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USING PAY-FOR-RESULTS TO FACILITATE DEVELOPMENT FINANCE

A Manual for Practitioners Based on the USAID Financing Ghanaian Agriculture Project (USAID FinGAP) Experience

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A Manual for Practitioners Based on the USAID Financing Ghanaian Agriculture Project (FinGAP) Experience

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Developed for USAID by Palladium for the USAID FinGAP Project,
COR Bernard Ayitey-Adjin, Project # AID-641-C-13-00002

Authors: Amanda Fernández and Amanda Grevey, Palladium

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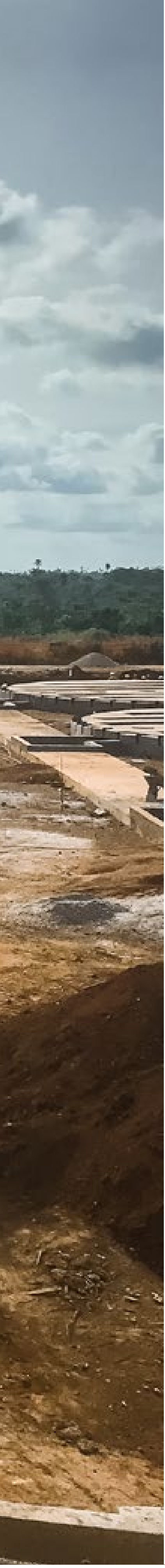


INTRODUCTION

Interest in using "Pay for Results" (PfR) strategies in development has risen sharply in recent years, in line with growing attention to aid effectiveness and the need to use scarce funding resources more efficiently. PfR is seen as a disruptor, providing an alternative to the traditional cost reimbursement service procurement model.

Supporters of this methodology believe that PfR:

- Encourages innovation and effective use of resources by development practitioners
- Spreads performance risk across multiple actors
- Facilitates alignment of interests among funders and implementers toward achieving development outcomes rather than focusing on inputs
- Facilitates procurement processes and monitoring and evaluation

But PfR is not without its challenges, and it is not a fully proven development model (for most of its applications). There are only a few studies on the effectiveness of using PfR to achieve better development outcomes, and the quality of those studies is mixed. Critics of PfR express concerns about:

- Unintended consequences, such as "cherry picking"
- Higher cost and effort in project design and ongoing monitoring and verification costs
- Increased performance risk along with upfront cash needs that may limit the appetite of some service providers for PfR projects
- Thin evidence base to prove results of PfR programs

The USAID Financing Ghanaian Agriculture Project (USAID FinGAP) is one example of a USAID program that successfully piloted PfR strategies in an effort to leverage more private investment towards USAID's development objectives. USAID FinGAP was implemented by Palladium (formerly CARANA) as a five-year, $22 million project financed by USAID, Feed the Future, and Partnership for Growth resources. The goal of USAID FinGAP was to facilitate agriculture-related finance and investment into the maize, rice, and soy value chains in northern Ghana to improve food security for the poorest populations, and to build Ghana's institutional capacity to expand agribusiness finance more broadly.

Under this project, Palladium successfully applied PfR programming to motivate a broad range of Ghanaian Financial Institutions (FIs), Business Advisory Service (BAS) providers, and risk mitigating institutions to release more than $158 million[1] of debt and equity financing to 2,846 small, medium including large enterprises (SMiLEs) in the maize, rice and soy value chains, of which 1,138 (40%) were owned by women. In addition, USAID FinGAP used PfR methodologies with BAS providers to help two agricultural firms obtain $91.1 million in additional, lower cost financing via Ghana's Alternative Stock

1 *USAID FinGAP's original targets were to mobilize $75 million in finance and investment for 250 businesses within these value chains.*

Exchange and the Ghana Fixed Income Market[2]. With Partnership for Growth resources, USAID FinGAP provided capacity building assistance to Government of Ghana (GOG) institutions to improve the policy and enabling environment so the financial system could further expand its reach to even more of Ghana's small- and medium-sized enterprises.

In its final year of operation (the project ends in September 2018), USAID FinGAP invested in documenting approaches that will support sustainability of successful project activities and methodologies over the long term. This paper is the first in a series of learning tools Palladium will make available to stakeholders within Ghana's agricultural finance ecosystem. Our intent is for the strategies and methodologies within this manual to be user-friendly tools that can be easily applied and replicated by other actors facilitating agricultural finance and investment using Pay-for-Results methodologies in Ghana.

2 *The figures for financing facilitated by USAID FinGAP listed in this document are as of 3/31/2018. USAID FinGAP ends formally 9/30/2018.*

I. AUDIENCE FOR THE MANUAL

This manual has been prepared in response to a growing interest from USAID Implementing Partners (IPs), donor agencies, financial institutions (FIs), and Government of Ghana (GOG) representatives in how USAID FinGAP approached and implemented the PfR methodologies that led to large-scale expansion in agricultural credit and investment to formerly underserved geographies, populations, and sectors of the economy.

