

MARKETLINKS



Pay-for-Results and Setting and Pricing Metrics

Speakers: Christine Kang, *Third Sector*

Jonathan Ng, *USAID*

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Facilitator: Lawrence Camp, *USAID*

Date: August 8, 2019

WEBINAR OBJECTIVES

The goals of this webinar are:

- 1 **Explain** what Pay-for-Results is, and how it can be used to catalyze greater development impact.
- 2 **Suggest a process for** setting and pricing metrics to successfully plan, design, execute, and monitor Pay-for-Results initiatives.

Lawrence Camp

USAID's Office of Private Capital



Lawrence Camp is a Senior Adviser in the USAID's Office of Private Capital and is focused on access to finance and financial sector development. He led privatization and financial reform efforts in Central and East Europe, was Director of Finance at the Millennium Challenge Corporation, and Chief of Party for a private sector development project in the West Bank/Gaza. He was in banking as Group Head and VP of Security Pacific Merchant Bank in New York.

Christine Kang

Third Sector



Christine Kang is a Manager in Third Sector's Boston office. She manages data collection and evaluation, conducts comparative analysis of evidence-based innovations, and assesses potential funding and contracting models to determine the best pay-for-results approaches to meet the objectives of government, nonprofit, and philanthropic clients. As part of the Empowering Families national cohort, Christine is leading efforts to explore the development of integrated data systems and pay-for-results contracts.

Mohib Ahmed

USAID/Zambia



Mohib (Mo) Ahmed serves as USAID/Zambia's Director of the Office of Acquisition and Assistance. His passion for results-based development has led to early stakeholder engagement, integrated activity designs, performance-based mechanism utilization, holding partner accountable for results, increased focus on monitoring and evaluation, and more. At USAID, Mohib has served as a Contracting and Agreements Officer in the Development Innovation Ventures (DIV) portfolio, and as Branch Chief in the Bureau of Food Security, and as a Senior Procurement Analyst.

Jonathan Ng

Office of the General Counsel (GC), USAID



Jonathan Ng serves as the GC attorney for USAID's private sector engagement (PSE) team, currently comprised of the E3/PCM and Lab/CTP offices. He also serves on USAID's Credit Review Board, the Agency's internal risk review committee for all loan guarantees issued through the USAID Development Credit Authority. Prior to USAID, Jonathan served as the first general counsel of Ashoka: Innovators for the Public and was a project finance associate at the New York office of White & Case LLP.

PAY-FOR-RESULTS IS TRENDING... FOR GOOD REASON



MILLENNIUM
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IMPACT INVESTING

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BY JESSICA POTTS

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Payment by results in aid: hype or hope?

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Impact Partnerships to Pay for Results Act

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Sponsor: Sen. Young, Todd C. [R-IN] (Introduced 04/27/2017)

Committees: Senate - Finance

Latest Action: Senate - 04/27/2017 Read twice and referred to the Committee on Finance. (A)



MARKETLINKS

WHAT IS PAY-FOR-RESULTS?

Initiatives where funders pay upon accomplishment of *results* rather than *efforts* to accomplish results.

Benefits

- **Innovation**
- **New funding sources**
- **Alignment of interests**
- **Evidence-based**

Challenges

- **Metrics and pricing**
- **Upfront costs**
- **Unintended consequences**

PAY-FOR-RESULTS APPROACHES

What examples have you seen?

