

The European Union's Development Cooperation Programmes

**STUDY ON RESULTS-BASED PROGRAMMING AND FINANCING,
IN SUPPORT OF SHAPING THE
MULTI-ANNUAL FINANCIAL FRAMEWORK AFTER 2013**

Letter of Contract N° 2010/252553

FINAL REPORT

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March 2011

The project is implemented by IBF International Consulting.



ACRONYMS

ACP	Africa, Caribbean, Pacific
AIDCO	European Commission EuropeAid
BMZ	Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung (German Ministry for Economic Cooperation and Development)
CCT	Conditional cash transfer
CGD	Centre for Global Development (Washington DC)
COD	Cash on delivery
DfID	Department for International Development (UK)
DG DEV	Directorate-General Development (European Commission)
DR Congo	Democratic Republic of Congo
EC	European Commission
EDF	European Development Fund
et al.	et alia (and other authors)
EU	European Union
FR	Financial regulations (EU)
GBS	General budget support
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Technical Cooperation)
GPOBA	Global Partnership for Output Based Aid (Washington DC)
HRBF	Health related results based financing
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
MCA	Millennium Challenge Account
MDG	Millennium Development Goals
MFF	Multi-annual financial framework
NAO	National Audit Office (UK)
NGO	Non-governmental organisation
NOK	Norwegian Kroner
NORAD	Norwegian Agency for Development Cooperation
OBA	Output based aid
o.c.	opere citandi (reference book quoted previously)
ODA	Official Development assistance
OECD	Organisation for Economic Co-operation and Development
P4P	Pay for performance
PBC	Performance based contracting
PBF	Performance based financing
RBA	Results based aid
RBF	Results based financing
SBS	Sector budget support
UK	United Kingdom
US	United States
USAID	United States Agency for International Development
WB	World Bank

I. Introduction

01. The European Commission (EC) took the initiative for the present study in view of (possible) changes, through legislative proposals, to the EU's financial instruments for external action, for the next multi-annual financial framework (MFF) as from 2014.

02. The reason for possible changes is the EC's concern about the effectiveness of the aid the EU delivers in various forms, as well as of the adequacy of aid modalities to reach the MDGs. The EC's concern joins the concern of many members of the donor community, in which governments, parliaments and tax-payers ask two main questions: a) whether there is evidence that Development co-operation in general contributes to alleviate poverty; b) whether the results are commensurate with the means invested, which are perceived as substantial by the taxpayers and their parliamentary representatives.

03. In view of addressing these two issues the EC wants to be informed and advised if, among growing attempts in the donor community to increase effectiveness of aid (be it EU aid or aid delivered by other donors), results based modalities (when programming and financing aid), as they are presently used in one form or another, are an adequate way to add value to the effectiveness and impact of aid, hence, reach the MDGs and, if so, if the EC should adapt its financial instruments accordingly if it wants to use these modalities.

II. Objective and scope of the study

04. The global and specific objectives of the study are described in the terms of reference, attached as annex I. In short, our objectives are:

- a) to identify successes and lessons learned from results based financing and programming modalities,
- b) to assess whether results based modalities generated additional funds that (could) contribute to Development, or had any influence on governmental budgetary allocations,
- c) to advise if and how (some form of) results based financing could be used in the EU context, taking into account current EU budgetary and legislative rules and possible changes hereto.

05. The scope of the study was defined and focused during correspondence with, and comments from, DG DEVCO on the methodology in our project proposal in November 2010 (attached as annex II), in a meeting with DG DEVCO on December 8, 2010 and in a meeting with the EC Steering Group on December 16, 2010. It resulted in narrowing the scope we developed in the methodology of our proposal.

- Identification of lessons learned and successes through EU support would be limited to a maximum of five countries that received EU budget support with a variable tranche over at least five years. The assessment should focus on the results based part of the aid, not on the fixed tranche or on budget support as such. The study should not concentrate on conditionality that related to policy, but on (possible) conditionality only when related to financing.

- A similar identification would focus on five European donor countries, plus USAID, World Bank and the (also Washington based) Centre for Global Development.
- Recipient countries would not be visited and information regarding their budgetary implications would be drawn from information to be provided by donors or from open sources – with all limitations this would entail as regarding the possibilities of studying any implication on recipient governments' budgets.

III. The study's methodology

06. The study largely followed the method initially described in the proposal and confirmed in the inception report. But not to the full extent – see above: due to the fact that the team received documentation on budget support / variable tranches for Burkina Faso only, it limited its analysis of this subject to this country.

The desk study

07. During the desk study we:

- studied a number of documents obtained from the EC and collected from open sources,
- had a clarification meeting with DG DEVCO,
- drafted an inception report listing, among others, questions we thought should be dealt with,
- discussed the inception report with the EC Steering Group,
- amended the inception report in function of comments and suggestions debated during the Steering Group meeting. The final version of the inception report is attached as annex III.

08. As foreseen in the proposed methodology, the compilation and analysis of documents was a continuous exercise that went beyond the period reserved for the desk study, as study of documents lead to other documents, and as interviewees communicated or referred to other information. Surfing websites harvested a large amount of documents and information, the relevancy of which could only be ascertained through reading. A list of documents we perused is attached as annex IV.

The field study

09. The approach to previously identified institutions and donor countries was identical:

- a contact we initiated in order to identify the individuals who would be best placed to discuss with us,
- the communication, to the identified interviewee, of a short explanation of our mandate, a copy of our terms of reference and the list of questions we had identified in our inception report and, if available, a copy of the introductory letters DG DEVCO had prepared,

- if and when required by the intended interviewee, clarification and precisions about the topics that would be discussed¹,
- face to face interviews in the offices of the interviewees during which previously prepared conversation lines were as much as possible followed but making sure that the interview did not result in an interrogation but in an open and frank dialogue – which was everywhere the case^{2, 3},
- study of the additional information and documents either directly remitted by the interviewees or referred to on websites.

The list of people met and / or interviewed is attached as annex V.

The reporting phase.

10. The draft report was submitted on February 25, 2011, presented to and discussed with representatives of various DG DEVCO units on March 9, 2011. Comments and observations were noted and incorporated in a revised report that was communicated to DG DEVCO on March 18, 2011.

Another meeting with member states experts with a presentation of the report took place on March 28, 2011.

IV. The study's calendar

November 2010 – March 2011.

V. Executive summary

- I. There is a general growing tendency towards results oriented Development aid. The MDGs are not the origin of this tendency but a frame for the tendency. All institutions interviewed operate towards achieving the MDGs.
- II. The definitions in use (results based aid, cash upon delivery, pay for performance, results based financing, results based budgeting, aid on delivery, general or sector budget support, outputs and outcome), are not identical between the EC, member states, agencies and institutions. A standard use of terminology and definitions would be helpful. The same applies to the definition (or understanding) of terminology like criteria and conditions. The distinction between the two is sometimes difficult to make.

¹ Dutch and German Governments suggested that we also discuss their intended policy and ongoing making of planning and monitoring processes.

² In many instances interviewees were as much interested in our views as we in theirs.

³ Videoconferences were avoided as much as possible; in the case of interviews with BMZ in Bonn, participation of BMZ departments in Berlin proved only to be possible through videoconference.

