

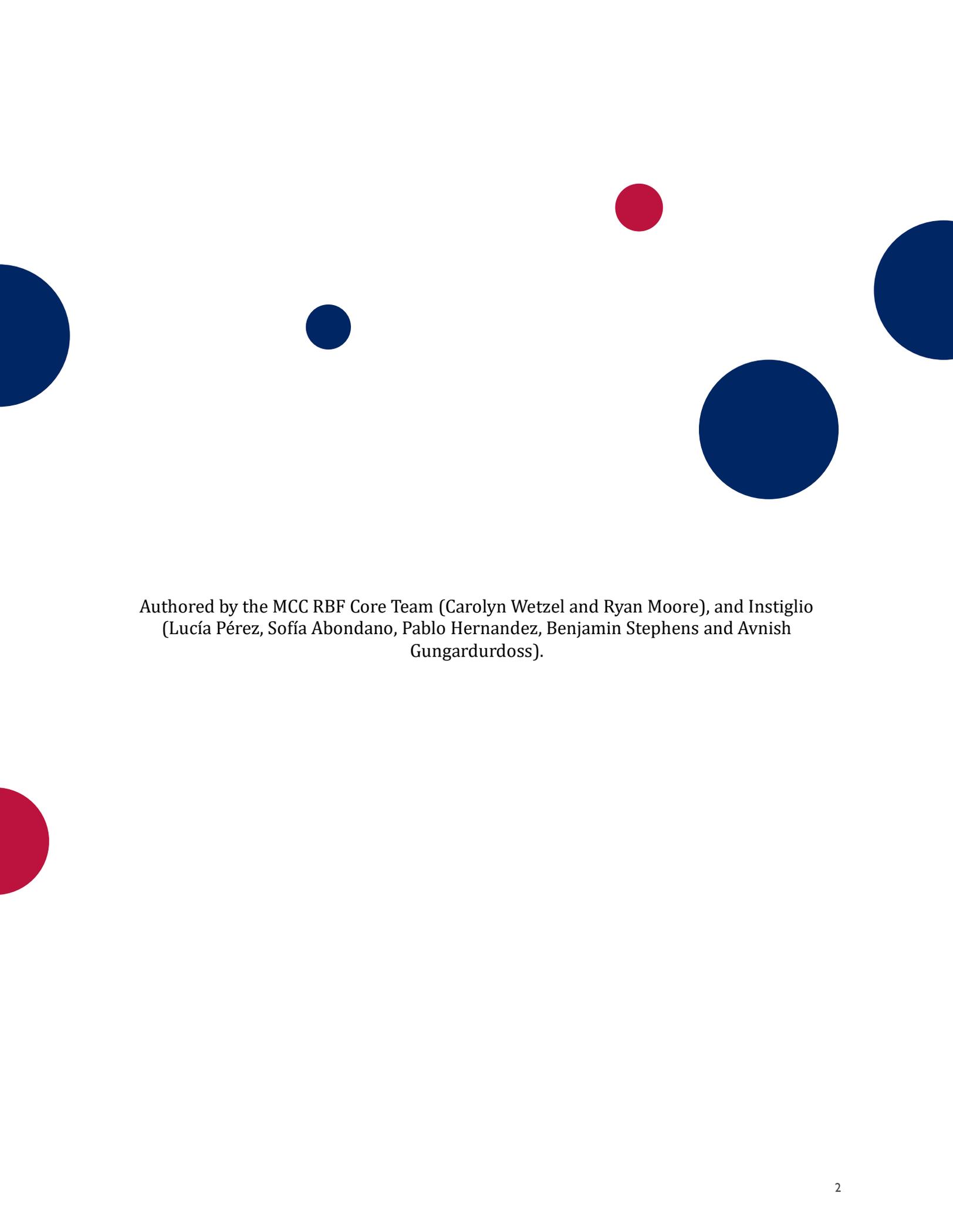


MILLENNIUM
CHALLENGE CORPORATION

UNITED STATES OF AMERICA

THE RBF GUIDE FOR MCC PRACTITIONERS

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I. Introduction

Enhancing the effectiveness of development spending is a focus for organizations like Millennium Challenge Corporation (MCC) engaged in addressing complex development challenges. This focus has intensified recently driven by budget pressures, concerns with business-as-usual practices, and the growing attention to achieving measurable results.

Since its inception, MCC has invested more than USD 14 billion and achieved impressive progress in reducing global poverty through economic growth. However, MCC's analysis of its record finds that it faces challenges achieving targeted results, a typical challenge in international development. For instance, three out of three of MCC's *Principles into Practice* learning documents from interventions in different sectors concluded that MCC's investments achieve targeted outputs but struggle to achieve outcome-based results¹. Somewhere the theory of change broke down and investments did not deliver the desired impact. MCC recognizes that this lack of effectiveness in part reflects weaknesses of traditional approaches to development where payments are based on inputs and activities, rather than results.

Since 2014, MCC has trialled RBF in Compacts and Thresholds such as those in Morocco and Sierra Leone, attaining impressive results and generating important lessons. Among these lessons, is the need to make a sustained investment to strengthen and streamline the use of RBF to ensure strong results orientation. Responding to this need, between 2019 and 2023 MCC developed and implemented a strategy to strengthen MCC's use of RBF from both a technical and change management perspective.

These investments played a critical role in successfully growing MCC's use of RBF and strengthening its broader results orientation. Illustrative of this success, MCC's RBF portfolio has expanded to approximately USD 40 million of executed and anticipated RBF investments in sectors ranging from health to energy, agricultural management, and climate. MCC has also made progress in embedding RBF across the institution, including trainings for over 200 staff, the development of diverse RBF support materials, and engagements with MCC's compliance staff to align their practices with paying for results. This guide builds on these experiences and provides a further resource to strengthen MCC's use of RBF.

I.1 Everything that an MCC practitioner needs to know about RBF in this guide

RBF is only useful when applied well in the appropriate context. The goal of this guide is to provide a comprehensive reference for MCC staff seeking to improve results using RBF. This document summarizes the guidance developed over the last four years covering key technical, procedural, and policy issues relating to MCC's use of RBF. This document is intended to support MCC staff to understand RBF and its relevance in the institution and to know about the available resources on the topic.

This manual has been designed by MCC's RBF Team and reflects MCC's experience and learnings from applying RBF. As MCC's RBF practice grows, learnings and improvements should be factored into this manual as a living document that remains relevant to the needs of MCC staff.

This guide is structured across two sections:

- Section 2 "The rationale for using RBF to further MCC's results-orientation" outlines the rationale for RBF's use, summarizing MCC's track record with RBF and its investments to advance RBF's use.
- Section 3 "Overview of RBF topics at MCC" provides a brief introduction to the manual.
- Section 4 "RBF topics" provides a summary of key considerations that need to be taking into account when designing RBF interventions.
- Section 5 "The RBF Process at MCC" provides a step-by-step guide for integrating RBF interventions into MCC's Compact development.

¹ Chambers, G., & Patel, S. (2021). Principles into practice: Lessons from evaluations of MCC water, sanitation, and hygiene (wash) programs. MCC. Retrieved from <https://assets.mcc.gov/content/uploads/pub-2021001256201-pintop-wash.pdf>; Ricou, M., & Moore, R. (2020). MCC's Lessons Learned in Technical and Vocational Education and Training. MCC. Retrieved from <https://assets.mcc.gov/content/uploads/paper-2020001233801-p-into-p-tvet.pdf>; Patel, S. (2017). Lessons from MCC's Investments in Roads. MCC: Retrieved from <https://assets.mcc.gov/content/uploads/paper-2017001200401a-principles-roads.pdf>

2. The rationale for using RBF to further MCC's results-orientation

This section outlines the rationale for RBF as an approach for MCC's programs to amplify results. Subsection 2.1 starts by introducing MCC's delivery effectiveness challenges and the potential of RBF as a useful tool in this context. Subsection 2.2 makes a high-level explanation of what is RBF and how does it work in an MCC intervention. This is followed by a description of the global use of RBF in section 2.3, showing market trends and evidence from programs that have used this mechanism in diverse sectors. Finally, section 2.4 goes through RBF's track-record in MCC and how early experiences have encouraged a sustained investment to strengthen RBF use across the institution.

2.1 MCC can further improve the impact of its investments as a leader in development effectiveness

A strong focus on results has been a defining feature of MCC's approach from its creation in 2004, aiming at increasing foreign assistance effectiveness, transparency, and accountability. To ensure value for money, MCC targets its investments on specific strategic constraints to economic growth². Through rigorous oversight and monitoring, MCC's partner governments are held accountable to high standards of governance and project implementation throughout their MCC partnership.³ MCC has been advancing on its results orientation by placing cost-effectiveness at the core of its project approval process, tracking results as they come in, and measuring final, attributable impact⁴.

Despite MCC's strong focus on results, evidence shows that MCC faces challenges to translate project outputs into results. Illustrative of this, research has shown that MCC's investments achieve targeted outputs but struggle to achieve outcome-based results⁵. For example, the evaluation of MCC's water, sanitation, and hygiene (WASH) portfolio reported that the expected health and income results for households and businesses mostly did not materialize.⁶ A similar conclusion came from MCC's first-generation Technical and Vocational Education and Training (TVET) programs, which did not deliver the desired jobs and income improvements for trainees nor the increased productivity for firms⁷. MCC's investments in road improvement present the same pattern with, medium- and long-term limited impact on prices of goods and household incomes.⁸

These examples show that somewhere the theory of change broke down and MCC's funding did not deliver the desired results. Given that MCC's investments do not consistently achieve the desired results, it is important to leverage the lessons learned and strengthen MCC's results orientation through such as RBF.

2.2 RBF as an approach to driving greater impact from MCC's spending

RBF is a financing arrangement where a portion of funding is tied to verified results⁹. This differs from traditional funding, which is conditioned on defined inputs or activities. For example, a traditional education program would fund inputs, like books or classroom chairs, and the completion of activities, such as hours in the classroom. RBF ties resources to results achieved by those purchases or activities, such as improved school process or student outcomes.

This small tweak to program finances can be a game-changer. By shifting the focus toward results, RBF activates four key drivers to enhance program impact:

1. Measuring and drawing attention to outcomes that matter.

² Rose, S. and Wiebe, F. (2015) [Focus on Results: MCC's Model in Practice](#). MCC Monitor Analysis. MCC @ 10

³ MCC. (n,d) Aid Effectiveness. Retrieved from <https://www.mcc.gov/initiatives/initiative/aid-effectiveness>

⁴ Millennium Challenge Corporation, 2015. Focus on Results: MCC's Model in Practice. 2015

⁵ Chambers, G., & Patel, S. (2021). Principles into practice: Lessons from evaluations of MCC water, sanitation, and hygiene (wash) programs. MCC. <https://assets.mcc.gov/content/uploads/pub-2021001256201-pintop-wash.pdf>; Ricou, M., & Moore, R. (2020). MCC's Lessons Learned in Technical and Vocational Education and Training. MCC. <https://assets.mcc.gov/content/uploads/paper-2020001233801-p-into-p-tvet.pdf>; Patel, S. (2017). Lessons from MCC's Investments in Roads. MCC: <https://assets.mcc.gov/content/uploads/paper-2017001200401a-principles-roads.pdf>

⁶ Chambers, G., & Patel, S. (2021). Principles into practice: Lessons from evaluations of MCC water, sanitation, and hygiene (wash) programs. MCC. <https://assets.mcc.gov/content/uploads/pub-2021001256201-pintop-wash.pdf>

⁷ Ricou, M., & Moore, R. (2020). MCC's Lessons Learned in Technical and Vocational Education and Training. MCC. <https://assets.mcc.gov/content/uploads/paper-2020001233801-p-into-p-tvet.pdf>

⁸ Patel, S. (2017). Lessons from MCC's Investments in Roads. MCC. <https://assets.mcc.gov/content/uploads/paper-2017001200401a-principles-roads.pdf>

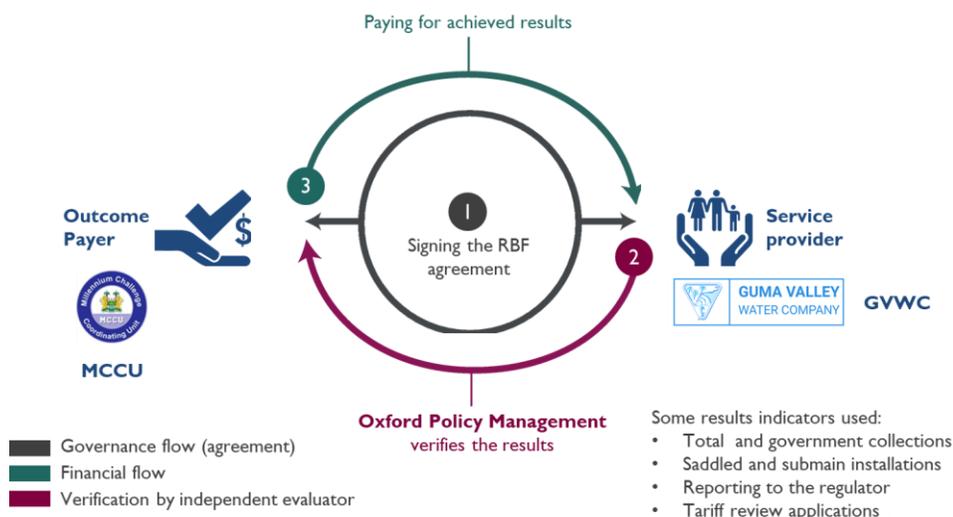
⁹ RBF can be contingent on outputs, outcomes, and/or impact. Outputs refer to a tangible product directly produced by the implementer's activities. Outcomes are interpreted as a change in the beneficiaries' knowledge, skills, or behavior. Finally, impact is understood as the desired long-term and sustained effect of a program on the lives of its beneficiaries.

2. Providing greater flexibility which empowers the recipient's problem-solving and course-corrective practices.
3. Aligning incentives to maximize beneficiary outcomes.
4. Enhancing the accountability of development actors to beneficiaries¹⁰.

An RBF agreement involves two key agents: the outcome payer, and the incentivized agent. At MCC, the Millennium Challenge Account (MCA)¹¹ is the outcome payer, conditioning some of the funding it pays out on results. As detailed below, payments can be made to non-state service providers to incentivize performance, or to public, publicly owned and publicly subsidized organizations to incentivize performance improvements or policy or institutional reform (PIR). In other contexts, MCC may also focus on supporting governments to use RBF to enhance their delivery and contracting performance.

The Sierra Leone Threshold Program, presented in Figure 1 below, helps to illustrate the use RBF's at MCC. RBF was used here over 2019-20 to support improved water and electricity services in Freetown. For water, the MCCU was the outcome payer, and it signed an RBF agreement with Freetown's water supply manager to enhance its performance. Results were measured through a range of indicators on billing and collections, leakage management, supply reliability and regulations. By introducing RBF helped drive improvements including: (1) 85% collection and billing efficiency, a 33% improvement on historical performance. (2) Improved data management, reporting and communication with the regulator and (3) Boosting staff ownership and morale and creating a more data-driven culture.

Figure 1. The RBF mechanism in Sierra Leone Threshold



Source: Author's elaboration

2.3 The evolution and emerging evidence of RBF's use across the globe

As detailed in the following sections, RBF has become an increasingly used practice in international development, contributing to a growing body of experience and evidence on its use and impact.

Evolution of the RBF market

Global interest in RBF has accelerated substantially in recent years, as shown in Figure 2¹². This spending includes numerous World Bank programs, particularly the Program for Results (PforR) which provides performance-based

¹⁰ Perakis, R., & Savedoff, B. (2015). Does Results-Based Aid Change Anything? Pecuniary Interests, Attention, Accountability and Discretion in Four Case Studies. CGD Policy Paper 053. Washington DC: Center for Global Development.

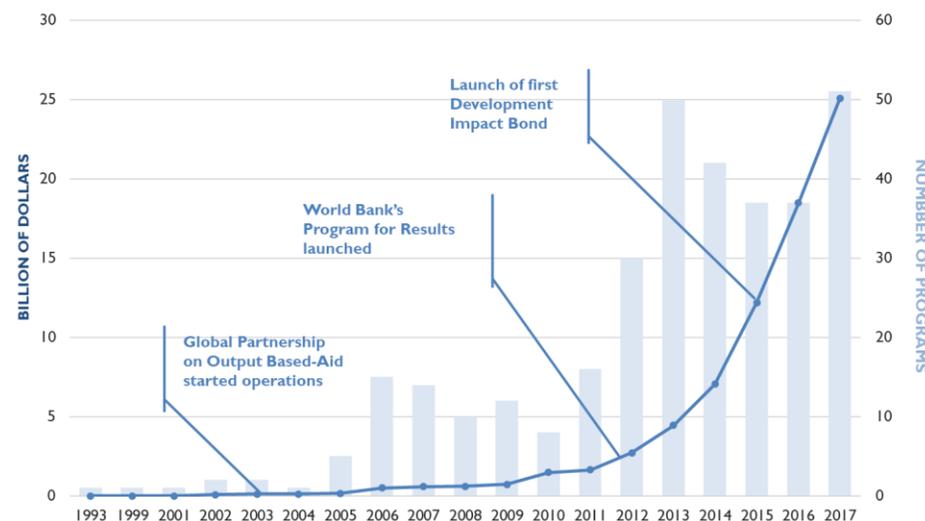
<http://www.cgdev.org/publication/does-results-based-aid-change-anything-pecuniary-interests-attention-accountability-and>

¹¹ Millennium Challenge Coordinating Unit (MCCU) for Thresholds.

¹² GPRBA. (2018). A guide for effective results-based financing strategies. *The World Bank*. Retrieved from https://www.gprba.org/sites/gprba/files/publication/downloads/2019-04/Guide_for_Effective_RBF_Strategies1.pdf

loans.¹³ Since its launch in 2012, the PforR instrument has grown to satisfy demand from country clients and has built a strong pipeline of operations. PforR’s active portfolio focuses on education, health, and governance in South Asia and East Africa.¹⁴ Along with PforR, the Bank makes extensive use of RBF with grant funding across trust funds. For example, the Global Partnership for Results-Based Approaches (GPBRA) focuses on infrastructure, health, and education; the Scaling Climate Action by Lowering Emissions (SCALE) is a multi-donor fund that seeks to catalyze transformative

climate action by deploying RBF.



Source: The GPOBA Results-Based-Financing (RBF) database

Bilateral organizations also make substantial use of RBF. For example, USAID is increasingly pursuing programs that are evidence-based, take innovative approaches, and work through local actors to promote sustainability¹⁵. USAID has financial vehicles such as Development Innovation Ventures (DIV) and Fixed Amount Awards (FAAs) that allow payment for results^{16,17}. This agency has also experimented with RBF through three Development Impact Bonds (DIBs)¹⁸; smart incentives to mobilize finance for the development of targeted sectors in Kenya¹⁹; and an RBF pilot to accelerate access to electricity for low-income households through targeted incentives in Rwanda²⁰.

The Global Fund has also invested in RBF contracting and performance management with the goals of improving the programmatic impact and operational efficiency of their initiatives and addressing fiduciary concerns. The Global Fund has applied RBF to its health intervention in a range of countries including among others Niger, Pakistan, Democratic Republic of Congo, Botswana, Philippines, Honduras, Ecuador, and South Sudan.

Governments around the world are also increasingly choosing to pay for results. National governments have strengthened delivery systems and enhanced reform processes through Performance-based aid.²¹ RBF has been shown

¹³ The GPOBA Results-Based-Financing (RBF) database (Version from august 2021)

¹⁴ The World Bank. (2022). Program-for-Results Financing (PforR). Retrieved from <https://thedocs.worldbank.org/en/doc/a7d4c290bd81384b4d1fe7020c1b7ebc-0290032022/original/PforRPortfolioInfo-9-13-2022.pdf>

¹⁵ <https://www.usaid.gov/results-and-data/planning>

¹⁶ USAID. (2021). *A Decade of Turning Bright Ideas into Global Solutions*. Retrieved from https://www.usaid.gov/sites/default/files/documents/DIV_Lookback_Final_1.pdf

¹⁷ Ng, J., Jack, S. (2020). Rediscovering Fixed Amount Awards. *Sandford Social Innovation Review*. Retrieved from https://ssir.org/articles/entry/rediscovering_fixed_amount_awards

¹⁸ USAID. (2021). *The Cambodia Rural Sanitation DIB selected as a finalist in the impact investing category of fast company's 2021 world-changing ideas awards*. Retrieved from <https://www.usaid.gov/cambodia/press-releases/may-10-2021-cambodia-rural-sanitation-dib-selected-finalist-impact-investing>

¹⁹ USAID. (2022). Kenya Investment Mechanism. Retrieved from https://www.usaid.gov/sites/default/files/documents/Kenya_Investment_Mechanism_fact_sheet.pdf

²⁰ USAID. (2021). Pro-poor Results-based financing: increasing off-grid access to electricity in Rwanda. Retrieved from <https://www.usaid.gov/documents/pro-poor-results-based-financing-increasing-grid-access-electricity-rwanda>

²¹ GPBRA. (2018). A guide for effective results-based financing strategies. *The World Bank*. Retrieved from https://www.gprba.org/sites/gprba/files/publication/downloads/2019-04/Guide_for_Effective_RBF_Strategies1.pdf

to provide national and local governments with the flexibility needed to enhance their performance and strengthen service delivery²². For example, over the last 10 years Colombia has consolidated an RBF ecosystem in the workforce development sector with the contribution of multiple public entities at a national and local level (e.g., Social Prosperity Department, Cali and Bogota’s Mayor offices, and the Government of Antioquia). This work involves the development of four Social Impact Bonds, an Outcomes Fund and various RBF mechanisms. The success of RBF in Colombia led to the consolidation of a public policy structure (CONPES 4067²³) that seeks to strengthen the use of results-based payment mechanisms in social programs and guarantee the availability of resources. In 2018-22, the MCA Morocco, supported the Government on the design and implementation of a US \$13 million grant for workforce development program in which employment services providers are paid partially based on outcomes for unemployed youth and women. This program included RBF capacity building which led to strengthened and sustained results orientation across the government agencies that coordinated the intervention.

Evidence on RBF

The increased use of RBF has led to a growing body of evidence in the field. Current evidence shows that RBF has been useful in improving results across sectors such as education, health, workforce development, agriculture, and WASH. As detailed and referenced in Table 1, RBF in these contexts was associated with better neonatal conditions in Argentinian hospitals, more job opportunities for Nepalese youth and higher incomes for smallholder farmers in Nigeria. In agriculture, the Nigeria Aflasafe Project incentivized the private sector to develop the supply base of Aflasafe-treated or aflatoxin-compliant maize, resulting in an increase in the supply of compliant maize and smallholders' income. However, the results were not sustained after the program ended. On the other hand, the AgResults Kenya challenge project incentivized private sector firms to develop and improve on-farm storage (OFS) technologies, leading to a decrease in pesticide dust usage and an increase in the adoption of OFS.

In education, Compromisos de Desempeño, a Performance-Based Grant in Perú, helped drive improvements in education outcomes such as timely hiring of teachers, student enrolment and timely and pertinent delivery of educational material. Similarly, for health, Argentina’s Plan Nacer provided insurance for maternal and child healthcare by funding provinces based on the enrolment of beneficiaries, leading to positive health outcomes such as a decrease in low birth weight and in-hospital neonatal mortality.

In workforce development, the World Bank supported Employment Fund Intervention in Nepal aimed to train youth for a more inclusive labor force and resulted in a 15-16 percentage point increase in non-farm employment for an overall gain of about 50%. The program facilitated the provision of skills training and employment placement services for more than 40,000 Nepalese youth, with an evaluation finding participation in the training program led to an increase in non-farm employment of 15 to 16 percentage points.

In WASH, the Incentive systems of the National Water and Sewerage Corporation (NWSC) in Uganda resulted in positive impacts such as improvements in billing efficiencies and cost-effective achievements of energy-saving by setting performance criteria that could be easily measured and monitored.

Table 1. Evidence on the impact of sample of programs using RBF across sectors

Sector	Program	Description	Insights from evaluations
Agriculture	Nigeria Aflasafe Project (2014-2018)	An AgResults project that aimed to incentivize the private sector to develop the supply base of Aflasafe-treated or aflatoxin-compliant (AT/AC) maize	The supply of AT/AC maize increased, and the smallholders increased their income. However, these results were not sustained after the program ended. ²⁴

²² World Bank. (2017). Implementing Output-Based Disbursement Mechanisms for Investment Operations.