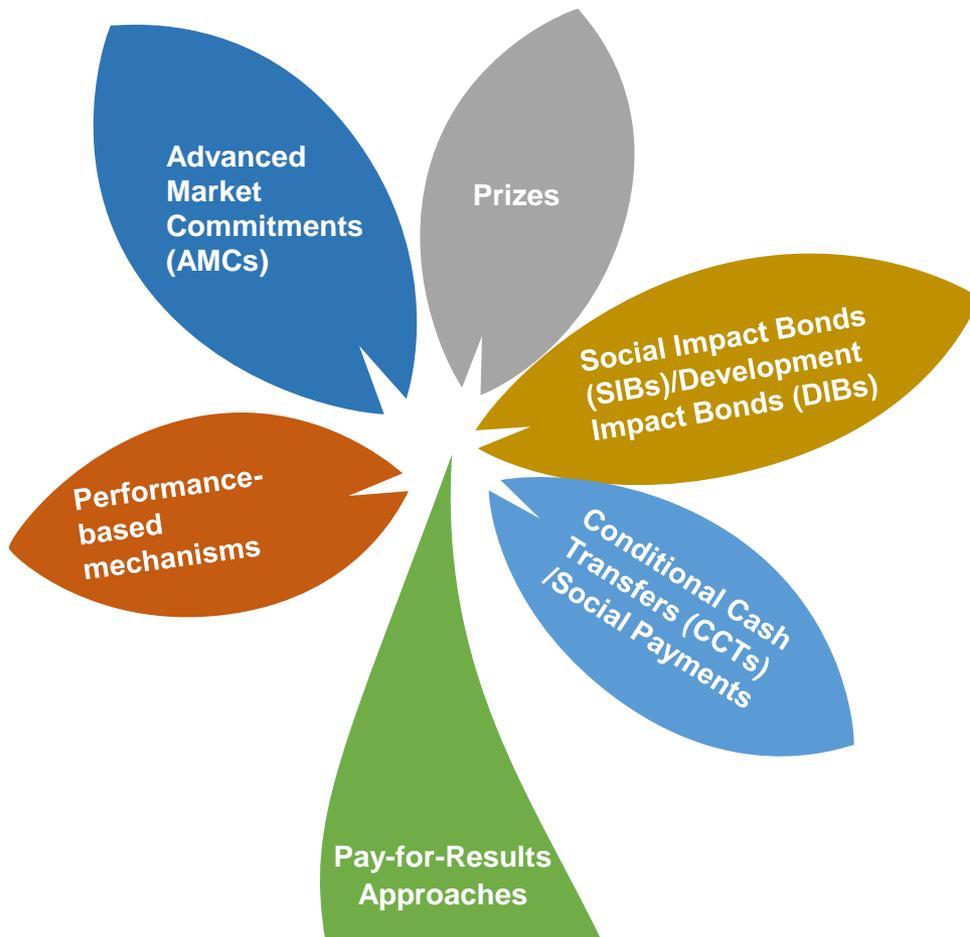
 **Performance-based mechanisms**

 **Advanced Market Commitments**

 **Prizes**

 **Social/Development Impact Bonds**

 **Conditional Cash Transfers**



WHEN IS IT APPROPRIATE TO USE PAY-FOR-RESULTS?



When is Pay-for-Results a good idea?

- ✓ Outputs and outcomes are **well-defined, measurable, and plausible**
- ✓ Service providers **experience** delivering desired outcomes
- ✓ **Data** sources and **monitoring systems** exist
- ✓ Funders comfortable giving service providers **room to innovate**

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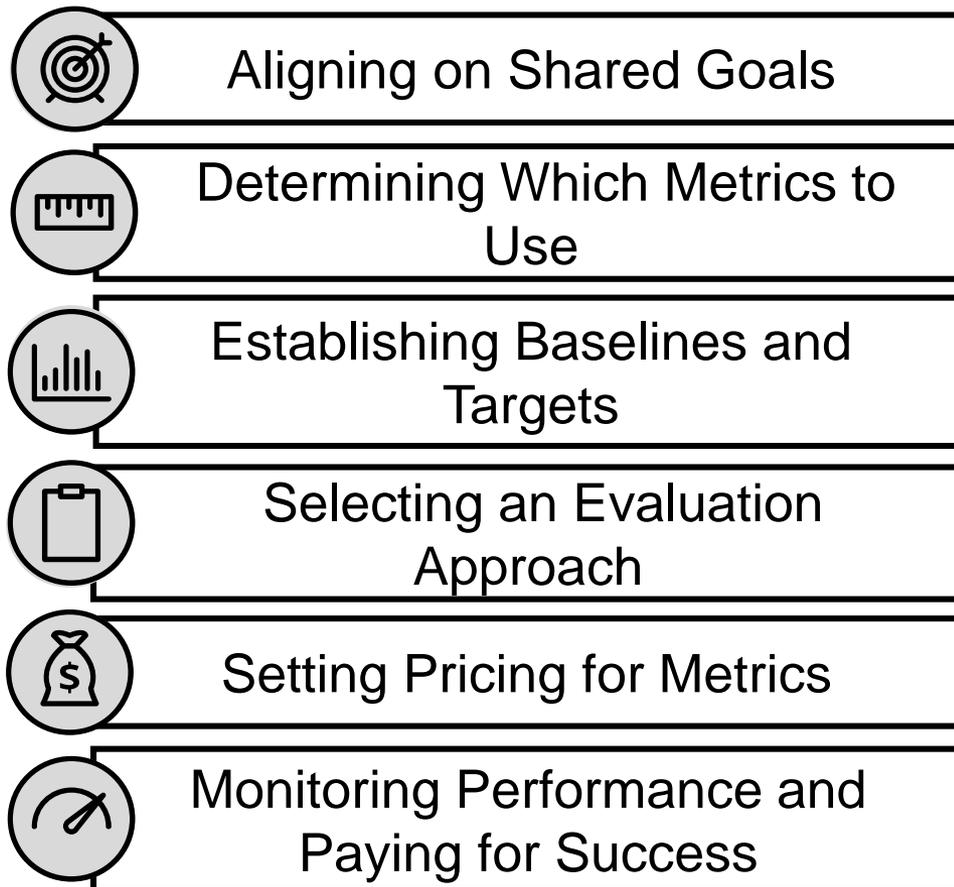