- III. Various forms of “managing for results”, as embedded in the Paris Declaration, are still in their early applications. Final scientifically established, unchallengeable results of various forms of results oriented aid are very limited.
- IV. Ongoing efforts towards results oriented aid exist, some in pilot stage; some bring hope filling results, while at the same time showing limitations, constraints and challenges. Most practical experience seems to have been gathered in output based aid.
- V. Essential to successful results oriented aid, in whatever form, are:
- comprehensive and exact assessment of existing situation prior to the aid (reliability of information on base line data),
 - precise formulation of expected results from the aid,
 - precise description of result measurement and monitoring means and methods,
 - comprehensive and exact assessment of results (reliability of information and data).
- VI. While it can be argued that the above mentioned essentials also apply to any form of (project) aid, the main difference with project aid is that a lack of the above mentioned essentials can result in non payment, while in project aid non payment is only conceivable in case of non eligibility of expenditure.
- VII. Results oriented aid cannot stand alone, but needs to be part of a package containing the setting up, support, or strengthening when and where required of issues like sector reform, information systems, capacity building (financial management, administrative capacity, monitoring and control capacity, human resources). Such a package ideally requires donor co-ordination which is not a priori guaranteed.
- VIII. Results oriented aid may prove to be more expensive in terms of transaction costs than classic project assistance given the need to carry out a detailed analysis of the problems, the baseline situation and the screening and assessment of the results.
- IX. Pre-financing can hardly be avoided, be it by the beneficiary, the service provider, the donor, a third investor or any combination thereof.
- X. Sustainability of results remains an open question and requires not only an exit strategy but a follow up capacity and guarantee thereof from the recipient.
- XI. There are no examples that results oriented aid triggered additional funding from the private sector for recipients.
- XII. There were no examples reported that payment was refused because of absence of agreed results.
- XIII. The modality “cash on delivery” shares some features with the EU’s variable tranches of budget support. It can be applied under the existing system applied for budget support. The modality “pay for performance” (for which payments are made on the basis of costs incurred) can be applied under the existing EU framework for grants without any modification of the Financial Regulations.

- XIV. In the case of "result based financing" (for which payments are to be made on the basis of results achieved) however, new provisions should be included in the EU's Financial Regulations, as the philosophy of the EU's Financial Regulations is that payments should be made on the basis of incurred costs.

VI. Report

1. Preliminary remark on the scope of the study

11. The steering group was in agreement, during the December 16, 2010 meeting, that the number of days allotted to the study was limited. It was agreed that it was not possible to assess in detail the outcome of results based aid, in whatever form, performed by or in progress with EU member states, World Bank or any other institution. Our study would, hence, aim at collecting information with actors as these actors would report it. This did not prevent us from mentioning some interpretative comments when we considered this appropriate. But we had to take the facts as reported at face value.

12. Neither were we in a position to perform the analysis of annual assessment reports related to budget support to find out whether and to what extent the approach of using variable tranches has produced clear and identifiable results in five countries that received EU budget support with a variable tranche over at least five years, of which two countries were / are the beneficiaries of an MDG contract.¹ The documents made available to us were limited to internal notes from the EU Delegation in Burkina Faso regarding the disbursement of fixed and variable tranches 2009 and 2010. It should be underscored² that the Steering Group on December 16, 2010, instructed the consultants not to include any assessment of EU budget support in general in this study.

13. It would most probably have been interesting to study the feedback to the *Green paper* about the future of EU budget support in third countries³, but this feedback was not available at the time of writing the present report.

14. Absence of information regarding impact on budgets of recipient countries prevented us from commenting. It was agreed that we should not apply for this information with recipient governments, but that some information could possibly be provided by member states or institutions we would meet. But no information came forward, as the institutions we interviewed did not possess any information of the kind, nor were they in a position to compile any information of the kind for our perusal.

2. Terminology and the use of it

Terminology not uniform

¹ Inception report – methodology – analysis of documents – paragraph 1.

² to answer a remark made during the discussion of the draft final report on March 8, 2011

³ COM (2010) 586 final, 19.10.2010.

15. The various interviews we conducted showed that terminology is not always identical with different actors, and / or does not always rejoin the definition proposed in literature.

16. For instance, when DfID uses the term general budget support (GBS), it can also mean sector budget support (SBS), like its intended education programme in Ethiopia. Not everybody makes the difference between results based aid (RBA) and results based financing (RBF) as DfID does, and, to a certain extent, the World Bank¹. Cash on delivery (COD) was, at the start, an academic construction by the Centre for Global Development (that does not implement Development aid itself). COD takes, in practice, the form of results based aid (RBA) with DfID², is considered by the World Bank as a subset of results based financing (RBF)³, and shares many features with the variable tranche of EU's budget support, while some literature considers EU's MDG contracts to be results based aid (RBA)⁴.

17. It would be useful to come to an identical definition of following terms.

Result Based Financing (RBF):

18. Result Based Financing is defined by Musgrove as: any program that rewards the delivery of one or more outputs or outcomes⁵ by one or more incentives, financial or otherwise, upon verification that the agreed-upon result has actually been delivered⁶.

19. Pearson defines it as: a mechanism through which a funder is willing to make payments to an agent who assumes responsibility for achieving pre-defined results⁷.

20. It may be reminded that *all* aid provided in the form of cash or services is seeking results, be it through a results based financing modality, be it through general budget support to a recipient government, or through technical assistance via a NGO project. The MDG have fixed the goals towards which results have to tend; it did not invent results oriented aid. As the German BMZ said: *"it is not that, a certain day, we decided to go only for Development aid that yielded results"*. Results based financing can take various forms, use different actors, and apply classic or innovative approaches. The whole Development co-operation of the Netherlands is results oriented, multi-lateral, bilateral, using service providers and NGO, including the classic project financing, but limiting general budget support in doing so and without using a "pure results" strategy⁸. So are Germany's, NORAD's and GPOBA's. The EU seems to be inclined to increase general budget support⁹, also with the final intention to see results.

¹ PEARSON, Mark, *RBF and RBA: what are they?* HLSP Institute, January 2011.

² Interview at DfID 18.1.2011.

³ MUSGROVE, Philip, *A short glossary of RBF*, World Bank, www.rbfhealth.org, September 2010.

⁴ PEARSON, o.c.

⁵ CGD makes a difference between outputs and outcome in the context of COD – interview at CGD 25.1.2011 and subsequent clarifications by CGD 4.2.2011.

⁶ MUSGROVE, o.c.

⁷ PEARSON, o.c.

⁸ See a comprehensive description in *Results in Development, report 2007-2008*, issued by the Dutch Foreign Office.

⁹ The Netherlands and Germany are not in favour.

21. New are the vehicles with which results oriented aid is driven, such as the forms defined above and the modalities for financing aid. Unfortunately most actors are still at their experimental stage. DfID has five pilot projects, three in the design phase and two in the concept phase¹. CGD does not have own experience, as CGD does not implement programmes. World Bank, as said, is in the process of developing sector programmes in the direction of output based aid (OBA). USAID does not implement COD yet, but applies results based financing through Pay for Performance (P4P). GPOBA does have experience with its output based aid (OBA) projects but is still learning from it. The Netherlands are in the process of developing processes and instruments for more results oriented project management², while continuing (classic) Development aid with more stringent expectations – and conditions thereto – of results. Germany is moving along the same path, seeking a reform of its Development financing towards more results, for which a policy will be issued³. Germany always was results *oriented*, now strives to add results *based* approaches to its instruments. Norway is involved in bilateral pilots in results based financing for maternal and child health⁴ in India, Nigeria, Tanzania, Pakistan and Malawi. Norway (like Germany) is also involved in the Amazon Fund programme to combat deforestation.

Cash on delivery (COD):

22. In its pure form, COD is payment of a ceiled financial bonus, without any strings attached as to the use of this bonus, only when the recipient government⁵ achieves a certain pre-defined outcome (and not output) the way it deems appropriate, without any other form of supporting financing to start or to realise. Actual pure COD programmes, concluded or in progress have, however, not been identified⁶.

23. NORAD explores the possibility of using COD. The Amazon deforestation project⁷ that is financed by NORAD and KfW and in which payment by the Brazilian Development Bank is based upon actual reduction of deforestation, can be considered as a COD. It is about the single pure COD project the study identified. DfID is in the process of launching an education programme in Ethiopia, which DfID calls result based aid (RBA), but which is very similar to COD.

24. USAID does not apply COD yet⁸. Neither does the World Bank⁹. The Dutch Development co-operation does not intend to use COD¹⁰.

25. The converging evidence collected from interviews and from literature points towards the factual necessity of combining COD with other support that allows the recipient to achieve results for which he

¹ This does not confirm CGD's opinion (interview 25.1.2011) that DfID benefits from experience with COD.