²³ Consejo Económico y Social (2021). CONPES 4067: Estrategia para fortalecer el uso de los mecanismos de pago por resultados en programas sociales y declaración de importancia estratégica del proyecto fortalecimiento de la gestión de oferta para la superación de la pobreza <https://colaboracion.dnp.gov.co/CDT/Conpes/Economicos/4067.pdf>

²⁴ Abt Associates. (2020). AgResults Impact Evaluation Report: Nigeria Aflasafe Challenge Project. AgResults. <https://agresults.org/learning/37-evaluation-final-report-nigeria-aflasafe-challenge-project/file>

	AgResults Kenya challenge project (2014-2018)	This AgResults initiative had the objective of incentivizing private sector firms to develop and improve on-farm storage (OFS) technologies.	This intervention reduced pesticide dust usage by 36 percentage points and increased the adoption of OFS by 23 percentage points in Eastern Kenya and 6 percentage points in Rift Valley. ²⁵
Education	Compromisos de Desempeño in Perú (2014-2021)	<i>Compromisos de Desempeño</i> is a Performance-Based Grant between the central Government of Perú and local and regional education government agencies, which conditioned resources to the achievement of students' learning outcomes, adequacy of learning materials, student, principals, and teacher attendance.	The program has achieved 88.5% of its original commitments, with improvements in different education outcomes such as timely hiring of teachers, student enrolment and timely and pertinent delivery of educational material. ²⁶
	Mexico's Escalera Performance Based-Contract (2014-2015)	Escalera, an NGO operating in Chiapas, Mexico, partnered with the National System for Integral Family Development (DIF) to deliver and scale its REACH program. This was done through a performance-based contract in which Escalera received a payment based on each additional year of enrolment in secondary school per student.	After the first year of the contract, a randomized evaluation found that high school enrolment had increased by 6% due to the REACH program. These positive results encouraged the government of Chiapas to renew and expand the performance-based contract in 2015 to reach another 40,000 children across the entire state. ²⁷
Health	Argentina's <i>Plan Nacer</i> (2007-2012)	This government-led program provided insurance for maternal and child healthcare by funding provinces based on the number of beneficiaries enrolled in health insurance. It also added performance incentives, paid to the provinces, based on indicators of maternal and child healthcare services and health outcomes.	Individuals or families enrolled in the maternal and child healthcare insurance were less prone to have low-birth-weight infants and a lower chance of in-hospital neonatal mortality in larger facilities. ²⁸
	Performance-based financing program in Rwanda (2014)	The program, led by the Government of Rwanda, linked payments to health centers to the achievement of certain performance targets, such as increasing the number of prenatal care visits and reducing child mortality.	The study found that the program was associated with significant improvements in health outcomes, including a 23% reduction in child mortality. ²⁹
WASH	Incentive systems of the National Water and Sewerage Corporation (NWSC) in Uganda (2000–2006)	This initiative consisted of innovative managerial techniques aligning management and corporate performance goals. Performance targets were set for strategic areas of NWSC (e.g., water production and sewerage, customer service, revenue improvement) and actions were outlined pursuant to these goals. ³⁰	Utilities with higher levels of promised incentive payments had a higher likelihood of improving their billing efficiencies ³¹ . Similarly, reform initiatives that have incorporated significant use of incentives had positive impacts. ³² Finally, evidence suggests that these mechanisms incentivized cost-effective achievements of energy saving by setting performance criteria that could be easily measured and monitored.

²⁵ Abt Associates. (2019). AgResults Evaluation: Kenya On-Farm Storage Challenge Project. *AgResults*. <https://agresults.org/learning/48-evaluation-final-report-kenya-on-farm-storage-challenge-project/file>

²⁶ Source: Instiglio Concept Note based on interview with expert Pamela Navarrete, from Perú's Ministry of Education.

²⁷ Instiglio. (2014). Improvement in highschool Education in Mexico. <https://www.instiglio.org/impact/improvement-in-high-school-education-in-mexico/>

²⁸ Gertler, P & Giovagnoli, P & Martinez, S. (2014). Rewarding Provider Performance to Enable a Healthy Start to Life: Evidence from Argentina's Plan Nacer. *The World Bank Group*, 6884.

https://www.rbhealth.org/sites/rbf/files/Rewarding%20provider%20performance%20to%20enable%20a%20healthy%20start%20to%20life%20-%20evid..._0.pdf

²⁹ Binagwaho, A. et al (2014) *Effect on maternal and child health services in Rwanda of payment to primary health-care providers for performance: an impact evaluation*. *Lancet*. 377:9775, 1421-1428. [https://doi.org/10.1016/S0140-6736\(11\)60177-3](https://doi.org/10.1016/S0140-6736(11)60177-3)

³⁰ Matta, Nadim. 2003. Uganda: Turn-around of the National Water and Sewerage Corporation. Africa Region Findings & Good Practice Infobriefs. *World Bank*. (228) <https://openknowledge.worldbank.org/handle/10986/9729> License: CC BY 3.0 IGO

³¹ Mugisha, S. (2013). Applying incentives to increase revenue water in urban systems. *Journal of Water Supply: Research and Technology*. 62 (5) 268–278. <https://doi.org/10.2166/aqua.2013.059>

³² Mugisha, S. (2007). Effects of incentive applications on technical efficiencies: Empirical evidence from Ugandan water utilities. *Utilities Policy*. 15 (4) 225-233. <https://doi.org/10.1016/j.jup.2006.11.001>

Electricity	Power distribution Program for Results in Indonesia (2016-2020)	To support Perusahaan Listrik Negara (PLN), Indonesia's government-owned electricity utility, in improving electricity distribution in the region of Sumatra, the World Bank (WB) committed to provide a four-year performance-based loan where loan tranches were disbursed to PLN upon successful achievement of targeted results (Program for Results, PforR). The PforR targeted five results areas: (1) Improved access to electricity, (2) Improved quality of service, (3) Increased distribution efficiency, (4) Increased power consumption (energy sales), and (5) Institutional strengthening and capacity building.	The program showed significant improvements related to yearly electricity losses during the PforR, with the indicator well below the final target value: the target was 10% and by May 2020 the project reported 8.47% in electricity losses (15% fewer losses than expected). Important gains in service reliability were also observed. Reductions of 29% and 27% below target values for SAIDI and SAIFI indexes (which measure quantity and duration of disruptions) were achieved ³³ .
Workforce development	Review of the evidence on short-term education and skills training programs for out-of-school youth (2013)	World Bank did a meta-analysis that included youth training programs in Brazil, Colombia, the Dominican Republic, Liberia, Nepal, Uganda, the United Kingdom, and the United States, many of which are among the most widely quoted programs in the literature.	This work argued that the scarcity of appropriate evaluations made it difficult to conclude whether RBF approaches are effective. However, results indicate that for RBF programs where impact data exists, most demonstrate a net positive impact on beneficiaries, at least in the shorter-term and in lower-income country contexts. ³⁴
	Employment Fund Intervention in Nepal (2018-2021)	A program drawing on World Bank financing, which aimed to train the youth for a more inclusive labor force, with a special initiative focused on women.	The program positively facilitated the provision of skills training and employment placement services for more than 40,000 Nepalese youth. Participation in the training program led to an increase in non-farm employment of 15 to 16 percentage points. ³⁵

Despite the positive impact of RBF shown in the literature, further research is needed in some respects, such as the isolated effect of RBF as an independent funding modality or the mechanisms behind RBF's impact. As shown in some examples of Table 1, the RBF outcomes are not always statistically significant, the results might not scale up to a population level, and the impact of the mechanism might not be sustainable once the intervention ends. Hence, further research is needed on RBF to fill these knowledge gaps.

Reflecting on the implications of these experiences for MCC, as part of MCC's May 2022 RBF Launch Week, one panel focused on reviewing the evidence on RBF.³⁶ Panellists highlighted that there is no definitive answer to the question *Does RBF work?* given the field's diversity in terms of RBF's practices across contexts and sectors. Rather, the panel concluded that evidence should focus on what works for whom, and when and to what extent RBF delivers improved impact when compared to more conventional funding arrangements. Some research initiatives are currently responding to this evidence gaps. For example, the Oxford's Government Outcomes Lab is undertaking a global systematic review using more than 11,000 papers related to RBF to shed light on these questions.³⁷ These gaps notwithstanding, MCC has also contributed to the generation of evidence on RBF based on the experiences detailed in the next sub-section.

³³ World Bank (2019). [Disclosable Restructuring Paper - Power Distribution Development Program-for-Results - PI54805](#).

³⁴ Marguerite Clarke, Meghna Sharma, and Pradyumna Bhattacharjee. (2021). Review of the Evidence on Short-Term Education and Skills Training Programs for Out-of-School Youth with a Focus on the Use of Incentives. World Bank Group. <https://openknowledge.worldbank.org/bitstream/handle/10986/35045/Review-of-the-Evidence-on-Short-Term-Education-and-Skills-Training-Programs-for-Out-of-School-Youth-with-a-Focus-on-the-Use-of-Incentives.pdf?sequence=5>

³⁵ Chakravarty & Lundberg & Nikolov & Zenker. (2016). The Role of Training Programs for Youth Employment in Nepal. *The World Bank Group*, 7656. <https://openknowledge.worldbank.org/bitstream/handle/10986/24232/The0role0of0tr00the0employment0fund.pdf?sequence=5>

³⁶ This panel gathered [Dr. Eleanor Carter](#), Oxford's Government Outcomes Lab Research Director, [Jessica Lee](#), Independent Consultant, formerly with World Bank REACH trust fund, [Dr. Tulika Narayan](#), the Vice President of Climate Change at Mathematica and [Carly Faver Mphasa](#), Program Manager in Social Impact

³⁷ Airoldi, M., Carter, E., Ronicle, J., Picker, V. (2021). Setting the scope for the Global Systematic Review on Outcomes-Based Contracting. *Government Outcomes Lab*. <https://golab.bsg.ox.ac.uk/community/blogs/setting-scope-global-systematic-review-outcomes-based-contracting/>

2.4 RBF's track record in MCC

Since 2018, MCC has developed a growing practice of using RBF, following international trends and contributing at the frontier of development effectiveness practices. As detailed below, this includes implementing substantial RBF programs as part of the Morocco Employability and Land Compact and the Sierra Leone Threshold. Building on these experiences, from 2019 MCC invested in a 4-year intervention to strengthen the use of RBF from both a technical and change management perspective. This strategy aimed to (1) build staff capacity and engagement for RBF's effective use, (2) support the evolution of policies and procedures for appropriate use of RBF and (3) expand RBF track-record with on-demand technical assistance.

These investments have now established RBF as an easily available and routinely used tool. As detailed in Table 2, MCC has established a growing portfolio of approximately USD 40 million implemented or anticipate RBF programs, with programs in sectors ranging from health to energy, to agricultural management, and climate³⁸. Appendix 2 provides detail on the Morocco and Sierra Leone early RBF experiences as these were critical use cases for MCC's experimentation. These MCC RBF country experiences have been enabled and complemented by trainings for over 200 staff, the development of diverse RBF support materials, and successful engagements with MCC's compliance staff to align their practices with paying for results. The interventions shown in Table 2 fall into three categories according to the way RBF has been adopted with state and non-state actors as explained in Box 1.

Table 2. Summary of selected RBF interventions

Compact	RBF sector	RBF status	RBF description
	 Employment (USD 8.6m)	Designed 2018-19, implemented 2020-ongoing	RBF is incentivizing service providers to integrate women and at-risk youth into the labor market by paying for three key results: (1) completion of job-related training, (2) placing women and (3) youth in a formal sector job, and 6-month retention in a job. It also involved capacity building and scaling govt. use of RBF.
	 Utility Management (USD 5m)	Design 2018-19, implemented 2019-21	The RBF activity was included as a key element to support improved water and electricity services in Freetown. RBF contributed to improved capacity, especially for the water utility.
	 Energy (USD 6.5m)	Screening and Due diligence in 2021, design and implementation 2023-26 (anticipated)	The RBF will provide energy public utility with the motivation, ownership, and accountability to improve its performance. The RBF will also transform the regulatory and government incentive mechanisms to ensure MCC's impact is sustained.
	 Health (USD 6.5M)	Screening and Due diligence in 2019-20, design and implementation 2023-26 (anticipated)	The strategy for RBF focused on incentivizing timely and well coordinated transfer of government funds to district health offices and improved district level health service delivery.
	 Agriculture (USD 10m)	Screening and Due diligence in 2022, design and implementation 2023-27 (anticipated)	RBF's strategy will center on developing mutually-beneficial, sustainable commercial partnerships with smallholder farmers, with incentives, focused on key results that show sustained income growth for the smallholders.

Due diligences are anticipated for **Belize** (education) and **Zambia** (agriculture)

Note: *Senegal National Electricity Agency; **District Health Management Teams

Source: Author's elaboration

Box 1: RBF's categories in MCC

- Incentivizing non-state delivery partners.** Where a local MCA is seeking to directly engage non-state service providers, RBF can be used to incentivize enhanced performance, through either performance-based contract or grants. Examples of this are the inclusive employment Compact in Morocco (where RBF was used to incentivize service providers to deliver employment outcomes) and the agriculture Threshold in Mozambique (where RBF has been proposed to incentivize agriculture aggregators to integrate small holder farmers into local value chains).
- Incentivizing Government Affiliates.** This modality of RBF seeks to motivate governments, or state-owned service providers to undertake PIR or enhance performance in priority areas using grants. An example of this

³⁸ Evaluations of these programs are ongoing, with Sierra Leone showing preliminary positive results. These evaluations will contribute to the growing body of RBF experiences at MCC with impact considerations.

modality has been the Sierra Leone Threshold on utility management focused on both PIR such as passing legislation relating to the regulator and performance improvements from the water and electricity utilities.

3. **Supporting enhanced government delivery.** A third approach entails MCC providing technical assistance and support to governments for enhanced results-orientation using RBF and other practices. This includes supporting governments to adopt or improve their performance management systems, monitoring capacities and eventually adoption of RBF for their operations. This was the case in the Morocco Compact that involved capacity building and scaling government use of RBF.

Based on the experiences detailed above (section 2), there is a growing pool of resources capturing best practices and lessons on the use of RBF. Existing manuals on RBF application provide guidance on how to build enabling conditions for RBF, advice on setting up an RBF strategy and outline recommendations for RBF design and implementation in general and for specific sectors. For example, the *Guide for Effective Results-based Financing Strategies* by Instiglio and the Global Partnership for Results-Based Approaches³⁹ outlines the potential of RBF to enhance returns from donor spending and provides frameworks and guidelines towards this end; the *How to Guide Procurement* guide by the Government Outcomes Lab⁴⁰ targets local government agencies seeking to incorporate RBF practices. With a more targeted focus, the *Setting Up for Success* guide by Castellnou, M., Jammes, D., and Sienrukos⁴¹ addresses RBF procurement and contracting challenges and provides a set of recommendations for legal and procurement officials.

Building on these existing resources, this guide stands as a practical, flexible tool responding to MCC Compact and Threshold⁴² development and implementation needs as detailed in the following sections.

3. Overview of RBF at MCC

RBF is only useful when applied well in the appropriate context. The poor use of RBF in the wrong context may be counterproductive, undermining rather than enhancing results. Developing strong RBF programs requires careful consideration of a series of topics, across three areas.

1. **Contextual analysis**, that seeks to understand if there is a case for RBF and the extent to which the conditions to use RBF effectively exist. This stage includes two key components to RBF: the RBF value add and the conditions analysis.
2. **RBF strategy and design**, which defines key components to the RBF process, such as the objective and the agents to be incentivized, the payment metrics or outcomes that will be paid for, the payment structure, and the verification strategy.
3. **RBF implementation**, that includes preparation for the RBF agreement, the RBF agreement process and management of the RBF delivery.

These topics are illustrated in Figure 3 and described in detail in Section 4.

At MCC, support is available to ensure the effective use of RBF by addressing these topics through four stages of analysis: 1. Screening, 2. Due-diligence, 3. Design, and 4. Implementation. As detailed below, these stages allow for MCC teams to nimbly engage with the topics outlined here by starting with rapidly assessing the fit for RBF at the screening stage, moving to more detailed contextual analysis and high-level strategy at the due-diligence, through to the detailed design work and then implementation. The MCC process for supporting country team analysis and resolution of these topics is detailed in Section 5 below.

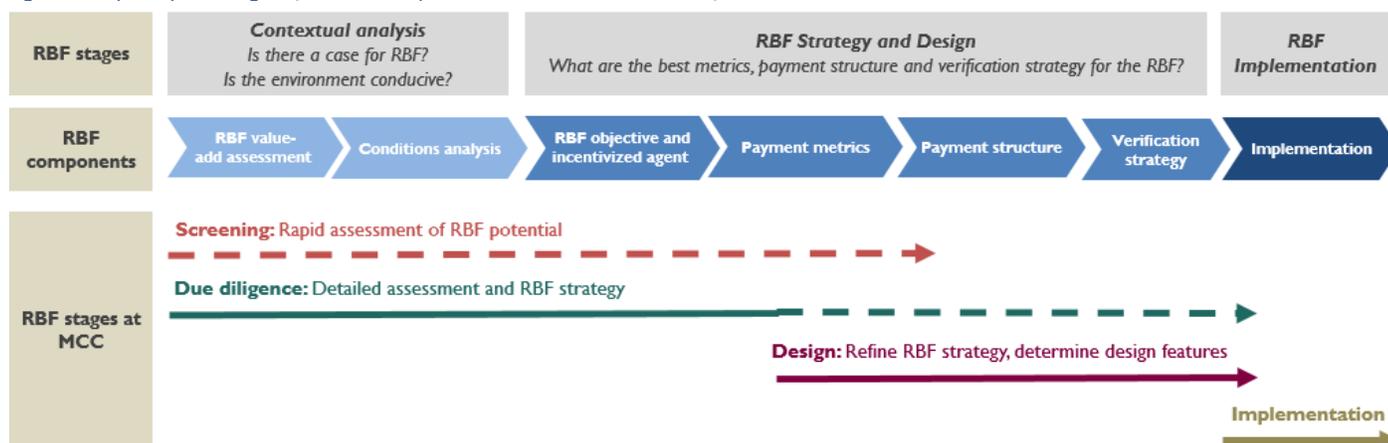
³⁹ Instiglio and GPRBA. (2018). [A Guide for Effective Results-based Financing Strategies](#).

⁴⁰ The Government Outcomes Lab (2017). [How to Guide Procurement: A technical guide to good procurement practice in outcome-based commissioning](#)

⁴¹ Castellnou, M., Jammes, D., and Sienrukos, H. (2021). [Setting Up for Success: Best Practices for the Procurement and Contracting of Results-Based Financing Programs](#).

⁴² This guide contemplates the use of RBF in both Compact and Thresholds interventions but use the term *Compact* for brevity as the generic term

Figure 3. Key analytical stages of RBF's development and related workstreams for RBF at MCC



Note: dashed lines indicate preliminary analysis.
 Source: Author's elaboration

4. Key topics for rigorous use of RBF

This section provides a description of the different components or topics that need to be considered for an RBF intervention, before describing how this process works for MCC in Section 5. Strong RBF interventions are developed across three areas: 1) contextual analysis 2) RBF strategy and design and 3) RBF implementation.

4.1 RBF contextual analysis

The contextual analysis provides the foundation for determining if and how RBF should be used. Specifically, it looks at the potential of RBF to add value to a specific problem or program and then checks if the conditions are in place, or can be created, for RBF to be used effectively.

At MCC, the contextual analysis is carried out in two staggered exercises, as depicted in section 5:

1. **Screening:** to identify if a specific opportunity offers a case for RBF, the RBF team carries out a preliminary RBF value assessment based on relevant RBF experiences in the sector and conversations with the MCC country team.
2. **Due-Diligence:** the RBF value add analysis aims at deepening the understanding of if, where and how RBF should be used. It involves an update and refinement of the Program Logic, RBF value-add, and RBF opportunity based on more in-depth research and rigorous review of relevant project documents.

1. RBF value add assessment

RBF is not the right tool for every problem, and it should only be applied where the potential RBF opportunity can offer a strong value-add. This first component of the contextual analysis includes two elements 1) reviewing the Program Logic; 2) assessing RBF drivers of impact.

Program Logic Review

This topic involves providing input to develop a Program Logic (such as a performance diagnostic) or reviewing the Program Logic articulated by the Country Team, identifying which results can be potentially difficult to achieve and assessing the potential of RBF to address the challenges. The types of challenges that RBF is well suited to address include where stakeholder incentives are misaligned with the desired results; there are rigid approaches to complex issues that do not allow for flexibility; key decision-makers or implementers lack understanding of results; results are not sufficiently tracked, or there is a lack of effective accountability mechanisms.

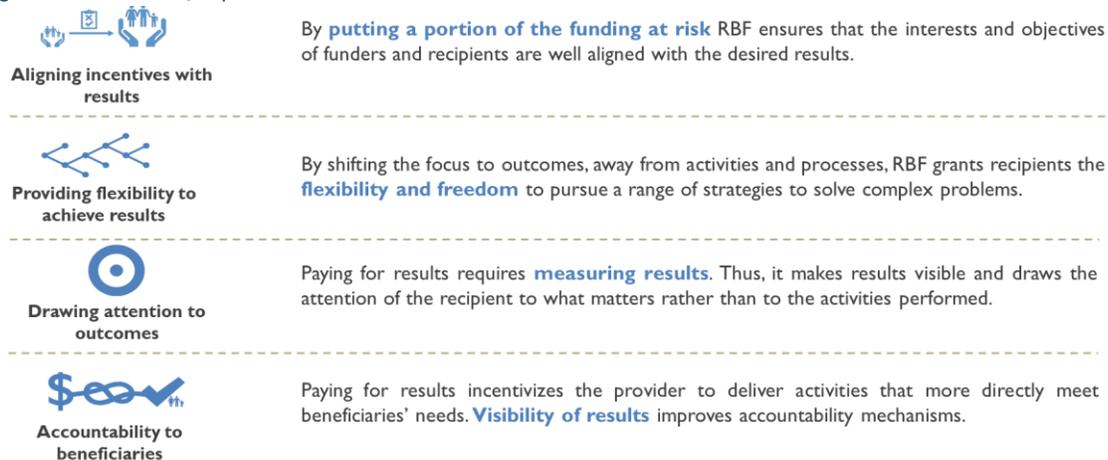
The potential for RBF to resolve challenges can be assessed by asking diagnostic questions, such as:

- What are the most challenging results you are seeking to achieve and why?
- Could results be constrained by misaligned stakeholders and incentives?
- Could rigid approaches that do not allow for flexibility limiting opportunities to resolve complex issues?
- Are there gaps in results tracking or effective accountability mechanisms?

Assessing RBF drivers of impact

Along with identifying challenging outcomes, it is important to assess to what extent and how RBF may be able to add value. RBF can help improve the effectiveness of investments through four key drivers, summarized in Figure 4. The analysis of this topic should identify if any of these drivers can play a role in strengthening the targeted results.

Figure 4. RBF drivers of impact



Source: Author's elaboration

2. Conditions analysis

It is crucial to determine whether conditions are in place for RBF's effective use or if they need to be created. Contextual conditions to consider before an RBF intervention can be divided in three categories:

1. Political support is crucial to RBF success. Strengthening results with RBF takes time and commitment. Government and decision makers should own the use of RBF, showing commitment to advance and overcome roadblocks.
2. Technical conditions that are needed for an RBF intervention relate to the capacity to measure and attribute results in each specific context. In other words, quality and sufficient data should be available, and the team should be able to identify relevant measurable results.
3. Administrative conditions for RBF include solid institutional capacity and legal arrangements that are conducive to RBF, and the resources and systems needed to carry out the RBF.

Table 3 describes the conditions and provides examples on how these can be built in case gaps are identified.

Table 3. Conditions to RBF

Conditions for RBF	Description	Addressing gaps
Political conditions	<ul style="list-style-type: none"> • Level of political buy-in and support across stakeholders, including the government, to the RBF program. • Degree of alignment between key stakeholders and the extent to which they share the same objectives. 	<ul style="list-style-type: none"> • Understanding development agendas and aligning the RBF strategy to key country priorities. • Creating stakeholder awareness and interest by openly inviting and addressing any questions and concerns upfront.

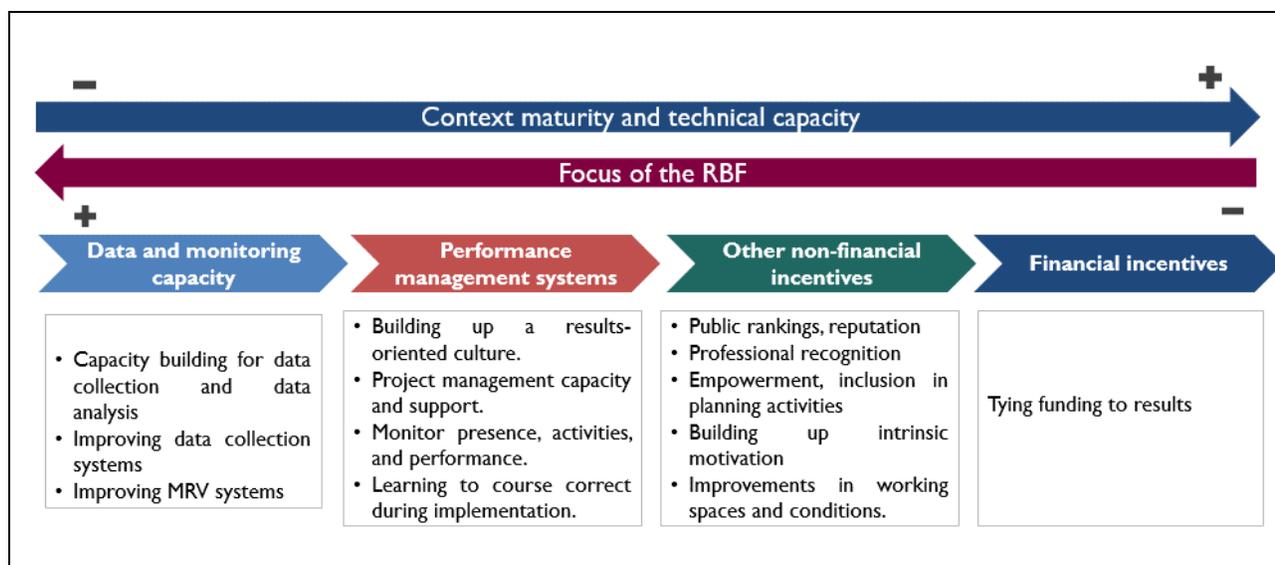
Technical conditions	<ul style="list-style-type: none"> • Degree of quality data availability • Extent to which prior result-based interventions have been applied in this context. • Extent to which results can be identified that can be: <ol style="list-style-type: none"> 1) objectively measured at a reasonable cost 2) measured within reasonable time frames 3) within the manageable control of the incentivized agent 4) reliably connected to the desired social impact. 	<ul style="list-style-type: none"> • Strengthening data collection and data cleaning processes. • Carrying out a pilot low-risk RBF to build experience, and measure and acquire data. • Reduce risk transfer by using outputs or other outcomes that are within the providers' control and can be measured within reasonable timeframe.
Administrative conditions	<ul style="list-style-type: none"> • Conducive regulatory environment • Sufficient stakeholder capacity and technical expertise • Systems that are ready to manage data, performance and verify results. 	<ul style="list-style-type: none"> • Reforming existing regulations or creating new ones. • Strengthening capacity of key stakeholders on performance management and data analysis for RBF • Designing verification systems • Reforming procurement processes and disbursement infrastructure to facilitate RBF contracting.