What are some of the biggest challenges in Pay-for-Results?

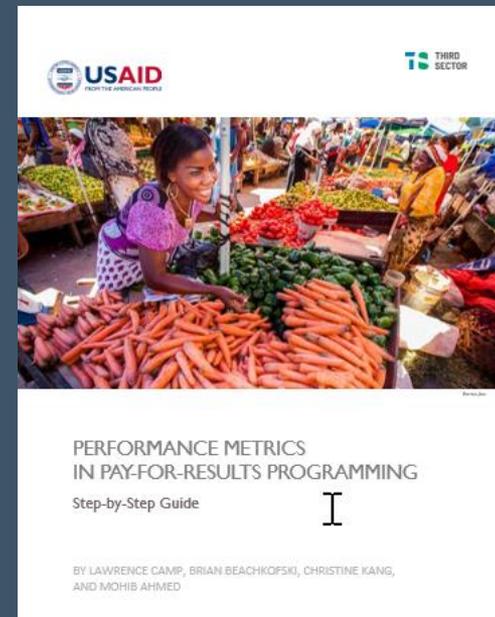
- ? Agreeing on **payment metrics**
- ? **Defining** ambitious but achievable **targets**
- ? **Pricing metrics**

HOW TO SET AND PRICE METRICS

The lifecycle of setting and pricing metrics follows the subsequent steps:



Our concept note “Setting, Pricing, and Administering Performance Metrics in Pay-for-Results Programming” covers this process for setting and pricing metrics.

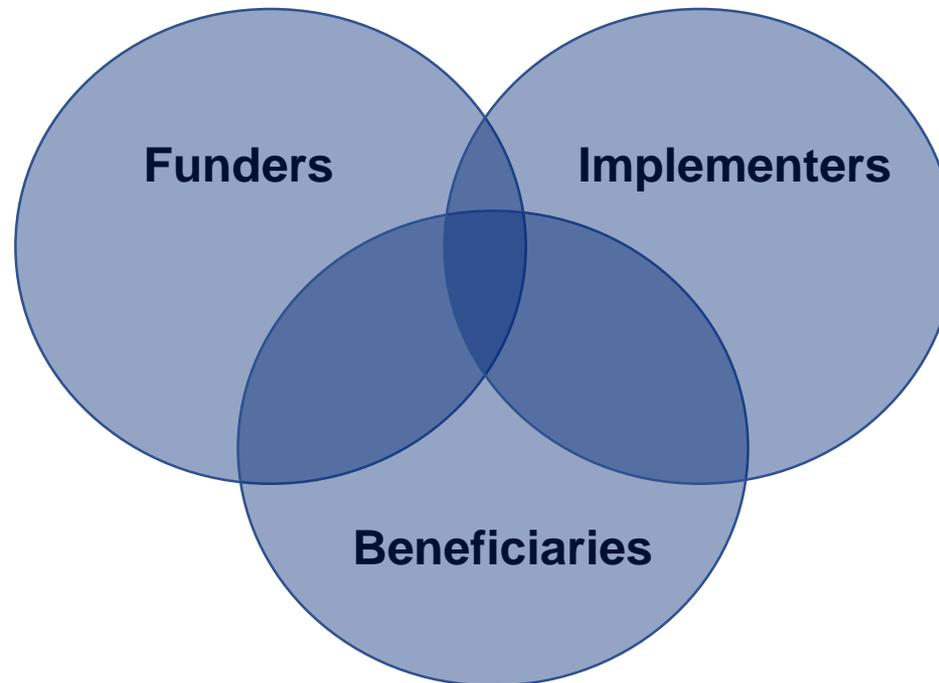




STEP 1: ALIGNING ON SHARED GOALS AND DEFINING SUCCESS

Bring together stakeholders and answer:

