



MARKETLINKS

# PAY FOR RESULTS: BETTER DEVELOPMENT OUTCOMES THROUGH STRONGER PERFORMANCE MANAGEMENT WEBINAR

PRESENTATION TRANSCRIPT

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## PRESENTERS

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*Charlin Caster:* Hi, everyone, thanks for joining. Please do mute your phone. Thank you.

*Operator:* All guests have been muted.

*Lawrence Camp:* Welcome, everybody. Welcome to Pay for results, setting pricing metrics. We appreciate your interest as we are excited about the use of Pay for results programming and its potential to maximize the development outcome. We are pleased as well to introduce the new guy, with USAID developed jointly with Third Sector on setting and pricing metrics, in the pay for results program.

So, we hope to go through this presentation fairly quickly. We have a lot of people and we know we will have a lot of questions and answers.

So, from this webinar, we hope that you will leave with, first, an understanding of pay for results and programming and how it can be a forced multiplier in development. I have used pay for results and programs throughout my USAID career and have found it highly valuable, helping to accomplish outcomes which otherwise would not have been met. For example, I worked with banks and post conflict Bosnia to draft loans to support economic recovery and job creation and with business advisor service providers and transaction advisors in Ghana to identify investment opportunities for modernizing agricultural value chains.

And second, we hope that you will leave with a framework for addressing one of the challenges to using pay for results, how to set price and monitor performance metrics. All USAID awards include expected targets and metrics but establishing metrics that will be adhered to and determine payment requires a more up front thought and effort. But in the end, we believe it leads to better projects and greater development impact.

Jonathan?

*Charlin Caster:* One moment, we are having some problems.

*Jess Pic:* Just a moment, everyone. We are going to do some audio troubleshooting and then we'll be right back with you.

*Charlin Caster:* Please let us know if you can hear us now. We are attempting to troubleshoot the audio, and it looks like it's working. So please okay. Great. And if you continue to have difficulties, please send a private chat message to Jess Pic under the Marketlinks and I will work with you personally to figure out what the problem is.

*Jonathan Ng:* Great. So, to pick back up. A quick note about terminology. When possible, it's best to stick with using consistent terminology, such as pay for results. This is

usually best for USAID's purposes to use the term pay for results as opposed to other terms such as outcome space funding, pay for success or pay for performance. The reason why USAID refers pay for results is that results can include both outcomes, when we know exactly what we want to achieve, and also processes when we want to experiment.

Pay for results is also the official term used in other federal legislation, such as the Social Impact Partnerships to Pay for Results Act or SIPRA. Using outcomes-based payments or pay for success can potentially add an unnecessary layer of confusion. And for a term for pay for performance, it could be construed that we are paying for best efforts. So, we will use pay for results for this webinar going forward.

*Lawrence Camp:* Great. So, my name is Lawrence Camp. I'm in USAID's office of private capital micro enterprise. Our office is focused on mobilizing private commercial financing, which can support our development objectives. And we're using pay for results successfully in several projects, in conjunction with blended finance in several cases. For example, supporting the Kenya investment mobilization project, in Kenya to facilitate loans and investment for agricultural modernization. And in the Haiti home project, is focused on catalyzing private sector construction of and financing for affordable housing.

Christine? Jonathan? Or Mo?

*Mohib Ahmed:* Hi, everyone, and a pleasure to be here, my name is Mohib Ahmed, I'm the contracting officer here at USAID Zambia. We have been paying for results in the community and also some of the current activities which are yielding some incredible results and using collaborative approaches as well, which we will highlight through the presentation. So, I look forward to the webinar and having a robust dialogue with everyone.

*Lawrence Camp:* Great. Let's go back to Christine. Christine, are you with us?

*Christine Kang:* I'm here. Can you hear me?

*Lawrence Camp:* Yes, we can.

*Christine Kang:* Wonderful. Thank you. Sorry about that. Good morning, everyone. My name is Christine Kang and I'm a manager at Third Sector. We collaborate specifically with governments and community organizations. We define impact, and insights from data and ultimately achieve better outcomes. The tool that we have used most effectively in this effort is contracts. And we will talk about our pay for results work and how we have implemented it through writing contracts

with service providers in an outcomes-based bay and setting out systems and processes to support and incentivize those outcomes.

Thank you.

*Jonathan Ng:* And good morning, everyone, I'm Jonathan Ng, I'm with the USAID office of the general counsel. I primarily cover the private sector engagement policy.

*Lawrence Camp:* So, pay for results is of increasing interest in the development community. The World Bank, the Millennium Challenge Corporation and others are all expanding to use pay for result and pay for performance, resulted based findings within their programs. Within USAID, there's a commitment to increasing its use in our awards as we seek to be more innovative, do more with less, and accomplish greater value with our development dollars.

So, there's universal consensus that pay for results brings big benefits. Why then is it not used more frequently?

There's several reasons and these are addressed in a primer for practitioners, which we will reference at the end of the webinar, but undoubtedly a key reason is an embedding pay for result in programs is challenging. Challenging both for project designers and for project implementers. And the biggest challenge we see is the challenge of setting and pricing metrics. Because when money is on the table, to be awarded or not awarded based on results, things can get less collaborative, and negotiation on what constitutes success and how we measure becomes more serious.

At a minimum, it requires more upfront design effort, but if done right, you make it up on the back end of the initiative. Over to Mo to talk about what pay for results is and the pros and cons.

*Mohib Ahmed:* Thanks so much, Lawrence, and let's first just define, what is pay for results so we all have an equal understanding. It's initiatives where funders pay on the accomplishments of results rather than the effort to accomplish said result. So, I think that it's really important that we keep this context, that we are looking at what are the end results? What are the outcomes that we are looking to accomplish? And not necessarily what are the means or the inputs that are involved in accomplishing them.