² Interview with Dutch Foreign Office 1.2.2011.

³ Interview with German BMZ, KfW and GIZ 4.2.2011. As an example: classic Development aid consisted of building a clinic. RBF will seek a) to increase the number of women who will deliver in these clinics and b) to improve the quality of obstetrics in that clinic. Projects are under way in Kenya, Morocco and Malawi. On-going co-operation in the area of results based approaches include participation in the Amazon fund in Brazil as well as output based aid programmes in Uganda and Kenya. Germany delivers GBS in 9 countries and 1 SBS in Peru.

⁴ Formally these are operated by the embassies, under Norway's Foreign Office.

⁵ In this COD differs from OBA, that targets service providers, which COD does not – interview with CGD 25.1.2011, which is different from what Musgrove says that COD and OBA overlap.

⁶ DfID considers its results based aid as a COD (interview 18.1.2011). This is debatable – see later.

⁷ Interview with NORAD 2.2.2011.

⁸ Interview with USAID 26.1.2011.

⁹ Interview with World Bank 26.1.2011.

¹⁰ Interview with Dutch Foreign Office 1.2.2011.

can expect disbursements (see later). As such, COD is possible as an addition to most forms of results based financing. One can see shared features of COD in EU's variable tranches¹ (which are a form of results based aid), and which exist in addition to the fixed tranches.

26. COD has its critics and many of these critics are valid. Brown² puts it clearly that COD should be a credible threat: "no cure no pay". This threat liquefies if there is any assurance that not obtaining the cash upon delivery is mitigated by other compensations. As Brown says: the higher general budget support is, the lower COD will be an incentive.

27. Contrary to some perception, COD is not without any rules at all except the achieving of agreed upon results. COD requires eligibility criteria or conditions for attaining results.³

Results Based Aid (RBA):

28. For DfID, results based aid (RBA) is an aid partnership between a donor and a partner government⁴ tying disbursement to global results in a given sector, while results based financing (RBF) is more financing specific outputs at a more micro level, through incentivising a service provider and / or a beneficiary of services. World Bank follows this line of distinction according to which results based aid (RBA) links a donor to a government, results based financing (RBF) a donor to a national or sub-national government body with a range of possible agents like NGOs⁵.

29. Results based aid and results based financing can become hybrid, when a donor contracts directly with an implementing agent on behalf of the partner government in a sector-wide area of activity.

30. A requisite for RBA is the existence of base capacity with the recipient and, preferably, previous positive experience in Development co-operation. RBA is hence, not immediately adequate for fragile states.

31. Results based aid is applied by DfID through budget support in Uganda, Ethiopia, Sierra Leone and Rwanda.

32. The Millennium Challenge Account also applies results based aid, by paying governments for demonstrable commitment to democracy and good governance⁶.

33. The EU's MDG contracts are a form of results based aid through the use of the variable tranches. One can also consider the variable tranches a form of cash on delivery.

¹ contrary to some perception, there is no incompatibility between EC's "variable tranches" (in combination with a fixed tranche) and CoD, because CoD is not open ended, and need a ceiling.

² BROWN, Jessica, *COD: incentive issues in a multi-modal aid system*, 20.11.2008.

³ Which re-opens the discussion in how fare COD is entirely free of conditions, whether they are called criteria or conditions or eligibility

⁴ DfID considers results based aid to be at governmental level, not including NGO or non governmental service provides

⁵ PEARSON, o.c.

⁶ WOOD, Randall, *Incentives and capacity at the Millennium Challenge Account*, a MCC document, date unknown; and PEARSON, o.c. Mind that in the case of MCC not results are the key but "demonstrable commitment". Success does not seem to be a condition. One could argue that MCC is, in fact, general budget support without measured progress required.

Pay for Performance (P4P):

34. Term used in a large array of USAID financed aid. “For performance”, in fact, means results agreed upon in advance. As such, P4P is a results based financing type of modality.

35. Pay for Performance is used in many aid programmes in the health sector, financed by USAID. For an overview see www.healthsystems2020.org.

Output-based aid (OBA):

36. A form of results based financing based on the cost-of-output, in which results are formulated in advance, a call for proposals is launched and payment is linked to the achievements of the results, both quantitatively and qualitatively¹. Once the amount has been agreed (ex-ante) for the effort to achieve the result, the provider's incurred costs are further irrelevant for the amount of the payment: the only criterion for the payment to be made is the result achieved.

37. Those who advocate OBA consider that OBA shares the risks between the recipient and the provider (NGO, government, private), the recipient's main risk being not gaining the aimed efficiency and effectiveness². Others (like Brown, de Renzio – see later) are not convinced by this reasoning.

38. GPOBA declared some 200 projects: 130 projects implemented by the World Bank/GPOBA and some 70 by other donors, of which one third are still being implemented³.

39. World Bank is in the process of developing sector programmes in the direction of output based aid – disbursement against results (e.g. institutional changes) instead of disbursement on the base of an action, for instance policy action *towards* institutional changes⁴.

Conditional cash transfers (CCT):

40. Demand-side programmes in which incentives (financial and others) apply to the beneficiaries who agree to consume specific services. This does not exclude that incentives can also be foreseen for the service provider for bringing beneficiaries to take advantage of the services.

41. USAID finances CCT in various health aid, sometimes combined with Pay for Performance (P4P)⁵.

¹ Interview with GPOBA 25.1.2011. The definition given by Musgrove (o.c.) does not emphasise the cost based approach, and says that OBA is usually applied to non-health sectors, with which GPOBA seems to disagree.

² Interview with GPOBA 25.1.2011.

³ GPOBA, *Annual reports 2009 and 2010*, www.gpoba.org and interview 25.1.2011.

⁴ Although disbursement on the base of policy resulting in institutional changes could be considered results based aid.

⁵ www.healthsystems2020.org.

Performance based financing (PBF):

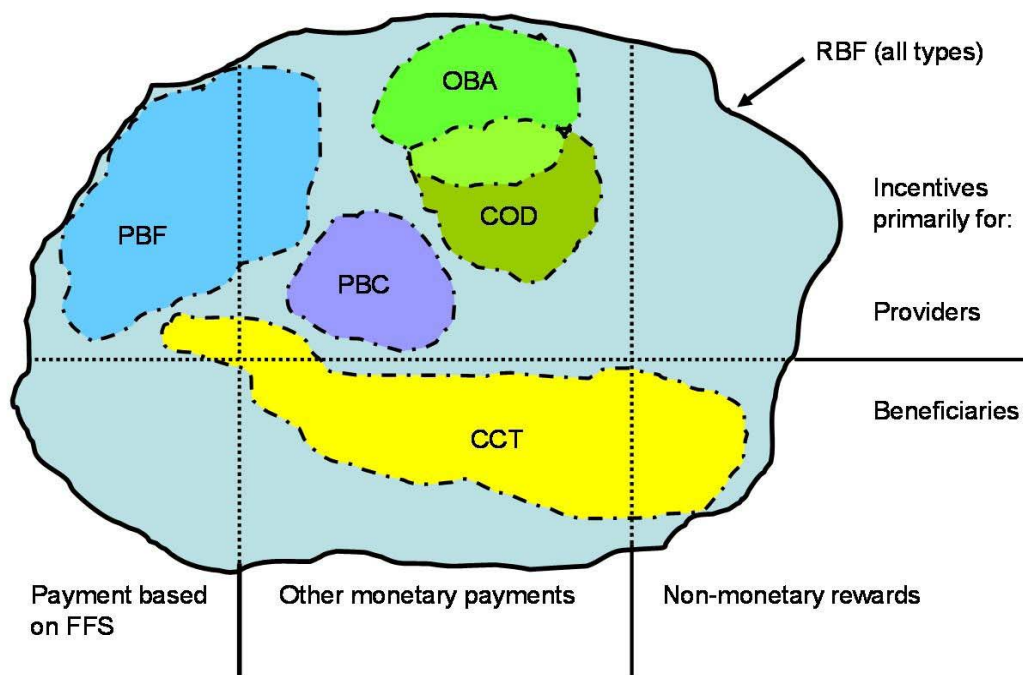
42. A form of results based financing, in which payments are directed to providers only, in function of specific services of approved quality the service provider delivered.