The GOG has a number of initiatives under development that are meant to build the capacity of Ghanaian SMEs and provide technical assistance and incentives to SMEs in different sectors. This manual is an attempt to provide the GOG and other actors with access to the tools that USAID FinGAP used successfully to put in place effective PfR strategies that can lead to greater impact at the SME and farm level, a financial sector even more responsive to agribusiness demand, and a more secure supply of food in the country.

II. WHAT IS PAY-FOR-RESULTS?

Pay-for-Results (or performance/success/outcomes) is an umbrella term for initiatives that pay upon accomplishment of results rather than on efforts to accomplish those results. In PfR, the principal or funder sets financial or other incentives for an entity/individual to deliver predefined outcomes and rewards achievement of the results upon verification. While PfR is not a new idea (and is commonly used in the private sector), there is growing interest in applying it to accomplish development outcomes. Donors are under increasing pressure to provide evidence that funds expended on development achieve results and are encouraged to "do more with less." PfR has gained importance over the last decade in the context of aid effectiveness agendas emerging from the Paris Declaration on Aid Effectiveness in 2005, the Accra Agenda for Action in 2008, and later forums on aid effectiveness.

USAID has been steadily increasing its use of PfR in its development contracts in recent years, requiring implementers to invoice larger percentages of their costs and fees against outcomes rather than efforts.

There are many different iterations of PfR, motivating both the supply and demand sides of given markets, but most fall into five categories:

1. **Performance-Based Contracts (PBCs)**: Contracts or grant agreements where payments are disbursed upon accomplishment of predetermined results. These arrangements are principally between funders and implementers/service providers; however, they can also be between funders and recipient governments, which then subcontract service provision (e.g., the Millennium Challenge Corporation's approach,

the World Bank's PforR approach, and the Center for Global Development's proposed Cash on Delivery Aid[3] approach).

2. **Prizes and Challenges**: An arrangement where prizes (financial rewards) are awarded, usually through an open and competitive process, to one or more competitors that are successful at accomplishing the desired result (which could be a fresh approach to a development challenge).
3. **Social Impact Bonds (SIBs) / Development Impact Bonds (DIBs)**: Arrangements where private investors provide upfront capital for social services, then are repaid (sometimes with interest) by an outcome funder upon achievement of results by the implementer/service provider. A SIB involves a government entity as the outcome funder; a DIB is the application in a developing country context.
4. **Advance Market Commitments**: Agreements to guarantee a price or market for a product upon its successful development, as a way to mitigate uncertainty in building products/markets (initially used to encourage vaccine production).
5. **Conditional Cash Transfers (CCTs) / Social Payments**: Arrangements whereby cash payments are made directly to needy households to stimulate investment in human capital upon meeting pre-determined conditions (e.g., ensuring periodic health checks or school attendance).

This manual is focused on the experience of USAID FinGAP in its implementation of a PfR program. In this instance, USAID FinGAP's overall budget included a $5M sub-awards pool, which was used by the project team to incentivize behavior change through performance based contracting instruments among FIs, BAS providers, and risk mitigation entities[4].

To put this PfR program in place, the project team began by identifying the types of investments critical to upgrade Ghana's staple food value chains. Then they designed a two-pronged, simultaneous PfR approach addressing the lack of financing and investment on both the demand and supply sides. On the demand side, the project assembled a group of Ghanaian business advisory services (BAS) providers to provide transaction assistance to principally small- and medium-sized firms seeking financing and investment, and placed them on PBCs to identify, package, and present investment opportunities to prospective investors. BAS providers were paid upon meeting targets for project identification, structuring, and reaching financial closure. Palladium then designed a parallel PfR incentive program for FIs to encourage expanded lending to specific populations based on their own expansion plans. Once the beneficiaries of PfR incentives were competitively procured, the different PfR incentives worked quickly to accelerate financing to staple food SMiLEs.

3 *Center for Global Development, An Introduction to Cash on Delivery Aid for Funders, February 2014.*
4 *Much of the language in this section is taken from a document co-created by Palladium and USAID titled "Pay for Results in Development: A Primer for Practitioners", December 2017.*

III. PROS AND CONS OF PAY-FOR-RESULTS

Properly implemented, USAID FinGAP's PfR mechanisms offered a number of benefits:

- **Effective use of aid resources**: In a time when concern about the effectiveness of development assistance is increasingly important, PfR strategies shift the dialogue from spending on programs to paying for tangible development outcomes. On USAID FinGAP, the implementing team rewarded "first movers" with additional sub-award resources (while reducing the award ceilings of less successful actors) to use USAID's incentive funds most efficiently, an innovation from traditional grant making.
- **Spread risk**: Traditional development programs compensate development practitioners for completing a set of pre-determined activities rather than accomplishing results, leaving the donor principally responsible for both performance and financial risk. PfR spreads the financial risk by paying practitioners upon achievement of results, and spreads the performance risk by mandating outcomes rather than inputs/activities. On USAID FinGAP, the project shared risk in implementation with its partner FIs and BAS providers, and sub-award resources were only awarded to those partners that met pre-determined impact targets.
- **Aligned expectations**: Because payment is based on accomplishment of metrics that are agreed upon upfront, expectations for outcomes between the funder and practitioner should be more aligned. FIs and BAS providers liked the simplicity of what USAID

FinGAP asked of them, and the structure of the agreements kept them focused on the end goal – more financing deals closed among needy agribusiness firms.