There're some real benefits and there's some extreme challenges that we have to work through, not only as a donor community, but also as an implementing community and bring that together. Some of those benefits include but not limited to new innovative ways of doing business, finding new funding and attracting private sector and leveraging private sector differently, ensuring that

we have alignment of interests among all stakeholders or all vested stakeholders and identifying any additional stakeholders who may not have an interest but could also benefit from the activity or how we structure the pay for results. Ensuring that we have evidence-based approaches that we apply systematically throughout not only the design, but then also throughout the implementation, and utilizing that to achieve the objectives of our pay for results structure.

Some of the challenges--(No audio).

*Lawrence Camp:* Mo, we lost you. You are back? Should we move ahead, or what?

Okay. So, we have lost Mo.

*Mohib Ahmed:* ...noticed, it's predicted for any unintended consequences or reverse incentive that appear from utilizing this methodology.

So, if we move forward to what are the approaches under pay for results as well. We have quite a few that we can look at. We have got performance-based mechanisms within cooperative or acquisition and assistance. There's not one that may be better than the other, as the agency is starting to progress. There's lots of different mechanisms that can use performance base as a driver of performance.

We also have advanced market commitment and those are agreements to guarantee a price or market for our product upon its successful development. It's really a way to mitigate uncertainty and building products within the market. Really, this is product based but we are starting to see some applications within services. So, it's an exciting time to see how this is going to be adopted or where it could be adopted under this model. We also utilize prizes, excuse me, and these are arrangements where rewards awarded usually through a competitive and open process, through one or more competitors that are successful at achieving the desired results. We have seen prizes, especially trying to think of or find innovative or tap into unreached markets. So, we have seen some good yields from there as well.

We also have some social or development impact bonds. And these are actually a subset of performance-based mechanism and I'm just going to pass over this into conditional cash transfers and then come back to it to have more of a deeper dive. For conditional cash transfers, these are agreements whereby cash payments are made directly to needy households to stimulate investment and human capital upon meeting predetermined conditions.

Going back to on shorthand what we call sibs and dibs, I will turn it over to Jonathan to give us more context and examples of what he has experienced as well.

*Jonathan Ng:* All right thanks, Mo. A quick note about social and development impact bonds or sibs and dibs. As Mo mentioned, these are actually a type of performance-based mechanisms underneath the broader umbrella of pay for results. It's important to keep in mind that form should always follow function so that we are not just trying to do a SIB or a DIB for SIB or DIB sake. As Mo mentioned as well, a social impact bond or development impact bond is not actually a bond, rather it is a structure

*Mohib Ahmed:* Sorry, Jonathan, are you there?

*Jonathan Ng:* Yes, Mo.

Where these are not actually bonds, rather, they are a type of a pay for results structure where the private investor is taking on the performance risk, instead of a traditional donor taking on that performance risk. And USAID is currently involved in two development impact bonds as the outcome funder. The first being focused on the graduation approach from poverty in Kenya and Uganda and the second is the Turkish bond on improving maternal and child health outcomes.

Now we will go to when is it appropriate to use pay for results? First, pay for results is a good idea typically when outputs and outcomes are well defined, measurable, and plausible. Second, service providers must have the necessary experience to deliver the desired outcomes. Third, it's helpful to have data sources and monitoring systems that exist and also having funders who are comfortable giving service providers room to innovate, and what we would call adaptive management.

However, there are also some major challenges when trying to use pay for results, as we will discuss further in this webinar. These include agreeing on payment metrics and also pricing metrics. In addition, I would add that pay for results is not only an approach, but it's about a mindset that can be part of a broader cultural shift within an organization and how it operates. This includes driving better performance management, driving better data collection, driving better data verification, and reducing subjectivity in achieving results.

Christine?

*Christine Kang:* Thanks, Jonathan. So a lot of times what we have seen on the ground as people determine they do want to use pay for success, is they feel a little bit lost in how

to define success, and how in particular to create incentives based on a single measure or outcome. We put together a concept note around setting, pricing and measuring performance metrics. So today we'll really be going deep into the six steps we laid out.

It's designed around real project experiences and we select and value outcomes. It's important to know that there are many nuances that are not captured in this framework, but we do believe that it provides a strong foundation on which to build upon, and we hope that you ask many questions along the way, so that we can provide additional information.

So now I will turn it over to Lawrence.

*Lawrence Camp:*

Great. Thank you. And, yes, it is a guide. It's a short concept note, and not huge detail, but we do think it provides a useful framework. So, let's start to drill down into those six steps. So, the most important component of pay for results is aligning shared goals and the steps to get to those goals, defining what the problem is and what success looks like, and how success will be achieved.

It's best done on a collaborative and iterative process, perhaps through a co creation event or process, and this entails bringing together the key stakeholders, USAID or other funders, the implementers, ultimate beneficiaries, post government counterparts and policymakers who achieve consensus on what constitutes success and how to get there. But with these three parties in alignment, again, the objective is to determine the problem to be addressed and the magnitude of the problem, the long term the short term and long-term priorities and the desired end state.

The first step is critical as it builds the foundation for everything that follows. Let me turn it over to Jonathan and then to Mo.

*Jonathan Ng:*

Great, thanks, Lawrence. As Lawrence mentioned, first step this first step arguably the most important because it sets the tone for the remaining five steps. As part of this, it's important not to assume all parties involved share the same understanding of certain key terms. Plus, it's important that everyone is speaking the same language. This includes having a clear understanding and common definition as to what constitutes inputs, outputs and outcomes. At USAID, we have a great process in place at the project level, where we develop a theory of change and an associated logic model, that incorporates the foundation for determining good inputs, outputs and outcomes. This can be built upon with implementing partners to ensure everyone has aligned goals and is speaking the same language.

We define a theory of change as a narrative description of how and why a purpose or result is expected to be achieved in a particular context.

And the associated logic model is a graphic or visual depiction that summarizes key elements of a theory of change.