The conditions needed for effective RBF are key determinants of its success. It is critical to comprehensively identify any gaps and develop approaches to address them prior to the implementation of an RBF. In general, if conditions for RBF are not optimal but can be created at a reasonable cost and time, the RBF team could proceed with the RBF intervention and work to create missing conditions in parallel, as illustrated by Box 2 below which outlines this process.

Box 2: Staggering RBF in low-maturity and low-capacity contexts

Different levels of capacity call for tailored RBF interventions. In contexts of low maturity and capacity, results-based systems can be gradually applied to build up the preconditions for RBF. In these contexts, the focus will be gradually put on flexibility, building up data and performance management capacities and staggered adoption of low-risk RBF options such as non-financial incentives.

Results-orientation is grounded in data and monitoring systems, and the capacity to analyze data and take evidence-based decisions. Focusing on strengthening this in contexts of low capacity will help address the lack of technical conditions and set up a strong foundation. Next, the data would be put to use to course-correct and make evidence-informed decisions, which progressively helps building a culture of performance across the organization. These steps will gradually build the necessary technical and administrative conditions needed for performance management and advance towards a results-oriented regulatory environment. Once basic technical and administrative conditions are in place, a context-relevant results-oriented scheme can be applied. For example, non-financial incentives such as those based on reputation, imply less financial risk. These can be combined with financial incentives that tie funding to results, to manage any potential risks. This gradual approach also leaves room for political alignment and buy-in, as it allows for a deeper understanding of RBF and how it could be beneficial to the local context.



4.2 The RBF strategy and design

Defining the RBF strategy and design includes the identification and selection of four core RBF design features: 1. The RBF category and incentivized agent; 2. payment metrics; 3. payment structure and 4. measurement and verification strategy.

Table 4 briefly defines each RBF strategy and design component and provides an illustrative example based on MCC Sierra Leone Compact. Each component and its selection criteria are described more in detail in the subsections below.

Table 4. Overview of RBF strategy and design components

RBF strategy and design component	Description	Examples from Sierra Leone Threshold ⁴³
1. RBF category and incentivized agent	RBF at MCC can aim at three broad goals: <ul style="list-style-type: none"> Improving service delivery from non-state providers. Incentivizing Government Affiliates to complete reforms and enhance performance in priority areas. Supporting Government Affiliates through TA to adopt result-oriented reforms. 	This RBF Threshold had two components: <ul style="list-style-type: none"> A policy and institutional reform (PIR) component aimed at passing regulations and strengthening the role of the regulator (government entity) to oversee the water and electricity providers. A service delivery component to incentivize state water and electricity utilities (state-owned service providers) to improve their operational and financial performance.
2. Payment metrics	The payment metrics define the results that are paid for, thus determining what <i>success</i> means in the context of the RBF. They shape incentives and risks transferred to the incentivized agent.	For the Electricity Supply and Distribution Authority (EDSA) the Sierra Leone Threshold included, among others, the following metrics: <ul style="list-style-type: none"> Meter installation: # meters installed for priority needs. Fault clearance: # of faults cleared within 24 hrs Reporting to the regulator: assessment score.

⁴³ This example is simplified for the sake of clarity.

<p>3. Payment structure</p>	<p>The payment structure includes defining:</p> <ul style="list-style-type: none"> a) The level of funding tied to each payment metric, as well as the portion of funding tied to results. b) The cost basis on which prices will be defined. c) The disbursement schedule. 	<p>For example, for the fault clearance metric in Sierra Leone Threshold:</p> <ul style="list-style-type: none"> • The cost basis estimated that materials and other costs needed for fault clearance amounted 250k USD. • The unit price per fault cleared was defined by dividing total costs by the target faults: $250k / 800 \text{ faults} = 312.5$ • The disbursement schedule was established as quarterly payments for EDSA to receive timely feedback.
<p>4. Measurement and verification strategy</p>	<p>Selecting the measurement method involves deciding who will collect data on payment metrics, when and how.</p> <p>Selecting a verification strategy involves deciding the type of method: observational or causal methods. And if this is carried out by an independent agent.</p> <p>Both decisions include trade-offs between rigor, affordability, feasibility, and capacity demands.</p>	<p>One observational verification approach in Sierra Leone worked as follows:</p> <ol style="list-style-type: none"> 1. Primary data collection and reporting were done by the utility, EDSA, which collected data, measured, and reported on the results achieved. 2. An independent verification agency verified the achievement of results on a sample basis, selecting a random sample to verify the installation of a meter either through physical inspection or records of electricity transactions.

As detailed in section 5, at MCC the **RBF strategy and design** is defined iteratively in the three sequential stages:

1. At the *Screening* stage, the RBF team provides a first take of the RBF category and incentivized agent, as well as a list of potential payment metrics.
2. As part of the *Due-Diligence* process, the RBF team validates and refines the previous selection, based on more in-depth research, which may include a diagnosis of the context, and exchanges with the Country Team.
3. Finally, the final RBF strategy is defined in the *Design* stage. This involves finalizing all design details to create a strong RBF program ready for implementation.

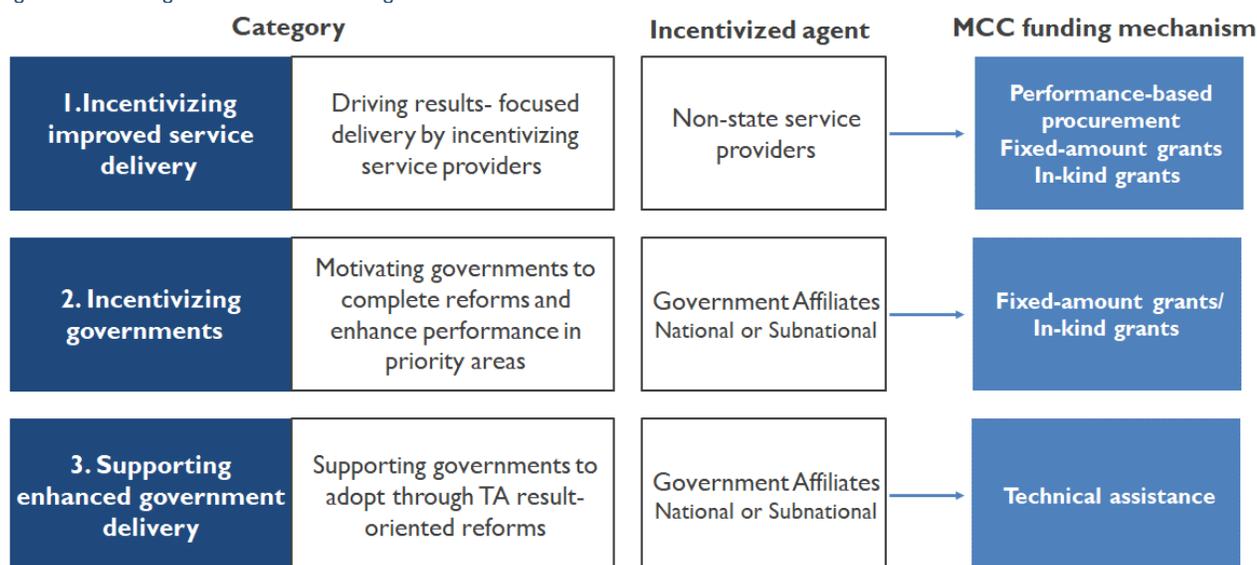
Key MCC guidelines to consider when defining the RBF strategy are the *Grants Guidance Note* and *Using RBF with Fixed Amount Grants: How to establish a Milestone Disbursement Schedule*, which is included in Appendix 3.

1. RBF category and the incentivized agent

The RBF category is identified based on the contextual analysis. As detailed in Box 1 section 2.4, MCC can use RBF to improve results in at least three different ways, either working directly with service providers, incentivising governments, or supporting governments to use RBF and related approaches in their own delivery. Figure 5 below summarizes these options and links them to the appropriate MCC funding mechanisms⁴⁴.

⁴⁴ MCC focuses its RBF interventions on two types of instruments: performance-based contracts (procurement) and performance based-aid (grants). However, there exists a range of RBF instruments that are relevant in other contexts and organizations. These include, for example, social impact bonds or prize-based challenges. For a detailed description of other RBF instruments Instiglio and GPRBA. (2018). [A Guide for Effective Results-based Financing Strategies](#).

Figure 5. RBF categories and incentivized agents at MCC



Source: Author's elaboration

Selection from among these options should be driven by consideration of where the greatest barriers to results might arise. Carefully considering these options is often the most important decision for an RBF strategy as it is central to developing an effective RBF strategy that is targeted at resolving the most important barriers to results. Even a perfectly design RBF approach may not add value if it is not targeted at the right objectives and actors.

2. Payment metrics

Payment metrics are the results that RBF pays for. These are a core component of the RBF strategy, as they define what success means in the context of the RBF. Payment metrics are a source of incentives and have a strong influence in the level of risk transferred to the incentivized agent. This section provides the considerations for the selection of payment metrics at MCC.

Defining the appropriate incentive scheme for the intervention entails selecting a strong set of payment metrics on which disbursements are tied to. This process entails three usual steps:

1. **Selecting a long list of potential payment metrics** based on a well-articulated Program Logic. Potential payment metrics are then identified across the causal pathway defined in the Program Logic to create key steps to reach the desired goal.
2. **Refining the long list** based on a set of criteria related to the proximity to impact and feasibility, to define the final basket of payment metrics.
3. **Assessing the basket of payment metrics as a whole**, as the RBF effectiveness depends not just on individual metrics selected but how they interact. This step seeks to avoid duplication and aim for complementarities and balance across the results chain.

Each potential payment metric entails different risks and vulnerabilities to external factors. Strong metrics can be identified by looking at to what extent the selected payment outcomes meet the criteria in Table 5 below:

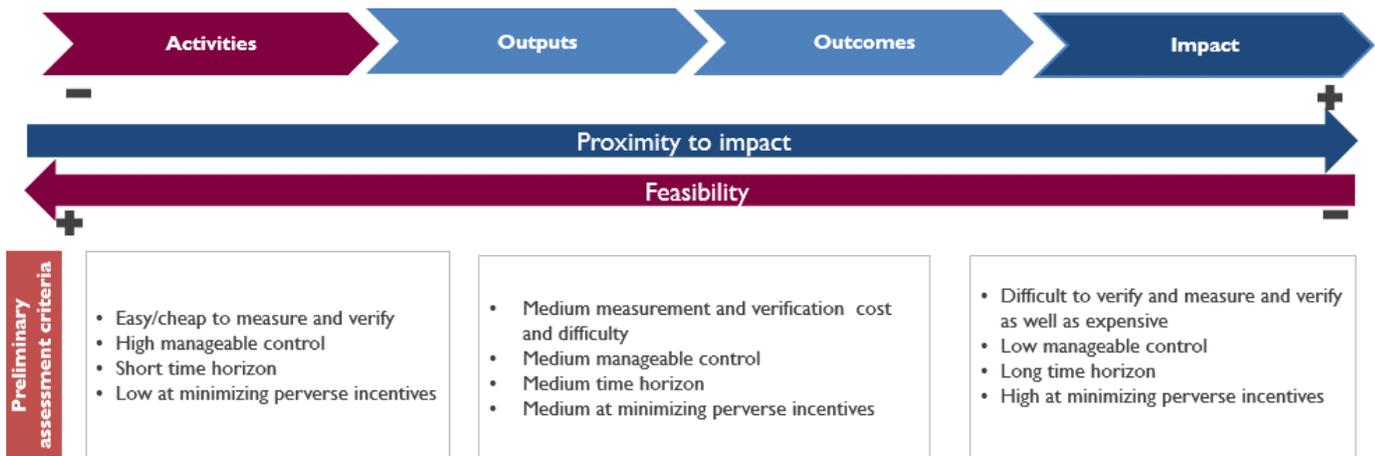
Table 5. Criteria for payment metric selection

Criteria	Description
Easy to measure	Metrics must be simple to understand, easy to measure and low-cost.
Correlation to the ultimate goal	Metrics must generate the key social value of interest to MCC.

	Proximity to impact often presents a trade-off with the level of risk assumed by the incentivized agent (this is explained in detail below).
Manageable control	<ul style="list-style-type: none"> The selection of metrics should balance the benefits of transferring more performance risk to the service providers or government and the costs of the associated risk premium. Metrics transfer more risk to the incentivized agent the more distant they are in the Program Logic and the more sensitive they are to external factors. Metrics transfer less risk the more they are within the manageable control of the service provider.
Minimization of perverse incentives	<p>Metrics must minimize the risk of creating undesirable effects and must avoid perverse incentives, such as:</p> <ol style="list-style-type: none"> 1. Cream-skimming: where the incentivized agent focuses on a subgroup of the population that is easier to impact and leaves the others unattended. 2. Leading agents to promote behaviours that may be counterproductive

An ideal RBF contract or grant would pay for results as close as possible to impact. However, in practice, outcomes, or outputs more distantly related to impact are generally used because of feasibility constraints. This reflects a common trade-off between feasibility and proximity to impact. Figure 6 illustrates these performance risks across payment metrics depending on their proximity to the desired impact. For example, in an employment program payment metrics related to 12-month job retention are close to the desired impact of improving the participant's employment status. However, a service provider would assume a high risk with this payment metric, as has limited control over it and verification requirements may be costly. Thus, other metrics such as finding employment may be used in this case.

Figure 6. Payment metrics and performance risks



Source: Author's elaboration

Finally, when multiple metrics are selected, the **basket of metrics should be taken as an incentive environment** and should:

1. **Aim for simplicity**, limiting the number of metrics is important to focus activity on the most important performance areas and reduce the cost of verification. The RBF could limit the number of performance areas to a manageable level and leverage existing metrics where possible.
2. **Use a heavier emphasis on outputs in early stages of RBF** to support more concrete results-oriented behaviour changes, enhance staff-level ownership of their roles in achieving targeted performance areas, and understand better what works and where improvements are needed.
3. **Avoid duplication along the results chain**, such as paying for closely related outputs and outcomes, which can limit flexibility.
4. **Consider if the weakness of one metric can be mitigated** by the other metrics included in the basket.

To illustrate the process of selecting payment metrics, Box 3 provides an example based on a workforce development program.

Box 3: Metric selection process for a sample workforce development program

The figure below shows the assessment of possible payment metrics in an RBF employment intervention, based on the criteria outlined above. The scoring provided uses a scale from low to high, depending on the extent to which the metric meets the relevant criteria presented above.

Employment payment metric assessment

Outcome	Easy to measure	Correlation with the ultimate goal	Manageable control	Minimization of perverse incentives
Training delivery	●	○	●	○
Training completion	●	○	●	○
Skills testing	●	○	●	○
Job placement	●	●	●	●
Retention 1M/ 3M	●	●	●	●
Retention 6M	●	●	●	●
Retention 9M/ 12 M	○	●	○	○
Salary	●	●	○	○
Beneficiary satisfaction	●	●	●	●



Based on this assessment, three key metrics were selected for this example:

1. **Job placement** was included to provide some intermediate results to ensure the overall project risk was manageable.
2. **Retention at three months** allowed for a focus on the desired results of sustainable employment while also providing service providers relatively strong manageable control.
3. **Retention at six months** was included to strengthen the focus on sustainable employment, but risk was considered by conditioning a small percentage of payments to it.

Finally, the basket of metrics was assessed as satisfactory, as the three proposed metrics allowed for a diversified portfolio of metrics in terms of risk, employment sustainability and impact.

Source: Adapted from a workforce development RBF intervention in Colombia

3. Payment structure

Once the payment metrics have been defined, the payment structure determines how much, how, and when results associated to each metric get paid for. The decisions related to the payment structure of the RBF mechanism are key to delivering strong incentives, implementing the desired level of risk, and attaining transparency in the process.

The RBF payment structure, includes decisions on three elements:

1. Level of funding tied to each payment metric, or **how the disbursement is divided across the results chain**. This entails defining the investment provided by the RBF, as well as the portion of funding tied to results.
2. **Pricing method**, or how the RBF prices are determined. This involves a method to define a price per outcome that is based on expected costs.
3. **Payment schedule** which determines the timing of payment to the incentivized agent.

The next subsections describe each element and key considerations to defining them.

How is the disbursement divided throughout payment metrics?

As shown in the example in Box 3, to determine the level of funding associated with each payment metric and the payment provided upfront as progress-based disbursement, it is key to balance the strength of incentives and the transferred risk. A higher portion of funding tied to results will **strengthen the incentives and provide more flexibility**. However, more funding tied to results also **increases the risk** of perverse incentives and non-payment, potentially deterring agents from participating.

Hence, the level of funding tied to results should be informed by:

- The **capacity and degree of manageable control** of the agent to manage performance. Lower manageable control should be associated with less funding tied to results.
- The ability of the incentivized agent to self-finance a portion of the intervention and get **up-front funding** needed to implement the program and generate results.

The pricing method: how are RBF prices determined at MCC?

This topic consists of determining a price per unit of results. In MCC the unit price is set based on the costs of the program⁴⁵. This process varies with the RBF funding mechanism, and in compliance with MCC Cost Principles⁴⁶:

- **For performance-based procurement**, the price per result would be set by *competitive tendering*. This method uses the market for price discovery, through for example open-bidding, to identify the most appropriate prices during the process of service provider selection. [add reference to PBP template when is published]
- **For grants**, the cost-based approach uses the costs of delivering results as the basis for the Applicant/Proposer to build and submit a Grant budget. Price per unit is then calculated by dividing the total cost of achieving the results by the target results. [add reference to cost-based pricing note]

In accordance with the Program Grant Guidelines⁴⁷ (PGGs), the Grantee is in charge of building up the budget that would then determine the grant amount to be approved by the MCC/MCA, once cost-sharing, profit margins and considerations on unallowable costs are taken into account.

The following steps⁴⁸ present **overall guidance for a cost-based approach** when using a Fixed Amount grant and provide a simplified example to illustrate the process, more detail and examples can be found in *Appendix 3: Using RBF with Fixed Amount Grants: How to establish a Milestone Disbursement Schedule*.

1. **Step 1:** Define the results (payment indicators) to disburse upon and the desired target for each (defined above). These must be clearly communicated in the Call for Concept Papers, Request for Applications, or Notice of Funding Opportunity.
2. **Step 2:** Applicants/Proposers define reasonable and allocable costs that need to be incurred to achieve desired targets per indicator. Based on this, they submit a Grant Budget and Grant Budget Narrative as part of their Grant Application. This information is used to determine the Grant amount⁴⁹.
3. **Step 3:** Define the unit payments for results, including payment weights accounting for the costs estimated in the previous step.
4. **Step 4:** Allocate results to milestones and define the *Milestone Disbursement Schedule* establishing what will trigger the disbursements and at what frequency. The PGG contemplates two types of milestone disbursement methods: progress or performance-based. Progress disbursements imply payments upon progress towards a result or

⁴⁵ An alternative approach to set RBF prices, though not applicable to MCC, is based on the value of the benefits associated with the achievement of the results (e.g., not paying unemployment benefits or increased tax revenues from higher wages) or the quantified social value (e.g., improved well-being of society due to reduced violence, or environmental outcomes).

⁴⁶ Millenium Challenge Corporation. (2019). Cost Principles for Government Affiliates Retrieved from <https://www.mcc.gov/resources/doc/guidance-cost-principles-government-affiliatesChallenge>

⁴⁷ Millenium Challenge Corporation. (2020). *Program Grant Guidelines*. Retrieved from <https://www.mcc.gov/resources/doc/guidance-program-grant-guidelines>

⁴⁸ Note that these steps are generic, and some elements vary depending on the context. For example, the target results may need to be defined upon what would be possible with a given budget envelope. In this case, the target would be set up in the second step once the costs have been identified

⁴⁹ This grant amount would be capped by the budget envelope.

milestone, while performance-based disbursements imply payment upon the actual completion or delivery of a pre-agreed milestone or result. The performance-based method is preferred as per the PGG.

Table 6. Examples of the steps to build a cost basis to use RBF with Fixed Amount Grants in different sectors relevant to MCC

Sector	Energy	Employment (TVET)	Health	Agriculture
Step 1: Define the results, and the target	Increase the number of grid connections by 1,000.	Increase the number of trainees that are placed into a formal job.	Achieve 90% DPT vaccine coverage for ages 1-5 years.	Number of small-holder farmers (SMF) aggregated to the value chain by commercial aggregators.
Step 2: Applicants/Proposers submit Grant Budgets, based on the costs needed to achieve the results	Materials and installation costs to achieve 1,000 new grid connections. (10,000 USD)	Training logistics, intermediation activities (e.g., for 500 trainees) (USD 25,000)	Publicity, transport, and meal costs to vaccinate 200 children. (5,000 USD)	Machinery (rental), Infrastructure, Storage, Off-take to integrate 5,000 SMF. (USD 50,000)
Step 3: Calculate unit prices for results	USD 10 per each new connection (Total cost/ target= 10,000/1,000=10 USD)	USD 50 per each job placement (Total cost/ target= 25,000 USD/500 trainees=50 USD)	USD 25 per each child that receives the DPT vaccine. (Total cost/ target= 5000/200=25 USD)	USD 10 per each SMF aggregated. (Total cost/ target= 50,000/5,000=10 USD)
Step 4: Milestone Disbursement Schedule	Half payment will be made upon completion and verification of 500 connections, and the other half upon completion and verification of the rest of connections.	Disbursements are done in monthly basis and paid per individual placed that has been verified.	A progress-based payment to cover initial costs and then disbursements are done based on a quarterly milestone based on completion and verification.	Disbursements are done following growing seasons (payments of the SMFs aggregated throughout each growing season).

Payment schedule

The payment schedule defines when payments will be made, the following are important considerations to decide on the payment schedule:

- **Feedback loops and performance improvements:** Frequent payment requires frequent measurement of the payment metrics which can generate valuable insights for the institution on how to improve results in later periods. Frequent payments also allow institutions to re-invest the RBF payments earned in activities that can further improve performance.
- **Cost:** On the other hand, a higher payment frequency usually entails greater measurement and verification cost and requires the attention and resources of all parties involved.

4. Measurement and verification strategy

Paying for results requires measuring and verifying results. This component of the RBF strategy defines how results are being measured and verified, to trigger the corresponding payments. Doing so generates valuable data, facilitating performance management (course corrections) and learning agendas (identifying lessons for future programs).

There are two decisions to be made at this stage: the **measurement method** and the **verification method**. Both involve trade-offs between the level of rigor, feasibility, capacity demands and affordability. In general, methods of data collection and evaluation done by third parties are more rigorous but tend to be more expensive and may sometimes not be politically feasible or involve unrealistic timelines.

1. The **measurement method** defines who collects the data on the payment metrics, when and how. This involves deciding on the type of data and the entity responsible for data collection, for example if data are to be reported by beneficiaries, collected from direct observation, and if this will be done by a third party or MCC. Key trade-offs to consider when selecting the measurement method are the following:
 - Who: Data collection by independent third parties and larger samples typically increase confidence in the results but increase measurement cost.
 - When: Frequent data collection can increase confidence and learning opportunities but increases measurement costs.
 - How: Leveraging on existing administrative data can make data collection cheaper and easier to integrate into the program. However, creating information systems that are specific to the program can have gains in terms of adaptability and accuracy.
2. The **verification approach** evaluates the data collected and ensures that reliable evidence exists on results, based on the payment metrics agreed on above. MCC follows an observational approach focusing on the number or quantity of outcomes achieved⁵⁰.

4.3 RBF implementation

For RBF to deliver value, it is important to ensure that the right capacities exist to manage and deliver the RBF for outcome payers and service providers. Capacities useful for strong RBF implementation include 1) a solid governance and financial structure, 2) performance management capabilities and 3) learning and knowledge management processes.