Performance based contracting (PBC):

43. A contract in which a fixed price is set for a desired defined output, with the addition of a variable component that can reduce payment for poor performance or increase payment for good performance¹.

44. When reading the above (which is a condensed form of longer definitions and descriptions in literature mentioned in annex IV) one can easily understand that the different labels do not always adequately distinguish programme features, and that any of these concepts can in principle be applied in various sectors and that concepts are related. The following figure illustrates their relationship², although the same *caveat* about interpretation of terms also applies on the reading of the figure.

Figure 3. RBF Programs: Hierarchical relations and distinguishing features



Note: areas in the figure do not denote relative numbers, size or importance of programs

¹ LOEVINSOHN, Benjamin, *A toolkit for performance based contracting for health services*, World Bank, 12.9.2008.

² Taken from MUSGROVE, o.c.

45. It remains, however, important to keep in mind that results oriented aid should ensure that approaches, in whatever form, involve payment *for* results rather than payment *by* results. Pearson¹ highlights this correctly by making the difference between rewarding commitment to achieve results and rewarding results achieved (on which most results oriented aid seem to focus with the danger that the reason why results were not achieved is not analysed – same problem as with the old style project financing).

3. Identified results so far

46. With some exceptions, a consensus among the institutions we interviewed is that, while lessons are already being learned, there is need for further in-depth evaluation.

47. The internal notes² of the EU Delegation in Burkina Faso report success in its OMD programme, leading towards the disbursement of the fixed and variable tranches 2009 and 2010³. As agreed with the steering group, we did not seek to evaluate the validity of the reported results, but we have to point out that the progress reported stems from internal notes and not from an external evaluation or performance review report.

48. DfID, as mentioned above, has pilot projects in design or concept phases, but does not have any results based aid or results based financing project finalised and evaluated. It does report success through its budget support, not without some critical assessment from the UK's National Audit Office⁴.

49. Germany reports good experiences through its general budget support, sector budget support and project financing, but agrees that, while conclusions point towards positive results, Germany has not yet reached the stage that it could single out precise results, and evaluate them thoroughly⁵, which is necessary for them to formulate modalities in future results based financing.

50. The Netherlands are in the process of developing processes and instruments for more results oriented project management. It presently works on 4-year strategic plans, but has no tangible experience so far with results based financing (while wanting to stay aloof from “pure results” budgeting).

51. The Royal Tropical Institute of the Netherlands issued a report⁶ about performance based financing programmes implemented by two Dutch NGOs in DR Congo, Tanzania, Zambia, Rwanda and Burundi. The report, however, is a formative evaluation, not a fundamental research. It concludes that performance based financing is promising and instrumental for improved health services, but agrees that more

¹ PEARSON, o.c.

² see footnote 1 on next page

³ EC AidCo, Note de dossier – décaissement de la tranche fixe 2009 et de la tranche annuelle de performance 2009 – contrat OMD au Burkina Faso, internal document, 25.8.2009. EC AidCo, Note de dossier – décaissement de la tranche fixe 2010 – contrat OMD au Burkina Faso, internal document, 5.8.2010. EC AidCo, Note de dossier – décaissement de la tranche V-Flex et Flex 2010 et de la tranche annuelle de performance 2010 – contrat OMD au Burkina Faso, internal document, 12.12.2010.

⁴ NAO (UK), *DfID – providing budget support to developing countries*, 8.2.2008.

⁵ “Ansätze sind positiv, aber wir sind noch nicht soweit dass wir Ergebnisse einzeln identifizieren und auswerten können”. Interview with BMZ, KfW and GIZ 4.2.2011.

⁶ TOONEN, Jurien et al., *Learning lessons on implementing performance based financing from a multi-country evaluation*, KIT Amsterdam, September 2009.

research is needed. One of the two NGOs issued in its turn a report¹ about its activities, but this overview does not contain valid conclusions.

52. GPOBA reports positive results in some 100 of its analysed output based aid (OBA) projects (many of them financed by the World Bank), adding that lessons are being learned, such as concerns about sustainability of these projects, which is not always guaranteed, and the necessity of scope study (see later). Of the 30 GPOBA's own grant agreements signed up to date, valued at some US\$ 124 million in total, many of them were underway. So far a total amount of some US\$ 27million has been disbursed for the GPOBA projects

53. USAID's Pay for Performance (P4P) projects, mainly in health, report variable results, going from “*more rigorous quality monitoring, better claim management and questions about long term sustainability*” in Uganda²; “*there is interest*” in Tanzania followed by considerations about identified difficulties³; success in the Philippines⁴ (although one can question the validity of conclusions about success when the increase measured only covers the first 100 days); some success with questions in Pakistan⁵; success in Burundi (but in which report the validity of statistics could be questioned, when reading the statistics about child immunization)⁶; high success in Brazil, together with many (quite) tempering questions about weak information technology, danger of bad results not being communicated out of fear, insufficient baseline data about clinical quality, insufficient knowledge about other influencing factors, serious work required about indicators, not sure which amount of dollars would be an adequate incentive and no control possible over the interrelation between clinical data and the doctors' remuneration – with all suspicions of gaming as a consequence⁷; inconclusive in Belize, due to the fact that the origin of reported figures is not known, that indicators only relate to process measures and that there is no exit strategy and unlikely sustainability⁸.

54. Oxman⁹ stressed in 2008 in his study that, while results based financing and Pay for Performance (P4P) are used interchangeably, vigorous studies are few and the evidence of effect is weak. He agrees there is an effect in the short run for behavioural goals, less evidence for sustainable long term goals. He could not exclude the existence of other influencing (external) factors (the issue of causality – see later) and warns for the danger that incentives for one activity may lead to disinterest for others, with maybe a larger impact, and that the modalities may open the way to cheating and corruption.

55. World Bank, especially in health related results based financing, reports in various “country snapshots” a variety of results: excellent results in Afghanistan between 2003 and 2006 (although one

¹ VAN DE LOOIJ, Frank, *Performance based financing with Cordaid*, A Cordaid publication, October 2009.

² BELLOWS, Ben et al. *Vouchers for health, increasing utilization of facility based STI and sage motherhood service in Uganda*, www.healthsystems2020.org, September 2009.

³ MORGAN, Lindsay, *P4P in Tanzania*, www.healthsystems2020.org, September 2009.

⁴ GONZALES, Glenda et al., *P4P for women's health teams and pregnant women in the Philippines*, www.healthsystems2020.org.

⁵ Bashir, Hamid et al., *P4P improving maternal health services in Pakistan*, www.healthsystems2020.org, September 2009 – an increase in vouchers indeed, but baseline data missing as well as facility quality data.

⁶ BUSOGNO, Jean-François et al., *P4P for improved health in Burundi*, www.healthsystems2020.org, 2010.

⁷ BOREM, Paulo et al., *P4P in Brazil: UNIMED – Belo Horizonte physician cooperative*, www.healthsystems2020.org, January 2010.

⁸ VANZIE, Michelle et al., *Using supply-side P4P to strengthen health prevention activities and improve efficiency: the case of Belize*, www.healthsystems2020.org, 2010.

⁹ OXMAN, Andrew, *An overview of research on the effects of RBF in health*, Kunnskapssenteret, 3.7.2008.

can ask questions about the origin of the figures and also ask about the situation since 2006)¹; the need for evaluation before concluding in Congo²; a mere description of ongoing action in India³; highly successful in Brazil⁴; successes in Cameroon (with the caveat that World Bank will rely on figures from the National Institute for Statistics)⁵; reports about great success in Argentina⁶; moderate success for programme design, moderate failure for implementation in the Philippines. Naimoli compiled a more precise description of WB's results based financing activities⁷. Very interesting are the World Bank snapshots together with Brenzel's stocktaking of World Bank's results based financing for health⁸. Brenzel admits emerging evidence of results through results based financing but also points towards the necessity of adding a performance measurement element for actions by NGOs. He considers evaluation to be weak, questions whether there is a robust impact, enough sustainability and whether evidence contributes in a significant way to conclusions plus a number of other tempering considerations. This stocktaking dates from 2009.