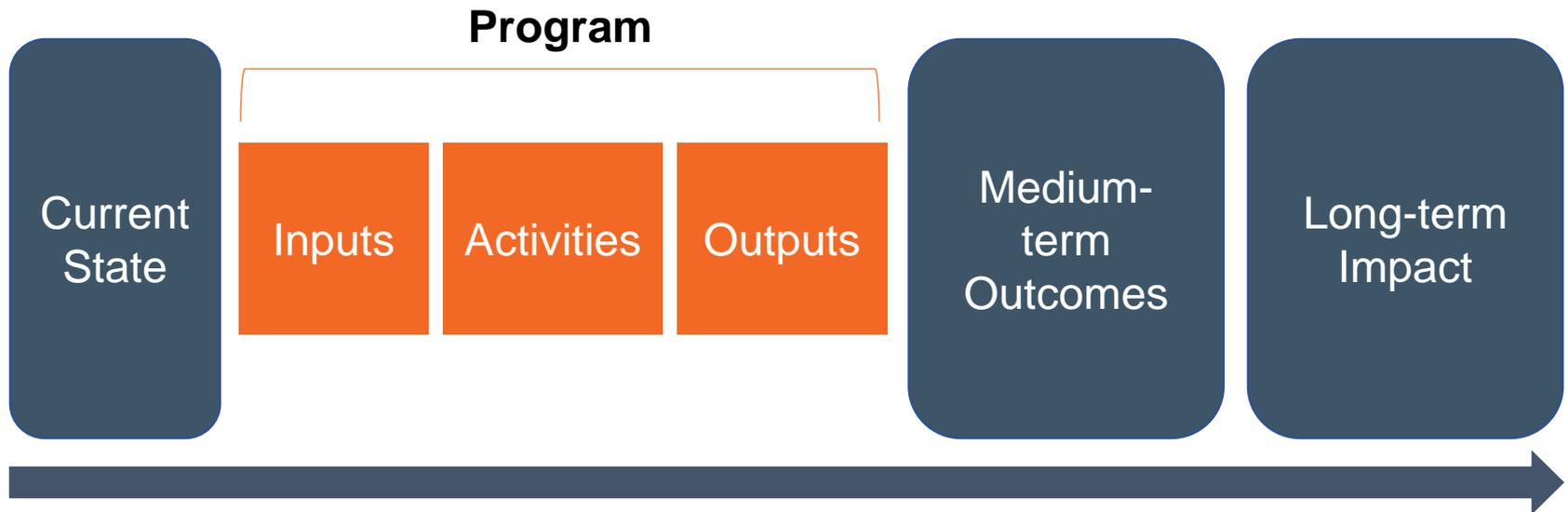
1. What is the problem?
2. What are the short- and long-term priorities?
3. What is the desired end-state?





STEP 1: ALIGNING ON SHARED GOALS AND DEFINING SUCCESS

Align on a Theory of Change. What activities and mechanisms will allow you to reach the desired end-state?



Pay-for-Results Activity

We will think about how the steps we cover apply in designing a pay-for-results activity.

Pay-for-Results Water Program Example

- You are asked to develop a pay-for-results activity to increase community access to clean water
- To set and price metrics for the activity, follow each step





STEP 1: ALIGNING ON SHARED GOALS AND DEFINING SUCCESS

Water Example:

- Agree on shared goals and definition of success
- Below are example questions to answer:



- What is the clean water problem which needs to be addressed?
- What does success look like in the medium and long-term?
- What are the root causes of that problem?
- Which gaps could you directly affect in the near-term?



STEP 1: ALIGNING ON SHARED GOALS AND DEFINING SUCCESS

Water Example:



Stakeholders agree:

- Challenge is water-borne disease as a result of limited access to clean water,
- Success is a significant, measurable reduction in water-borne diseases
- Best solution is creating Clean Water Provision (CWP) sites (physical infrastructure that enables clean water access)
- Progress measured by:
 - Construction of and access to CWP sites
 - Reduction in water-borne diseases in impacted areas
 - Sustainability of the sites



STEP 2: DETERMINE WHICH METRICS TO USE

Metrics should include these characteristics:

- **Direct**
- **Objective**
- **Useful for Management**
- **Practical**
- **Attributable**
- **Timely**
- **Adequate**