Important in the context of the theory of change and as described in the logic model would include identifying key assumptions which involve programmatic assumptions that are within the project managers control, but also stating the context assumptions that are largely out of the project manager's control, but ensuring again everyone is on the same page.

As a practical tip, making sure everyone in the transaction puts in writing what it views as success and how they define and delineate between inputs, outputs, and outcomes will help to suss out any differences in terminology.

Mo?

*Mohib Ahmed:*

Thanks, Jonathan. Also to put step one into practice, USAID encourages the practice of co creation and collaborative approaches, which we define as a design approach that brings people together, to collectively produce a mutually valued outcome using a participatory process that assumes some degree of shared power and decision making.

This is really a very useful tool that's been coming to light and is being used across many, many missions now, and especially as Washington, it's been highlighted as best practice and really the time early in the planning cycle for all stakeholders to come together and start to put their concerns on the table before we reach the award phase. Things like co creation can be used throughout the USAID program cycle. For the purposes of this webinar, we want to highlight it at least three ways for potentially implementing partners to engage in the co creation with USAID at the activity level, for the purposes of aligning on shared goals without running afoul of procurement challenges that we have seen in the past.

The first would be in response to annual program statements. The second is in response to broad agency announcement and the third is industry days. These are really three critical areas where industry can engage or keep a look out on portals such as grants.gov because they are always announced through the government point of entry and it's very encouraging that we have seen such collaboration early and often and for those of you who are on the webinar who have participated in such days, we wanted to say thank you in advance and please continue to do so.

I would like to also stress the importance of the funder, donor considering the viewpoint of the implying partner. If we don't know what the challenges you may be facing, we can't make or create designs or adjust solicitations in the future that would incorporate those challenges or *(No audio)*.

Hi, is it back on?

*Shira Babow:* Yeah, you are back.

*Mohib Ahmed:* Okay. Thanks. So just to...I'm sorry if it repeats, but the last point I was just stressing the importance of the funders and the donors considering the implementing partners perspective, because early and often in the design phase, the absence of that perspective can leave a very big gap or possibly set up or establish a solicitation which is negatively facing or has negative consequences and the engagement could have result in that.

So, I encourage us all to continue in that collaborative approach and process as we go through and mobilize pay for results as it will continue to gain speed through the agency.

*Lawrence Camp:* Great. Thank you, Mo.

So, once we have determined what success is, how do we get there? In addition to gaining consensus on outcomes and program end goals, stakeholders should also align upon a theory of change that describes interventions that are needed to achieve completion of the objectives. Again, what do we need to do to accomplish success? There are different ways to bill theory of change, but it should be some sort of backwards mapping or problem tree exercise, working backwards from the desired goals to look at the constraints and how to overcome those constraints and identify the steps needed to achieve the goal.

This will result in the interventions that your initiative will undertake to create the desired change, and within that, it will determine the inputs, and the activities which will result in the outputs, which will result in the outcomes in the medium term, within the life of the award, and ultimately in the long term which may exceed the life of the award.

So, let's turn to a concrete example here. So your mission director or your boss has called you into her office and asked you to develop an initiative to address a health challenge, water borne disease. And by the way, since Washington has always gone on about innovation, and she's also heard some promising things about using pay for results, can you please incorporate that into the project design?

You agree, leave her office and immediately go to your colleague's desk, though up your hands and say I'm in big trouble. I have been tasked with developing a pay for results water project but I have no idea how to go about a pay for results project. And your colleague kindly says don't worry. I read this handy guide on setting and pricing metrics and I can walk you through the six steps you need to take.

So, at your friend's suggestion, you pull together a co creation event. Providing a whole range of implementing partners, government counterparts and representatives from targeted areas, et cetera, to sort out what success will be and how to achieve that success. Some of the questions you want to have answered in this process are what's the problem that communities are facing as it relates to access to clean water? And we know that's water borne illness.

What are the root causes of that problem? And what are the current gaps in addressing them? What are some of the best possible solutions for increasing access to clean water? What gaps could you directly affect within the next 12 to 36 months? And what would the cost be to close these gaps? And how does that cost compare to the expected benefits?

So, at the end of this process, the stakeholders have come up with conclusions. The challenge is water borne disease which is harming health and leading to lost school and workdays. Success is a significant reduction in water borne disease, in combination with increased availability to clean water. The best solution to the problem is establishing clean water provision sites, where communities can go to access clean water, and the group actually in this case went a bit further in suggesting some success metrics.

The report back to your mission director, she agrees that this makes sense and asks how you came up with the solution. You respond it wasn't your solution, rather it was a solution that grows from a collaborative process with a full range of stakeholders. She is impressed!

So, having established what success is, and how it will be accomplished, how are you going to know if you are getting there? Which performance metrics should you use? ADS is USAID's automotive directive system, and they suggest seven criteria for selecting indicators or metrics. First of all, direct. Directly track and clearly measure the intended result.

Second objective, unambiguous about what is being measured.

Useful for management may include agency level indicators which the agency needs to report to Congress or State.

Fourth, practical, entailing data which can be obtained at a reasonable cost and effort.

Attributable. Measuring results which are clearly and reasonably attributable to USAID's efforts and not other, other forces at play.

Timely, indicators for which data can be gathered in a timely manner. If things are not going right in an activity, clearly you want to know that early on to change what you are doing.

And adequate, enough indicators to effectively measure performance. There are other criteria, which also may be useful in qualifying the metrics or in sharpening the targets and the performance indicators.

For example, as we look at results, how do we assure that results are additive, the results would not have otherwise happened without our intervention? How should we value and measure the time to impact, how rapidly the results occur? The sustainability of this result so we are not having to repeat effort again and again. That we are not creating negative market distortions, for example, undercutting existing water service providers in the region. And finally, getting greater value for our development dollars. Crowding in where possible the private sector and the private sector funds to complement our funds, limiting the dollars we need to get the results.