- **Greater flexibility and potential for innovation**: PfR arrangements should be designed to provide the development practitioner greater flexibility to innovate and accomplish the desired outcomes. On USAID FinGAP, both BAS providers and FIs used the PfR incentives to innovate service delivery in ways they will continue following project closure.
- **Streamlined the procurement process**: Because the procurement focuses more on what is to be achieved instead of how it should be accomplished, the process should be accelerated (although more time may be required negotiating the award to clarify and agree on metrics and performance award payments and procedures). USAID FinGAP's procurement process to select FI and BAS partners was swift since procurements were structured to be as simple as possible for actors to apply. The program's focus was to maximize the time these actors were implementing for results, not applying for participation or writing reports.
- **Improved monitoring and evaluation**: PfR projects demand more precise performance indicators and measurement so the quality of these and their relationship to implementation reality are improved. USAID FinGAP had the benefit of Palladium's decade of experience monitoring and evaluating financial transaction programs using PfR globally.

But PfR was not without challenges:

- **Unintended consequences**: PfR instruments encourage development practitioners to accomplish development outcomes quickly and cheaply. When proper monitoring systems are not in place, PfR can also create the temptation for practitioners to lower quality standards, or to "cherry pick" less challenging-to-serve target populations. On USAID FinGAP, the initial group of BAS providers with PBCs focused on pipeline development, but not sufficiently on deal closure. USAID FinGAP changed the incentive structure to more aggressively motivate deal closure, and results improved. The project also found a case of doctored invoices from one BAS provider in collaboration with one branch office of an FI. The implementing team identified the weakness in the project's approval processes to avoid similar situations from ocurring in the future.
- **Higher cost and effort for design and monitoring**: Defining, negotiating, and monitoring the award structure (the metrics, policies, and procedures upon which performance payments are made) is challenging when both donor and practitioner must agree. Many donors are accustomed to unilaterally setting metrics and validating performance, but when performance and financial risk is shared, determination of metrics and performance upfront must also be shared. Within Development Impact Bonds, the need for qualified third parties to verify performance also means there may be a higher cost associated with tracking and validating practitioner performance. This was less of a problem for USAID FinGAP because Palladium had designed PBCs and monitoring systems for BAS providers facilitating financing for over a decade before

the USAID FinGAP had begun. Design was, however, more lengthy for the FI grants program, as this type of grant had never been designed or monitored before.

- **Potentially less attractive to practitioners**: Because financial and performance risk is shifted to other parties in PfR arrangements (usually to the practitioner), and costs are recovered only when performance targets are met, some practitioners will find PfR arrangements less attractive. On USAID FinGAP, of the 15 FIs we identified in initial assessments as our "best bets" for financing partners, 6 never released any loans to the target value chains. Additionally, several other FI partners that eventually obtained PfR grant agreements simply did not lend to the target value chains; therefore, their sub-award resources were re-allocated to those FIs that did.
- **Evidence base is thin**: Even though many studies are underway, overall there are few studies on the longer-term impact of PfR programs. More longitudinal and intensive research is needed. USAID FinGAP is now completing a series of reports (a "Lessons Learned" paper, a case study demonstrating where value was created among participating actors in USAID FinGAP, and a final impact assessment demonstrating the impact of USAID FinGAP on farms and firms) that significantly expands this research base for transaction assistance programs using PfR.

IV. SUCCESS FACTORS

USAID FinGAP was successful in implementing a Performance-Based Contract version of a Pay-for-Results program due to a number of factors included in the table below. Actors considering PfR programming should determine whether the conditions for success exist, to assist in deciding whether or not to put in place a PfR program to mobilize large scale finance and investment to underserved sectors of the Ghanaian economy.

Success Factors of USAID FinGAP	Concerns	Solutions
Consensus and buy-in	Do PfR approaches require a different mind-set and/or toolbox than are traditionally employed on development projects?	PfR approaches require "letting go" of the inclination to tightly control how funds are utilized among both the funder and implementer. The entire project team must also understand and buy-in to the methodology or else it will fail. PfR programs put in place the proper structure and incentives to achieve results, but give maximum flexibility to implementers to define solutions. Donors must avoid micromanagement, and implementers must be ready to innovate in service delivery for the PfR mechanism to work.