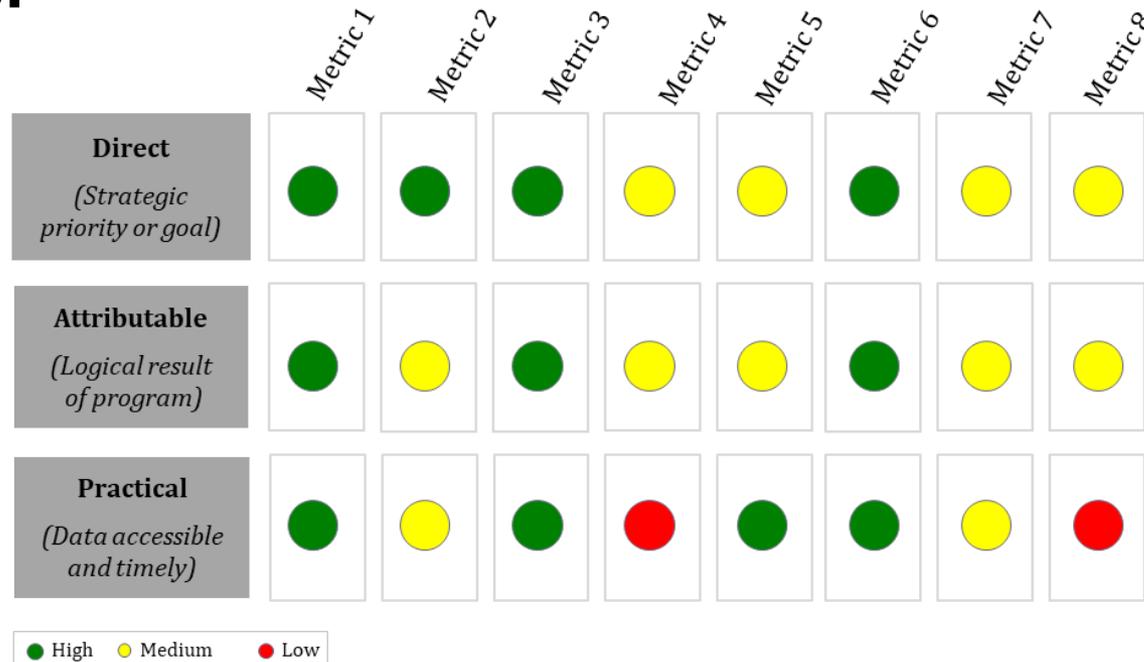
Other characteristics to consider:

- **Additionality**
- **Time to Impact**
- **Sustainable Impact**
- **Minimizing Distortion**
- **Value for Money**



STEP 2: DETERMINE WHICH METRICS TO USE

Consider using a prioritization matrix to select metrics:



Determine the top 1-3 metrics for use as payment triggers.



STEP 2: DETERMINE WHICH METRICS TO USE

Water Example:

- Next, determine which indicators to use to track success
- Below are examples:



Impact

- % of households with access to a Clean Water Provision site
- % decrease in water-borne illnesses

Cost and Management

- Cost per household of providing access
- Period of time required to provide access

