A water-vendor collects water in jerry cans to sell in Nairobi. Photograph: Tony Karumba/AFP/Getty Images

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When reading up on payment by results (PbR) recently I was struck by the contrast between how quickly it has spread through the aid world and how little evidence there is that it actually works.

In a way, this is unavoidable with a new idea – you make the case for it based on theory, then you implement, then you test and improve or abandon. In this case the theory, ably argued by Center for Global Development (CGD) and others, was that PbR aligns incentives in developing country governments with development outcomes, and encourages innovation, since it does not specify how to, for example, reduce maternal mortality, merely rewards governments when they achieve it.

Those arguments have certainly persuaded a bunch of

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> **UK government**

donors. The UK government (pdf) says that this "new form of financing that makes payments contingent on the independent verification of results ... is a cross government reform priority". The UK's department for international development (DfID) called its 2014 PbR strategy Sharpening Incentives to Perform (pdf) and promised to make it "a major part of the way DfID works in future". David Cameron, the British prime minister, waxes lyrical on the topic.

But I seem to be coming up against a long list of potential problems with PbR. Let's start with Paul Clist and Stefan Dercon: 12 Principles for PbR in International Development (pdf), who set out a series of situations in which PbR is either unsuitable or likely to backfire. For example if results cannot be unambiguously measured, lawyers are going to have a field day when a donor tries to refuse payment by arguing they haven't been achieved. They also make the point that PbR makes no sense if the recipient government already wants to achieve a certain goal – then you should just give them the money up front and let them get on with it.

Health care workers walk past boots that were washed to prevent the spread of the Ebola virus clinic in Liberia. Photograph: Abbas Dulleh/AP

Meanwhile a Bond report finds that PbR contracts with NGOs are plagued by micromanagement and often amount to little more than transferring risk from donor to recipient (no results, no dosh). And a collection of three studies by Norad (the Norwegian aid agency) points out that if PbR is used when trying to persuade a government into doing something it doesn't want to do, we already know how unlikely that is to succeed from the whole aid conditionality experience (pdf).

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Who are we measuring these results for? PbR pushes project implementation even further towards "upwards accountability" – mainly developing country governments collecting and processing results (which can be an expensive business) in order to satisfy aid donors and their political backers and tax payers. My fear is that this will merely create a parallel system of results alongside the kinds of information practitioners need to learn and improve, diverting effort and money and doing nothing for downwards accountability.

Time horizons are a real problem: short-term PbR contracts appear to discourage innovation – there isn't time to learn by failing, so stick with the tried and tested, even if it's not that good. But there is precious little appetite for longer project cycles – political and management timelines seem to be shortening instead.

> At a time when DfID is looking to promote southern civil society… this model would seem to be working the other way
> **Helen Bushell, Oxfam**

Even its originators at CGD seem pretty underwhelmed. CGD's Nancy Birdsall argues that the problem with PbR is that it is mostly a severely bastardised version of CGD's original Cash on Delivery proposal: "PbR programs tend to create 'deliverables' defined by donors, to be delivered on a preset schedule, which invites creation of 'plans' and 'result chains' and fixed implementation schedules. That, in turn, diverts donor attention from outcomes to inputs, indulging donor impatience and discouraging the kinds of local initiative and innovation (eg Problem-Driven Iterative Adaptation) that are ultimately the best guarantee of sustained progress."

Finally, there is clearly a risk of crowding out smaller players. According to Oxfam's Helen Bushell: "At a meeting in Whitehall two weeks ago for an upcoming £100m plus call it was surprising how few agencies were in the room. The combination of the financial risk transfer, cashflow implications, management costs and risk management itself and the costs of learning and adapting are arguably beyond the risk appetite of many agencies. At a time when DfID is looking to promote southern civil society, and advance small and medium NGOs, this funding model would seem to be working the other way."

Campaigners for decent sanitation. Photograph: Noah Seelam/AFP/Getty Images

However, a number of people have pointed out the positives around PbR. For example, some believe they can encourage downward accountability to poor people and communities rather than just upward accountability to donors. Michael O'Donnell of Bond says that "at a meeting hosted by WorldVision last week, we heard of communities who were involved in verification of results from PbR projects feeling that NGOs were much more accountable to them in that PbR project than in other work. There is scope to do this in a clever way to promote agendas like adaptive management, downwards accountability – but it takes a lot of thought."

> The focus on results is helping improve M&E [monitoring and evaluation] and performance
> **Michael O'Donnell, Bond**

O'Donnell also believes that PbR can encourage learning and better monitoring and evaluation. "The focus on results is helping improve M&E [monitoring and evaluation] and performance, but within the narrow scope of whatever results are defined as triggering payments. However, those benefits may not spill over into wider M&E systems and learning beyond the project."

Oxfam's Francesco Rigamonti, who is running a £20m DfID PbR contract in eastern Democratic Republic of the Congo and Kenya is even more positive. "PbR allowed us to strengthen our M&E and make it more rigorous and this can have positive effects on other programmes implemented with other funding mechanisms."

Plus, it can give greater flexibility, says Oxfam's Tom Winslow. "While I agree with many of the criticisms, the evidence from our own experience in Oxfam is that it does produce some positive results: greater flexibility in programme spend to achieve outputs (which programme teams really value), greater ability to cover the full costs of implementation (because we charge the donor a price rather than submit a budget), much greater incentive to spend and deliver on time (which can only benefit people in poverty)."

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Based on Oxfam's experience, Emma Feeny pointed to a useful checklist for NGOs (pdf) considering implementing a water, sanitation and hygiene programme on a PbR basis.

The PbR hype cycle seems to follow a well-established pattern in the aid business, which I call the microfinance syndrome: policy entrepreneur comes up with whizzy new idea → massive overselling to donors → disillusion when it fails to produce predicted miraculous results → reduced to niche product as we learn when the new snake oil might actually be worth applying. At best, it's a painful, inefficient way to innovate and improve the impact on poor people's lives. Why not try positive deviance or venture capitalist style multiple parallel experiments instead?

I still think the hype curve is a useful construct for PbR and any other aid fad, but we seem to have all sections of the curve happening at once: the snake oil salesmen are out there over-selling and the bah humbug types like me are pouring cold water on it. But loads of experimentation and learning is already propelling us towards a more realistic grasp of where/when PbR might be useful and how it needs to evolve, much faster than the comparable curve for, say, microfinance.

This piece is an edited version of two columns on Duncan Green's blog for Oxfam - From Poverty to Power. Follow @fp2p on Twitter.

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