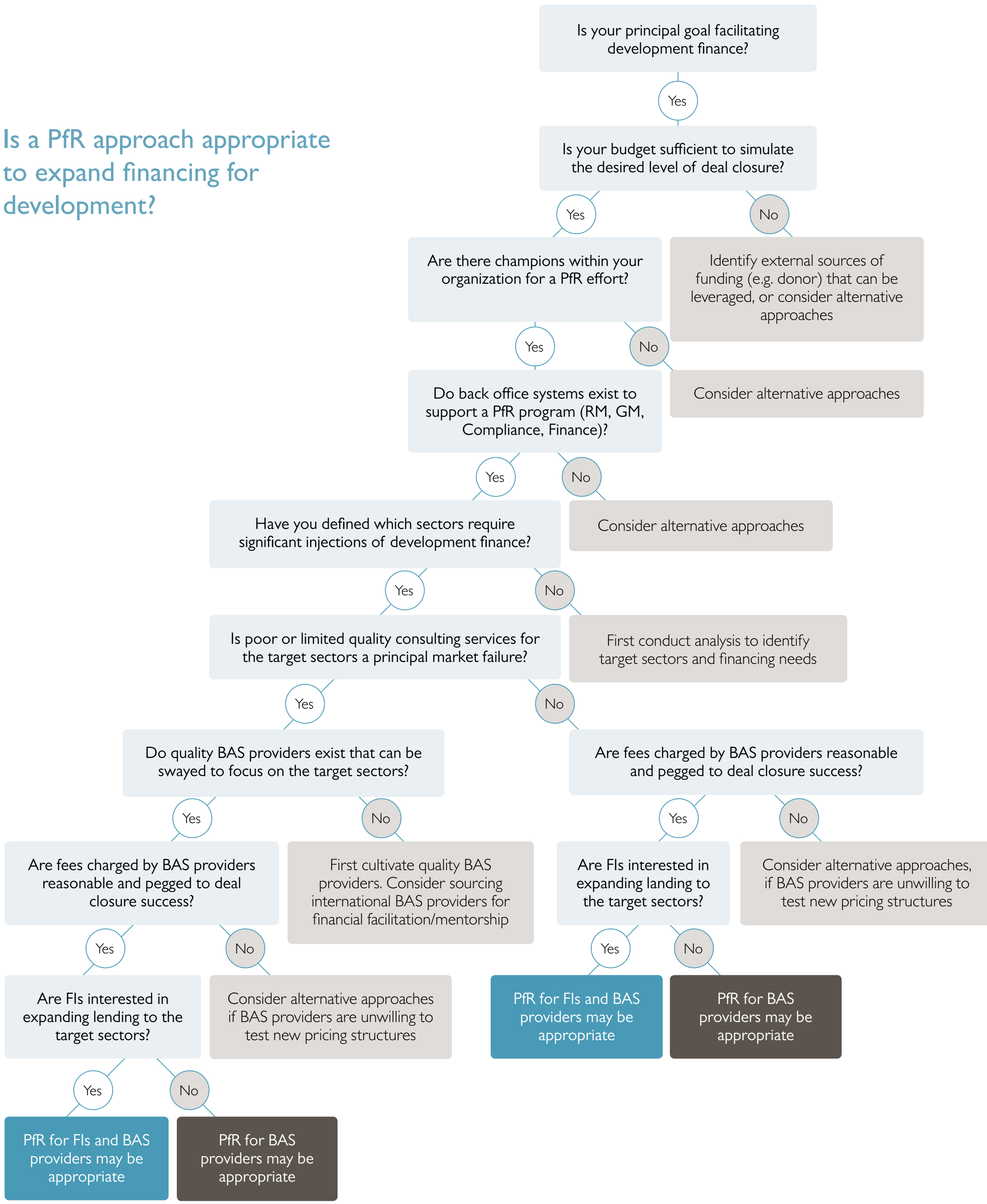
Success Factors of USAID FinGAP	Concerns	Solutions
Sufficient budget	Are PfR programs more or less expensive than other traditional development programs?	PfR programs are not inherently cheaper than traaditional aid programs, and they require sufficient funds that can be used as incentive fees to leverage the results sought. At the same time, PfR programs designed to expand finance and investment for development purposes have been documented to leverage up to 10 – 20 times their investment. In other words, implementers need budgets commensurate with the development objectives sought.
Back office systems	Do PfR programs require emphasis on different back office systems than other traditional development programs?	PfR programs facilitating transaction support require heavy procurement, financial management, and monitoring and evaulation (M&E). These operational systems are critical for managing risk and ensuring impact on financial transaction assistance programs. If implementers do not have these in place or are unable to put them in place, then a PfR program will be quite challenging to manage efficiently.
Rigorous M&E	How do you ensure impact while re-linquishing control of donor-led impact measurement and of how parties traditionally achieve results?	Strong M&E systems and teams are required to prove additionality and impact. Third parties also can be brought in to determine impact avoiding bias by either funders or implementers.
Collaborative Learning and Adaptation (CLA) approach	How do you ensure that PfR mechanisms will not distort the market?	Constant CLA is required to ensure that implementers are not over-pricing incentives, or subsidizing past the tipping point to close financial transactions. PfR programs must design PfR to aim for sustainability (that actors can continue this work in the future) and not undermine the market's ability to support target populations with services after project closure.
Risk management systems	Won't more transactions and more players invite more opportunities for fraud?	Teams implementing PfR programs must employ strong risk management systems to ensure protection from fraud and have a solid understanding of what constitutes a conflict of interest.
Quality assurance	How do you ensure that program beneficiaries are receiving quality services?	Close monitoring of service provision quality is key. In high volume financial transaction programs, this includes putting in place "Know Your Customer" protocols and monitoring systems. Ultimately, if BAS providers do not provide high quality services, firms will not want to enter into arrangements with them and will not want to share the cost of services (undermining sustainability).