56. When reviewing World Bank's efforts one cannot omit the ongoing experience of the Health Results Innovation Trust Fund. The World Bank's Health Results Innovation Trust Fund is a multi-donor fund that supports eight competitively selected countries to design, implement, monitor, and evaluate health results-based financing (HRBF) mechanisms with the potential to accelerate progress towards the achievement of national health goals, especially those related to reducing child malnutrition, child mortality, and maternal mortality (MDGs 1c, 4 and 5, respectively). The Government of Norway is the first donor to contribute to the Fund, with an NOK 586 million grant (US\$ 95 million) for the period 2008–2012⁹. Results are not yet available.

57. In their book "Contracting for public services: output based aid and its applications", (World Bank, August 2010), Penelope J. Brook & Suzanne M. Smith *et al.* describe a number of cases contracted with the private sector. In the introductory section it is indicated that public sector contracting and private infrastructure schemes appear to have improved outcomes and raised welfare, even in countries starting out with weak institutions but there is increasing evidence that the size of the benefits, and the extent to which they reach the poor, depend crucially on the incentives created for service providers, the definition of results and quality to be supplied as defined in the contracts, the presence of competitive pressure, and the existence of objective regulatory oversight.

58. In summary, one cannot conclude yet to finally, scientifically evidenced success (in terms of measured progress) through the use of established modalities in various forms of results based financing in general, of cash on delivery (practically not in use yet) in particular. In the next paragraph an overview is nevertheless given on the lessons learned so far.

¹ BREDENKAMP, Caryn, *RBF for health in Afghanistan*, World Bank 2007.

² BREDENKAMP, Caryn, *RBF for health in DR Congo*, World Bank 2010.

³ BREDENKAMP, Caryn, *RBF for health in India*, World Bank 2010.

⁴ BRENZEL, Logan, *RBF for health in Brazil*, World Bank 2010.

⁵ BRENZEL, Logan, *RBF for health in Cameroon*, World Bank 2010.

⁶ MEASHAM, Anthony, *RBF in Argentina: Plan Nacer*, World Bank 2010.

⁷ NAIMOLI, Joseph et al., *Verification at a glance: a series of snapshots of experiences in verifying performances linked to financial incentives for RBF programmes from selected countries*, World Bank, April 2010.

⁸ BRENZEL, Logan et al., *Taking stock: WB experience with RBF for health*, World Bank 30.6.2009.

⁹ NAIMOLI, Joseph et al., *Contributing to global learning about RDBF: the Health Results Innovation Trust Fund*, World Bank, September 2009.

4. Lessons learned so far from results based financing (and cash on delivery) with regard to modalities

59. A considerable amount of literature exists about the successes (existing and expected) and challenges (observed and feared) of results based financing (or performance based financing) as well as of cash on delivery. Examining this literature goes beyond the scope of the present study. Among the most relevant literature we quote the publications by CGD (Birdsall et al., Rusa), Oxford University (Brown, De Renzio & Woods, Eldridge), Royal Tropical Institute of the Netherlands (Canavan), Finance & Development (Hecht et al.), the Nordic Africa Institute (Holmqvist), the World Bank (Mummsen, Naimoli et al.), HLSP (Pearson) and OECD (Rogerson); the details of which can be found in annex IV.

60. Especially Naimoli & Brenzel's article *RBF: Cure, curse of mixed blessing?*¹, Pearson's *RBA and RBF: what are they? Have they delivered results?* and De Renzio & Woods's article *The trouble with COD aid* are pertinent summing ups of the pros and cons, while suggesting ways forward. One should also add Brenzel's and Naimoli's *10 institutional challenges*² that, although focusing on health, touch on results based financing in general. The above-mentioned Hecht³ sums it up quite clearly when noting that results oriented aid can encourage providers (and beneficiaries) but that the main difficulties remain to measure performance, indicators, monitoring, reliability of local data, and difficulties for the recipient to design, negotiate and enforce a programme.

Challenge # 1: the reliability of data ex-ante

61. Consensus is general in that the reliability and comprehensiveness of information *ex ante* is essential for the design of any kind of aid programme. Pure common sense makes this requirement basic.

62. Any aid that aims at results needs a *baseline* from which results, be it progress in a given sector in general, be it measurable results (outputs), be it rewarded activities, can be measured, at least compared.

63. Experience (see previous citations from P4P experiences) regularly points towards the difficulties in collecting this information or – worse – the questioning afterwards whether the initial information was correct. This is regularly related to the efficiency of information collection and compilation on the one hand, and on correct interpretation of the obtained information on the other. Sources of information, necessarily coming from the recipient, even if they are collected by third (independent) parties, need correct and sometimes critical analysis. Recipients' information sources like national institutes for statistics or planning or budget ministries are not always entirely reliable, because the sources sometimes do not master the techniques of collecting and / or analysing information. One should also consider the

¹ Among arguments: results based financing is based upon a behavioral and economic theory (vouchers for obstetrics exams can provide incentives for providers, but do not convince the pregnant women); same authors are also of the opinion that empirical evidence is not as sizeable or as strong as proponents would like but expect much of World Bank's Innovative Trust Fund.

² BRENZEL, Logan & NAIMOLI, Joseph, *Health based RBF in practice: 10 institutional challenges*, World Bank, September 2009.

³ HECHT, Robert, *Making health care accountable*, March 2004 – although 7 years old, his findings remain actual and apply to many sectors.

possibility that the donor not always possessed the necessary know-how for critical analysis of sometimes complex data. When, like for Germany, the Netherlands and the EU, embassies and delegations are in charge of collection and analysis, this requires the presence in the embassies and delegations of staff sufficiently armed for such tasks. For sure, back in the respective capitals, further scientific analysis can be organised / provided, but the best analyst is tributary to the basic quality and quantity of the data he is tasked to analyse. Every donor has his own procedures and methods. A remarkable way of collecting “analysable” information is the Netherlands’ use of a country’s track record. In order to complete the track record the information collector handles a 54 page user guide that helps him to establish the alignment level, modality mix and programme profile.

64. Donors increasingly realise the necessity of correct assessment of the recipient’s public financial management. Even there we noticed a relatively less important attention paid to extensive risk assessment and the existence of risk management¹.

65. A lesson learned is that, in many cases, there is a need for setting up information systems or, at least, of strengthening and improving existing information systems. It is part of capacity building (see later in challenge # 4). Some supporters of a pure “hands-off” RBA or RBF may balk at this accompanying measure. Wrong information can, however, entirely derail the best intended, designed and programmed aid process.

Challenge # 2: precise identification, definition, description and wording of intended results

66. The challenge mortgages the design and programming of the aid process. Its importance has been underscored by all actors.

67. A difficulty in identifying results is the possibility (or danger) of unexpected, unforeseen and sometimes unwanted other results. Several examples are reported how concentrating – successfully – on one issue, like for instance decreasing neonatal mortality, saw at the same time a decreasing attention to other medical issues, like for instance orthopaedics.

68. Wording is important in order to prevent litigation afterwards. If the aimed result is the increase of the number of graduates above a certain education level, this should not be obtained through lowering the standards of graduation exams.

69. A standard catalogue of possibly attainable results does not exist. But it is possible, as the Netherlands have proven, to create a frame of results chain per MDG², plus one for fragile states. This results frame contains the various parameters that should be taken into account when identifying actors, inputs, outputs, outcome and impact.

70. It is also a recurrent observation from actors that politics play a (important) role in aid programming, while politics and results based aid not necessarily are good partners. Other considerations such as next year budget obtention difficulties when previous years budgets were not exhausted can also play a role.