Governance and financial structure

Where appropriate, it is important to establish clear governance structures that define the roles, responsibilities, and timelines for both the MCA and the incentivized agents. This will help to prevent unnecessary costs and delays in achieving the contract or grant's objectives. The governance structure should also include problem-solving mechanisms that anticipate potential issues that may arise during the project and mitigate risks to avoid additional costs and delays.

Additionally, the RBF contract or grant should have a financial structure that clearly outlines the resources and how they will be managed during implementation. This means ensuring that there is sufficient cash flow available to incentivize the agents to achieve the desired results. It is useful to have responsibilities assigned for monitoring the financial model, making necessary adjustments, and providing regular reports to ensure that the financial structure is working and that resources are allocated as per the contract or grant's terms. Financial planning to mitigate potential default risks and other delays associated with the RBF contract or grant is also useful to avoid breaching the contract due to unexpected losses.

Performance Management

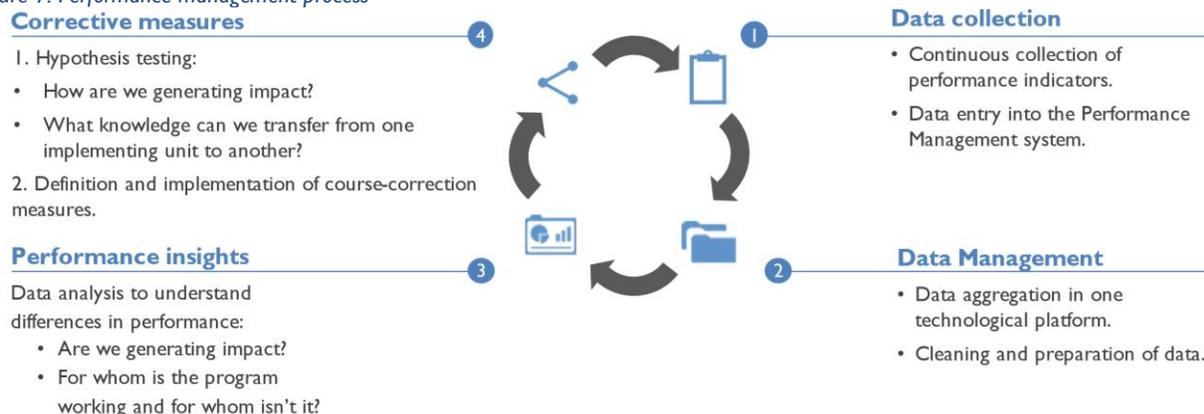
Performance management refers to the capacity of each actor to support improved performance over time. It is key to build a results-oriented culture and for Government Affiliates and service providers to track their results and enable course-corrections in their intervention. The outcome payer, i.e., the MCA, should also undertake performance

⁵⁰ Alternative methods to verification, not relevant to MCC, are causal methods. This approach it is more costly and complex, and it is rarely used in RBF programs. In these methods payments are based on results that are attributable to the intervention (using for example Randomized Control Trials).

management, ensuring the desired results are being achieved, appropriate course corrections implemented, and contracts are being actively managed in cases of underperformance.

Performance management involves a shift from tracking inputs and activities to managing results and enables organizations to understand their results and adjust delivery during implementation to produce them. This process starts with data collection on relevant performance indicators. Data is then visualized and analyzed to extract actionable performance insights and propose corrective measures. Figure 7 illustrates the steps to performance management.

Figure 7. Performance management process



Source: Author's elaboration

Learning

Program evolutions and refinements of RBF programs should be informed by established learning processes gathering insights on what works, how, and why. Learning agendas should draw on insights and information from performance management practices to support broader adjustments to the current or future RBF program.

A learning process should identify key questions and generate in-depth insights on the design and implementation of the program, as well as recommendations on how these can be improved for the current RBF program, subsequent RBF programs or broader service delivery to achieve greater impact. Important learning topics include questions on the program results and the attribution to RBF, use of good RBF practices such as those described in this guide, as well as insights on the process of designing and implementing the RBF and its cost-effectiveness and sustainability. Table 7 presents example questions that can guide an RBF learning process.

Table 7. Examples of learning questions

Learning area	Example of questions
Overall program achievements and attribution to the RBF	<ul style="list-style-type: none"> What results were achieved by the RBF program as compared to expectations? To what extent can those results be attributed to the RBF program? To what extent did the RBF trigger the expected changes in service providers' behaviors?
RBF mechanisms	<ul style="list-style-type: none"> What RBF factors contributed to achieving the desired results? Which factors should be changed? Which factors should be maintained? <ul style="list-style-type: none"> Did the RBF provide the flexibility imagined for service providers to adapt their intervention? Did the RBF limit the scope for perverse incentives in achieving desired results? Did the RBF support service providers in improving their performance management? Did the RBF drive results cost-effectively as compared to more traditional delivery models?
Interventions and target population	<ul style="list-style-type: none"> Was the RBF able to reach the most vulnerable population in an effective way? Were service providers able to adapt their interventions successfully and at a reasonable cost to reach the most vulnerable populations?

RBF design, implementation, and sustainability	<ul style="list-style-type: none"> ○ Was the RBF program implemented in an efficient way? What lessons can be learned from the implementation process? <ul style="list-style-type: none"> ▪ Were the prices and payment structure set in line with service providers' capacity and experience? ▪ Was the performance management system and verification systems effective? Can they be sustained and scaled-up in the post-Compact period? ▪ Are the RBF costs manageable and reasonable so that they can be sustained and scaled-up in the post-Compact period? ▪ Were roles clear among the stakeholders, did they fulfil their responsibilities in a timely manner?
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While **performance management and learning and evaluation** are closely related, they reflect two different key elements from RBF implementation. On the one hand, performance management focuses on *program improvement* during implementation and with a short to medium timeframe. On the other hand, learning focuses on broader data to draw conclusions for sector learnings and future RBF programs and has a long-term view. Table 8 captures these differences.

Table 8. Performance management and learning

	Performance Management	Learning and evaluation
Data	Day-to-day operations and results	Results (potential for the inclusion of a control group), operations and stakeholder interviews
Insight	Are we on track to impact and how do we improve?	Did it work and what can be leveraged for sector learnings and future programs?
Purpose	Learn and improve the program	Knowledge, transparency, and accountability ⁵¹
Timeframe	Short and medium term – throughout implementation	Long term – after implementation

5. The RBF process at MCC

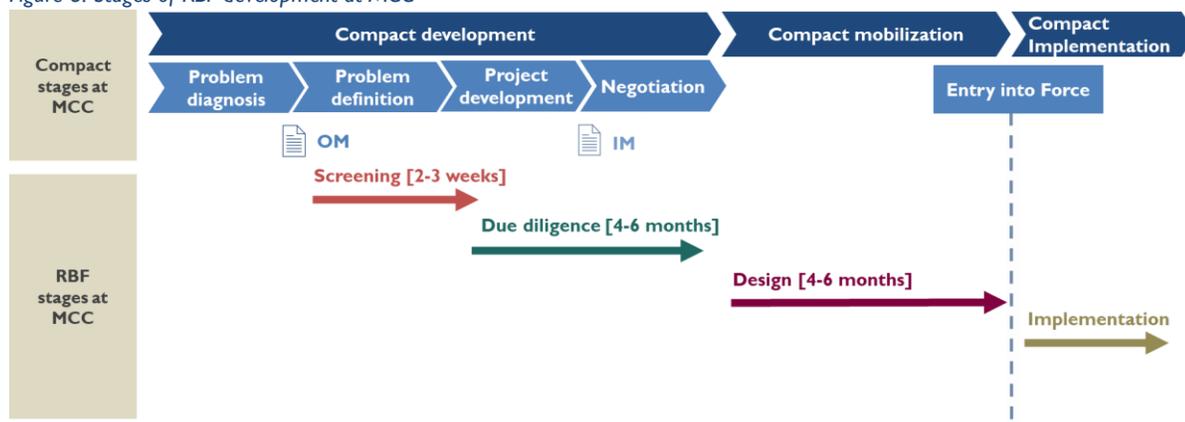
As detailed above, RBF entails some different practices to business-as-usual funding arrangements, with implications for program design, implementation, measurement, verification, and learning. The central focus of all these adjustments is to support stronger results, ensuring MCC's investments are reliably converted to impact. However, to achieve these benefits it is important RBF is used well, carefully resolving the topics detailed above in relation to the specific context of a given program. Given this, MCC provides support for RBF's use, divided into four stages: 1. Screening, 2. Due-Diligence, 3. Design, and 4. Implementation, as detailed in this section.

This process entails systematically reviewing the topics detailed above with increasing detail and in-depth analysis in each successive stage. This approach allows for rapid iterations and learning, and it helps identifying and addressing any potential red flags before the final RBF design.

This section describes each of the four stages for RBF in MCC, which is outlined in Figure 8 below.

⁵¹ Accountability can only be achieved if an independent evaluation is undertaken for this purpose, as internal learning functions are not sufficient to provide an un-biased view on the program. An additional benefit of running an independent evaluation consists of the fact that such evaluation can look to evaluate longer term results and could go beyond the compact time horizon.

Figure 8. Stages of RBF development at MCC

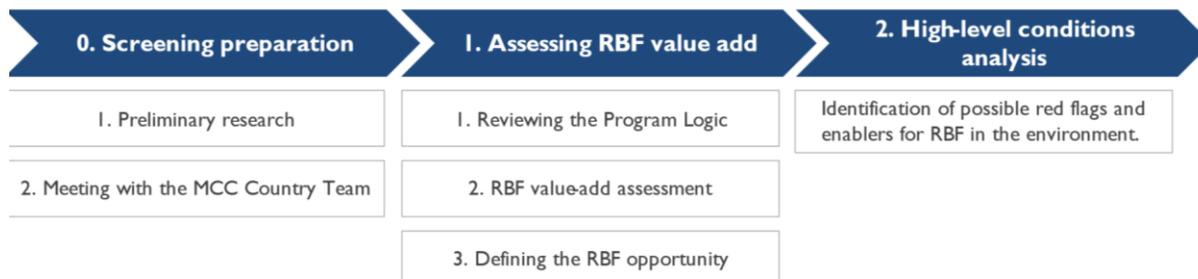


Legend: OM: Opportunity memorandum (includes root cause analysis, problem identification and concept assessment); IM: Investment Memorandum.
 Note: quarterly management touchpoints are done between each of the MCC compact stages.
 Note: this figure reflects an ideal timeline of an RBF initiative applied to a specific Compact. In practice, stages may differ in duration and some overlaps between steps may occur.
 Source: Author's elaboration

5.1 Screening

Screenings allow for a **rapid assessment to determine to what extent RBF is a pertinent tool** to strengthen the effectiveness and efficiency of MCC investments for a given project. Screenings can be undertaken in a few weeks based on document reviews and 2-3 conversations with the country team.

Figure 9. Overview of the Screening process



Source: Author's elaboration

Ideally, the RBF Screening should start once the Opportunity Memorandum has been approved, and during the Problem Definition and Project Development phases of Compact development. Figure 9 below outlines the Screening process.

The Screening usually starts with a **preparatory phase** in which the RBF team builds on the knowledge of the MCC country team, to assess the RBF opportunity. Thus, frequent information exchanges and smooth communication between the two teams will contribute to a robust screening.

- First, RBF team carries out **preliminary research**, to identify relevant RBF experiences in the sector of interest to extract lessons learned that can inform the RBF opportunity being assessed. This includes reviewing MCC's RBF experiences, other RBF experiences outside MCC and successful innovative financing approaches, other than RBF, in similar contexts.
- Second, the **RBF team aligns with the MCC country team**. This space for exchange with the country team is crucial to a good understanding of the project. The country team shares project background information, its main goals, a description of the main problem at focus, its root causes and performance risks identified so far. Box 4 provides some examples on key discussion questions in this space.

Box. 4 Exchanges with MCC country team in the Screening stage

Potential guiding questions to the MCC country team

Challenging results:

- What are the most challenging results you are seeking to achieve?
- Why are these results likely to be challenging?

Identification of measurable results and the potential agent that should be incentivized:

- Which **partners** would potentially be receiving MCC funding?
- Is there clarity of a specific **service** that MCC would like to procure or contract?
- Is there a **target population** that the intervention is seeking to impact? How does this population look like? (e.g., location, heterogeneity, main characteristics)
- Should an **institutional reform** take place to attain the desired objectives of the proposal?
- What roles do local and national government entities have in structuring and implementing **policy reform**?

Document sharing by the MCC country team

The documents shared with the RBF team would depend on when the Screening is taking place relative to the Compact development phase. Before sharing these documents, the MCC country team requests permission in compliance with the MCC Access Policy. The RBF team, if external to MCC, provides Non-Disclosure Agreements when esteemed necessary by the country team.

Key documents shared to inform the Screening stage include the following:

- Opportunity Memorandum
- Project Concept Note
- Program Logic
- Project due-diligences or sector assessments carried out for MCC in the context of the project.
- Background documents by MCC or other institutions that provide an overview of the sector/country.

Note that if key documents are still under development, they can be shared at a later stage, during Due-Diligence.

Next, the Screening process assesses the **potential for RBF to add value**, by *reviewing the Program Logic* with the Country Team and understanding how *RBF's drivers of impact* can support the specific opportunity in outcomes that present challenges. Based on this analysis the RBF team can define a *preliminary RBF opportunity*, that is the RBF category and the potential agents to incentivize, and measurable results that could potentially be payment metrics. This is done through a brief, high-level analysis, with the goal of identifying if there is a relevant entry point for RBF.

Finally, the Screening entails a **preliminary RBF contextual analysis** which seeks to understand if political and technical conditions for RBF are in place. To illustrate this point, Box 5 presents examples of conditions analysis carried during Screenings for two country cases.

Box 5: Conditions analysis scenarios for two MCC Compacts

I. The Senegal Power Compact

This Compact was designed in 2021 to strengthen the power sector in Senegal by increasing the reliability and accessibility of electricity. It also aims to help the Government of Senegal and the Senegal National Electricity Agency (Senelec by its French acronym) to establish a modern and efficient structure for the nation's power system to grow.

The screening stage was carried out in 2020 leaving the following preliminary conclusions on the conditions:

- There was strong political interest from the government as well as support from the World Bank to improve the performance of the energy sector in Senegal.
- Relevant stakeholders were aligned and willing to implement a results-based approach to reach this outcome.
- At the technical level, there was previous RBF experience, as a prior performance-based contract was signed between the government and Senelec, which facilitated the identification of meaningful, measurable results that were within Senelec's manageable control.

- Data availability was good, as the country had a strong data set that can be used for target and price-setting.

Good conditions scenario: *The high-level conditions analysis pointed out an enabling environment for an RBF opportunity*

2. Productive Use of Electricity (PUE) credit Assistance in Burkina Faso

The Grid Development and Access Project in the Burkina Faso Compact II started in 2021 aiming to reduce outages and increase the availability and consumption of electricity for end users by (i) updating the transmission and distribution network, and (ii) increasing access and targeting productive use of electricity. This intervention included two Sub-Activities:

1. **Electricity Connections Sub-Activity** (referred to as the “Connections Fund”): The main objective of this fund is to substantially increase sustained connections to the electricity grid, particularly new connections for female-headed and lower-income clients, tackling the low access constraint.
2. **Productive Use of Electricity (PUE) Sub-Activity** (referred to as the “PUE Fund”): Access to a connection alone does not necessarily translate into increased economic output or productivity, which is the ultimate objective of the Compact. Hence, the PUE Fund enables micro small, and medium enterprises (MSMEs) to purchase electrical equipment essential to increasing productivity and revenue.

The conditions analysis had mixed results. On the one hand, the PUE Fund had a sufficient size to generate improvement incentives. On the other hand, service providers in Burkina Faso showed a medium-low strategic alignment towards the opportunity because they didn’t target underserved populations as part of their missions or regular activities.

This exercise also found that service providers did not have the financial capacity to absorb results risks. However, they showed a solid performance culture. Additionally, it was not possible that one single service provider could deliver all the required services (i.e., financial and business development). In that sense, an assessment of potential service providers managers was required to evaluate if there are any organizations able to fill this roll.

Medium conditions scenario: *The high-level analysis outlined some pros and cons in the environment for the RBF and suggested that conditions needed to be further explored before a decision to use RBF could be made.*

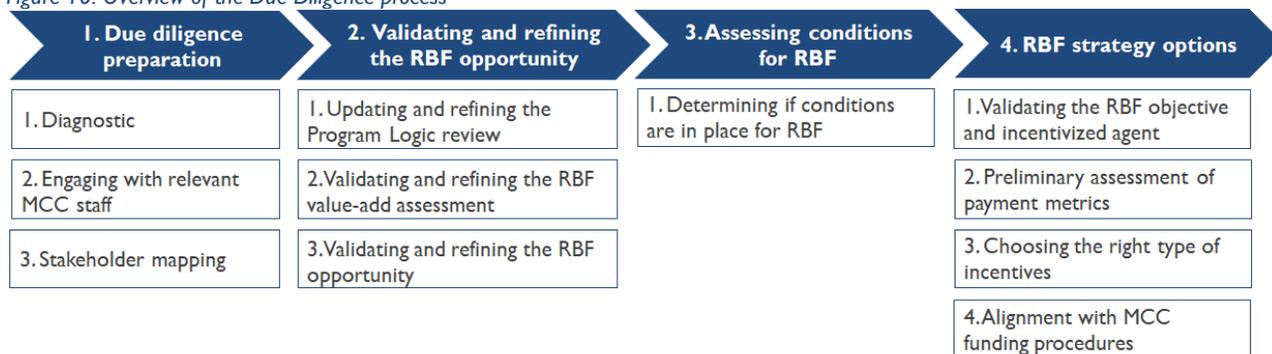
5.2 Due-Diligence

The Due-Diligence focuses on providing a **detailed assessment of challenges limiting targeted results and assessing how RBF can better support the project’s objectives** by looking into the conditions for RBF and providing with a high-level RBF strategy. The Due-Diligence should ideally start at the early stages of the Project Development Phase, while the Project Logic is still being developed, before the Investment Memorandum has been signed. The Country Team (CT) takes the lead of the RBF process from this stage.

The Due-Diligence stage provides a recommendation of a broad RBF strategy going beyond the preliminary findings in the screening stage which allows the MCC team to have a clear overview before diving into the design stage. Due-Diligences can take around 4-6 months and require in-country engagements and analysis.

Due-Diligences should be adapted to meet the CT’s needs in each context but often entail four steps as shown in Figure 10. First, a preparatory phase ensures that there is sufficient and relevant information to validate the RBF opportunity. Second, previous research and insights are applied to validate and refine the RBF opportunity. Third, enabling political and technical conditions are analysed more in detail to map out potential red flags. Finally, a preliminary RBF strategy is outlined, with a clear and defined objective and including recommendations on incentivized agents, RBF instrument, payment metrics and the type of incentives.

Figure 10. Overview of the Due-Diligence process



Source: Author's elaboration

1. Diagnostic

The preparatory phase of the Due-Diligence process builds the foundation for a sound RBF strategy. It involves reviewing relevant insights to inform the RBF value add validation, exchanges with key MCC staff and mapping of key stakeholders for the project. In particular, the Due-Diligence preparation generally involves three key steps:

Preparation

In this initial phase, the team **builds a comprehensive understanding of the sector and context**. The team reviews relevant RBF experiences and identifies insights and lessons learnt that can inform the validation of the RBF opportunity and contribute to a solid RBF strategy.

To gather this information, the team reviews any new or updated relevant project documents provided by MCC, MCA, and other relevant sources additional to those shared in the Screening. Next, the team identifies and consults with relevant in-country stakeholders that can help in building a more robust and nuanced understanding of the context. This helps enhance the visibility of the RBF and establish a common, foundational understanding among key stakeholders. Additionally, the team could engage external consultants with strong familiarity with the country and sector to provide specific and context-relevant insights.

Engagement with relevant MCC staff

The second step in the Due-Diligence preparatory phase aims at mapping capacity and ensuring priorities are aligned across the MCC staff participating in the RBF opportunity. The Due-Diligence process should include engagement with PFS, OGC, Procurement, EA, and M&E. Depending on the nature of the RBF tool, GSI, SBC and ESP may also be engaged.

At this stage, the team may gather information from MCC country teams that have worked with RBF in past Compacts and Thresholds. By engaging with MCC relevant staff, the team works to **create a shared understanding of RBF and the related process**. While it is important at every stage to ensure MCC country team support and buy-in for the use of RBF, it is during due-diligence when the RBF tool becomes sufficiently defined for individual country team members to interrogate its use.

Stakeholder mapping

The final step in the Due-Diligence preparation entails identifying external stakeholders that are key to the success of the RBF. These could include, depending on the context, government agencies, service providers, potential partners, and research institutions. Stakeholder mapping should build on existing tools and analyses such as MCC's Political Economy Analysis (PEA).

This mapping helps build stakeholder buy-in, understand which government agencies can get involved and support the project, assess capacity and intervention maturity of potential service providers, identify partners that could help strengthen the RBF strategy, and engage research institutions that could have relevant sector information.

The stakeholder mapping enables a process of **identifying accountability relationships, and mapping incentives to identify challenges in the current delivery chain**. Building from this initial mapping, a deeper analysis will be done later in the due-diligence process, to understand the incentives of the key stakeholders identified.

2. Validating and refining the RBF opportunity

In the Due-Diligence process, the team builds on the insights from the diagnostic phase to strengthen, validate and update the analysis what was done in the Screening stage. This involves validating and refining:

- **The Program Logic:** new insights from the diagnostic might serve to identify barriers and test key assumptions in the Program Logic to have a more relevant and accurate illustration of the causal path from the interventions to the delivery of desired results.
- **The RBF value-add assessment:** based on the findings of the Due-Diligence preparation, the team can update the performance risks and calibrate the RBF drivers of impact to better respond to insights identified.
- **The RBF opportunity:** based on the more detailed analysis in the Due-Diligence stage, the team can strengthen the answers to the two core questions defining the RBF opportunity, i.e., what potential agents can be incentivized and what are measurable results that the program aims to target.

3. Assessing conditions for RBF

The previous Screening stage entails a preliminary analysis to understand enabling conditions for RBF in the context of the intervention. The Due-diligence **develops a more in-depth analysis of the contextual conditions**, assessing the degree of political support and if technical and administrative conditions are suitable for RBF, and to what extent they need and can be adjusted prior to an RBF.

At the Due-Diligence stage and aligned with the conditions analysis described in detail in Section 4.1 and the Due-diligence preparation above, the team assesses, firstly, the degree of *political buy-in* from the relevant stakeholders and decision makers, including the government. Secondly, it evaluates if stakeholders are aligned in terms of their strategies and interests and share a common goal. At the technical level it evaluates if technical conditions needed for an RBF intervention are in place to allow measuring and attributing results. Finally, the team evaluates if there is a conducive regulatory environment in place, and sufficient stakeholder capacity and technical expertise to manage data and verify results.

4. RBF strategy options

Finally, the Due-diligence process outlines a high-level RBF strategy. The RBF strategy at the Due-diligence stage aims at **providing the RBF and country team with a clear overview on what the RBF intervention would look like** and identify any gaps and opportunities that can be addressed. The RBF strategy is then further refined during the Design stage to define the final RBF strategy that will be implemented.

Validating the RBF category and incentivized agent

This step consists in validating the RBF category defined above and the agent to be held accountable for delivering results, whether it is incentivizing non-state or Government Affiliates or supporting the government to enhance their delivery. This validation builds on the findings from the Screening stage, where the potential incentivized agent was identified as part of the RBF value add analysis. At this stage, the team carries out a final assessment incorporating any new learnings and verifies if the initial selection from the Screening is the right choice for the RBF or it should be adjusted.

Preliminary assessment of payment metrics

The Due-Diligence entails an initial proposal of the payment metrics for the RBF mechanism. At this stage the team puts together a preliminary metrics list that will be further expanded and refined in the Design stage before the final assessing and metric selection.

These metrics or payment outcomes are defined based on key outcomes from the Program Logic and will follow the selection criteria for strong metrics and risk transfer considerations as detailed in Section 4.2.

Choosing the right type of incentives

Once the team has a solid understanding of the context and the role of RBF, it is worth considering if other types of incentives, besides financial incentives can strengthen the intervention. RBF interventions at MCC can consider three broad types of incentives:

1. Financial incentives are usually the best approach where the value-add depends on giving strong incentives.
2. In-kind incentives can be provided in combination to financial incentives and may be instrumental in contexts in which the incentivized agent has limited capacity. For example, these can take the form of improvements of working spaces or provision of equipment.
3. Non-financial incentives can include for example reputational incentives associated with measuring results and might be suitable in cases where financial incentives are not yet viable (e.g. contexts of low system maturity).

Alignment with MCC funding procedures

During the Due-Diligence, the team should assess how the RBF intervention will comply with MCC funding procedures. At this stage it is key to define the disbursement modality in compliance with MCC guidelines, ensure that RBF dedicated lines are included in the budget of the Compact or Threshold, and defining the MCA staffing plan.

To use RBF in compliance with MCC's disbursement modalities and its policies and procedures, alignment with the relevant MCC units (PSF, PAA) is key during Due-Diligence. In case further understanding is needed to determine the right RBF disbursement modality, this can be determined more firmly later in the Design stage.