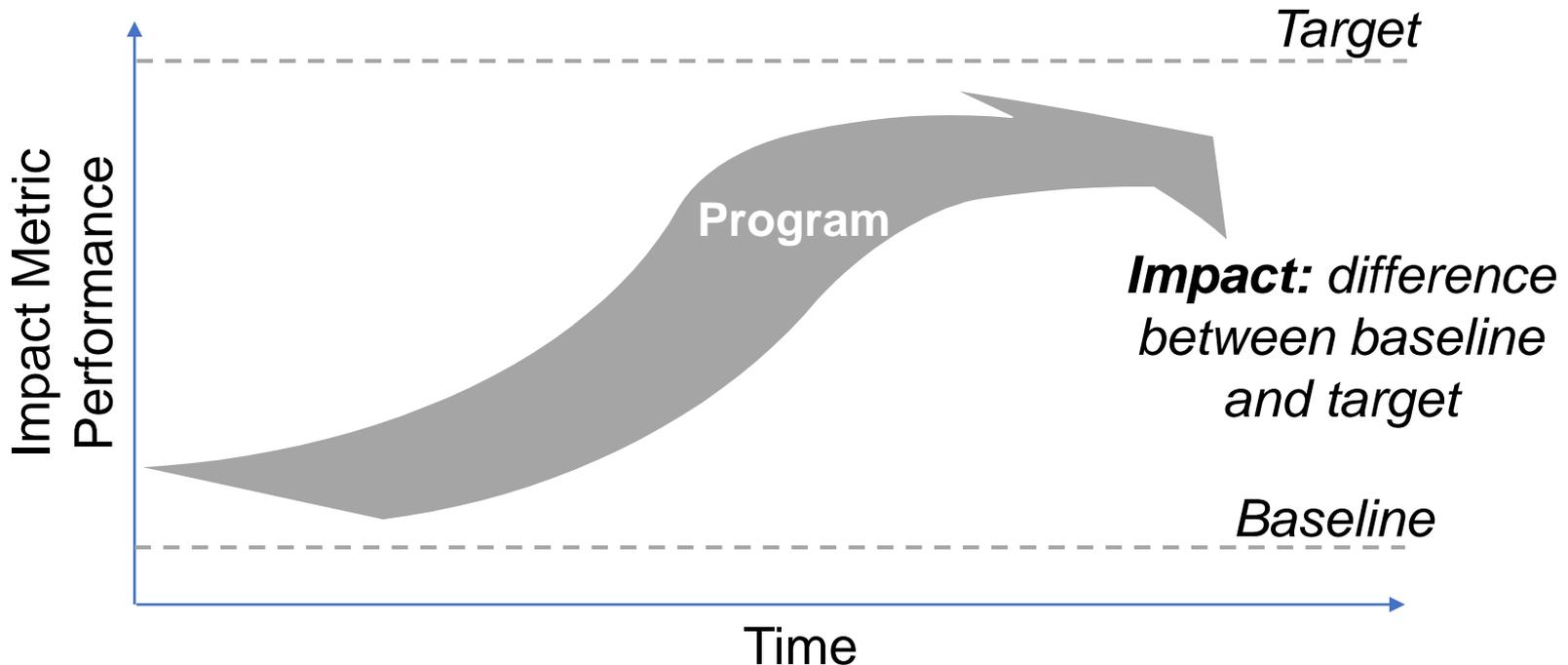
Sustainability

- % of sites in which water fees cover O&M costs



STEP 3: ESTABLISHING BASELINES AND TARGETS

- Next, create baselines and targets for each metric
- Baselines measure the current state, and targets specify the desired end-state





STEP 3: ESTABLISHING BASELINES AND TARGETS

Counterfactuals:

“What would happen if my program did not exist?”

Types of counterfactuals include:

- **Baselines**
- **Controls**

Targets:

Negotiated between funder and implementer

Types of targets include:

- **Internal targets**
- **External targets**



STEP 3: ESTABLISHING BASELINES AND TARGETS

For each indicator, determine what success looks like based on your baseline:

Metric	Baseline	Target	Data Source
# of people reached	10,000	20,000	Existing database
% of people with access to health intervention	50%	90%	Survey by third-party monitor
Increase in life expectancy	55 years	65 years	Government census



STEP 3: ESTABLISHING BASELINES AND TARGETS

Water Example:

- Develop a set of baselines and targets for each metric
- Targets should be ambitious without deterring participation



Illustrative Baselines and Targets

Metric	Baseline	Target
Households with CWP access	10,000	20,000
Households suffering from waterborne illness	60%	45%
Average household cost to access CWP	\$198	\$88
Average time to establish a CWP site	9 months	4 months
Sustainability (O&M costs covered)	10%	80%



STEP 4: SELECTING AN EVALUATION APPROACH

Select an evaluation approach to determine success:

Non-Experimental

Measure outcomes before and after program for participants only

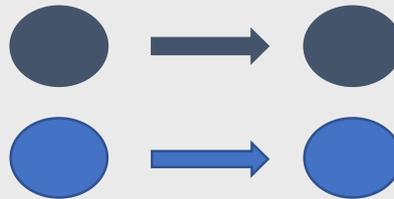
No comparison group



Quasi-Experimental

Measure outcomes for program participants and similar non-participants

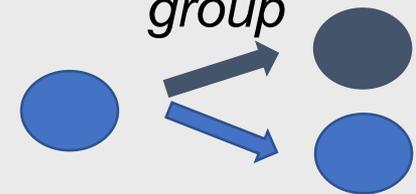
Comparison group



Experimental/RCT

Randomize participants to treatment or control group; measure outcomes for both groups

Explicit comparison group





STEP 4: SELECTING AN EVALUATION APPROACH

Advantages and disadvantages of each evaluation approach:

	Advantages	Disadvantages
Non-Experimental	<ul style="list-style-type: none">• Lower evaluation costs• Less resource intensive	<ul style="list-style-type: none">• Less precise measurement of success
Quasi-Experimental	<ul style="list-style-type: none">• Isolates impact of program if other variables are controlled	<ul style="list-style-type: none">• Less precise than RCT; random assignment
Experimental /RCT	<ul style="list-style-type: none">• Isolates impact of program with high confidence	<ul style="list-style-type: none">• Costly to design• Randomization may not be feasible



STEP 4: SELECTING AN EVALUATION APPROACH

Water Example:

Select evaluation approach based on:

- Examples of previous projects
- Ability to modify existing contracts
- Available evaluation resources

Which evaluation approach is most appropriate?