So, when you start looking, you discover that there's a huge number of possible metrics for determining success and progress towards that success. So, you need to find a way to whittle that number down. You can create a prioritization framework, such as we have suggested to help identify those best metrics. Tradeoffs will have to be made because it will either be impracticable to achieve metrics to touch upon all the criteria.

In this example, we used three of the ADS criteria, direct, attributable, and practical. When brainstorming the initial list of metrics, that can provide a first screen with other metrics used subsequently to whittle down. This is an art rather than a science. The metrics one, three, and six are promising based upon them meeting requirements of all three direct attributable and practical.

So, turning back to our water example. We have now defined success and the initiatives we're going to undertake to achieve that success. And now we have some pretty good metrics to measure how we are doing. First, we are going to look at the percentage of households with access to your clean water sites. Again, this is easy and practical to measure, and it's clearly attributable to the initiative. We're going to look at the percentage of water borne illness, a little more challenging but we can do surveys, which is practical, and it's clearly

direct. It clearly tracks our intended result, and it's objective. It's either in it's accomplished or not.

A cost per household. Useful for management. As we need to consider the cost benefit of the intervention of all of our interventions and should be concerned about value for money. How do we drive the costs down? Period of time to deliver access, direct and practical, the implementer can measure easily.

And it's important, the period of time to deliver access, if the challenge is an urgent one, such as, for example, Ebola response. And sustainability, the percentage of the clean water response in which they cover the operating and the maintenance costs. Other possible impact metrics would include potentially the clean water sites in which the water quality is rated good or higher and the number of reduced work or school days lost from water borne illness in the region.

So, at this point, we have defined what success is, how to get there, and how are we going to measure success. We now need to take the third step to measure baseline to establish baselines on our targets. Reaching final agreement on targets, and pricing for those targets will ultimately result from negotiation between the funder and the implementer. But as in all negotiations, it's better to come to the table of both parties with a sense of what a reasonable target should be. The targets need to be set against baselines, and they should ensure to the extent possible that accomplishment of the targets are a result of the activity being undertaken.

Setting targets is also more of an art than a science because there are so many variables at play and the context is always dynamic rather than static. Where data is either unavailable or not easily accessible, the targets may be established around international standards, such as the world bank data bank, doing business indicators, et cetera.

So quickly for serious M & E evaluation, modern evaluation people, they like to think about impacts in terms of the counterfactuals. The counterfactual asks the question: What would happen if my program did not exist? Some types of counterfactuals include baselines which is really our focus, data gathered at the beginning of the project understand the current state, and this is USAID's usual approach.

And controls, which is more sophisticated approach, the comparison group does not receive any intervention used in experimental or quasi experimental business approaches. This is the gold standard but it's costly and rare for USAID. Again, at USAID we almost always use baseline.

So, once you have established your baseline, you are then in a position to think about reasonable targets. Again, target setting is ultimately a negotiation between the funder and the implementer, and, of course, if your target is too high, no implementer is going to want to undertake the initiative, but you into Ed to come to the table with your own targets in mind. For one thing, it allows you to do an initial cost benefit. If you know what your target is, for example, an additional 10,000 households with access to clean water stations, you are in a better position to determine whether the cost of achieving that result is worth it. Perhaps there are other better uses for those development funds.

Lastly, the types of the targets include internal targets which focuses upon the implementer's performance and performance improvements over time and external targets in which the benchmarks against external indices. And we also see metrics that would be or targets that would be process targets, if we see how we are getting there, as well as final end result targets.

And, of course, targets should be sufficiently ambitious to incentive improved performance.

So, moving right ahead. With our metrics established, quickly we have established a baseline here. We went from there a target is set and the agreement is reached on an acceptable data source. So, let's turn it over again to Mo.

Do you have an example for us?

*Mohib Ahmed:*

Yes thanks, Lawrence. So just to set the stage and to help everyone understand what was going on, we had we had one contractor who or one implementing partner, I should say, who is phasing out. So, we were seeing a large mobilization stage, and we had a new implementing contractor coming in. And they had about a two- to three-month layover. One was moving down and one was coming up, and for the one that was exiting, a year prior, what we did was we established a pay for results, a pay for performance methodology, and we had converted their he can mechanism into a performance based mechanism, specifically tying payments to the achievement of specific outcomes that were important in the realm of PEPFAR. Their targets are delineated on an annual basis and given by OGEC, which is the office that oversees the program across all countries.

So, we had a we had a very clean opportunity where the targets were well defined. We had a means to measure those targets, and we had a way to consistently apply the same approach year after year. So that being said, typically in any project, when we are seeing a close out type phase, we see a decline in performance because implementing partners are removing personnel.

They are removing equipment and trying to get them to get them either out of the country or finish the project or continue doing their normal work in the absence of the USAID funding.

In the fiscal year prior to changing the performance over into a performance-based methodology, we saw only 56% of the targets being achieved. Then we used the performance based contracting methodology and the following year, the implementing partner that was leaving achieved 101. And the new implementing partner that was coming in achieved 86%. Now these were unprecedented numbers in the realm of PEPFAR and it's become a best practice and it's moving throughout these lessons these lessons learned are moving throughout the agency. This was one very clear way where everybody was able to understand what the targets were, what is the baseline, how am I being measured and how will my performance catalyze with a performance or loss. With those understandings between the USAID and the implementing partners, we were able to achieve massive amounts of success, which is actually putting Zambia as one the first country to reach epidemic control, possibly within the next year or two years.

So that's in the PEPFAR realm. I also have a different example in education, where we have the problem statement was children who are not reading at grade level and specifically children the age of kindergarten to three years old. They have an established means EGRA, early grade reading assessment.

We found that only 20% were reading at grade level. So, we were able to establish a baseline. We worked with the government. We worked with our implementing partner and we put it through the solicitation of what we what we would hope that after the five years and the amount of funding that USAID put in, the end target would be. We had a collaborative approach and we used things like oral presentations, co creation, through the solicitation process, and we're starting to see the yields of that result, but this example is really a way that we were able to put it into the solicitation early, get engagement not only with implementing partner communities, but also with the government and design a project that reflects the needs of what is currently happening.