Success Factors of USAID FinGAP	Concerns	Solutions
Identify the right partners	Will PfR result in short-term outputs, not a changed market system?	Start by engaging implementers that already desire to increase lending/investment. Then create an environment of competition to translate "first mover" success into broader interest. Strong relationships with FIs and BAS providers as well as an ongoing CLA approach will help implementers direct appropriate technical assistance and training to firms so their growth objectives are supported.
Purposeful structuring of incentives	Won't all the finance and investment go to the most advanced firms/ most lucrative types of deals?	If the goal is expanding overall financing/investment, the fact that the initial deals financed are those nearest closure is not a negative outcome. However, to channel investments towards specific development outcomes, incentives must be designed and structured to more meet these outcomes.

V. DECISION TREE

The decision tree below highlights key questions to consider to help users of this manual determine whether they should implement a PfR approach to catalyze expanded financing for development.

Is a PfR approach appropriate to expand financing for development?



VI. OPERATIONALIZING PAY-FOR-RESULTS TO EXPAND FINANCE AND INVESTMENT

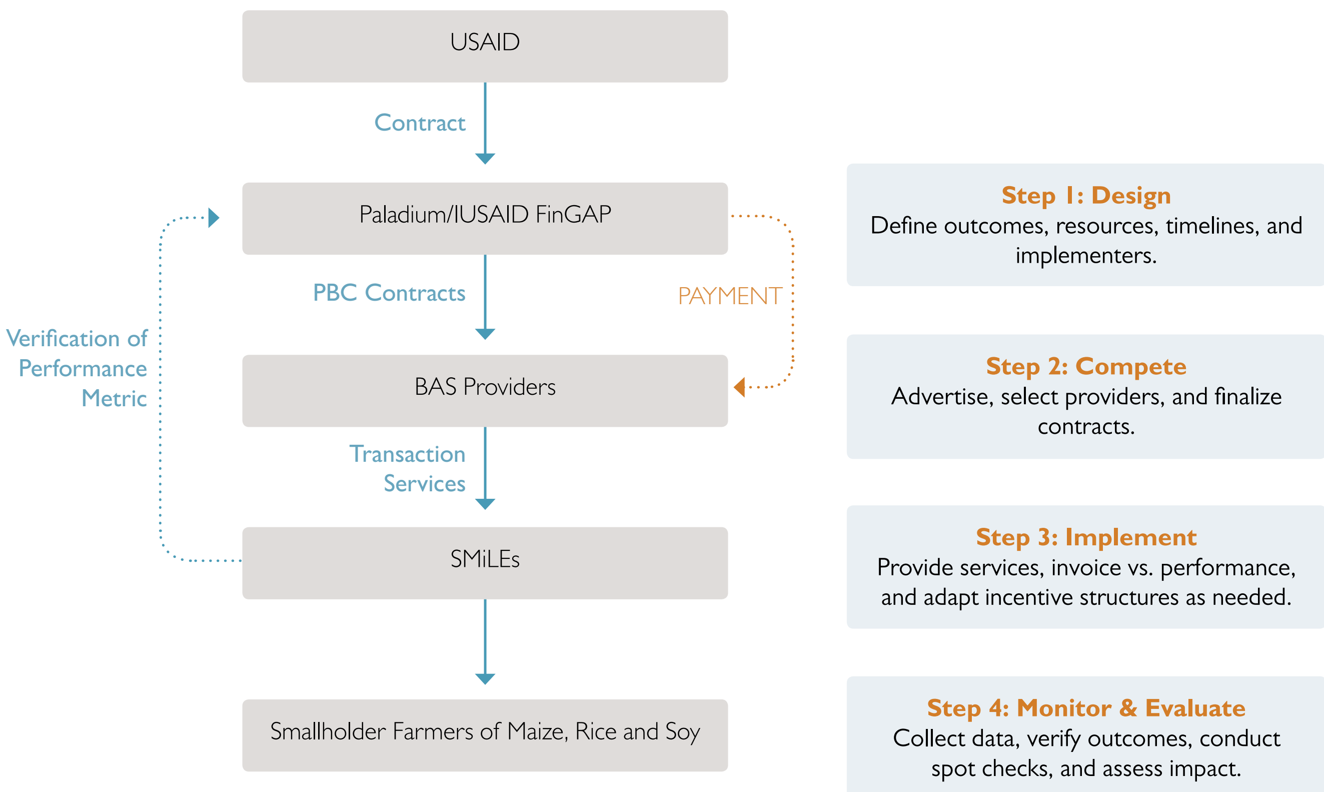
Palladium identified two key market failures at the beginning of USAID FinGAP: (1) the lack of quality consulting services (financial, technical, business performance) for SMiLE agribusinesses involved in the maize, rice, and soy value chains, and (2) the limited availability of financial products tailored to agriculture. USAID had designed the program considering how agricultural enterprises in the target value chains in Ghana lacked the education, skills, and access to information required to turn their entrepreneurial spirit into bankable project ideas. Even if the enterprise had a strong understanding of their own business plan (when they had one), they often lacked the skills to convert it into a format acceptable to a prospective investor or lender. Ghanaian banks noted how Ghanaian agribusinesses could benefit from BAS to develop their ideas and a "business case" for a loan or investment[5]. Ghanaian banks believed that the risks inherent in agribusiness finance were high, and they recognized that their staff were not experts in these value chains. They also recognized that it would be challenging for SMiLEs in these value chains to compete for their staff's attention when there were other, more profitable economic sectors (e.g., cocoa, gold) and financial sector opportunities like Treasury Bills to invest in.