RBF can be used with the following disbursement modalities:

1. **Fixed Amount Grants**, these can be used with non- state service providers or government-owned agencies such as power or water utilities⁵². Also, in-kind grants can be used in combination with Fixed Amount Grant.
 - Processes are regulated in the PGG. Other key MCC guidelines to consider when using Fixed Amount Grants are the Grants Guidance Note and Using RBF with *Fixed Amount Grants: How to establish a Milestone Disbursement Schedule*, which is included in Appendix 3.
2. **Performance- Based Procurement (PBP)** can be applied to contract with non-state providers and the process is regulated in the [link to procurement template]

Finally, once the CT has a clear idea of the objective and payment metrics, it is important to create **budget lines for RBF in the Compact or Threshold budget**. At this point, the budget is an estimate that can be used to inform the Investment Memorandum as part of a proposed activity with an estimate of the dedicated budget.

Preliminary alignment of MCA capacities

At this stage, the MCC country team could start preparing the **MCA staffing plan**, which would consider technical needs and roles to implement the RBF. It is important that this is developed in parallel with the RBF definition to make sure it fits implementation requirements. The specific roles needed would vary with the disbursement modalities and reach of the RBF design, but may include Grant Director, Manager, Specialists and/or experts in contract management. These can be MCA positions or contracted, individual consultants paid for by the activity budget.

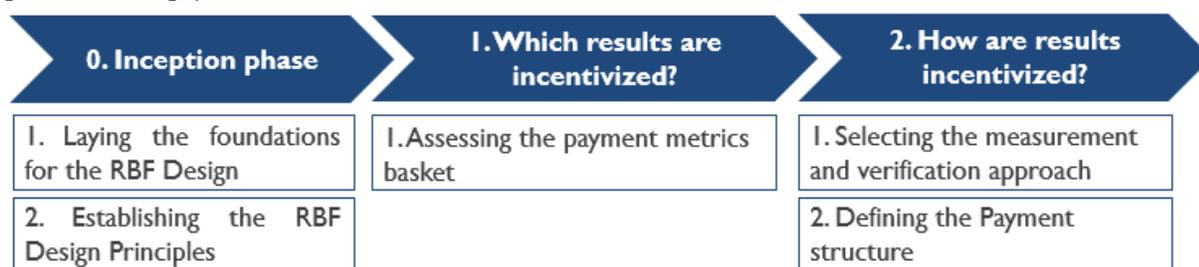
5.3 Design

The design stage takes the high-level RBF strategy to an implementable detailed project description. The Design phase is the core of the RBF analysis and should be carried out during the Compact Mobilization phase contracted by the MCA. At MCC designing an RBF program usually requires at least 4 months, with timelines depending on factors such as project complexity and how much adjustment is needed for the RBF strategy previously developed.

The RBF Design process outlines the final RBF considerations on *which* results are incentivized and *how* they will be incentivized. It is carried out of in three phases, as shown in Figure 11. First an Inception phase lays the foundations and establishes the principles that will guide the RBF Design. Next, there is a final assessment and selection of the payment metrics, which finalizes the definition of the results being identified. In the last step the team defines the measurement and verification approach and decides on the final payment structure.

⁵² Fixed Amount Grants can in some cases be used with Governments, however this is not a usual MCC form of support and thus would need to be previously approved by MCC.

Figure 11. RBF Design process



Source: Author's elaboration

1. Inception phase

Before the final articulation of the RBF design, it is important to **lay the foundations** for the creation of a strong incentive mechanism. The following activities can be enhanced to obtain relevant information for the RBF Design in MCC.

1. The revision of previous RBF designs, inside and outside MCC, to identify a clear incentive scheme with a rigorous and documented process. This will serve as a guide to know what to do and what not when conducting the Design process.
2. Alignment with MCC policies and procedures. Include MCC relevant units (PFS, PAA) in the conversation to reach an agreement that complies with the MCC Cost Principles and the PGGs or the Procurement template, while preserving key RBF elements.
3. Consultations and preparation sessions with relevant in-country stakeholders are key for (1) keeping them engaged with the RBF intervention (2) strengthening their RBF capacity for a productive co-design and (3) identifying performance areas within each actor where RBF offers the greatest value to achieve the objectives of the intervention.
4. Setting up the RBF Design as an iterative process. The process should be designed for in-country stakeholders to understand the key components and provide timely feedback for adjustments. An iterative process facilitates ownership and implementation of the RBF.

The **RBF Design principles** provide guidance on how an efficient and coherent RBF Design would look like for a specific intervention. An RBF Design could incorporate principles such as:

- **Simple and realistic:** The Design is easy to understand and limited in complexity, allowing all stakeholders to apply it to their work supporting its successful implementation.
- **Sustainable:** The Design lays the foundations for RBF mechanisms that can be adopted in the long run.
- **Aligned with sector priorities:** The Design integrates sector priorities set out in consultations with stakeholders, to avoid diverting attention from established goals.
- **Focused on efficiency gains:** The Design draws attention to operational and financial efficiency gains, promoting the best use of existing resources.

2. Which results are incentivized?

In the Design stage, the preliminary long list of payment metrics, selected during Due-diligence stage is refined, and analyzed as a whole to assess if the basket of payment metrics presents a **conducive incentive environment**.

At the Design stage and based on the previous analysis conducted during Screening and Due-Diligence, the Country Team has a good grasp of the RBF context and understands the capacity of the involved incentivized agents to assess how the combination of payment metrics will set incentives across the delivery chain. This assessment follows the criteria outlined above in section 4.2 for a balanced incentive environment. After this analysis some metrics will be prioritized to reach the **final selection of payment indicators**.

Once the final set of results that will be paid for is defined, the RBF Design articulates the way in which these results are incentivized.

3. How are results incentivized?

At this stage, the team decides on the measurement and verification approach for each payment metric and outlines the payment structure.

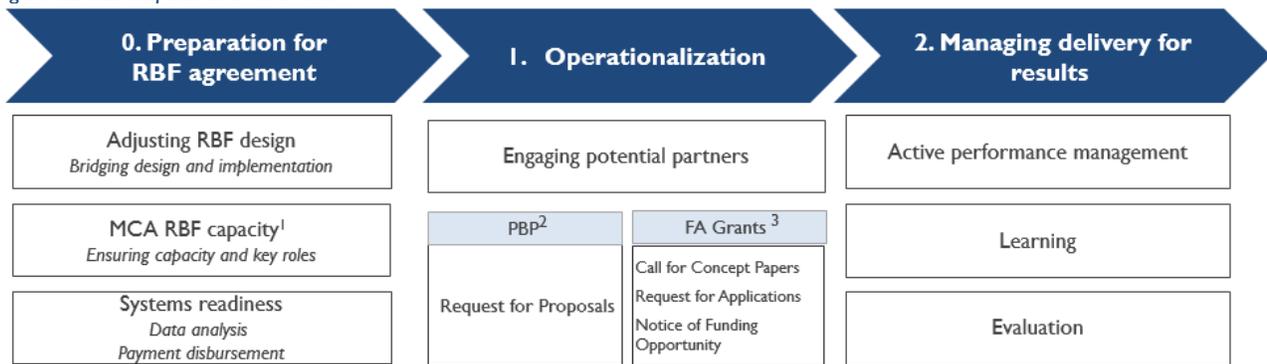
The payment structure determines how much, how, and when results associated to each metric get paid for. As outlined in section 4.2, the RBF payment structure, includes decisions on three elements:

1. **Level of funding tied to each payment metric**, or how the disbursement is divided across the results chain. This entails deciding if a portion of funding would be based on progress-based disbursements, as well as the portion of funding tied to results, or performance-based. This would depend on the capacity of the service providers or incentivized agent's financial capacity.
2. **RBF prices**, this process is described in detail in section 4.2 and involves creating the cost-basis, i.e., mapping out the costs that the incentivized agent will need to incur to reach the selected results. This cost-basis will then inform the budget, the target for each result, and finally the price paid for each unit reached.
3. **Payment schedule** which determines the timing of payment to the incentivized agent. For example, in the case of MCC Fixed Amount grants, the payment schedule will be defined by the *Milestone Disbursement Schedule*.

5.4 Implementation

At MCC, implementation of a program using RBF usually requires actions at three different stages, as illustrated in Figure 12. While some of the processes described here would happen independently from RBF (such as preparing contracts and managing results), these have some differences in RBF's case due to the critical need for a stronger focus on results and effective delivery. Each of these 3 steps is about ensuring results are delivered and that RBF's value-add to the compact is maximized. First, a preparatory phase ensures the MCA is ready to start implementation by making any necessary final adjustments to the RBF design, ensuring the MCA has capacity and roles are well defined, and data and payment disbursement systems are functional. Second, the RBF agreement is operationalized. This step will differ depending on if it involves a Performance-based procurement process, or a Fixed Amount Grant application process. At this stage, the MCA needs to ensure that the agreement processes are aligned with RBF. Third, after the contract or grant is signed, the MCA manages the RBF delivery to ensure course-corrections, learnings and the maintenance of data and verification systems.

Figure 12. RBF implementation at MCC



¹ Depending on the role that MCA play in implementation. If RBF implementation is subcontracted, the MCA would play a oversight and coordination role. If the MCA is leading the implementation, it would require RBF capacity and key roles. Keep in mind that the MCA must disburse grant or contract payments.

² Performance-based Procurement with non-state service providers is regulated in the (link to procurement template)

³ Fixed Amount Grants with non-state service providers or state-owned agencies, is regulated in the PGG.

Source: Author's elaboration

1. Preparation for the RBF agreement

A first step before the RBF contract or grant is signed, is to **review the RBF design** and ensure that all components developed in the previous stage are still relevant and respond to current needs and priorities. In case there are misalignments the team can work with the MCA and perform timely adjustments.

Secondly, it is important to ensure that **internal teams (MCA) have appropriate technical capacity** for performance management, data analysis and verification (as detailed in section 4.3). Based on the MCA staffing plan, developed during the Due-Diligence, if a gap is identified, it should be addressed by developing a capacity building strategy. Technical roles and responsibilities dedicated to RBF within the MCA should be clearly defined, as they act as key technical and managerial focal points for MCC, service providers, the government, and other stakeholders. For example, two essential roles in the context of RBF in MCAs are the project manager and an M&E manager and/or analyst. Although these capacities and roles can be outsourced, ideally key MCA staff should be trained in the use of RBF to limit the dependency on external consultants. As a minimum requirement, in case the verification is contracted externally, the MCA should be able to timely validate results presented by the independent verifier. In the same way, the MCA should have the capacity to disburse payments.

Having clear roles defined from the start helps decision making and troubleshooting, which has been demonstrated to be of particular importance when facing changing circumstances or external shocks that could affect the RBF design or the incentivized agent(s)' capacity to deliver results (e.g., a global pandemic).

Finally, **MCA systems should be** in place to implement the RBF. These includes data collection and analysis systems and processes to collect data on the agreed performance indicators and to measure them timely according to the RBF strategy. Of equal importance is to put in place functional mechanisms to disburse results payments efficiently in accordance with the verification and payment schedule. Doing so is key in preserving the effectiveness of incentives and to avoid transferring unnecessary financial risk to the incentivized agent, due for example to delays or bottlenecks.

2. Operationalization of the RBF agreement

To build buy-in and understanding of RBF and its requirements, the MCA should **engage potential partners**, either service providers or the targeted state-owned agencies, early on. This step is key in most contexts where RBF is a new concept for many organizations and institutions given RBF often involves a different set of requirements (e.g., linking costs to results) compared to traditional financing instruments.

Next, the RBF agreement process will depend on whether the RBF instrument is built into a **grant or a procurement contract**, and the specific requirements for each as regulated in the procurement template, PGG and Cost Principles. Where engaging non-state service providers through procurement the MCA issues a **Request for Proposals**. When the disbursement modality is a Fixed Amount Grant, the MCA carries out a **Grant Application** process and issues a Call for Concept Papers, a Request for Applications, or a Notice of Funding Opportunity. In any case, the RBF agreement process needs to be able to capture the capacity of the potential partner to achieve the intended results, and these should be easily understood.

Compliance with MCC's Cost Principles should be considered and the RBF solicitation, whether it is a RfP or a Grant Application (Call for Concept Papers, a Request for Applications, or a Notice of Funding Opportunity) requires proponents to understand and disaggregate the costs against targeted results. Where partners require support, the PGG allows for a Co-Creation option in certain Grant Award Procedures, as a process of collaboration between the MCA and potential Grantees for the development of submission documents, which will likely be necessary where partners have limited experience with MCA grants and RBF⁵³.

In most cases the RBF design takes the form of a 'technical annex' within the contract, stating the conditions for the RBF element. It is important for all parties to be cognisant about the different RBF design concepts in the contract. This can be addressed by early engagements as stated earlier or through targeted workshops with selected partner(s).

Finally, if external verification of results is necessary, the MCA will need to engage in a separate contracting process to select and contract an independent verifier to run the results **verification process**.

3. Managing RBF delivery

As explained in section 4.3, for the RBF to deliver value, it is key for the MCA to take on an active role in contract management. This involves managing performance across the incentivized agents to identify gaps and work

⁵³ Millennium Challenge Corporation. (2020). [Program Grant Guidelines](#). 3.3.1 (7).

collaboratively with them to implement any course-corrections needed, as well as capturing learnings that can inform other RBF interventions in that specific country and sector.

Active performance management

MCA is expected to play an active role in **tracking the incentivized agent's performance** throughout the RBF implementation to troubleshoot and validate the program's logic and the assumptions that were made during project design. This is particularly useful if the RBF design is built in stages and allows for contract or design iterations.

Active performance management will help validate the Program Logic and assumptions that were made during project design. In addition, managing performance provides both the MCA and the incentivized agent with useful insights to collaborate and effectively work as partners and cross-correct for added value, for example in cases where the RBF instrument is built into a grant agreement. This process helps building up a **culture of performance**, learning, and innovation within both the MCA and the implementing partner, which is fundamental to the sustainability of the RBF outcomes.

Learning

The MCA should as well gather **learnings from the RBF implementation process**. The purpose of this is to evaluate the impact of the RBF program and identify relevant information for sector learnings and for the design and implementation of future RBF programs. As the MCC builds capacity for designing and implementing RBF instruments, country experiences are fundamental for gathering learnings that inform relevant teams within the MCC to strengthen its RBF practice.

Learning processes can also be an important tool for government take-up. By focusing the learning outcomes on questions of interest to the government (e.g., demonstrating cost-effectiveness), they can help build government awareness of RBF's benefits and their interest in adoption of a performance-based culture. This buy-in can be supported by an accompanying dissemination plan, including workshops and events with government, to ensure the evidence generated reaches relevant decision-makers.

In practice, learning processes call for close **coordination between the MCC and the MCA**. This is to ensure relevant learnings for both the country government and the MCC are being drawn and that processes are in place at the level of the MCA to ensure this. Finally, learning processes for the RBF instruments should be **paired with MCC's other monitoring and evaluation processes and strategy** to be fully incorporated into MCC practices.

Evaluation

The MCA should also consider how to integrate learnings from the RBF implementation process with any **independent evaluation of the program** that is contracted. In addition to the learning value mentioned above, previous experiences with RBF have shown that leveraging RBF project learning processes also bring momentum and insights into the independent evaluation. Learnings from the implementation learning processes can be gathered and shared with the independent evaluator, so that efficiencies are generated between both processes and that the independent evaluation can help complement prior efforts.

Independent evaluations differ from internal learning processes in that they help validate the achievement of expected results, as well as identifying program side effects or results that were not considered during the RBF design. It also enables the MCC team to validate the program logic and how successful was the RBF design process in identifying key assumptions and constraints, providing additional transparency and accountability.

Appendix I: Two pioneer RBF interventions at MCC

This section describes MCC's early experiences with RBF in Morocco and Sierra Leone. These experiences were critical use cases for MCC's experimentation with RBF, providing the impetus for MCC's more recent investments to enhance its use of RBF, that led to the initiative of institutionalizing RBF use across MCC. The timeline of this track record is described in Figure 3.

The Sierra Leone Threshold entailed an RBF activity to increase the performance of water and electricity generation in Freetown implemented between 2019 and 2020. The incentive scheme aimed to (1) improve the financial and operational sustainability and service delivery of water and electricity utilities in Freetown and (2) improve coordination and strengthen the role of the regulator.

The project had a total cost of USD 4,1 million, including disbursements, design, and verification. From this, 61% (around 2 million) corresponded to RBF payments. Regarding the disbursement modality, 10%-15% of the funds were paid upfront as progress-based disbursements to kick-start implementation, which was provided in-kind via MCCU procuring supplies and materials necessary to achieve certain results. The remaining resources were disbursed tied to achieved results as grants provided in cash to the 2 utilities (state-owned enterprises) and the regulator (government entity).

This pioneer RBF intervention attained impressive results. The water utility (GVWC) and the regulator (EWRC) exhibited strong performance during the RBF Activity, achieving 114% and 90% of the targeted performance improvements, respectively.

GVWC RBF included payment metrics associated with total and government collections increase, leak repairs, connections installed, submain installations, valve regulation, reporting to the regulator and tariff review application. This utility met or exceeded targets for six of eight metrics. Particularly noteworthy is the strong performance on total collections (a 33% increase above historical performance) and submain installations (a total of 8,000 meters of verified submain installed), which directly contribute to increased revenue and reduced technical losses, respectively.

EWRC defined indicators related to submission and passing of regulations, utility reporting analysis, support to the verifier, performance monitoring planning, among others. The regulator achieved or exceeded the targets for three of eight metrics, while performing above 70% for three further metrics. It is important to note that the submission of all nine targeted regulations, eight of which were passed by Parliament during the RBF Activity, and the strengthening of EWRC's performance monitoring role with utilities. Having regulations in place and experience monitoring utilities' performance are critical for EWRC to execute its core mandated functions in future years.

This experience with the regulator left relevant insights to consider for the application of RBF in PIR scenarios. Performance improvements were driven by changing formal rules and integrating those to the day-to-day operations. Also, increased staff motivation and coordination, advanced planning and improved resource management were key for improving the performance of this governmental entity.

Figure A1. RBF results for GVWC (water utility) and EWRC (regulator) in Sierra Leone Threshold

A. GVWC RBF results

RBF focus area	Payment metrics	Verified results	Target achievement
Billing and collections	Total collections	USD 3.18 million collected (approx.)	101%
	Government collections	USD 607k collected (approx.)	173% <i>(capped at 100%)</i>
Leakage management	Leak repairs	1,520 leaks repaired	30%
	Saddled connections	734 connections installed	122%
	Submain installations	10,351 meters installed	259% <i>(capped at 200%)</i>
Supply reliability	Valve regulation	0 days	0%
Regulations	Reporting to EWRC	17 points awarded	200%
	Tariff review application	1 application submitted	100%

B. GVWC RBF results

RBF focus area	Payment metrics	Verified results	Target achievement
Regulations	Submission of regulations	9 regulations submitted	94%
	Passing of regulations	8 regulations passed	59%
Performance monitoring	Utility reporting analysis	51 steps completed	71%
	Support to the verifier	18 points earned	106%
	Performance monitoring planning	4 processes completed	100%
Outreach	Government perceptions	19 percentage points improved	39%
	Public outreach	24 programs conducted	71%
Tariffs	Tariff adjustment	12 steps completed	173%

The Morocco Employability and Land Compact between the Millennium Challenge Corporation (MCC) and the Moroccan government included an RBF strategy through which service providers were incentivized to integrate unemployed youth, particularly women and low-skilled youth, into the labor market. This was done by paying for (1) completion of job-related training, (2) placement in a formal sector job and (3) achieving 6-month retention.

The RBF component of this Compact amplified impact for the target population. To date, the Program has trained more than 5,700 young job seekers, placed more than 2,300 into formal employment, and retained 1,200 into 6-month employment, of which the great majority are young, low-skilled women. Through a design focused on results rather than activities, a bespoke Salesforce Platform and monthly performance check-ins, service providers have been incentivized to learn and course correct during the program and integrate a Performance Management culture into their operations.

A budget of USD 5.5 million was allocated to the disbursements made to the service providers through the RBF mechanism, with a total amount disbursed of approximately \$3.4 million due to results not being met by certain service providers whose targets were too ambitious. As for the costs to run the RBF program, 400k were destined for the RBF design, \$300k for verification, and \$800k for implementation support (representing 30% of the intervention budget).

Regarding the disbursement modality, performance-based contracts were used by the MCA to disburse cash payments to the service providers (including 2 private companies and 6 NGOs), based on the following conditions:

1. The pre-financing portion was disbursed in full at the start of the program and after validation of the provider's action plan by the MCA-Morocco Agency.
2. All other results payments (training, insertion, and maintenance) are prorated based on the validations recorded on the verification reports within the limits of the objectives set and within 30 days of receiving the provider's invoice. The frequency of disbursement followed that of the submission of audit reports, which was scheduled monthly.
3. Clauses for the recovery of funds were included in the event of major irregularities.

In parallel to the RBF Pilot, MCC also supported improved government employment services by providing technical assistance for mainstreaming RBF and performance management practices. By enhancing program performance, boosting the service provider engagement system, and strengthening country ownership, this technical assistance made for greater sustainability of MCC resources and public budgets.

Appendix 2. Country examples of MCCs RBF stages

Example 1: Screening for the Mozambique Promoting Reform and Investment in Agriculture Project

This screening assesses the potential for RBF to strengthen MCC's impact through an agriculture initiative of an upcoming Compact in Mozambique. The project aims to use market opportunities to trigger sustainable and equitable investments in value addition and productivity in rural Mozambique for smallholder farmers (SHF).

Screening preparation

The MCC country team shared the following information that gave the RBF team an understanding of the problem to later assess the opportunity for RBF:

- **Objective of the project:** increase the competitiveness of the agrarian sector by facilitating and promoting job-creating, inclusive, market driven/competitive and sustainable private sector investments in agrarian production and processing.
- **Problem:** Agricultural development in Mozambique has so far not allowed for an equitable and efficient functioning of input (e.g., access to seeds, fertilizers) and output markets (e.g., access to pricing information to position produce). Additionally, agriculture value chains suffer from a lack of vertical coordination (e.g., poor SHF integration), and is marked by low levels of public and private sector investments (e.g., lack of financial access for agribusinesses).
- **Root causes:** The country team has identified a range of constraints that trap smallholder farmers in a vicious cycle of low adoption rates of improved technologies, subsistence farming, low yields, low profits, and low access to capital (less than 1% have access to credit), resulting in persistent poverty, food insecurity, and malnutrition.
- **Aim:** The proposed project ultimately seeks to include small-holder farmers in the value chain in a sustainable way seeking to increase their income and participation in the market.

Based on this information, the team identified some **performance risks**: the project's aims may be impeded by key project risks identified by the Country Team, which include:

1. **Absence of political will:** the lack of political will to support an investment in agriculture input and output markets may result in an unsuccessful attempt at policy reform.
2. **Limited sector-specific enabling factors:**
 - a. **Lack of an information network for potential finance users in the agricultural sector.** This raises uncertainty for financial entities when lending money to these users.
 - b. Due to limited **financial records in the agricultural sector**, banks are reluctant to lend, leaving few borrowing opportunities at a high cost in the agriculture sector.
 - c. **Technical and technological barriers for sector capacity** in the sector, including barriers linked to overall low-quality education in rural Mozambique.
3. **Increase in corporate income taxes is a disincentive** for private actors to invest in the agriculture sector.

The RBF team, identified the following **past experiences** that were relevant to assess the RBF opportunity in this project:

- *The Pay-For-Impact funding mechanism* from Root Capital, IDB Lab, and the Swiss Agency for Development and Cooperation (SCD) which focused on early-stage agricultural enterprises in Latin America in 2019. To support the transformation of rural communities, Root Capital and its partners are deploying a new RBF model that encourages lending to early-stage agricultural enterprises with high impact potential. This mechanism creates a market-correcting incentive that compensates for short-term unprofitability of this segment, thereby improving its long-term sustainability.
- *The Kenya On-Farm Storage (OFS) Challenge Project*, developed between 2015 and 2018 by AgResults, which used prize competitions to incentivize storage companies to sell high-quality OFS devices to smallholder farmers in Kenya Rift Valley and Eastern regions to increase their productivity and income. This project awarded USD 6.3 million in prizes to six companies making qualifying sales of improved OFS and three achieving the threshold required.

Assessing the RBF value add

The RBF team identified a clear opportunity for using RBF to support the project described above. RBF can 1) incentivize private sector actors to identify agro-sector aggregators, willing to include more small-holder farmers in their value

chains and ultimately provide them with the necessary technical assistance (focused on financial expertise/management land machinery needs) to achieve this. Additionally, RBF can play a role incentivizing the government to push forward the necessary reforms to facilitate the process of adding small-holder farmers to the value chain of market aggregators while also strengthening the capacity of these aggregators through complementary technical assistance.