But, again, we were only able to do that because we had a baseline. We had an established target which was realistic and reasonable to achieve. We had implementing partner and stakeholder input, and we had consistent communication through the process.

So, Lawrence, I hope these two examples are helpful. I want to turn it back over to you.

*Lawrence Camp:*

Thank you, Mo. Very, very helpful. Really remarkable results on that. Thank you.

So, I want to push through quickly. So, we are at step three now. We have defined the problem, and have established success, and the intervention we need to take. We determined metrics that we will use to measure progress and the data sources for those metrics, and we have completed our third step of setting our baseline.

What is the as is situation? Each have a baseline and a target. And we are looking at basically clean water access, water borne illness, the end result, the cost of sustainability, and the point I want to make is that rather than looking at one indicator, this really provides us with kind of a broad spectrum of metrics so we can really look at the broader issues of are we achieving sustainability? And the multi development objectives that we have in our projects. So, one of the benefits here is that we can have multiple elements on which we pay, which is pay benefit for the implementer as well.

A few implementers are able to simply move forward to undertake activities with the hopes that at the very end of the activity, we would provide indicators process indicators and milestones as they move ahead.

So, with that I want to turn it over to Christine to follow up on the next three steps.

*Christine Kang:*

Thank you, Lawrence. So, Lawrence graciously went over how to align shared goals and measurable metrics and then establishing an understanding of what the current state is.

Next, one of the areas where we the good a lot of questions is how to determine which evaluation approach is the best. Oftentimes what we found is that that approach is often based on the amount of rigor funders are comfortable with, and ultimately, they are the ones who are deciding whether or not to pay for a program or an intervention.

So, as you see on this slide from left to right showcases the different designs based on level of rigor. For nonexperimental designs where we don't have a unique comparison group, we really measure the outcomes of the program participants before and after the program. It measures outcomes for participants and similar nonparticipants. So, utilizing that group.

Finally, experimental designs randomize them into a treatment or a control group and measures the outcome's results over the period of time.

So, before we jump into the advantages and disadvantages, I did want to note that we see tremendous value, if not sometimes more value than separately conducting ongoing evaluation throughout the contract period, rather than just evaluating at the very end to determine success. It allows for program adaptation, using real time feedback. So, in addition to financial incentives, stakeholders frequently mention how valuable it is just to have access to some of the data that usually funders or government funders have at their disposal. And so most times these invites are not shared back with the inventors and so they see this as a huge nonfinancial incentive.

I just wanted to make sure that I reinforce it here.

Going into the advantages and disadvantages, as Lawrence mentioned, rcts are often touted as the gold standard of evidence and very costly and something that USAID tends to steer away from. Rcts are experimental designs can isolate the impact of a program with a high degree of confidence and minimizing potential bias, but it requires significant resources. Can it accommodate randomization. So the sample size has to be large enough, but also how you implement that accordingly.

Most cases we see either quasi experimental design or nonexperimental design. Quasi experimental design tends to isolate the impact of a program along with other variables, can be controlled for or sufficient data is available to the evaluator. Some necessary data would be prior known propensity for negative outcomes.

The non-experimental design usually requires less resources and population sizes can vary. However, it's quite susceptible to bias since performance is not (garbled audio).

The funders and the implementers maybe longer to ensure all the terms and the conditions are agreed upon.

I will go over briefly to Jonathan to provide some comments.

*Jonathan Ng:*

Thank you, Christine. One lesson learned from a USAID program team involving the government impact bond in Sub Saharan Africa when we used a randomized control trial as their valuation approach, they determined in hindsight it might have been better to take a nonexperimental or quasi experimental approach. This had to do with the graduation approach had been proven to work in other areas of the world and had been supported by a global randomized control trial already.

So in this case, when an RCT was involved in the activity design, they mentioned as a lesson learned in hindsight that the evaluation costs associated with this development impact bond were high enough as is, and several stakeholders questioned whether the use of such a rigorous evaluation design would be sustainable in future. To reduce the relative costs evaluation of future instruments, stakeholders should consider carefully whether a leaner RCT methodology or non RCT methodology is possible and sufficient and whether future pay for result instruments really require an RCT evaluation.

Of course, the issue of high verification costs in relation to outcome costs will be diminished as the volume of payments increase. One is for the stakeholders to use the locals instead of large international evaluation firms.

Christine?

*Christine Kang:*

Thank you, Jonathan. So, going back to the water example that we have been starting with, we want to think about a few different questions as we decide on which evaluation model would be best. Some of the questions that we ponder, are we working with a small population? If so, it would be more suitable for a nonexperimental or quasi experimental model. It unethical to compare. Since we are talking about water we would probably say yes. We would probably move towards the nonexperimental or quasi experimental and do we have other items that complicate the randomization.

It's difficult to limit access to the community to clean water.

Although we went with the quasi experimental control group, given that there are similar sites that are funded by other development organizations, we know that it's unnecessarily complex to try to control for all the factors. So, we decided to use a non-experimental design that uses pre-project metrics as a baseline. And on that, we plan to use three different metrics. The first one is households within the clean water provision site that can walk within 15 minutes. The second one is the number of households in the area suffering from water borne illnesses annually. And the third is the average time to establish a clean water provision site.

Once we select the funds, we will move on to figuring out how do we really apply these metrics?

Well, in terms of figuring out what the right typing is, there's many different ways in which you can approach it. Some of the common ways that we have seen at USAID is conducting a cost benefit analysis, providing costs from other comparable projects or establishing a competitive procurement process.

This usually is used to quantify the economic benefits to be realized based on accomplishments of metrics. So, for instance, if we were to have a program that is hoping to reduce recidivism, we would look at all the remedial costs associated with someone who actually does get (Garbled audio).