¹ The absence of a correct public finance management assessment, of risk assessment, and, in the case of non state actors, of financial management capacity *tout court* has been over the years a great cause of inadequate spending.

² The Netherlands focus on the 4th pillar of the Paris Declaration.

Challenge # 3: design of the aid programme

71. Once expected results identified and agreed upon, the design of the programme requires great care and attention to a multitude of factors. These factors vary from overlooked factors (for instance reducing maternal mortality in an area where transport to a clinic is made impossible during the monsoon), to unforeseen (improve mining industry upon which Asian interests settle down and buy up the products). CGD can difficultly be approved when it utters the idea that the funder “... *entirely eschews designing or demanding any particular new intervention or investments...*”¹ unless the recipient has full design and programming capability.

72. Pearson² enumerates the main design and implementation features that should be considered and illustrates them with references to performed or ongoing results based aid or results based financing. Important considerations concern the definition and delimitation of incentives and the perverse effects some incentives can provoke³.

73. Part of the design includes progress assessment criteria and indicators. A majority of actors confirms that the use of criteria and indicators remains a requirement. The aid form “let the recipient do as he wishes” is not generally heralded. Standard criteria (one size fits all) do not exist or are not always and anywhere applicable or adequate. As a guideline to criteria, one can refer to GPOBA's toolkit⁴. DfID has no set criteria yet be it for ex ante or ex post assessment or monitoring⁵. Indicators can require a reassessment of their validity in the course of the process. Even if a final goal is clearly set, how does one measure progress and success halfway, considering that increased Development is only measurable over a protracted period of time⁶?

74. When it comes to designing criteria and indicators, discussion arises. Some consider criteria as being a form of conditions while, for same, the essence of results based financing should be a serious reduction of conditions⁷. It is true that the line between criteria that have to be fulfilled and conditions (what if the criteria are not fulfilled?) can be thin. Others consider that results based financing cannot proceed without any conditions and certainly not without respecting some criteria, leaving it in the middle whether criteria are conditions. GPOBA's criteria are, in fact, conditionalities aiming at improving marginal conditions⁸. The discussion can become academic, for instance when CGD prefers not considering criteria but reliably measuring or verifying progress.

¹ BIRDSALL, Nancy et al., *C.O.D.: a new approach to foreign aid : CGD brief*, November 2010.

² PEARSON, o.c.

³ Incentives to pregnant women for regular obstetric exams result in an increase of hospital visits, but in decreased para-medical quality as a result of rising workload. Focus on education completion may bring educational quality down to increase results.

⁴ GPOBA, *OBA diagnostic tool*, December 2010. The toolbox can also be used for initial assessment (challenge # 1).

⁵ Interview with DfID 18.1.2011.

⁶ As an illustration the indicator of progress in Brazil's anti-deforestation programmes. NORAD reported difficulties on the interpretation of results from Brazilian sources (interview with NORAD 2.2.2011) while GIZ found reliable indicators through satellite pictures (interview with GIZ, BMZ and KfW 4.2.2011).

⁷ Regardless of the question if letting go conditions is not just giving up to the fact that many recipients of project aid disregarded any conditions – without being sanctioned for it.

⁸ That were regularly not respected in project financing.

75. “Results based financing should not proceed against milestones” is a commonly noted comment. But when progress milestones become just milestones for payment of an implementing NGO, as can be the case in Pay for Performance (P4P), one can ask the question if we are not witnessing a simple transposition of conditions upon the implementing agent if he is not the recipient.

76. Personally, we are more inclined to adhere to the opinion of both Germany and the Netherlands that there should be equilibrium between delegation and control¹. Conditionality cannot be entirely avoided, were it only regarding financing in tranches. Other actors subscribe to the same in less outspoken terms.

Challenge # 4: capacity building

77. While at the beginning some may have considered results based financing possible without any strings attached, without any interference, just waiting for the agreed upon result to happen, a growing consensus is emerging about the need for an accompanying package of capacity building measures². The staunchest supporters of the necessity of ownership by the recipient have realised that ownership cannot come into being without capacity (and that capacity without ownership does not create owned capacity). The idea of results based financing as “stand alone” gradually loses ground. In this respect, even cash on delivery has to consider an accompanying package, even when the accompanying package is not financed by the cash on delivery, but by a parallel support programme. Cash on delivery as a “stand alone”, not concerned by any input or accompanying measure, comes over as a rather theoretical ideal form of incentive. CGD themselves do not exclude the need for accompanying capacity building measures³.

78. Information collection, information systems, human resources, implementing capacity, local administrative and financial control, and, especially, public financial management capacity are main subjects of capacity building. This is also essential for any aid’s sustainability. The intensity of capacity building is naturally related to the initial capacity of the recipient. Reason why cash on delivery for a country without initial capacity is hardly conceivable⁴.

79. The extent and importance of capacity building can be positively but also negatively influenced by an adequate or inadequate donor alignment. If the recipient benefits from overlapping capacity building support, his interest in judicious capacity building as an accompanying measure may decrease.

Challenge # 5: attribution and causality

80. In many examples actors agreed that evidenced results were not necessarily solely attributable to or caused by their aid programme. The difficulty of relating (exclusively) a specific result to a specific cause,

¹ « If the exercise consists of letting everything in the hands of the recipient country, we better transfer the money into an escrow account and close parts of our embassies », Dutch Foreign Office, interview 1.2.2011.

² What Germany calls « Instrumentenmix ».

³ Interview with CGD 25.1.2011.

⁴ HARRISON, Tom, “...the biggest issue with ‘cash on delivery’ is that it assumes that where governments do not provide key public services it is because they lack the incentive to do so rather than because they lack the capacity to do so...” quoted by BARDER, Owen, *Can aid create incentives for politicians ?* 27.4.2010.

a specific aid programme or a specific actor is great¹, even if association can be identified². Here again, donor alignment is a necessity, but difficultly obtainable. The recipient will sometimes be the least interested in donor alignment³. Donor non-alignment can become a policy with some Asian countries for purely commercial reasons.

Challenge # 6: evaluation ex post

81. Several actors conclude that exact assessment of claimed results is not always easy. This can be because the eyed results were not precisely worded, with differences in interpretation and ensuing contestation, or reliable and comprehensive information is lacking (hence the need for information systems as described earlier), or there is discussion about the neutrality of the examiner, or the assessment is untimely. Naimoli⁴ gives an interesting view about the necessity and requirements of monitoring. His considerations (and others) are also valid regarding the monitoring during implementation.

82. What is not contested is the need for accurate, timely, reliable and independent assessment, through means that are agreed upon beforehand. OECD reveals that, in 2008, only 10 % of countries examined had sound frameworks to monitor and assess Development results⁵. Ex post evaluations commissioned by donors are numerous, and can take the form of an evaluation according to DAC criteria, performance audits, joint assessments, or whatever was agreed upon in advance. Obtaining an accurate, timely, reliable and independent assessment is a difficult matter⁶. Important is that agreement over the obtained results is reached within a reasonable time so as not to provoke any cash flow problems. Indeed, as the effort aiming at results has to keep momentum, the activities towards results cannot be suspended pending any argument or contestation of the results subject of the intended financing. If the results based financing modalities are the only financing for either the service provider or the recipient, suspending payment pending discussion whether results as agreed upon realised would interrupt the action which may cause disruption and reverse effects. This is another argument that pure results based payment should not stand alone, unless the recipient is strong enough to bridge any financing interruption

83. Linked to the evaluation of outcome or outputs is the question of sanctions in case of non or insufficient result. The main sanction remains the non payment of the bonus, in whatever wording it was agreed upon. This could have a negative impact on the recipient's sector. It could also have no impact at all, if the absence of payment for non obtained result is compensated by funding from other sources. Which is not unlikely considering the non alignment of donors and the overlapping Development aid many countries benefit from, if not seek, and which donors do not take into account (or are unaware of) when designing and negotiating a results based financing agreement. In this respect one can argue if the limitation of the flexible tranche of EU's MDG contract to 15 % for pure annual performance progress (the other 15 % are related to results according to MDG related indicators) is substantive enough to be a

¹ ELDRIDGE, Cynthia, *Performance based payment: reflections and unanswered questions*, 27.10.2008.