How could RBF help (RBF value-add)? Given the challenges in Mozambique agriculture sector, RBF could provide the *flexibility* needed to address persistent challenges like climate change while *aligning incentives* across the relevant parties to address service delivery inefficiencies and inequality across the value chain. By incentivizing different private sector actors RBF can help overcome the challenge of limited participation of SHF in the agricultural space in Mozambique for a more equitable market development. Additionally, smallholder farmers can be directly incentivized to improve their productivity outcomes. Since policy reform is a key component of this project and will be needed to generate a longer-term sector transformation, RBF can also generate the appropriate incentives for the government to grow and diversify the market of aggregators and operators in the agricultural sector, as well as strengthening the capacity of such said aggregators to include small-hold farmers in their value chains through complementary technical assistance.

Defining the RBF opportunity

Who could be incentivized?

1. Incentivizing private sector actors to identify aggregators willing to include small-holder farmers in their value chains and provide them with the necessary support to include them.
2. Incentivizing government to make reforms that facilitate small-holder farmer integration into value chains.

What could be incentivized?

1. The RBF instrument could pay private sector actors for finding aggregators that include small-holder farmers in their value chains and for increasing the productivity achieved by such said farmers or aggregators themselves.
2. Payments could be conditioned on government reforms focused on the integration of strategies geared at governing the agrarian value chain and/or effective and transparent tracking system of the outgrower mechanisms.

Analysing high-level conditions for RBF

Manageable control and technical capacity: The project's key risk is having a private sector incentivized agent with limited manageable control over desired outcomes. Given that they will not be the ones directly seeking out and working with small-holder farmers, and that they will be depending on sector aggregators with a high level of informality and limited capacity to conduct this task, it will be difficult to directly impact the achievement of results. This risk would need to be further explored during the Due-Diligence but could potentially be addressed with complementary technical assistance for both small-holder farmers and commercial aggregators.

Political buy-in: the country team has indicated an interest in assessing how RBF could be used to incentivize equitable and sustainable development in the Mozambican agricultural sector.

Conclusion

The screening concludes that the project offers clear opportunities to use RBF which could be assessed in detail with a 3–4-month Due-Diligence. In particular, the Due-diligence could further assess promising opportunities in relation to:

1. Incentivizing private sector actors to identify sector aggregators willing to include small-holder farmers in their value chains and provide them with the necessary support to include them.
2. Incentivizing government to make reforms that facilitate small-holder farmer integration into value chains.

Example 2: Due-Diligence for the Senegal Energy Compact

This Due-Diligence assesses opportunities to advance Senegal Compact's objectives by adding an incentive mechanism to enhance the electricity utility's (Senelec) performance. The Due-Diligence focuses on diagnosing the main constraints

to the utility’s performance which could be addressed by RBF to then evaluate the value-add and conditions for the RBF instrument and sets a strategy to guide a potential design.

Diagnostic

Key Due-Diligence preparation activities included: (1) a mapping of key stakeholders and their motivations and constraints, (2) an analysis of the existing incentive and accountability environment, (3) an assessment of Senelec’s current performance, including an identification of key performance gaps and underlying barriers to improved performance, and (4) a rapid analysis of the MCC Compact, including how it addresses Senelec’s barriers and whether there are critical performance risks that the RBF could address.

Stakeholder mapping. The RBF team identified and prioritized who to engage based on a mapping of the key stakeholders. High priority stakeholders included: Senelec, the electricity regulation agency (CRSE), the Ministère du Pétrole et des Energies (MPE), the Ministère de l’Économie, du Plan et de la Coopération (MoE), and the Ministère des Finances et du Budget (MoF). In addition, the Team consulted with other MCC consultants working on the Compact, as well as key donor partners that are active in the Senegal electricity sector (USAID and AfDB).

Identifying key performance gaps. As part of the diagnostic, the RBF team identified key performance gaps in Senelec’s activity. Gaps were organized following Senelec’s performance objectives. The following table summarizes the main performance gaps Senelec was facing under each categorization.

Table A1 . Senelec’s key performance gaps

Objective	Key performance gaps
Access	Universal access: Although access is relatively high for SSA (70%), Senelec is not on pace to achieve the GoS’ objective for universal access by 2025.
	Last-mile access: Access is considerably lower in rural areas, as well as among lower-income citizens.
Cost efficiency	Generation mix: Structurally, most of Senelec’s costs are driven by a generation mix reliant on costly HFO-fuel power plants.
	Non-technical losses: Senelec’s losses from fraud and commercial account for 10% of all energy distributed, which is the highest component of Senelec’s efficiency loss total.
	Technical losses: While not quite as high as non-technical, technical losses are still well above industry standards at approximately 9% of all energy distributed.
Quality and reliability of service	Customer service: Senelec has under-performed on results for customer service related to connection, billing and collections, and technical performance, representing one of the most substantial gaps in Senelec’s performance.
	Distribution outages: Distribution outages are increasing in frequency, with performance lagging most in regions other than Dakar.
	Transmission outages: Outages from the transmission system have remained inconsistent and high, with performance worsening on the 225 kilovolt (kV) line.
Reform commitments	Coordination and compliance with regulation: Senelec does not consistently comply with requirements to report data to CRSE, among other issues in its regulatory compliance.
	Unbundling milestones: Senelec may not meet its unbundling milestones on-time or with high-quality.

Validating and refining the RBF opportunity

At this stage, the team refined some opportunities for RBF that had been outlined during the Screening stage.

Identifying barriers causing performance gaps. While a performance gap provides an opening to explore RBF, RBF may not always be the right tool to improve performance. To understand if RBF is well-suited to drive greater results, it is essential to understand the underlying *barriers* (i.e., root causes) that are behind the gap in performance.

1. **Weaknesses in the incentive and accountability environment** were a leading cause of almost all performance gaps. The team’s analysis revealed that almost all incentive and accountability mechanisms are designed and/or implemented with considerable gaps. As a result, despite having the structural features of strong accountability and aligned incentives, the environment fell short of producing both effects.
2. In some cases, **limited results orientation** was also hindering Senelec’s ability to improve performance. While Senelec did have defined results and targets for some areas of performance, consultations indicated that there was a limited results focus on an ongoing basis.
3. **Capacity gaps** were frequently identified as a major reason for Senelec’s under-performance on key results. Although stakeholders pointed to strong technical expertise and skills at Senelec, there were persistent issues with Senelec’s operational capacity.
4. Senelec was also **constrained by its distribution and transmission infrastructure**, which was often aging or not sufficiently expanded, as well as various external factors.

Value-add. Following the barriers identification, the team reviewed the Compact’s program logic and identified that for some performance areas two main barriers—low accountability and misaligned incentives and limited results orientation and flexibility—had less support and were related to the ways in which RBF can drive impact (i.e., it could help with incentive alignment, accountability, focus on results and flexibility). Hence, there was a strong rationale for leveraging RBF in this capacity to complement other Compact support and help drive greater performance improvements at Senelec. More specifically, RBF’s value-add focused on the following performance areas for Senelec’s service delivery: access in non-urban areas, customer service and complying and coordinating with the regulator.

Assessing conditions for RBF

An assessment and articulation of conditions for RBF seeks to answer the question: to what extent are the enabling conditions for RBF present? Certain political, technical, and administrative conditions are important for RBF’s success. As part of the RBF due-diligence, these conditions were assessed in the context of Senelec and the broader Senegal electricity sector to determine (1) the extent to which they are currently present, (2) the impact on RBF’s potential value-add, and (3) how the RBF strategy should proactively strengthen or build necessary conditions by, for example, deploying complementary strategies or tailoring RBF parameters.

The team’s assessment identified the following conditions in Senegal for the implementation of an RBF instrument to improve Senelec’s performance:

Table A2. Summary of Senegal’s due-diligence conditions assessment

Condition	Assessment	
Political support	Strong buy-in to improving Senelec and using RBF as a tool, but three weaknesses or risks should be addressed in the RBF strategy: <ul style="list-style-type: none"> • Poor accountability structures • Support being contingent on aligning with the performance contract • Competing priorities threatening sustained engagement and support for the RBF 	Medium-high (can be strengthened in strategy)

Technical fit	<p>Results that are meaningful, measurable and within Senelec’s manageable control can be identified and a relatively strong set of existing data (for many results) can be called upon to help target and price setting. However, three weaknesses or risks should be addressed in the RBF strategy:</p> <ul style="list-style-type: none"> • Limited data for some results areas • Weaknesses in data quality for Senelec-produced data • Inconsistent data sharing on the part of Senelec 	<p>Medium-high (can be strengthened in strategy)</p>
Administrative capacity	<p>Senelec operates in a strong enabling environment for RBF and has the autonomy needed to implement an RBF. Senelec also has relatively strong technical and operational capacity, according to many stakeholders. However, there are important capacity weaknesses or risks that should be addressed in the RBF strategy:</p> <ul style="list-style-type: none"> • Weaknesses in key support functions, such as human resources and logistics • Limited performance management skills and expertise • Inconsistent financial capacity and potential cash flow issues 	<p>Medium (can be strengthened in strategy)</p>

RBF strategy options

RBF objectives and budget. The RBF team started by outlining the objectives and core strategic principles that guide the RBF strategy and its key components, as well as outlining the budget and its implications. The team established one short-term and one long-term objective. The short-term objective of the RBF strategy was that of improving operational performance. The long-term objective focused on refining Senelec’s incentives and accountability environment to sustain and expend performance. In addition, three key principles were established based on the identified value-add and the MCC and government stakeholders’ interests:

1. The RBF will **respond to the institutional context**. Key aspects of the institutional context for the RBF include the performance contract, the ongoing sector reform and unbundling of Senelec, and the political nature of the sector and Senelec (as a state-owned enterprise).
2. The RBF will strive to **embed a culture of performance** within Senelec. To create an environment driven by results within Senelec, the RBF will seek to empower Senelec and amplify its ownership over its performance through the RBF. Further, the RBF will target concrete behavior and attitude changes within Senelec as a key pathway to impact and to help activate a mindset shift towards results.
3. The RBF will **focus on driving sustainability** both for Senelec and for the sector.

On the other hand, the funding available was relatively low and, consequently, represented a risk for the RBF. To mitigate this risk, the RBF strategy included several tactics, including:

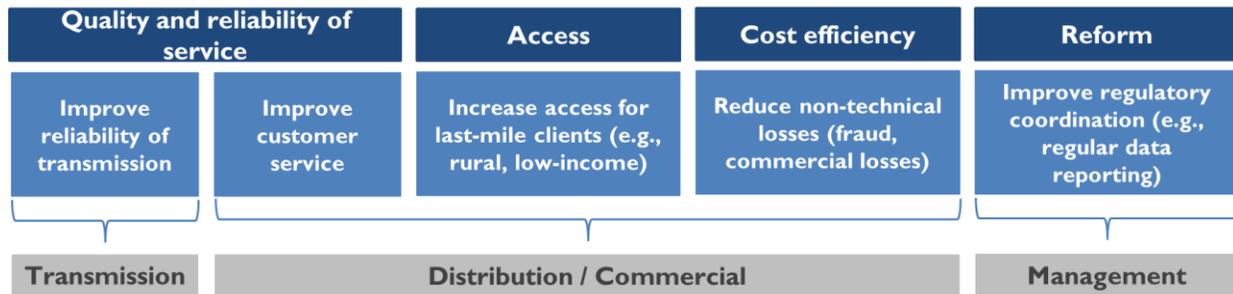
1. Targeting performance areas where **efficiency gains** are possible (i.e., improvements leveraging resources available) and maintaining a reasonably small scope to enable stronger incentives (i.e., do not spread incentives over too many priorities).
2. Ensuring the RBF **implementation is not too long**, which could risk spreading RBF incentives too thin to motivate changes.
3. Allowing for, or specifically assigning, a portion of RBF incentives being distributed as **staff-level incentives**, where the funding amount appears more robust in comparison and, hence, may be able to motivate more performance enhancing changes.

Responding to the existing performance contract. To respond to the institutional context, as well as to enhance stakeholders’ buy-in, the RBF strategy was rooted in a clear vision of a complementary relationship with the existing performance contract. The RBF strategy centered on the existing performance contract and aimed to leverage and

complement what already exists. For this, the strategy stated that the RBF instrument should seek administrative alignment with the existing contract and strategic complementarity.

What is incentivized? The RBF team prepared a preliminary proposal for performance areas targeted by the RBF, focusing on the distribution department of Senelec where RBF incentives were most likely to drive efficiency gains. Figure A2 outlines this proposal.

Figure A2. Preliminary RBF performance areas in the Senegal RBF Due-Diligence



Also, based on these performance areas and results selection criteria, some preliminary results were identified.

How could Senelec be incentivized? The strategy to incentivize Senelec focused on financial incentives based on performance with two supporting incentive strategies: non-financial incentives to enhance motivational effect and in-kind support to aid the development of a culture of performance.

1. **Financial incentives:** the financial incentive strategy highlighted the importance of sharing performance responsibility between Senelec’s management and the different departments responsible for a performance area. In the same manner, the strategy suggested to strike a balance between incentives that were reinvested to achieve results in subsequent periods and those that were used as rewards for staff.
2. **Non-financial incentives:** the strategy set avenues for government actors to provide non-financial incentives to Senelec. GoS stakeholders and CRSE could reinforce and reward strong performance with, for example, enhanced political support or validation and commendation of achievements. On the other hand, if Senelec’s performance fell short of targets, stakeholders could help analyze and question what is preventing improved performance and provide support, where feasible, to unlock better results.
3. **In-kind incentive:** the strategy also proposed avenues for the RBF to provide targeted, in-kind assistance to support Senelec management and departments in the transformation journey to a performance-driven culture.

Apart from the main strategic elements, the RBF team also made some suggestions on additional strategic considerations such as timelines and payment schedules, as well as establishing suggested pathways for sustainability.

Conclusion

The project found that the implementation of an RBF mechanism had strong opportunities to enhance Senelec performance even beyond the Compact duration. The value-add of RBF was mainly based on its ability to reinforce Senelec’s incentives and accountability mechanisms as well as its focus on results, areas that lacked some Compact support according to the program logic.

RBF strategy set the short-term goal of improving Senelec’s performance and a long-term goal of refining Senelec’s incentives and accountability environment. Goals were addressed by the RBF strategy mainly through financial incentives, but with the potential support of non-financial and in-kind incentives, incentivizing Senelec’s performance areas where RBF was more likely to bring efficiency gains.

Example 3: RBF Design in Sierra Leone Threshold

Overview

An RBF activity was incorporated to MCC's Threshold program in Sierra Leone to incentivize performance improvements in Freetown's water and electricity utilities as well as their regulator. An RBF design was made for each of the utilities (Guma Valley Water Company, Electricity Distribution and Supply Authority, and Electricity Generation and Transmission Company) and for the regulator Electricity and Water Regulatory Commission. This process included the definition of (1) payment metrics (2) results verification and (3) payment structure. This example details the assessment of each of these elements for the water utility Guma Valley Water Company (GVWC).

The RBF for GVWC focused on addressing the commercial and technical barriers of the utility to generate enough revenue to self-finance its operations:

- On the commercial side, the RBF aims to provide GVWC with the incentives and flexibility to prioritize the most impactful and cost-effective activities to increase collections. Also, it seeks to incentivize learning and adapting in response to new information, constraints, or opportunities that arise.
- On the technical side, the RBF aims to draw GVWC's attention to technical losses and supply reliability. Also, the RBF focuses on improving the reliability of water supply to customers across all areas of Freetown by incentivizing the revision of and adherence to the rationing regime.

Finally, the RBF aims to improve the data environment and transparency in the sector. All payment metrics contribute to this indirectly through the measurement of key results. In addition, the design provides performance incentives to collect financial and operational data to 1) calculate the cost-of-service, and 2) regularly report to EWRC; this helps to strengthen the role of the regulator and increases accountability for GVWC.

Inception phase

First, **RBF Design principles** were established to guide the decision-making process of the design and develop 'best-fit' recommendations. Sierra Leone's RBF Design was guided by the following features:

- **Simple and realistic:** The Design is easy to understand and limited in complexity, allowing all stakeholders to apply it to their work supporting its successful implementation.
- **Sustainable:** The Design lays the foundations for RBF mechanisms that can be adopted in the long run.
- **Aligned with sector priorities:** The Design integrates current priorities as set out in the Sector Roadmap, and the organizational strategic plans, among others, to avoid diverting attention from established goals.
- **Focused on efficiency gains:** The Design draws attention to operational and financial efficiency gains, promoting the best use of existing resources.

Before starting the Design process, MCC carried out a desk review of key documents, stakeholder engagements and consultations, and RBF trainings. This facilitated building a common understanding among key actors and strengthening their capacity for RBF knowledge. It also led to identifying new constraints to RBF implementation, that had not been identified in previous stages and strategies to mitigate them. Based on this, the team also identified performance areas where RBF could offer the greatest value to achieve the objectives of the RBF component.

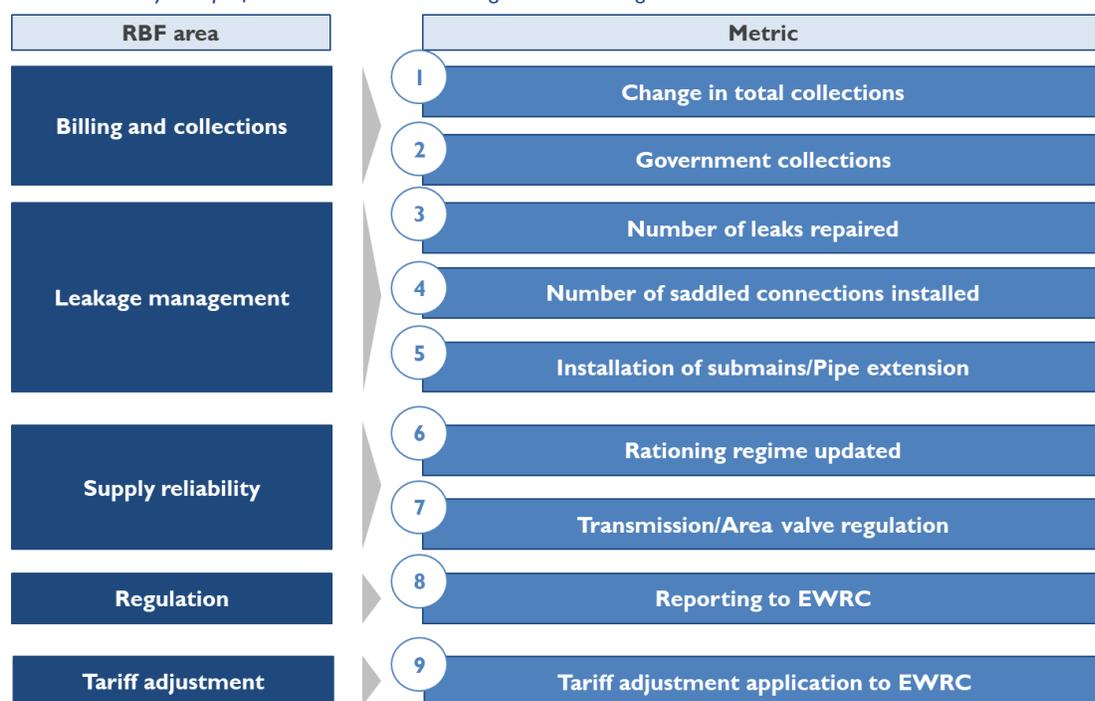
These activities led to the creation of a preliminary design of the RBF in close collaboration with the MCCU and relevant institutions, which included a preliminary selection of payment metrics and identification of verification procedures. Feedback on the preliminary RBF design was gathered through workshops attended by the institutions, the regulator, MCCU, MCC, and, in some cases the respective Ministries. In addition, the Ministry of Economic Development, the Ministry of Finance, and the Ministry of Energy were engaged in meetings.

Subsequently, GVWC and the Ministries were engaged in the iterative co-design and finalization of the RBF design to incorporate feedback on the payment metrics and verification procedures and finalize the pricing and payment structure for each of the proposed payment metrics. This involved several discussions with technical and management staff at the institutions as well as workshops.

Which results are incentivized?

Based on the RBF design principles defined in the inception phase and the payment metric criteria shown in Table 5 (Section 4.2) a set of payment metrics was previously selected during the Due-Diligence stage. During Design, these metrics were assessed as a whole incentive environment according to the criteria outlined in section 4.2 and illustrated in Box 3. The team decided to go forward with the whole list of payment metrics proposed in the Due-diligence categorizing them in strategic RBF areas, as shown in Figure A3.

Figure A3. Preliminary RBF performance areas in the Senegal RBF Due-Diligence



Note: For simplicity, the payment metric increase in total collections will be used to explain step-by-step process developed in this RBF design.

What is meant with increase in total collections? The increase in the total collection amount (in SLL) from residential, commercial, institutional customers and bowser (which includes both private deliveries and community services) above a baseline.

There are a several ways through which GVWC can increase collections, including improvements to the processes of registering, billing, and collecting from customers. By paying for improvements in total collection the RBF provides GVWC with the incentives and necessary flexibility to strategically plan through which channels they can increase revenue most effectively and to implement initiatives with a high quality. The resulting increase in revenue will allow GVWC to invest in further infrastructure and service delivery improvements.

How are results incentivized?

This section defines a clear pathway in which GVWC will actually attain an increase in the total collection amount from residential, commercial, and institutional customers and bowser above a baseline. Two main assessments were completed in this section: (1) the payment structure and (2) the measurement and verification approach.

i. Payment structure

The payment structure is defined by (i) a progress-based disbursement provided at the beginning of the RBF, (ii) the prices per unit of results achieved, and (iii) the payment schedule, which determine the timing of payment to the institutions.

Determining the progress-based disbursement at the beginning of the RBF

Based on the analysis of the barriers, the team defined a combination of incentives to improve performance with targeted investments provided at the beginning of the RBF would increase the likelihood that GVWC will reach performance targets in the program’s short time span, which was only of one year. Further, given the brevity of the RBF and long

lead-times in procurement at the utility level, the degree to which GVWC will be able to utilize RBF payments to generate additional results within the timeframe of the RBF is limited.

In consultation with the MCCU, the maximum amount of investment was set to 15% of the funding provided to the Sierra Leone Compact, equivalent to \$195,000 for GVWC. The process of compiling the list of required items was led by the GVWC with guidance and feedback provided by the RBF Core Team and the MCCU to ensure that the items are relevant and necessary to improve performance on the selected payment metrics for the RBF. Examples of elements considered in GVWC pre-financing request were leak repair materials (e.g., ductile iron pipes, solvent cement, and couplings) and saddled connections. A series of meetings were held to identify priority needs to improve performance for each payment metric, supplier, and estimated cost.

After compiling an initial list, through several follow-up meetings, GVWC prioritized the items most important to improve performance and validated the estimated number of items against the proposed performance targets.

The prices per unit of results

Data availability to estimate the costs in the context of this intervention was limited. Thus, the process required several assumptions to arrive at cost estimates to define the unitary price of the result. Through extensive consultations with institutions and other experts, as well as document and data reviews, the MCC RBF Core Team gathered the necessary data and validated all assumptions to arrive at cost estimates for the cost of achieving results. To ensure compliance with MCC's cost principles and to offer greater value-for-money to the MCCU, the proposed prices per payment metric are equal to or lower than the cost and/or benefits of achieving the result.

For the sample metric, *Increases in Total Collections*, the price per unit was set in SLL 1,000. No payment is made for total collections below the baseline of SLL 20,096,766,000. There is a lower price for each \$1 increase in the total collection amount up to SLL 23,559,700,000. Above this level the price increases, providing a stronger incentive to match the higher level of effort and costs needed to implement long-term sustainable activities to further increase the total collection amount. The table below details the prices both above and below the threshold of SLL 23,559,700,000.

Table A3. Prices for the metric increases in total collections amount

Amount collected	Per SLL 1000	Per \$1
Less than baseline	\$0	\$0
Above baseline	\$0,06	\$0,5
More than SLL 23,559,700,000	\$0,12	\$1,0

Payment schedule

The payment schedule defines when payments will be made. This RBF design proposes quarterly payments for all institutions, including GVWC, based on the following considerations:

- **Feedback loops and performance improvements:** Frequent payment requires frequent measurement of the payment metrics which can generate valuable insights for the institution on how to improve results in later periods. Frequent payments also allow institutions to re-invest the RBF payments earned in activities that can further improve performance.
- **Cost:** On the other hand, a higher payment frequency usually entails greater measurement and verification cost and requires the attention and resources of all parties involved.

ii. Verification approach

Verification is necessary to ensure that RBF payments are only made for results that have been achieved. An Independent Verification Agent (IVA) will assess each institution's performance on the defined payment metrics, calculate the payment amount and create a report for MCCU that will trigger payments to the institutions. There were two verification approaches considered for the GVWC Design that are explained in Table A4.

Table A4. Verification Approaches in the GVWC RBF Design

Approach	Example	Considerations	Benefits
<p>1. Primary data collection and reporting done by the institution:</p> <ul style="list-style-type: none"> The institution collects data, measures, and reports on the results achieved. The IVA® verifies the achievement of results usually on a sample basis. 	<p>**EDSA reports on the number of pre-paid meters installed eligible for payment. The IVA® selects a random sample and verifies the installation of the meter either through physical inspection or records of electricity transactions (vouchers).</p>	<ul style="list-style-type: none"> What systems, processes, and data already exist? How reliable are they? Does the institution have the capabilities to collect the required data and to measure results as defined with limited reporting errors? 	<ul style="list-style-type: none"> Greater integration with the systems and processes Builds the data collection and performance management capacity of the institution. Usually less costly, more scalable, and sustainable.
<p>2. Primary data collection and reporting done by the IVA®:</p> <p>The IVA® collects data, and measures and reports on the results achieved.</p>	<p>The IVA® administers a survey to measure the perceptions of EWRC held by the government stakeholders.</p>	<ul style="list-style-type: none"> What documentation and activities are needed to verify the veracity of data reported by the institutions? How costly is it to collect the data? What level of rigor is needed? 	<ul style="list-style-type: none"> More rigorous and independent, enhancing the credibility of the reported results Does not add additional data collection burden on the institution.

