

# Rewards for Good Performance or Results: A Short Glossary\*

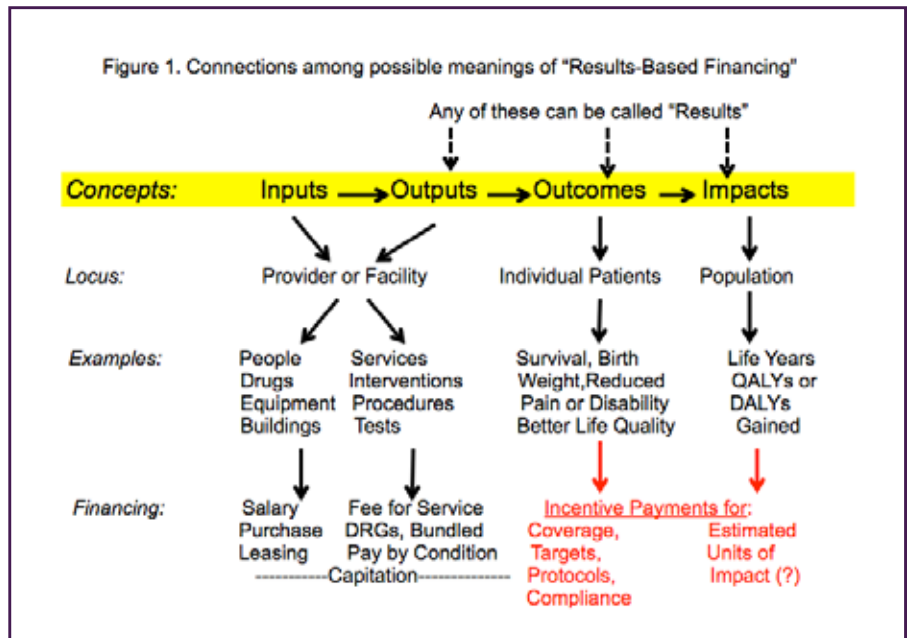
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## Introduction: getting away from paying for inputs

All the terms discussed here refer to programs that finance **results** of some kind rather than paying for inputs and hoping that those will produce good **outputs** with desirable **outcomes** for patients or beneficiaries. Any such payment system must be connected (perhaps only at the margin) to outputs or outcomes, either or both of which can be called results. As Figure 1 shows, while inputs are usually paid by salaries for people and by various purchasing arrangements for non-human inputs, outputs are commonly paid for by Fee for Service (FFS)—payments for specific tasks or procedures such as a patient consultation, an immunization or a surgical procedure. Outputs can be defined without regard to quality, but the outcome for the patient generally depends on quality. This leads to efforts to build into the method of payment an incentive for good quality. The last stage shown in Figure 1 is **impact**, which refers to the effect on the health of a population and is the number of patients who experience an output times their average outcome. Because impact may mean people living longer and with better quality of life as measured by QALYs or DALYs, that effect can only be roughly estimated when outcomes occur and fully known long afterward, so there is no customary way to pay providers for impact.

However, this is primarily a problem of the time horizon and the uncertainty about long-run impact. If a program includes an incentive payment for each newborn child

who survives for a year, or for five years, the impact can be measured within the typical accounting period of an RBF program of three to five years. To tie the payment more closely to results attributable to the program, such a reward for helping infants and children survive could be based on only those newborns at high risk of early death as judged by criteria defined in the program.