To address these market failures, Palladium decided to implement two PfR strategies concurrently; one to stimulate the demand for agricultural finance, and the other to stimulate the supply of financing. Palladium also established a training program for FIs

5 *Language taken from the Statement of Work for USAID FinGAP, developed by USAID.*

to address their risk perceptions and to improve their capacity to lend to the agricultural sector. This manual focuses on the steps taken to put in place the demand and supply side PfR strategies. Of all activities undertaken by USAID FinGAP, these two strategies are considered to be the most successful in mobilizing large-scale agricultural finance and investment for underserved populations, economic sectors, and geographies.

Figure 1: Steps to put in place Pay-For-Results financial transaction assistance



Step 1 – Design: Before the PfR strategies were operationalized on USAID FinGAP, Palladium and USAID took the initial design steps of defining outcomes, resources, timelines, and implementers.

Outcomes to be achieved by USAID FinGAP were negotiated by Palladium and USAID, and a contract was signed. Life of project outcomes agreed to included:

- 25 strategic partnerships formed between actors in the target value chains
- 250 transactions identified and closed
- $75 million in finance/investment facilitated
- 80 SMEs and farmer organizations linked to 120,000 smallholder farmers in the target value chains

Palladium finalized resource timelines into the project's annual work plan, which was developed, submitted, and approved by USAID.

Then Palladium began to identify potential implementers of financial and investment facilitation in the target value chains via performance based contracts by:

a. Conducting market assessments of the BAS provider market to identify potential implementers of a PfR approach, their fees and specialties.
b. Finalizing screening criteria to prioritize new potential investments and to ensure that investments pursued were in line with USAID and Feed the Future's requirements and development outcomes (e.g., smallholder involvement, gender inclusion, environmental responsibility, etc.).
c. Identifying a set of initial investment proposals for BAS providers to consider.
d. Designing an online investment mapping system (IMS) to further support the identification of viable investment proposals.

Step 2 - Compete: Upon completing the design step, Palladium designed a competition to hire a set of BAS providers on performance based contracts by:

a. Developing a Scope of Work for the competition. The Scope of Work included the outcomes of what Palladium wanted to achieve through hiring a set of transaction advisors on Performance Based Contracts, the fee structure and payment schedule for successful transaction advisors, and the reporting and invoicing requirements for the successful bidders.
b. Developing a process (environmental review form and process for client approvals) to ensure that approved investments would have no environmental impact and were in line with USG and GOG regulations.
c. Designing the procurement process to be as simple and inclusive as possible. The goal was to attract as many qualified BAS providers to USAID FinGAP's mission to identify, structure, and close finance and investment deals. The request for proposal (RFP) was widely publicized.
d. Conducting a fair and quick selection process that prioritized ensuring that BAS providers were qualified to conduct the tasks required in the RFP.
e. Finalizing contracts for successful BAS bidders based on a pre-approved template which included clear invoicing and results verification instructions, instructions on tax considerations, and an easy-to-understand fee table.

Step 3 - Implement: Upon completing the procurement process and hiring BAS providers, Palladium proceeded to oversee the implementation of transaction assistance by:

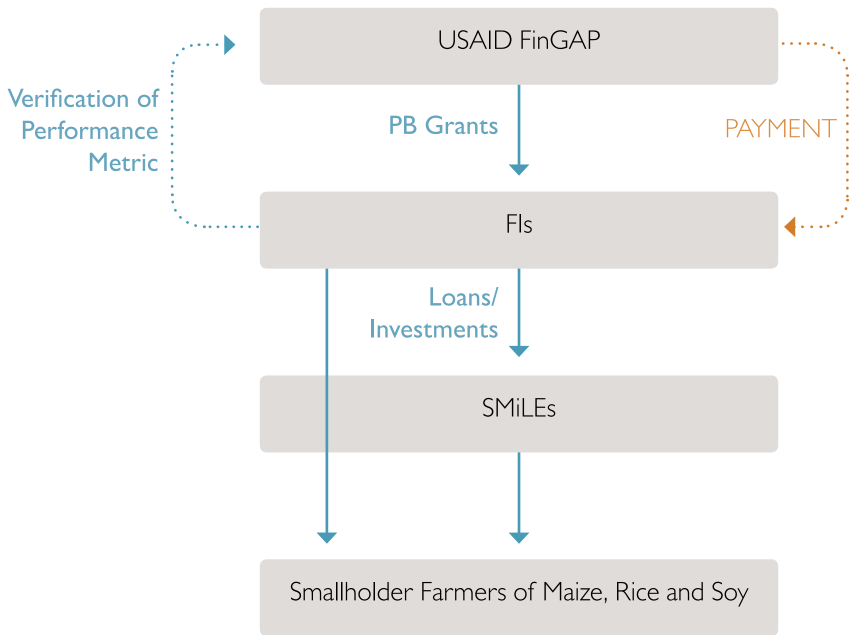
a. Training BAS providers to understand the selection criteria and the target value chains, to conduct environmental review of prospective investment deals, and to properly invoice.
b. Conducting review and approval of invoices, and appropriate verification of deals to ensure the accuracy of invoices.
c. Developing a data monitoring system to track BAS providers' performance in real time.

d. Reviewing as a team the data provided by BAS providers and the deal types submitted to determine which providers were "fast movers" and which were more opportunistic providers, adapting BAS contracts as necessary.
e. Having the implementation team serve as an "honest broker," intervening and problem solving for BAS providers and SMiLE participants when asked.

Step 4 – Monitor & Evaluate: Conducting close monitoring and evaluation of approved investments was critical to USAID FinGAP's success. Key activities at this step included:

a. Conducting frequent assessments of how well the incentives were working to motivate the behavior the project intended via this PfR tool. The team evaluated weekly how incentives were working to make progress on deal closure, what sort of deals were coming in (i.e. size, type, sector), and which deals needed additional technical support from project team members.
b. Adapting the PfR incentives as necessary. Based on the performance assessments of BAS providers, the team would modify the BAS Performance Based Contracts accordingly, rewarding high performers and modifying the contracts of low performers, thereby ensuring quality service to SMEs. The team also stayed in close contact with SMEs to ensure they were receiving the quality of service they expected. When changes were sought by SMEs in their BAS providers, the team would provide referrals to new providers.
c. Monitoring of repayment on facilitated loans. The team closely monitored loan repayment and were asked to intervene by both FIs and BAS at times to offer assistance when loans were past due. USAID FinGAP's team put in place a "Know Your Customer" strategy in Year 4, when many original loans were coming due, to ensure a high performing loan portfolio.

Figure 2: Steps to stimulate expanded supply of finance and investment among financial institutions



Step 1: Design
Define outcomes, resources, timelines, and implementers.

Step 2: Compete
Advertise, select providers, and finalize contracts.

Step 3: Implement
Provide services, invoice vs. performance, and adapt incentive structures as needed.

Step 4: Monitor & Evaluate
Collect data, verify outcomes, conduct spot checks, and assess impact.

Step 1 - Design: Palladium finalized the design of its supply side PfR incentive by:

a. Defining the outcomes it wanted to achieve via a PfR incentive among FIs and setting aside appropriate grant resources to achieve these outcomes.
b. Determining the appropriate instrument (grant or subcontract; if grant, which type) to use in this instance.
c. Conducting a market assessment of the FI market (commercial banks, equity funds, impact investors, microfinance institutions, rural banks, NGOs) to identify potential participants in a PfR program to expand lending/investment to the target value chains, their level of internal commitment, and their strengths and weaknesses in agricultural lending.
d. Deciding not to set targets for FI performance, but rather asking FIs to determine their own timelines and targets for placing loans and investments into agricultural SMEs.

Step 2 - Compete: Palladium then designed a competition to select a dozen FIs to participate in a performance based incentive grant program by:

a. Developing a Scope of Work for the grant competition. The Scope of Work included the outcomes of what Palladium wanted to achieve with its supply side incentive, as well as the reporting and invoicing requirements for the successful bidders.
b. Designing the grant competition to be as simple and inclusive as possible. Palladium widely published the Request for Applications (RFA), and since the concept was new and had never been attempted before in Ghana, held bidders' events prior to the beginning of the competition to explain the PfR grants concept to potential FI partners. The goal in screening and evaluating applications was to score FIs by rewarding those that offered the greatest value for money (i.e., loans made vs. amounts requested in grants from USAID FinGAP).
c. Ensuring a fair and quick selection process. Palladium received bids, evaluated them within a week, and then began negotiations with selected FIs to maximize value for money. When final outcomes, grants resources, schedules and cost-share were finalized, grants were finalized with each actor.