Conclusion

The GVWC design was moved forward and implemented from 12 months (June 2019 – May 2020), correspondent to the final year of the Threshold. In total, GVWC successfully achieved 114% of the overall target payment. Strong performance was consistent across focus areas in Figure A3, with 6 of 8 metrics having targets reached or exceeded (and the remaining 2 metrics influenced by factors outside of GVWC’s control). Particularly, regarding the metric of total collection, 101% of the target was achieved, correspondent to approximately USD 3.18 million collected.

Example 4: Implementation in the Morocco Workforce Development Compact

As explained in Appendix I, **The Morocco Employability and Land Compact** between the Millennium Challenge Corporation (MCC) and the Moroccan government included an RBF strategy through which service providers were incentivized to integrate unemployed youth, particularly women and low-skilled youth, into the labor market. This was done by paying for (1) completion of job-related training, (2) placement in a formal sector job and (3) achieving 6-month retention. This section outlines considerations and steps in the implementation of this program.

Preparation for the RBF agreement

To prepare the RBF agreement for in Morocco, the MCC RBF Team and MCA Morocco carried out a Feasibility Study with a dual objective. First, to ensure the market was ready to implement an RBF, which involved engaging potential service providers to understand their capacity. Second, to align government agencies and ensure that capacity, political will, and RBF understanding were in place. The feasibility study included two field trips.

Building from insights in the feasibility study, three actions took place that were key to set the ground for successful implementation of the RBF Compact in Morocco:

1. A Committee was established including the MCA Morocco, the Ministry of Labor and the National Employment Agency (ANAPEC) to ensure alignment and coordination from the start. This Committee took all final decisions on the RBF such as the final validation of the design, the selection of target population and the payment metrics.
2. A procedures Manual that described in detail the RBF design that was approved by the Committee, including process and governance for the RBF implementation. This manual was developed building on a literature review and benchmarking exercise and a conceptual framework.
3. The RBF Team supported the MCA with capacity building activities and workshops to ensure a good understanding of RBF implications across all stakeholders and limit the dependency on external consultants.

Roles and responsibilities for RBF implementation were shared between the MCA and the MCC RBF Team, with the MCA Manager assuming the role of RBF Project Manager.

Operationalization

The disbursement modality for this Compact was Fixed Amount Grants. The selection process for service providers for the RBF pilot started with the launch of a Call for Expression of Interest.

The call requirements included technical and financial files to assess the eligibility of organizations, their intervention models and past experiences, as well as the reasonableness of their workplans and costs. Once the applications were received, the proposal evaluation process was completed in these steps:

1. A first filter and evaluation of the proposals: An initial evaluation of the proposals was carried out by following the evaluation grid with criteria including intervention model, strategy for social inclusion, organizational and management capabilities, past experiences, and cost-effectiveness.
2. Panel 1 (pre-selection): Based on these evaluations the Committee mentioned above, made a pre-selection of the proposals and gave feedback and recommendations to each service provider. This stage allowed the program to build capacity on the applicants early in the selection process.
3. Due-Diligence and revision of proposals: Following the panel's feedback, a due-diligence study was carried out through interviews with service providers to better understand some identified or potential risks, particularly with regard to the organization's mode of governance, their management, and financial capacities as well as the reasonableness of their workplan and costs. The service providers' proposals were then reviewed in the light of the technical advice emerging from the due-diligence stage and their final evaluation was carried out.
4. Panel 2 (final selection): The Committee met again to evaluate the revised proposals and make a final selection. 8 service providers were selected to participate in the RBF pilot.

Finally, the RBF Team organized two main capacity building spaces for the 8 selected service providers to prepare them for the RBF. First, trainings or program launch sessions took place in Rabat and Marrakech to present the Pilot's vision and key technical parameters such as payment metrics and verification processes. These sessions consisted of two days of training on the procedures and implementation tools delivered by Instiglio and training by an accountant for certain service providers on financial and accounting management. Second, a weekly "office hour" session was set for the RBF Team to respond to requests from service providers in a dedicated space throughout the implementation of the Pilot.

Managing delivery for results

The Morocco RBF Pilot developed a **performance management system** in the RBF pilot based on three elements:

1. The definition of performance indicators making it possible to target the data to be collected.
2. A digital Salesforce platform, to develop a performance management cycle. Service providers submitted their results for verification on this platform on a regular basis.
3. Support for service providers in troubleshooting and course corrections. This was managed by the MCA and RBF Team through monthly support sessions. For example, this proved to be useful when some service providers did not understand the population quota system for the trainings (a requirement for the payment metrics criteria) and so as soon as it was detected that trainings went above those quotas, there was room to re-explain the rules to them so that they wouldn't keep training that specific population.

To identify and capture learnings in a systematic way, the RBF Team designed a **learning agenda** with the specific aim of testing the implementation of the RBF mechanism to improve the employability of young people, on a pilot scale, and to understand the main performance factors of the intervention. This analysis was then synthesized in the form of lessons that could be transposable to other contexts.

The analysis included a desk review of documents that had been generated through the RBF pilot including a concept note on learnings from the selection process, baseline, mid-line and endline reports capturing lessons learnt at different stages of the implementation, and documents focusing on how to achieve scale and sustainability of the RBF. Also, the learning methodology included data analysis from the digital monitoring platform on Salesforce, as well as satisfaction surveys of both beneficiaries and employers. Finally, interviews with service providers, MCC, MCA Morocco and external stakeholders were used as input for this learning agenda.

The learning areas targeted included RBF design, intervention models, procedures and performance, and a Gender and Inclusion dimension. For each of these areas, the learning agenda assessed how those elements contributed to key performance factors, i.e., (i) achieving the quantitative objectives, and/or (ii) guaranteeing the satisfaction of beneficiaries

and/or (iii) allowing flexibility to providers. The box below illustrates how these learning outcomes looked like for a component within the *Intervention Models* area.

Example: Capturing learnings from the area *Intervention Models* (market study)

The creation of an intervention model was part of the grant application process. These models were refined and complemented with technical support from the MCA as the proposals were reviewed for the final selection. The models were composed of the following phases that were the subcomponents analyzed in the report: (1) market study, (2) program diffusion and beneficiary selection, (4) formation, (5) intermediation and (2) support post-job placement.

The following analysis to identify learnings was carried out for the market study component:

Service providers were encouraged to propose their own approach for identifying labor market needs, focusing on identifying concrete job offers in the relevant employment pool. In general, all the service providers integrated a more or less a rigorous market study stage into their intervention models. Some suggested establishing contacts with local administrations and decentralized services. Others proposed the development of a database of potential partner companies, with possible prospecting visits and an assessment of their recruitment needs. It should be noted that some service providers attempted to integrate elements favoring G&I aspects such as ensuring that the companies surveyed have a social inclusion strategy in line with those of the pilots.

Observations

- According to providers, the most effective strategies for engagement with the employers are networking and door-to-door. Human contact creates bonds of trust between the service provider and the employer. Also, some service providers adopted innovative tactics such as a Women Employment Forum organized and led by various partners, in particular public entities in the employment sector and associations.
- A good practice for this component is to work on job intermediation at the same time as developing the market study. The MCA Pilot showed that providers with experience in intermediation and with a pre-established network were successful. For example, AMIDEAST (a service provider) did a complete market research proposal with names of potential partners, the sectors, types of positions and skills required. In addition, AMIDEAST created an approach to generate engagement among employers explaining to them the value-add of the program. On the other hand, other service providers deprioritized this step in their intervention model, which may explain less success in their results.

Learnings

The stage of market research is key for an intervention model of an employability program. By definition, this model seeks to connect the demand for employment with the existing supply. Focusing solely on the demand side, by training beneficiaries, solves only part of the equation. In particular:

- Favor service providers who are experts in intermediation at the selection stage: Since the program aims to place young people into a formal job and the reduction of the unemployment rate in the short term, it is wise to favor service providers with a large network of partner companies and a proactive and evidence-based intermediation strategy. Concretely, more weight should be given to these criteria during the provider selection stage.
- Sensitize selected service providers to the importance of the market research stage: It is recommended to sensitize service providers to the importance of the market research stage and enhance job intermediation since the selection of beneficiaries, with possible technical upgrading for service providers with little experience in this area. It could be interesting to consider strengthening the skills of service providers on networking before the program or even include even financial incentives regarding this stage.
- Encourage door-to-door sensitization of potential employers on the RBF approach: In terms of intervention model, it is recommended to integrate in this stage a strategy of networking with employers in order to encourage their adherence to the program, in particular through clear communication on the RBF approach adopted.

Evaluation

Evaluation of the Morocco Pilot is being carried out by an independent consultant, with the objective of determining if the program demonstrated an effective and sustainable model for job placement services. Data collection for this evaluation began in 2022 and is planned to continue until 2024.

The evaluation will include a qualitative study and a quantitative descriptive study. The qualitative study looks on implementation and participants' experiences in the program, while the quantitative study is primarily focused on measuring participants' labor market outcomes.

Appendix 3: Using RBF with Fixed Amount Grants: How to Establish a Milestone Disbursement Schedule

This note provides step-by-step guidance on establishing a Milestone Disbursement Schedule for Fixed Amount Grants for RBF in different contexts and sectors in compliance with MCC's Program Grant Guidelines (PGG)⁵⁴ and Cost Principles⁵⁵. The approach outlined here is applicable to both non-government and state-owned agencies. The note starts by presenting a high-level step-by-step process to get from a cost build-up to Results-based Financing (RBF) payments. This is followed by three illustrative cases across three sectors relevant for MCC: power utility management, workforce development and agriculture value aggregation.

Steps to build a cost basis to use RBF with Fixed Amount grants.

The following steps present overall guidance for developing a Milestone Disbursement Schedule for RBF. Table 1 below illustrates this process by providing simplified examples of this step-by-step process in key sectors of MCC's Compacts.

Every Grant Application must include a Grant Budget and Grant Budget Narrative. The MCA Entity must review every Grant Budget for cost allowability, allocability, reasonableness, and adherence to other cost considerations as per the MCC Cost Principles for Government Affiliates. This Grant Budget and Grant Budget Narrative will be the basis for building the Milestone Disbursement Schedule for an RBF Fixed Amount Grant.

The following steps are designed for MCC/MCA staff who seeks to understand and support the process of building a cost basis and a Milestone Disbursement Schedule for using RBF with Fixed Amount Grants through a Co-Creation process:

1. **Step 1: Define the results** (payment indicators) to disburse upon and the desired target for each. These must be clearly communicated in the Call for Concept Papers, Request for Applications, or Notice of Funding Opportunity.
2. **Step 2: Applicants/Proposers define reasonable and allocable costs** that need to be incurred to achieve desired targets per indicator. Based on this, they submit a Grant Budget and Budget Narrative as part of their Grant Application. This information is used to determine the Grant amount⁵⁶.
3. **Step 3: Define the unit payments for results**, including payment weights accounting for the costs estimated in the previous step.
4. **Step 4: Allocate results to milestones and define the Milestone Disbursement Schedule establishing what will trigger the disbursements and at what frequency.** The PGG contemplates two types of milestone disbursement methods: progress or performance-based. Progress disbursements imply payments upon progress towards a result or milestone, while performance-based disbursements imply payment upon the actual completion or delivery of a pre-agreed milestone or result. The performance-based method is preferred as per the PGG.

Note that these steps are generic, and some elements vary depending on the context. For example, the target results may need to be defined on what would be possible with a given budget envelope. In this case, the target would be set

⁵⁴ Millennium Challenge Corporation. (2020). [Program Grant Guidelines](#).

⁵⁵ Millennium Challenge Corporation. (2019). [Cost Principles for Government Affiliates](#)

⁵⁶ This grant amount would be capped by the budget envelope.

up in the second step once the costs have been identified. Table A3-I shows how the step-by-step process could be applied in different sectors.

Table A3-I: Examples of the steps to build a cost basis to use RBF with Fixed Amount Grants in different sectors relevant to MCC

Sector	Energy	Employment (TVET)	Health	Agriculture
Step 1: Define the results and the desired target for each	Increase the number of grid connections by 1,000.	Increase the number of trainees that are placed into a formal job	Achieve 90% DPT vaccine coverage for ages 1-5 years.	Number of small-holder farmers (SMF) aggregated to the value chain by commercial aggregators.
Step 2: Applicants/Proposers submit Grant Budgets, based on the costs needed to achieve the results	Materials and installation costs to achieve 1,000 new grid connections. (10,000 USD)	Training logistics, intermediation activities (e.g., for 500 trainees) (USD 25,000)	Publicity, transport, and meal costs to vaccinate 200 children. (5,000 USD)	Machinery (rental), Infrastructure, Storage, Off-take to integrate 5,000 SMF. (USD 50,000)
Step 3: Define the unit payments for results	USD 10 per each new connection (Total cost/ target= 10,000/1,000=10 USD)	USD 50 per each job placement (Total cost/ target= 25,000 USD/500 trainees=50 USD)	USD 25 per each child that receives the DPT vaccine. (Total cost/ target= 5,000/200=25 USD)	USD 10 per each SMF aggregated. (Total cost/ target= 50,000/5,000=10 USD)
Step 4: Milestone Disbursement Schedule	Half payment will be made upon completion and verification of 500 connections, and the other half upon completion and verification of the rest of connections.	Disbursements are done in monthly basis and paid per individual placed that has been verified.	A progress disbursement to cover initial costs and then disbursements are done based on a quarterly milestone based on completion and verification.	Disbursements are done following growing seasons (payments of the SMFs aggregated throughout each growing season).

Recognizing that this process may be demanding and challenging in contexts of limited capacity, Co-Creation option permitted by the PGG may, in some cases, be useful for developing and defining targets. Co-Creation occurs when the MCA Entity or its representatives collaborate with Proposers or Applicants or potential Proposers or Applicants in designing Grant Program(s) or developing Concept Note(s), Concept Paper(s) or Application(s). Co-Creation can occur at any stage of the Grant cycle from planning to Grant Award depending upon the Grant Award Procedure being followed⁵⁷.

Generally, when using RBF with Fixed Amount grants it is important to consider that in addition to the basic framework for selecting metrics (within manageable control, minimizing perverse incentives, etc.), other factors relevant to costing should be factored in to ensure alignment with MCC Cost Principles. For example, an emphasis should be placed on ensuring performance areas and metrics have a reasonable cost basis—if this is not possible, it is not considered a viable option for the grant. Similarly, an emphasis should be placed on where the strongest value-for-money for MCC is in using this specific modality—this means prioritizing where RBF offers a clear value proposition vs generic technical assistance or other support offerings, as well as where there would be the largest returns on investment.

⁵⁷ Millennium Challenge Corporation. (2020). [Program Grant Guidelines](#). Section 6.1, subsection 6.1.1, paragraph 7 (page 17).

Below, we provide a detailed explanation of how this process would be applied in three illustrative cases: power utility management, workforce development and value aggregation in agriculture.

Fixed Amount Grants can be used to provide a broader spectrum of incentives. For example, these can include setting up performance management systems or other type of incentives that reinforce intrinsic motivation and build a culture of performance in Grantees such as public rankings, reputational incentives such as professional recognition, or improvements in working spaces and conditions.

Example I: Application to power utility management

This example shows how the cost-based approach can be used to establish a Fixed Amount Grant using RBF for power utility management.

Step I: Define results and targets.

Results as the basis for payment are defined prior to the Call for Concept Papers, Request for Applications, or Notice of Funding Opportunity and submission of Grant Applications during the RBF design. This includes the definition of both specific performance metrics, as well as the corresponding targets for each.

Figure A3-1 shows the summary of potential results selected as performance metrics for the power utility. This example is used throughout the rest of the section, with a focus on the fault clearance performance metric.

Figure A3-1: Summary of payment metrics for the power utility

RBF Area	Metric	Formula
Improved Metering	1 Meter Installation	Number of meters installed for priority needs
Reduced Non-Technical Losses	2 Audit Performance	Number of audits completed with issues resolved on targeted customers
Improved Customer Service	3 Fault* Clearance	Number of faults* cleared within 24 hours.
Compliance with regulations	4 Reporting to the regulator	Assessment score
Tariff review	5 Tariff review application to regulator	Letter from regulator accepting submission

*A fault is any abnormal condition of the system that involves the electrical failure of the equipment such as transformers, generators, and busbars. The fault inception also involves insulation failures and conducting path failures which result in short circuits and open circuits of conductors.

Additional steps to develop the information to be included in the Call for Concept Papers, Request for Applications, or Notice of Funding Opportunity:

- a. **Detailing the agreed-upon Grant Activities that will be implemented to achieve the targeted results.** Discussions on the activities needed to improve results had started during step I—it is important to establish an understanding of reasonable activities, within the manageable control of the utility, that could be undertaken in the Grant timeframe and costed. At this stage, the exact activities are further formalized. Table 2 below provides details on broad categories of activities that could be targeted for power utilities.
- b. **Costing the defined Grant Activities to be submitted in an Application.** This leverages common activity-based costing and program budgeting norms, and the high-level process is as follows:

1. Develop categories of expenses (labor, equipment, investments, etc.)
2. Outline the specific activity needs under each category.
3. Detail the cost drivers (units of a piece of equipment needed, hours of a certain staff level's labor)

Step 2: Budget submitted, reviewed and negotiated

Once the results are defined, and properly outlined in the Call for Concept Papers, Request for Applications, or Notice of Funding Opportunity, the Proposers or Applications outline in their Grant Application Budgets *reasonable* and *allocable* costs necessary to achieve desired targets per indicator. The combined output from Step 1 determines a Grant Budget that could be reviewed and assessed for compliance with MCC Cost Principles, such as reasonableness and allocability. The final Grant Budget and Milestone Disbursement Schedule is negotiated after Grant selection.

For most metrics, this sample budget focuses on activities and costs related to one of three (or a combination of) pathways to achieve greater results:

1. Improving effectiveness and efficiency of existing activities (want the utility to do *Activity A* better/ faster)
2. Increasing the scale of certain existing activities (want the utility to do *Activity A* more); or
3. Introducing a new activity for the utility to adopt, which will improve overall efficiency and effectiveness of the performance area (want the utility to do *Activity B*, which will make things better/ faster).

Table A3-2 summarizes budget structure for a specific activity, *fault clearance*, which focuses primarily on enhancing the effectiveness and efficiency of existing utility activities. Note that labor costs under Activity 4 are an example of costs that would not be funded by the Grant⁵⁸, as these represent ongoing costs that the utility should continue to shoulder—see further discussion on this in the subsequent step.

Table A3-2: Summary of the budget structure for the fault clearance metric

Activity	Efficiency challenge addressed	Examples of costs items
1 Build up and better manage an inventory of common supplies needed for fault clearance	Stock-outs that delay clearance and lead to purchasing sub-optimal and more expensive materials off-the-street, which creates 'repeat' faults	<ul style="list-style-type: none"> • Supplies and materials for the store (detailed list by item, quantity, and price prepared) • Materials to reinforce security of store (e.g., locks)
2 Increase the intake capacity and effectiveness of the call center	Faults are learned about too late due to issues with reaching the call center	<ul style="list-style-type: none"> • Additional phone number for call intake and associated network charges • Additional supplies for intake and registering of faults (e.g., additional phones and laptops) • Enhanced outreach with clients to raise awareness on call centre (e.g., ad campaign costs)
3 Reinforce 'quick-win' weak elements of the distribution network to pre-empt likely faults	Lack of proactive management of network weaknesses	<ul style="list-style-type: none"> • Supplies and materials for common reinforcements • Additional staff training on network management to better identify urgent needs (e.g. per diem/lunches, conference room rental, facilitator consultancy, stationary)
4 Ongoing execution costs (not funded by the RBF grant)	N/A	<ul style="list-style-type: none"> • Budget for labor for the relevant departments (including leveraging new supplies) • Budget for portion of 'repairing and maintaining the network' which is allocable to standby/faults

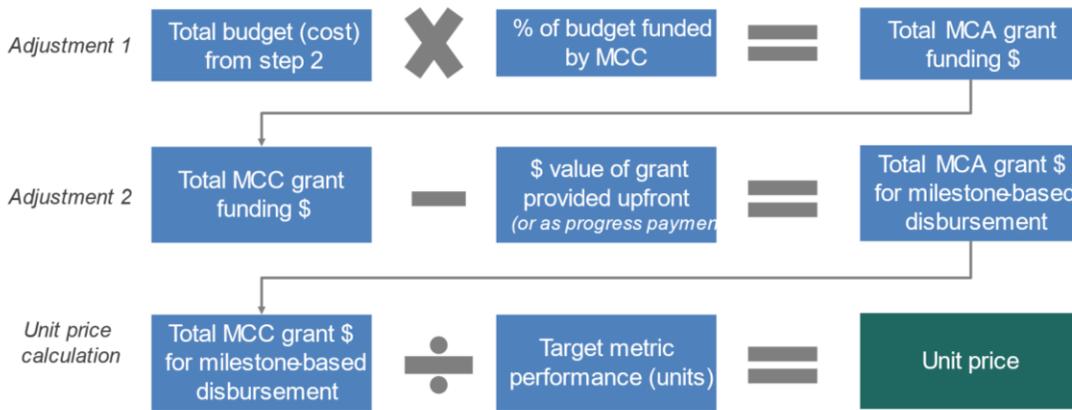
Step 3: Define the payment for results accounting for the estimated costs

With the overall cost estimates established, it is then possible to define the payments for each result according to these costs. In this example, the starting point for unit prices is the total budget allocated to the respective metric. For that starting point, and when working with state-owned utilities, two important (potential) reductions/ adjustments are

⁵⁸ Note: under current PGGs salaries for government employees cannot be funded. It is unclear if staff from a state-owned utility would be considered government employees and may require investigating specific contextual set-up to determine them.

considered before arriving at the final total to feed into unit costs. See details in the Figure 3 below, with further explanation of each adjustment following.

Figure A3-3: Process of calculating the unit price



- Adjustment 1: calibrating the budget amount/ % not funded by the MCA Grant.** For public utilities, distributing the full budget may not be best value-for-money for MCC, due to factors inherent in the context of a utility. First, most of the results being targeted, and their underlying activities, could result in financial gain for the utility beyond the Grant compensation (e.g., audits that find fraud or other issues generate recoupment of lost revenue; meter installations result in new revenue from monthly billing of new clients). This implies a portion of costs may be covered from these other revenue sources and that in and of itself is an incentive. The PGG are clear that profit cannot be made from Fixed Amount Grant, and the Grant should not cover anything above the costs. Thus, adjustments to correct for profits are likely needed when dealing with public utilities. Second, for certain expenses (particularly those related to ongoing execution of existing activities), the utility may be able to self-fund since, for example, it is already doing so (e.g., staff salaries for audit staff). In these cases, using Grant funding could be counter-productive to the long-term goals of the program (e.g., not additive and just replacing costs, may negatively impact sustainability, etc.). These considerations would apply in the context of RBF or otherwise.

This adjustment is done by considering these factors and arriving at a budget percent that is deemed to be the best value-for-money, while ensuring sufficiently strong incentive size to motivate the utility. It is advisable that this process is done in negotiation with the utility to ensure understanding of calibration and adequate expressed motivation of the portion of the budget being funded by the MCA Grant.

At this step, the overall Grant funding envelope limit and balance of funding amongst the full basket of metrics (i.e., payment splits or allocations) is also considered to ensure balance. If the budget percent funded through the MCA Grant is greater than the total Grant envelope, the ambition of the metric targets and underlying activities are lowered to more reflect what MCC could invest (lower targets = less or lower scale activities = lower costs).

Note: Under current PGGs (page 29) the portion not funded by MCC may need to be considered cost-share or leverage under the Grant.

