



**RESULTS BASED
FINANCING (RBF)**

**QUICK-AND-DIRTY
OPERATIONAL
NOTES**

DO FISCAL TRANSFERS GENERATE RESULTS?

**Cross-sectoral debate on
results-based fiscal transfers**

KEY CONCLUSIONS

This series consists of summarized conclusions and key discussion points from operational clinics and other events organized by the REACH Trust Fund.

These events bring together experts working on RBF to share their experiences and operational “trade secrets.”

Note 1, June 2016

The Results in Education for All Children (REACH) program in the World Bank’s Education Global Practice supports efforts in RBF. It is currently funded by the Governments of Norway, the United States of America, and Germany. See more at www.worldbank.org/en/programs/reach.

INTRODUCTION

In May 2016, the Education and Governance Global Practices at the World Bank co-organized a cross-sectoral debate on whether fiscal transfers in education can generate key education sector results.

The presenters at and contributors to the event, on whose arguments this conclusions note is based, were:

- Debbie Wetzels, Senior Director, Governance Global Practice
- Teresa Curristine, IMF
- Peter Holland, Senior Education Specialist, Program Manager, REACH TF
- Furqan Ahmad Saleem, Senior Financial Management Specialist
- Christel Vermeersch, Senior Economist
- Jesko Hentschel, Country Director, Argentina
- Kathleen Anne Whimp, Lead Public Sector Management Specialist
- Keith Hansen, VP, Human Development Practice Group, who chaired the debate.

HOW INTERGOVERNMENTAL FISCAL TRANSFERS CAN GENERATE RESULTS

The topic of intergovernmental fiscal transfers (IGT) in education is at the forefront of the education finance policy dialogue. In order to better advise clients in this area, teams generally seek three things:

- (i) Analytical underpinnings for such transfers, including the theory and evidence of their effectiveness;
- (ii) Case studies of how countries have designed such systems; and
- (iii) Resources, including terms of reference (TORs), staff, and consultants, to help clients to design, implement, and evaluate such systems.

Adequately responding to demand from teams in this area requires reaching across regions, practices, and institutions, in order to collate and mobilize the evidence, experience, and resources. The Education GP's internally run Education Finance Community of Practice would be a good platform for making these connections. This note seeks to identify principles for teams to use to start thinking about this topic and knowledge gaps to be filled in the coming year. It also collates evidence, cases, and other resources in a bibliography, including hyperlinks. Putting the evidence base together in this way will help to create a strong foundation from which to advise clients. The note is structured to answer the following questions: What kinds of results can be achieved by using education fiscal transfers? What kinds of fiscal transfers are we considering? And where should teams begin? We respond to this last point by providing a basic checklist of items that teams should be considering. We then end by identifying gaps and pointing to resources.

WHAT RESULTS?

There are three types of results that fiscal transfers can generate:

1. Correcting for vertical imbalances (a mismatch of revenue and expenditures)
2. Correcting for horizontal fiscal gaps (variations across sub-national governments), aiming to ensure that the sub-national governments all have sufficient funding to offer education services to their school-age populations
3. Incentivizing performance.

On the first two areas, the literature is almost complete. Our discussion will therefore focus on the third point -- that transfers could be used to incentivize performance to achieve key sector results. By key sector results, we mean technical efficiency (organizing available resources in such a way that the maximum feasible output is produced for example, improving pass rates), allocative efficiency (use of the budget in such a way that, given relative prices, the most productive combination of resources is obtained), and student performance (for example, increasing learning).

Performance-based fiscal transfers can be divided into three categories: (i) main funding, which is performance based, such as the financing of higher education in the Nordic countries; (ii) top-up schemes where the entities receive performance bonuses on top of their regular budget allocation if they achieve certain results; and (iii) funding conditional on implementing reforms such as the Race to the Top in the United States. There are examples of all of these kinds of funding, but typically governments seek to make additional or incremental resources conditional on results rather than core sector funding.

WHERE TO BEGIN? HERE'S A CHECKLIST

First, we consider the specific context-dependent challenges that the client seeks to address and the actors who are directly and indirectly involved.

- What outcomes does the client seek to change?
- Who needs to be influenced to generate results?
- At what level?
- Who should be rewarded?

Second, we consider the fiscal revenue and transfer systems.

- How to situate reforms properly within a country's intergovernmental financing system, both within the broader conditional grant framework and the annual budget cycle? The budgeting, release of funds, and accounting for the performance-based allocations is difficult given the unpredictability involved in the actual performance of the grant recipients.
- How to incorporate the outcome-based component in a way that does not aggravate the existing transfer system - usually a per capita block grant - and that does not have a negative effect on the equalizing goals?
- What kind of changes are necessary in the public financial management system, such as the need to build the capacity of the national government to be able to implement smart performance-based allocation schemes or the need to empower, legalize, and build the capacity of local governments and schools to manage their own funds?

Third, we examine the technical aspects of measuring the results and calibrating the rewards.

- How to follow the money and structure the system in a way that prevents gaming (such as teaching for tests or cherry picking the best students).
- How will results be measured, are the data adequate, and are the risks of gaming the data being adequately managed (through verification and sanctions)?
- What kind of formula to use to reward performance without favoring smaller units and disincentivizing larger ones (as is the case if the allocation is based on absolute performance scores)?

Finally, we consider the politics.