² BEYNON, Jonathan & DUSU, Andra, *GBS and MDG performance*, 30.3.2010.

³ Which brings Barder to conclude that sustained pull out as a result of non abidance to conditions does not change much. BARDER, Owen, o.c.

⁴ NAIMOLI, Joseph, *Thinking strategically about monitoring health RBF schemes : core questions and other practical considerations*, World Bank, September 2009.

⁵ OECD, *2008 survey on monitoring the Paris Declaration*, 2008.

⁶ As BIRDSALL says: "...few agencies have independent evaluation offices, and the findings of these bodies cannot be compared. Standard Development evaluation methods consist of an assessment against the targets set by the agency, not an assessment of results against an absolute yardstick..." BIRDSALL et al., *Quality of ODA assessment*, 5.10.2010.

credible incentive (or threat, as Brown says) considering the importance of the fixed tranche (70 %), which the recipient is assured of, as recovery by the EU is unlikely and, if pursued, sometimes only a mathematical exercise¹.

Challenge # 7: sustainability

84. Several actors do not hide that sustainability of results achieved through results based financing is not guaranteed, even if the results were obtained and the whole aid programme a success.

85. Lesson learned is that results based financing, in whatever form, needs an exit strategy and that the capacity of the recipient to continue (or take over) after the donor's exit is foreseen, programmed, and built.

86. The accompanying capacity building measures are in this respect crucial. Holmqvist² rightly points out that, in case of continuous success of a results based financing, the recipient may not be in a position to follow when left on his own (which can then be palliated with general or sector budget support).

87. Sustainability also depends from donors' binding commitment for a protracted period of time, during which partners (or recipients) need to initiate with own resources, otherwise results based aid may turn out to be a donor driven initiative³.

Challenge # 8: the costs

88. Initial enthusiasm that results based financing would see reduced transactions costs is tempered by the finding that initial assessment, project design & preparation, monitoring during the implementation and assessment of results provoked high costs that, in many cases, went far beyond classical transaction costs of project aid. This was confirmed by every actor. Any results based financing hence needs a cost calculation, although the subject of the calculation is different from the classic project cost calculation. The fact that higher ex ante, ex post and in-built monitoring costs are spread over the length of time of the aid process (similar like the depreciation of investment costs) does not alter the fact that, in many cases, results based financing ultimately prove more expensive than transaction costs of classic modalities.

89. It can be argued that, in the long haul, increased transaction costs for results based financing will yield significant savings in aid budget in general. Progress towards, and reaching of, goals should decrease the need for continuous and repeated aid financing. This may be so, *on condition that the right results are achieved and sustainable* which, for the time being, does not seem to be reflected in a reduction of budgets.

90. The above mentioned danger of cash flow problem in case of interruption, combined with the lessons learned about the not contested¹ necessity of accompanying measures, illustrate the necessity of pre-

¹ Recovery through deducting from a next financial contribution does not result in money returning to the EU, but in money not further disbursed, which can result in reducing the effectiveness of the next contribution agreement if the recipient has to reach the objectives of a next contribution with less financial means as initially budgeted.

² HOLMQVIST, Göran, *COD versus social transfers*, 16.6.2010

³ HOLMQVIST, o.c.

financing. According to the strength or weakness of the recipient and or the service provider, it remains to be seen on a project by project case whether it should be the recipient, the service provider, the donor, or any third (investing) partner, or any combination thereof, that provides the necessary starting capital.

Challenge # 9: a change in governance

91. One should distinguish two related questions.

92. *Can results based aid modalities bring a change in regime?*

93. As far as could be traced, no aid has ever convinced a regime to change towards governance as we would like to see it “External actors have limited leverage on domestic political realities and accountability”². Barden puts it also candidly: “aid works because it pays for services, not because it brings policy change”³. It cannot be excluded, however, that reaching goals on education⁴, women’s Development, health improvement, security sector reform, judicial reform, parliamentary reform, can ultimately provoke a reform *coming from inside* the recipient’s society. Democracy is not a starting point, but a result of a process.

94. *What in the case of a sudden change for the worse?*

95. Answers to the question what an actor would do in case of sudden deterioration of good governance varied. Some are of the opinion that good governance should be part of the design⁵, so that a deterioration of human or civil rights may entail the suspension or cancellation of support. Others are more categorical and consider deterioration of good governance a sufficient reason for halting aid at governmental level, which can be counterbalanced by continuation of aid through NGOs⁶. Others are of the opinion that, depending on circumstances, a contract remains a contract. If the subject of a contract is improving the road infrastructure sector, a change in regime does not change the need for road infrastructure. Which would not prevent diplomatic intervention and, in the worst case, an assessment of a possible but unlikely invoking of *force majeure*⁷. Here, again, politics play a determinant role.

5. Implications of results based financing on recipients’ budgets and creation of additional funding (from the private sector)

96. No valid information could be obtained regarding the implications of results based financing on recipient’s budgets through other funding or investments. Data are not available in literature, actors did not have information and the scope of the study did not include the active retrieval of data with

¹ even not by CGD any more

² De RENZIO & WOODS, o.c. See, as an illustration, previous multi million EU aid to Cuba in the hope of influencing regime changes.

³ BARDEN, Owen, *Can aid create incentives for politicians?* 27.4.2010.

⁴ Especially in education

⁵ Isn’t that introducing a condition?

⁶ The Netherlands.

⁷ Germany.

beneficiaries. OECD's 2008 survey¹ states that less than 50 % of aid is recorded in national budgets, and that only 45 % of aid in support of the public sector uses country public finance management (and 43 % uses country public procurement). Figures that increased only marginally compared to 2005 (but the average is an average between 0 % - DR Congo and 77 % - Bangladesh).

97. It is nevertheless fair to assume that successful sector budget support is likely to trigger national budget growth for the same sector.

98. A fairly comprehensive approach to the subject with references to cases can be found in Simon & Barmeier². The article analyses how much of Development policy is geared toward increasing investment and creating the conditions that allow private capital flows to take the place of Development assistance *in markets where there is no direct investment, and which markets lack market infrastructure*³. The same article also points towards the absence of a definition cast in stone of "impact investing". One can also consult Brook & Smith, quoted earlier.

99. With the exception of the Netherlands, the interviewed institutions could not conclude to anything tangible. Simon & Barmeier cannot quote figures either. The Dutch Foreign Office could not quote figures but is aware of a link between their Development co-operation and private investment following, also thanks to the existing Dutch export credit insurance system.

6. Legal aspects

100. So far the European Commission does not explicitly use result based modalities with probably the exception of the system of variable tranches of budget support.

101. In the following paragraphs the relevant parts of the EU legislation are analysed in order to determine whether and to what extent the legislation should be adapted for allowing result based approaches.

The legal framework

102. The legal basis for Development cooperation is formulated in article 208 of the Treaty of the European Union, replacing article 177 of the EC Treaty of Maastricht.

103. More detailed rules are laid down in the European Consensus on Development of 22 November 2005 (2006/C46/01), in Council Regulation (EC) N° 1905/2006 on financial instruments for Development cooperation and in the Cotonou ACP-EC Partnership Agreement of 25 June 2005.

¹ OECD, *2008 survey on monitoring the Paris Declaration*, 2008.

² SIMON, John & BARMEIER, Julia, *More than Money: impact investing for Development*, 2010.

³ According to the authors some at least 200 potential for-profit impact investments span the developing world. What remains to be seen, according to the authors, is the success that these deals can achieve, in terms of both their Development impact and their ability to perform financially.

104. Further details are laid down in the EDF Financial Regulation (Council Regulation (EC) N° 215/2008) and the Financial Regulation for the budget (Council Regulations (EC) N° 1605/2002, (EC) N° 1995/2006 and (EC) N° 1525/2007).