Non-Experimental

- Simplest approach, makes sense for limited evaluation resources

Quasi-Experimental

- Identification of control sites might be possible, but complex

Experimental/RCT

- Can't create a true 'control' group through contract modification



STEP 5: SETTING PRICING FOR METRICS

There are several approaches for pricing outcomes:

Cost-benefit

- Calculate cost of not completing initiative
- Establish imputed economic benefits

Comparable costs

- Identify comparable projects prices
- Adjust for local context

Competitive Procurements

- Formal competition between implementers
- Helps determine the 'market price'

Cashable savings

- Expected savings from the result



STEP 5: SETTING PRICING FOR METRICS

Structuring hybrid mechanisms can increase implementers' comfort with Pay-for-Results:

Share risk by:

1. Structuring the mechanism to be partly Pay-for-Results and partly input-based
2. Phasing in performance-based payments
3. Determining short-term milestones to measure against

Example: 100% performance-based contract and hybrid time and materials contract



STEP 5: SETTING PRICING FOR METRICS

Water Example:

Which metric pricing approach makes the most sense and why?





STEP 5: SETTING PRICING FOR METRICS

Water Example:

Which metric pricing approach makes the most sense and why?



Imputing the cost from other projects:

- Given robust data on other water projects, it is simplest to price based on previous projects
- Prices should be based on local conditions

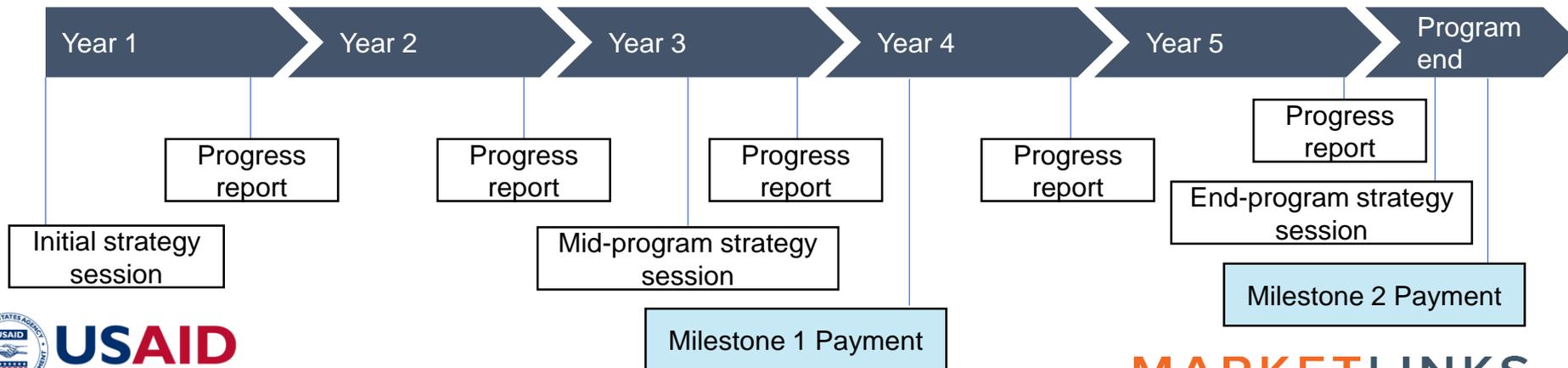


STEP 6: MONITORING PERFORMANCE AND PAYING FOR SUCCESS

Ensure the integrity of payment milestone monitoring:

- Third-party verifier
- Stringent data quality practices
- Regular progress reports
- Progress evaluation sessions with stakeholders
- Contract provisions to refine targets/outcomes

Example monitoring schedule:

