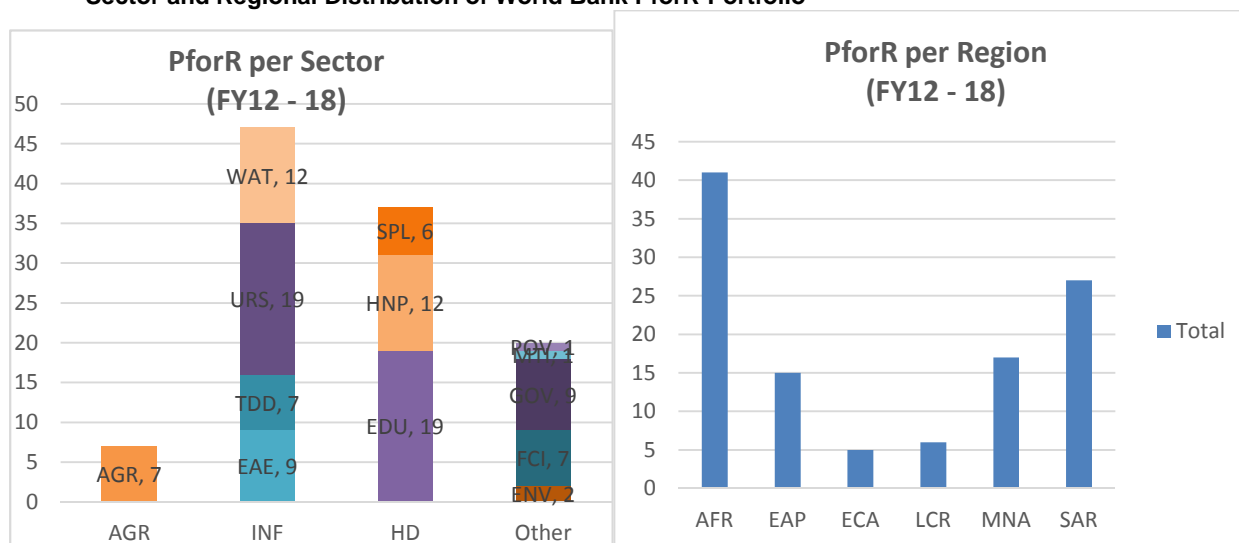
10. The specific features of these new lending instruments are very similar. Although different titles have been ascribed to these instruments, they have very similar features, namely:
 - Financing and helping strengthen borrowers' development programs with clearly defined results. These programs, comprising expenditures and activities, can be ongoing or new, sectoral or sub-sectoral, and national or subnational programs, as well as community development programs.

²⁶ The IDB structure is slightly different; IDB has two lending categories - an investment lending category and a policy-based lending category - and the LBR has been introduced as a new instrument under the investment lending category.

- Disbursing upon achievement of results and performance indicators, not inputs. Disbursements are determined by achievement of monitorable and verifiable indicators, rather than by inputs.²⁷
 - Focusing on strengthening the institutional, governance, capacity, and systems that are essential to ensuring that the programs achieve their expected results and can be sustained. A priority area for both preparation and implementation support is to strengthen the capacity and systems of the institutions that implement the program, thereby enhancing development impact and sustainability.
 - Providing assurance that DP financing is used appropriately and that the environmental and social impacts of programs are adequately addressed. The program's fiduciary and environmental and social management systems need to be assessed and agreement reached with the borrower on any additional measures to provide the necessary assurances.
 - Enhancing the ability of development organizations to pool resources and focus directly on capacity building. DPs align their support around government-owned programs and are encouraged to co-finance a common program and coordinate their technical as well as financial support.
11. RBF through program focused operations has already been used across a range of sectors and countries. The WBG has approved the most operations to date (116 expected by end June 2018). Most of the operations have been in infrastructure and the social sectors, but the agriculture sector as well as other sectors are also making use of the instrument. The instrument has also been used by all regions and many countries, with the Africa and South Asia regions leading the way (see figure 4). Both middle and low-income countries have made use of the instrument with two thirds of the operations this fiscal year being in low-income (IDA eligible) countries. In the case of the ASDB initially it was the social sector that was keen to use RBL, but staff working in other sectors, such as energy, transport, and urban development are now also processing new RBL programs and a first RBL operation in the agriculture sector is under implementation. To date the ASDB has approved 16 operations for both low and middle-income countries. IDB has also approved three LBR operations while the AfDB is just getting started.