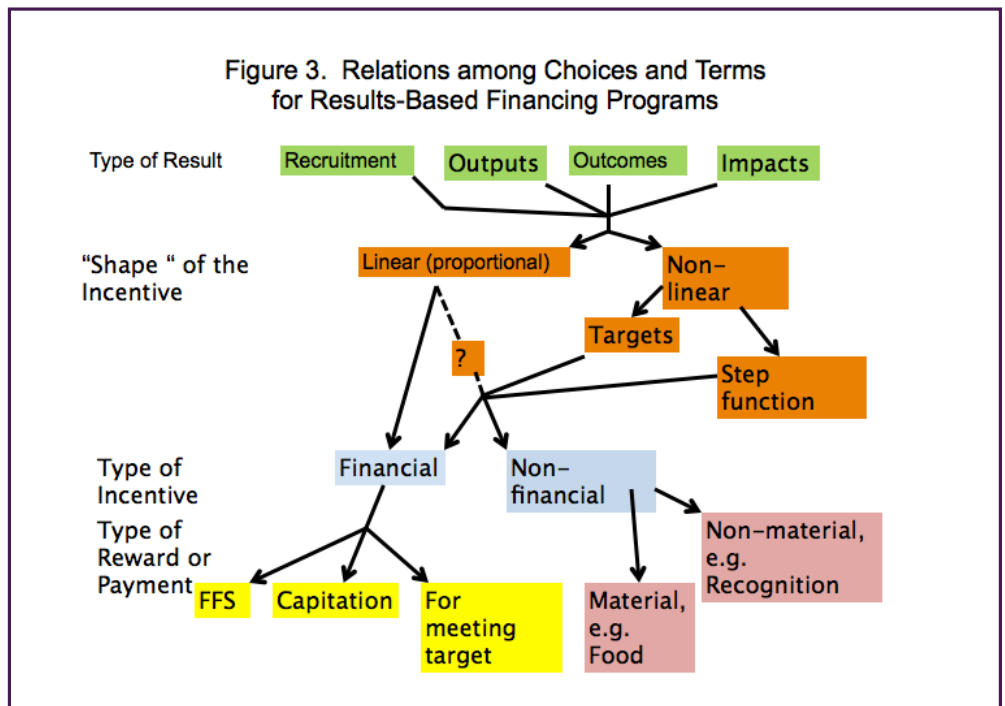
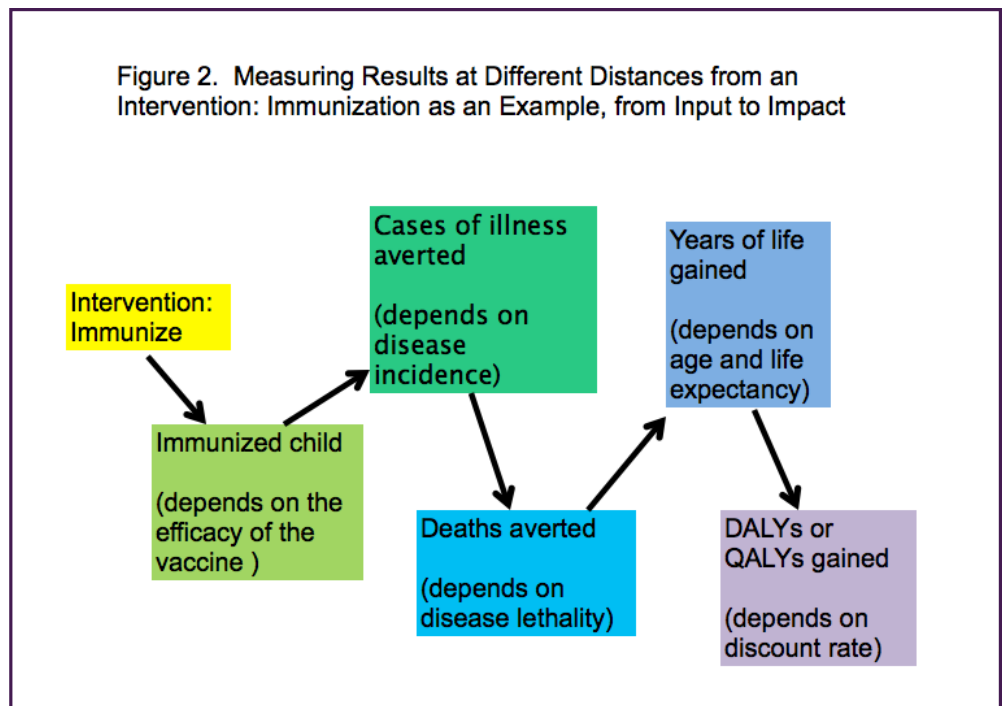


(\*) This is a short version of a longer paper dated 10 February 2011, which includes additional explanations and a list of references. Figures 1-4 are the same in both versions.

[1] The views expressed here are the author's own and should not be interpreted as reflecting the views of Health Affairs, where the author is a Deputy Editor, nor of the World Bank or its staff or Executive Directors.

Figure 2 illustrates how “results” can be defined and measured or estimated at different removes from the intervention that causes those results, for the specific case of immunization. RBF can take as many specific forms as there are specific types of results one wants to achieve, with different incentives appropriate to each stage.