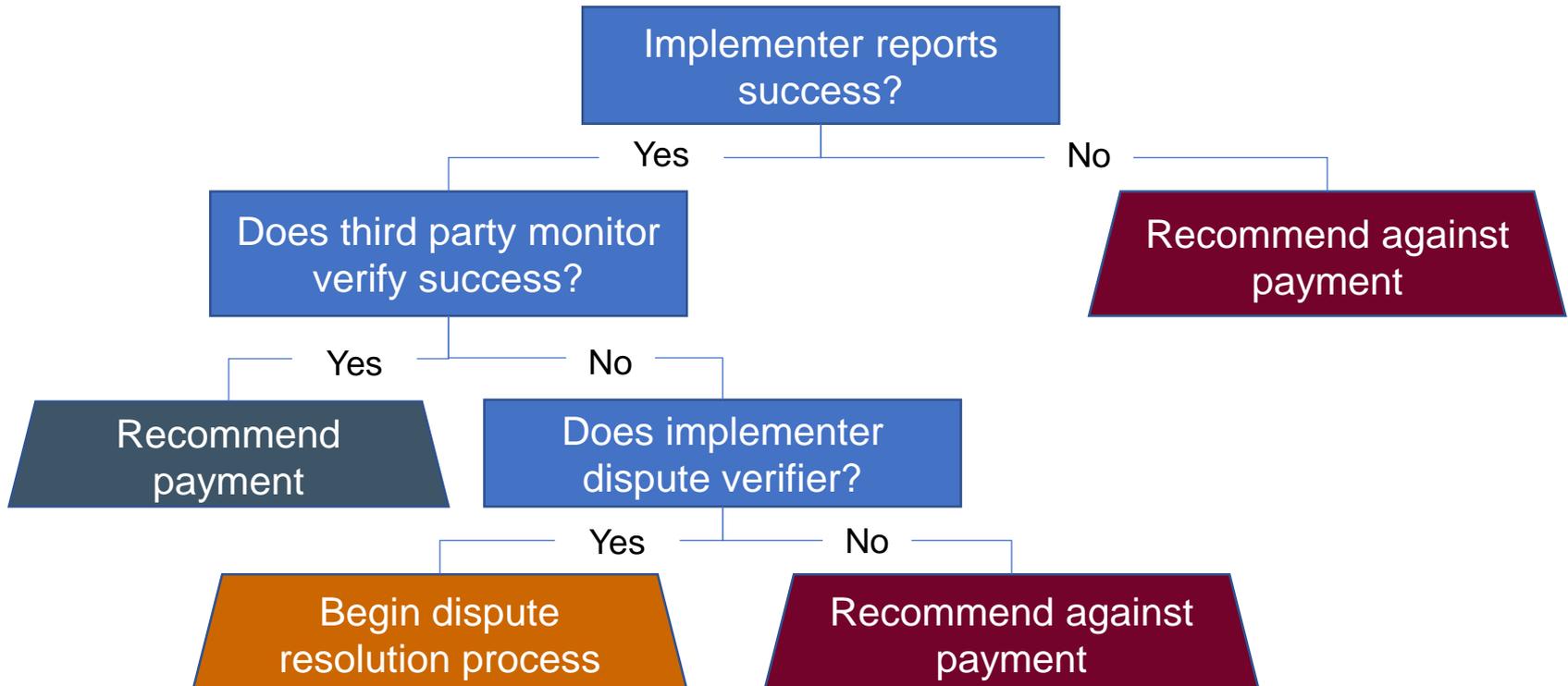




STEP 6: MONITORING PERFORMANCE AND PAYING FOR SUCCESS

Put mechanisms in place to validate performance and pay success fees:

Example payment process:





STEP 6: MONITORING PERFORMANCE AND PAYING FOR SUCCESS

Water Example:

In which of the below scenarios should an implementer be awarded a prize?



Metric	Implementer Reports Success	Verifier Reports Success	Pay Award
Households with CWP access	Yes	Yes	Yes
CWP site with 'Good' water quality	Yes	Yes	Yes
Households in the area suffering from waterborne illness	Yes	No	No

TOP TAKE - AWAYS

1

Pay-for-Results is trending – for good reason

- Innovation
- Shares risk
- Better outcomes
- Value for Money

2

Different ways to use PforR in programming – most common is through **performance-based awards**

3

But not without challenges – principal among them **setting and pricing metrics**

4

Third Sector and USAID have written a guide – *Performance Metrics in Pay-for-Results Programming*



PERFORMANCE METRICS
IN PAY-FOR-RESULTS PROGRAMMING
Step-by-Step Guide I

BY LAWRENCE CAMP, BRIAN BEACHKOPSKI, CHRISTINE KANG,
AND MOHIB AHMED

5

Of the six steps, the first (Aligning on Shared Goals and Defining Success) is arguably the most critical as **sets the stage for all that follows.**



Pay for Results in Development

A Primer for Practitioners

Pay for Results Primer Available in Web Links Box



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