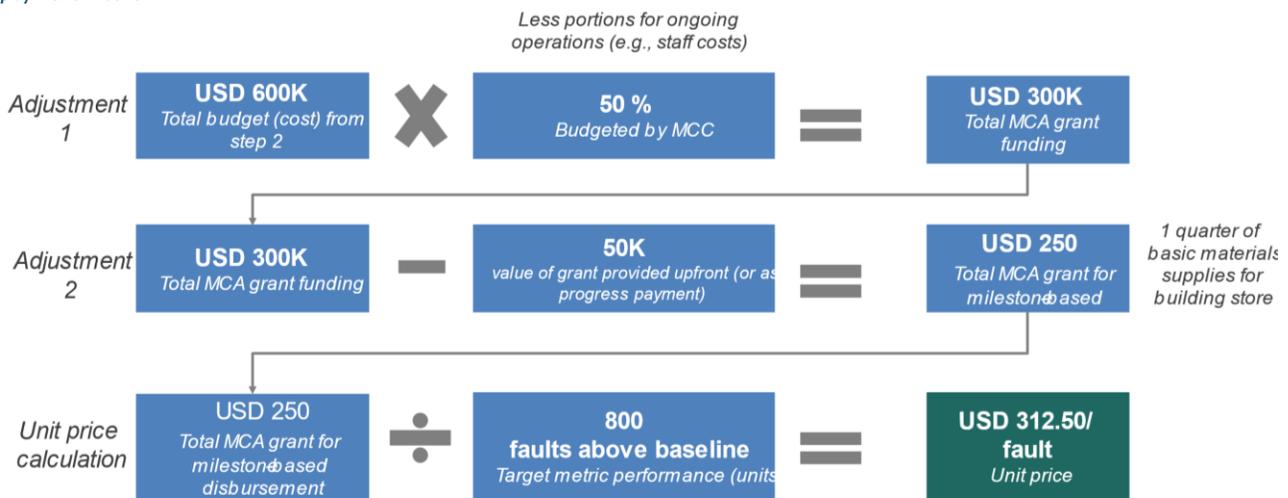
- Cost sharing or matching refers to the resources (in-kind or financial) a recipient contributes towards the total budget needed to achieve the milestones. Cost share is included in the Grant Agreement as one of the actions the Grantee undertakes to support the Grant objectives but is excluded from the amount of the MCA Grant (i.e., Grant total + cost share = total budget). The MCA Entity must undertake monitoring and other reasonable measures to ensure that the Grantee properly fulfills its cost share obligations as set out in the Grant Agreement. If any issues are found in the monitoring process, an audit could be required.*

2. Leverage is the use of available resources that a Grantee brings to the Grant to obtain additional resources, the Grant, to achieve a total effect that is greater than the sum of the parts. Unlike cost share, leverage would not require additional monitoring (or audit potential) and is not part of the budget in the Grant Agreement

- **Adjustment 2: determining the portion of Grant Budget provided as an initial Progress Disbursement and, hence, deducted from the total available for unit payments.** Given that the utility may lack of capacity to fully pre-fund implementation, a portion of funding is provided as an initial progress disbursement to jump-start activities and progress towards results. This is determined after considering where initial investment needs are critical and for how long an initial ‘seeding’ of support would be needed before Grant disbursements could kick in to cover subsequent investments. In this example, the amount is capped at 15% of the total MCA Grant (i.e., the total after adjustment 1) to ensure sufficiently strong incentives tied to performance.

After accounting for the prior two adjustments, the total envelope for results (i.e., milestone-based payments) is now known. This envelope is then divided by the targeted results (see step 1) to arrive at the unit price per result. Figure A3-3 illustrates this process.

Figure A3-3: Simplified example of dividing the budget envelope into results to calculate the unit price per results of the fault clearance payment metric



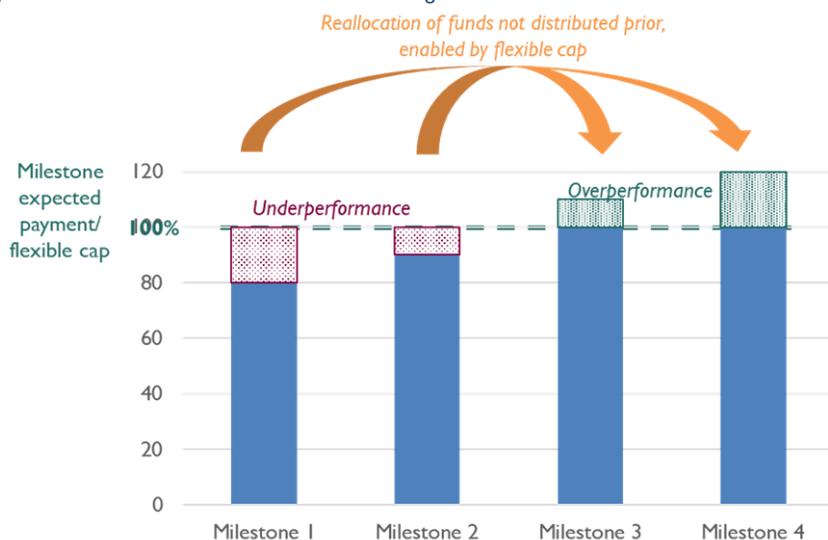
Step 4: Allocate results to milestones and define the payment schedule

Finally, result payments need to be allocated to milestones to define the Milestone Disbursement Schedule establishing what will trigger the disbursements and at what frequency. The payment schedule sets the timing of the delivery of desired results along with their corresponding measurement and verification processes.

In this example, a quarterly disbursement schedule is established to ensure the power utility would receive sufficiently frequent feedback on performance (i.e., to what extent is it meeting its milestones?) and frequent payments to fund greater scale of Grant Activities and/or new activities (activities as defined in step 2).

Equal payments are allocated across milestones for most performance metrics, which results in even expected disbursements when the utility achieved each quarterly milestone. In this example, this is complemented with flexible milestone disbursement ceilings, while maintaining a fixed overall amount for the Grant. For example, if the utility only achieves 70% of the fault clearance milestone in Q1, then the payment correspondent for the remaining 30% would still be disbursed if the utility exceeds the milestone in Q2 with a performance of 130%. The flexible milestone disbursement may not always be needed but it is an alternative to consider mitigating non-disbursement risk for the utility (and MCC), since any under-performance for one quarterly milestone (i.e., disbursement less than expected) could be compensated for in a later milestone disbursement. Figure A2-4 below illustrates this process.

Figure A3-4: Flexible milestone disbursement ceilings



Example 2: Workforce development

This example shows how a Milestone Disbursement Schedule based on costs can be used to establish a Fixed Amount Grant using RBF in the case of workforce development.

This RBF example uses Fixed Amount Grants where the Grantees are service providers. Under this Grant, the Grant Budget is set with Results-Based Milestones where disbursement milestones (i.e., “results”) are selected further along the “results chain” (closer to the desired impact) rather than the common focus of defining activities to be undertaken.

Step 1: Define results and targets

In this example, payment indicators are selected for RBF payments following the four criteria for solid RBF interventions: (i) easy to measure, (ii) closely linked to the goal, (iii) manageable control of the service provider and (iv) minimize perverse incentives. Based on these criteria, this intervention defines the following payment indicators:

1. Completion of a job-related training
2. Placement in a formal sector job
3. Achieving a 6-month job retention

Step 2: Budget submitted, reviewed and negotiated

With the results defined, service providers establish reasonable and allocable costs that would need to incur to achieve desired targets per indicator. In this example, to ensure compliance with MCC’s Cost Principles requirements on reasonableness and allocability in the nature of the disbursements, MCA considers the following:

1. **Reasonableness.** To ensure a reasonable price and set an accurate Grant amount, the RBF team carries out an open Grant application process in which interested providers compete on both technical and financial dimensions. The elements resulting from this process are used to build a reasonable cost basis:
 - **Market benchmarking.** Prices set by the most cost-effective applicants are cross validated through a benchmarking process involving results achieved and costs incurred in past projects with similar objectives.
 - **Data-driven pricing model.** The service providers competing on the Grant Application are assigned a fixed amount and are asked to submit information on different levels: (i) targets that could be achieved within the given fixed amount, (ii) detailed information on costs per payment indicator based on costs and results attained in previous projects including costs per intervention phase, project team labor costs and the budget disaggregated by categories (e.g., costs of equipment, office automation, travel). This information allows MCA

to develop an analysis in which the cost effectiveness of each proposal is measured to select the service providers that would participate in the RBF project.

- **Two-phased approach to deal with cost-uncertainty.** Providers may lack experience for a six-month retention metric, which can lead to over- or underestimation of retention targets. Therefore, negotiations should be held between MCA and providers to arrive at realistic targets and reasonable prices for the overall intervention model to deal with cost uncertainty.
- **Allocability.** The MCA must review the submitted Grant Budgets and Budget Narratives to ensure that requested costs are allocable to the proposed grant activities.

Table A3-3 gives an example of cost items, unitary costs, and targets per payment indicator submitted by a sample service provider. The costs per result were obtained by dividing the total budget proposed for each payment indicator by its target.

Once the service providers submit information on the costs, the total Grant amount is established. In this case, USD 5,5 million are allocated to pay for results in the RBF project.

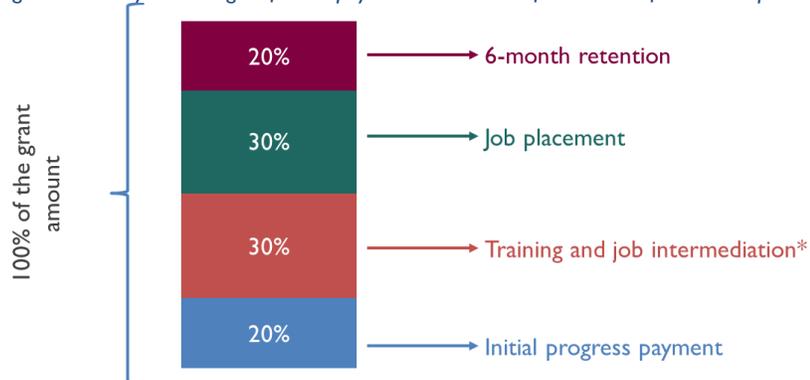
Table A3-3: Example of the costs per payment indicator submitted by a service provider in the Grant Application process

Payment indicator	Examples of cost items	Unitary cost and target
1 Completion of a job-related training	<ul style="list-style-type: none"> • Creation of training modules • Development of educational material • Rental for training rooms • Trainer salaries • Training logistics (e.g., trainee transport and food) • Ceremony of training completion 	<ul style="list-style-type: none"> • Target: 830 trainees • Cost per trainee: USD 103
2 Placement in a formal sector job	<ul style="list-style-type: none"> • Costs of intermediation activities (i.e... connecting trainees with employers through recruitment speeds, individual contact or group interviews: Payment of certain transport costs to remote interview locations, supporting documents and clothing assistance. • Development of a communication strategy facilitate job placement (e.g., flyers, posters, social media publicity etc.) • Organization of an event to facilitate job placements 	<ul style="list-style-type: none"> • Target: 390 job placements • Cost per job placement: USD 1073
3 Achieving a 3-month retention	<ul style="list-style-type: none"> • Salaries of staff who will be in charge of post-insertion monitoring of beneficiaries. 	<ul style="list-style-type: none"> • Target: 350 people with a 3-month retention job • Cost per person: USD 1196

Step 3: Define the payment for results accounting for the estimated costs

With the overall cost estimates established, it is then possible to define the payments for each result according to these costs. In this context, the payment associated with the results is defined based on the Grant Application process and the cost reasonableness analysis. In this case, the payment function is a linear function, meaning that the delivery of one unit of an indicator triggers the disbursement of a specific amount, i.e., the price. To obtain this unitary price, a weight of the total Grant amount is assigned to each payment indicator according to the risk transferred to the providers. Figure A3-5 shows an illustrative example of how this can be done.

Figure A3-5: Payment weights for the payment indicators defined in workforce development RBF project



* Job intermediation activities are related to connecting trainees with employers. This can be done through recruitment speeds, individual contact, or group interviews.

Once the payment weight is established, the payment metrics and the targets are set, then the unitary price is calculated through the following formula:

$$\frac{\text{total grant amount} \times \text{weight}}{\text{target}}$$

Applying this formula to the example of the price per unit of job placement metric:

$$\frac{\text{USD } 5.5 \text{ million} \times (30\%)}{2500 \text{ people placed in formal jobs}} = \text{USD } 660 \text{ per person placed in a formal job}$$

Step 4: Allocate results to milestones and define the payment schedule

Finally, result payments need to be allocated to milestones to define the *Milestone Disbursement Schedule* establishing what will trigger the disbursements and at what frequency. The next step to define the RBF payments involves establishing what triggers disbursement and at what frequency payments will be made. The payment schedule sets the timing of the delivery of desired results along with their corresponding measurement and verification processes.

The structure of this RBF project sets up payment milestones per completion of training and job placement results, as well as a progress disbursement. Payments are done at the end of the stage as an incentive for service providers to achieve completion. The frequency of payment is monthly, except for the 6-month retention metric. Table A3-4 shows the summary of this process in this example.

Table A3-4: Milestones and payment schedule per indicator in sample RBF project

	Stage/Indicator	What triggers payment?	How is the payment done? (Illustrative percentages)
Activities	Preparation stage (progress disbursement)	Delivery of a detailed work plan after the Grant Agreement is signed	One disbursement once the work plan is delivered (20% of the Grant amount) as progress disbursement to facilitate working capital.
	Training and job intermediation ⁵⁹	Verification of results that the training is completed, and job intermediation took place	Disbursement of 30% of the Grant amount at the end of the training and job intermediation phase. This payment is done monthly and paid per individual trained and counseled.

⁵⁹ Job intermediation activities are related to connecting trainees with employers. This can be done through recruitment speeds, individual contact, or group interviews.

Results	job placement	Verification of results on formal job placement is completed	Disbursement of 30% of the Grant amount once job placement is verified. This payment is done monthly and paid per individual placed.
	6-month retention	Verification of results on 6-month retention	Payment of the remaining 20% after 6-month retention is verified. This payment is done monthly and paid per individual retained.

Example 3: Value aggregation in agriculture

This example shows the steps to a Milestone Disbursement Schedule for a Fixed Amount Grant using RBF in the agricultural sector to improve small-holder farmer (SHF) integration into value-chains.

This illustrative RBF program uses Fixed Amount Grants where the Grantees are agribusinesses (i.e., agricultural aggregators).

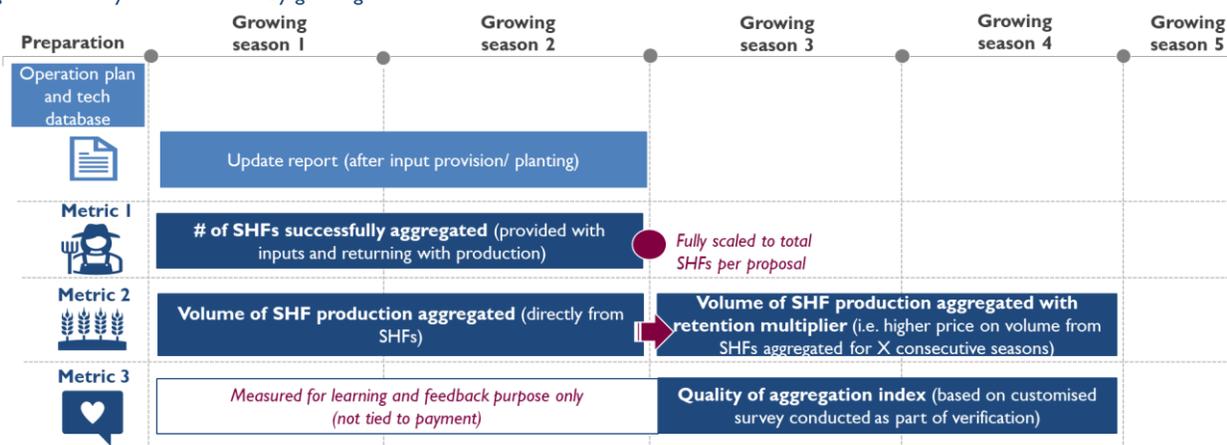
Step 1: Define results and targets

In this example, payment indicators are selected for RBF payments following the four criteria for solid RBF interventions: (i) easy to measure, (ii) closely linked to the goal, (iii) manageable control of the service provider and (iv) minimize perverse incentives. Based on these criteria, this intervention defines the following payment indicators:

1. Number of SHFs aggregated into a value chain
2. Volume of SHF production aggregated
3. Quality of aggregation index (including SHF retention, measure of improved practices and measure of productivity increases).

In this case, payment for results follow growing seasons and payment indicators are included gradually to ensure that the aggregators have enough time to develop their investments and build capacity towards results closest to the desired impact (e.g., quality of aggregation). The following figure shows how payment indicators are included as new growing seasons are reached.

Figure A3-5: Payment indicators by growing season



Step 2: Budget submitted, reviewed and negotiated

Once the results are defined, it is necessary to outline reasonable and allocable costs incurred by service providers to achieve desired targets per indicator. This example is based on a call for proposals outreaching agricultural aggregators with the capacity to undertake an RBF contract and reach selected results. As each aggregator will be different in its investment needs to achieve results, budgeting goes through a two-stage process. The first step defines the activities

that are allowable to be paid under the Grant and the second step determines cost reasonableness and allocability for selected aggregators individually.

Defining the allowable Grant Activities that could be implemented to achieve the targeted results.

This process should start early-on by engaging interested aggregators and requesting from them information about the type of activities and investments that would be under their control and needed to achieve the results. This will help understand what activities could be reasonable and allocable for the expected results. In this sense, such activities should be clearly aimed at achieving results and should address relevant constraints for an RBF model as defined by an earlier due-diligence process. Then, based on proposals, the list could then be refined to integrate any activities that are reasonable and allocable and that were not considered at a first stage. The table below provides examples of activities and their categories that could be undertaken by an aggregator to achieve SHF integration into value-chains.

Table A3-5: Examples of activities that could be undertaken by an aggregator to achieve integration results

Category	Activities
Working Capital	<ul style="list-style-type: none"> Provide SHFs with improved inputs (seed, fertiliser)
Technical assistance	<ul style="list-style-type: none"> Provide SHFs with extension services and related training support
CAPEX	<ul style="list-style-type: none"> Adopt technological platform to maintain database of SHFs and 'know your client' Construct storage facilities in areas closer to SHFs

Note: Activities in this case are related to all results as results capture different aspects of SHF inclusion. All activities relate to the three selected results. When pricing results it is important to consider the aggregator's capacities and appetite for risk, while ensuring overall costs are reasonable.

Costing the defined Grant Activities

- I. **Reasonableness.** Once activities are established, costing of activities is based on a call-for-proposals. Proposals should include the investment costs for each of the integration activities and targets that each aggregator seeks to achieve with these investments. Costs presented by aggregators will then be evaluated and compared between them and to market benchmarks to ensure that costs are reasonable.
 - **Allocability.** The MCA must review the submitted Grant Application Budgets and Budget Narratives to ensure that requested costs are allocable to the proposed grant activities.

Step 3: Define the payment for results accounting for the estimated costs

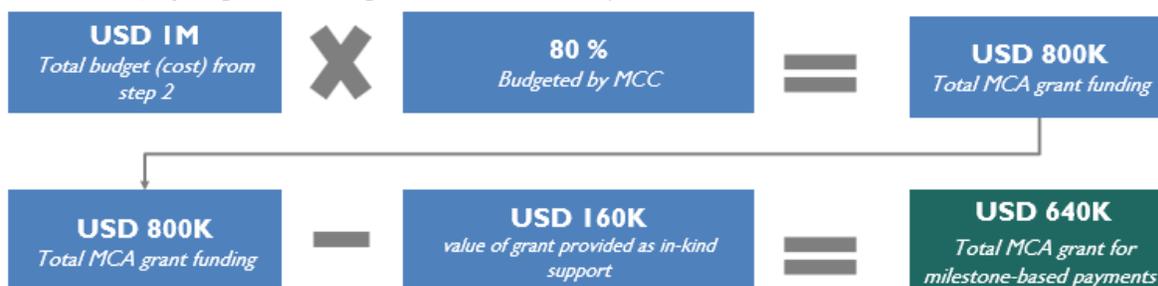
Based on the proposals, MCC will provide the aggregator with (1) in-kind technical assistance and (2) a results-based Grant to provide eligible working capital and capex funding to the aggregator, conditional on the achievement of pre-defined results (and progress towards those results in early seasons). In addition, the aggregator will need to co-finance implementation (via working capital contributions) to the tune of approximately 20% of the total proposal. To set the basis for the results-based portion of the Grant, two adjustments need to be made, before calculating the prices per result.

Adjustment 1: calibrating the budget amount/ % not funded by the MCA Grant. To increase the aggregator's ownership and engagement with the Grant, the MCA asks aggregators to contribute with a percentage on the total cost of the proposal (i.e., 20%).

Adjustment 2: calibrating the budget amount that is provided through in-kind Technical Assistance. This amount is not included as part of the milestones-payments, given that is directly procured by the MCA.

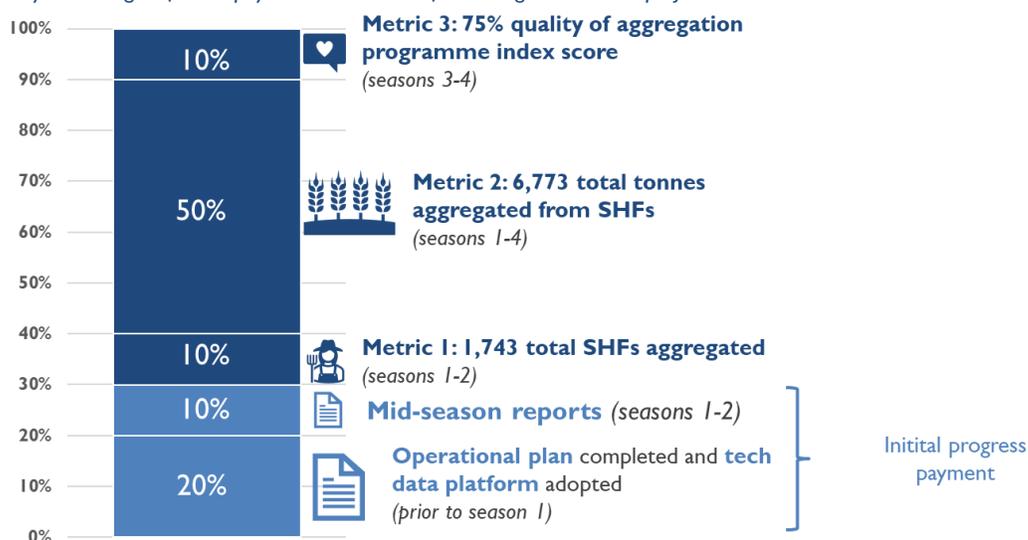
After accounting for the prior two adjustments, the total envelope for results (i.e., milestone-based payments) is now known. Figure A3-6 illustrates this process.

Figure A3-6: Process of adjusting the Grant Budget to the milestone-based portion



Once the milestone-based portion of the Grant is calculated, it can then be divided into the different payment weights, including the progress payments in early seasons. For establishing payment weights, it is important to consider the aggregator’s capacity to absorb financial risk and its capacity. Figure A3-7 shows an example of how this is done in this sample case for the milestone-base amount.

Figure A3-7: Payment weights for the payment indicators defined in agriculture RBF project



Once the payment weight is established and the payment metrics and the targets are set, the price per result can be calculated for each metric. The number of SHF aggregated and the volume of production are payment indicators with linear payment functions, and the delivery of one unit of the indicator is paid on a price per unit basis, then the unitary price is calculated through the following formula:

$$\frac{\text{total grant amount} \times \text{weight}}{\text{target}}$$

Applying this formula to the example of the price per unit of aggregated SHF production:

$$\frac{\text{USD } 640000 \times 50\%}{6773 \text{ tonnes of SHF produce aggregated}} = \text{USD } 74 \text{ per tonne of SHF produce aggregated}$$

Nonetheless, in the case of the quality of aggregation index, the total amount of the Grant dedicated for this indicator is divided by the corresponding growing seasons in which it is measured. This will result in a binary payment function, where the price per season will be paid if the score is met for that season.

$$\frac{\text{total grant amount} \times \text{weight}}{\text{\# of growing seasons which it is measure}} = \text{payment if score} \geq 75\%$$

In this case:

$$\frac{\text{USD 1 million} \times 10\%}{2} = \text{USD 50000 if score} \geq 75\%$$

Step 4: Allocate results to milestones and define the payment schedule.

Finally, results payments need to be allocated to milestones to define the *Milestone Disbursement Schedule* establishing what will trigger the disbursements and at what frequency. The next step to define the RBF payments involves establishing what triggers disbursement and at what frequency payments will be made. The payment schedule sets the timing of the delivery of desired results along with their corresponding measurement and verification processes. The incentive structure of this RBF project sets up payment milestones for SHF aggregation results, as well as two progress disbursements. Payments are made at the end of each growing season, except for progress payments which are made to ensure working capital for aggregators. The frequency of payment is yearly or bi-yearly depending on the number of growing seasons per year.

Table A3-6: Milestones and payment schedule per indicator in an RBF agriculture project

	Stage/Indicator	What triggers payment?	How is the payment done? (Illustrative percentages)
Activities	Preparation stage (progress disbursement)	Completion on the operational plan and adoption of the data system	One disbursement once the work plan is delivered (20% of the Grant amount) as progress disbursement to facilitate initial investments.
	Mid-season reports	Verification of results that the training is completed, and job intermediation took place	Disbursements for a total of 10% of the Grant amount as progress disbursement to facilitate working capital for each season.
Results	SHF aggregation	Sample verification of aggregation information reported by aggregators	Disbursement of 50% of the Grant amount once SHF aggregation is verified. This payment is made seasonally and paid per SHF aggregated.
	Volume of production aggregated	Sample verification of production aggregation information reported by aggregators	Disbursement of 10% of the Grant amount once volume of production is verified. This payment is made seasonally and paid per ton of production aggregated.
	Aggregation quality index	Verified by a customized survey conducted as part of the verification	Disbursement of 10% of the Grant amount if an index score of 75% or higher is achieved during the last two seasons.