We would then measure that against the costs of providing interventions. So, if we are presenting in person counseling or wraparound services we would talk about that and measure what is the difference.

The other way that we can do it is comparing across projects that are similar in issue area, or in country. So, the costs associated with those projects would serve as a proxy and based on comfort level around those proxy measures, you could then create a benchmark, fully understanding that this would have to align with the funder's willingness to pay.

And then the third way is really having a formal process of creating a solicitation which basically seeks to foster competition among funders to engage and provide the services and goods under that contracting model.

I will turn it over to Mo to provide a little bit of context based on his experience.

*Mohib Ahmed:*

Thanks so much.

As Christine mentioned, you know, competitive solicitations is the time where we look at fostering organizations to bring in innovative ideas and approaches to solve some of our development challenges. Contrary to popular belief, cost is not the defining factor. Now, we could get into a contracting course about lowest price technically acceptable, versus tradeoff, but USAID generally looks at technical first before it looks at pricing.

So with that in mind, when an implementing partner is able to provide us an innovative solution, pricing is a part of that innovative solution. What are the costs that an implementing partner or an organization is looking at? How is it looking to get the biggest cost benefit analysis? One of the best proposals that I have seen actually had that dialogue within it and was able to quantify how it was reaching a bigger value for dollar compared to possibly other solutions that may be out there.

And that really provided a holistic approach or holistic perspective of how the implementing partner not only said, this is how we will spend the dollar but this is how far that dollar is going to go and this is the development impact that that dollar is going to come back at.

I think it's a very good opportunity, especially in the co creation and collaboration process as well to start having these conversations about, well,

what kind of project are we trying to put together and does the funding associate with that project? Are the results are the baselines and the DBA between the two and the funding source that's allocated, is it enough? Is it too much? Luckily enough, we had actually an experience where someone said that's way too much money. I thought I would never hear that before, but they said there was another solution that would get us there without having to spend the funds we thought were needed for that solution.

So in that competitive solicitation process, whether it's via the request for information, the co-creation, the response to solicitation, it really please, bring those ideas forward, because that's when we can start looking at, well, if we have an idea or a model of how we think things are supposed to be costed or priced out, is that correct? Or should we adjust it? Because adjusting the solicitation in the preliminary phase is easy. Once we get into the part where an implementer or groups have submitted their offers or proposals, it's very difficult if not impossible to pivot at that point without breaking competition regulations, procurement regulations. So that is the point of no return for lack of better words.

We can always come back but just for the purposes of the webinar. So Christine, back over to you. Thanks for that.

*Christine Kang:*

Thank you, Mo. So, in terms of next steps, once you set the pricing level, you want to think about how do you actually structure the performance payments?

Oftentimes pay for result tries to shift from the funder to the implementer, however, few implementers are willing or able to accept all of that risk. And so, the performance payment itself should provide enough protection for the implementer, so that they can still cover some of their costs, if not all of the costs of actually providing the services. While simultaneously providing significant financial benefit to the implementer, to keep them motivated. If it's not large enough, then the cost of actually implementing the pay for result may outweigh the benefits.

Some of the ways to structure this falls along (Garbled audio).

We go completely for results. So, the implementer would bear the cost of any upfront costs related to actually providing the services and we get paid on the achievement of those outcomes or agreed upon metrics.

Another way of doing it would be a mixed system, that you could have partial cost coverage. So, some cost reimbursement built in, and would be paid out either at the beginning of the contract or at different intervals and then also have some of the reimbursement happen, once outcomes are achieved.

Another way to do it would be to have bonus payments. In addition to cost reimbursement for the full cost of intervention, you could also pay on the achievement of any additional outcomes if those brought value both to the funder and to the implementer.

And the final way that you can think about it is having a mix of different short term and long-term metrics that are used in the contract or pay for results. Some of the short-term milestones may be more within the implementer's control, and more focused on input or activities related to getting to the longer-term outcomes.

So, I'm not sure if you had anything you wanted to add before we moved on to the water example.

*Mohib Ahmed:*

Yeah, sure. Just to help also reiterate, I know we mentioned in contracts quite a few times, but this is also applicable to assistance as well. Please don't walk away from this thinking, oh, it's only an acquisition that could lend to the pay for results. That's not true. We were able to utilize pay for results in both acquisition and assistance. It's more about what is the result and the outcome and the principle purpose.

So, with that being said, I think it's also important for us to talk through realistic things and adjusting or pivoting when challenges do arise. You know, from the time a solicitation or a concept is in an inception phase to the award could be a significant amount of time, where the conditions have changed and from that award to anywhere from six months, a year, a year and a half, it could also be a constantly changing environment.

So having those considerations, not only up front, but the dialogue with the implementing partners, the funders, the government, and the end beneficiary, to ensure that however we have done our pricing, or agreed to in the beginning, as we begin to implement and as implementation continues, are we still on the right path to achieve what it is that we needed to do? And in the times we are, that's great. And where we are not, equally we need to be able to say, hold on. We need to go back to the drawing board. We need to look at what what our end goal is and are we still able to achieve that? Creating flexible mechanisms and also helping to understand what those conditions could be up front is a key strategy in designing and then implementing or awarding flexible mechanisms, whether they be contracts or assistance mechanisms.

So thanks, Christine, for that opportunity as well.

*Christine Kang:*

Thank you, Mo. So, moving on to the water example. For this particular example, we found out there was a lot of robust data on similar projects. So we

decided to build an economic model, really to be predictive around what could be the actual cost savings or benefits to the funder. We based this from key assumptions and inputs from past programming.

The economic model builds the projected impact levels of the programmer intervention on the metric, as well as the costs, and some of them mentioned the implementation and the lost productivity due to water borne illnesses. The interplay between the performance payments for the simplicity if we divide the projected cost savings across the three metrics we decided upon and then set the rate based on the type of success.

