



## Output-Based Aid in the Results-Based Financing Universe

Results-Based Financing (RBF) encompasses a range of mechanisms designed to enhance access to and delivery of infrastructure and social services through the use of performance-based incentives, rewards, or subsidies.

RBF mechanisms have in common that a funding entity (typically a government or sub-governmental agency) provides a financial incentive, conditional on the recipient undertaking a set of pre-determined actions or achieving a pre-determined performance or outputs. Resources are disbursed not against individual expenditures or contracts on the input side, but against demonstrated and independently verified results that are largely within the control of the recipient.

There are several ways of structuring RBF mechanisms. These include the following:

- ***Output-based Aid (OBA)***. Typically OBA involves payment of a subsidy to cover a funding gap to access basic services by the poor. OBA can also be used for more efficient delivery of services that exhibit positive externalities. Service delivery is contracted out by the entity providing the public funds to a service provider (a private enterprise, a public utility, NGO, community-based organization), with payments tied to achievement of specified service performance or outputs. OBA subsidies can either buy down the capital cost of investments required to deliver the service or can cover the difference between an affordable user fee and a cost-recovery user fee, for example a consumption subsidy.
- ***Output-Based Disbursement (OBD)***. OBD involves payment of a subsidy to a service provider or a contractor for improvements in the efficiency of service-related assets, systems, or recurrent government activities.
- ***Performance-Based Financing for Health (PBFH)***. PBFH involves payments to a provider, payer (e.g., government entity) or consumer when measurable actions are taken or defined performance targets are achieved.
- ***Conditional Cash Transfers (CCT)***. CCT programs provide cash payments to poor households that meet certain behavioral requirements, generally related to children's health care and education.
- ***Cash-on-delivery Aid (COD)***. Proposed by the Center for Global Development, COD involves payments to the recipient government after measurable progress, only for as much as is verifiably achieved (e.g., a fixed amount for every student that takes a standardized competency test in their last year of primary school, or for each additional child over an enrollment baseline who takes the standardized competency test).

- ***Advance Market Commitments (AMCs)***. AMCs are a range of mechanisms which aim to create sustainable markets by providing a guarantee of future revenues to service providers for a limited period of time. AMCs act by guaranteeing service providers a price on delivery of a pre-defined output and/or that they will be able to sell a minimum number of units for a limited period of time. The concept of AMCs began in the health sector with the AMC pilot for pneumococcal vaccines, but is applicable to other sectors (e.g., stimulate investment in certain clean energy technologies).
- ***Carbon Finance (CF)***. CF is an instrument for leveraging private and public investment into projects that reduce greenhouse gas emissions. It involves contracts to purchase emission reductions similar to a commercial transaction, paying for them annually or periodically once they have been verified by a third party auditor. The emission reductions are purchased, for example, through one of the World Bank Carbon Finance funds on behalf of the donor contributor.
- ***Payment for Environment Services (PES)***. PESs are market-like payment mechanisms where the downstream beneficiaries of environment services (ES - including carbon reductions) pay for the continued supply of those services by upstream service providers. For instance, a public or private utility (e.g. bottling company) buys a watershed service (i.e. increased water supply and improved water quality) from an upstream provider (e.g. rural community landowner) who engages in sustainable land and water use activities with explicit upstream/downstream linkages. PESs usually involve legal contracts and an administrator who helps design, promote, negotiate, track and monitor the transaction.

RBF mechanisms such as OBA, OBD, AMCs, certain PES, and some types of PBFH link service outputs with associated unit costs and disbursements reflect the actual cost of service. Other RBF mechanisms such as COD, PBFH, CCT, and CF (in regulated carbon markets, prices respond to global trends in supply and demand), where the costs cannot easily be predetermined (e.g., school enrolment numbers, or interventions that pay bonuses to individual employees or to community organizations), consider output delivery or achievement of specific milestones or measured outcomes as a condition for funding without the unit cost linkage.

Depending on the nature of the service and the rationale for public funding, RBF mechanisms can play complementary roles or be used in combination. Governments and policymakers today have a greater menu of mechanisms to choose from, many of which can be used to complement and help implementing fiscal, sector, or economic reforms and market creation. Demand side (consumption) incentives such as CCT, and some types of PBFH can focus on the beneficiaries of the services or results (individuals, households, or families), offering rewards for consuming the services (e.g., enrollment of children in school or attending clinics regularly for vaccination or medical check-ups). Supply side (provision) incentives such as OBA, OBD, some types of PBFH, COD, AMCs or CF focus on the service provider (e.g., private/public schools, utilities, municipalities, or contractors) responsible for delivering the desired services or results.