²⁷ Disbursements finance the borrower's overall expenditure program rather than being linked to individual transactions for the purchase of works, goods and services.

Figure 4
Sector and Regional Distribution of World Bank PforR Portfolio



Source: World Bank database on PforR (2018).

12. It is still too early to be certain about the effectiveness and efficiency of these new instruments, but the early reviews are encouraging. In the case of the World Bank, the two-year review of the PforR instrument in March 2015 concluded that “the PforR instrument has been successfully rolled out across a broad range of countries and sectors, policy requirements have been met, and implementation for all but one of the approved operations is broadly on track”.²⁸ In June 2016, a report by the World Bank’s Independent Evaluation Group (IEG)²⁹ came to broadly similar conclusions - noting in particular that the structure of assessments had proven to be appropriate, that the results frameworks were reasonably coherent, that issues of ownership and partnership were being well addressed in program documents and that the management of risks was progressing well. That report also included recommendations, particularly with respect to strengthening the design of the results frameworks and DLIs, strengthening the design and monitoring of Program Action Plans (PAPs) and strengthening the monitoring and reporting of results. Since then two PforR operations have closed and were rated Satisfactory. An independent assessment of the Rwanda Agricultural Transformation PforR³⁰ has also provided some encouraging findings. In addition, the Independent Evaluation Department (IED) of the AsDB has conducted a mid-term review of AsDB’s pilot program for RBL³¹ and concluded that “the preliminary results of the RBL programs are promising and that the modality has significant potential to add value to AsDB operations”.

IV. Lessons Learned and Practical Implications

13. Countries are making the shift to more results-based approaches. Many countries from different regions and at different income levels are seizing the opportunity to make their own projects and programs more results focused. This requires commitment on the part of Governments and other implementing agencies to work in a performance-based and results-focused manner, and to develop the new capacities needed for this shift. They are attracted to the concept that RBF should help increase the effectiveness of development assistance by: making

²⁸ World Bank Group: Program-for-Results: Two-Year Review, March 18, 2015.

²⁹ World Bank Independent Evaluation Group: PforR: Early Stage Assessment of the Process and Effects of a New Lending Instrument.

³⁰ Unique Review of Rwanda Agriculture Program for Results, December 2017.

³¹ Asian Development Bank Independent Evaluation Department: Results-Based Lending at the Asian Development Bank: An Early Assessment.

results more visible and drawing the attention of recipients to what really matters; ensuring that the needs for institutional, system and behavioral change are well aligned with the investments in hard infrastructure; ensuring that the interests of funders and recipients are well aligned to the welfare of beneficiaries; and incentivizing providers to deliver activities that more directly meet beneficiaries needs and improving accountability mechanisms. In this regard, it is important both that governments are clearly in the driver's seat with respect to the design of RBF approaches and programs and that both the overall results to be achieved and the specific DLIs are developed in a participatory manner with active engagement of all concerned stakeholders.

14. Employing an RBF approach requires significant upfront assessments. To determine if RBF is feasible in a given context, a rigorous assessment is needed of the country, sector and project situation to ascertain if there are clearly defined results to be achieved, what behavioral change is needed to achieve these results, and what actors need to be involved and incentivized. In the case of program focused RBF it is critical that these programs support Government designed programs and focus on institutional development and reform well beyond traditional investment projects. It is also necessary to carry out a careful assessment of the country's own systems in the given sector—fiduciary, governance, environmental and social-- in terms of performance, capacity and risks, and how these systems and capacities need to be strengthened to deliver broader programs and investments. Finally, coordination and co-financing with other DPs can be challenging, given differing operating modalities and timelines, the need to determine respective roles in the design and implementation of an operation etc. None of this is easy and, in some cases, may result in the design of RBF operations being more cumbersome and slower than for more standard project/investment operations. There are also cases (for example high value procurements or difficult environmental and social issues) where RBF is not appropriate and the use of the more a traditional project investment may be mandated by particular IFIs.
15. The challenges of disbursing against results should not be underestimated. Developing an RBF operation requires continuous discussion with Government counterparts on activity-output-outcome results chains, the selection of indicators and the payment structures which determine the flow of funds. It is also important to establish the approach to develop these results and indicators, for instance through government databases or more participatory approaches such as beneficiary surveys. This may be easier for some sectors than for others.³² For example, in education there is reasonably clear evidence on the "line of sight" from an input (of getting books into the hands of children) to the output (having children use the books) to the outcome (that the children can read). In other sectors, such as agriculture, the pathway to final outcomes is likely to be less certain. Indicators for disbursement also need to be clearly defined, along with the means for independent verification.³³ The use and mix of output and outcome indicators will depend on the ability to influence the results. Consideration also needs to be given to the balance between different types of indicators (outputs, intermediate outcomes, final outcomes) and the speed of disbursements. Financial