105. In the **European Consensus** document, articles 111 to 113 stipulate:

111. The Community has a wide range of modalities for implementing Development aid which enable it to respond to different needs in different contexts. These are available to all geographical and thematic programmes and reflect a genuine Community added value.

112. Community assistance, whether it is project, sector programme, sector or general budget support, should support partner countries' poverty reduction or equivalent strategies. Decisions on what modalities of Community aid are the most appropriate for each country will be made at the programming stage, which must be increasingly coordinated with the process of formulating sectoral policies and implementing national budgets.

113. Where conditions allow, the preferred modality for support to economic and fiscal reforms and implementation of PRS will be budget support, for specific sectors or for the general public spending. It will enable recipient countries to cope with growing operating budgets, promote harmonisation and alignment on national policies, contribute to lower transaction costs and encourage results-based approaches.

106. Article 115 stipulates that "The Community will consistently use an approach based on results and performance indicators".

107. The **Cotonou Agreement**, in article 61, gives a range of finance modalities, like projects and programmes, credit lines, guarantee schemes, equity participation, budgetary support. It also gives the general conditions for granting budget support:

- a) well defined poverty-focused national or sectoral Development policies and strategies are in place or under implementation;
- b) well defined stability-oriented macroeconomic policy established by the country itself and positively assessed by its main donors, including where relevant the international financial institutions, is in place or under implementation;
- c) public financial management is sufficiently transparent, accountable and effective.

108. The last paragraph of article 61 stipulates that the funds may be used to cover the total costs of both the local and foreign expenditure of projects and programmes.

109. In the Commission's **Guidelines** on the Programming, Design & Management of General Budget Support of January 2007 it is indicated that budget support is considered a centralised direct modality in the Financial Regulations.

110. The **Financial Regulations** contain a number of articles which are highly relevant to the subject of this study. In the following paragraphs the article numbers of the EDF Regulation will be used. They are virtually identical to the corresponding articles of the Financial Regulation for the general budget.

111. Article 20 distinguishes decentralised management (a large part of the grants), centralised management (mainly budget support) and joint management with international organisations.

112. Articles 81 and 82 describe the validation and payment of expenditure of which the important criteria are on the reality of the operation and on the amount due¹.

113. Article 103 indicates that grants are donations to finance either an action intended to help achieve an objective of the ACP-EC Agreement or the Overseas Association Decision, or of a programme or project adopted in accordance with that Agreement or in accordance with that Decision or to finance the functioning of a body which pursues such an objective. The article also states that budget support is not a grant. It implies that that modality is governed by different rules (see also paragraph 5).

114. Article 104 sums up forms of grants of which the form "reimbursement of eligible costs" is the most relevant one. The title of this modality clearly indicates that payments are to be based entirely and exclusively on costs incurred.

115. Article 105 stipulates that grants must involve co-financing and that the grant may not exceed costs eligible. Article 109 repeats in a sense the co-financing principle: the grant may not finance the entire costs of the action, except if this proves essential for it to be carried out and the grant may not finance the entire operating expenditure of the beneficiary body.

The result based aid modalities versus legal framework

116. The result based aid modalities can be distinguished in three sub-groups:

- Cash on Delivery systems, by which a certain amount is paid to a national or regional government on the basis of evidenced achievements in a previously agreed Development area;
- Payment for Performance, according to which payments are made on the basis of expenditure but only when results are evidenced.
- Result Based Financing, by which a service, a supply or work is contracted according to which payments are made to the provider on the basis of evidenced results;

117. The modality "Cash on Delivery" shares an important feature with the variable tranches of budget support: payments are made to the (budget of the) government as a result of the achievement of an agreed result without having an explicit relationship with the costs of the effort to achieve the results. One difference is that CoD should formulate one concrete verifiable and verified result whereas the payment of the variable tranche depends usually on the achievement of a number of indicators for which the information is supplied by the national services which is usually not independently verified. Another difference is that the eligibility criteria for budget support may differ from conditions to be formulated for

¹ During the discussion of the draft final report on March 8, 2011, reference was made to article 78. As article 78 refers to commitments, not to payments, this article would not be an obstacle.

Cash on Delivery. Even so, it is felt that this modality could be implemented as a form of variable tranches of budget support, at least as long as no specific adjustments have been made in the Financial Regulations on result based modalities for external aid.

118. The second modality mentioned above can without any problem be applied under the existing framework. The disadvantage would be that efforts are to be made to verify expenditure and additionally efforts would have to be made to verify the results.

119. The Result Based Financing modality implies that payments are made on the basis of results formulated in the contract. It is left to the provider to decide how results will be achieved. Although the higher legislation (Consensus, Cotonou Agreement) do not present any obstacle against such concept, the Financial Regulations have not created room for it. The philosophy of the Financial Regulations is explicitly that payments should be made on the basis of costs incurred (see art. 104, 105 and 109). The same principle can be found in other legislation, e.g. on the NGO co-financing.

120. This means that for allowing Result Based Financing, as described above new provisions should be included in the Financial Regulations and their implementing rules:

- within article 104, a "result" modality could be included. Article 105 should be changed accordingly, creating room for payments for result based aid. An article on the conditions for payment (e.g. verified results on the basis of reliable data) should be added;
- the implementing rules should be changed, in particular in article 164;
- other articles of the implementing rules are already formulated in such a way that result based aid could be financed under the existing implementing rules.

VII. Conclusions and recommendations

121. The objective of the present study is intended to provide the EC with food for thought and some useful information at a time the EC is studying, together with member states, if and how to provide additional funding to reach the MDGs. It was not to provide an exhaustive inventory of pros and contras of each and every results based modality, with a clear cut presentation of the best format suited for the EU's efforts in reaching the MDGs.

122. As described in the report, the use of results based modalities still is in an exploratory phase, with few projects showing scientifically established irrefutable lasting and sustainable results. Empirical evidence is for the time being insufficient and can only be obtained through trial and error. Understandably, this still is the phase for enthusiasm with a risk of considering results based modalities as promising without being sure that delivery will meet expectations.¹

123. Without prejudice to what was developed in chapter 4 (challenges) it should be kept in mind that success of results based modalities will highly depend on:

¹ The stages of project Development: *Enthrallment, sobering up, panic, polishing results, looking for a scapegoat*

1. donor alignment: introducing results based modalities when failure is immediately compensated through other sources for the beneficiary is pre-empting the essence of results based financing;
2. a correct package of accompanying measures aiming at capacity building without which sustainability remains hypothetical;
3. the highly inescapable need for pre-financing by providers or recipients.

124. Considering that definitions, understandings, policies, strategies and tactics (choice of modalities) differ between member states, a consensus between the EC and the member states on the way forward on result based modalities seems essential. The consensus should take into consideration the constraints but also the liberty of manoeuvring of both the EC and member states. The EC can e.g. in some aid financing be more flexible than some member states. This consensus can lead to a common strategy on result based aid.

125. The EC should take the initiative to create a dialogue forum for member states and other donors (e.g. Norway, World Bank) to exchange experiences on result based modalities. The EC could also consider joining the GPOBA initiative.

126. In order to create a legal basis for result oriented modalities EU's legal and regulatory arsenal should be adapted as suggested in chapter 6.

127. It seems important that the EC perseveres through pilot projects on result based aid while applying lessons learned so far by EC themselves in their general and sector budget support as well as by other actors and reported in the literature quoted in this report.

128. The next step could be the pursuance of pilot projects in agreement (and co-ordination) with member states (possibly through the dialogue forum), making sure that these particular pilot projects would not be hampered by donor non- alignment.

129. These steps should be accompanied by the creation of a monitoring framework for the pilot projects, based upon lessons learned by other donors and to be complemented on the basis of assessments of own projects and programmes. It is critical to do so, in order to find out whether incentives were effective and whether or not unintended effects took place.

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Annex III. Persons met

(in chronological order)

- Cornelius Hacking, EC DG DEV C1
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