We will weigh the metrics differences based on a number of factors one of which in terms of contribution of the, the program on the actual outcome, but also the funder's interest and desire to pay for result outcome. It's more of a fine balance. It's more of an art than a science, but an economic model can really help to get you all on the same page and looking at the same prediction and using that to start the conversation.

Well, the final step and in interest of time, I will not belabor the point. Once you have a contract in place, it's extremely important to have the right mechanisms to monitor performance for the success but also to learn from the process. So the illustrative example at the bottom showcases over the course of a contract, there needs to be consistent milestones and progress reports, where the stakeholders who are initially brought together to design the shared goals look at what's actually happening on the ground and have opportunities to course correct and really be responsive to the needs in the community.

In terms of the actual monitoring process, we really wanted to ensure integrity. In order to do so, we do a few things via a critical component. First is employing a third-party evaluator who is unbiased and hasn't been part of the program design, or negotiation. That person or that entity really comes in to ensure that the outcomes that were agreed upon are being tracked and measured. They also help to support the stringent data quality practices. We want to think about three things, and this is usually agreed upon in the negotiation process.

First is, what is the frequency of data collection? What is the quality of the data source or sources and the reliability or the validity of the data metric? In certain cases, these things have to be aligned across the different metrics to ensure that you are able to see progress over the course of the contract.

So, as you can see on this slide, this is really more of a decision tree to determine when and if an implementer actually receives success. So I don't think we need to spend too much time going over this, but one of the things that I wanted to really emphasize was that a lot of times were focused on the

triggering of payments, however, in addition to processes that help support monitoring of those, it's important to have structures to also bring together those stakeholders. Many of our projects we see having an established governance structure is very important. So whether that be an advisory committee of key stakeholders who have decision making power who can look at the data, and make decisions about how they want to change either policy or programs or even in some cases think about amendments to contracts, if they are or are not on target. I wanted to bring that to light.

Going back to the water example, the implementers we were working with were initially were concerned about cost. We decide to mitigate some of their record by implementing partial performance payments related to process. You see that an implementer would receive payments for hitting two of the three metrics. The two metrics are focused on number or quantity. Number of households with access, and the type of site that has good water quality, and then in terms of the number of people suffering from water borne illness, that may be difficult to quantify just by counting total number of households but really having to do different assessments like qualitative analyses in the term of surveys for other participatory model.

For our water example, we see that implementers would get paid open the first two, but would have to do additional investigation or evaluation, to hit the third metric.

*Lawrence Camp:*

Okay. Thank you very much, Christine, and Jonathan and Mo.

So, looking at our top takeaways, nothing very dramatic here, but pay for results is trending. It's trending and should be trending, because it has a great many benefits to to the development community. There are different ways in which pay for results can be used in programming. Clearly, the simplest and the most direct is through an award, a contractor, or a cooperative agreement. But these are not without challenges, and principal among them are setting pricing metrics.

Luckily, the Third Sector has written this guide on how providing a pricing and setting metrics. And finally of the six steps, first aligning on shared goals and defining success is arguably the most important. That's really the foundation upon which everything is built.

So we want to turn to questions, but I do want to say the other document I referenced previously is called "Result in Development," a primer for practitioners that we developed in conjunction with anyway, we look forward to hearing from you on that. So, let's move to some of the questions that we have.

Sorry, we developed that in conjunction with Palladium, one of our implementing partners. I think it is a valuable resource and suggest that you take a look at that as well. It's on the USAID website or you can find it on Google, "Pay for Results in Development." We have some good questions. I will start out on one and ask my colleagues to weigh in as well.

The first question is about results, from Amy Ostrander, what happens when there are external factors. It means at that time implementer doesn't get the results, but they are not the implementer's results.

Another one from Greg Jacobs, basically as an implementer, implementers feel compelled to kind of ramp up the results that they are going to achieve, because they are in a competitive process, and if they don't basically set some high targets, you know, others may, may win the award.

And how do you, from Matt Weinmann, how do you deal with scenarios when the results are measured over a period of time, and after the conclusion of the project, and there's some exogenous shock.

Our perspective is to pay the money, because that means that we have achieved the results intended. Hopefully those are results that would not have been achieved otherwise. So the idea is let's you know, let's set the targets that are going to be aggressive, but achievable.

I will say that part of the art of setting targets and it's on the implementer as well as the funder, USAID and others is the art is really designing the set of metrics that really works. So, it has performance metrics or, sorry, process metrics, as well as final end result metrics.

One example is when we work with transaction advisors, in some of our present countries, many of them don't have the wherewithal to take on transactions and work on those for six months or a year, with the you know, without the possibility that they are going to get paid. So we do have in those step metrics, performance metrics, but with the balance really upon the accomplishment of the end result.

I guess I would say, the art is kind of coming up with you know, with metrics that make sense but at the end of the day this is about shifting the risk, a portion of the risk to the implementer, which also gives the implementer more flexibility. So if you are going to step up and kind of take on the challenge, we need to be serious that we're paying on results and not for best efforts, and even if things go awry, we obviously want our implementers to be healthy and and successful, but this is about paying for results.

Any others?

*Mohib Ahmed:*

So from a procurement perspective, I would suggest that it's really continuing the conversation. If we believe that we're going to set a target and not talk about that target through the life of the award, we are setting ourselves up for failure. So having clear, concise conversation, not only from the technical perspective, but also the contractual or agreement perspective on what are the impacts that are happening, what are the truths on the ground, and adjusting that pay for result as you move is very important.

I would argue that it should be adjusted maybe every six months, maybe every year, but looking at nimble ways of ensuring that the on the ground troops as they come forward that may affect that result are known, planned for, incorporated within whatever mechanism you are working with, so that it continues to incentivize realistic performance, realistic targets.

One of the challenges I have seen is that we are notified or at least it comes to me, when it's too late. You know? Two and a half years into a project, oh, the government is not responding. Well, have they just stopped responding or have they not responded for two and a half years?