³² The DIE study suggests that "result- based approaches are easiest to implement if there is a good understanding of the results chain and an explicit theory of change for setting appropriate incentives", *Results-based Approaches in Agriculture: What is the Potential?* (2016).

³³ For example in the case of the WBG PforR instrument, the DLI verification protocol needs to include at a minimum: clear definition of the DLI and how it will be measured; objective, detailed definition of what is required to consider the DLI as achieved; indication of whether disbursements associated with the DLI will be scalable; definition of the data sources that will be used to measure the DLI's achievement, including reporting frequency; baseline data and expected timing of DLI achievement clearly established based on comparable data sources; name of the government agency or third-party entity that will be responsible for providing relevant data and for verifying achievement of the DLI; and indication of the independence of the verification agency/party; source: WBG PforR Interim Guidance Note to Staff on DLIs and Disbursement Arrangements, June 2012.

planning can be more challenging because of the inherent uncertainty about the results the implementing organization will be able to deliver and feasible mechanisms for disbursing against results need to be determined, including disbursement scalability (meaning financing proceeds proportional to the progress toward achieving a DLI) as a risk reduction mechanism. Adequate monitoring frameworks need to be put in place and to include collection of baseline data of sufficient quality.

16. RBF requires clear policies and guidance as well as the capacity development of managers and staff in IFIs. This is particularly important in the case of more program focused RBF where the need for new operational policies and procedures has been most clearly established. The two-year review of the World Bank PforR instrument also noted that there was a clear need for more training and knowledge sharing and enhanced understanding of the instrument among managers as well as staff, including more cross-team learning. In this regard, it is critical to develop competencies to undertake assessments of country systems, including assessment of relevant technical systems as well as fiduciary, environmental and social, and broader governance systems. Competencies in the development of results frameworks and broader monitoring and evaluation systems as well as in the design and verification of specific DLIs are also essential. The IED review of the AsDB's RBL instrument also emphasized the importance of additional capacity development efforts and focused on: the determination of the appropriate context for deploying the instrument, program soundness assessment, DLI selection, results frameworks, monitoring and evaluation assessments, independent verification, design and monitoring of PAPs, and program fiduciary assessments.

V. Observations on Agriculture Related RBF

17. RBF has had relatively limited, but growing, application to date in the agriculture sector. A 2017 scan of development programs in the agriculture sector that are utilizing RBF approaches³⁴ focused in particular on operations financed under the WB PforR program and the multi-donor AgResults program. Four agricultural PforRs are now under implementation (in Rwanda, Morocco, Vietnam and Punjab) and seven more are in various stages of preparation³⁵ (see Box 2). The AsDB is now supporting the Government of Indonesia to implement its first RBL operation in the agriculture sector.³⁶ AgResults has pilot projects in Zambia, Kenya and Nigeria³⁷ that provide results-based economic incentives to competing private actors to develop and ensure the uptake of new agricultural technologies. Recently GPOBA approved its first operation in the agriculture sector, for irrigation systems for small scale farmers in Burkina-Faso. The 2017 scan of RBF approaches in agriculture also noted that there is a central to local government grant program in China to support irrigation in Hebei province, as well as a development impact bond (DIB) in Peru focusing on sustainable cocoa and coffee production by indigenous people. In addition, there are examples of RBF components of otherwise more traditional agricultural investment projects, including components that feature performance-based contracts.
18. Several factors specific to the agricultural sector pose challenges for RBF. In particular agricultural outcomes (such as production levels or smallholder

³⁴ Instiglio, Results-Based Financing in Agriculture and Land Administration, 2017.