- How to build in a design that ensures the continuity of the program through government transitions?
- How to ensure that the funds get to the right level of government without undermining the country's system of decentralization, considering that the World Bank typically deals with only with national governments?
- How to encourage institutional scaffolding in which lower tiers of government are partners rather than the recipients of directives?
- How to make sure that the targeted grants are nested properly and fit into the rest of the incentive system in the country?
- How to move away from earmarks when most financiers/allocators as well as the providers like to hang on to discretion?
- How to manage the controversial nature of linking funding to performance? Especially since holding teachers accountable and linking their rewards to learning outcomes generates very strong reactions.

WHERE TO FROM HERE? ADDITIONAL RESOURCES

Here are some resources that explore this question in depth.

Abiad, Abdul and Taimur Baig (2005?). *Underlying Factors Driving Fiscal Effort in Emerging Market Economies*. International Monetary Fund Working Paper.
<http://www.imf.org/external/pubs/ft/wp/2005/wp05106.pdf>

Biadway, Robin and Anwar Shah (2007) *Intergovernmental Fiscal Transfers, Principles and Practice*. Public Sector Governance and Accountability Series. The World Bank, Washington, DC.
<http://siteresources.worldbank.org/PSGLP/Resources/IntergovernmentalFiscalTransfers.pdf>

Bird, Richard and Michael Smart (2002). "Intergovernmental Fiscal Transfers: International Lessons for Developing Countries." *World Development* Vol. 30, No. 6. University of Toronto, Toronto, Canada.
<http://www1.worldbank.org/publicsector/pe/pfma07/BirdSmart2002.pdf>

Curristine, Teresa (2005a). "Government Performance: Lessons and Challenges." *OECD Journal on Budgeting*, 5(1). OECD 2005. <https://www.oecd.org/gov/budgeting/43481160.pdf>

Curristine, Teresa (2005b). "Performance Information in the Budget Process: Results of OECD 2005 Questionnaire." *OECD Journal on Budgeting*, 5(2). OECD 2005.
<http://www.oecd.org/gov/budgeting/43480959.pdf>

Curristine, Teresa. "Public Financial Management and its Emerging Architecture"; Chapter: "In Search of Results: Strengthening Public Sector Performance"

Joyce, P. G. (2012). "Performance-Informed Budgeting in the US National Government." PREM Notes. World Bank, Washington DC.
http://documents.worldbank.org/curated/en/817731468330295232/pdf/714090BRI0Box30BLIC00Nuts_0Bolts0712.pdf

OECD (2007). *Performance Budgeting in OECD Countries*. Paris: OECD.
<http://www.oecd.org/gov/budgeting/performancebudgetinginoecdcountries.htm#B3> (OECD Library)

Robinson, Marc. *Performance-based Budgeting. Manual*. Centers for Learning on Evaluation and Results. Training Materials.

http://api.ning.com/files/4YilfwQJfCvv1j9OZTIgXS1YK8z3CCNANrKpmW35hOuFZKkYaW18HqWkAqfI9Az%20PqPuOjakL19qhH07y*DSLLy-44RUI35Xe/1098391577.pdf

Robinson, Marc (ed.) (2007). *Performance Budgeting: Linking Funding and Results*. IMF, Washington DC. <http://www.elibrary.imf.org/view/IMF071/05501-9780230553569/05501-9780230553569/front.xml?redirect=true>

Robinson, Marc and Jim Brumby (2005). "Does Performance Budgeting Work?: An Analytical Review of the Empirical Literature." IMF Working Paper No. 05/210. IMF, Washington DC. <http://www.imf.org/external/pubs/ft/wp/2005/wp05210.pdf>

Shah, Anwar (2006). "A Practitioner's Guide to Intergovernmental Fiscal Transfers." World Bank Policy Research Working Paper 4039, October 2006. World Bank, Washington DC. <http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1207588563500/4864698-1207775351512/WPS4039.pdf>

Vaillancourt, François (1998). *Financing Formulas for Public Primary-Secondary Educations in the United States: Presentation and Evaluation*. World Bank, Economic Development Institute, Washington, DC. WB e-Library: http://elibrary.worldbank.org/doi/abs/10.1596/978-0-8213-9830-2_ch1

Examples of Programs:

World Bank:

Mozambique Public Financial Management for Results Program (P124615)
<http://operationsportal2.worldbank.org/wb/opsportal/ttw/about?projId=P124615>

Argentina - Provincial Maternal-Child Health Investment Project (English)
<https://hubs.worldbank.org/docs/ImageBank/Pages/DocProfile.aspx?nodeid=7135032>

Argentina Impact and Process Evaluation for Provincial Public Health Insurance Development Project (P156790)
<https://hubs.worldbank.org/docs/ImageBank/Pages/DocProfile.aspx?nodeid=14035615>

Race to the Top:

Shah, Anwar. (2010) *Sponsoring a Race to the Top: The Case for Results-Based Intergovernmental Finance for Merit Goods*. Policy Research Working Paper. The World Bank Institute. World Bank, Washington, DC.
<https://openknowledge.worldbank.org/bitstream/handle/10986/19948/WPS5172.pdf?sequence=1&isAl%20lowed=y>

No Child Left Behind (NCLB):

Basics of NCLB: <http://www.edweek.org/ew/section/multimedia/no-child-left-behind-overview-definition-summary.html>

NCLB funding formulas (updated in 2015): <http://atlas.newamerica.org/no-child-left-behind-act-title-i-distribution-formulas>

National Public Radio: *Story on No Child Left Behind:*

<http://www.npr.org/sections/ed/2015/10/27/443110755/no-child-left-behind-what-worked-what-didnt>