So some of it is simple communication, ensuring everybody is in the loop, ensuring that when challenges are arising, they are clearly identified, if they are linked to payment or metrics, that those metrics are clearly identified and it's an iterative process throughout the life of the award. And that's incumbent on all sides. I would say from the procurement perspective, that's one of the key takeaways.

*Lawrence Camp:*

So just a quick question from Lexine. There's some very successful ones in Latin America that seem to have been successful. Particularly in Brazil, those are fairly simple programs with cash payments, based upon metrics such as ensuring your kids are staying in school, et cetera. Many believe that that has really been a remarkable force in in basically the rise and reduction in poverty in Brazil.

A couple of other questions, these probably belong to Mo. What are the key entry points for developing concepts for and with USAID pay for result concepts? And what is the process that there's a disagreement between the donor and the end community partner, over whether the result has been achieved? And third one, what if the implementer withdraws midway?

*Mohib Ahmed:*

Well, really good questions. So I'm going to keep this very high level, because as I was talking about my career, the devil is always in the details. But to go from order there, I would say that the entry points are typically when you are seeing

the announcement. The business forecast is a wonderful opportunity to know exactly what's coming down the pike, and broken out not only by mission, but technical sector, and Washington as well.

So I would say keeping an eye on that business forecast is from a very good business practice. When rfis, which is a request for information or an industry day or a broad agency announcement is released, acting upon it and ensuring that your thoughts are documented and submitted on time for consideration. So that's, in my opinion, one of the best ways to engage.

Moving on to the next question, which was about what happens if we can't agree to the results? That's why I would say this is one of the reasons that Jonathan, Lawrence, and I all started with step one, everybody spoke on it, because that mutual understanding is imperative. And if there is ambiguity or vagueness within how I am being measured, and what are the positive and negative consequences for achieving the results, if that's not known up front, then you are not you haven't established the spirit of what pay for results is. We should not be ending into a position where the implementing partner doesn't have enough money to make ends meet, or that the government is it's supposed to be a win/win situation and pay for results is just a methodology and a technique to get to win/win.

I would say probably at that point, if a dispute continues, there are dispute resolution clauses. There's techniques, negotiating techniques we can implore, but I would be hopeful that before it reached that position, the communication was clear and there's a better understanding because if it gets there, I'm guessing it will get very legal, very quickly, and it will all be about the details.

Now, as far as the final question, what if a partner leaves halfway through? Again, it would probably get very legal, very quick. It would depend on what the circumstances were. Why the partner is leaving under what resource is the partner leaving. Was it government invoked, was it partner invoked, but we would hope that that wouldn't happen either. It would be out of the spirit of what pay for result is trying to achieve.

While not direct answers, I hope it catalyzes what we are trying to achieve and an agency initiative as well.

*Lawrence Camp:*

Let's turn to Christine, if you have any thoughts on that, as an implementer. And in addition to that, there's a question that you sort of raised earlier, about the ethical implications of control groups, and those who don't get the benefits from control groups. Yeah, those are inside and outside.

*Christine Kang:*

Thanks, Lawrence. I will take the conversation about the ethical nature of RCTs. A lot are social impact bonds and they have RCTs attached for payment purposes. The difficulty that we had there, can we withhold certain types of treatment for the population? And so when designing that social impact bond, really that conversation came about when we were selecting the right intervention. And so that, for us, really happened at the very beginning of the project design, even before we get to what are outcomes that we want to measure and how much are we willing to pay for those.

I guess that's one thing I would note, especially for those who are thinking about pay for results concepts, it would be that that is a critical component whether you decide using P for R, whether your intervention, will allow for you, if the funders require an RCT, without having those ethical concerns.

*Lawrence Camp:*

So Mercy corps. Will they consider hybrid activities which are sort of mixed? Where some of the costs are covered and some of the, there's also a pay for results element to it. I think I know the answer on that, but I will turn to Mo on that.

*Mohib Ahmed:*

Thanks, Lawrence. Definitely, and I would say we are starting to see more and more hybrid approaches. I would suggest that during the question and answer or engagement period, whatever that looks like under each solicitation, since they could be different, I would if I was an implementing partner, those are the recommendations that I would be making because that adds value to the process and that helps identify how you are thinking about things differently. And we're not just doing business the same way as we did or as we have been doing. Many of us are looking to answer that question, what is each country's journey to self-reliance look like? How are we working towards that goal? And I would argue pay for results and creating hybrid mechanisms that traditionally were only cost reimbursement is a great step to that to that outcome or even our own objective that we are looking to achieve.

So great question, and the answer is yes. It can be done, and I would also implore industry to continue to engage and identify areas or times where it could be hybridized in solicitations.

*Lawrence Camp:*

Great. So again, I think we have similar questions about how these awards can be structured. I think the answer is they can be structured in very flexible ways. I think we all agree that the idea that it's all or nothing is not an optimal approach. So we have one, does the donor pay once the targeted implemented partner covers the operational costs? And the operational costs. Again, I think what we are proposing is a blend of metrics. So, both parties are not overly

exposed to risk, but there certainly is a risk sharing attitude that does encourage the innovation that we want to get.

I don't know that we have more in there. There's a question about from Ivan about reporting and if you have, for example, government census reports coming only every ten years. I would say that goes, again, to, again, making sure that the metrics that you have are timely, are accessible, and that you find metrics that will work for you.

So, with that, I think we are done. And I really appreciate everybody's interests. We certainly look forward to hearing from you with any questions. We hope you will take a look at the guide and that will be useful for you. I want to thank everyone for participating. I do want to note that this month at Marketlinks is pay for results month. So please, if you have blogs, if you have comments, if you have something you want to post, please post that on Marketlinks and check Marketlinks frequently, because it's got huge amount of resources. Just a reminder the next Marketlinks webinar is September 5th, and it's going to be on the currency of connection.

So, thank you, Christine, Jonathan, Mo, and all of the participants in the webinar and Charlin and the team here at TRG.

*[End of presentation]*