Figure 3 emphasizes the choices about incentives and payment methods and classifies incentive programs accordingly. The simplest path from the type of result desired to the reward for delivering it runs through purely financial incentives that are proportional to the number of beneficiaries recruited or served or the volume of outputs or outcomes. Non-financial rewards can be proportional to results if all program beneficiaries receive the same food basket or other material payment for participation. Because programs sometimes reward the enrollment of eligible beneficiaries apart from whatever services are provided for them, the figure distinguishes recruitment as one type of result as well as outputs, outcomes and impacts. It may be relatively simple to characterize a specific **incentive** but harder to describe a whole **program** because the latter may include several types of rewards or punishments and different mechanisms for delivering or withholding them.



## A simple glossary of terms

**Results-Based Financing, RBF**, is any program that rewards the delivery of one or more outputs or outcomes by one or more incentives, financial or otherwise, upon verification that the agreed-upon result has actually been delivered. Incentives may be directed to service providers (supply side), program beneficiaries (demand side) or both. Payments or other rewards are not used for recurrent inputs, although there may be supplemental investment financing of some inputs, including training and equipment to enhance capacity or quality; and they are not made unless and until results or performance are satisfactory. Payment can take any form so long as it does not simply purchase inputs. Verification that results were actually obtained is an essential feature. The ideal is perhaps for verification to be undertaken by a neutral third party, even if the principal pays the corresponding costs, but many arrangements are possible. Ex ante verification (before payment) can be complemented by ex-post assessment. The definitions of results or objectives and rewards are embodied in contracts between one or more principals who provide the incentives and one or more agents who contract to deliver the specified results, outputs or outcomes. The contract may also specify varying degrees of collaboration between principal and agent, supervision of the latter by the former, or other aspects of how the results are produced, such as protocols to be followed or targets to be met.

**Pay for Performance (P4P), Performance-based Payment** and **Performance-Based Incentives (PBI)** can all be considered synonyms for RBF. Performance in these labels means the same thing as results, and payment means the same thing as financing. These terms do not introduce any additional distinctions.

**Performance-Based Financing, PBF**, in contrast to other labels using “performance”, is a form of RBF distinguished by three conditions. Incentives are directed only to providers, not beneficiaries; awards are purely financial—payment is by FFS for specified services; and payment depends explicitly on the degree to which services are of approved quality, as specified by protocols for processes or outcomes. The relation between results and payments can be linear or non-linear, in the terms of Figure 3.

**Performance-Based Contracting, PBC**, is a form of RBF that departs from simpler types of contract in setting a fixed price for a desired output and then adding a variable component that can reduce payment for poor performance or increase it for good performance compared to the standard defined in the basic contract (Loevinsohn). The variable share at risk is typically small, of the order of five percent of the base price in either direction. These are otherwise classical contracts that do not involve FFS or other output-related payments. They are usually applied to NGOs; the fixed price leaves it to the provider to allocate funds among inputs. (In that respect, PBC somewhat resembles COD; the funder does not determine how the funds are used.) One may describe PBC as “contracting out” to distinguish it from PBF, which is a form of “contracting in”.

**Output-Based Aid, OBA**, is a subset of RBF, usually applied to non-health sectors, which in practice includes only financial rewards. Output is used as a synonym for results and does not usually include results better classified as outcomes. The distinguishing feature is that the principal is an aid donor; the agent is therefore typically a recipient government or public agency, although it could in principle be an NGO or private for-profit organization if external assistance is provided directly to such an entity rather than passing through a government.