³⁵ Rwanda Transformation of Agriculture Sector Program, Vietnam National Targeted Programs Support, Punjab Agricultural and Rural Transformation, and Morocco Strengthening Agri-Food Value Chains.

³⁶ Indonesia Integrated Participatory Development and Management of Irrigation Program is now under implementation.

³⁷ AgResults is a multi-donor initiative which provides incentives for high impact ag innovations in research and delivery to promote global food security, health nutrition and benefit smallholder farmer. "Launched in 2010 to overcome market failures impeding the establishment of sustainable markets for developmentally beneficial agriculture innovations by offering results-based economic incentives ("pull financing") to competing private actors to develop and ensure the uptake of new agriculture technologies".

income from agricultural production) are highly variable over time, highly context specific and subject to external factors such as climate variability and changes in world market prices and final outcomes may take many years to achieve. In addition, there are a variety of actors in the agricultural sector—both public, non-profit and private—with a complex web of incentives. Because RBF is predicated on a good understanding of the results chain, developing financial incentives to change the behavior of specific stakeholders can be more challenging in the agricultural sector relative to social sectors (which focus on the provision of a social service to a targeted beneficiary group). This is largely because agriculture is a productive sector (not a public service) and identifying the behavior change needed by private actors to cause specific results, in the broader context of private and market forces, is very context specific. Measurement is also a key challenge. When RBF is financing outcomes, such as changes in productivity, these results will need to be based on longer term trends, and the RBF will need to support a longer-term effort. There is also considerable potential for measurement error in the agricultural sector: among other challenges, rural populations can be hard to measure, land boundaries can be ill-defined, and units of measure are often not standardized. All of these factors make agriculture a challenging sector for RBF and reinforce the importance of considering the full results chain and focusing financial incentives and disbursements as much if not more on some of the output and intermediate outcome indicators, including those that emphasize institutional and system strengthening and reform.

Box 2

Areas of Focus for Agriculture RBF

Program focused RBF highlights institutional change, reform and investment: Agriculture-specific PforRs and other program focused RBF address institutional and system strengthening across a range of agricultural services including research and extension, irrigation development, land management, farmer organizations, marketing, financial services as well as issues of agricultural planning, management, regulation, monitoring and evaluation. PforRs focusing on broader issues of rural development and poverty reduction also include such components in addition to a strong emphasis on infrastructure development and in some cases the provision of other social services.

Project focused RBF by contrast often targets a specific beneficiary group. Examples include:

- *Subsidies paid to particular groups of farmers that successfully implement investments in land management and irrigation*
- *Performance based grants to producer cooperatives and SMEs with business plans for market development that have been approved and obtained financing*
- *Performance based agreements with financial institutions with disbursements linked to jointly identified results with respect to outreach to particular groups of farmers, quality of portfolio etc.*
- *Economic incentives to competing private actors for the development adoption of new agricultural technologies.*

19. There are some areas in the agriculture sector with potential for successful RBF support (see box 2). First, it will likely be easier to design RBF to ensure output results related to the provision of public services to farmers, such as agricultural extension services (focusing on e.g., market information, or business planning assistance) and infrastructure services (such as roads, ports, irrigation, water, energy, market platforms). Second, direct support to farmers tying financing with the expected outcome of increased productivity or income will be more difficult, as there are many factors that can affect these outcomes. Providing incentives for e.g. increased farmer utilization of inputs such as seeds, fertilizer or finance may or may not have the intended effect on increased productivity or incomes, unless there is clear evidence to support this in a given context. There may, however, be potential to provide RBF to farmers if the expected behavioral change is well-understood and clearly tied to the outcome--for instance, incentive programs for farmers to change crop production to less water-intensive crops in drought-prone areas, or incentives for farmers to relocate production areas in flood prone zones. Third, there is significant potential to provide more programmatic RBF support at central, provincial and local

government levels for policy reform and institutional development in a broad swath of areas including property rights, land use planning, irrigation management, agricultural extension and research, disease and pest management, production subsidies etc. This more programmatic support can be coupled with physical investments as part of a broader government expenditure program such as those supported by WB PforRs in agriculture.