Step 3 - Implement: Upon completing the procurement process, Palladium proceeded to oversee implementation of financial facilitation services via FIs through:

a. Training FIs to understand the selection criteria and the target value chains, to conduct environmental review of prospective investment deals, and to properly invoice.
b. Conducting review and approval of FI invoices, and appropriate verification of loans made to ensure the accuracy of invoices.
c. Inputting data collected from FIs into the USAID FinGAP data monitoring system to track FI (and BAS) grant and subcontract performance in real time.
d. Reviewing as a team the data provided by FIs and the deal types submitted to determine which FIs were "fast movers" and which were more traditional actors, adapting grant agreements accordingly.
e. Providing ongoing support to FIs as needed. Many FIs called on the USAID FinGAP team for assistance in making use of their PfR grant, and the team responded by developing training and technical assistance packages as needed. FIs sometimes asked the USAID FinGAP team to intervene when deals went unpaid, and the implementing team played the role of honest broker between the FI, the borrower, and the BAS provider when relevant, to restructure the loan.

Step 4 - Monitor & Evaluate: Conducting close monitoring and evaluation of FI performance and approved investments was critical to USAID FinGAP's success. Key activities under this step included:

a. Constant data monitoring. As invoices rolled in and data was collected on the performance of FI partners, the team was evaluating the extent to which the incentives were working to motivate the behavior change sought by the project via this PfR tool.

The project team used the data collected to evaluate how incentives were working to make progress on loan and investment release, timing of loan release, sizes/terms, average loan size, interest rates charged, and the gender of loan recipients. The team additionally used these data monitoring sessions to help determine what additional technical assistance was required by FIs to close more quickly on loans/investments. Performance data was reported every two weeks to USAID, using simple graphics, photos, and minimal text.

b. Adapting the incentives as necessary. FI incentive grants were conducted in rounds. Round 1 of the FI grants program was used as a test to determine the level of effectiveness of the grants in achieving expanded lending outcomes. When the outcomes achieved were beyond the project's expectations, the team adjusted the level of grant incentives in future rounds to obtain more results from FIs. With each round of grants, more FIs were motivated to participate in the grants program, as "word got out" on how the incentives could de-risk expanded lending. Fast performers were rewarded with increased award ceilings based on their performance, while less successful FIs had their award ceilings reduced or eliminated entirely, thereby increasing efficiency in use of the funder's resources.
c. Conducting spot checks. As FIs would invoice dozens or hundreds of loans at a time, the USAID FinGAP team would select a set of these deals each quarter on which to perform spot checks, verifying that the loans existed with the parties involved and ensuring accuracy in the amounts invoiced. The project team would also visit some of the SMiLE clients of banks to personally verify their existence. Amounts invoiced for the same deals facilitated by BAS and FIs were always cross-checked for accuracy.
d. Assessing impact. Given the limited research available on the impact of expanded financing at the SME level, Palladium decided to assess the performance of both its supply side and demand side incentives at the level of firms and farms supported. A set of questions and an assessment methodology were defined, and the assessment was conducted in Years 3 and 5 of the program. This impact assessment, and USAID's own internal project evaluation also conducted in Year 3, are tools that can be used to "make the case" for the effectiveness of PfR programs to facilitate expanded finance and investment.

VII. CONCLUSIONS

The successes of USAID FinGAP prove beyond a doubt that PfR incentives structured and delivered well can serve to mobilize significant levels of development financing quickly to underserved target populations. There is no reason that future PfR incentives should be limited to staple foods financing, and program stakeholders would like to see PfR applied to other agricultural sub-sectors. There are plenty of deserving target populations who could benefit from the expansion of PfR methodologies to improve financing for and the quality and scale of education, health services, or sanitation services, among other development objectives.

Once implemented well, PfR can be contagious. The USAID FinGAP team recently conducted a "Lessons Learned" assessment among project stakeholders to determine what we have learned from our collective experience implementing the program. One of these lessons is that program stakeholders are adapting PfR incentives for their own use in the lead up to USAID FinGAP's closure. A number of FIs are hiring BAS providers directly using PfR, and BAS providers are suggesting similar terms in their arrangements with new clients.

Success in implementing PfR programs cannot be reduced to mechanics alone. The importance of the role the implementing team plays in designing, procuring, managing, and monitoring and evaluating PfR methodologies cannot be understated. Program stakeholders in Ghana were united in their admiration of the professionalism and quality service provided by the USAID FinGAP Ghana-based team in the implementation of this innovative program. The USAID FinGAP team provided "24-7" customer service to stakeholders, including BAS providers, FIs, and agribusiness firms, offering guidance, support, and intervention as required. Without a committed team of actors who believe in PfR as a potentially effective tool, who are willing to leap into innovating with incentives, and providing close attention to implementation and quality service provision, programs that rely on PfR can fall flat. A number of implementers have sought to replicate Palladium's successes with these performance-based contract PfR mechanisms with varying results. Our recommendation is for these actors to hire the best talent they can find, and use this manual as a first step in successful replication.

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USAID Financing Ghanaian Agriculture Project