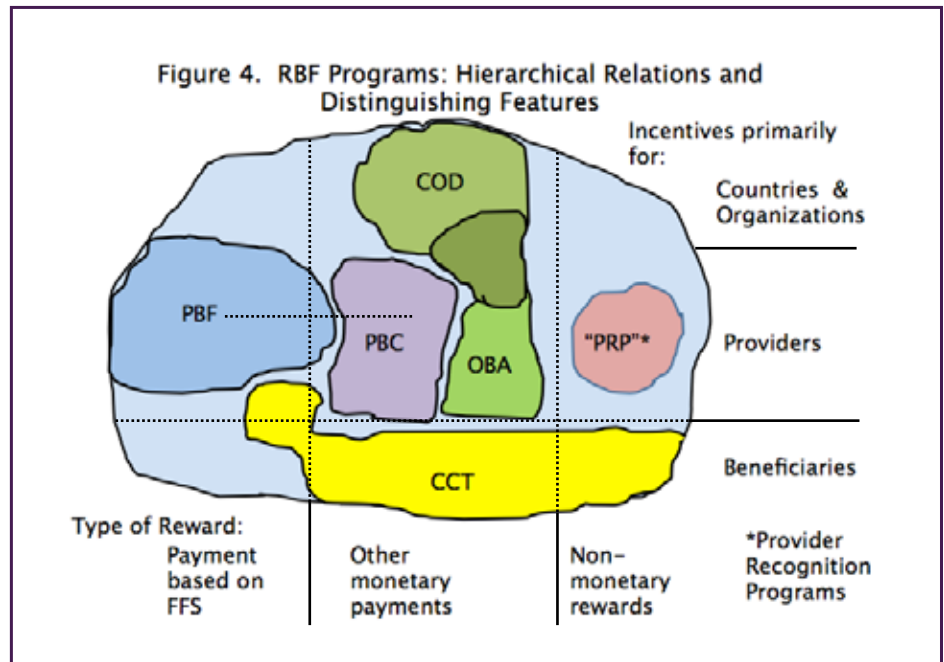
**COD, Cash on Delivery**, is a subset of RBF; since it is defined as “a new approach to foreign aid” it overlaps with OBA. However, delivery may refer to outcomes rather than just outputs. It is distinguished by the maximal degree of autonomy for the agent in deciding how to produce and deliver the results. Once the objectives and the payment are contracted, the principal does not dictate or supervise the agent’s decisions or methods. This difference from RBF or OBA programs in general is procedural rather than referring to the objectives, the verification mechanism or the manner of payment.

**CCT, Conditional Cash Transfer**, describes demand-side programs where the incentives apply exclusively or primarily directly to the program beneficiaries rather than to the agent(s) delivering services. Results are defined by the enrollment of beneficiaries in the program and their compliance with required behaviors such as consuming specific services. Incentives to recruit and enroll beneficiaries or to provide them with services may also apply on the supply-side in these programs, as in RBF generally. For the name to apply there must be a financial payment to the beneficiaries for compliance. Such programs typically offer non-financial rewards, such as food packages, as well.

The different labels do not adequately distinguish program features because the same word may have different meanings. “Performance” is generally synonymous with “results”, but the substitution of one word for the other makes PBF a narrower term than RBF. Similarly, “cash” in COD is more restrictive than in CCT, since the latter often includes non-cash rewards. (“Based” always has the same meaning in different terms, but it does not appear in COD and is replaced by “conditional” in CCT.)

Any of these concepts can in principle be applied in any sector. They have frequently been used in health; are suggested as a way to improve results in education; and have also been used, among other things, to expand the delivery of safe water and of natural gas for domestic use. The appropriate objectives and incentives, including the price, for financial incentives, vary among applications; the logic of paying for results rather than inputs is the same.

Figure 4 illustrates how these concepts are related. The RBF space is classified along two dimensions: whether incentives are directed primarily to providers, beneficiaries or countries or organizations; and by whether rewards are monetary and based on FFS, make financial transfers in other forms, or are non-monetary. PBF is a proper subset of RBF, defined by the use of FFS together with quality-related incentives. If OBA is applied to health care it is a proper subset of RBF, distinguished by the emphasis on foreign aid. COD, in turn, overlaps with OBA because the authors emphasize it as applied to foreign aid, although the logic of COD can be applied to non-aid programs, simply as a different way to contract for results. The distinguishing feature is neither the incentive nor the reward, but rather the relation between the financing agent and the recipient.



OBA and COD are shown as financing only monetary rewards, but these are not paid as FFS to individual providers. Particularly for COD the emphasis is on outcomes rather than outputs. CCT programs are another subset of RBF, distinguished by their application primarily to beneficiaries rather than only to providers and often differentiated from many programs by their inclusion of non-monetary rewards. Figure 4 shows the overlap of COD and OBA; other combinations of RBF programs may also overlap at the margins, depending on exactly how they are defined. (All the boundaries in the figure really should be broad and somewhat blurry, to emphasize that these characterizations are broad rather than sharp-edged.)

## Acknowledgements

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