



World Council

Pay for Performance



Pay for Performance (P4P) designates development projects where incentive awards are disbursed **based on outcomes delivered**.

- Promotes aid effectiveness by aligning the interests of donors and implementers (service providers and local agents) toward achieving measurable development outcomes rather than just the reimbursement of implementers' inputs
- Shifts performance risk from the donor to the local agent who is forced to be mindful of its deliverables in order to be eligible for donor incentives
- Increases financial transparency by clearly defining the desired development outcome for a given budget.
- Provides greater implementation flexibility and opens the door to innovation by streamlining procurement and decreasing reporting requirements.
- Increases alternative funding sources, including from the private sector, by offering the potential for returns. Leveraging private sector capital has the potential to substantially increase dollars invested in socially and environment beneficial projects

This traditional cost reimbursement-service procurement model lacks financial incentives for those implementing projects to achieve the desired outcomes. P4P Shifts the conversations around development from “spending on foreign assistance” to paying for tangible development results.

P4P based initiatives represent a substantial and fast growing segment of allocated development resources with an estimated \$3.3B in 2016 and a projected \$6-7B by 2020¹. P4P is an exciting tool with the potential to improve development outcomes and help use scarce development dollars more efficiently.

¹ Mainstreaming Results-Based Finance: Actionable Recommendations for USAID, May 2016, Dalberg Consulting USA



Methodology

Of the number of different ways to implement P4P projects, WOCCU typically uses performance based contracts (PBC):



1 Incentive Structure Design



The incentive structure must be carefully calibrated for the local agent to deliver the desired outcome. The incentive should bridge the gap so that it is no longer too risky or unprofitable for the local agent to address the targeted issue but not so great that it is unsustainable or creates excessive markets distortions. The incentive design must also ensure **additionality**.

2 Selection Process



In order to participate in the selection process, applicants must first meet certain baseline criteria such as demonstrated knowledge and ability to execute the project and sufficient resources to complete project milestones prior to receiving any incentive payment. WOCCU then chooses the most suitable applicant based on a competitive bidding process.

3 Project Monitoring and Milestone Payouts



During the project implementation, WOCCU carefully monitors progress. If the work product matches the pre-agreed criteria, then milestone incentive disbursements are made. These incentive payments can be distributed at specific intervals during a project or at the very end once the final product is delivered, depending on the agreed upon contract.

4 Adaptive Management



Many of the countries in which WOCCU works can be politically or economically unstable. This can present unique and unexpected challenges that can adversely impact project execution especially within the somewhat restrictive parameters of a P4P contract. Recognizing this, WOCCU allows for some flexibility to its P4P agreements so when a force majeure event occurs it can, with donors' permission, make alterations that allow a project to overcome unexpected obstacles and still meet its goals, just in a different manner than originally planned.



Impact Snapshot



Haiti

Haiti HOME project

As part of USAID's Home Ownership and Mortgage Expansion (HOME) program, WOCCU successfully implemented PBCs to create affordable housing units in Haiti for lower and lower middle income Haitians. WOCCU was pioneer in this space as this was the first p4p project geared toward affordable housing. WOCCU's ongoing implementation has already yielded compelling benefits:



With price points of **between \$76,000 to \$100,000**, just slightly under the cost of construction and ~15% under what market prices would be, **this program delivered affordable housing units** spread across six affordable housing development projects.



With EDGE certification as a requirement for one of the milestone payments, **the units are also environmentally friendly and resource efficient**, reducing living costs for owners.



Created the first proof of concept for **developer led, large scale, affordable housing projects with integrated financing** for purchasers in Haiti.



By tying one of the milestone payments to first creating individual titles for each housing lot, which is a time consuming, non-standard approach in Haiti, **WOCCU created clear ownership rights for home buyers**, enabling the bank underwriting and streamlining the mortgage issuance and therefore the purchase process



The phased incentive payouts, approximately \$206,000 over 5 phases, reduced risks for both the donor, who could make payments solely based on the specific targets agreed upon and the local agents (real estate developers) who could get incentives throughout the building process rather than just at the very end.



The P4P structure was extremely cost efficient for the donor and very effectively leveraged private sector capital. It delivered \$8.6 million worth of quality affordable housing stock for total incentives distributed by USAID of \$1.5 million. Local agents shouldered vast majority of the project risks and costs.



Positively changed behavior of local agents. After receiving EDGE certification incentives for 3 housing developments, Shabuma one of the developers, still obtained it for a 4th project where it was not incentivized, because its market value was clearly demonstrated previously.

¹<https://olc.worldbank.org/content/edge-green-building-certification-system>

²In addition to creating affordable housing, both creating the lot titles and Edge certifications are examples of additionality: outcomes that local agents would not have implemented without the incentives.

